CHAPTER 8

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The findings of the study are presented in this chapter.

1. Moderate growth in share capital was observed during the study period. The average annual growth in share capital was 12.47%. The contribution of government towards share capital of the bank was nil during the period under study.

2. Total reserves contribute substantially to the owned capital of Belgaum District Central Co-operative Bank and in turn to the internal source of finance. Reserves of the bank are more than 50% of the owned capital. The increase in reserves brings down the weighted average cost of capital which was advantageous to BDCCB.

3. Even though there has been fluctuations in the membership of BDCCB its working capital shows a steady increase except in the year 1997-98. During the study period the bank has diversified its activities adequately responding to the changing needs of the society.

4. It is observed that there are two sources of deposits for a Central Co-operative Bank. The deposits which come from the affiliated societies are compulsory in nature whereas deposits from the individuals and institutions are voluntary in nature. Major portion of the deposits of the bank i.e., 60.52% come from its affiliated societies which is rather statutory obligation. The deposits which come from the public, forms
39.48% of the total deposits. Thus it is clear that the percentage of public deposits to total deposits does not show an encouraging scene. This reflects the inability of the management of BDCCB in mobilising deposits.

5. With respect to the account-wise deposits of the BDCCB, current deposits account for 9.16% on an average, savings deposits 15.63% and fixed deposits account for 75.21%. It is also observed that the ratio of low : high cost deposits are quite low. The ratio of low : high cost as on 31st March 2001 was 22 : 78.

6. Aggregate deposits of all DCCBs in Karnataka recorded an average growth rate of 34% during 1993-94 to 1998-99. But the BDCC Bank recorded growth less than that of state average. The average growth rate of BDCC Bank during 1993-94 to 1998-99 stood at 29%.

7. It is observed that the main reason for slow growth of deposits of the BDCC Bank is the non-availability of certain facilities to customers which were provided by commercial banks. These facilities include over draft arrangement, safe deposit lockers in all the branches, advances against National Saving Certificates in all the branches, quick clearing services for their cheques, computerised service, immediate credit decision service on loans etc. Due to lack of these facilities people are inclined to move towards commercial banks than the BDCC Bank.

8. The BDCC Bank borrowed funds from NABARD and Apex Bank regularly during the study period. In general the borrowings of BDCCB are small due to its resources
in the form of owned funds and deposits. It is also observed that BDCCB has 4% margin on borrowings from NABARD and 1% margin on borrowings from Apex Co-operative Bank.

9. The borrowings of BDCC Bank for the purpose of SAO are showing an upward trend and for medium term purpose showing downward trend.

10. It is interesting to note that the percentage of short term advances to total advances was more than 90% during the study period.

11. Borrowing rate for the BDCCB was 7.5% on short term (NABARD) and lending rate of interest to primary co-operative societies was 12% (ST) and thus the margin for the BDCCB was 4.5% (ST). It is also observed that the margin for primary co-operative societies was 3% (ST) and the rate of interest to ultimate borrower was 15% on ST.

12. The average percentage of agricultural advances during the period of study was worked out to be 27.87%. Thus the bank has diversified most of its resources for non-agricultural purposes.

13. During 1995-96 over dues of the bank were Rs.1455.49 lakhs and went up to Rs.13007.19 lakhs in 2000-01 marking a growth of over eight times. Thus 17.13 per cent of the working capital of the bank has been blocked and such a high degree of over dues poses a real challenge to the management of the BDCC Bank. It is
observed that total over dues as on 31st March 2001 Rs.13007.19 lakhs, had been tied up in the form of over dues, preventing the recycling of funds.

14. It is observed that during 1995-96 owned funds of the bank exceeded the over dues. In the remaining years of the study over dues exceeded the owned funds of the BDCCB. This highlights the fact that the BDCCB is not in a position to bear the over dues out of its owned funds. Thus it speaks of the low solvency position of the bank which calls for more concentration on the recovery of advances.

15. The management of BDCCB has paid more attention on recovery of over dues of above 5 years when compared to over dues of below 1 year, 1 to 3 years and 3 to 5 years age groups.

16. It is observed that SAO and ST (others) over dues constitute a major share in total over dues.

17. The percentage of the collection to demand was worked out to be 69.15% and 82.03% for the principal and the interest respectively. This indicates that the recovery performance of BDCCB is better in respect of interest than the principal. On discussion with the officials of the bank, it is learnt that the borrowing members are inclined to pay interest rather than the principal as the former constitutes smaller amount.

