CHAPTER VI

PROBLEMS OF LATUR DISTRICT CENTRAL
COOPERATIVE BANK, LATUR
CHAPTER VI
PROBLEMS OF LATUR DISTRICT CENTRAL COOPERATIVE BANK, LATUR

6.1 INTRODUCTION

Co-operative Movement was introduced in India mainly as a defensive organization for dealing with problems of rural indebtedness. With the acceptance and implementation of a planned economic development, co-operation became a dynamic economic instrument for achieving the social objectives.

India’s cooperative banking sector has often come under severe criticism by experts for alleged misappropriation of funds by local politicians and mismanagement by officials, raising questions about the weak regulation on such entities and their relevance.

India’s cooperative banking sector has been suffering in the last many years due to poor management and capital shortage. In March 2011, the total deposits of all district cooperative banks stood at Rs.1.61 trillion and the advances at Rs.1.2 trillion. These banks have 27% loan over dues on their books.

In this study, universe was large hence samples are selected. For completion of the proposed study, 300 samples are selected according to different criteria for drawing the accurate conclusions of the study. Samples are selected on random selection basis. Random sample selection is a scientific and easy method of sample selection. Out of 300 samples, 250 were selected from customers randomly and 50 samples were selected from bank officials. Total 300 questionnaires were distributed but only 271 responses i.e. 230 from customers and 41 from bank officials were received. It was due to leaves of bank officials, unwillingness, or lack of time, etc.

6.2 GENERAL PROBLEMS OF DISTRICT CENTRAL COOPERATIVE BANKS

The cooperative movement took the form of a government department and therefore cooperative banks are facing the demerits like government departments such as laziness among the employees, delay in work, heavy losses, low percentage of recovery. The central government has not provided credit on uniform basis to all states. The low availability of funds affects adversely on the working performance of
DCC Banks at district level. DCC Banks in Maharashtra suffer from heavy overdues. There are various cases of malpractices observed in DCC Banks by the Board of Directors. The DCC Banks has failed to establish close link with PACC in the district. DCC Banks could not mobilize the deposits due to the cut throat competition created by commercial banks.

Government of India appointed an Expert Committee to Examine 3-Tier Short-term Co-operative Credit Structure (January 2013) under the chairmanship of Dr. Prakash Bakshi. The committee observed the major findings regarding weaknesses of banks coming under 3 Tier Short-term Co-operative Credit Structure:

1. STCCS’s share in providing agricultural credit dipped to 17 per cent at the aggregate level.

2. STCCS, which was primarily constituted for providing agricultural credit must provide at least 15 per cent of the agriculture credit requirements in its operational area, gradually increasing to at least 30 per cent. Around 40 per cent of the loans provided by PACS and almost half the loans provided by CCBs are for non-agricultural purposes. PACS and CCBs were not performing the role for which they were constituted.

3. About 209 of the 370 CCBs would require additional capital aggregating `65 billion in four years to attain 9 per cent CRAR by 2016-17.

4. Almost two third of the deposits with SCBs are deposits made by CCBs in the form of term deposits for maintaining their SLR and CRR requirements. However, SCBs lend far higher amounts to the same CCBs and also invest in loans which have generally resulted in higher NPAs, thus putting the SLR and CRR deposits made by CCBs at risk.

The most important and critical problems that have faced by the DCC Banks in India are recovery of loans and advances, heavy over due and NPA. Recovery of loans and advances performs crucial role in modern economy. A timely repayment of loans and advances strengthen the resources position of DCC Banks and enables them to repay the borrowed loans to State Cooperative Banks in time. The borrowing capacity can be increased by owned funds and it results into additional resources to the members. It also develops the moral and cooperative awareness among the members of cooperative banks. Opposite to this, poor recovery of loans affects adversely on the functioning of the DCC Banks. Low technological advancement, poor management, administered rate of interest structure for a long time, cut throat competition by private
Problems of Latur District Central Cooperative Bank, Latur

and nationalised banks, increasing number of insolvent and weak DCCBs, lack of professionalization, lack of knowledge regarding Prudential Norms issued by RBI and NABARD, corruption and malpractices are also some of the problems of DCCBs. Political lineage and the role of large and rich farmers in cooperative management have influenced the allocation of finances and other benefits to the members of cooperatives.

