Summary of findings, Conclusion and suggestions

In this chapter, an attempt is made to draw major inferences with a view of providing guidelines that may be adopted for policy formulations relevant to improve the efficiency in the funds management of DCBs and to the cooperative banking sector.

9.1 Summary of Findings

This study was carried out with the following objectives:

1. To examine the trend and pattern of the sources and use of funds of District Cooperative Banks in Kerala.
2. To analyse the efficiency in funds management by DCBs with respect to resource mobilisation and utilisation.
3. To evaluate the management practices adopted for harnessing the mobilisation and deployment of funds.

The hypotheses tested were:

1. The major parameters of funds management in the DCBs are share capital, reserves and other funds.
In this chapter, an attempt is made to highlight the major inferences with a view of provide guidelines that may be adopted for policy formulations relevant to improve the efficiency in the funds management of DCBs and to the cooperative banking sector.

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2. To analyse the efficiency in funds management by DCBs with respect to resource mobilisation and utilisation.

3. To evaluate the management practices adopted for harnessing the mobilisation and deployment of funds by DCBs.

The hypotheses tested were:

1. The major parameters of funds management in the DCBs like share capital, reserves and other funds, deposits,
borrowings, reserve requirements, loans and advances and investments are presumed to be an increasing function over time and the magnitude in their change over time is proportional.

2. The composition of investment portfolio of DCBs varied significantly over the period.

3. There is an inverse relationship between cost of funds and funds management efficiency and

4. Efficiency in reserve management and profitability of DCBs are directly related.

5. Management practices followed by DCBs contribute to the efficiency in funds management.

The literature relating to funds management of commercial banks and co-operative banks were reviewed in the second chapter. The review made in this chapter brought out that there were a number of general studies relating to funds management of DCBs in India. But very few studies have attempted a detailed analysis of mobilisation, deployment and other aspects of funds management. Even such studies were limited in their scope.

Third chapter made an attempt to review the developments in co-operative banking in India in general and that of Kerala.
The study made in this chapter showed a decreasing trend in the number of PACS in India which decreased from 1,34,838 (1975-76) to 88,921 (1990-91) due to reorganisation and amalgamation of societies after 1975-76. But membership, share capital, borrowings and loans and advances increased significantly.

PACS in Kerala were found to enjoy the top rank (1987-88) with respect to membership, population coverage, borrowing members, loans and advances, deposit mobilisation and share capital contribution. The notable feature however was the decline in the number of profit making societies, which decreased from 55.72 per cent in 1970-71 to 48.26 per cent in 1993-94.

The Co-operative Societies Act of 1912 permitted the registration of DCBs in India. The DCBs were formed mainly with the objective of meeting the credit requirements of member societies. There has been considerable decrease in the number of DCBs in India which came down from 509 in 1970-71 to 357 in 1991-92 due to reorganisation of the operational area. But the membership improved from 2,31,318 during 1970-71 to 3,69,434 in 1991-92 and the number of members per DCB increased from 454 to 1035 during this time span. Paid-up share capital also boosted from Rs.49.08 crore in 1970-71 to Rs.829.73 crore in 1991-92 and reserves from Rs.43.51 crore to...
Deposits increased from Rs.38.23 crore to Rs.933.84 crore and deposit per DCB shot up from Rs.7.51 lakh to Rs.26.51 crore during this time span. There were considerable increase in borrowings and working capital also. Working capital increased from Rs.11.81 lakh in 1970-71 to Rs.46.95 crore in 1991-92. In short, there were tremendous growth in all components of funds.

The study revealed that at present, there are 14 DCBs in Kerala. It was found that the number of branches increased from just 82 in 1970-71 to 418 by the end of 1993-94. The membership also increased from 3771 to 7903 during the same period. The deposits and loans and advances also multiplied considerably during this period. However, there was only marginal improvement in profit, which increased from Rs.1.49 lakh in 1970-71 to Rs.26.78 lakh in 1993-94.

The analysis made in this chapter revealed that there were considerable improvement in deposits and loans and advances of State Co-operative Banks in the country during the period 1975-76 to 1990-91. Deposits increased from Rs.723.68 crore to Rs.6727.88 crore and loans and advances from Rs.893.60 crore to Rs.5378.97 crore during this period. The percentage of overdue to demand which remained at seven per cent in 1975-76 increased to eighteen per cent in 1990-91.

