# CONCLUSIONS AND SUGGESTIONS

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7.1 Findings and Conclusions

Our study about NPA position of 10 UCBs shows that on the basis of NPA position, the selected 10 UCBs South Gujarat are well managed as far as NPAs are concerned. From the study that we have made, we can draw the following Conclusions about NPA Management of the 10 UCBs of South Gujarat.

1) The gross NPA of the UCBs under study has been found to be satisfactory and it is slowly coming down. The average gross NPAs of all the 10 banks is 14.77% in 2008-09 and the Overall Conclusions is that the UCBs in South Gujarat are well managed as far as NPAs are concerned.

2) We have arrived at Net NPAs from gross NPAs after adjusting it against provisions made. The ideal position is that it should be zero and UCBs that we have studied is extremely satisfactory, though we have not separately studied the Net NPA position of The Sardar Bhiladwala Pardi People’s Co-Operative Bank Ltd. whose Net NPA shows positive figures in the first five years, which is most undesirable. However, the bank had been able to make enough provisions against NPAs in the last three years and as a result the overall position of the ten UCB’s net NPA is zero which is extremely satisfactory as far as Net NPA is concerned.

3) We have studied the Problem Asset Ratio, that whether the Gross NPA can create problems for other assets. The position of the UCBs in South Gujarat is not very happy in this respect, as against the RBI norms of 4 to 5 percent; the average for the last 8 years is 6.53% which decreased to 5.61% in the last year 2008-09. It seems that the management must give some attention to this ratio, so that other assets are not affected due to increasing gross NPAs. It is a good sign that the Problem Asset Ratio has decreased in the last five years.
4) The Depositors Safety Ratio also has some significance, but it would be easy for the banks to raise low cost finance if the depositors’ safety is ensured. As against the RBI norms of 80% it is noticed that the average ratio is more than 100%. It may be highlighted that in the year 2008-09 the average was 277.71%. This ensures that the depositors’ money is safe and there is no cause of anxiety for the depositors. This leads to the conclusion that the depositors’ safety ratio is much better in the selected UCBs.

5) Just as depositors’ safety ratio is important from the view point of depositors, it is so far shareholders also, and who are interested in safety of owners’ fund in the context of Net NPAs. As we have seen, the Net NPA must be zero, if enough provision has been made against gross NPAs. The position in respect of 10 UCBs is very satisfactory as all of them have zero Net NPAs and as a result the shareholders’ risk ratio is also zero in respect of all the banks. As enough provisions have been made by all co-operative banks under study, except The Sardar Bhiladwala Pardi People’s Co-operative Bank in the first five years of the study, the shareholders’ funds are safe in the hands of the directors. As The Sara Bhiladwala Pardi People’s Co-operative Bank is having positive Net NPA in the first five years, perhaps its shareholders’ risk ratio may be more than zero. Except that all UCBs have well managed the shareholders’ money and they are safe in the hands of management.

6) The Provision Ratio is very important as it shows whether the bank is following the RBI guidelines for making provision against gross NPAs. The provision of 100% against Gross NPAs would suggest a satisfactory NPA management policy. However, in respect of 10 UCBs under study, it seems that the position is very happy as the average provision is 140% and it is greatatifying to note that the percentage of provision is increasing year after year ultimately resulting into 252% in the year 2008-09. The Management of
some UCBs in South Gujarat are proud to say that they have made a provision of 300 to 400 percent of the Gross NPAs. This shows a healthy trend in NPA management. But it must be remembered that to high provision against gross NPAs may conceal real profit from the shareholders and depositors both, resulting in secret reserve, which must be restricted to a reasonable proportion.

7) Two ratios which indicate the position of NPAs are Sub – standard assets ratio and doubtful assets ratio. The two ratios indicate the characteristic of NPA. If the NPA is about substandard assets and doubtful assets, the high ratio may signify a bit satisfactory position, in the sense that the prospect of recovery of the advances is bright and the efforts should be made to recover as much advances from the defaulters even by offering some compromise, so that the proportion of Gross NPAs is reduced. From our study of 10 UCBs it can be concluded that the situation is not pessimistic and the Doubtful Assets Ratio is increasing suggesting that there is good scope of recovery by even compromise method. The position of the UCBs in South Gujarat is very satisfactory.

