CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

Co-operation is a system in which individuals with limited resources are enabled to take part in an organised activity for mutual benefit through mutual sharing of responsibility for management on the basis of equal partnership with the principle of 'one man one vote' and it permits every member to retain his identity and have a equal control over the business along with others irrespective of the shareholdings. Profit incidental to ethical conduct of business is good but it is only second to economic interest of its members. Thus it may be construed that the purpose of co-operation is socio economic in nature and it aims to save the "have nots" from the exploitation of the haves.

Co-operation – Definitions

The International Labour conference at its 50th session in 1966 defines, the term 'Co-operation' as below:

Co-operation is an association of persons who have voluntarily joined together to achieve a common goal through the formation of a democratically controlled organisation, making equitable contribution to the capital required, and accepting a fair share of the risk and benefits of the undertaking in which the members actively participate.

Co-operative planning committee 1948 commended co-operative movement in the following words: The co-operative society has an important role to play as a suitable medium for the democratisation of economic planning.

It provides the local unit which can fulfil the dual function of educating public option in favour of the plan and executing it.
The Japanese Law of 1921 defines that a co-operative society is as an association having legal existence formed by persons of modest mean in order to promote and develop according to the principles mutually exercised by the members of their occupations and for the improvement of their economic conditions.

Dr. B.K. Singh wrote that the co-operative societies have but only one objective, the socio economic development of the common man especially the downtrodden.

In Bengal co-operative organisation is called, "Samavaya", Rabindranath Tagore observed that only co-operative system may solve the problems of poverty in India.

J.M.Mishra defines, "co-operation is the way of life where people unite democratically in the spirit of natural aid to get the largest possible gains to the things and services they need".

Mahatma Gandhi states that, "Co-operation is non-violence". A co-operative society should therefore be organised with the willing consent of the constituents. Love understanding and fellow feeling should be no room for compulsion in any form.

**Co-operative Banks - A Profile**

In the early 20th century, the availability of credit in India, more particularly in rural areas was non existent. There was no organized institutional credit for agricultural and related activities.

People in the rural areas largely depended on money lenders who lent money at very high rates of interest. Thus, there was need to create an institution which would cater to the needs of ordinary people and was based on the principles
of co-operative organisation and management. In 1904, the first legislation on co-operatives was passed. In 1914, the Maclagen committee suggested a three tier structure for co-operative banking i.e Primary Agricultural Credit Societies at the grass root level, Central co-operative Banks at the district level and State co-operative Banks at the State or Apex level. Co-operative banks were expected to serve as substitutes for money lenders, and provide both short-term and long-term institutional credit at reasonable rates of interest.

Banks occupy a unique position in the economy of any nation and they have a long history in India, as in other countries, though the form and character of their operations have been changing in consonance with the changing times. The earliest banking institutions were agency houses which carried on banking business in addition to their trading activities. When banking activities were separated from other business activities banks made their appearance.

The swadeshi movement gave impetus to many Indian entrepreneurs to start banking institutions. During the first half of the twentieth century, there was a mushroom growth of banks in India. In India today, banks are owned and managed by the public sector, the private sector, the joint sector and the co-operative sector. However, the co-operative sector acts as a balancing force between the public sector and private sector.

In the olden days, short term and medium term loans required by the farmers were given by the money lenders. They charged exorbitant rates of interest and many of them were dishonest and fraudulent. In order to help the farmers, the Co-operative Credit Societies were started in India with the enactment of the Co-operative Societies Act, 1904. When the Co-operative Societies Act was passed in 1904 there was no provision for the formation of central banks. However, the Co-operative Societies Act was amended in 1912 with a view to permit the registration of other co-operative societies. After independence in 1947,
a Planning Commission was set up by the Government of India in March 1950. The Planning Commission in 1950, incorporated programmes pertaining to co-operative movement involvement in the First Five Year Plan and subsequent plans. All India Rural Credit Survey Committee in 1954 recommended for the development of co-operative movement on sound lines. The National Development Council (NDC) in its resolution on co-operative policy in 1958 recommended that the responsibility and initiative for social and economic development at the village level should be placed fully on village co-operatives and village panchayats.

In 1966, co-operative banks were brought under the control of the Reserve Bank of India (RBI) by making certain amendments to the Reserve Bank of India Act 1934 and the Banking Regulation Act, 1949. Then, the functions of the RBI regarding rural and agricultural credit were transferred to the National Bank for Agriculture and Rural Development [NABARD], a new bank started to function on 12th July 1982.

