CHAPTER - VIII

FINDINGS,
SUGGESTIONS AND
CONCLUSION
In this chapter the researcher explains the overall summary of the study of all the foregoing chapters, findings of the study, suggestions are made in the light of the major findings to improve the sector as a whole and conclusion is drawn about the study.

The First chapter describes the introduction of the Indian banking system, historical background of the co-operative banking system, co-operative credit structure, review of literature, statement of the problem, and need for the study. Various studies have been conducted to explain the performance and problems of urban co-operative banks in India and Karnataka. No studies are undertaken to evaluate the performance of urban co-operative banks in Davanagere district. Both primary and secondary data were collected to study the evaluation of urban co-operative banks. The primary data were collected from actual discussions with the bank officials, management of the banks, and the Government officials etc. The secondary data were collected from the published, unpublished literature and yearly reports of the banks. Davanagere district is selected for the study to evaluate the performance of urban co-operative banks.

Second chapter analyze the urban co-operative banks in India and Karnataka. Evolution, origin, meaning and definitions of urban co-operative banks have been explained in this chapter. Features, growth and development of urban co-operative banks in four distinct phases are being explained. Deposit base of UCBs, market share, liabilities and assets of UCBs, financial performance of UCBs are also explained. The growth and development of UCBs in Karnataka during 1999 to 2008 is explained.
An evaluation of urban co-operative banks in Davanagere district is explained in the Third chapter. An attempt is made to highlight the profile of Davanagere district, profile of each urban co-operative bank, branches, members of the banks, functions and management of the urban co-operative banks and in the concluding part, all the members of the banks increased during the study period and all the banks are managing well and unit banks have to take immediate decision to open branches to reap the benefits of economies of scale.

The fourth chapter deals with the resources of urban co-operative banks like share capital, reserves, working capital, and deposits. The analysis of these resources have been explained with the help of statistical tools like averages, coefficient of variation, annual compound growth rate and F test. The annual growth of share capital, reserves, working capital and deposits of all the UCBs is positive and significant during the study period except HRR-UCB registered negative growth rate in deposits. As regards the loans and advances, ACGR of all the banks is positive except BCB registered negative growth. The profits of all the banks are showing declining trend during the study period. This chapter clearly shows that, in spite of the application of strict prudential norms by the regulator, the performance of urban co-operative banks in Davanagere district will not be affected. It is because of the efficient administration and professional competency, all the banks are performing well and making profit every year but their percentage of profit is reduced due to levying of income tax on profits of urban co-operative banks during the study period. Hence the first hypothesis is proved that, all the urban co-operative banks financial position under the study region is better by controlling their administrative expenditure, through efficient administration and professional competency.
The fifth chapter undertakes to evaluate the performance of urban co-operative banks in Davanagere district through ratio analysis and camel model. Camel is basically a ratio based model for evaluating the performance of banks. Twenty ratios are used in this model. The capital to risk asset ratio of all the banks is more than the prescribed level of 9%. Advance to assets found declining over a period of 10 years as ACGR is negative, except CITY-UCB, HRR-UCB, and ADA-UCB registered positive growth rate. The ACGR of Government securities to total investment ratio found positive in all the UCBs. The assets quality ratios like Gross NPAs to net advances, Net NPAs to net advances and Net NPAs to total assets have declining trend during the study period. It shows an improvement in the asset quality position of all the UCBs. The ACGR of total investment to total assets ratio found positive in all the UCBs except MIL-UCB, CITY-UCB and KANNIKA-UCB registered negative growth. Earning capacity in terms of ratios indicates that, credit deposit ratio is declining and ACGR turns negative in all the UCBs except DHUCB, CITY-UCB, HRR-UCB and ADA-UCB registered positive growth. The ACGR of business per employee ratio found positive in all the UCBS and profit per employee ratio of all the banks is declining during the study period. The earning quality measured in terms various ratios like operating profits to average working funds, spread to total assets, net profit to average assets, interest income to total income and non-interest income to total income and found that, the ACGR of operating profits to average working funds is positive in BCB, DHUCB, AMB-UCB, KANAKA-UCB, and ADA-UCB and negative in other UCBs. The Spread to total assets ratio found significant in case of DUCB, AMB-UCB, MUR-UCB, KANA-UCB and CITY-UCB and negative in case of other UCBs. The ACGR of net profit to average assets ratio found negative in all the UCBs except AMB-UCB registered positive growth. The ACGR of interest income and noninterest income to total income ratios found positive for some banks and negative for
some other banks. The liquidity ratios measured in terms of four ratios. The ACGR of liquid assets to total assets ratios is positive in BCB, MIL-UCB, KANNIKA-UCB, AMB-UCB, CITY-UCB and negative in other UCBs. Government securities to total assets ratio is positive in all the UCBs except AMB-UCB registered negative growth. The ACGR of liquid assets to demand deposits ratio of all the UCBs registered negative growth except BCB and CITY-UCB registered positive growth rate. The ACGR of liquid assets to total deposits ratio is positive in BCB, MIL-UCB, KANNIKA-UCB, AMB-UCB, CITY-UCB and negative in case of other UCBs in the district. This chapter clearly shows that, after the application of prudential norms, the UCBs in the study region have been maintained the CRAR more than the prescribed level of 9%. The assets quality of all the banks in the study region are improving and registered declining trend particularly after 2001. The earning quality of all the banks are improving in the study region during the study period. Hence the Second hypothesis is being proved that application of prudential norms will improve the performance of urban Co operative banks in the study region. But the percentage of earning profit has come down on account of levying of income tax on profits of UCBs.

