CHAPTER VIII
SUMMARY OF FINDINGS AND SUGGESTIONS

This chapter summarises the major findings of the study. On the basis of the study, the researcher offers some suggestions for the improvement of the bank.

Findings

The main findings of the study are listed below under the following heads:

- Role of District Central Co-operative Banks in India
- Appraisal of the Working Funds
- Lending operations and Recovery Performance
- Non-Performing Assets
- Financial Performance
- Customers’ Perspective

Role of District Central Co-operative Banks in India.

- A cooperative bank is an institution wherein persons economically weak like farmers, petty traders, agricultural laborers, artisans, salaried people, the people of small means, professionals, etc. join
together on the basis of equality on democratic basis for the promotion of their economic interest. People join a cooperative bank, obtain loans and invest their surplus funds in the form of deposits. Cooperative banks are expected to provide services to the members and customers. Service is the main motto of these banks.

Cooperative banks with three tier federal structure provide short-term, and medium-term loans to concentrate mainly in agricultural sector. They are situated in state, district and the village levels respectively. The long-term credit structure consists of state agricultural rural development banks and primary agricultural primary agricultural rural development banks functioning at the apex, taluk/block levels in India. The urban cooperative banks are situated in urban and semi-urban areas for providing non-agricultural credit.

The Rural Credit Survey Committee recommended that “the co-operative financing agency at the headquarters should have branches at some intermediate level between the village and the district headquarters”. The Mehta Committee suggests that co-operative banks must take up the question of opening branches in suitable centres with a view to augmenting their deposits. The review of the co-operative movement 1960-62, the Report of the Committee on Takkavi loans, the action programme prepared by
the Ministry of Food, Agriculture, Community Development and Co-operation sent to the state Governments in 1964, the Working Group on co-operation for the Fifth Plan and Third Madras Committee (Santhanam) on co-operation in its report of 1969 strongly favored branch banking as an essential pre-requisite for mobilization of deposits.

In Tamil Nadu, the area of operation of a central bank usually covers a revenue district. Some years ago, there was much discussion regarding the proper area of operations. Some have proposed the splitting up of the district, central banks into smaller banking unions on the ground that when there is only one central bank for each revenue district, the work of the central bank becomes un-wieldy. The division of the central banks at Salem, Coimbatore and Madurai into two banks with the area of each bank being the same as the present Development Councils has been accepted by the Government. The Narayanaswami Pillai Committee on co-operation (1955-56) also favoured the splitting up of big central banks into two banks. At present there is only one district in Tamil Nadu viz. Thanjavur district having two central co-operative banks, i.e., Kumbakonam Central Cooperative Bank Ltd. and Thanjavur Central Co-operative Bank Ltd.
As per the annual report (2007-08), Tamil Nadu State Co-operative Bank has 63 branches in Chennai city only and no affiliated PACBs in this bank. This bank acts as a commercial bank. It leads first place in all aspects among the 23 branches of central co-operative banks in Tamil Nadu. Tiruchirappalli DCCB has highest level of affiliate PACBs in Tamil Nadu, i.e. 344 PACBs. Salem DCCB has mobilised higher amount of deposit amount of Rs.1071.82 crores and provided Rs.985.36 crores as loans to the customers in 2007-08 out of the 23 rival branches. The Coimbatore DCCB earned more profit amount of Rs.13.13 crores and Madurai DCCB incurred huge loss of Rs.40.42 Crores in 2007-08 among the 23 branches in Tamil Nadu.

According to By-Law 1 of the Bank, the Central Co-operative Bank Ltd, Kumbakonam was registered and established on 08.02.1913 as a limited liability society under the Act of 08.02.1913 (D.R’s Rc.16359/73 c dt. 31.10.73). Its registered office is at Kumbakonam. It covers three districts like Thanjavur, Thiruvarur and Nagapattinam. The KCCB has 33 branches including Head Office in these areas. It has 630 affiliated societies in the three districts.
Appraisal of the Working Funds

- Total working funds include owned funds and borrowed funds. The borrowed funds are deposits and borrowings. In general, a bank’s owned funds will be very less and banking business is done mainly on deposits mobilized from the public and borrowings from institutions and government. An average of the owned funds and borrowed funds of the KCCB is around 13:87. It reveals that the borrowed funds which include deposits are the major source of the working funds for KCCB.