1.2 STATEMENT OF PROBLEM

The central co-operative banks occupy a position of cardinal importance in the co-operative credit structure. They form an important link between the apex co-operative bank and the primary agricultural societies. The success of the co-operative credit movement largely depends on their financial strength.

The chief object of central co-operative banks is to meet the credit requirements of the member societies. It finance agricultural credit societies for production purposes, make the societies to reduce the working expenses. They work as an intermediary to link the primary societies with the money market. Further the central banks serve as a balancing centre for adjusting the surplus and deficiency of the working capital of the primary credit societies.
Besides providing loans, the central co-operative banks also provide certain normal banking facilities to members such as acceptance of deposits, remittance of funds, collection of cheques etc. In some states they are responsible for supervision and inspection of primary societies.

The co-operative movement was visualized as an effective mechanism for bringing about the socio-economics transformation of the rural areas. The co-operative movement had modest beginning meeting the credit needs of the farming community. It played a critical role in involving the weaker sections of our society like small and marginal farmers, landless labourers, fishermen and artisans. The co-operative sector acted as a balancing factor between the public sector and private sector.

The initiative of both the RBI and the NABARD to accelerate development has facilitated the growth of the co-operative credit institutions. However, some inherent problems seem to have impeded the efficient performance of the co-operatives. The factors affecting the financial health of the co-operatives are poor resource base, high transaction cost with low margins, mounting overdues, lack of professional management and excessive state control. The inability of the Primary Agricultural Co-operative Credit Societies (PACS) to mobilize rural deposits and the consequent decline in their borrowings have been affecting the volume of their business. Issues relating to reduction in the transaction costs and improving the recovery performance are also equally important. The co-operative banks initiate steps to improve their recovery performance. Since 2000 the government of Tamilnadu has introduced a policy of computer application in District Central co-operative Banks which had a major impact on all activities of the bank. So, co-operatives have to gear themselves up to meet the challenges of the new and old generation Banks. They have to create a better awareness of their role and activities towards the customer.
The performance of the bank largely depends on deposit mobilization, lending operations, repayment performance and utilization of funds. The present study is an attempt to probe into the deposit mobilization, lending operations, repayment performance and utilization of funds during pre-computerization and post computerization periods. The empirical findings of the study would pave way for taking certain policy decisions for better performance of the Salem District Central Co-operative Bank.

1.3 OBJECTIVES OF THE STUDY

The study has the following objectives;

1 To study the performance of central co-operative Banks in Salem District, Tamilnadu and India.
2 To study the deposit mobilisation and lending policies of the Salem District Central Co-operative Bank during pre-computerization and post-computerization periods.
3 To examine the repayment operation and recovery loans during pre-computerization and post-computerization periods.
4 To analyse the financial performance of the Salem District Central Co-operative Banks during the study period 1992-93 to 2007-08.
5 To summarise the findings and to offer suitable suggestions on the basis of the findings of the study.

1.4 SCOPE OF THE STUDY

It is a case study of the SDCC Bank. It is a study of the performance of the bank during the pre-computerization and post-computerization periods ie. 1998-99 to 2007-08. It has been analysed with reference to adoption of computerization since 2000 on
i) deposit mobilisation,
ii) lending performance and
iii) financial performance.

The study has been conducted for comparing the deposits, loans and advances and financial performance of the SDCC Bank during the pre-computerization and post-computerization periods. The opinions of the depositors, borrowers, employees and other beneficiaries of the bank have not been elicited. Here performance means only the financial performance.

1.5 OPERATIONAL DEFINITION OF CONCEPTS

Bank

Bank refers to the Salem District Central Co-operative Bank Limited in Salem District. The SCCB includes Branches in Namakkal District also.

Co-operative Year

The Co-operative Year upto 1991 signifies the year commencing from 1st July and ending with 30th June. From 1991 onwards it commences from 1st April and ends with 31st March. For this study co-operative year means 1st April to 31st March of every year.9

Bank Rate

Section 49 of the Reserve Bank of India Act, 1934 defines bank rate as the standard rate at which the RBI is prepared to buy or rediscount bill of exchange or other commercial paper eligible for purchase under this Act. As the provision, regarding rediscounting of bills by the RBI had remained inoperative for a longtime in the past, the rate charged by the RBI of India on its advances to banks has been treated as the bank rate.10
Cash Reserve Ratio (CRR)

