CHAPTER VI

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSIONS
CHAPTER VI
SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSIONS

6.1 INTRODUCTION

Events in the United States of America spread across the world, creating a global economic crisis, and causing international financial systems to require massive bailouts to prevent widespread crashes. As economies experienced economic downturns and fiscal vulnerabilities were exposed, rising unemployment and reduced aggregate demand contributed to increased loan delinquency in already stressed banking sectors. With banks making losses, further concerns about banks’ capital adequacy and their ability to identify risks are being raised. Here in India, the crisis affected the banking system through falls in bank activity and increased non-performing loans (NPLs) as major segments of the real economy weakened. Some banks experienced sharp growth in the NPL ratio over very short time periods resulting in lower profits for these institutions. As economic growth remains sluggish and key industries struggle to recover, loan delinquency continues to be a key concern for regulators.

The NPAs of the co-operative banks are higher than those of commercial banks. The annual report of NABARDs 2009-10 mentioned that nine state co-operative banks (StCBs) and 214 district central co-operative banks (DCCBs) which are not being run properly. They are facing from harmfully low or weak quality of loan assets and from highly bad recovery of loans. Loan recovery is one of the critical determinants of profitability and viability and crucial to the health of a co-operative credit institution. Poor recovery hampers the institution's capability to recycle funds
and adversely affects effective management of its resources and ultimately its profitability.

6.2 SUMMARY OF FINDINGS

Co-operatives all over the world have become an effective and potential instrument of economic development. The Co-operative Movement brings together over 800 million people around the world.

The Co-operative Movement in Tamilnadu has witnessed over the decades substantial growth in diverse areas of economy. This consists of the Tamil Nadu State Apex Co-operative Bank at the State level, 23 District Central Co-operative Banks at the District level, and 4534 Primary Agricultural Co-operative Credit Societies at the village level.

The Tuticorin District Central Co-operative Bank at the middle order of the three-tier structure have been playing a crucial role in promoting agriculture and allied activities by purveying credit to the needy through primary agricultural co-operative societies in Tuticorin district. They also play a very important role in improving the socio-economic conditions of the rural people in the district. The Tuticorin District Central Co-operative Bank functions with 17 Branches and 150 primary agriculture co-operative credit societies as on 31.3 2012.

The total paid up capital of the bank was the maximum in the year 2008-09, and the amount was ₹2577 lakhs, but in the year 2009-10 it declined to ₹1306 lakhs. Co-operative share in total paid up capital shows an increasing trend during the period of study.
Reserves and other funds of the bank have increased over the study period. The total reserve of the bank has increased from ₹137 lakhs in the year 2003-04 to ₹3755 lakhs in the year 2010-11.

The total deposit of the bank shows an increasing trend. It increased to ₹18,441 lakhs in the year 2010-11 from ₹12,161 lakhs in the year 2003-04. The local bodies deposited in the bank only in the year 2010-11 and the amount was very meagre.

The total deposits of the bank shows an increasing trend during the last six years. The deposit amount has increased from ₹12,161 lakhs in the year 2003-04 to a sum of ₹18,441 lakhs in 2010-11.

The total demand for the products of the bank was ₹8,043 lakhs in the year 2003-04 which increased to ₹18,587 lakhs in the year 2010-11.

Total collection of the bank was ₹5,625 lakhs in the year 2003-04 which increased to ₹18,112 lakhs in the year 2010-11, like total collection, short term agriculture collection of the bank increased to ₹3,024 lakhs in the year 2010-11 from ₹835 lakhs in the year 2003-04.

The total investment of Tuticorin District Central Co-operative Bank had shown an increasing trend up to the year 2008-09, it was ₹5,597 lakhs, but it declined to ₹5,225 lakhs in the year 2010-11. Investment in Government securities remained constant at ₹263 lakhs up to the year 2008-09 but it declined to ₹217 lakhs in the year 2009-10.
The year 2009-10 the major chunk of the loan amounts were only for short term non-agriculture purposes. Maximum short term agriculture loans were issued in the year 2010-11 which amounted to ₹5,442 lakhs.