- The share capital reserves and surplus should on increasing trend, Rs.3034.06 lakhs in 1998-99 to Rs.10997.77 lakhs in 2007-08. Nearly three and half times increased during the study period.

- The individual members are not allowed in DCCB. The members’ societies and State Government only participated in the share capital of the DCCB. The membership increased from 579 in 1998-99 to 591 in 2002-03. It continued up to the end of the study period. Out of the total share capital, the cooperative institutions’ contribution had nearly 85 percent from 1998-99 to 2005-06. Subsequently, it decreased to 52 percent and 38 percent in 2006-07 and in 2007-08. The main reason for the decrease is the Tamilnadu government waiving the agricultural loans to the farmers. In this connection, the State government compensated this loss and
contributed the 48 percent capital in 2006-07 and 62 percent capital in 2007-08.

- An average of share capital is 24.48 and the rest of the portion 75.52 is reserves and surplus. Accumulation of reserves and its growth show a healthy trend in maximizing owned funds of the KCCB.

- Capital Adequacy Ratio of the KCCB ranged from the lowest 5.71 percent in 2002-03 to the highest 11.61 percent in 2007-08. The average of CAR for the study period is 7.79 percent. The RBI had stipulated CAR for cooperative bank as 9% at present. As such KCCB - CAR is less than the required percentage.

- The KCCB mobilised deposits from members and non-members around 40 to 60 percent of its working funds. The deposit mix of the KCCB, the contribution of fixed deposits in the total mix of deposits, ranges from 75.11 percent to 83.24 percent.

- The share of savings bank deposits in the total deposits ranged from 10.86 percent to 20.34 percent during the decade of study. There is no regular increasing or decreasing trend noticed. However, it is noticed that the share of savings bank deposits was higher during the first four years only. From 2002-03, savings bank deposits lost its share sizably and it was only 12.43 percent in the year 2002-03. This trend is not healthy for the bank, because
savings bank deposit provides scope to widen customer base and to increase low cost deposits.

- Current account is zero interest deposit and its share to the total deposit remains the lowest i.e. an average of 4.46 percent only during the decade of study. It formed the highest share of 5.23 percent in the year 1998-99 and it had the lowest share of 13.57 percent in the year 2007-08.

- The total deposits of the KCCB increased from 19727.08 lakhs in 1998-99 to Rs.28267.90 lakhs in 2002-03. Subsequently it decreased to Rs.25603.35 lakhs in 2003-04, Rs.24583.32 lakhs in 2004-05, Rs.23460.01 lakhs in 2005-06, and Rs.24055.25 lakhs in 2006-07 respectively. In the year 2007-08, it suddenly increased to Rs.30,476.24 lakhs because cooperative banks give higher rate of interest to the deposit holders than other commercial banks.

- The KCCB gets the refinance facilities from Tamil Nadu State Co-operative Bank Ltd. which is less expensive than loans from other financial institutions. It is also inferred that the bank is not encouraging borrowing in the recent years as deposits show an increasing trend. The borrowings of the KCCB showed a fluctuating trend. It decreased from Rs.8,934.55 in 1998-99 to 7,948.06 lakhs in 2001-02. In 2002-03 onwards it slowly increased from Rs.10,186 lakhs to Rs.17,751.73 lakhs in 2007.08.
The total working funds were increased from Rs.31,695.69 lakhs in 1998-99 to Rs.44,594.85 lakhs in 2002-03. In 2003-04 and 2004-05, these funds decreased to Rs.43,747.90 lakhs and Rs.43,743.03 lakhs respectively.