According to the Banking Regulation Act, 1949, under section 18 a Co-operative Bank other than a Scheduled State Co-operative Bank or Primary Co-operative Bank is required to maintain cash reserve with itself or in current account opened with the RBI or SBI or SCB of the state concerned or with any other bank notified by the central government not less than three per cent of demand and time liabilities of the bank on the last Friday of the second preceding fortnight. This is treated as Cash Reserve Ratio of the bank.11

Statutory Liquidity Ratio (SLR)

According to the Banking Regulation Act 1949, under section 24, "every Co-operative Bank shall maintain liquid assets like cash, gold and unencumbered securities. They are equal to not less than 25 per cent or such other percentage not exceeding to 40 per cent of their demand and time liabilities. This is treated as Statutory Liquidity Ratio of the bank."12

'A' Class Members

Those who have voting rights in the bank and hold shares of Rs.50 each are 'A' class members.

'B' Class Members

Those members who have no voting rights and hold shares of Rs.5 each are 'B' class members.

1.6 COMPUTERIZATION OF BANKS

Banking industry has been going through a process of transformation during the last many years. This is clearly evident from the changes that have occurred in the financial markets, institutions and products. The process of liberalization, globalisation and deregulation started in 1991-1992, have opened up new vistas for banks and has at the same time brought about greater challenges
and stiffer competition in this backdrop, information technology emerged as the integrator, assisting banks in the management of the process of transformation that was taking place continuously.

**DR. RANGARAJAN COMMITTEE REPORT (1989) ON COMPUTERIZATION**

A 16-member committee with Dr C Rangarajan (the then Deputy Governor of RBI) was formed in 1988 to make recommendations for computerization in Banking Industry in general and Nationalized Banks in particular. The major recommendations of this committee were:

i. Regional Office / Zonal Office/ Head Office should be computerized

ii. All Branches located in top 30 centres (which constitute about 51 % of total business) should be computerized.

iii. Branches having average 750 vouchers per day (during preceding 52 weeks) should be computerized.

iv. BANKNET and SWIFT to be used by Banks.

v. On-line terminals should be given at the premises of corporate customers.

**1.6.1 Pre-Computerization period**

Pre -Computerization period is the period before the computerization policy was framed. The Computerization policy was introduced in the year 2000. For the study purpose, a certain period before 2000 is taken as the pre-Computerization period. This period covers Eight years 1992-93 to 1999-2000 and it is treated as pre- Computerization period for study purpose.

**1.6.2 Post-Computerization period**

For the study purpose, the years following 2000 are taken as the post-Computerization period. This period covers Eight years from 2000-01 to 2007-08 and it is treated as post-Computerization period for study purpose.
1.6.3 Non-Performing Assets (NPA)

Non-Performing Asset is defined as an advance where payment of interest or repayment of principal in instalments or both remain unpaid for a period of two quarters or more. An amount under any of the credit facilities is to be treated as 'past due' when it remains unpaid for 30 days beyond the due date\(^\text{13}\).

1.6.4 Short term Credit

Short term credit is credit made available for a period of 12 to 15 months for meeting the cost of seasonal agricultural operations such as expenditure on seeds, manure, implements and marketing.

1.6.5 Medium term Credit

Credit period of 15 months to five years is called medium term credit. It is granted for consolidation of holdings, reclamation of land, sinking of ordinary wells and repairing old ones, constructing drains in the fields and purchase of carts, bullocks, milch animals and the like.

1.6.6 Long term Credit

Credit for a period between five years and 20 years is called long term credit. These loans are given for the purpose of the redemption of land, repayment of debts, sinking of wells and reclamation of jungle lands.

1.6.7 Minimum Involvement

Minimum Involvement is a condition laid down by the NABARD from the year 1985-86. The NABARD introduced the scheme of minimum involvement for compulsory investment of own resources of the bank\(^\text{14}\).

1.6.8 Capital Adequacy Ratio

Capital adequacy ratio is the ratio of capital to risk-weighted assets. Capital adequacy norms need to move in the direction of strengthening capital base of the co-operative banks and conform to the applicable norms over a period.\(^\text{15}\)
1.6.9 **Interest Spread**
Interest spread refers to the difference between the total interest income earned and received minus the interest amount paid and payable.

