CHAPTER 6 CONCLUSION AND FINDINGS

6.1 FINDINGS

Going through performance evaluation of tier II urban banks of south Gujarat particularly in deposits and advances some findings arises which are shown as banks wise as follows:

**Interest income as percentage of Average working fund Ratio**

Interest income of any banks is a backbone of its existence. Average ratio for the last eight years works out at 9.69%. The ratio mainly shows the efforts of the banks in properly employing the funds in the sources which turns to be profitable. No banks had shown even 15% which indicates that the fund deployed by these banks is not as profitable as it can. if they focus on raise more interest income than they will able to generate more reserve and make their condition more healthy. Many banks have not attractive loan scheme for their customer, out of eight banks majority banks have put their 80% of advance portfolio in only one segment and i.e. textiles. Recently this segment is put up by RBI in high risk segment.

**Operating profit as percentage of Avg. Working fund ratio**

Operating profit as percentage of average working fund is the ratio used for measuring the efficiency of the management of the UCBs of utilizing the funds. The percentage of the ratio shows that the bank is efficient enough to utilize the funds in a profitable manner. here the less ratio shown of Bhiladwala Bank which is also affect by MMCB scam as huge fund of this bank blocked in Madhavpura Bank.
Return on Assets ratio

The ratio shows that the bank earns the net profit in comparison of the net assets consisting of furniture, building and other assets....here prime bank shown highest ratio but at the same time we have to consider that the majority building of this banks is on rent, where as the bank which have assets, shown less % of ratio. Whenever we discuss or think about banks soundness than one must consider the total fixed assets a banks own.

Return on Equity ratio

The ratio shows that the bank earns the net profit in comparison of the total capital. After 2002 the said ratio shown declining trend as the banking sector become more competitive and after MMB Scam the whole co. Operative sector badly affected.

Cash on hand to total Deposit ratio

The ratio shows that the bank has total cash in comparison to the deposit taken by the bank. If a bank retain more cash on hand in comparison of total deposit than it certainly is unproductive. The ratio indicates that tier II banks generally wants to retain more cash on hand and this leads them to less productive.

Balance of current A/c to total Deposit

Every banks put their some portion out of deposit as a statutory requirement i.e. CRR and SLR. Over and above if the bank would not find any good opportunity in advances than they invest more in capital market. Tier II urban banks hold more liquidity as they have not enough to understand the volatility of capital market. They have not yet professional approach so they are not able to generate more out of their ideal fund.
Avg. Yield on income generating assets

Interest of any bank mainly consist of two sources i.e. Advances and investment here tier II urban banks have majority income is from advances we have mentioned earlier that these banks of south Gujarat have not been able to take advantages from capital market.

AVG. yield on Asset/Fund ratio

Yield on assets against total working of the banks indicating the share of income of the bank of income from their working. Sometimes it is better to look that if the banks disposed off their non banking assets this ratio might be go up. Increase in the working of the bank, the tier II urban banks shows variations in their yield.

Cost of funds ratio

If the cost of fund is on lower side than the bank will generate more profit. Some banks of south Gujarat stick around 7% and that is inefficiency of that banks to gathered low cost deposit. Tier II urban banks of south Gujarat have no systematic planning to raise more low cost deposit. They do not have any marketing strategy too.

Transaction Cost ratio

If the tier II urban banks focus to reduced this ratio it will be profitable for them. Salary expense of these banks shows leap and bounds. Overstaffing and high salary affects their performance.

Non-Earning assets to total assets ratio

Tier II urban banks of south Gujarat generally hold major part of non-earning assets to their portfolio. Average ratio indicates
around 30% which is blocked earning of the banks. Tier II urban banks have always careful not to increase such kind of assets.

Credit Deposit Ratio

Tier II urban banks of south Gujarat cannot find their advances portfolio. They cannot diversify their advances to another segment one of the main reason behind this is that they are not spread their working area. They are still not open any branch out of state. They played always defensive as this ratio shown under 55%. it is always expect round about 65%.