18. The foregoing study indicates that the magnitude of over dues of the bank has been mounting day by day. The researcher after interviewing the staff, non-officials and
beneficiaries, arrived at the following reasons which are mainly responsible for such a state of affairs. They are:

i) Natural factors and fluctuation in prices of agricultural goods.

ii) Slow disposal of legal cases and

iii) False promise of political leaders.

19. The BDCCB had invested minimum amount in fixed assets and diverted its funds towards investments and advances to earn the income. The management of BDCCB has taken the right decision for not investing more in fixed assets.

20. It is observed that the rural branches form a lion’s share in the total branches of the BDCCB. This speaks of the BDCCB’s efforts in attaining the rural coverage for promoting socio-economic well-being of the rural masses.

21. The branches of the BDCCB have two major functions to perform, they are:

i) to serve the affiliated primary agricultural co-operative societies by disbursing the loans and advances to them and receiving collection from PACS on account of loans advanced and

ii) to carry on ordinary banking business by accepting deposits and offering other banking facilities.

22. Total over dues of BDCCB by 2000-01 were Rs.13007.19 lakhs whereas over dues among Top 20 Accounts were Rs.5996.08 lakhs. In other words 46% of the total
overdues of BDCCB have been blocked among Top 20 Accounts and such a high degree of overdues among Top 20 Accounts poses a real challenge to the management of BDCCB.

23. On an average the share of owned capital, deposits, borrowings and other liabilities were 10.18%, 61.34%, 25.11% and 3.37% respectively during the study period. It indicates that the major component of working capital was deposits with 61.34% of share.

24. The share of internal source of finance which refers to owned capital was 10.18% in the working capital of BDCCB. The external sources refer to deposits, borrowings and others. The share of external sources was 89.82% of working capital.

25. Percentage of cost of management to working capital has been on an average 2.35% which is well within the norms prescribed by the Reserve Bank of India i.e., 2.50%. The average borrowing rate and average lending rate had been 9.26% and 13.28% which gave the average spread of 4.02% during the study period.

26. The main source of income for BDCCB was interest received on loans and advances and investment. The average share of interest income was around 98.33% during the study period. It is observed that insignificant commission and brokerage was earned by providing agency services to customers.
27. It is observed that the average net profit accounts for about 0.73% of total working funds. Although the yearly percentage of net profit was marked by marginal ups and downs, the general trend is downward. This signifies poor profit earning capacity of the BDCCB. BDCCB’s profitability does not justify the size of its working funds.

The profitability of the BDCCB is mainly affected by the following:

i) Increase in cost of management.

ii) Ratio of low : high cost is quite low.

iii) High amount of non-performing assets.

28. The BDCCB had paid a dividend of 11% in the year 1995-96, 10% in the year 1996-97, 4% during 1997-98, 1998-99 and 1999-2000. During the year 2000-01 BDCCB had distributed dividend of 2% only. The analysis reveals that the dividend distributed by BDCCB is in declining trend. This declining trend does not go well with the general performance of the bank.

29. Neither the short – term nor the long – term solvency position of the bank is good.

30. The BDCCB has failed to attract depositors as compared to borrowers during the study period. The performance of management is slowly leaning towards ineffectiveness and inefficiency in mobilising deposits as against the advances.
HYPOTHESES TESTING

The hypotheses testing by the present study revealed that:

Out of the six hypotheses mentioned in chapter 1, the hypothesis bearing serial number 2 proved to be valid. The hypothesis is as follows:

2. With the increase in working capital, the deposits of the bank have increased proportionately.

Hypothesis No.1 is partly valid i.e., with the increase in finance from the Government, Reserve Bank of India and NABARD, diversification of activities and profitability of the bank has increased.

It is observed that during the study period the bank has diversified its activities adequately responding to the changing needs of the society. BDCCB’s profitability does not justify the size of its working funds.