The sixth chapter deals with the priority sector lending of urban co operative banks. An attempt has been made to analyze the concept of priority sector lending its objective and importance in the Indian economy, the priority sector advances by UCBs in India and UCBs in Davanagere district and found that all the UCBs are providing credit facilities to priority sector and weaker sections more than the prescribed level of 60% except KANNIKA-UCB granting below 45% to this sector. The ACGR of priority sector lending is positive in all the banks and significant during the study period. Hence the third hypothesis is proved that priority sector lending by UCBs in the study region is significant.
The seventh chapter evaluates the problems of urban co-operatives with focusing only on Non-performing assets by explaining the meaning of NPAs, criteria for treating a credit facility as NPA, classification of assets, provisioning norms, and income recognition and asset classification norms followed by the urban co-operative banks and found that loss assets found very less and zero in all the UCBs except loss assets in BCB was 0.1% and MIL-UCB 0.8%. The asset quality of UCBs in India improved significantly after 2005. The gross and net NPAs increased in absolute terms but as a percentage of total advances, both gross and net NPAs are declined. The gross NPAs and net NPAs of all the urban co-operative banks in Davanagere district are low and net NPAs of all the UCBs is below 5% except, net NPAs of ADA-UCB is 13.30%, MUR-UCB, is 7.87% and HRR-UCB net NPAs is 9.54%. So the fourth hypothesis is proved that, the non-performing assets of urban co-operative banks in the study region is low.

Findings

1. The total number of urban co-operative banks have declined from 1941 at the end March 2003 to 1770 at the end March 2008.

2. The total number of Grade I and II banks increased (1274(72%) over the past three years, while those in grade III and IV declined (496(28%) at the end March 2008.

3. The growth of deposits of urban co-operative banks by 6.4% and 14.1% for the years 2006-07 and 2007-08 respectively shows an increasing trend after 2005-06.

4. The distribution of deposits and loans and advances are highly skewed.

5. Out of total 1770 urban co-operative banks at the end March 2008, 1457 urban co-operative banks have maintained the CRAR of 9% and above and 260 urban co-operative banks have maintained the CRAR of less than 6%.
6. The Gross NPA and Net NPA increased in absolute terms. However as a percentage of total advances both Gross and Net NPAs were declined in 2008.

7. SLR investments of urban co-operative banks have increased while NON SLR investments declined during 2007-08.

8. The urban co-operative banks are concentrating only in five States viz., Maharashtra, Andhra Pradesh, Gujarat, Karnataka, and Tamil Nadu. Nearly 79% of total urban co-operative banks are functioning in these States only.

9. As at end March 2008, Andhra Pradesh, Gujarat, Karnataka, Maharashtra, and Tamil Nadu together accounted for 88.1% of the deposits and 89.5% of the credit of the entire urban co-operative banking sector.

10. The growth of number of urban co-operative banks in Karnataka is not uniform. In 1999 the total no of urban co-operative banks were 272 and it has increased to 302 in 2003 and again decreased to 277 in 2008.