Short term agriculture loan outstanding were maximum in the year 2010-11, it was ₹4,805 lakhs. Medium term agriculture loans outstanding were maximum in the year 2003-04, it was ₹638 lakhs while medium term non-agriculture loans outstanding were maximum in the year 2008-09, which amounted to ₹3,968 lakhs. Others loan outstanding were maximum in the year 2010-11, which were ₹20,227 lakhs.

Total expenses of the bank had shown an increasing trend, it increased to ₹429 lakhs in the year 2010-11 as compared to ₹204 lakhs in the year 2003-04.

Out of the total eight years the bank sustained losses during three years namely 2003-04, 2005-06, and 2007-08. A maximum loss of ₹783 lakhs were recorded in the year 2007-08.

**Non-Performing Assets**

Bad loans are turning nightmarish for Indian banks. A steep rise in interest rates over the past 18 months has led to a sharp increase in Non-Performing Assets. The Reserve Bank of India has increased its lending (repo) rate 13 times since March, 2010 to tame inflation. The Reserve Bank of India’s worst fears is likely to come true on the asset quality front with gross Non-Performing Assets of the banking sector set to cross the ₹ 150,000 crore marks during the fiscal ended March 2012, indicating a rise of nearly three times from ₹ 56,000 crore in 2008.
REASONS FOR NON-PERFORMING ASSETS:

1) Funds borrowed for a particular purpose but not use for the said purpose.

2) Project not completed in time.

3) Poor recovery of receivables.

4) Excess capacities created on non-economic costs.

5) In-ability of the corporate to raise capital through the issue of equity or other debt instrument from capital markets.

6) Business failures.

7) Diversion of funds for expansion\modernization\setting up new projects\helping or promoting sister concerns.

8) Willful defaults, siphoning of funds, fraud, disputes, management disputes, misappropriation etc.

9) Deficiencies on the part of the banks viz. in credit appraisal, monitoring and follow-ups, delaying settlement of payments\subsidiaries by government bodies etc.,

10) Sluggish legal system –
    a) Long legal tangles
    b) Lack of sincere effort.

11) Scarcity of raw material, power and other resources.

12) Industrial recession.

13) Shortage of raw material, raw material\input price escalation, power shortage, industrial recession, excess capacity, natural calamities like floods, accidents.

14) Failures, nonpayment\over dues in other countries, recession in other countries, externalization problems, adverse exchange rates etc.

15) Government policies like excise duty changes, Import duty changes etc.
Many co-operative banks are facing the problem of non-performing assets which hampers the business of the banks. Due to NPAs the income of the banks is reduced and the banks have to make the large number of the provisions that would curtail the profit of the banks and due to that the financial performance of the banks would not show good results. NPAs include sub-standard assets, doubtful assets and loss assets.

The Tuticorin District Central Co-operative Bank has faced the problem of NPA. NPAs have become a first charge on banks funds for provisioning and these affect banks performance by eating into their profitability. The most important condition for improvement in the profitability of banks is a reduction in the level of NPAs.

Gross NPAs of TDCC Bank stood at ₹ 1936.07 lakhs, as on 2010-11 consisting of ₹ 55.26 lakhs in Sub-Standard category, ₹3.58 lakhs in doubtful and the remaining ₹ 1877.23lakhs loss category.Net NPAs of the bank were maximum in the year 2003-04, which was ₹1664.76 lakhs, it decreased to ₹153.38 lakhs in the year 2010-11.

High gross NPA ratio indicates low quality credit portfolio. The prescribed Gross NPA Ratio at the international level is 3 per cent. In the case of Tuticorin District Central Co-operative Bank the ratio was ranging between 42.10 per cent and 6.79 per cent, during the period of study. Certainty the gross NPA ratio shows a declining trend. However, even the lowest Gross NPA ratio of the TDCC Bank is more than double of the global standard.
TDCC Bank Net NPA ratio was ranging between 17.89 and 0.57 Per cent. During the last two years of the study period, the Net NPA Ratio of TDCC Bank is almost half of the global standard.