8) The Loss Assets Ratio is a clean indicator of the loss likely to be suffered by the bank as compared to NPA. The study suggests that the position of the banks under study is not very satisfactory as the ratio is increasing during the last four years. However, the position of the loss assets of the banks such as SUTEX, MNSB and GPCB is affecting the overall Loss Assets Ratio while the position of the other UCBs is very comfortable, as indicated in figure 5.22.
If we look at Capital Adequacy Ratio of all the UCBs under study, it also shows a satisfactory position, as it is more than 9% which is the norm suggested by the RBI. From that point of view also the financial position of the banks is secure and there is bright future ahead for UCBs in South Gujarat.

From all the ratios that we have studied in respect of NPAs, it can be concluded very safely that all the UCBs are managing their NPAs very satisfactorily, though there may be some weakness somewhere and they must be carefully looked after.
7.2 SUGGESTIONS:

On the basis of the findings emanated from the present micro level research study on selected 10 UCBs in South Gujarat, it is found that the UCBs are facing problems of high cost of doing business, low capital base, inadequate loan appraisal and credit planning, poor recovery of advances, dual control, mounting over dues, high level of non performing assets, political influence etc.

The term Banking is a Shocking one as far as industry is concerned. The profitability of any financing institution is based on the income from its assets (advances and investment) and when the assets stop producing income Non Performing Assets is resulted and provisions have to be made for it. In this way, it can be said that a bank has to suffer from both sides.

NPA is a very big problem before the banks not only in Gujarat but everywhere in India. Hence it is essential to put in constant efforts to check NPA.

Just as banks need Credit Management, NPA Management is also a very necessary aspect. It has to be remembered that Credit Management has to be performed in such a way that there will not be any need for NPA Management. It is a fact that Urban Co – Op – banks never pay heed to give need based advances. On the contrary the managements administer in such a way as if the institutions / banks are their own business firms. They are governed by personal relations and without taking in to consideration the actual need and purpose of loan. Inadequate securities, approval of loan accounts more than actually needed etc., have become a common practice. Reckless violation of RBI rules, exposures, norms etc. have become the rule of the times. The closed banks in Gujarat have exposed the irregularities practiced by the bank Managements. Bank Managements should, in fact, administer banks not as their personal business firm but as if they are trustees of popular funds or investments. It is impossible to regain the lost popular faith in banks unless and until the managements understand and accept this fact and it is a very serious issue in the current banking scenario. As mentioned earlier, the greatest NPA Management is to prevent NPA. Genuine advances, sufficient security, post loan inspections, regular renewal of loans, all these stop banks from making NPA. Very often, lack of follow up increases NPA.
NPA level rises when stock statement of the cash credit account is not promptly obtained, transactions do not take place in the account, the turnover is even less than the interest, the credit is not renewed from time to time – all irresponsible activities of banks. Sending installment notice is a usual banking custom and many bank fail in doing even this.

If the above problems are avoided, the NPA can be minimized by 5 to 10 percent approximately.

Now the question is what after occurrence of NPA? Banks have to take immediate action as the loan period gets over, like giving necessary notices, talking to the account holders personally and taking legal actions against defaulters.

Actions like forfeiture of securities should be executed immediately. In a recent issued by public notice The Gujarat government has made it clear that only the authorities of co-op. banks have the power to be Recovery Officers and Sales Officers. As a result, the co-op. banks can exercise their power for recovery under the above order or command. But it mainly depends on the desire of the banks and directors. People’s Court is also a relevant medium for recovery. It is feasible for the people’s court to sit with the borrower and comment on his performance and then to act as a mediator between the borrower and the bank. It is a plus point that the borrower is also involved in the procedure.