Another important constraint of the cooperative management is the inadequacy of trained personnel right from its inception. Lack of trained personnel has been caused by so many factors like lack of professionalized institutions, unsatisfactory working institutions and lack of financial literacy etc.

Challenges before co-operative banks have multiplied due to inadequate entry norms, rising professional management, politicizing of management, absence of proper supervision, lack of formal internal training systems, lack of internal manual of instructions.

The share capital and working capital of most of the DCCBs are increasing in the region, therefore effective measures should be taken for better credit planning, appropriate loan appraisal system for ensuring viability and feasibility in disbursing loans to the borrowing members. To increase the outreach of cooperative credit to its millions of poor members, steps are needed to ensure that the cooperative credit institutions are member driven, based on self-help and democratic principles. The members should have ample flexibility to devise their recovery procedures so as to reduce their over dues and to make their institution economically viable.

6.3 PROBLEMS OF LATUR DISTRICT CENTRAL COOPERATIVE BANK, LATUR

Latur District Central Cooperative Bank, Latur is a leading and progressive bank in Maharashtra State. But it is also facing some problems due to government, customers, legislation, bureaucratic set up, etc.

1. Multiplicity of Control

Operations and working of Latur District Central Cooperative Banks come under the jurisdiction of multiple authorities. This bank is supervised by the Reserve Bank of India (RBI), National Board for Agriculture and Rural Development (NABARD), and State Government through Registrar of Cooperative Societies (RCS). Due to the multiplicity of control DCCBs could not complete the developmental...
activities due to the overlapping provisions. DCCBs have to implement, the various circulars, provisions, and guidelines issued by RBI, NABARD and RCS, so Banks is not getting sufficient time to undertake commercially viable banking business.

2. Restricted Area of Operation

LDCC Bank is a district level bank and come under the government set up of three tier system. As per the directions of government, LDCC Bank has to perform the activities in a district. It is district level finance providing institution. Due to the constraints of area of operation, it could not utilise their fuller capacity to work and remain restricted. It could not offer the modern and latest banking facilities to their customers as they are not affordable for LDCC Bank, Latur.

3. Limited Business Expansion

The functioning of LDCC Bank is restricted in the district level area only. Hence, it cannot offer banking facilities to the people out of district and are unable to attract the out of district customers. Even they could not start the branches out of district area. So there is no opportunity to LDCC Bank to expand its business and earn the higher profits.

4. Limited Ability to Mobilize Resources

LDCC Bank is are self-reliant but it has limited area of operation. Due to its cooperative nature, and guidelines of RBI and NABARD, it has to mobilize resources and their funds in those securities only which are directed by RBI and NABARD. LDCC Bank has to invest the funds as per the direction of SLR and non SLR norms. Hence there is no chance to mobilize resources in securities market or money market and earn high range of profit. It is one of the limiting factors of DCCBs.

5. Discrimination in Branches Allotment

As on 31st March 2013, LDCC Bank, Latur has total 112 branches and one head office. These 112 branches are operating at taluka level. But the majority of the branches are located at Ausa, Nilanga and Udgir taluka i.e. 15 branches, 14 branches, 12 branches respectively. In Renapur and Jalkot taluka, only 6 and 3 branches are have been started. There should be fair allotment in branch starting for the equal and balanced development of overall district but LDCC Bank has made discrimination in starting of branches. (Table No. 1.10)

6. Low Level of Loan Recovery of Primary Agriculture Cooperative Societies

LDCC Bank, Latur provides various agriculture and non-agriculture loans to customers. Agriculture loan is disbursed through Primary Agriculture Cooperative
Societies (PACS). As on 31st March 2013, LDCC Bank has total 583 PACS. Out of these only 311 PACS have 100% loan recovery and its percentage was 53%. It is not remarkable progress in loan recovery. It is the high time to concentrate on the targets of 100% loan recovery because 47% PACS are not 100% loan recovered. (Table No. 1.14)

