CHAPTER II

CO-OPERATIVE BANKING - AN OVERVIEW

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2.1. INTRODUCTION

Co-operative banking is a world concept. It is common in every nation. The concept emerged in the world since the 19th Century. A theoretical prospective of the co-operative banking in the international level is presented in this chapter. This chapter also deals with the developmental schemes provided to the agricultural sector through co-operative banks.

2.2 GLOBAL CO-OPERATIVE BANKING SYSTEMS

2.2.1 Chinese Banking System

Bank of China is a major government bank with strong forex operations. It was established 90 years ago and it is ranked eighth among 300 Asian banks with respect to profit. Its performance highlights of 2002 are, principal exposure in manufacturing, commerce, real estate and other sectors, by the end of 2002, domestic retail loans reached RMB 155.5 bn, which is the highest growth rate in Chinese industry, number one in cards business in China, the non performing assets are brought down to 5 per cent from 22.5 per cent, 30 per cent growth in insurance income1.
2.2.2. Co-operatives in Malaysia

In 1996, there were a total of 3,735 co-operatives (non-agricultural co-operatives under JBK) in Malaysia. Number of members totaled to about 4.21 million persons (3.87 millions in Semenanjung Malaysia) and contributing a total of RM 2.83 billions towards the share capital. At the end of 1996, total accumulated asset of all the co-operatives has increased to 3,933 co-operatives, with total number of members at 5.018 million persons and contributing to a total of RM 3.09 billion in share capital. Total accumulated assets were estimated at RM 13.65 billion at the end of 1998. Between 1988 and 1998, the number of co-operatives and membership in Malaysia has increased by about 35 per cent and 76 per cent respectively. During the same period, share capital and accumulated assets grew by more than 109 percent and 117 per cent respectively. In 1996, a total of 369 co-operatives were placed under the auspices of JBK for being inactive and without any activities. About 163 co-operatives (5 per cent) in 1996 were recommended to be dissolved or restructured. An average of about 2 percent (75) of co-operatives was dissolved annually.²


2.2.3 Co-Operative & Banking System in Germany

There is no exclusive Banking system for Co-operative Sector in Germany. German banks function as universal banks, able to offer a full range of banking, saving, foreign exchange, and investment services to their depositors and clients. They hold funds or other assets, broker securities, underwrite equity issues, give advice on asset placement, and manage accounts, and so on. About one-quarter of the German banks is commercial. The rest comprises of savings banks, mainly owned locally or regionally and operating under public statutes, or co-operatives that perform such specialized services as agricultural, crafts, or mortgage lending. The three best known and most important German universal banks--the Deutsche Bank, the Dresdner Bank, and the Commerzbank- are omnipresent throughout unified Germany and have immense influence.

2.2.4 Banking System in Poland

A highly concentrated state banking monopoly was a typical feature of East European economies in the communist period. In Poland the monopoly was composed of the National Bank of Poland (Narodowy Bank Polski--NBP), which had replaced the Western-style Bank of Poland in 1945; the Commercial Bank (Bank Handlowy--BH), which had a monopoly in financing foreign trade; the Polish Savings Office, which controlled transactions with private international
transfers; and about 1,600 small regional and specialized co-operative banks that jointly formed the Bank of Food Economy. To encourage private savings, a specialized savings bank, the General Savings Office, was established in 1987 by detaching designated departments from the NBP. In 1988 nine state-owned commercial banks were formed from regional branches of the NBP, and a State Export Development Bank was established.  

2.2.5 The Co-operative Banking System In Spain

The Group Caja Rural (rural credit institutions) is one of the major banking groups currently operating in Spain. It has a sound financial and asset structure (some 4 thousand billion pesetas in assets and equity equivalent to more than 275 billion pesetas) and maintains a comprehensive network of branches in all parts of the country (more than 3,200 outlets for business with the general public and a workforce of some 10,800 for customer services). Being part of the Group enables the Cajas Rurales to offer a range of products and corresponding services of outstanding quality which exceeds in many cases that of the major Spanish banks and municipal banks. Currently, the 83 Cajas Rurales which make up the Group are representing practically the total number of Cajas Rurales in Spain (Over 96% of the total volume of assets).
2.2.6 The Co-Operative Banking In Denmark

The Co-operative Bank seeks to support businesses that promote the concept of fair trade. Its policy disqualifies investments in companies that deal in tobacco, weapons, conduct animal testing or exploitive factory farming; or promote blood sports, such as hunting. The bank encourages companies to take a proactive stance on the environment and invests in companies that avoid continued damage to the environment.