Interest income to total income ratio

Now a days the time is to come to focus on OTHER INCOME. Every tier II urban banks of south Gujarat behind this concept as their main income is from advance portfolio. They have not focus on fee based income or non-fund base advance. If they consider other income is tool to their healthiness than they will able to do their banking in real sense.

Interest spread

Majority banks behind average spread work out. Their expenses were on higher side means they give higher rate of interest on deposit. If they would not curtail their burden then they will not able to increase their profitability.

Other income to total income ratio

Tier II urban banks are lacking to generate other income instead of advance income. Time has to come for these banks to focus on other income.
**Total Interest to Total Expenditure ratio**

Tier II urban banks have focused to reduce their expenditure as now a days there is no way to increase profit. The portion of expenditure against total interest is on 30%.

**Total Interest paid to total income**

More than 56% of income portion gone to paid on deposit means if this portion could be curtail then these banks would generate more net profit.

**Growth of deposit ratio**

No outstanding increase in terms of deposit increase in the tier II urban banks of south Gujarat. Average ratio indicates a single digit, whereas the banking sector grown at 16 to 17 %. Deposit is basic raw materials for any bank and if these banks not focus on deposit portfolio than they will not raised their development. Tier II urban banks have no good scheme to pullout more deposit from market.

**Credit Expansion ratio**

Those banks which have no fund could not lend. Tier II urban banks of south Gujarat have no ability to increased the deposits and advances. They have no new scheme to raised deposit or advances. They ignored product of a marketing mix.
6.2 CONCLUSIONS OF THE STUDY

Going through the study, some critical findings arise which are mention as follows:

1. Tier II Urban banks are not working up to their mark as if some rumors spread about weakness of this bank than people will be rushed withdraw for their deposit.

2. Tier II urban banks are not in a position to gathered low cost deposit as they have out dated product in the deposit segment.

3. Advances mainly put in one segment most of in textiles industry. They are not in a position to diversify their advances portfolio.

4. Due to lack of knowledge and lack of professionalism Tier II urban banks are not used their investment portfolio in a profitable way.

5. Tier II urban banks generally affected by local politics.

6. Tier II urban banks are not widen their area of operation against out state urban banks which established their branches in south Gujarat.

7. Spread of Tier II urban banks are showing decline trend as they have not enough reserve to generate more income.

8. Technology played a vital role in the present era, most of Tier II are not yet well equipped.

9. Tier II urban banks are not focused to generate other income i.e. by way of fund transfer, bank insurance, gold, credit-debit card etc.
10. No marketing strategy for deposit or advances found in Tier II urban banks of south Gujarat.

11. Employee of Tier II urban banks are not well trained they are not eager to increase their knowledge. Majority promotion given without merits so right man for the right post principle is not applicable here.

12. Most of tier II urban banks are not interested in increasing their working. Apparently we saw the increasing trend in deposit and advances but if we add accrued interest portion in both the segment we find out actually negative growth.

13. In any of 8 tier II urban banks there is no dealing in foreign exchange. They have no full fledge dealing room for foreign business.

14. For bank insurance business, only one bank has a corporate agency others have referral agency.

15. RBI put Tier II urban banks on equal footing with other sector bank but still these banks not accept the challenge and compete with other sector banks. Tier II urban banks made excess provision against their NPA so net NPA reflect 0%.
6.3 SUGGESTIONS

From the present research study of tier II urban banks of south Gujarat it is found that these banks are facing many problems in their business. Low capital base, high maintenance cost of branches, keen competition, changing policies of government, political influence, lack of professional skill, low level of customer satisfaction, inadequate credit planning and loan appraisal, poor recovery performance, mounting overdue and high level of nonperforming assets, etc. These are home grown problems. But there are some new challenges also for their growth like reliability of the UCBs, services similar to multinational banks, depression of foreign countries etc. These are big hurdles in the development of the UCBs. Therefore a modest attempt has been made in this section to suggest a good number of feasible ways and means in order to improve the financial strength as well as the overall efficiency in both administrative and operational management and to overcome the exiting deficiencies / irregularities of the tier II UCBs of South Gujarat.