Also evident from the analysis made in this chapter, that Ernakulam DCB recorded the highest growth rate (11.06%) and
In the case of Kerala State Co-operative Bank, the number of members, paid-up share capital and reserves also increased tremendously during the period 1970-71 to 1993-94. Compared to growth in deposits, increase in borrowings was insignificant. Loans outstanding increased from Rs.19.66 crore in 1970-71 to Rs.411.32 crore in 1993-94. But average annual increase of profit was only 2.24 per cent.

The theoretical perspective of funds management is described in chapter four and the chapter explained the different concepts of funds, preparation of funds flow statement, funds management in commercial banks and co-operative banks, accounting techniques for funds management and different types of ratios used by banks.

The study of trend and pattern of sources and uses of funds in DCBs attempted in chapter five revealed that in the case of share capital, the averages of all DCBs except Kozhikode and Kollam were higher than the overall average in the second phase. Ernakulam DCB which is one of the most profitable sample banks had the maximum increase in share capital, which increased from Rs.108.56 lakh in the first phase to Rs.379.39 lakh in the second phase. On the other hand, Kollam DCB which topped the list in the first phase, stepped down to fifth position in the second phase. It is also evident from the analysis made in this chapter that Ernakulam DCB recorded the highest growth rate (11.06%) and
Kollam DCB the lowest (3.81%). The highest increase in share capital of Ernakulam DCB may probably be due to the better management practices and the relatively better agricultural and industrial activity of Ernakulam District compared to other Districts.

Regarding borrowings, all DCBs except Ernakulam and Kollayam had total borrowings above the overall average of Rs.40.00cr. The overall average of reserves and other funds increased from Rs.97.30 lakh from the first phase to Rs.350.94 lakh in the second phase. Only Ernakulam and Palakkad DCBs' averages were above the overall average in the second phase. Ernakulam DCB exhibited the highest amount of reserves which increased from Rs.101.76 lakh in the first phase to Rs.526.42 lakh in the second phase. Idukki DCB stood at the bottom during the second phase. These inferences were establishing a positive association between the utilisation of reserves and profitability.

District Co-operative Banks have succeeded in mobilising deposits which is evident from the study. Total deposits mobilised by Ernakulam, Kottayam and Kollam DCBs were higher than the overall averages during both the phases. Ernakulam DCB mobilised the maximum while Idukki DCB the least. In the second phase, deposits mobilised by Ernakulam DCB was Rs.118.62 crore and Idukki DCB Rs.32.08 crore. It can be inferred that the maximum profit making banks (Ernakulam DCB and Kottayam DCB) were mobilising more deposits which they utilised for their business operations for achieving higher
profits. These favourable trends may be attributed to the relatively better industrial activities of the district coupled with the joint efforts of employees and management.

Regarding borrowings, all DCBs except Ernakulam and Kottayam had total borrowings above the overall average of Rs.404.88 lakh in the first phase. The lowest amount of borrowings in the first phase was recorded at Ernakulam DCB and highest amount at Kozhikode DCB. The same pattern continued in the second phase also. The borrowings in the second phase recorded was Rs.10.68 crore at Ernakulam DCB and Rs.27.77 crore at Kozhikode DCB. Hence, it is inferred that the highest cost item of funds (borrowings) is the minimum in the case of maximum profit earning bank. In these two phases, short-term borrowings constituted the major portion of total borrowings of the majority of banks.

The analysis showed that cash in hand and at bank of three DCBs were higher than the overall average of Rs.303.32 lakh in the first phase. In the second phase also, three DCB's averages were higher than the overall average of Rs.27.24 crore. Ernakulam had an average of Rs.54.04 crore, while Idukki DCB stood last with an amount of Rs.6.01 crore. The maximum CGR was recorded at Kottayam DCB and minimum CGR at Idukki DCB.
Regarding money at call and short notice, Ernakulam and Kottayam DCBs' averages were higher than the overall averages of the two phases. Kottayam DCB had the highest average (Rs.893.33 lakh) and Palakkad DCB had the least average (Rs.56.67 lakh). It was also observed that investments in money at call and short notice do not follow any specific pattern.

There has been considerable increase in the overall loan position from the first phase to the second phase. In the second phase, Ernakulam DCBs' average was Rs.85.10 crore followed by Kottayam DCB (Rs.73.17 crore). Kozhikode DCB had the lowest average of Rs.46.05 crore in this phase. It is inferred that the maximum loan granting banks were the ones earning maximum profit. The maximum CGR was recorded at Ernakulam DCB (18.55%) and the minimum at Kozhikode DCB (10.92%).