The unusual ethical policy is based on surveys received from customers, which indicated overwhelming support for the issues cited above. The bank regularly updates the policy and consults with groups such as Amnesty International and the Worldwide Fund for Nature to stay abreast of issues Co-operative Bank donates to national charities 5 pence of every 100 pounds spent on its Visa cards6.

2.2.7 Co-operative Banking In Canada

A group of credit unions put forward the idea of establishing co-operative banks in Canada to the Task Force on the Future of the Canadian Financial Services Sector. In the fall of 1998 a group of 12 credit unions took the concept one step further by proposing a Community Bank model and developing a business case to support the proposition. Bill C-8 introduced changes to the Co-
operative Credit Associations Act to provide the credit union system with enhanced structural flexibility, as well as expanded business and investment powers. The legislative measures allow the system to migrate from a three-tier system to a two-tier system in order to streamline its operations and take advantage of a more national structure. The co-operative bank concept was born out of the desire by some credit unions for a greater national presence and the resultant increased efficiencies, i.e. the need to offer products across provincial boundaries, common branding, the reduction of cost of duplication, better capital allocation, the ability to raise capital, and the ability to introduce new products and services to better serve more sophisticated consumers.  

2.2.8 Co-operative Banking System In Syria

After the 1956 Suez War, French and British banking interests were sequestered as enemy assets. In 1958 and after the union with Egypt, the state began to Arabize the commercial banking system and in 1961 implemented a policy of limited nationalization. In 1966 the state achieved complete ownership of commercial banking by merging all existing commercial banks into a single consolidated Commercial Bank of Syria. In addition, the government created specialized banks to promote economic development. It extended the charter of the Agricultural Co-operative Bank from the pre-independence period and established
the Industrial Bank in 1959, the Real Estate Bank in April 1966, and the Popular Credit Bank in July 1966. 8

2.2.9 The Banking System In Finland

The banking system included a small number of commercial banks based in Helsinki, many local branches of co-operative and savings banks, and a small number of state- owned banks. The networks of savings and co-operative banks primarily served households, which provided a solid deposit base. The split between the two banking networks was not absolute, however, as the savings banks and the co-operative banks had formed their own so-called central banks, which enjoyed commercial bank status. The co-operative and savings banks served a wide range of regional and local customers, but usually exercised relatively little economic power. They tended to specialize in providing home and farm banking services in rural areas. The savings banks were non-profit banks designed to promote saving, and they served small-scale trade and industry as well as households. 9
2.2.10 Co-operative Banking System in Cyprus

The Co-operative Movement was introduced in Cyprus at the beginning of the 20th century. The first Co-operative Society in Cyprus was established in Lefkoniko village in 1909. In 1914 the legislative body passed Law 13 on "Co-operative Credit Institutions".

Until 1936 there was no Governmental Department responsible for Co-operative matters. In 1935 the first Commissioner was appointed and by 1936 the Department of Co-operative Development (DCD) was founded which played a decisive role to the development of the Co-operative Principles and Movement in Cyprus.

In 1937 the Co-operative Central Bank was founded, the purpose of which was the accumulation of funds and the self-financing within the Co-operative Movement. The bank accepted the surpluses of "prosperous" Societies as deposits and granted loans.10

2.2.11 The Co-operative Movement In Turkey

The movement in the historical development of Turkish co-operatives started with the cooperation in the agricultural sector. As a matter of fact, on his return from Germany after studying Raiffeisen agricultural co-operatives for 6 months. Mithat Pasha, who is considered as being the leader in the co-
operative movement, founded the “Country Funds”, the counterparts of the German Schulze Delitzsch co-operatives for the purpose of meeting the loan requirements of the farmers in the region in 1863 while he was the Governor of the Danube Province. Pankobirlik was established in order to determine the general policies of the co-operatives within its structure in macro level in line with their establishment objectives, to solve their administrative, financial and legal problems, to coordinate and develop their activities, to audit and inspect the unit co-operatives and their affiliates, to train the shareholders to provide the required material and equipment in bulk if necessary, for the purposes of improving the agricultural production and to take measures in order to develop and expand the idea of cooperation.11

2.2.12 The Colombian Co-operative System

The first co-operative organizations were the result of a Colombian Government initiative, but gradually the Catholic Church, local action groups, trade unions and opinion leaders of the people took over the task of developing new organizations. By the Nineties some 7,000 co-operative organizations had been established with a membership of two and a half million; they are involved in the most diverse lines of business such as the savings and credit business, agriculture, the transport sector, services to members, education and the housing industry. Most of the co-operatives had developed in the savings and credit
sector (2,075), with some 100 leading organizations, the so-called financial co-operatives, which conducted most of their business with the general public. The establishment of three co-operative banks (BANCOOP, BANCOUCOMAI, and BANCOCOOPDESAROLLO) further supplemented the activities of the savings and credit co-operatives.