7. Not Following the AS -17 Segmental Reporting

LDCC Bank, Latur has treated the entire operations as a single reportable segment and secondary segment is not considered necessary due to operations in only one district. Therefore Bank has not made any disclosure. But as per the Accounting Standard 17 prescribed by Indian Institute of Chartered Accountant, every bank should disclose information as per Accounting Standard 17. But the LDCC Bank, Latur is not following this AS - 17. (Auditors’ Report of LDCC Bank, Latur, 2007-08)

8. Rate of Depreciation is not prescribed

There are no rates of depreciation prescribed in Cooperative Societies’ Act. Hence, the depreciation rates are taken as prescribed by the circular of the Maharashtra State Cooperative Bank. However, it is found that the LDCC Bank has not followed the circular of MSC Bank for calculating depreciation. In case of depreciation on sold asset, in one case the depreciation is calculated upto the date of sale and in another case depreciation is not taken into account. (Annual Report 2007-08)

9. No compliance of Accounting Standard 2 - ‘Valuation of Stationery’

As per the Annual Report presented by Auditor, LDCC Bank has not valued the stock of valuable stationery such as unissued cheque books, Demand Draft book, Fixed Deposits Receipts book, etc. (Annual Report 2007-08)

10. No Information Regarding Taxes on Income

As per the instructions of RBI and NABARD, District Central Cooperative Banks should provide the details of taxes on income. But LDCC Bank has not showed any information regarding taxes on income. (Annual Report 2007-08)

11. Stiff Competition from Private and Nationalised Banks

Commercial banks are supervised by RBI but they are not like as government departments, they can take their own decisions regarding investment and other related matters after completion of the norms of RBI. They have large span of customers also, therefore generate more funds and offer latest banking services to them.

On the other hand, LDCC Bank is just like a government units and performing all its activities regarding investment, loaning as per directions issued by
Problems of Latur District Central Cooperative Bank, Latur

RBI/NABARD. Its span of customers is also very low as it is operating at district level especially in rural areas, hence it cannot generate huge funds and cannot provide latest and computerised banking services. Due to this, it is unable to attract more customers. So for the cooperative banks, it becomes very difficult to face the competition with private, commercial and nationalised banks.

12. Compulsory Investment in Government Securities

LDCC Bank, Latur has to make compulsory investment in Government securities for following the guidelines issued by RBI and NABARD and for completion of norms regarding SLR and non-SLR in the securities of State Cooperative Bank. Hence, LDCC Bank cannot invest heavy funds in more profitable securities due to the compulsion of Government.

13. No ATM Facility Provided

As per the recommendations of Expert Committee to examine 3-Tier Short term Cooperative Credit Structure (January 2013), September 2013 should be set as the deadline for all StCBs and CCBs to be fully operational on CBS and providing RTGS, NEFT, ATM and POS device based services. Then also LDCC Bank, Latur has not started the ATM facility for its customers. Now a days for surviving in this cut throat competition in the banking business, it is necessary to equip with all modern banking facilities for attracting and sustaining the potential and existing customers.

14. Non-availability of Locker Facility at Every Branch

LDCC Bank has not provided locker facility at every branch. Locker facility is one of the essential ingredients for bank’s development. Locker facility is provided in only 9 talukas, it is not provided in Jalkot taluka. LDCC Bank, Latur has total 113 offices upto March 2013, but locker facility is available in only 23 offices. Majority of the lockers i.e. 30% are available at Latur taluka itself and remaining 70% are available at other talukas.

15. Non-availability of Bankassurance

As per the ‘Code of Conduct of Fair Practices’ issued by NABARD, cooperative banks can start the insurance business in their banks by entering into contract with insurance company. But LDCC Bank has not started any type of insurance business though it may attract customers and give a new source of income generation.
16. Non-availability of Modern Banking Facilities

LDCC Bank has been providing financial assistance through various agriculture and non-agriculture schemes to the rural and urban customers. But yet Bank has not provided any modern banking facilities such Electronic funds transfer, Electronic clearance system, Mobile Banking, Telephone Banking, Internet/Online Banking, PC Banking, ATM, Credit Cards/Debit Cards/Smart Cards, etc.

