Chapter No. I

Research Methodology
CHAPTER I
Research Methodology

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Particulars</th>
<th>Page no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Introduction</td>
<td>1-18</td>
</tr>
<tr>
<td>1.2</td>
<td>Structure of co-operative Credit Institutions.</td>
<td></td>
</tr>
<tr>
<td>1.3</td>
<td>District Central Co-operative Bank (DCCB)</td>
<td></td>
</tr>
<tr>
<td>1.4</td>
<td>Financial Inclusion.</td>
<td></td>
</tr>
<tr>
<td>1.5</td>
<td>Poor are more bankable borrowers than rich.</td>
<td></td>
</tr>
<tr>
<td>1.6</td>
<td>Financial Planning.</td>
<td></td>
</tr>
<tr>
<td>1.7</td>
<td>Financial Forecasting.</td>
<td></td>
</tr>
<tr>
<td>1.8</td>
<td>District Co-Operative bank and Core Banking.</td>
<td></td>
</tr>
<tr>
<td>1.9</td>
<td>Objectives of the study.</td>
<td></td>
</tr>
<tr>
<td>1.10</td>
<td>Hypotheses of the study.</td>
<td></td>
</tr>
<tr>
<td>1.11</td>
<td>Significance of the Study</td>
<td></td>
</tr>
<tr>
<td>1.12</td>
<td>Limitations of the present study.</td>
<td></td>
</tr>
<tr>
<td>1.13</td>
<td>Research Methodology</td>
<td></td>
</tr>
<tr>
<td>1.14</td>
<td>Chapter scheme of the present study</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER - I

INTRODUCTION

1.1 Introduction

Co-operative organizations occupy an important position in the financial system of India. Co-operative organizations were initially developed as formal institution to provide credit to the rural population in India. Thus co-operative organizations are considered as a key instrument of financial inclusion, which reach to the remote rural areas. Although these organizations can play a key role in the process of financial inclusion, their financial viability and soundness continue to be the key areas of concern. If their financial health is improved, they can contribute significantly towards financial inclusion.

At present rural credit co-operative institutions providing short term and long term credit continue to suffer from several structural weaknesses, such as poor resource base, high levels of accumulated losses, lack of trained employees, and professional management etc. These co-operative institutions have been traditionally subjected to a dual control form the Reserve Bank of India and State Governments. The committee on Financial Sector Assessment (CFSA) 2009 describes the dual control as “the single most important regulatory and Supervisory weakness in the co-operative banking sector.

In order to overcome the problem of dual control the Reserve Bank of India has taken several steps to develop a stronger and unified regulatory frame work for the co-operative sector. One of the steps was the preparation of a Vision Document by the Reserve Bank of India, in 2005, which recommended, “a state- specific strategy of the state Governments entering into a Memorandum of understanding (MOU) with the Reserve Bank of India to deal with the dual regulatory control over Urban Co-Operative Banks (UCBs) and the establishment of the Task Force for UCBs in these states, the Task Force on Revival of co-operative Credit Institutions constituted by the Government of India in 2004 recommended the state Government to enter into MOU with the central Government and National Bank for Agriculture and Rural Development (NABARD) for implementation of the revival package for rural co-Operative institution.
1.2 Structure of Co-operative Credit Institutions:

The distinctive feature of the Co-operative Credit structure in India is its heterogeneity. The structure differs across rural and urban areas, as well as across states and tenures of loans. Urban Co-operative banks (UCBS) serve the urban areas. These banks are subdivided into scheduled and non-scheduled UCBS, and scheduled UCBS form a small proportion of the total number of UCBS. The operations of UCBS, both scheduled and non-scheduled, are limited either to one state (Single State) or across states (Multi State). Most of the non-scheduled UCBS are Single State UCBS with single tier structure.

Rural co-operative Structure is divided into short term and long term structure. The short-term Co-operative structure is a three tier structure, consisting of state Co-operative Bank (STCBS) at the apex level. District Central Co-Operative Banks (DCCBS) at the intermediate district level and Primary Agriculture Credit Societies (PACS) at the village level. This structure is referred to as federal structure of the short term credit Co-operatives. In the northern-eastern region the unitary structure is observed, where STCBS provide credit directly to PACS, instead of any district level intermediary.