The analysis also revealed that the overall average of fixed assets in the first phase was Rs.18.78 lakh and in the second phase, Rs.49.07 lakh. Palakkad DCB had the highest average (Rs.79.69 lakh) followed by Kollam DCB (Rs.64.26 lakh). Comparatively high CGR at Palakkad DCB (21.67%) and Idukki DCB (11.15%) may be due to the construction of new buildings for their head offices in 1984-85 and 1989-90 respectively. The highest average for Kollam DCB may be due...
to the construction of a new auditorium, which is given for rentals.

The analysis made in this chapter also showed that investments position had significantly increased from the first phase to the second phase. In the second phase, Kottayam DCB had an average of Rs.6.93 crore which is much higher than the overall average of Rs.2.57 crore. Idukki DCB secured the second position and Kollam DCB ranked the last.

The above analysis made clear that the majority of the parameters were showing a consistent and proportional increase over time. Hence, the first hypothesis that the major parameters of funds management are presumed to be an increasing function over time and their change is proportional is substantiated.

The analysis of investment portfolio of selected DCBs established that there were significant variations in the asset composition and investment pattern during the reference period. Hence the second hypothesis that the composition of investment portfolio of DCBs varied significantly over the period is validated to a reasonable extent.

Monthly analysis of sources and uses of funds in selected DCBs was attempted in the sixth chapter. It was made clear that Ernakulam DCB had mobilised the highest amount of total deposits closely followed by Kottayam DCB. The average of
total deposits mobilised by Ernakulam DCB during the period 1989-90 to 1993-94 was Rs.9143.32 lakh and that of Kottayam DCB Rs.8034.79 lakh. Idukki DCB collected only Rs.2203.56 lakh as average total deposits. Fixed deposits composed the major portion of deposits (about 48%) mobilised by all DCBs. Call deposits constituted the second highest amount except Kozhikode and Kollam DCBs.

Detailed study of borrowings for the period 1989-90 to 1993-94 revealed that only Ernakulam DCB and Palakkad DCB had borrowings from all the three sources namely, 'Kerala State Co-operative Bank', 'other banks' (National Bank for Agriculture and Rural Development, RBI and Commercial Banks) and 'others' (Government, National Housing Bank, Housing Development Finance Corporation, Housing and Urban Development Corporation and Integrated Co-operative Development Project). Kottayam DCB borrowed from KSCB and 'others' and the rest, i.e., Kozhikode, Kollam and Idukki DCBs borrowed from KSCB only and the borrowings from KSCB constituted the largest portion of total borrowings of Kozhikode DCB and Idukki DCB. Ernakulam DCB recorded the lowest borrowings during the study period. This has considerably reduced the interest cost of the bank which has ultimately resulted in the reduction of total cost and highest profit. We may conclude that, during the study period, the highest profit earning banks' borrowings were less compared to the lowest profit earning banks'. Thus, the third hypothesis that there is an inverse relationship
between cost of funds and funds management efficiency may be accepted.

The analysis of loans and advances revealed that all the selected DCBs had sanctioned maximum amount (about 60% of total loans) for 'other purposes', closely followed by 'seasonal agricultural operations'.

The detailed examination of efficiency in funds management in DCBs made in chapter seven revealed the profitability of DCBS as an indicator of financial efficiency. The profitability of DCBs analysed by applying the spread-burden approach found that only three DCBs earned profit higher than the overall average of Rs.10.65 lakh during the five year period from 1989-90 to 1993-94. Profit earned was highest in Ernakulam DCB, closely followed by Kottayam DCB. Kozhikode DCB occupied the least position during this period. The spread-burden analysis highlighted the scope for improving 'r' (interest earned to volume of working funds) and 'c' (non-interest income to volume of working funds).

The study established the general decline in the credit/deposit ratio and borrowings/deposit ratio of all DCBs during the period 1989-90 to 1993-94, which has been a common problem to all banks in Kerala. The borrowed funds (deposits and borrowings)/owned funds (share capital and reserves) ratio of all the DCBs were within the permitted limit specified in
their respective bye-laws. It was also found that the ratio of liquid assets/demand and time liabilities ratio of all DCBs were high as these banks were maintaining excess liquid assets. While the demand deposits/term deposits ratio of all DCBs showed a general decline, the deposits/working capital ratio increased considerably during the study period. It was also evident from the study that when the ratio of borrowings to working capital in all banks was decreasing, the liquid assets/working capital ratio was increasing. Another observation made was the irregular pattern between loans and advances to working capital. Lack of uniformity in the trends in the ratio of investments/working capital ratio of these DCBs was also observed. The analysis of profitability using spread-burden approach and also computing financial ratios proved the apriori belief that the profitability of the majority of the sample DCBs are declining over the years.

