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A study on Cooperative Banks in India with special reference to Lending Practices

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Abstract- Banking business has done wonders for the world economy. The simple looking method of accepting money deposits from savers and then lending the same money to borrowers, banking activity encourages the flow of money to productive use and investments. This in turn allows the economy to grow. In the absence of banking business, savings would sit idle in our homes, the entrepreneurs would not be in a position to raise the money, ordinary people dreaming for a new car or house would not be able to purchase cars or houses. The government of India started the cooperative movement of India in 1904. Then the government therefore decided to develop the cooperatives as the institutional agency to tackle the problem of usury and rural indebtedness, which has become a curse for population. In such a situation cooperative banks operate as a balancing centre. At present there are several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system. In brief, the cooperative banks have to act as a friend, philosopher and guide to entire cooperative structure. The study is based on some successful co-op banks in Delhi (India). The study of the bank's performance along with the lending practices provided to the customers is herewith undertaken. The customer has taken more than one type of loan from the banks. Moreover they suggested that the bank should adopt the latest technology of the banking like ATMs, internet / online banking, credit cards etc. so as to bring the bank at par with the private sector banks.

Index Terms- Cooperative movement of India, Usury, Rural Indebtedness, Cooperative Banks, Bank's Performance, Lending Practices, Loan, ATMs, Internet/Online Banking, Credit Cards, Private Sector Banks

I. Introduction

Co-operative banks are small-sized units organized in the co-operative sector which operate both in urban and non-urban regions. These banks are traditionally centered on communities, localities and work place groups and they essentially lend to small borrowers and businesses. The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas.

These banks, until 1996, could only lend for non-agricultural purposes. As at end-March 2011, there were 1,645 UCBs operating in the country, of which majority were non-scheduled UCBs. Moreover, while majority of the UCBs were operating within a single State, there were 42 UCBs having operations in more than one State. However, today this limitation is no longer prevalent. While the co-operative banks in rural areas mainly finance agricultural based activities including farming, cattle, milk, hatchery, personal finance, etc. along with some small scale industries and self-employment driven activities, the co-operative banks in urban areas mainly finance various categories of people for self-employment, industries, small scale units and home finance.

These banks provide most services such as savings and current accounts, safe deposit lockers, loan or mortgages to private and business customers. For middle class users, for whom a bank is where they can save their money, facilities like Internet banking or phone banking is not very important. Although they are not better than private banks in terms of facilities provided, their interest rates are definitely competitive. However, unlike private banks, the documentation process is lengthy if not stringent and getting a loan approved quickly is rather difficult. The criteria for getting a loan from a UCB are less stringent than for a loan from a commercial bank.

II. OBJECTIVES OF THE STUDY

- To know the lending practices of cooperative banks in India.
- To measure and compare the efficiency of Cooperative Banks of India.
- To study the impact of 'size' on the efficiency of the Cooperative Banks.
- To suggest the appropriate measures to improve the efficiency of the Cooperative banks.
- To know different type of loans preferred by different sets of customers.
- To know the satisfaction level of the customers from Bank's lending policies.

III. REVIEW OF THE LITERATURE

Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of financial institutions. Narsimham Committee (1991) emphasized on capital adequacy and liquidity, Padamanabhan Committee (1995) suggested CAMEL rating (in the form of ratios) to evaluate financial and operational efficiency, Tarapore Committee (1997) talked about Non-performing assets and asset quality, Kannan Committee (1998) opined about working capital and lending methods, Basel committee (1998 and revised in 2001) recommended capital adequacy norms and risk management measures. Kapoor Committee (1998) recommended for credit delivery system and credit guarantee and Verma Committee (1999) recommended seven parameters (ratios) to judge financial performance and several other committees constituted by Reserve Bank of India to bring reforms in the banking sector by emphasizing on the improvement in the financial health of the banks. Experts suggested various tools and techniques for effective analysis and interpretation of the financial and operational aspects of the financial institutions specifically banks. These have focus on the analysis of financial viability and credit worthiness of money lending institutions with a view to predict corporate failures and incipient incidence of bankruptcy among these institutions.