Hypotheses bearing serial numbers 3, 4, 5 and 6 have been proved to be not valid. They are:

3. With the development of modern management tools, techniques and practices there has been greater infusion of professionalism in the management of the bank and the bank has sound financial management;

4. With the increasing emphasis on agriculture, advances made by the bank to agriculture and allied activities has been good;

5. With the growth of the bank, collection position becomes better and the magnitude of overdue is lessened;

6. Over the years, the short-term as well as long-term solvency position of the bank has been better.
SUGGESTIONS

In the light of findings of this study, the following suggestions are worthwhile in correcting the present prevailing situation:

1. Mobilisation of Potential Deposits:

   To intensify deposit mobilisation, creation of special deposit mobilisation cell should be given top priority. A rational strategy mix in the form of branch expansion and publicity should be selected in keeping with the need, objectives of the Belgaum District Central Co-operative Bank along with the socio-economic policy of the government. The BDCCB has succeeded in getting more capital from primary co-operative societies rather than in mobilising deposits from the public. Therefore, there is a need to increase deposits through massive deposit mobilisation programme. Sufficient awareness shall be created among the public about facilities and benefits which are associated with various deposit schemes.

2. Formulation of Special Deposit Schemes:

   The formulation of variety of deposit schemes which are need based and attractive may contribute significantly towards the bank's efforts in mobilising deposits from both urban and rural areas. The BDCC Bank can start special deposit schemes such as Education Deposit Scheme, Cash Certificate Deposit Scheme, Pension Deposit Scheme and Pigmy Deposit Scheme for mobilisation of deposits.
3. Special Campaign:

Special campaigns such as deposit mobilisation week shall be convened at least once in a year by providing attractive terms and conditions.

4. Create a Development Fund:

The BDCC Bank is advised to create development funds, which can be used to modernise the existing place of business and to open up new branches in future.

5. Separate Provisions for Reserves:

Provisions must be separated from the reserves in the Balance Sheet so that an effective and selective control can be exercised on the provisions.

6. Borrowings for the medium purpose also:

The management of BDCC Bank should gear up its borrowings for medium term purpose so that the bank will be able to advance for the purpose of agricultural tools and implements. Nevertheless the BDCCB should avail optimum level of borrowings particularly under agricultural loans, which is available at a concessional rate of interest, with a view to minimise its cost of funds. The BDCCB should review its position and resort to borrowings judiciously.

7. Utilise the over draft limit of Apex Bank in case of urgency only:

BDCCB should utilise the over draft limit of Apex Bank in case urgency only as the limit carries higher rate of interest.
8. Avail all concessional finance:

BDCCB should make efforts to avail all the concessional finance from NABARD and Apex Bank so as to keep the average borrowing rates as low as possible.

9. Timely Credit to Agriculturists:

Untimely credit encourages an agriculturist to use such advances for unproductive purposes and thus creates a problem at the time of recovery. Therefore, credit should be supplied in time. To ensure timely supply of credit, the credit limit statements of the affiliated societies should be disposed of quickly. PACS should be instructed not to disburse loans as and when the defaulters clear up, ignoring the cropping season.

10. Lower Lending Rate to PACS:

Lending rate to PACS by the BDCCB on short term should be reduced. A slight reduction in the rate of interest would relieve the agriculturists.

11. Linking Credit with Marketing:

BDCCB should follow scientific recovery of loans through linking of credit with marketing. The integration of co-operative credit societies with co-operative marketing societies will help in increasing the income of the members which in turn, may help in repayment of loans. Hence speedy implementation of the system will surely minimise the quantum of over dues.
12. Avoid Mounting Over dues:

BDCCB must employ efficient machinery for lending and its timely recovery. Supervision must start before granting of loans to assess the need, purpose and gravity of borrowing. Besides, it requires a follow up action over the use and recovery of funds. Personal contact between the borrower and the supervisor is required from the beginning till the money is recovered. Thus it is necessary that these banks should concentrate on recovery front and see that the over dues are at minimum. In their efforts to speed up recovery they should concentrate on willful defaulters and exogenous factors affecting recovery.

13. Speedy Disposal of Legal Cases:

Alike Lok Adalat, similar body may be set up in the co-operative sectors to dispose of the pending cases quickly. To expedite the disposal of legal cases the procedure should be simplified, because delay in disposal of legal cases has a negative impact not only on present defaulters but also on the prospective borrowers.