(1) It has been searched that the UCBs were highly geared by on one hand the earning from advances was highly unsatisfactory and on the other hand long term deposit. In this situation, the earning power of the UCBs do not justify high proportion of long term debt in capital structure as it creates burden of higher rate of interest payment. It is hereby suggested that the tier II urban bank should try to raise more low cost deposit.

(2) Tier II urban banks focus on:

To introduce new and more attractive deposit scheme and replace old one. Try to be with changing scenario of banking sector.
To introduce attractive advances scheme and follow the rules of not put all eggs in one basket. They have to diversify their advances to another segment instead of textile industry.

(3) The profitability of tier II UCBs can be grow as the management of the UCBs should try to reduce their operating cost by exercising efficient control over their cost of external funds and increasing operating income by utilizing funds to their full capacity. To exercise efficient control over their cost of external funds, bank should try to obtain more low cost funds. For the reduction and control of cost, techniques like budgetary control, standard costing and control ratio and value analysis should be implemented.

(4) Tier II Urban banks have to focus to reduce their expenditure and have to more concentrate on their wage bill, legal expense and renovation bill of properties as these expenses are rising year after year.

(5) Management of tier II Urban banks should ensure that important matters having significant bearing on the proper functioning and working of the banks such as mobilization of deposit targets, investment, liquid assets, advances specially priority sector advances, over dues and recoveries etc. should be reviewed periodically in order to achieve better functioning. Generally urban banks leaking in this area as they have strategy but only on paper periodic review made but only on a casual approach. In majority cases the board of this bank is interested only to grant advances only.

(6) It is found that all the tier II UCBs have shown more dependence on deposit as compared to other income. Urban banks whenever need deposit or passing through liquidity crunch they are entered in the visas cycle to attract more deposit increased their deposit rate comparatively other sector banks and broken its assets liability management.
For mobilizing more and more deposit the banks should take the following actions:

Every bank should introduce certain other innovative deposit schemes for saving and current deposit suited mainly to the habits and needs of the people of the area in order to attract a larger quantum of deposit from both members and non-members.

For collecting low cost deposit, they should implement daily collection schemes in areas where small vendors, shop keepers, daily wages earners are concentrated. By popularizing children saving, youth saving and women saving schemes also they can enhance the proportion of low cost deposit.

They should introduce mobile saving vans so that maximum amount can be collected from such customer who cannot reach at the bank for one reason or the other.

Banks should fix their office timings before and after the regular office hours to enable local residents to visit the bank at their convenience.

Fully computerization, prompt and courteous customer services by the banks will naturally attract potential depositors.

(7) From the analysis, it is clear that the proportion of advances in total funds is lesser than investments which indicates, the inefficiency of the bank’s management regarding advances. Hence it is suggested that the tier II UCBs should actively explore possibilities of increasing the volume of quality advances. In order to achieve this, they should:

Fix annual targets of credit in realistic terms and once fixed, make intensive efforts to achieve the targets.
Take initiative in exploring and identifying areas where they operate, types of financing, appraisal of projects, sanction and servicing of loans.

Provide door to door facility of loan, collection if necessary.

Reduce burden of documentations, paperless system is needed.

Simplify procedure of advancing.

Diversify advance portfolio according to need and demand of their customers.

(8) Tier II urban banks should their focus not only quality advances but quality employee too. Always look for right man for the right post.

Urban banks generally have not any recruitment policy. In the recruitment or promotion board of these banks is supreme so right man for the right post principle is not follow.

(9) Tier II urban banks keep their more attention to cover unbanked area.

Urban banks are not still focus to open No Frills Account as RBI has allow banks to open such account with zero balance or with minimum balance due to Circular from central bank urban banks made such scheme but not implement in a positive way.

(10) Tier II urban banks should go out of state for widen their area of operation by taking over tier I bank instead of request for license from RBI.