The long term Co-operative structure includes the State Co-operative Agricultural and Rural Development Banks (SCARDBS) at the apex level, next, the Primary Co-operative Agriculture and Rural Development Banks (PCARDBS) at the district or block level. This is referred to as the federal structure of long term credit Co-operatives. There is also a unitary structure where the SCARDBS channel credit through their own branches. In some states, however, there is a mixed structure where both unitary and federal structures co-exist. In the states, not having the long term structure, separate sections of the STCBS provide the long term credit requirement of rural areas.
Co-Operative credit Institutions

<table>
<thead>
<tr>
<th>Short term</th>
<th>Long term</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutions</td>
<td>Institutions</td>
<td>Banks</td>
</tr>
<tr>
<td>State Co-Operative</td>
<td>State Agricultural</td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>Development Bank.</td>
<td></td>
</tr>
<tr>
<td>District Central</td>
<td>Primary Co-Operative</td>
<td></td>
</tr>
<tr>
<td>Co-Operative</td>
<td>Agricultural Development</td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>Bank.</td>
<td></td>
</tr>
<tr>
<td>Primary Agricultural</td>
<td>Co-Operative</td>
<td></td>
</tr>
<tr>
<td>Societies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 1.3 District Central Co-operative Bank (DCCB)

According to the NABARD Act, 1981. District Central Co-Operative Bank means the principal Co-Operative Society in a district of a State, the primary object of which is the financing of other Co-Operative societies in that district.”

Main Objectives of a DCCB are:-

I) To act as balancing centre of finance for the primary societies in the district, by providing them with funds when they face shortage of funds and by serving as a clearing house for their funds which are surplus.

II) To encourage thrift and collect savings from members and others.

III) To provide a safe place for investing the reserves of primary societies.
IV) To provide banking facilities to the members.
V) To develop and extend banking facilities in rural areas.
VI) To develop the Co-operative movement in the district on the sound lines.
VII) To supervise, guide and control the working of member’s societies.
VIII) To promote financial inclusion in the country.

1.4 Financial Inclusion.

Financial inclusion implies the delivery of financial services at affordable costs to the sections of disadvantaged and low income segment of society, where those services are not available or affordable.

Indian Institute of Banking and Finance defines financial inclusion as “the delivery of banking services at an affordable cost (no frills access) to the vast sections of disadvantaged and low income group”. It is argued that unrestricted access to public goods and services is necessary for an open and efficient society. A banking service is in the nature of public good hence it is necessary that availability of banking facilities and payment services to the entire population without discrimination is the prime objective of the public policy.

Financial inclusion is the process of ensuring access to appropriate financial products and services to the people, who are in need of them so long as people of low income groups and weaker sections of the society, were not having any means to take advantage of financial services, Government has to take initiatives so as to include them. It is in this context the Co-operative institutions can play a significant role in the process of financial inclusion.

It has been observed that nearly a half of India has still remained unbanked as there are certain areas where banking services are not available. At present only 55 percent of the population is having saving account and nine percent of them are having credit accounts. Thus there is a huge scope for promoting financial inclusion where Co-operative can play a leading role.

The main challenges for financial inclusion are a large number of regulations, political involvement, limitations of information technology especially internet, inefficient project appraisal system etc. On account of these challenges, a large
number of cases of non recovery of loans and financial assistance are being dragged into various forums including Public Demand Recovery and Debt Recovery Tribunal.

The main problem is that a large number of people are eager to take money but they don’t like to return them. People are always ready to receive services but they are not interested to pay for it. This is an another problem. These problems arise because of the mentality of certain persons. Unless people are made aware about the consequences of this problem, financial inclusion cannot make rapid progress as expressed by those who are aware of the benefits of financial inclusion

Recently the Reserve Bank of India has taken a few steps for creating opportunity for financial inclusion in India. These steps include

i. No frill Account.

ii. Importance of Know Your Customers ( KYC )

iii. Introduction of general credit card scheme.

iv. One time settlement of overdue loans up to Rs 25000.

v. Kisan credit card ( KCC )

vi. Financial literacy.

vii. Information and communication Technology intervention ( ICT )

viii. Branch licensing policy of banks.

ix. Opening of ultra small branch and

x. Kisok banking.

The RBI is aiming that banking services to be rendered to lower income groups people and rural people, where ICT will help in providing services and keeping people informed about various services provided by the banks.