11. The total no of branches and members are not uniform. The total number of branches were 497 and members were 2601301 in 1999 and branches increased to 666 and members decreased to 2185386 in 2008.

12. There has been continuous increase of share capital, reserves, working capital, loans and advances and net profit of urban co-operative banks in Karnataka during the study period.

13. Number of Grade I and II urban co-operative banks have been increased to 183 and Grade III and IV urban co-operative banks have been decreased to 76 as at March 31, 2008.

14. The progress of urban co-operative banks among the districts in Karnataka is also uneven and classified them into three categories. Six districts are considered as highly
progressive, Nine districts are considered as progressive, Eleven districts are considered as less progressive. The Davanagere district comes under progressive district.

15. It is found that all the urban co operative banks in Karnataka have maintained the prescribed level of Capital to risk asset ratio (CRAR) except Chitradurga district urban co operative banks have maintained only 6.68% which is less than the prescribed level.

16. The credit deposit ratio found satisfactory during the study period. The credit deposit ratio of urban co operative banks was 64.9% in 1999 and it has increased to 65% in 2008.

17. The 12 urban co operative banks are functioning in the Davanagere district with 33 branches as on 31 March 2008.

18. It is found that only 5 urban co operative banks are having branches and 7 banks are unit banks.

19. There has been continuous increase in the membership of all the urban co operative banks in Davanagere district during the study period. Among all the banks, the growth of membership was higher in case of Davanagere urban co operative bank and lower in case of Adarsha urban co operative bank.

20. The annual compound growth rate of membership was positive in all the urban co operative banks except Kanaka urban co operative bank registered negative growth rate.

21. There has been continuous increase in the growth of share capital of urban co operative banks in Davanagere district and found that Bapuji co operative bank was the highest share capital and Adarsha urban co operative bank was the lowest share capital among all the urban co operative banks during the study period. The annual compound growth rate of share capital of all the banks found positive.
22. The working capital, deposits, and loans and advances of all the urban co-operative banks found higher during the study period.

23. Except Muragarajendra urban co-operative bank and Harihareshwara urban co-operative bank, all the other urban co-operative banks have maintained cash reserve ratio (CRR) and statutory reserve ratio (SLR).

24. All the urban co-operative banks have earned the reasonable profit and found that, after imposition of income tax on urban co-operative banks the profit level of urban co-operative banks have come down.

25. The advance to assets ratio found higher in case of all the urban co-operative banks in the district.

26. The assets quality of all the urban co-operative banks are found improving during the study period.

27. The Net NPA ratio of all the urban co-operative banks found lower. Ambabhavani urban co-operative bank and Harihareshwara urban co-operative banks Net NPA registered above 10%.

28. The ratio of total investment to total assets of all the urban co-operative banks found higher except Millath urban co-operative bank. On an average it will be highest in Bapuji co-operative bank and lowest in Millath urban co-operative bank.

29. On an average, the business per employee ratio found higher in Bapuji co-operative bank and lower in case of Ambabhavani urban co-operative bank.

30. On an average, Profit per employee ratio found higher in case of Bapuji co-operative bank and lower in case of Kanaka urban co-operative bank.

31. Spread or net interest margin of SSUCB was negative after 2000-01 to 2007-08.
32. Earning capacity of all the urban co-operative banks is improving. The UCBs having branches have earned more profit than the unit UCBs.

33. Interest income of all the banks is significant during the study period.

34. Noninterest income of all the UCBs is lower except DUCB, DHUCB, SSUCB, and KANAKA-UCBs interest income is higher.

35. Liquidity position of all the banks is found satisfactory.

36. Government securities to total asset ratio of small sized banks is very low.

37. Liquid assets to total deposits and demand deposits ratios of all the banks found satisfactory.

38. All the UCBs are providing credit facilities to the priority sector lending more than the prescribed level of 60% except KANNIKA-UCB is providing below 45%.

39. The Gross NPAs and Net NPAs of all the UCBs found satisfactory after 2005.

40. Nonperforming assets of all the UCBs in the study period is low except ADA-UCB registered above 10% of NPAs.

Suggestions

1. The following suggestions have been made to strengthen the functioning of the urban co-operative banks.

2. Interference of political parties in the selection of urban co-operative members through elections should be overcome.

3. While forming the urban co-operative banks management, efficiency and eligibility are to be taken into account but not the caste or community.