Bhaskaran and Josh (2000) concluded that the recovery performance of co-operative credit institutions continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable organization in tune with competitive commercial banking. **Jain (2001)** has done a comparative performance analysis of District Central Co-operative Banks (DCCBs) of Western India, namely Maharashtra, Gujarat and Rajasthan and found that DCCBs of Rajasthan have performed better in profitability and liquidity as compared to Gujarat and Maharashtra. **Singh and Singh (2006)** studied the funds management in the District Central Co-operative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin. It noted that a higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Co-operative Banks and thus had a larger provision for non-performing assets. **Mavaluri, Boppana and Nagarjuna (2006)** suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India. **Pal and Malik (2007)** investigated the differences in the financial characteristics of 74 (public, private and foreign) banks in India based on factors, such as profitability, liquidity, risk and efficiency. It is suggested that foreign banks were better performers, as compared to other two categories of banks, in general and in terms of utilization of resources in particular. **Campbell (2007)** focused on the relationship between nonperforming loans (NPLs) and bank failure and argued for an effective bank insolvency law for the prevention and control of NPLs for developing and transitional economies as these have been suffering severe problems due to NPLs. **Singla(2008)** emphasized on financial management and examined the financial position of sixteen banks by considering profitability, capital adequacy, debt-equity and NPA. **Dutta and Basak (2008)** suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment. **Chander and Chandel (2010)** analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters.

IV. RESEARCH METHODOLOGY

4.1 Type of Research - Descriptive research is used in this study in order to identify the lending practices of bank and determining customer's level of satisfaction. The method used was questionnaire and interview of the experienced loan officers.

4.2 Collection of data:

4.2.1Primary Data

a. Observation Method
b. Interview Method
c. Structured Questionnaire
d.

4.2.2 Secondary Data

a. Annual reports of the bank
b. Manual of instructions on loans and advances
c. Books
d. Articles and Research Papers
e. Internet

4.3 SAMPLING UNIT: The Study population includes the customers of bank and Sampling Unit for Study was Individual Customer.

4.4 SAMPLING SIZE: 200 Respondents

V. DATA ANALYSIS AND INTERPRETATION

Table 1: Preferences of the customers for the loans

Kind of Loan	No. of Respondent	Percentage (%)
House loan	16	32%
Personal loan	15	30%
Consumer loan	6	12%
Educational loan	8	16%
Vehicle loan	3	6%
Other	2	4%

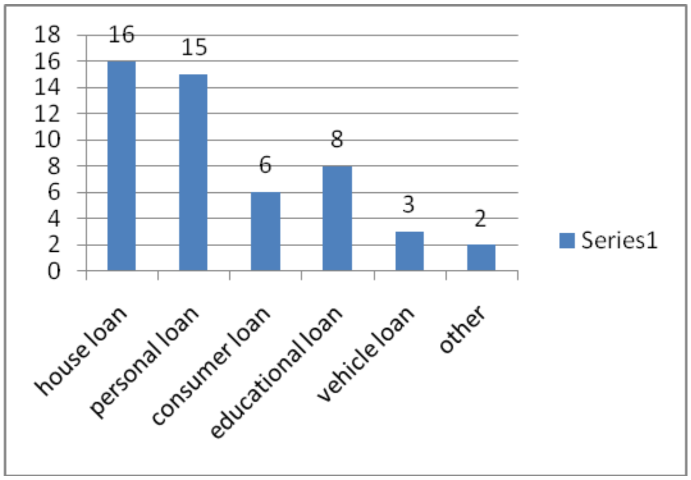

Figure 1: Preferences of the customers for the loans

Present study reveals that majority of the respondents have taken house loans & personal loans and less respondents prefer consumer, educational and vehicle loans.

Table 2: Range of the amount of loans

Loan Amount	No. of Respondent	Percentage (%)
Less than 20,000	4	8%
20,000-50,000	10	20%
50,000- 1 lac	6	12%
More than 1 lac	30	60%

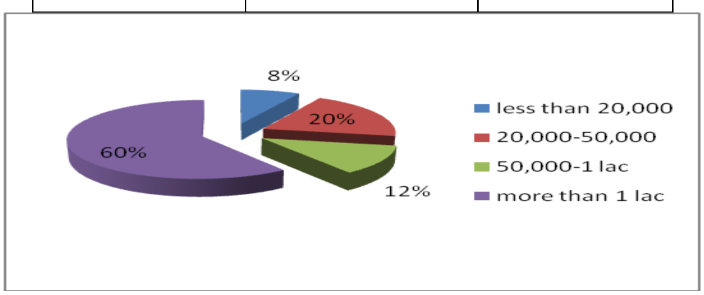

Figure 2: Range of the amount of loans

Present Study reveals that 8 % people prefer loan less than 20,000, 20 % respondents prefer 20,000 to 50,000,12 % prefer more than 1 lac and 60% of the respondents prefer more than 1 lac.