It has also been decided to promote small banks in rural areas on the basis of their commercial viability.
The banking services have identified a new segment of kids and children, with campaign “Aaj ki chillar kal note bun Jane do” which means that, let the paisa of day be rupee in tomorrow.

Taking into consideration the steps taken by the RBI and initiatives taken by some banks financial inclusion can make rapid progress in India.

“The mobile phone revolution is sweeping across globally and has potential to dramatically transform the lives of rural poor” It is estimated that 8 million rural Indians, who own mobile phones, do not have access to banks. Today India is insisting on making use of mobile banking technologies as a means not only for bridging the digital divide, but also fostering financial inclusion, which has been recognized as a key priority for security of the future success of the country. ³

1.5 “Poor are more bankable borrowers than Rich”

Speaking at the Jammu and Kashmir Bank’s 75th anniversary celebrations, the Finance Minister P. Chidambaram said, “I want the message to go across to all banks—the poor of India are bankable, the poor of India can be trusted, the poor of India are good borrowers, the poor of India are honest borrowers and the poor of India are much better borrowers than the rich because of their repayment” He gave the example of education loans. Banks have disbursed over Rs 55000. crs of education loans and in most of the cases the finance minister has come across that the borrowers are either children of for mess or small businessmen, the finance minister asked the banks to adopt back-to-basics approach and focus more on relationships. “Banking is not about complex innovative products. They tried that and failed. Banks should give people what they need and not thrust products they do not want or understand”. ⁴

1.6 Financial Planning

Financial planning is one of the important functions of financial manager. It is necessary for the success of the organization. Financial planning is needed for both, short term and long term periods. Long term financial planning refers to the estimating the long term capital needs, designing the capital structure and long term financial requirements long term financial planning focuses on arrangements of the financing pattern, while the short term financial planning is related to the management of working capital, including cash forecasting, for the period of one to two years.
Factors to be considered for financial planning process include nature of business, desire of risk, status of an organization comparing alternative sources of finance, attitude of management, plans for future growth, Government policies and control, inflation any conditions etc.

Financial planning involves the following steps

i. Determination of financial objectives – Both short term and long term objectives are determined.

ii. Formulation of financial policies.

Policies are necessary for taking right decision for achieving the organization’s primary objectives, in respect of capitalization, capital structure fixed assets management, dividend distribution, working capital management etc.

iii. Designing financial procedures

During the course of financial planning, it is necessary to design and develop procedures involving funds which are helpful in the achievement of the firm’s objectives in order to ensure the best possible use of funds, the techniques like capital budgeting financial forecasting and financial analysis like ratios, budgetary control etc. can be used.

**Characteristics of a sound Financial Plan**

A sound financial plan has following Characteristics.

i. **Simplicity:** - A simple plan is easy to implement, and it can be understood by person easily.

ii. **Foresight:** - A planning requires vision and foresight. The scale of plan and scale of operation also need to be accurately determined as the efficiency of financial plan is mostly based on accurate estimation.

iii. **Flexibility:** - In financial plan flexibility for future need to be provided which will help in realizing the goals of business.
iv. **Liquidity:** - A sound financial plan especially for short run must ensure liquidity. Financial needs and repayment schedules should be budgeted in advance. A proper cash ratio should be maintained.

v. **Utility:** - A sound financial plan should be directed towards efficient utilization of available resources. A proper balance between fixed and working capital need to be maintained using the capital effectively.

vi. **Completeness :-** A financial plan should be complete in all respects and capable of facing future contingencies. A sound financial plan helps the organization in smooth running of business, expansion of business, proper management of capital and having effective control and management of cash flows.

1.7 **Financial Forecasting.**

Financial forecasting is the first step of planning process. It is a formal process of predicting future events which will affect the functioning of an enterprise. It is the technique of determining in advance the requirement and the utilization of funds for the future period. Financial forecasting helps in:

i. Generating useful information for financial decision making

ii. Providing significant information for financial planning

iii. Helps in planning for growth and financial needs

iv. Enabling the firm to make optimum utilization of available resources.

v. Adopting appropriate financial policies.

vi. Helps in updating financial plans from time to time and making them relevant according to changing circumstances.


ix. Preparing Performa Funds Flow Statement.

x. Preparing Cash Budget.
1.8 District Co-operative Banks and Core Banking.

NABARD has asked out the District Co-operative Banks (DCBs) to get approvals from their Board of Directors to introduce practice like the core banking system, which are required to launch Ru-pay-enabled debit cards.

