

APPENDIX NO. II

1) MINI KISANBANK

The idea behind the establishment of Mini Kisan Bank (MKB) is to facilitate to mobilize the deposits in rural areas, which is the initial trust of the PACS. As a result of agro-industrial co-operative commonwealth can be set through sugar industry; being a “lead industry” and grape farming in district area. There were a lot of improvements in the living standards of the people in 1980. The saving habits have also increased a lot. Ultimately, being a rural credit agent, PACS are expected to mobilize such savings potentials and allocate the same for further income generation activities. This is to carry out the banking activities in rural areas was essential in 1980 and PACS were named as MKB. They started as a middleman between savers and investors.

It is stated in the scheme of the MKB by Kolhapur Districts Central Co-operative Bank (KDCCB) that, the idea of conversion of PACS into MKB has been started in order to make PACS more viable and to encourage PACS for mobilizing saving potentials hidden in the rural area; so as to provide the financial assistance out of their own funds to their members.

Financial institutions are disinterested to operate in rural area because of the small business with small people. It will be beneficial to the MKB (PACS). The MKB (PACS) normally are in day-to-day touch with the rural masses. Knowingly or unknowingly they can create a sufficient faith and confidence among the rural areas to impress the institutional setting by way of MKB. The setting up of the scheme of MKB by KDCCB at least in its operational area is a

step towards right direction to accumulate saving potential in rural areas.

The rural deposits is collected by the MKB should distribute as 40% are used for crop loans, 30% for medium terms loans and 30% should be invested as a floating capital with DCCB. The loan should be disbursed as the norms prepare by the DCCB.

a) Benefits Rendered by the MKB:

The MKB, no doubt have increasingly benefited to the farmers directly and the village economy on a large scale. The banking needs of the villages have been normally met by the village societies. The MKB is the bonus for the development of agriculture production and generating the employment opportunities in non-farm activities. The fund flow from urban to rural has been reversed by the MKB. The MKB are more efficient and have created a sound atmosphere for mobilizing the small deposits in rural area. But it has to function within the existing structure of the co-operatives and under the control of DCCB.

Following are the some of the major benefits that the receiving through the scheme of MKB.

- i) There is no need to go to the head office of the DCCB for compellation of all transactions related to MKB (PACS). The branches of the DCCB have been allotted to each MKB (PACS) as per their requirement.
- ii) The volume of margins by way of financial management is retained with the MKB(PACS).

- iii) The borrowers can demand agriculture and non agriculture loans any time during the year out of the deposits mobilized by the MKB.
- iv) Loan taken for non-agriculture purposes has facilitated the rural people to undertake non-farm activities in rural areas. This automatically benefited to the rural people.
- v) The scheme of MKB provides easy loan facility to its members on the basis of some norms and procedures to be followed by the farmers.
- vi) The rate of overdues have phenomenally come down through the scheme of MKB.
- vii) Cent percent recovery is possible. Besides the kind loan under crop loan scheme can be accessible at the time of requirements of the farmers. This help to increase the agriculture production.
- viii) With the help of MKB the low cost small saving of the rural people can be effectively taped, which automatically increase the low cost small deposits of the DCCB.

The MKB (PACS) are the kingpin of the co-operative credit system; they should be signified in the overall rural money market. An experiment of the MKB is a landmark effort of freedom and innovation by the KDCCB. Such type of competitiveness is essential under the framework of financial liberalization approach. Restructuring is necessary rather than reorganizing the system.

b) Problems Involved in MKB Operation :

It is very difficult to operate the banking activity in the given system of co-operatives. The scheme of MKB is in fact an extra

burden on the management of the existing PACS. Particularly it is very difficult to follow the conditions laid down by the DCCB on the MKB. Besides the whole banking operation rests on the untrained secretaries of the PACS. Hence some of the MKB in Kolhapur district appointed separate officials for carrying out the MKB operations. The salaries have been gone out of the margins. The secretaries in such carries out the regular functions of PACS activities (i.e. disbursement of crop loan).