1.7 **METHODOLOGY**
The present study is mainly based on the secondary data. The required secondary data were collected from various published and unpublished documents maintained by the SDCC Bank and its branches located in the different parts of Salem and Namakkal districts. The data relating to deposits, lending performance and the overall financial performance of the bank were collected from the published Annual Reports of the bank and also from the appropriate records available with the bank. Some of the primary data like general information regarding the co-operative system and its changes were collected from various offices and institutions like the Nachiyappa Co-operative Training Centre; Salem, Namakkal Co-operative Training Centre, Tamilnadu Co-operative Union; Chennai, the Madras Institute of Development Studies; Chennai, the Office of the State Apex Co-operative Bank, the Office of Director of Statistics and various libraries of reputed universities. The researcher also had personal discussion with the officials of the SDCC Bank.

1.8 **Data Collection**
For this study secondary data were collected from the records of SDCCB. A separate schedule was prepared and administered. The important information collected for the study was carefully recorded and used for the following:

1. Deposit mobilization of various types
2. Lending for various purposes, like short-term, medium-term and long-term.
3. Borrowing of the Banks from various sources and
4. Investments made under various instruments were collected and recorded.
5. The total loans issued, outstanding and overdues were recorded in the schedule.
6. The net profit earned and dividend distributed per also incorporated in the schedule prepared for SDCCB. Some Data were collected from the such as officers General Manager, Asst General Manager, Special officer by using a separate data sheet. A checkup was made to ensure completeness and accuracy.
1.9 FRAMEWORK OF ANALYSIS

Statistical techniques like annual growth rate, compound growth rate, co-efficient of variation and F-test have been adopted for the purpose of analyzing the growth of deposits, lending and repayment performance of the bank during pre-computerization and post-computerization periods. Percentage analysis has been used to analyse loan overdues bad and doubtful debts of the bank concerned.

Ratio analysis has been applied to assess the performance evaluation of the financial strength and profitability of the bank. Various ratios such as operational ratios, liquidity ratios, solvency ratios and statutory compliance ratios have been used to analyse the performance of the bank during the pre-computerization and post-computerization periods.

1.9.1 Annual Growth Rate

The annual growth of deposits, loans and advances have been analysed using the annual growth rate method. The annual growth rate refers to the percentage increase of deposits, loans and advances when compared to that of the previous year.

1.9.2 Compound Growth Rate

The overall growth of the particular period has been analysed with the help of the compound growth rate. The compound growth rate has been computed by using the model.

\[ Y = a + b^t \]

where \( Y \) = Deposits or loans and advances
\( a \) = Constant term
\( b \) = Growth co-efficient of \( t \)
\( t \) = Number of years

Then, the researcher has fitted the exponential equation with the help of the semi-log linear method.
\[
\log Y = \log a + t \log b
\]
\[Y = a + bt\]

where
\[Y = \log Y\]
\[a = \log a\]
\[b = \log b\]

Using the data of \(y\) and \(t\) with the above specification, the regression functions of the form \(Y = a + bt\) were fitted and the annual compound growth rate \([r]\) was worked out in the following manner.

\[
r = [b-1] \times 100
\]

Here \(b = \text{anti log of } b\).

1.9.3 Co-efficient of Variation

To study the variability of deposits, loans and advances during the periods under study, the co-efficient of variation (C.V) method have been used with the following formula.

\[
\text{Co-efficient of Variation} = \frac{\text{Standard Deviation (\(\sigma\))}}{\text{Arithmetic Mean (X)}} \times 100
\]

\[
\sigma = \sqrt{\frac{\sum (X_i - \bar{X})^2}{N-1}}
\]

\[
\bar{X} = \frac{\sum X}{N}
\]

Where \(X = \text{Deposits or Loans and Advances}\)

\(N = \text{Number of years}\)

The researcher compared the co-efficient of variations for deposits, loans and advances during the pre-Computerization and post-Computerization periods.
1.9.4 F-test

The F-test is used to ascertain whether there is any significant difference between the different types of deposits, loans and advances and various components of financial ratios during the pre-Computerization and post-Computerization periods. For comparing the deposits, loans and advances between these periods, only the accurate figures were taken into account. But under this method a null hypothesis was framed to the effect that "there is no significant difference between the different types of deposits, loans and advances and the various components of ratios during the pre-Computerization and post-Computerization periods".

Null hypothesis $H_0$: $\mu_1 - \mu_2 = 0$

$\mu_1$ = Pre-Computerization period

$\mu_2$ = Post-Computerization period

Then "F" value has been calculated by applying the formula:

Where

$$F = \frac{S_1^2}{S_2^2}$$

$$S_1^2 = \frac{\sum (X_1 - \bar{X}_1)^2}{n_1 - 1}$$

$$S_2^2 = \frac{\sum (X_2 - \bar{X}_2)^2}{n_2 - 1}$$

$X_1$ = Pre-Computerization period or Post-Computerization period deposits or loans and advances

$X_2$ = Pre-Computerization period or Post-Computerization period deposits or loans and advances.