**Lending Operations and Recovery Performance**

The KCCB has employed its total funds under cash and bank balance, investment in shares of cooperative banks, investment with apex bank (TNSCB), loan and advances, fixed assets and other assets. Out of the above six categories bank could earn interest or dividend from loans and advances, investment with TNSCB and investment in shares of cooperative banks. A very meager income would come from cash, bank balance, fixed assets and others assets.

The KCCB had disbursed mainly loans for short term requirements at an average of 88.96 per cent of its total annual disbursement of loans. Towards medium term loans, the average disbursement is accounted for about 8.37 percent and for long term loans, the average disbursement is only 2.67 per cent of the total annual loan disbursement by the KCCB.

The performance of the KCCB in disbursement of loans annually confirmed the fact that the command area of the KCCB lies in the cauvery delta where paddy and sugarcane are the main crops.
Therefore, the demand for short term loan requirements is on the higher side. The KCCB concentrates on agricultural lending, especially on short term agricultural loans. Apart from short term lending, bank must lend under non-farm sector to augment profitability. The bank, therefore, must diversify its lending and expand advances towards non-farm sector also. The NABARD also issued instructions to the KCCBs to bring about diversification from traditional agricultural lending to non-farm sector lending.

- The loans outstanding position of the KCCB provides an insight into the performance of the KCCB in credit management.

- The percentage of loans outstanding under short term category to the total loans outstanding is the highest i.e., at an average of 76.09 per cent. The average medium term category outstanding is at 23.35 percent. Similar analysis leaves an information that the long term loan outstanding is at an average of 0.56 per cent only. Thus, the average loan outstanding of proportions of short term, medium term and long term loans are arrived at 76.09, 23.35 and 0.56 respectively.

- The average utility of the loanable funds for actual lending by the KCCB during the period of ten years of study is arrived at 93.35 percent. The parity in actual lending and loanable funds may be
considered a non-utilisation of available funds. This is an important factor which results in lower profitability or loss.

- The main purpose of investment for any bank is to maintain the liquidity of the bank though it gives a lesser interest income to the bank. An investible funds and actual investment of the KCCB. The highest portfolio investment was 93.69 percent in 2000-01. The low profile investment portfolio was 75.36 percent in 2007-08. The bank shifted its investment pattern and more or less fully utilized the investable funds for ideal investment pattern from 1998-99.

- The recovery of loan is very important from the point of view of recycling of funds, safe-guarding the trust and confidence of depositors and also for drawing refinance from NABARD. The average of the short term loan recovery performance of the KCCB is arrived at 97.64 per cent for the study period of ten years. The recovery in medium and long term lending ranges from 37 per cent to 272 per cent during the ten years of study. The KCCB resorts to need based medium and long term lending and not on regular basis. The lending is also not uniform and hence the heterogeneous figures are exhibited in the table 4.9, so also the ratios are heterogeneous.
Non-Performing Assets

- The gross NPA ratio should be determined for different categories of loans to know the contributing factor for high NPA in a bank. The average NPA of the KCCB during the study period is 18.96 percent. By increasing gross advance, the ratio is brought down even though the gross NPA is not reduced substantially.

- The net NPA ratio was the least in the year 2007-08 i.e., 1.98 percent and the highest percentage of net NPA ratio was noticed in the year 2003-04 i.e., 24.92 percent. When the provisions for NPA increases, the net NPA may come down provided there is no addition of fresh NPAs. The net NPA ratio steeply reduced from 24.92 percent in the year 2003-04 because of increased provisioning.

- The depositors’ safety ratio of the KCCB is the standard assets and percentage of NPA to outside liability fluctuated during the study period. The average ratio is arrived at 61.30 percent for the ten years though it is ranging between 46.52 percent and 69.14 percent.

- The average ratio of net NPA to total capital and reserves for the 10 years is arrived at 64.55 percent. Increase in this ratio increases the shareholders’ risk. As a result shareholders will be reluctant to deal with the bank because of its weak capital structure and increased NPA position.
The provision ratio of the KCCB slowly increased from 20.92 percent in 1998-99 to 88.02 percent in 2007-08. The average ratio of the provisions to gross NPA for the decade is 45.39 percent. Proper classification of NPA and provisioning as per norms are very much necessary for the KCCB to know its factual financial position.