The directors of the Board should be selfless, service minded, talented, having a co-operative sentiment and sound knowledge of banking and co-operation. The interests and progress of the members should occupy their minds. As a director one should keep aside the business attitudes and place selfless service at the core. It is essential to make the members aware of the need to elect such directors to the Board who is capable of fast, clear and quick decisions.

Co-operative banks are to raise their fund – resources through the members from the society itself and to run the bank on the principle of self reliance. The directors are caretakers and it has to be diligently seen that no external agency or authority interferes in the internal functioning of the bank. Politicians, speculators and the power hungry have no scope in the bank. A government nominee or government representative too, cannot be in the Board of Directors. The Bank, on the other hand
should not try to seek help from outside agencies. It should be managed by commercial, professional bankers impartially, who should be elected representatives by shareholders of banks. Only such banks can be said to be functioning democratically in the real sense.

**Solvency of Banks:**

Reserve Bank of India has laid a number of criteria of which two are very significant.

1. Capital Adequacy Ratio
2. Net NPA

Capital Adequacy Ratio shows bank’s solvency i.e. the more Capital Adequacy Ratio the more is the solvency of the bank. As per the RBI guidelines of 31-03-2004, the ratio of UCBs should be minimum 9%.

On the other hand if the Net NPA of a bank is higher, the solvency would be lower and it will lead to liquidation.

**Vested Interests.**

The administration of co-operative banks is growing hard these days mainly due to the interference of certain vested interests and political pressures leading to corruption, manipulations and scams. The deposits of the members are, therefore, in high risk and the co-operative atmosphere is spoiled as more and more banks fail to return money to depositors. This has an adverse effect on other co-operative banks and co-operative societies. The directors and members of a bank should be alert to check entry of such polluting elements into its administration.

**Managing Director – General Manager – CEO:**

The Managing Director – General Manager – CEO of a co-operative bank plays a very significant role in administration, development and also in running the bank in true commercial lines. It is imperative that the MD should possess sound knowledge of banking and should have an active experience minimum of ten years.
Away from political parties:

Political parties have been creeping into co-operative sector since long and they are observed to be very active. Institutional elections and appointment / election of office bearers are greatly influenced by them. As a result, groupism has made its way into administration and members and staff of the banks are forced to bear the brunt. Groupism develops even among the staff and the Managing Director finds it very difficult to manage. As groupism grows at an alarming rate on one side, the government policies, RBI directives, the complexities into co-operative norms and unnecessary prohibitions make administration deeply complicated and risky on the other. The net result is that customers and members become unhappy, banks’ development gets badly affected, hurdles are formed in its way and ultimately the bank reduces to a centre of political games. Corruption and other evil practices put the bank in a mess.

Standing Sub – Committee:

Every co-operative bank should appoint a permanent sub-committee to constantly assess and verify the non-performing assets of the bank and to give proper guidance for the economic growth and productiveness of the assets. Similarly, it should verify and evaluate the advances from time to time and keep watch on the recovery of advances. At present there is no machinery or special squad in UCBs for recovery of advances. It has to be watched whether the advances have been utilized for the purpose for which they are granted or for some other purpose which is unproductive. In the present situation it is very important to from a special squad for recovery.

One Time Settlement:

RBI has introduced and implemented the scheme of one time settlement for all types of banks but it is not so effective as far as co – op – banks are concerned. Commercial banks are not entitled to enjoy many of the exemptions under this scheme.

In the case of commercial banks, total interest waiver has been permitted and in many cases banks could resort to a settlement after a recovery of any amount possible.
It is obvious that this is a measure that hinders the Co – Op – banks as the managements can misuse it.

Moreover, banks were instructed to obtain permission from the Co – Op. Registrar for this scheme, which is definitely a hurdle for the implementation of this scheme. RBI should instruct to restructure the scheme and ask the state governments not to create any objections in the case of Audit and clause 86 and 93 of Co. Op. Act.