“Core banking has historically meant the critical systems that provide the basic account management features and information about customers and account holdings. Modern packaged core banking platforms are typically more holistic and often include the following features:

i. Customer relationship management features including a 360 degree customer view.

ii. The ability to originate new products and customers.

iii. Banking analysis including risk analysis, profitability analysis and provisions for capital reserve allocation and collateral management.

iv. Banking finance including general ledger and reporting.

v. Banking channels such as teller systems, side counter (sales) applications, mobile banking and online banking solutions.

vi. Best practice work flow processes.

vii. Content management facilities.

viii. Governance and compliance capabilities, such as internal controls management and auditing.

ix. Security control and audit capabilities.

According to NABARD, initially all the DCC banks will have to implement the core banking system where information of all accounts will be available on the bank’s internet so that basic transactions can be carried at any branch. This technology has been successfully used in most of the private and public sector banks in India. Some urban co-operative banks have also implemented this technology. Once core banking is widely adopted, services such as debit cards, ATM withdrawals and on-line transactions can be made available to customers. DCC banks which mostly have farmers as their account holders do not provide these services yet. The
NABARD had invited representatives of 31 DCC banks in the state for meeting in Pune. The banks were asked to shift to core banking and train their employees in the system. The banks will have to bear the expenses to introduce the new system and these will have to be approved by the respective boards of directors.

Core banking will bring accounts of all the DCC Banks on a common platform which already has account details from all private and public sector banks and urban co-operative banks. This platform is supported by the National Payment Corporation of India with the Ru-Pay technology, which offers flexibility and nationwide accessibility to account holders while withdrawing money or making payments using debit cards.

The Ru-Pay enabled debit cards, promoted for farmers by NABARD will subsequently have national accessibility, making it possible for farmers to withdraw or pay money anywhere in the country. Currently farmers are forced to carry cash with them. People from urban areas also face similar problems when they travel to remote areas. Besides Ru-Pay cards, more ATMs will also be setup in rural areas. The Union Government has encouraged banks and private banks to open ATM in rural areas.

In order to face the future challenges the co-operative banks need to have sound processes, professional management and leadership having incentives and motivation. The most important factor for success of the co-operative banks is the cohesiveness between employees, the management and members of banks. The co-operative banks urgently need professionals with an open mind set, training in I.T. and behavioral aspects, so that they will be able to offer better customer service and maintain better interpersonal relations. Taking into consideration these developments relating to the District central co-operative banks it was decided to study the financial performance and service quality provided by the two leading banks from Nashik revenue division of Maharashtra State, namely Ahmednagar District Central Co-operative Bank and Nashik District Central Co-operative Bank.
1.9 Objectives of the study

1) To study the financial performance of Ahmednagar District central co-operative Bank Ahmednagar (ADCCB).

2) To study the financial performance of the Nashik District central co-operative Bank, Nashik (NDCCB).

3) To trace the evolution of co-operative theory and movement in India.

4) To compare financial performance of the ADCCB and NDCCB to find out strengths and weaknesses of them.

5) To study the service quality provided by these banks.

6) To suggest measures to improve their performance in respect of financial management and providing quality service.

1.10 Hypotheses of the study

i. The financial performance of Ahmednagar District central co-operative Bank and Nashik District central co-operative Bank stands sound on select parameters of the study.

ii. The functioning of the bank is adversely affected due to lack of cohesive financial plan and absence of strategic financial systems.

iii. The banks under study need re-organization of financial systems in order to compete in a free and competitive environment.

iv. The service quality of the Ahmednagar District central co-operative Bank is better than that of the Nashik District central co-operative Bank.

1.11 Significance of Study

District Central Co-operative Banks (DCCBs) play a key role in providing facilities to agriculturists, artisans etc. A DCC Banks is basically a federal society of primary societies in a district. It provides financial accommodation to village primary cooperatives which are in need of financial assistance for satisfying credit needs of the members. Thus DCC Banks plays an important role in developing agricultural credit cooperatives and other types of societies. The financial and service performance
of a DCC Bank has deep impact on rural development. DCC Banks serve as a connectivity link between the state cooperative Bank and primary cooperative credit societies. They also act as a balance Centers by transferring the funds of those societies which have a surplus to others with a shortage of funds. Taking into consideration the key role played by the DCC Banks, it was decided to study two leading DCC Banks from Nashik division of Maharashtra State, namely Ahmednager District Central Co-operative Banks (ADCCB) and the Nashik District Central cooperative Bank (NDCCB), with special emphasis on financial and services performance provided by these Banks.