Net Problem Asset Ratio is the ratio of Net NPA to Total Assets of the Tuticorin District Central Co-operative Bank. This ratio indicates the proportion of the risky of the TDCC Bank. In the case of TDCC Bank the ratio was ranging between 8.18 per cent and 0.43 Per cent.

TDCC Bank Sub-Standard Assets Ratio was ranging between 24.18 per cent and 2.85 per cent during the period of study. The increase in this ratio is the symptom of high degradation of standard assets in the bank.

TDCC Bank the Doubtful Assets Ratio was ranging between 12.04 per cent and 0.18 per cent. If this ratio increases, it shows the poor management of NPA in the bank.

The Loss Assets Ratio of the Tuticorin District Central Co-Operative Bank has been increasing throughout the study period which ultimately affects the financial health of the bank. In the case of TDCC Bank the ratio was ranging between 63.79 Per cent and 96.96 Per cent.

The Provisioning position of the Tuticorin District Central Co-Operative Bank has shown substantial increase during the study period. The upward movement of the Provisions Ratio indicates that the bank is adopting adequate measures for the future loan losses. In the case of TDCC Bank the ratio was ranging between 70.04 per cent and 92.08 per cent.
Perception of Bank Managers on Non-Performing Assets in TDCC Bank

The total 167 respondents surveyed in the study, 58 respondents forming 34.7% were having 10 - 20 years of experience, 51 respondents forming 30.5% were having less than 10 years of experience, 36 respondents forming 21.6% were having 20 - 30 years of experience, and the rest of the 22 respondents forming 13.2% were having above 30 years of experience.

The level of NPAs of different sizes of loan, the respondents’ first ranked size of loan that is more prone to non-performance is Rs.50,000 - Rs.1 lakhs. The ANOVA test results showed that respondents based on the organization type, the null hypothesis is accepted. The respondents based on the experience, the null hypothesis is not accepted.

The type of loan leading to NPAs, the respondents’ first ranked type is direct agriculture. The ANOVA test results showed that respondents based on the organization type, the null hypothesis is accepted. The respondents based on the experience, the null hypothesis is accepted.

The various bank related reasons for NPAs, the respondents’ first ranked is siphoning of funds. The ANOVA test results showed that respondents based on the experience, the null hypothesis is rejected. The respondents based on the organization type, the null hypothesis is rejected. Factor analysis was applied to identify the underlying causal factors of non-performing assets of the study bank based on bank related reasons. The fourteen bank related reasons for NPAs were subjected to factor analysis using Principal Component Analysis for the initial extraction of factors followed by varimax method of orthogonal rotation of factors. Based on the factor
loadings of the 14 variables were observed and variables, 5 underlying factors were extracted. These factors were named accordingly as constraint in credit disbursement, faulty financing with political background, siphoning of funds, lack of supervision and follow-up, lack of skills in processing loans.

The various borrower related reasons for NPAs, the respondents’ first ranked is misutilisation of loans. The ANOVA test results showed that respondents based on the experience, the null hypothesis is not accepted. The respondents based on the organization type, the null hypothesis is not accepted. Factor analysis was applied to identify the underlying causal factors of non-performing assets of the study bank based on borrower related reasons. The fourteen borrower related reasons for NPAs were subjected to factor analysis using Principal Component Analysis for the initial extraction of factors followed by varimax method of orthogonal rotation of factors. Based on the factor loadings of the 14 variables were observed and variables, 5 underlying factors were extracted. These factors were named accordingly as high rate of interest and inefficiency in financial management, non-monitoring of accounts and overrun of time, Cost overrun, Diversion of funds for other purposes, occurrence of Natural calamities.

The various general reasons for NPAs the respondents’ first ranked is business failure. The ANOVA test results showed that respondents based on the experience, the null hypothesis is not accepted. The respondents based on the organization type, the null hypothesis is not accepted. Factor analysis was applied to identify the underlying causal factors of non-performing assets of the study bank based on various general reasons. The nine general reasons for NPAs were subjected to factor analysis using Principal Component Analysis for the initial extraction of factors followed by varimax method of orthogonal rotation of factors. Based on the factor loadings of the
9 variables were observed and variables, 3 underlying factors were extracted. These factors were named accordingly as Business failure, slow legal process, and inactive government policies.