4. All the urban co-operative banks should adopt the principles of corporate governance for effective management of the urban co-operative banks.
5. Dual control of urban co operative banks should be changed.

6. Urban co operative banks must find low cost deposits in order to increase their working capital base.

7. The government of India should reconsider their decision with regard to imposition of income tax on profits of urban co operative banks.

8. The urban co operative banks should adopt the modern technology for providing better services to the customers and increasing their performance.

9. Urban co operative banks must increase their current account and savings account deposits in order to get more funds at a cheaper rate than the fixed deposits.

10. Small sized Urban co operative banks should increase their resource base in order to achieve their desired goals.

11. Credit should be given to customers on the basis of the need and productivity.

12. Urban co operative banks should encourage and take proper initiative to open more and more no frills accounts in order to provide banking services to the more number of people.

13. Some of the urban co operative banks in the study region are not having any bank branches and they should open the bank branches to get the advantages of scale economies.

14. All the staff members of the urban co operative banks should be trained and may be given opportunity to acquire necessary skills to improve the performance of urban co operative banks.

15. Some of the urban co operative banks have scanty members and share capital is also very less. These banks should take necessary steps to increase the membership and share capital.

16. Working capital, reserves, and deposits of some of the unit urban co operative banks are very low and these banks have to take necessary steps to increase the said things in the years to come.
17. The infrastructure facilities of some of the unit urban co-operative banks are not satisfactory and they have to improve their infrastructure facilities immediately.

18. The asset quality of some of the urban co-operative banks was not up to the mark. They should improve their assets quality.

19. All the urban co-operative banks in the study region should find new avenues in case of deposit mobilization and credit disbursement policies to increase their profit level.

20. In order to improve the operational efficiency and financial productivity, all the urban co-operative banks must undertake periodical evaluation of performance in order to overcome their weakness and problems and for achieving better performance in future.

21. Profit of some of the banks are very low and these banks have to strive very hard to increase their profit level in forthcoming years.

22. Credit deposit ratio of BCB and SSUCB is low and these banks should increase their credit deposit ratio to earn more profit.

23. Except DUCB, DHUCB, SSUCB, all the other urban co-operative banks in the district should increase their non-interest income.

24. Profit per employee ratio of all the unit UCBs is very low and these banks have to increase the profit per employee ratio in the forth coming years.

25. Investment in Government securities by KANNIKA-UCB, AMB-UCB, ADA-UCB, KAN-UCB, CITY-UCB is very low and these banks have to invest in government securities.

26. All the urban co-operative banks have to take suitable steps to recover the loans and advances to reduce the NPAs level so that their profit position increases without making any provisions for NPAs out of the banks profit.
27. There is regional imbalance in the opening of branches by UCBs in the district. All the UCBs should take a suitable decision to open branches in the places outside Davanagere city.

28. The population of the Davanagere city has been increasing and at the same time urban poverty is also increasing in recent years. Hence the urban co operative banks may generously provide loan facilities to them and thereby their financial condition may improve.

29. Reserves of unit UCBs is low during the study period and these banks have to increase the reserves.

30. On account of financial crisis and banking crisis, it is now very much necessary to the management of the UCBs should adopt corporate governing principles and they should impart a sense of discipline and work culture to face challenges and to bring drastic changes in their overall performance.

31. All the Urban co operative banks should aim at getting maximum profit by providing better customer services.

32. The MUR-UCB and HRR-UCB should take RBI license immediately and these banks have to maintain CRAR and should invest in Government securities.

Conclusion

The urban co operative banking sector is emerging as one of the important segment in the Indian banking system which is playing a vital role in the economic development of the country. The financial sector reforms have put forth challenges as well as new opportunities to urban co operative banks. Due to their co operative character and local reach they are the effective instruments in fulfilling the needs and aspirations of the poor section of society. Normally urban co operative banks are self reliant and therefore without any outside aid/large scale borrowings, they are able to meet the needs of their members, who are generally persons of
small means. However, due to stiff competition they have been led to adopt new strategies to meet the challenges. They are expected to be a guiding light for others to follow in serving the vast humanity without compromising with noble human values. Hence urban co-operative banks play a pivotal role in increasing the standard of living of persons who are economically backward and weak and this sector will give the helping hand to those people and contribute significantly to the national effort to maintain the egalitarian society.