1.12) Limitations of the present study

The present research studies namely “A comparative study of selected Financial Aspects of Ahmednager District Central Cooperative Bank and Nashik District Central Cooperative Bank” during the period 2001-2010. Thus the study has been limited to the two leading banks only, out of five DCC Banks of Nashik Division of the Maharashtra State. Thus the DCC Banks of Dhule, Nandurbar and Jalgaon have not been covered by the present study. In order to study the performance of all the DCCBs of Nashik Division the remaining banks need to be covered to get the information about DCCBs performance of Nashik Division as a whole. Secondly the time period covered by the present study is ten years only. Thirdly, primary data was collected with the help of questionnaires, from the respondents; hence conclusions are based on the responses given by the respondents.

1.13 Research Methodology:

The co-operative movement in India gained moments with the enactment of the credit Society Act 1904, this act was restrictive in scope as it permitted only Primary Credit Societies, and kept non credit and federal societies out of its scope. The co-operative Societies Act 1912 removed many of these shortcomings and served as a model for subsequent Acts passed by the State Governments under the constitutional reforms of 1919, co-operative Societies became a province (state) subject. The co-operative credit structure includes a State co-operative Bank at the apex level in each State, at the middle (District) level there are District central co-operative Banks (DCC Banks) and at the lowest (village) level there are Primary Agriculture credit societies (PACs). The smaller states and Union Territories (UTs)
have a two-tier structure with SCBs directly meeting the credit needs of PACs. DCC Banks acts as a link between the SCB and the PACs. The main task of DCCBs is to lend money to affiliated village primary Societies. The DCCBs are expected to attract deposits from the general public.

Scope of the study:

Maharashtra State has six Administrative (revenue) divisions, namely Kokan division, Nashik division, Pune division, Aurangabad division, Amravati division and Nagpur division. For the purpose of present study Nashik division was selected. This division includes five districts namely Nashik, Ahmednagar, Dhule, Nandurbar and Jalgaon districts. When population, Gross domestic product (GDP) and per capita income of these districts were taken into consideration, it was observed that Nashik and Ahmednagar districts were the leading districts of the Nashik Division. Hence the two districts were selected for carrying out comparative study of their financial performance and service quality for the period over 2000-01 to 2009-10.

ADCC Bank

The ADCC Bank Ltd, Ahmednagar was registered on 3rd of October 1957 with registration number 24910. The Bank got banking license on 23rd November 1994 with No RPCD, Bombay – 58 C.

Objectives of the Bank.

i. To disburse Credit for the agriculture and related business activities for achieving all sound development of the district.

ii. To make available various government schemes through the Multipurpose service co-operative institutions and to achieves the development of self, co-operative societies, villages and the district through them.

iii. To increase agricultural produce to add the resources of the country.

iv. To collect funds by way of motivating laborers, farmers, tribal etc to deposit their savings with the bank, for helping needy persons with credit out of these deposits.
v. To make available various banking facilities and to provide courteous and fast services to the customers.

vi. To utilize co-operative economy economically with developmental vision.

The bank was established on 3rd October 1957, but its actual functioning started from 1st May 1958. When the progress of the bank during last 44 years, is reviewed, it can be observed that the bank has become self confident and popular in the district hence this bank was selected for the study.

In 2009-10 the Bank had 282 branches and 3 extension counters which are functioning regularly.

**NDCC Bank: (Nashik District Central co-operative Bank)**

The NDCC bank was promoted by Sahakar Maharshi Late Bhausaheb Hire, it was registered under the Bombay co-operative Societies Act 1925, with registration No 20294, on 26th January 1955, The bank got permission/ License for banking business on 14th August 1998 under No Gra,Aa,Ru,Vi, Mum 84c. The main objective of the NDCC bank is to make various types of banking facilities available to the customers of various categories residing both in urban as well as rural areas.

During the year 2009-10 there were 213 branches including the main office, out of which three branches were working at morning and evening and nine branches were working even on Sundays. in addition there were five extension counters and the pay office was located at one place for the convenience of the customers.