2.3. CO-OPERATIVE STRUCTURE IN INDIA

2.3.1 History of the Co-operative Movement in India

Before the introduction of the official co-operative movement in India, Taccacvi loans for land development or improvement (for long term purposes) were given under the Act of Land Improvement Loans Act of 1884. The first Act was based on the Land Improvement Act 1871. The Agricultural banks contemplated at the time of passing the Land Improvement Loans Act never came into existence and the Agriculturists Loans Act had practically no effect other than that of extending the system of Takavi. One of the reasons for the failure of Taccavi Loans was that they were handled by the Revenue Department which was concerned with Revenue collection. The Famine Commission in 1880 had recommended the administration of the land improvement loans through the Agricultural Department. They had suggested the entrusting of this work, “to the officer of the Agricultural Department in each district who should make it his peculiar duty to encourage the landed classes to look to Government rather than to
money lenders for advances of this kind, should advise them as to objects on which money can most usefully be laid out and should supervise the proceedings of the native agency through whom the details of the procedures must ordinarily be carried on”.

The main reason for the introduction of the co-operative movement in India was the failure of Taccavi loans; the loans issued by the Government had lot of defects. The Irrigation Commission pointed out defects such as the high rate of interest, rigidity of collection, the onerous terms regarding periods of repayment, delays in distribution and conditions relation to securities required for the failure of Government loans.

The first step towards the introduction of the co-operative movement was undertaken by the Government of Madras. In 1892 the Governor of Madras Lord Wenlock placed Mr. (Later Sir) Fredrick Nicholson on special duty to study to study the theory and practice of agricultural and other banks to Europe, especially in Germany and to suggest measures by which a similar movement could be organized in India. Mr.Nicholson submitted his reports of two volumes in 1895 that, “the future of rural credit lies with those who being of the people live among the people and yet by their intelligence prescience and energy are above the people”. After referring to the work done by reformers like Raiffeisen, who introduced a popular system of rural credit, he summed up his report in the
two words “Find Raiffeison”. Raiffeisen Societies were running on unlimited liability basis, doing all services to the farmers with the motto of ‘one village one society’.

2.3.2 State Co-operative Banks

Among the co-operative banks the state co-operative banks are the biggest and strongest units. Like the central banks which are the leaders of the co-operative movement in a district, the state co-operative banks take the leadership for the co-operative movement in the State where they are located. In addition to the financial arrangements to be provided to various agricultural and non-agricultural co-operatives, they are expected to undertake the promotional activities in order to ensure an orderly growth of the co-operative movement.

2.3.3 Importance of State Co-operative Banks

In order to regulate and coordinate the working of central co-operative banks, state co-operative banks are needed. They can also act as a balancing centre for the central banks. Such need has been pointed out by the Maclagam Committee as follows..... Obviously the first remedy for this state of affairs is the coordination of provincial co-operative finance in each province in a strong apex bank, or provincial bank, and to insist that central banks shall have all their financial dealings with other societies except their own affiliated primary
societies, through that apex bank. This will put an end to the system, which is a
very real source of danger of central banks investing their temporary surplus assets
with each other. The money may be lent out on terms which do not make it
available when wanted and the inter-locking of their finance may very well result
in the fall of one bringing down unnecessarily a number of others in its train. The
provincial bank might also be the sole medium in the province for dealing with
presidency and joint stock banks. Coordination and control in finance is essential
and this can only be done within a province by an apex bank possessing the
necessary authority”. Being the strongest apex co-operative bank in a state, a state
co-operative bank in a state, acts as the spokesman of the co-operative movement
in the state. It represents the problems of various co-operative institutions,
especially agricultural credit institutions and finds the remedies to all problems.
Thus it acts as a mouth-piece of the co-operative movement in a state. The state
co-operative bank provides the liaison between the co-operative movement and the
money market. It is the right agency to deal with RBI, Governments and the like.

2.3.4 Central Co-operative Banks

Central Co-operative Banks are one of the strongest units in the Co-
operative Banking structure. Though originally there was no provision for the
organization of such banks under 1904 Act, the 1912 Act paved the way for the
organization of Central Co-operative Banks throughout the country. In many states the three tier system is strengthened purely out of the strength of the central co-operative banks. The weakness of the Co-operative movement in a state is synonymous with the weakness of the Central Co-operative Banks, because the Central Co-operative Bank being the leader of the co-operative movement in a district must play an effective role for the all round growth of co-operative movement. Being the social banker it has to take the banking facilities to the rural areas and no banked centers.