Table 3: Preferable term of loan

Term of Loan	No. of respondent	Percentage(%)
Less than 1 year	6	12%
1 to 3 years	10	20%
More than 3 years	32	64%

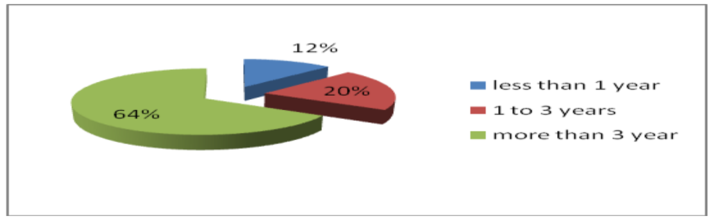

Figure 3: Preferable term of loan

Study shows that 64 % respondents take loan for more than 3 years, 20 % take loan for 1 to 3 years and 12% take loan for the period of less than 1 year.

Table 4: What prompted the customers to take loan from cooperative banks

Reason for taking loan	No. of Respondent	Percentage (%)
Reasonable rate of interest	6	12%
More schemes	5	10%
Less formalities	17	34%
Easy repayment	19	38%
Any other	3	6%

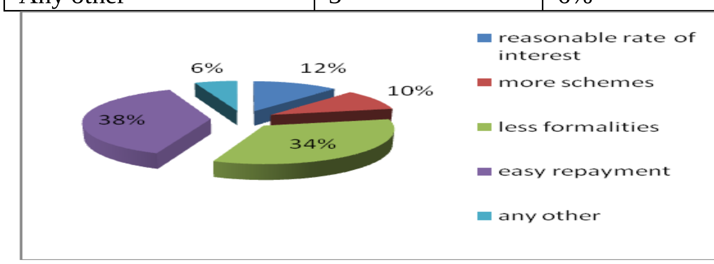

Figure 4: What prompted the customers to take loan from cooperative banks

Study reveals that 38 % take loan because banks provide easy payment,34% take loans because of less formalities and other respondents take loan because of reasonable rate of interest, more schemes .

Table 5: Average time taken for the processing of the loan

Average time for processing of loan	No. of respondent	Percentage (%)
Less than 7 days	34	68%
Between 7 to 14 days	13	26%
More than 14 days	3	6%

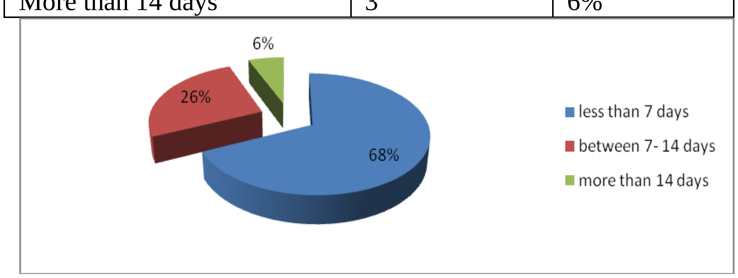

Figure 5: Average time taken for the processing of the loan

Study reveals that 68% respondents says that average time taken for processing of the loan is less than 7 days, 26% says that it takes 7 – 14 days and 6 % says that it takes more than 14 days.

Table 6. Ranking of the facilities provided by the co-op. banks

Rank the facility	No. of respondent	Percentage (%)
Above average	16	32%
Average	30	60%
Below average	4	8%

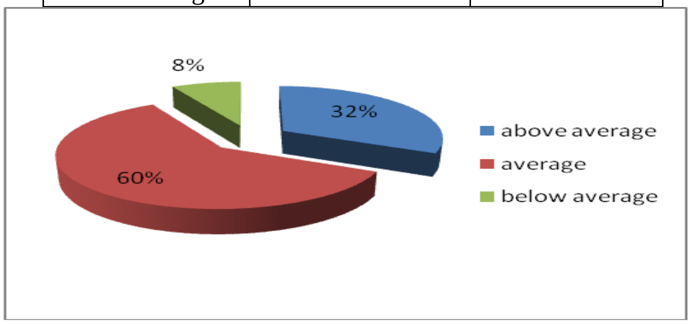

Figure 6: Ranking of the facilities provided by the co-op. banks

Study shows that 60% of the respondent says that facility provided by the bank are average, 32% say that its above average and 8% says that its below average.