**Sources of Data Collection.**

The necessary data was collected from both, the secondary and primary sources.

a) **Secondary data**

Secondary data was collected from the following sources

i. Reports of the committees and commissions appointed by the Government of India and the Reserve Bank of India.

ii. Reports of the co-operative Department of Maharashtra State.


v. Articles from journals, magazines and news papers of repute, etc.

b) Primary data.

In order to collect additional data interviews were held with the officers of the ADCC Bank and NDCC Bank.

For the purpose of collecting data on service quality provided by these banks, the data was collected from both the customers and the providers of the banking service.

The ADCC Bank had 282 branches well located in 14 talukas and NDCCB had 213 branches located in 15 talukas of the district. It was decided to take 5 percent sample of the branches operating in these districts. Thus 14 branches from the Ahmednagar district and 10 branches from the Nashik district were selected at random from each of the selected branches a convenience sample of 30 customers who were ready to co-operate were selected and a questionnaire was handed over to them.

The questionnaire contained questions to get personal information of customers relative to name, gender, age, educational qualifications, marital status, occupation annual income, type of account held with the bank and duration customers association with the bank, need for opening an account with the bank, service provided and atmosphere in the bank branch visited by the customer, customer’s demand for loan, loan sectioning time, rate of interest and amount of loan taken etc. finally customers responses about service quality of the bank in respect of Tangibles, Reliability, Responsiveness, Assurance and Empathy, were collected as per Likert’s scale, in order to know about the nature of service expected by the customers.

Similarly a questionnaire was prepared for the employees working at the counters, who constantly come into contact with the customers to get information about the problems faced by them while dealing with the customers and steps taken to solve these problems.

In order to collect data from customers a convenience sample of 30 customers from 14 selected branches of ADCC Bank were selected and pre tested questionnaire were handed over to them. Thus 420 questionnaires were distributed and later on collected. After Scrutiny it was observed that out of 420 only 378 questionnaires were
completely responded, which were accepted for the study. Thus the response rate was 94 percent in case of NDCC Bank, 30 customers were selected on convenience basis form ten branches of the Bank selected on random basis. Thus 300 questionnaire were handed over of which 265 were properly answered, which were accepted for the study. Thus the response rate was 88.33 percent.

The data thus collected has been analyzed and interpreted in the chapter numbers five and six respectively.

1.14 Chapter Scheme.

Chapter I: Introduction and Research Methodology
This chapter includes introduction to the topic and research methodology. It also contains objectives and hypotheses of the study and also significance, scope and the limitations of the study. This chapter also includes research methodology of the present study especially collection of secondary and primary data.

Chapter II: Theoretical Background
This chapter includes introduction to the concept of cooperation, definition given by various authors of cooperation, and the principles of cooperation which are discussed in detail.

Chapter III: Review of Literature
This chapter includes review of the relevant literature i.e. Research done in this field and books also. Thus the chapter includes review of reference books, review of Ph. D thesis, research papers and articles.

Chapter IV: An overview of Co-operative Movement
This chapter reviews cooperative movement in Germany, Great Britain and India since 1904 till today issues and challenges of cooperatives, Reforms in cooperative Banking sectors, revival package etc.

Chapter V: Profile of Ahemednagar and Nashik Districts
This chapter deals with profile of the study area namely location of the districts, geography, climate, rainfall, soil, irrigation, population, Agriculture, cooperation, industries, transport, and communication, educational facilities etc.
Chapter VI: Review of Legislation and RBI’s Guidelines
This chapter includes introduction, need, provisions of the Banking Regulation Act, 1949, Co-operation Acts, and the RBI Act, 1934.

Chapter VII: Analysis and interpretation of Secondary Data
This chapter includes detailed study of financial performance, in terms of Share capital, Reserves, Own capital and Funds, Deposits, Borrowing, Investments, Loans and Advances, Working Capital, Solvency Position of the Banks, Net Profits and various Ratios relating to ADCC Bank and NDCC Banks for the period 2001-10.

Chapter VIII: Analysis and interpretation of Primary Data
This chapter includes introduction, customer services provided by the co-operative banks, reports of various committees, element of service quality responses of the bank employees and bank customers about the services provided by ADCC Bank and NDCC Bank.

Chapter IX: Conclusions and Suggestions
This chapter includes conclusions drawn by way of analysis and interpretation of secondary and primary data and various suggestions are given to improve the financial performance and service performance of the ADCCB and NDCCB.

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