2.3.5 Importance of central co-operative Banks

The Central Co-operative Bank which is a part of the three tier credit system occupies a strategic place. The Survey Committee pointed out that “in many ways the position of Central Co-operative Banks is of crucial importance in the co-operative credit structure”. It has to undertake various promotional and developmental activities for the welfare of the co-operative movement necessarily comes through the central co-operative bank. It is the spokesman not only for the primary agricultural credit societies in a district but also for other kinds of co-operative institutions in a district.

The institutions in the Indian financial sector include Commercial Banks of Public Sector, Private Sector, Foreign Banks, Specialized Bank of Rural Regional
Banks, Urban Co-operative Bank, Agricultural Banks of State Co-operatives, District Co-operatives, PACSs.

2.3.6 Co-operative Credit Structure In India

![Diagram showing the co-operative credit structure in India.](image)

Figure 2.1
NAFSCOB

The National Federation of State Co-operative Banks Ltd., (NAFSCOB), Mumbai was established on May 19, 1964 with a view to facilitate the operations of State and Central Co-operative Banks in general and Development of Co-operative Credit in particular.

The specific objectives of NAFSCOB are to

- Provide a common forum to the member banks to examine the problems of co-operative credit, banking and allied matters and evolve suitable strategies to deal with them.

- Promote and protect the interests of the member banks in all spheres of their activities and to give expression to the views of the member banks.

- Co-ordinate and liaison with Government of India, Reserve Bank of India respective State Governments, NABARD and other higher financing institutions for the development of co-operative credit on behalf of the member banks

- Provide research and consultancy inputs to the member banks in order to facilitate them to strengthen their own organizations.

- Organize conferences/seminars/workshops/meetings to share the views of
common interest with a view to contribute for better policy decisions.

Table 2.1., presents the details of Credit Co-operative Structure in India.

**TABLE 2.1**  

**Details Of Credit Co-operative Structure In India As On 31.03.2004**  

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>SL.NO</th>
<th>DETAILS</th>
<th>PACBs</th>
<th>DCCBs</th>
<th>SCCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of society.</td>
<td>105735</td>
<td>368</td>
<td>30</td>
</tr>
<tr>
<td>2</td>
<td>No. of branches</td>
<td>NIL</td>
<td>12866</td>
<td>924</td>
</tr>
<tr>
<td>3</td>
<td>Membership (in thousand)</td>
<td>135411</td>
<td>2196</td>
<td>151</td>
</tr>
<tr>
<td>4</td>
<td>Owned funds</td>
<td>839736</td>
<td>1495754</td>
<td>649655</td>
</tr>
<tr>
<td>5</td>
<td>Deposits</td>
<td>1814253</td>
<td>7679638</td>
<td>4286301</td>
</tr>
<tr>
<td>6</td>
<td>Borrowings</td>
<td>3425718</td>
<td>2104914</td>
<td>1352100</td>
</tr>
<tr>
<td>7</td>
<td>Loans adv.</td>
<td>3517781</td>
<td>5752901</td>
<td>3486449</td>
</tr>
<tr>
<td>8</td>
<td>Loans outs</td>
<td>4342797</td>
<td>6361984</td>
<td>3563719</td>
</tr>
<tr>
<td>9</td>
<td>Percentage of demand</td>
<td>36.70</td>
<td>36.90</td>
<td>16.82</td>
</tr>
<tr>
<td>10</td>
<td>No. of employees</td>
<td>347176</td>
<td>110058</td>
<td>15554</td>
</tr>
</tbody>
</table>

Source: NAFSCOB Publications

The main features of PACBs are assessment of credit needs, disbursement of credit to members, recovery of credit and promote the economic interests of the members. Similarly the DCCBs Serve as balancing centre in the District Central Financing Agencies, organize credit to primaries, carry out banking business, sanction, monitor and control implementation of policies. The SCBs
serve as balancing centre in the state, organize provision of credit for credit worthy farmers, carry out banking business and Leader of the co-operatives in the State. The apex organization namely the NFSCOB too provides a common forum to the member banks, promotes and protects the interests of the member banks, coordinates and liaisons with Government of India, Reserve Bank of India, National Bank and others, provides research and consultancy inputs to the member banks.