The substandard assets ratio of the KCCB slowly decreased from 75.12 percent in 1998-99 to 38.09 percent in 2002.03. Afterwards it increased to 47.13 percent in 2003-04 and 48 percent in 2004-05. In the subsequent years, it decreased to 19.24 percent, 4.24 percent and 3.41 percent in 2005-06, 2006-07 and 2007-08 respectively.

The doubtful assets ratio of the KCCB slowly increased from 7.66 percent in 1998-99 to 87.48 percent in 2007-08. The average ratio of doubtful assets to gross NPA for the decade is 47.98 percent.

The ratio of loss assets decreased from 17.22 percent in 1998-99 to 9.11 percent in 2007-08. The average ratio is arrived at 11.57 percent during the study period.

**Financial Performance**

Financial viability is perhaps the central theme of any business proposition. Banks are not an exception. A bank has to generate funds as and when needed. Therefore financial management and
financial performance of a bank are essential to promote its business performance.

- The volume of business done by the KCCB registered a growth during the study period of ten years. The total volume of business increased by about 180 percent in ten years.

- The ratio of total interest paid to volume of business registered decreasing trend throughout the study period. The ratio was brought to the lowest in the ten years of study ie, to 4.52 percent in 2007-08. This trend has to be maintained in order to earn more profit.

- The average ratio of other income to total volume of business is just 0.20 percent while that of the interest income is 9.22 percent. To compensate the reduction in interest income due to the prevalence of NPA, the bank has to take all efforts to improve other income.

- The average ratio of manpower expenses to total volume of business for the decade under study is 1.38 percent. Manpower expenses to total volume of business ratio indicate the expenses under manpower resources of the KCCB.

- The range of other expenditure during the study period is very abnormal as it ranges between Rs. 38.76 lakhs and Rs. 522.61 lakhs.
The interest received ratio ranges from 5.78 percent to 11.55 percent and in the case of interest paid ratio, it varies from 4.52 percent to 9.69 percent during the study period.

The spread ratio of the KCCB is about 2.12 percent on an average for the study period of ten years. The spread ratio was maintained above 2 percent in six years of the decade. Thereafter it became less than 2 percent but more than 1 percent in the rest of the period. The weakening of the spread ratio less than 2 percent and thereafter less than one percent is not a healthy trend for the KCCB.

The range of burden ratio is from 0.84 percent to 2.82 percent during the study period of ten years. The average burden ratio for the entire period of the study is 1.61 percent.

The average current ratio of the KCCB for the study period is arrived at 1.73 which shows that the liquidity of KCCB is not in a comfortable position.

The current assets in the total assets range from 0.46 times to 0.65 times, while the average ratio is at 0.57. The bank is maintaining medium level of current assets in order to manage working funds effectively.

The ratio of interest earned to total income of KCCB has an average of 81.20 percent of total income. The other income covers
less than 20 percent of the total income. During the first four years of the study period, the interest income was more than 98 percent.

- The interest paid ratio ranges from 40.95 percent to 82.31 percent during the years of study. 60 percent of the total income of KCCB is being spent on the payment of interest leaving only 40 percent for its establishment and other expenditure.

- An average ratio of interest paid to total expenditure is 63.49 lakhs. The range of the ratio is between 30.53 percent and 77.13 percent during the period of study.

- The establishment expenditure fluctuated during the study period. The ratio of establishment expenditure to total expenditures ranges from 7.00 percent to 17.65 percent. The average ratio is 12.53 percent during the decade. The expenditure on human resource development is an investment for future growth.

- The ratio of total expenditure to total income was more than 100 percent in seven out of ten years of the study period.

- The average earning per 100 rupees of working funds employed by the KCCB is Rs.12.34. The highest earning on the working funds was 14.61 percent in the year 2003-04 and it was the lowest in the year 2007-08 i.e., 7.36 percent.