Table 7: Customer's ranking for service of the bank

Rank the customer services	No. of responedent	Percentage(%)
Excellent	12	24%
Good	26	52%
Average	12	24%
Poor	1	2%

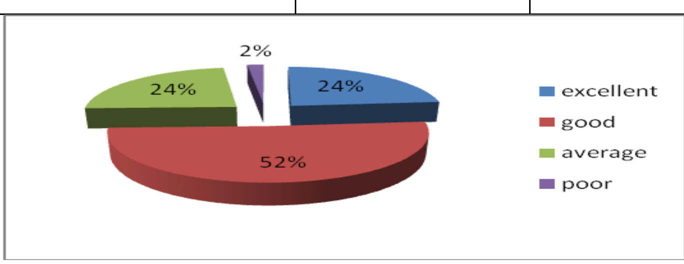

Figure 8: Customer's ranking for service of the bank

Study shows that 52% of the respondents says that customer service of the bank is good,24% says that it is excellent and another 24 % says its average and only 2 % says its poor.

Table 8: Satisfaction of the customers with the amount & period of instalment

	No. Of respondent	Percentage (%)
Yes	34	68%
No	6	12%
Can't say	10	20%

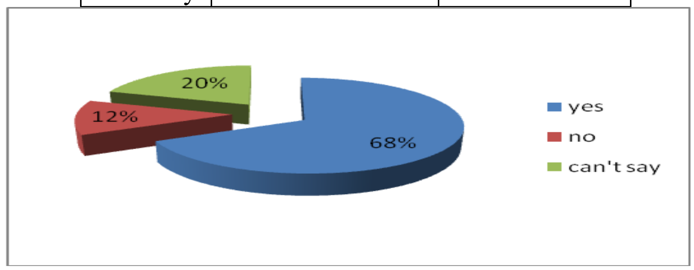

Figure 9: Satisfaction of the customers with the amount & period of installment

Study reveals that 68% are satisfied with the amount and period of installment, 12 % are not satisfied and 20 % can't say.

Table 9: Preferable banks for borrowing facilities

Preferable banks in future	No. of respondent	Percentage (%)
Public banks	7	14%
Private banks	15	30%
Cooperative bank	28	56%

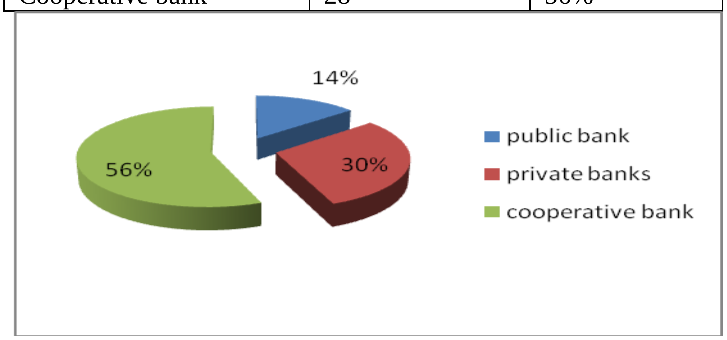

Figure 10: Preferable banks for borrowing facilities

Study shows that 56 % of the respondents wil prefer loans from co-operative banks, 30 % from the private banks and 14 % from the public banks

Table 10: Customers who would like to refer the co-op. banks to their friends and relatives

Bank refer to others	No. of respondent	Percentage (%)
Always	39	78%
Sometimes	9	18%
Never	2	4%

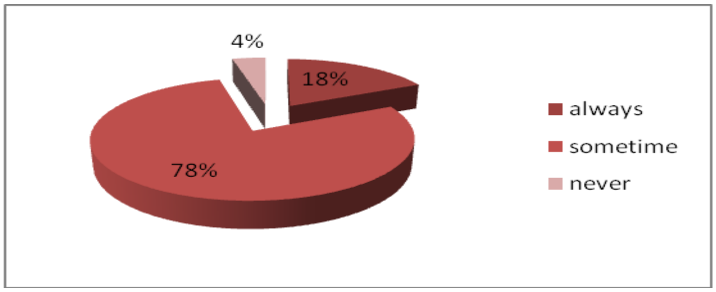

Figure 11: Customers who would like to refer the co-op. banks to their friends and relatives

78% of the respondents would like to refer the bank to their friends and relatives which shows that they are satisfied from the services and lending practices of the bank.