Urban banks of south Gujarat are not serious as against other state urban banks as out of eight only one banks merge other banks
other urban banks of south Gujarat has not taken any initiated in this direction.

(11) The board of directors should know their roll and act on it...they should never interrupt day to day banking operations of the bank or not to deployed fund in bad advances or bad investment.

Recently RBI has instructed urban banks to deploy minimum two professional directors on their board. Urban banks have implement them but no professionalism found in their culture. Such directors have no voice in the board against majority directors.

(12) It is suggested that more and more clerical and supervisory staffs should be provided on-the-job and/or off-the-job training so as to build up necessary skills and expertise with a view to running the institutions profitably as well as smoothly, effectively.

Majority urban banks cannot believe or interested to skill their employee though they fulfill RBI requirement to skill their employee. Board of directors of urban banks always participate their training programmed but said programmed would be on paper no director contribute their knowledge to their employee.

(13) To survive and increase share in the market, it is necessary for the tier II UCBs to improve the quality of customer services. In order to improve the quality of customer services, it is suggested that:

Bank employees should be polite, impersonal and helpful.

Marketing concept should be introduced in the banks and instead of going for mass marketing the bank should go for target marketing.
All customers cannot be treated as equal though they believe in equality. High value customers and highly placed persons deserve special attention.

The tier II UCBs should also introduce customer service audit like commercial bank branches.

The banks should take advantage of the latest development in information and computer technology to cope with several threats, pressures and competitions from foreign as well as private banks.

The grievances handling machinery should be activated within the banks to handle complaints impartially as also expeditiously, thereby projecting a favorable image of the organization.

The tier II UCBs should establish a human resource department for manpower planning, recruitment, placement and leadership development to motivate staff and to increase their productivity.

The tier II UCBs should be allowed greater freedom to deploy their funds on purely business considerations. RBI consider these banks on equal footing but at the same time restricted freedom given to them. Level playing field is necessary. This would enhance the profitability of the banks.

The UCBs should disclose important issues regarding maturity pattern of deposit, borrowings, investments, advances, movement in NPAs is lending to sensitive sectors, level of owned funds etc.

Though these information is a part of the Notes on Account but majority of shareholder of the urban banks cannot understand the numerical information. The final authority of any urban banks is their Annual General Meeting but the meeting of said banks found hopeless and useless as no logic or healthy discussion found in it sometimes such meeting completed less than a hour time.
(14) Tier II urban banks contributes towards social responsibility.

Urban banks is always engaged in making more people helpful by donating their fund to build healthy society. But at the same time urban banks involved to give their fund to the institution where their directors are benefited. Looking to this scenario RBI made restriction on urban banks that no urban banks give donation more than % of their published profit.

(15) It is present demand that tier II urban banks consider marketing mix i.e. PLACE PRODUCT, PRICE AND PROMOTION for increase their business.

Still today many urban banks running their business in a rented property moreover the place is not so convenient to their customer basic facility is not found in many urban banks.

(16) Consider business process re-engineer cycle ongoing basis

Present time is of technology more and more private sector banks, foreign banks using latest technology in their day to day banking to increase their customer strength against which no urban banks ready to use such kind of technology as they have no ready infrastructure.

(17) To make their capital base strong, Tier II urban banks re-think on N.S.VISHVANATHAN COMMITTEE recommendation to issue pref. share or long term deposit in the market.

Urban banks yet not decide on said recommendation they are still rely on traditional instrument i.e. Deposit.

(18) Use maximum latest technology in the day to day business activity and introduce more products with the use of technology.

Urban banks are not updated with latest technology looking to the present situation RBI has advised for one umbrella in this all small
banks are cover under one technology by this they will able to compete with other banks

(19) Avail direct membership of NPCI for vast ATM network and also join with RBI for direct dealing in electronic fund transfer facility through RTGS and NEFT.

Now a days the said membership is also available through some big bank with prior arrangement Urban banks have to think on this way also to make their customer intake.

(20) Use common platform for recruitment the staff and training for existing employee.