**Banking Profile at Metro/Urban/Semi-urban/Rural/RRBs**

*(As on 31-03-2003) As Per RBI Quarterly Handout*

**TABLE 2.2.**

**Profile of Co-operative Banks in India**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>No of Bank Branches</th>
<th>Deposits (Rs.in cr)</th>
<th>Credit (Rs. in cr)</th>
<th>Credit / Deposit Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All India</td>
<td>66436</td>
<td>12,78,667</td>
<td>7,59,210</td>
<td>59.3</td>
</tr>
<tr>
<td>Metro Cities</td>
<td>8664</td>
<td>5,71,852</td>
<td>4,74,461</td>
<td>83.0</td>
</tr>
<tr>
<td>Top 100 Centers (Inclusive of Metro Centers)</td>
<td>15066</td>
<td>7,80,291</td>
<td>5,75,946</td>
<td>74.3</td>
</tr>
<tr>
<td>Urban Centers (Inclusive of Metro and Other centers)</td>
<td>19379</td>
<td>8,61,875</td>
<td>5,99,751</td>
<td>69.5</td>
</tr>
<tr>
<td>Semi-urban Centers</td>
<td>14813</td>
<td>2,40,523</td>
<td>84,683</td>
<td>35.0</td>
</tr>
<tr>
<td>Rural Centers</td>
<td>32244</td>
<td>1,76,268</td>
<td>74,755</td>
<td>42.0</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>14462</td>
<td>49,778</td>
<td>22,068</td>
<td>44.0</td>
</tr>
<tr>
<td>Combined CD Ratio of Banks at Semi-urban and Rural centers</td>
<td></td>
<td></td>
<td></td>
<td>38.00</td>
</tr>
</tbody>
</table>

**Source** [www.indiatogether.org/2004/apr/eco-ruralbank.htm](http://www.indiatogether.org/2004/apr/eco-ruralbank.htm)
2.3.7. Urban Co-Operative Banks

The regulation and supervision of UCBs is performed by the Urban Banks Department (UBD) of the Reserve Bank in co-ordination with the Registrars of Co-operative Societies of the State Governments and the Central Registrar of Co-operative Societies. As UCBs are primarily co-operative societies, they are subject to dual control - on the one hand by the State Government under the Co-operative Societies Act of the respective State, and on the other, by the Reserve bank under the Banking Regulation Act 1949 (As Applicable to Co-operative Societies). While the registration, administration, amalgamation and liquidation of UCBs are governed by the provisions of the State Co-operative Societies Acts, the Reserve Bank exercises regulation and supervision over their banking-related functions, by virtue of the powers conferred on it by the Banking Regulation Act 1949 (as applicable to Co-operative Societies).

In the Monetary and Credit Policy of 2001-02, the Reserve Bank had mooted a proposal for setting up a separate supervisory body for UCBs, to take over the entire function of inspection / supervision of UCBs in view of the adverse consequences of the present multiplicity of authorities involved in supervising UCBs. The apex body could be under the control of a separate high-level supervisory board consisting of representatives of the Central Government. State Governments and the Reserve Bank as well as independent experts and could be
accorded the responsibility of inspection and supervision of UCBs to ensure their conformity with prudential.\textsuperscript{14}

\textbf{2.3.8. Deposit Insurance and Co-operative Banks}

In terms of section 5 (cc vi) of the Banking Regulation Act, 1949 (as applicable to Co-operative Societies), a primary credit society is permitted to undertake banking business. The primary credit societies are also permitted to accept deposits from the public withdrawal by cheques. However, such primary co-operative societies with paid up capital and reserves of more than Rupees one lakh are automatically defined as primary co-operative banks and, therefore, come under the purview of Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) and are registered with the DICGC.

In terms of section 2(g g) of the DICGC Act 1961, in order to be an "eligible co-operative bank" for the deposit insurance cover, the law governing the UCBs entails the following provisions:

- An order for winding up, or an order sanctioning a scheme of compromise, or amalgamation, or reconstruction of the bank may be made only with the prior sanction in writing of the Reserve Bank.
• An order for the winding up of the bank shall be made if so required by the Reserve Bank in circumstances referred to in section 13 D of the DICGC Act.

• If so required, by the Reserve Bank in the public interest, an order shall be made for the super session

The Co-operative Societies Acts of four States (Meghalaya, Mizoram, Nagaland and Arunchal Pradesh) and four Union Territories (Lakshaweep, Chandigarh, Andaman & Nicobar Islands, and Dadra Nagar Haveli) has not enabled provisions as required under section 2(gg) of the DICGC Act. The matter has been pursued with the respective State Governments to promote suitable legislative amendments in their co-operative acts, so that the banks governed by these acts could also be brought under the purview.  