The support systems of the bank the respondents’ first ranked is shortage of officials to manage loan portfolio. The ANOVA test results showed that respondents based on the experience, the null hypothesis is accepted. The respondents based on the organization type, the null hypothesis is accepted. Factor analysis was applied to identify the underlying causal factors of non-performing assets of the study bank based on support system. The six support systems were subjected to factor analysis using Principal Component Analysis for the initial extraction of factors followed by varimax method of orthogonal rotation of factors. Based on the factor loadings of the 6 variables were observed and variables, 2 underlying factors were extracted. These factors were named accordingly as higher interest rate, lack of information system.

The impact of NPA over the bank, the respondents’ first ranked is provision for bad & doubtful debts is increased. The ANOVA test results showed that respondents based on the experience, the null hypothesis is not accepted. The respondents based on the organization type, the null hypothesis is not accepted. Factor analysis was applied to identify the underlying causal factors of non-performing assets of the study bank based on impact of NPA reflect the following areas of the bank. The eleven impacts of NPAs were subjected to factor analysis using Principal Component Analysis for the initial extraction of factors followed by varimax method of orthogonal rotation of factors. Based on the factor loadings of the 11 variables were observed and variables, 5 underlying factors were extracted. These factors were named accordingly as increase in CRR, Increase in the interest rate and Provision for
bad & doubtful debts, increasing investment in government securities, Contraction of credit, Decreasing reserves and surpluses.

The improvement of banking operations, the respondents’ first ranked is continuous monitoring and follow-up action. The ANOVA test results showed that respondents based on the experience, the null hypothesis is not accepted. The respondents based on the organization type, the null hypothesis is not accepted. Factor analysis was applied to identify the underlying causal factors of non-performing assets of the study bank based on improvement of banking operations. The eight improvements of banking operations were subjected to factor analysis using Principal Component Analysis for the initial extraction of factors followed by varimax method of orthogonal rotation of factors. Based on the factor loadings of the 8 variables were observed and variables, 4 underlying factors were extracted. These factors were named accordingly as improving legal system, avoid political interference, improving credit appraisal system, continuous monitoring.

The remedies for reducing NPAs, the respondents’ first ranked is Prompt repayment rewarded with special incentives. The ANOVA test results showed that respondents based on the experience, the null hypothesis is not accepted. The respondents based on the organization type, the null hypothesis is accepted. Factor analysis was applied to identify the underlying causal factors of non-performing assets of the study bank based on remedies for reducing NPAs. The nine remedies for reducing NPAs were subjected to factor analysis using Principal Component Analysis for the initial extraction of factors followed by varimax method of orthogonal rotation of factors. Based on the factor loadings of the 9 variables were observed and variables, 4 underlying factors were extracted. These factors were named accordingly
as recovery camps and post sanction follow-up, need based viable financing, prompt reward, ensuring proper end-use.

The behavior of borrowers towards repayment of bank loan, the respondents first ranked is borrowers have repaying capacity and unwilling to repay. The ANOVA test results showed that respondents based on the experience, the null hypothesis is not accepted. The respondents based on the organization type, the null hypothesis is not accepted.

**Perception of Loan Borrowers on Default in Repayment of Loan in TDCC Bank**

Majority of the respondents 122(40%) are in the age group of 40-50 years. It is clears that majority of the respondents 76 per cent are males. The study reveals 86 per cent of the respondents were married.

The study focuses that 106(35%) respondents were Illiterates and 70(23%) of the respondents were educated Below SSLC level.

The study reveals that most of the respondents 158 (52%) were occupied in agriculture field, 49(16%) respondents were Self-employed.

Majority of the respondents 190 (63%) were earning less than ₹4000 and 68(22%) respondents were earning ₹4000 to ₹8000.

The study reveals that most of the respondents 64 (21%) are selecting this bank was nearness to residence, 51(17%) respondents are selecting this bank were advertisements.