Only few banks take help of leading institutions like IBPS to recruit their employee...Urban banks established their common institution for recruitment and training for their employee by this they will able to get good employee with low expense.

(21) Use professional approach in every procedure of banking and at the same time keep away from unhealthy banking.

Urban banks still today manage by three to four leading director others are followers, they still dare to follow other sector banks procedure in the field of taking minimum balance charge, cheque returned charges etc.

(22) Create common fund to strengthen their existence in case of liquidity crunch.

In case of liquidity crunch urban banks creates common fund for such kind of situation and give support to come out from the harsh situation as these banks have no backing of state or central government.
Respective state government give their support to tier II urban banks whose area of operation within state and central government to multistate urban banks.

Urban banks are doing their banking for the mass and common people of society their procedure is simply they give support to increase common man life hence work for government so looking to the existence of over years of such kind of activity state of central government make some portion of capital in budgetary allocation like nationalized bank

RBI should take over total control over Tier II urban banks and Register of cooperatives remain work with cooperative credit societies.

Still today urban banks victimized from dual control RBI and Registrar sometimes these banks facing problem due to misinterpretation by them. In the year 2005 vision documents introduced by RBI and subsequent MOU with respective state government but still today some area of this bank looking after by registrar and other by RBI which should be abolished and make total control under RBI just like other sector banks.

RBI should allow tier II urban banks to deal directly in capital market but with their initial support and withdrawn same in face manner.

Like other sector banks urban cannot participate directly in capital or money market so advantage of such market cannot be taken by these banks. RBI should frame some procedure for these banks as they take part either in capital market or in money market.

Owner of the urban banks are their shareholders but that shareholder are not yet serious for their voting right so when election took place for directors of urban banks the total voting
seems negligible the ratio arrived not more than 20 to 25% hence major portion of shareholder are inactive and does not took part in election.


1. Low cost deposit played an important part in the profitability of any bank all urban banks whether it is tier I or tier II should focus to gathered more low cost deposit.

2. Urban banks have to frame new product to increase their deposits and advances consider this point seriously as if they are not gathered deposit, they cannot able to increase their advance portfolio and hence stagnant their development. Recently RBI has put textile industry on close watching so urban banks have to be careful while lending and always tries to diversify their advances portfolio considering sound principle of lending.

3. For the reduction and control of cost urban banks implement, techniques like budgetary control, standard costing and control ratio and value analysis.

4. Urban banks have to focus to reduce their expenditure and have to more concentrate on their wage bill, legal expense and renovation bill of properties as these expenses are raising year after year. Many urban banks running their business in the rented property some time the said rent is more than that branch income so in this situation they have to be more careful.

5. Management of banks should ensure that important matters having significant bearing on the proper functioning and working of the banks such as mobilization of deposit targets, investment, liquid assets, advances specially priority sector advances, over dues and recoveries etc. should be reviewed periodically in order to achieve better functioning. Generally urban banks leaking in
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(23) Still today urban banks victimized from dual control RBI and Registar sometimes these banks facing problem due to misinterpretation by them. In the year 2005 vision documents introduced by RBI and subsequent MOU with respective state government but still today some area of this bank looking after by registrar and other by RBI which should be abolished and make total control under RBI just like other sector banks.

(24) Owner of the urban banks are their shareholders but that shareholder are not yet serious for their voting right so when election took place for directors of urban banks the total voting seems negligible the ratio arrived not more than 20 to 25% hence major portion of shareholder are inactive and does not took part in election. Registrar or RBI have issue compulsory guideline about election of urban banks and make insists for minimum percentage of voting.
Thus it can be said that tier II Urban banking sector has stood the test of time and it has the inherent strength to adopt itself to the changing environment. If all the prescribed suggestions made above are implemented, the tier II UCBs can truly become the bank ‘of the people,’ by the people’, ‘for the people’ of local urban and semi-urban areas. However sustenance of its growth is dependent on professionalization of its management, technology absorption and scrupulous adherence to regulatory framework. I hope the sector will learn from its past experience and adjust to the new realities since the business of banking involves a great deal of risks.