2.4. DEVELOPMENT SCHEMES BY TNSC BANK & NABARD

2.4.1. Minimum Involvement in Short Term Agricultural Loans

The Minimum Involvement (MI) discipline introduced by the NABARD in 1985-1986 was continued during the year under report also. TNSC Bank was required to involve 25 per cent of the Internal Lend able Resources (ILR) in short-term agricultural loans. However, since the Bank was not in a position to avail refinance from NABARD even up to one third of ST-SAO loans outstanding
against DCCBs, MI was reduced on merits up to 17.5 per cent of the ILR and accordingly, the MI for the Bank was reduced and re-fixed at Rs.367.10 crores by NABARD with the condition that the dependence on NABARD's refinance during currency of relaxation should not on an average exceed one third of its eligible ST-SAO loan outstanding against DCCBs.16

2.4.2. National Agricultural Insurance Scheme

The Comprehensive Crop Insurance Scheme which was introduced from Khariff 1985 season has been replaced by the National Agricultural Insurance Scheme (NAIS) and implemented during the year report by the DCCBs for the crops and areas notified by the Tamil Nadu State Level Co-ordination Committee on Crop insurance.

2.4.3. Farm Income Insurance Scheme

During the Year under review, Farm Income Insurance Scheme was launched by Government of India with a view to providing insurance coverage to farmers, assuring guaranteed minimum income on the basis of minimum support price. Under this scheme, paddy and wheat are the two crops covered under farm Insurance to begin with. The Scheme was introduced with a view to providing cover against adverse fluctuations in yield due to occurrence of non-preventable natural perils such as flood, cyclone, drought, dry spells; out-break of
pest/disease and adverse fluctuations of market prices. Both loanee and non-loanee farmers are covered under the scheme. For loanee farmers, the scheme has been made compulsory. Under the scheme, small and marginal farmers are eligible for 75% of premium as subsidy and other farmers are eligible for 50% of premium as subsidy, which will be met by Government of India.

2.4.4. Educational Loan Scheme

Though this scheme was introduced in the year 2002-2003, there was not much off-take under the above scheme, since the scheme does not have moratorium facility, whereas the same was available in almost all the commercial/Private Banks. In order to improve the scheme at par with commercial Banks, TNSC Bank had requested the Registrar of Coop. Societies for certain modification to the Educational Loan Scheme.

2.4.5. New Loan Schemes

Today, the coop. banks are facing stiff competition not only from the public sector banks, but also from the new generation private sector banks. In order to be in the field of banking, the banker has to keep on introducing new products to the clientele, besides offering courteous and quick service. With these objectives in mind, TNSC Bank had introduced techno-based service through the branches of
the Bank and DCCBs. Further, the Bank had introduced the following three new loan products during the year under report.

2.4.6. Housing Loan

You may be aware that as part of diversification of the lending activities of the Bank, your Bank had introduced many new loan schemes for the benefit of the clientele. You may be further aware that in the falling interest rate regime prevailing in our country, the banking sector is today mainly concentrating on Housing Loan Scheme, in view of assured return for a fixed period. In the above circumstances and in order to extend still better service by offering new products, the Bank had introduced Housing Loan Scheme to the clientele of the Bank, which will go along way in improving the performance of the Bank, besides the profitability. Under this Scheme, loans are provided up to 20 lakh at the rate of 11% interest to a maximum of 15 years.

2.4.7. Rain Water Harvesting Loan

The Government of Tamilnadu had advised the public to put up Rain Water Harvesting Structure in houses, so as to increase the source of ground water level in wells, bore wells, etc. In order to help the public in putting up the above structure, TNSC Bank had introduced a new loan scheme called ‘Rain Water
Harvesting Scheme’. Up to one lack provided under this scheme with a repayment period of 36 months at 11% to 11.75% interest.

2.5. CO-OPTEX

The Handloom industry occupies a place of pride in Indian economy. This industry is dispersed all over the country. However, it is mainly concentrated in states of Assam, Andhra Pradesh, Tamil Nadu, Uttar Pradesh, Karnataka, Rajasthan, Haryana and Jammu & Kashmir. There are about 5.10 lakh handlooms in the country producing 2320 million meters of cloth on different fibers in the industry. It provides direct employment to 20 million people, apart from providing indirect employment to 1.5 persons per weaver engaged in production.

The Co-optex was established in 1935 under the Co-operative Societies Act with the main objective of organizing and promoting the handloom industry and develop handloom weavers, in co-operative sector in Tamilnadu on a commercial basis. The functions are to procure and supply of raw materials mainly yarn to the primary weavers co-operative societies and to extend marketing support in selling the goods produced by these primaries through establishment of exclusive show rooms in major towns and cities.

Currently Co-optex goods are being exported to the countries like Australia, New-Zealand, Germany, France, Belgium, Norway, Denmark,
Netherlands, United Kingdom, Italy, Japan, Hong Kong and U.A.E. The important product ranges are home textiles like terry towel materials, bed spreads, table cloth, lungies mainly from Karur, Chennimalai, Madurai, Srivilliputhur, Bhavani, Aruppukottai and Arokkonam areas of Tamilnadu.