- The ratio of total expenditure to working funds is arrived at 12.71 percent i.e., for every 100 rupees of working funds, the KCCB
spends Rs,12.71. If this is taken as the average cost of working funds for KCCB, the returns from every 100 rupees of working funds must be higher than 12.71 in order to sustain in the business of banking.

- The ratio of credit to working funds of the KCCB ranges between 65.14 percent and 75.54 percent. The average ratio of credit to working funds for the study period of ten years is arrived at 70.71 percent.

**Customers’ Perspective**

The researcher has collected primary data through structured questionnaire from 220 respondents at 11 branches of the KCCB for the customers’ opinion towards services of the KCCB.

The total number of respondents for survey stood at 220, and out of 220, 66.8 per cent of the respondents are male. That is, as much as two-thirds of the total respondents are men. By level of education, it is understood that the respondents with primary level education are 34.5 per cent followed by secondary educated, illiterates, and college level education with 25.9 per cent, 20.0 per cent and 19.5 per cent respectively. Most of the KCCB customers (93.6%) in the sample are married as only 6.4 per cent of the respondents are found with unmarried status.
In the accounting holding period of the respondents, 60.5 per cent of the customers (133 out of 220) have account transactions for 6-10 years with KCCB, while 25.9 per cent and 13.6 per cent transact their accounts with bank for less than five years and more than 10 years respectively. All professionals (100.0%), 59.5 per cent of the agriculturists and 44.7 per cent of the traders transact their accounts for 6-10 years with KCCB. The difference in account holding period across respondent groups based on income is found to be at notable level as H value obtained from KW test, 147.08 is significant at 1 per cent.

The reasons for selection of banks for operating accounts among KCCB customers are evaluated based on the opinion, which is obtained with 5 point scale ranging from 1 for “Strongly disagree”, 2 for “Disagree”, 3 for “No opinion (neither disagree nor agree)”, 4 for “Agree” and 5 for “Strongly agree”. So the overall opinion of a respondent group is found to in the “Strongly disagree”, “Disagree”, “No opinion (neither disagree nor agree)”, “Agree” and “Strongly agree” level if the calculated mean score is “<1.50”, “>= 1.50 and < 2.50”, “>= 2.50 and < 3.50”, “>= 3.50 and < 4.50” and “>= 4.50” respectively.

Problems faced with availing loan from bank are examined based on the information gathered from the respondents. The respondents in the survey were asked to give their opinion in the scale with values from 1 to
5 for “strongly disagree” to “strongly agree”. The scores are averaged and opinion of the whole sample is “strongly agree”, “Disagree”, “No opinion (neither disagree nor agree)”, “Agree” and “Strongly agree” when the average score is “<1.50”, “>= 1.50 and < 2.50”, “>= 2.50 and < 3.50”, “>= 3.50 and < 4.50” and “>= 4.50” respectively.

Only 59.55 per cent of the respondents tend to repay the loan promptly. That is, more than half of the KCCB customers are found to be prompt in repaying the loan. To know whether promptness in repaying loan among KCCB customers is affected by their socio-economic status, analyses are carried out using cross tabulation along with Chi-square test. Chi-square test is applied here as the cell frequencies are more than five.

Promptness in repaying the loan is less among illiterates (40.9%) compared to those with primary education (57.9%), secondary education (68.4%) and college education (69.8%).

The opinion regarding proper utilization of loan availed under waiving scheme for cultivation is obtained from those respondents who have availed such loan. According to the frequency and percentage distribution reported in the table 7.38, majority of the respondents have utilized the loan under waiving scheme for the purpose other than cultivation (60.42%).
Pertaining to the satisfaction of customers towards facilities provided by KCCB, from mean values reported in the table 7.40, it is evident that the mean values in respect of all facilities except “Computerised pass book entry” and “Availability of forms” are in “neutral” levels (≥ 2.50 and < 3.50). The level of satisfaction is “dissatisfied” for “Computerised pass book entry” (Mean = 2.28) and “satisfied” towards “availability of forms” (Mean = 3.74) among customers of KCCB.