17. No Management Information System (MIS)

LDCC Bank, Latur has started the Core Banking Solutions but no separate section and personnel for maintaining Management Information System. MIS is useful for Credit Risk Management and for keeping the data in a centralised format. LDCC Bank collects the data as per the requirement or the already collected data is submitted to the RBI and NABARD.

18. Non-Availability of Good Infrastructure at Taluka and Village Level

LDCC Bank, Latur has set up 113 offices upto March 2013, but at all the offices there is no good and convenient infrastructure like non-availability of seating facility, no water facility, lighting facility, delay in transaction, etc. In some branches at village level, only one employee of bank is handling the whole transactions of that particular branch. It makes delay in transaction completion. Thus, it is one of the major problems of LDCC Bank, Latur.

19. Locational Problems

LDCC Bank, Latur has to start the branches at taluka level and village level. But at the taluka and village level, Bank is not getting the customers who invest in fixed deposits or recurring deposits or other such type of deposits which provides get high yield on investments of Bank. Convenient location for banking business enables the banks to operate smoothly and with the minimum cost. In Latur district, the branches which are situated at taluka places feels comfortable for banking business but those who are situated at village areas encounter various problems like infrastructure, load shading, and so on. Therefore, bank can attract only those customers who want to take benefit under various schemes of LDCC Bank, Latur.

20. Problem of Load shading

In the branches of LDCC Bank, Latur especially at taluka and village level there is severe problem of load shading. It consumes high time of customers, and makes them uncomfortable. Sometimes the transactions are operated on manual basis.
Problems of Latur District Central Cooperative Bank, Latur

21. Misutilisation of Loan By Loan holders

LDCC Bank, Latur observed in many cases that the loan holders are borrowing loan from the Bank under the various schemes offered by bank in low rate of interest. But they are not utilising that loans for that particular purpose, they are fulfilling another requirements from that loans. Hence LDCC Bank, Latur has to keep a keen watch on such type of matters by sending their recovery officer at field places.

22. Not Properly Trained Human Resource

LDCC Bank generally recruits its staff on regional basis or through employment office. Their salary structure is low and work load is heavy. LDCC Bank has provided training to its staff but the amount and time spent on training is very low. Training is treated as time wasting business though very few employees are familiar with new financial products, national and international banking operations, prudential norms, stock exchange transactions, and latest trends in banking business, etc. Most of the employees are satisfied with their daily routine and not willing to accept new challenges.

23. No Proper Procedure for Helpline

LDCC Bank has been provided a helpline to the customers but it has no proper procedure or mechanism. Only one person who is Personnel Manager is appointed to handle all the matters related to helpline. There is no record maintenance of the helpline matters.

24. Weak Grievances Redressal Mechanism

As per the guidelines issued by RBI and NABARD regarding Code of Conduct and Fair Practices, every SCBs and DCCBs shall designate a senior officer as ‘Nodal Officer’ with adequate staff to implement and monitor the code as well as redress the grievances. The bank should ensure that the redressal machinery put in place is staffed by appropriately motivated personnel as well as take swift corrective action on the grievances of its customers to establish the credibility of the ‘Codes of Fair Practices’ adopted by the bank. But LDCC Bank has not followed such codes neither set up Grievances Redressal Mechanism. The expected things are not available at Bank. LDCC Bank has not appointed any Nodal Officer, no separate team for handling grievances, no set of standards, and non-availability of separate Grievances Redressal Department.
25. Website Is Not Updated

LDCC Bank has its own website and it provides information about various aspects. But this website is not updated time to time. Presently if we visit that website, we will get the information upto 2012. The recent loan schemes, sanction and disbursement of sugarcane cash credit, government subsidy, etc. such type of information is not available on website.

26. Mind set Up of Loan holders

The general tendency of loan holders of cooperative banks is that they are borrowing loan for the non-payment purpose. They feel that this loan amount is a benefit offered by government and it is not for repayment. Therefore, they are not in a mentality to repay the loan amount upto that time when the Bank is not taking any harsh step. There is no loyalty and commitment in the minds of employees regarding repayment of loan. And hence there is no eyecatching increase in the overall recovery ratio.