14. Surplus Funds should be used for lending:

Instead of being investing larger share of funds in the form of bank deposits, the Belgaum District Central Co-operative Bank management can think of lending more from the surplus funds available over and above the statutory reserve requirements to earn a higher yield.
15. Develop professionalised investment portfolio:

The BDCCB management has to develop professionalised investment portfolio to increase the profitability along with liquidity. Some of the investments are to be diverted to more ventured investments for increasing the profitability.

16. Corrective measures to increase dwindling operation profits:

The trend in operational profit is declining. It must be stopped by adopting more realistic approach to the whole working of BDCCB. The operational profits are declining due to thinning of spread, uncontrollable deposit mix, lower yielding investment, requirement to make heavy provisioning for their impaired assets on application of prudential norms and meagre non-interest income from ancillary services. The future of BDCCB depends on the type of modern banking amenities and services to the customers and professionalism in fund management. The following suggestions may be adopted to increase the operational profits:

i. As the spread is getting narrower and profitability is getting eroded, there is an imperative need to explore more avenues through ancillary business, which does not involve funds. The ancillary business helps the BDCCB to project better image and also serve the society besides increasing earning by creating the following need based services to customers:

a) The traditional ancillary services such as collection of negotiable instruments, remittance of funds, safe deposit lockers, standing instructions etc.
b) In collaboration with commercial banks the non-traditional services like issuing credit cards, issuing pay orders, demand draft and travellers' cheques, executor and trusteeship services etc.

c) 24 hour banking services with door to door services can be started by BDCCB as it has local standing.

ii. Increase the Interest Income:

The BDCCB also has to take steps to increase interest income along with the steps to increase non-interest income by developing professionalised investment portfolio and by investing the excess or surplus money in high yielding assets.

iii. Control interest payments on deposits by having ideal deposit mix:

To control the interest expenses it is suggested to have the ideal deposit mix. The savings deposits, current deposits and other demand deposits must be minimum 50% of total deposits, where interest rate is nil or very less. No doubt fixed deposits bring stability to financial sources and lead to a planned lending but it also increases the cost of funds very high. So to maintain a balance, the BDCCB has to have proper mix of different classes of deposits, so that the average cost of deposits is maintained at a lower level and stability is ensured. To increase the interest spread the bank has to decrease interest payments on deposits and borrowings and increase interest receipts by proper deployment of funds in high yielding assets.
iv. Balance Inflow and Outflow of funds:

Efficient management of inflow and outflow of funds by avoiding surplus fund on any day will increase the efficiency in deployment of funds resulting in higher operational profits. BDCCB should try to minimise the quantum of surplus money on hand by planned programme of diverting the deposits in various types of advances with due attention to safety, liquidity and profitability.

17. Use of Computers:

BDCCB should be computerised to provide quick and efficient service to customers, to manage funds, to calculate interest on deposits, to make payment, to write accounts, to keep financial and personnel records etc. A computer with speed and accuracy enables the BDCCB to multiply its efficiency by substantial reduction in the man power requirements and operating cost.

18. Management Information System:

In spite of growing recognition for management information system, the BDCCB has not yet developed such a system. In the management information system data are collected, processed and transferred to the decision – making centres. To make decisions, managers need information concerning internal activities of the bank and its external environment. Therefore, necessary arrangement may be made by the bank to have a separate cell to compile, process and analyse the data so that timely supply of information can be ensured.
19. Cost Accounting and Cost Audit:

BDCCB should devote attention towards cost reduction and cost control. BDCCB should have costing department not only to ascertain costs but to suggest ways and means to control as well as save costs to increase profitability and efficiency of the bank. The cost audit ensures that every rupee invested in capital or lent gives the optimum return and that balancing of investment between safety, liquidity and profitability of BDCCB is designed to give optimum results.

20. BDCCB should work on professional lines:

The BDCCB should work on professional lines. The Bank’s Board should be professional and accountable ones. If no professionals in the field of banking, accountancy, funds management, information technology etc. are elected, Government / NABARD / Karnataka State Co-operative Apex Bank may nominate such professionals to the Board.

In brief, it may be concluded that financial management in banking has two aspects, namely, resource side, i.e., raising of resources and credit side, i.e., deployment of resources. Raising of resources at minimum possible cost and optimally deploying the same so as to get maximum returns, can be considered as efficient financial management by banking institutions. The findings and suggestions of the study are expected to be of use for efficient financial management of Belgaum District Central Co-operative Bank and to other District Central Co-operative Banks in Karnataka State.