The analysis made in this chapter showed that short-term loans constituted the major portion of overdues of all selected DCBs during the period 1989-90 to 1993-94. It was further revealed that there was a general decline in the ratio of overdue to demand in majority of the selected banks in all years except 1990-91. The main reason for this might be the passing of Kerala Co-operative Agricultural and Debt Relief Scheme of 1990 directed by the Government of India.
The 'X efficiency' analysis revealed that inter-quartile differences were large especially in Palakkad (421.25) and Idukki (103.30) DCBs. This wide dispersion between the average total cost (ATC) in the first quartile and fourth quartile was felt to be due to inefficiencies in the funds management.

Further, computations of efficiency measures such as manpower expenses per employee and volume of working fund per employee showed that Kollam DCB had the highest manpower expenses per employee and Idukki DCB had the lowest. Comparing the volume of business and manpower expenses, Ernakulam and Kottayam DCBs had the highest volume of business and comparatively lower manpower expenses which resulted in more profit for these banks.

Enquiries into the volume of reserves kept showed that all these DCBs were keeping more CRR at all levels than the required minimum during the period 1989-90 to 1993-94. It also made clear that the CRR amount varied in different banks and in different years.

The analysis of SLR revealed that almost all banks were keeping excess SLR at all levels during the period 1989-90 to 1993-94. Keeping excess SLR by these banks may be due to the delay in getting information from branches and the lack of demand for loans. The analysis also revealed that all DCBs were keeping excess reserves. The analysis for the period
1979-80 to 1993-94 also had established this point. Hence, the fourth hypothesis that efficiency in reserve management and profitability of DCBs are directly related is established.

The evaluation of management practices made in chapter eight revealed that majority of the banks, in many instances follow only rule of thumb and their practical experience as the criteria instead of scientific principles. Professionalisation is almost absent in DCBs. This is partially due to inefficiencies in management and political interferences. A detailed examination of the observations in this chapter highlighted the necessity of professionalising the co-operative sector at the earliest. This assumes added significance in co-operative banking particularly in the current scenario of liberalised economic policies and the consequent competitive banking. Thus, the fifth hypothesis that management practices followed by DCBs contribute to the efficiency in funds management may be accepted.

9.2 Conclusion

The present study leads to the conclusion that though funds mobilisation is done reasonably well in most DCBs, sufficient attention is not given for efficient utilisation of these funds. Among the DCBs studied, a few DCBs like those of Ernakulam and Kottayam performed adequately well while the others lag behind. Lack of professionalisation and poor
management practices seems to be responsible for this situation.

9.3 Suggestions

Based on the above findings, the following suggestions are offered.

1. Minimise and simplify the formalities to be followed by customers for getting the loans sanctioned and for its disbursement.

2. For facilitating easy transfer of funds, improvement of remittance facilities by extending the working hours through an arrangement with nationalised banks is suggested.

3. Considering the peculiar economic features of Kerala, permission to open Non-Resident External (NRE) accounts may be given as majority of funds are remittances from abroad. Simultaneously, the staff of the DCBs should be trained to deal with foreign exchange business.

4. The services of the "Recovery Cell" of the Co-operative Department may be properly utilised for avoiding delay in recovery of overdues.
5. Necessary steps may be taken to improve the reporting system for easy transfer of funds. In this context, the need for introducing Management Information System (MIS) may be explored.

6. To overcome the delay in transfer of funds among DCBs, "chest" facility may be extended to co-operative banks also. Mutual Arrangement Scheme Kerala (MASK) accounts and timely reconciliation of MASK accounts with accounts of DCBs will also help the efficient management of funds.

7. For avoiding delay in the deployment of funds, the power of sanction of loans upto a certain limit (for instance, Rs.2 lakh for the time being) and the power to grant temporary overdraft which are repayable within a fortnight may be given to the branch managers.

8. Restriction imposed on non-priority lending may be relaxed for higher deployment of funds.

9. The authority of revenue recovery which is now vested in the Co-operative Department may the transformed to the DCBs for avoiding the delay in recovery of overdues.

10. Setting up of a National Co-operative Bank is also desirable to have an effective co-ordination in remittance and transfer of funds. It will help to utilise the surplus funds in the most efficient manner.
11. DCBs consortium may be arranged for utilising surplus funds, so that idle funds in certain areas can be transferred to places where it is highly demanded.

12. Regarding maintenance of accounts, to bring about uniformity, it is suggested that appropriate formats may be evolved and followed by DCBs in general.

13. DCBs may also be allowed to enter into merchant banking for utilising surplus funds.

14. Officers upto the rank of senior accountant may be given discretionary powers to decide upon matters particularly in the field of sanctioning of loans.