2.6. DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

The Deposit Insurance and Credit Guarantee Corporation (DICGC), a subsidiary of RBI, was established by an Act of Parliament, viz., The Deposit Insurance and Credit Guarantee Corporation Act, 1961. The Deposit Insurance Scheme was introduced with the commercial banks including RRBs and local area banks. Following an amendment to the DICGC Act in 1968, coverage was extended in respect of deposits with co-operative banks in such of the States which have passed the necessary enabling legislation amending their local Co-operative Societies Act.

2.6.1 Deposit Guarantee Scheme for PACBs

The PACBs in Tamil Nadu have mobilized deposits from their members and from the public to the extent of Rs.2842.40 crores on 31.3.2004 compared to Rs.3164.94 crores as on 31.3.2003. With a view to create a sense of security in the minds of depositors and for giving impetus for deposit mobilization by PACBs, a Deposit Guarantee Scheme has been introduced in the State since
1992-93. The amount contributed by the bank to this Deposit Guarantee Scheme up to 31.3.2004 was Rs.1.86 crores\textsuperscript{17}. The salient features of the Deposit Guarantee Scheme implemented in the State are given in Table 2.3.

**TABLE 2.3**

**Features of Deposit Guarantee Schemes**

<table>
<thead>
<tr>
<th>a) Amount Guaranteed</th>
<th>Actual amount of deposit held by depositor</th>
</tr>
</thead>
<tbody>
<tr>
<td>b) Type of deposits</td>
<td>All Types</td>
</tr>
<tr>
<td>c) Duration of deposits</td>
<td>No restrictions</td>
</tr>
<tr>
<td>d) Guarantee Fee</td>
<td>0.03% of the deposit guaranteed</td>
</tr>
<tr>
<td>e) Sharing of Guarantee</td>
<td>PACBs: 15%</td>
</tr>
<tr>
<td></td>
<td>DCCBs: 0.10%</td>
</tr>
<tr>
<td></td>
<td>TNSCB: 0.05%</td>
</tr>
<tr>
<td>f) Manner of investment of the corpus</td>
<td>The Guarantee fee received will be dept in Deposit Guarantee Corpus with DCCB of the District as Special Deposit.</td>
</tr>
<tr>
<td>g) Rate of interest to be paid by DCCB on the deposits in the Fund</td>
<td>Highest rate of interest as applicable on deposits from depositors.</td>
</tr>
<tr>
<td>h) Time limit for remittance of Guarantee Fee</td>
<td>1 month from the date of closure of the accounting year for PACBs.</td>
</tr>
<tr>
<td>i) Administration of the fund</td>
<td>A committee comprising of the representatives, one each from the DCCB, SCB, RCS and representatives from 2 PACBs, which have made a maximum contribution to the Fund.</td>
</tr>
</tbody>
</table>

Since the inception of KDCC Bank that is on 14.9.1957, the working hours of the Central Bank will be from 10 A.M. to 2 P.M. and 3 P.M. to 5.30 P.M. on all working days other than Saturday and on Saturday the working hours will be from 10 A.M. to 2 P.M. All Sundays and other holidays declared under the Negotiable instruments Act 1881 and holidays declared by the Executive Committee will be observed as holidays of the Central Bank.

Board of Management

Subject to the strength of the Establishment of the Central Bank and the scale of pay admissible to each member thereof sanctioned by the Board of Management, except the Secretary, Assistant Secretary, Manager or Executive Officer of the Central Bank all the other members of the establishment shall be made by the President including promotions. The Assistant Secretary, Manager or Executive Officer of the Central bank should be appointed by the Executive Committee.

Functioning

The KDCC Bank is functioning under the Supervision and control of the TNSC Bank. The loans and advances are made as per the
direction of the NABARD and the TNSC Bank. The TNSC Bank and NABARD also provide guidelines for granting credit to agricultural and non-agricultural purposes. The major interest income of the bank is made through jewel Loans. All the 114 PACBs and its branches are engaged in granting jewel loans\textsuperscript{18}.