Suggestions

The following measures are suggested to improve the business performance of the KCCB:

1. Generally working funds are decided by the deposits and borrowings. Therefore, the KCCB must focus its attention on mobilization of low cost deposits of savings and current deposits with the help of innovative services like e-banking, e-transfer, ATM facilities etc., and to concentrate on cheap borrowings in order to gain a comfortable interest spread to ensure profit.

2. The bank’s efficiency is measured based on the deposits mix and on the quantum of low cost deposits in the mix. The fixed deposits have to be brought down to less than 50 percent of total deposits.
The savings and current accounts together must be increased to more than 50 percent while call deposits have to be nullified. This is an ideal deposit mix for the bank to ensure profitability. The KCCB should adapt itself to the changed situation in search of new markets and to provide new services for existing customers to retain its market share.

3. The cooperative banks have made great efforts in increasing high-income yielding non-agricultural loans by introducing new loan schemes. The KCCB concentrates on agricultural lendings, especially on short term agricultural loans. Apart from this, KCCB must expand advances towards non-farm sector also. The KCCB must plan to increase profitability by lending at higher rate of interest. It is possible by enhancing non-farm sector advances.

4. The credit department of KCCB must be empowered with the techniques of credit management taking into account the aspects of risk involved yield is associated with risk. The KCCB must take all precautionary measures in lending in order to overcome the risks and to ensure good income yield.

5. Better strategies must be evolved by the KCCB for the effective recovery of loans. Recovery machinery should be strengthened and the procedures must be tightened. The banks must be kept free from outside interference and a law may be passed to punish
heavily the willful defaulters and those who prevent others from remitting dues.

6. The KCCB has to concentrate on recovery of NPA and take all possible steps to stop the creation of fresh NPAs. Also it is suggested that a stringent credit policy may be followed till recovery in NPA is stepped up.

7. Generally, the bank must have higher level of standard assets to provide a healthy depositors’ safety ratio as it reveals the safety of the funds deployed in the credit portfolio. The KCCB must have a loans-follow-up programme throughout the year in order to keep the level of standard assets always at the peak.

8. In the privatisation of banking arena, non-interest income plays an important role in ensuring and enhancing the profit of the banking institutions. Other income is certain and recognised then and there. It indirectly improves the quality of service to the customers. So it is suggested that the KCCB should expand its non-interest income substantially in the near future.

9. To ensure profitability, KCCB needs a higher spread ratio. A serious and systematic administration of rates of interest on deposits and advances and constant follow up of interest income and interest expenditure are to be given priority by KCCB.
10. The burden for the bank is meeting non-interest expenditure with that of non-interest income. The KCCB has to plan its operations in such a way that the non-interest expenditure is fully squared up by the non-interest income.

11. Generally, the customers are expecting new services from the KCCB, like computerized passbook entry, money transfer, ATM services, etc.

12. Usually corporate sector and other private companies do not accept the cheques issued by the DCCBs. So the apex bank should also take steps to get recognition for DCCBs cheques equal to other commercial banks cheques.

13. The KCCB must issue the personal loans to the urban as well as rural customers for the purpose of improving the non-farm sector loans.

14. The apex bank alone has to adopt retail banking system as a commercial bank in the cooperative banks. It helps to improve the non-interest income of the DCCBs.
Epilogue

The district central cooperative banks are established only to serve the rural people through the primary agricultural cooperative banks in their jurisdiction. The KCCBs also perform their duties successfully to the rural customers in their areas. The working funds of the KCCB have grown steadily throughout the study periods. Among the working funds, owned funds are less than the borrowed funds. The KCCBs must deploy their funds mainly in loans and advances. It also helps to increase the income from interest. The KCCBs should invest money in micro credit at short term level. The KCCBs should regularly supervise the lending and recovery area to check the creation of NPA.