$n_1$ = number of years in the Pre-Computerization period or Post-Computerization period

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n_2 = number of years in the Pre-Computerization period or Post-Computerization period

S_1^2 = the larger estimate of variance

S_2^2 = the smaller estimate of variance

So, F = \frac{\text{larger estimate of variance}}{\text{smaller estimate of variance}}

V_1 = degrees of freedom for larger variance

V_2 = degrees of freedom for smaller variance

If the calculated 'F' value is less than the critical table value at \((n_1 + n_2 -2)\) degrees of freedom, the null hypothesis will be accepted. But at the same time if the calculated 'F' value is more than the table value at \((n_1 + n_2 -2)\) degrees of freedom, the null hypothesis will be rejected.

1.9.5 Multiple Discriminant Analysis

The Multiple Discriminant Analysis is considered as a suitable technique, when the single dependent variable happens to be non-metric and is to be classified into two or more groups, depending upon its relationship with several independent variables which all happen to be metric. The object in discriminant analysis is to predict an object's livelihood of belonging to a particular group based on several independent variables, For this purpose, the following model has been used.

\[ Z_i = b_0 + b_1 X_{i1} + b_2 X_{i2} + \ldots \ldots + b_n X_{in} \]

Where

\( Z_i = \) the jth individuals discriminant score

\( b_j = \) the discriminant co-efficient of the jth variable

\( X_{ji} = \) the jth individuals value of the jth independent variable.
The Multiple Discriminant Analysis has been used as an empirical testing of the financial ratios influenced by the computerization policy measures to a great extent. The analysis and interpretation of the empirical results provide many insights into the selected ratios that are influenced to the computerization policy.

1.10 PERIOD OF COVERAGE

The period covered in the study is divided into a pre-computerization period 1992-93 to 1999-2000 and post computerization period 2000-2001 to 2007-08.

1.11 LIMITATIONS OF THE STUDY

For analyzing the performance of the post-computerization period, the financial data of the bank have been collected and compared with those of the pre-computerization period. The comparison of the performance of the bank has also been based on the various types of deposits, loans outstanding recovery and overdues of different categories of loans and advances and the components of financial ratios during the pre-computerization and post-computerization periods. The researcher has evaluated only the financial performance of the bank.

Although every sincere effort has been made to collect maximum facts, figures and information from different sources these were subjected to critical examination. The present study like others also faced some limitations.

This study is pertinent to Salem District Central Co-operative Bank Only

As the banks are audited after two or three years the records and ledgers are not properly available. Some of the audit reports are kept pending with authorities and officials.
1.12 CHAPTER ARRANGEMENT

The present study is presented in Seven Chapters

The First chapter contains Introduction and the Design of the study. It covers Introduction, Statement of the problem, Scope of the Study, Objectives of the Study, Operational definition of concepts, Methodology, Data Collection, Framework of analysis, Period of Coverage, Limitations of the Study and chapter arrangement.

The Second chapter Reviews the origin of Central Co-operative Bank Types of Central Banks, Progress of Central Banks, objectives and Functions of Central Co-operative Banks and Profile of the Salem District Central Co-operative Bank and also Review of Previous Studies.

The Third chapter Presents meaning of E-Commerce and comparison between Traditional and electronic Commerce, E-Banking online Banking and also Electronic payment system (EPS) in Central Co-operative Banks.

The Fourth chapter analyses the deposit mobilization of the bank during pre-computerization and post-computerization periods. The interest rate structure on deposits, deposit components and performance of the bank in respect of the deposit mobilization during the pre-computerization and post-computerization periods are examined. Further it includes a comparative picture of the relative performance of the bank with that of all the District Central Co-operative Banks in Tamilnadu.

The Fifth chapter presents an analysis of the lending operations of the bank during the periods of pre-computerization and post-computerization. It also analyses the growth of recoveries and overdues of the borrowers of the bank pertaining to the pre-computerization and post-computerization periods.
The Sixth chapter evaluates the financial performance of the during the pre-computerization and post-computerization periods. The contents of this chapter include the performance evaluation of the bank through ratio analysis like operational ratios, profitability ratios, solvency ratios and statutory compliance ratios.

The last chapter presents a summary of the findings of the study and offers suggestions to make the role of the bank a more purposeful one in its development.
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