**TSUNAMI RELIEF BY KDCC BANK**

The recent Tsunami was a big thunder that caused massive destructions in the coastal areas of Tamilnadu. The Kanyakumari District coastal areas were floating in Tsunami during the last weak of December 2004. Most of the people from those places could not recover from the shock and still the panic exists in coastal areas. Many commercial banks started issuing Tsunami loans. The Tsunami loans are issued under subsidized schemes through self-help groups (SHG). Many Tsunami victim families are asked to avail Tsunami loans. The Table 2.4 furnishes the details of the Tsunami loan disbursement by KDCC Bank.
### TABLE 2.4

Tsunami Loan Disbursed by KDCC Bank through its branches and PACBs

<table>
<thead>
<tr>
<th>S.NO.</th>
<th>NAME OF DCCB BRANCH</th>
<th>BENEFICIARY MEMBERS</th>
<th>LOAN DISBURSED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NO. OF SHG</td>
</tr>
<tr>
<td>1</td>
<td>Kulachal Branch</td>
<td>1280</td>
<td>64</td>
</tr>
<tr>
<td>2</td>
<td>Rajakalmangalam Branch</td>
<td>320</td>
<td>16</td>
</tr>
<tr>
<td>3</td>
<td>Kanyakumari Branch</td>
<td>560</td>
<td>28</td>
</tr>
<tr>
<td>4</td>
<td>Thingal Chandi Branch</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Pudhukadai Branch</td>
<td>180</td>
<td>9</td>
</tr>
<tr>
<td>1</td>
<td>Manavalakuruch P.A.C.B.</td>
<td>60</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Malakrishanaputhur P.A.C.B.</td>
<td>60</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Pariavillai P.A.C.B.</td>
<td>138</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Kelkulam Anananvillai P.A.C.B.</td>
<td>238</td>
<td>12</td>
</tr>
<tr>
<td>5</td>
<td>Lakshmipuram P.A.C.B.</td>
<td>200</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>Ethamoli P.A.C.B.</td>
<td>160</td>
<td>8</td>
</tr>
<tr>
<td>7</td>
<td>Palapallam P.A.C.B.</td>
<td>160</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Munchravillai P.A.C.B.</td>
<td>251</td>
<td>30</td>
</tr>
<tr>
<td>9</td>
<td>Parapattru P.A.C.B.</td>
<td>173</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Puthalam P.A.C.B.</td>
<td>57</td>
<td>4</td>
</tr>
</tbody>
</table>

| Total | 3857 | 212 | 249.03 |

Source: DRDA, Nagercoil

Table 2.4 clearly indicates the beneficiaries of Tsunami victims and the number of self help group benefited form the branches of KDCC Bank. There are 212 SHGs avail 249.03 lakhs and 3857 members benefited. It shows the social
responsibility of CCBs in Tamil Nadu and India. The CCBs are acting as
distribution agencies for livelihood during the occurrence natural calamities. \(^{19}\)

**2.8. MERGER AND ACQUISITION OF BANKS**

Even though this concept is new to the banking sector the emerging scenario in Co-operative sector can also utilize such idea (HDFC Bank with Times Bank, Bank of Madura with ICICI Bank, UTI with GIB, and ICICI with ICICI Bank). The number of banks under merger and acquisition are presented in Table 2.5.

<table>
<thead>
<tr>
<th>Table 2.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Banks under Merger and Acquisition</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>275</td>
<td>293</td>
<td>270</td>
<td>383</td>
<td>414</td>
<td>172</td>
</tr>
<tr>
<td>Within</td>
<td>20</td>
<td>7</td>
<td>12</td>
<td>18</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>With 3\textsuperscript{rd} world country</td>
<td>31</td>
<td>43</td>
<td>37</td>
<td>33</td>
<td>56</td>
<td>39</td>
</tr>
<tr>
<td>Total</td>
<td>326</td>
<td>343</td>
<td>319</td>
<td>434</td>
<td>497</td>
<td>234</td>
</tr>
</tbody>
</table>

Source: ICFAI Publication

Bank Mergers have become global phenomena. The objective of these mergers is to cut costs besides securing other synergies. Survival is also a reason in some cases. Merging entities should be a perfect fit\(^{20}\).
2.9. SIX-PILLAR STRATEGY

Six-Pillar Strategy was recommended by RBI to implement the Banking System efficiently. The Six-Pillar are

- Creation of sound banking structure
- An independent and effective supervision system
- A banking regulation system that is able to anticipate future banking
- Money market development
- Strengthening banking infrastructure
- Consumer Protection\(^\text{21}\).

2.10. OUTSOURCING

The European co-operative banks strongly welcome outsourcing, especially the clear commitment towards seeking to ensure the highest degree of convergence because it will probably help to prevent double burdens for credit institutions.
FOOTNOTES

13. Deposit Insurance and Credit Guaranties Corporation Publications P 1-250
14. Professional Banker- Sep 2005 ICFAI University Press P 1-150
15. Indian Banking - Dr.Nagarajan, ICFAI Publication P 1-150
18. Model Co-operative Act – Planning Commission Govt. of India pp 1-150
P 1-35