27. No Attractive and New Schemes for Customers

As the other nationalised and commercial banks, LDCC Bank is not offering the different schemes for its customers for the deposit purpose. It has not started any specialised services as they are not affordable for LDCC Bank, Latur as per the opinion of Bank officials.

28. Restricted Class of Customers

LDCC Bank has a restricted class of customer. In the three tier system set up Government, it is considered that the District Central Cooperative Banks are specially set up for disbursement of agriculture loans. So the majority customers of LDCC Bank are agriculturists and they avail loan facility from Bank. Salarised persons and businessmen of Latur district are not attracted towards bank because LDCC Bank is neither providing latest facilities nor launching new attractive schemes and deposits and loans for the customers.

29. Burden of Multiple Tasks on Same Employees

LDCC Bank, Latur is granting and disbursing loan to the people at taluka and village level also for agriculture and non-agriculture purposes. If the loan holders are paying instalments timely, then for its recovery, LDCC officials give the field visit and recover the amount from the loan holders. So for the field visits there is no separate staff in LDCC Bank. Both the tasks i.e. maintaining records and field visit for
Problems of Latur District Central Cooperative Bank, Latur

recovery are performed by same staff. So it becomes burdensome for the employees and it may make delay in operations.

30. No Incentives for Bank Employees

Now a days, employees are become incentive oriented. They expect the incentives and benefits for any extra work rather than routine business. Already, the salary structure of LDCC Bank, Latur is very low. And some employees are working at work places and some have to render the dual duties of maintaining records and field visits for loan recovery. But LDCC Bank is not offering any extra incentive to the employees who give field visit rather than travelling allowances to them. They get the same salary like other employees.

31. The Required Documents For Releasing Loan Are Not Submitted By Beneficiaries in Time.

In the opinion of officials of LDCC Bank, the beneficiaries do not submit the required documents for sanctioning loan. Hence, LDCC Bank, Latur cannot complete legal procedure and sanction the loan amounts immediately. It creates delay in releasing loan from banks to beneficiaries. It is specially observed in the cases of agriculture loan proposals.

32. Improper Utilization of Funds by Loan holders

LDCC Bank sanctions the agriculture and non-agriculture loan to needy people of Latur district. As per the opinions of officials of DIC and researcher’s observation, it can be mentioned that some of the beneficiaries of the schemes are making the utilization of funds for the purposes other than the loan disbursed purpose. They borrow money for the agriculture reason in a low rate of interest and use that for other purposes. Due to this tendency, needful persons are not getting the financial assistance, and the purpose of loan disbursement under various schemes in reasonable rate of interest gets adversely affected.

33. Lack of Professionalization

LDCC Bank is a cooperative bank having the feature of cooperation. It is set up for providing the finance to needy people from agriculture and non-agriculture sector. It has to charge the reasonable rate of interests on various loan schemes to as per the directions issued by of RBI and NABARD time to time. Its objective is not to earn profit but to provide financial assistance for economical upliftment of Latur district. Therefore, it cannot operate its business activities on professional basis as commercial and private banks.

284
34. Excessive Government Interference

Due to cooperative legislation and administration, Govt. interference has become a regular feature in the day-to-day administration of the cooperative institution. Some of the problem area that arises out of the applicability of the cooperatives legislative are: Deliberate control of cooperatives by the government, Nomination of board of director by the government, Participation of the nominated director by the government, Deputation of government officials to cooperative institution etc.

35. High Rate of Interest to Ultimate Customers

RBI issues loan to Maharashtra State Cooperative Bank and other State Cooperative Banks and charges interest. Maharashtra State Cooperative Bank lend loan to LDCC Bank and other DCCBs by making addition in the rate of interest charged by RBI. LDCC Bank lend loan to Primary Agriculture Credit Cooperative Societies again by making addition in the interest rate charged by MSC Bank. And finally PACs disburse loan to farmers or ultimate customers again by making addition in the rate of interest charged by LDCC Bank. In this way, due the chain of intermediaries the ultimate customers get loan at a higher rate of interest.