The study reveals that all respondents are default borrowers. Out of 304 respondents, 122(40%) respondents have taken crop loan, 44(14%) respondents have taken loan for micro credit.
Out of 304 respondents, 158 (52%) respondents had taken Agriculture loan and remaining 146 (48%) respondents had taken Non-Agriculture loan.

Majority of the respondents 219 (72%) are not aware of the interest rate. And also the majority of the respondents 192 (63%) are not aware of the subsidy element of the loan.

The study reveals that majority of the respondents 252 (83%) feel that the loan amount sanctioned was not sufficient to meet their purposes. They were forced to mobilize the remaining money from other sources. Though the most of the respondents 141 (56%) are borrow from money lenders.

It is clear that majority of the respondents 261 (86%) are failed to utilize the loan amount properly and hence they were not able to make the repayment promptly.

The study focuses that majority of the respondents 198 (65%) are feel that they did not face any difficulty in availing the loan.

Behaviour of the bank employee is very important, the study focuses that majority of the respondents 188 (62%) are feel that the attitude of the bank employees was business like.

The study observed that 116 respondents are stated that the final disbursement was later than the expected time.

The default borrowers fail to repay the loan amount due to various reasons, the respondents first ranked is diversion of the loan amount for some other purposes. Factor analysis was applied to identify the underlying causal factors for default in repayment of loan. The 18 reasons for default were subjected to factor analysis using Principal Component Analysis for the initial extraction of factors followed by
varimax method of orthogonal rotation of factors. Based on the factor loadings of the 18 variables were observed and variables, 5 underlying factors were extracted. These factors were named accordingly as fall in price of commodities and natural causes, economic recession, default due to non-provision of further loan, diversion of the loan, increase in household expenditure.

The majority of the respondents 240 (79%) require assistance to repay the loan. Out of 84 respondents require assistance in the form of extension of loan repayment period, 48 respondents require assistance in the form of subsidy and discount.

The study focuses that majority of the respondents 146 (48%) felt that the loan recovery method was a little bit harsh.

6.3 SUGGESTIONS

In the light of the findings a few suggestions are offered to improve the functioning of Tuticorin District Central Co-operative Bank Limited.

- To carry out the banking transaction easily and quickly, vacancies in all level should be filled up appointing the right persons.
- The recovery process is very slow, so the governments have to update the process which is fast and effective.
- A major drawback of the bank is their failure to enhance the internal resources. Although these banks have shown an appreciable rise in their deposits and owned funds, these resources fall short in relation to the increasing needs of the affiliated credit societies.
- The bank should follow the professional management approach and very effective financial portfolio for proper financial ratio.
> Enhancing the competitive strength in co-operatives by their merger and division, wherever necessary.

> Intensive analysis and proper evaluation of loan proposal should be done while sanctioning the loan. Reason for demand, tenure, loan amount and required documents for loan proposal should be assessed and evaluated properly.

> Willful and non-willful defaulters should be identified by preparation of defaulter’s list.

> Willful Default of Bank loans should be made a Criminal Offence.

> Demand letters and reminders should be issued to the borrowers and guarantors.

> The pledge for the loan should be adequate. If inadequate pledge is accepted it may create problem in loan recovery.

> Loan must be sanctioned within the limit of repaying capacity of the account holders.

> Timely and adequate loan should be given to the borrowers to avoid misutilisation.

> Special recovery drive should be launched during the harvest season.

> A strong “Recovery Cell” should be set up in the bank supported by adequate staff and other infrastructure including vehicle support.

> The bank should change their loan policies on the basis of crop loans system.

> The legal authority should dispose off the pending cases quickly.

> Bank officials should frequently visit the unit and should assess the physical conditions of the assets, receivables and stocks therein.
Proper training is important to the staff of the banks at the appropriate level with ongoing process. That is how they should deal with the problem of NPAs, and what continuous steps they should take to reduce the NPAs.

Steps need to be taken to recover the loans in time by adopting new recovery mechanism.

The practice of waiving of agricultural loan should be stopped forthwith. This has created a very bad effect on the recovery climate.