Banks should frame a permanent and fool proof scheme for the easy recovery of NPA and banks should implement it for a compromise with the borrowers. Under the scheme it should be examined whether the banks have sanctioned loan in proper manner, whether the security is sufficient or not, whether proper recovery measures have been taken and whether recovery has been poor in spite of the recovery measures. Banks should be given permission to implement the scheme only if the above situation prevails. The government should be informed and should be requested not to create issues in Audit and related matters.

**Dual Control:**

Constant discussions have been going on about dual control ever since the establishment of Co – Op – Banks in the state.

The registration of banks is done through the Registrar of Co – Op – Societies. Banking license is always under the control of RBI and it is necessary to act according to Banking Regulations Act 1949 and neither any instructions from the Registrar nor the clauses of Co- Operative Act should interfere in it.

The power of the registrar should be limited only up to closure of bank / society after registration. RBI should, in this way, manifest clear distinctions between Banking Regulation Act and Co – Operative Act. By doing this nobody can blame the government that no action is taken by the Government when a bank moves towards bankruptcy.
Reduction of NPA:

On the basis of the researcher’s observation and analysis it is found that there is a need for improvement in controlling and reducing the Non Performing Assets of the selected UCBs.

1) There should be constant, in depth inspections of accounts which turn into NPA and have a specific policy for periodical evaluation of such accounts.

2) There must be a deep study of the viability of loan repayment while sanctioning new loans and proper pre – inspection procedure must be undertaken.

3) Banks should have a loan recovery policy giving details of the strategies adopted for recovery of dues, period wise targeted level of reducing NPAs.

4) It is high time to introduce methods of evaluation of risks involved in lending and to determine category or degree of risk so as to decrease non performing assets.

5) There should be quarterly / monthly review of NPA account prior to balance sheet date to know the actual position of accounts to get an early signal of potential NPA accounts.

6) To reduce existing level of NPA there must be a separate team in recovery department which consist of experienced and skilled personnel.

7) There must be emphasis on reduction of Net NPAs as Zero Net NPA indicates good NPA management.

8) There is a need for modification in the existing methods of accounting to make it more transparent and meaningful.
9) While sanctioning a new loan proper pre-inspection procedure must be undertaken.

10) Norms for entering in to compromise proposal involving sacrifice/waiver, factors to be taken into account before considering waivers, decision, levels, reporting to higher authorities and monitoring of higher authorities and monitoring of write – off/waiver cases.

11) All branches must have separate NPA departments consisting of experience and skillful personnel.

12) To conduct monthly or quarterly meeting for meaningful dialogue with the borrower (NPA) consulting with the management to arrive at a possible solution.

13) When chances of recovery are negligible bank should write-off an advance to reduce its income and save tax. In other words up to certain extent doubtful and loss assets should be written off.

14) Special Recovery cells may be set up region/zone wise. Similarly recovery officers may be appointed at branches having sizeable NPAs and their recovery progress may be monitored on monthly basis.

15) There should be ‘Management Information System’ or ‘intelligence Department’ by which the entire departments can avail proper, adequate and timely information, which help in taking timely decision regarding Non-performing accounts.
16) In order to decrease NPA, personnel of the banks must be motivated by motivational scheme and while judging the performance of staff; sufficient emphasis should be laid to the recovery of loans.

17) Nepotism and bogus loans must be drastically removed by directors.

18) It is unfortunately true that co-operative banks have come to be hotbeds of political patronage, irresponsible financial accounting for this. It is high time to take corrective steps by government though some modification.

19) For Government, peer pressure is not working and its time to think of more formal mechanism of corporate governance.

Thus it can be said that urban banking sector has stood the test of time and it has the inherent strength to adopt itself to the changing environment. If all the varied suggestions made above are implemented, the UCBs can truly become the bank ‘of the people’, ‘by the people’, ‘for the people’ of local, urban and semi-urban areas. However sustenance of its growth is dependent on professionalisation of its management, technology absorption and scrupulous adherence to regulatory framework. I hope the sector will learn from its past experience and adjust to new realities since the business of banking involves a great deal of risks.

Finally, it is very important in the present situation that the RBI should act as a “watch dog” in order to see that banks perform in time with the rules of inspection monitoring etc.