36. Bureaucratic Problems

As per the opinions of respondents, for getting loan, a person has to collect and submit various documents and contacts with various offices and institutions. Due to the bureaucratic set up and procedures his work is delayed, not get timely financial assistance, and his morale is adversely affected. The customers are discouraged due to bureaucratic inefficiency, rigidity of rules, too much formality, and inflexibility found in LDCC Bank, Latur.

The procedure of getting loan is very lengthy and it consumes lot of energy and time. 80% people are also unaware regarding how to avail the schemes and facilities announced by the state and central government. Central and State Government launches various schemes for agriculturist and artisans for agriculture and rural development. But, customers are not aware of the different schemes of various government agencies.

37. Lagging Behind in Advertising and Marketing

LDCC Bank is lagging behind in advertising and marketing of various schemes for agriculture and non-agriculture purpose. LDCC Bank publishes the information in newspapers regarding its newly launches schemes, updated rate of interests, sugarcane
Problems of Latur District Central Cooperative Bank, Latur

cash credit, but newspapers have the life of one day only. In the opinion of respondents, they are not getting the information about these matters even in newspapers as they are not regular readers of a particular newspaper and most of them are illiterate and from village area. So LDCC Bank should prepare a brochure containing the necessary information and send it on the addresses of the customers every year. It will create convenience for potential and existing customers.

38. Incomplete Corporate Governance

Corporate governance is concerned with the establishment of a system whereby the directors are entrusted with responsibilities and duties in relation of the affairs of the bank. It is concerned with accountability of persons who are managing the bank. The RBI has stipulated that there should be at least two professional directors on the boards of the Cooperative banks. But this is yet to be not implemented in the LDCC Bank, Latur. Some directors on the board of LDCC Bank are not professionals but some of them are political figures.

39. Declining Market Share

District Central Cooperative Banks in Maharashtra and India are facing a crucial problem of declining and losing market share due to global competition with private sector banks, foreign banks and commercial bank. The LDCC Bank is also facing the similar problem of declining market share.

40. Lack of Conceptual Awareness

Out of the total respondent bank employees only 80% respondents are aware of banking concepts, new products used in banking industry. Only 30% bank employees are aware of banking regulations, prudential norms regarding income recognition and asset classification, asset liability management, etc.

41. Co-operativeness of LDCC Bank Staff

Table 7.10 exhibits the responses of beneficiary respondents regarding the co-operativeness of staff. 80% respondent beneficiaries accept that the LDCC Bank staff is co-operative and provided timely and correct information whenever they approached to LDCC Bank, Latur.

<table>
<thead>
<tr>
<th>Co-operativeness of DIC Office Staff</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operativeness of Employees of LDCC Bank, Latur.</td>
<td>80%</td>
<td>20%</td>
</tr>
</tbody>
</table>

(Source: Questionnaires and Interviews)
Problems of Latur District Central Cooperative Bank, Latur

20% of the respondents are not satisfied with the nature of working of LDCC Bank and its employees. As per their opinion, employees are not co-operative and there is shortage of employees LDCC Bank, Latur. Especially the employees working at Loan Recovery Section, Self Help Group Section are often on taluka/village tours. Hence, the visitors faced a lot of inconvenience.

42. Slow Expertise Development

Researcher observed that LDCC Bank, Latur has been implementing the guidelines, instructions, and code of conduct and fair practices by RBI, Government and NABARD. But its implementation is very slow. In case of grievances redressal mechanism, security instructions, helpline, website development; the Bank has followed instructions but these are not up to mark. Hence, slow expertise development is observed in LDCC Bank, Latur.

43. Challenges put up by New Economic Policy

New Economic Policy has changed the working style of banking business and its direct effected are experienced by cooperative banks also. Due the acceptance of policy of Liberisation, Privatisation and Globalisation, cooperative banks has to face many challenges to survive in this stiff competition. DCCBs are not technically advanced as compared to commercial and nationalised banks due to their inherent limitations like restricted class of customers, limited area of expansion, limited share capital, etc. Hence it becomes difficult for DCCBs to face the challenges put by New Economic Policy.
REFERENCES

1. Questionnaires and Interviews