There is a wrong opinion in the minds of the farmer community that agricultural credit maybe waived one day or other. Hence, the agriculturalist who can repay the agricultural credit may not come forward to repay the loans in time. Therefore the farmer community in our country requires a lot of counselling and the bank officers engaged in this activity should provide necessary advice and counselling.

While making pre-lending appraisal, the repaying capability of the borrower must be ascertained by the bank employees carefully.

The Government should pass the necessary legislative measures for taking stern action against willful defaulters.

Dynamic people are to be recruited to collect doubtful debts and for better asset liability management.

The bank has to adopt professionalism and accountability in their functioning.

New technologies should be introduced to reduce administrative costs and increase the profit margin.
➢ Create awareness among staff and elicit their co-operation in following up and recovery efforts. Involve them while doing inspection. Bring attitudinal changes among staff and giving incentives to staff for excellence.

➢ Exhibiting a positive outlook towards the borrower should be there. Educating the borrowers about the importance and need for prompt repayment before disbursal itself should be done.

➢ There should be no interference of the politician in functioning of co-operative societies.

➢ Pigmy deposits schemes can be introduced to mobilize the savings of the poor classes.

➢ The support of the government for the co-operative institutions is necessary whenever they introduce new scheme for the welfare of the societies.

➢ Policies of NABARD should be formulated in such a manner so as to encourage the co-operative credit institutions to become self-reliant by building up their own resource base.

➢ Greater autonomous and operational freedom should be given to the DCCBs by eliminating the existing restrictive provisions in the co-operative societies act.

6.4 CONCLUSION

The NPA is the root cause of the global financial crisis that we observed recently. The pressing problem that banks all over the world are facing in recent times is spiraling of non-performing assets. NPAs are the most dangerous and barrier in the way of the progress of the economy of any country’s financial system. The NPAs are
affecting the growth of the banks. The NPAs have always been a big worry for the banks in India. It is just not a problem for the banks they are bad for the economy too. The money locked up in NPAs is not available for productive use and adverse effect on banks’ profitability is there. The Reserve Bank of India should take necessary steps for reducing the present non-performing assets, but necessary precaution should also be taken to avoid future Non-Performing Assets as well.

The co-operative movement has played a significant role in the development of rural economy of India. Many of them have become sources of high maintenance of non-performing assets. The Indian co-operative movement has spread to almost all the villages in the country. But in spite of being the largest movement in the world it faces a number of challenges. NPA is an important factor, which affects the performance of the co-operative banks. So it is very important to check it, from time to time and try to minimize it in order to get increasing returns. It is high time to take suitable and stringent measures to get rid of NPA problem.

This study has provided comprehensive information about deposits, lending, non-performing assets, the causes of NPAs from managers’ point of view and default loan borrowers point of view of the Tuticorin District Central Co-operative Bank. The bank has played an important role in the development of Tuticorin District. Mounting overdues at the level of primary agricultural co-operative credit societies contribute to the accumulation of non-performing assets in the Tuticorin District Central Co-operative Bank. But the bank has failed to arrest the overdue position and strengthen the share capital base. The success of the Tuticorin District Central Co-operative Bank in the future will depend not only upon the development of primary societies but also on the extent to which it is able to mobilize rural savings and recover the outstanding loans.
NPA is a double-edged sword, which results in loss in interest income and provisioning which affects profitability. The study concludes that a number of factors are responsible for poor recovery, default in repayment of loan and increasing volume of NPAs of Tuticorin District Central Co-operative Bank. In order to arrest the rising trend of NPAs, and to perform its functions well, the Tuticorin District Central Co-operative Bank may adopt the suggested remedial measures. It is not possible to eliminate totally the Non-Performing Assets in the bank but can only be minimized. The TDDC Bank has failed to arrest the accumulation of Non-Performing Assets, but it should succeed at least for the very survival of the Bank.
BIBLIOGRAPHY

A. BOOKS


B. JOURNALS


C. REPORTS


**D. RESEARCH THESES**


**E. WEBSITES**


2. www.nabard.org


4. www.tnscbank.com