VI. FINDINGS OF THE STUDY

1. Majority (32% as per the study) of the respondent were having housing loan from this bank.
2. Most (64% as per the study) of the people prefer to take long term loan which is more than 3 years.
3. There is a very simple procedure followed by bank for loan .
4. Easy repayment and less formalities are the main factors determining customer's selection of loans.
5. Quality of services provided by the staff is satisfactory because bank is catering to a small segment only and the customers are properly dealt with.
6. Customers are satisfied with the mode of repayment of installments.
7. Average time for the processing of loan is less i.e approx 7 days.

The financial performances of Urban Cooperative Banks (UCBs) improved in 2010-11 though there are some concerns with regard to some of the UCBs reporting negative CRAR. Within the rural cooperative sector, State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs) reported profits but the ground level institutions, i.e., Primary Agricultural Credit Societies (PACS) continued incurring huge losses. The financial performance of long term cooperatives was found to be even weaker than their short term counterparts. Also, it was observed that the branch network of cooperatives, though widespread across the country, continued to be concentrated in certain regions.

Moreover, the network of cooperatives was not broad based in the north-eastern region of the country. This suggests that efforts need to be taken to improve banking penetration in the north-eastern part of the country along with improving the financial health of the ground level cooperative institutions.

Increased Inter-linkages between UCBs and Commercial Banks

In recent years, the integration of cooperative banks with the financial sector has increased following the inclusion of UCBs in Indian Financial Network (INFINET) and Real Time Gross Settlement System (RTGS) from November 2010. Further the annual policy statement of the Reserve Bank for 2010-11 envisages inclusion of financially sound UCBs in the Negotiated Dealing System (NDS) and opening up of internet banking channel for UCBs satisfying certain criteria. An analysis of deposits and advances base wise distribution of UCBs revealed that banking business was predominantly concentrated in favour of larger UCBs. UCBs with larger deposit base (more than or equal to `500 crore), though accounted for only 4 per cent of total number of UCBs, contributed almost 53 per cent of total deposits Balance sheet of UCBs expanded at a rate of 15 per cent at end-March 2011 over the previous year. This expansion in balance sheet was largely attributed to borrowings on the liabilities side and loans and advances on the assets side.

VII. PROBLEMS FACED BY COOPERATIVE BANKS

1. The cooperative financial institution is facing severe problems which have restricted their ability to ensure smooth flow of credit
   i. Limited ability to mobilize resources.
   ii. Low Level of recovery.
   iii. High transaction of cost.
   iv. Administered rate of interest structure for a long time.
2. Due to cooperative legislation and administration, Govt. interference has become a regular feature in the day–to-day administration of the cooperative institution. Some of the problem area that arise out of the applicability of the cooperatives legislative are:
   - Deliberate control of cooperatives by the government.
   - Nomination of board of director by the government.
   - Participation of the nominated director by the government.
   - Deputation of government officials to cooperative institution etc.
3. The state cooperative banks are not able to formulate their respective policies for investment of their funds that include their surplus resources because of certain restrictions.
4. Prior approval of RBI is mandatory for opening of new branches of SCBs. The SCBs are required to submit the proposal for opening of new branches to RBI through NABARD, whose recommendation is primarily taken into consideration while according permission.

VIII. SUGGESTIONS

1. The banks should adopt the modern methods of banking like internet banking, credit cards, ATM, etc.
2. The banks should plan to introduce new schemes for attracting new customers and satisfying the present ones.
3. The banks should plan for expansion of branches.
4. The banks should improve the customer services of the bank to a better extent.

IX. LIMITATIONS

1. The study is based on the data of past three or four years only.
2. The data for study mainly based on a single bank.
3. As majority of the customers are employees of the bank, they might be biased in giving the information
4. The time period of the research was limited.

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