In brief, if the above difficulties will be removed by adopting suitable strategy. The scheme of MKB at least helps in mobilizing the rural deposits and able to loan disbursement out of its deposits to the farm and non farm micro credit activities in rural area. This helps to generate income and employment in rural area and more small low cost deposits to the MKB. Moreover at the same time the DCCB is free to take other banking and non banking activities like insurance services and bank may give more attention towards the other affiliated societies activities in the district.

2) BANCASSURANCE :

In simple terms, it refers to banks selling insurance products to its customers. Previously, customers would approach banks for banking related services viz, opening account, taking a loan etc. and would approach an insurance company to purchase insurance products, but now a customer can buy insurance products in the bank, that he or she is banking with. The linking between banking and insurance arises out of two reasons. One, banks a huge customer database that insurance companies can utilize to sell insurance products without need to go through the each and every customer. Secondly, for bank, it is a source of fee-based income

which helps them to increase their income which is currently under tremendous pressure due to pressure on interest margins.

In India the concept of bancassurance appears to be gaining ground rapidly both through commission based arrangements and joint ventures between banks and insurance companies.

There are three factors driving banks in India to look at entry into the insurance sector.

- a) The attraction of fee income in the face of declining Interest Spread.
- b) The scope of divert the staff rendered surplus due to massive computerization.
- c) The motivation to enlarge the product range to bank customers.

The SDCCB has a huge customer database in semi-urban and rural area. Thus the business of Bancassurance will increase the non interest income of the bank and this leads to increase in the customer satisfaction and profitability of the bank.

3) ASSETS RECONSTRUCTION COMPANY (ARC) :

It is systematic solution to the problem of NPAs of the banking sector. A huge NPA is a burden on the economy as it ties up the productive assets making unavailable for any other use. One way out of this is the setting of an ARC which taken over the NPAs of the banking sector on its books and leaves the banking sector free to conduct its daily business of lending and investing. These NPAs are then securitized by the ARC in India the Asset Reconstruction Company India (ARCIL) and Asset Care Enterprise (ACE) is the leading ARCs.

The need for setting up an ARC for acquiring distressed assets from banks and financial institutions with a view to develop market for such ASSETS was being felt, since long. Narasimham Committee I and II and the Verma committee on restructuring of weak banks has strongly recommended the setting up of ARCs.

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 popularly known as Securitization Act or NPA Act. The Act has provided a legal framework for the setting up of Securitization or Reconstruction company and the manner of acquisition of financial assets by such companies. The Act has been enacted to help banks and financial institutions to handle the NPA problem. This act has been broadly divided into four heads.

- a) Securitization of Assets.
- b) Enforcement of Security Interest.
- c) Setting up of Central Registry
- d) Establishment of a an ARC.

The ARC is useful to banks and financial institutions to sale off or transfere the NPAs. The sale proceeds of the the assets are to be used for payment to the secured creditors for the assets taken over from them.

The ARCs will play an instrumental role in resolution of NPA problem that is seriously affecting the banks.

Thus the ARCs will enable speedy resolution of NPA problems and unlock productive capacity of the bank. It leads to healthier balance sheets for the bank which allows the bank to raise resources.

Advantages to banks to sale of NPAs are :

- i) Sale of financial assets enables the bank to take off NPAs from their book.
- ii) Sale of NPA would release capital and reduce expenditure on NPAs maintenance and release resources for core operations.
- iii) It helps to clean up the NPAs. ARCs can add value by cutting short the time to resolution as well as maximizing the recoveries.

In short, the ARC will effectively solve the problem of NPA. Therefore, it is suggested that the all the DCCBs and SCB need to establish an ARC in the co-operative credit structure with the help of the NABARD guidelines and Government assistance.

4) ASSET LIABILITY MANAGEMENT (ALM):

ALM is a system to manage the assets and liabilities of a bank. It aims at achieving maximum returns while maintaining adequate liquidity at all times. ALM involves assessment of various types of risks and altering the asset-liability mix or portfolio in a dynamic way in order to manage risks. Thus ALM leads to successful banking under deregulated and competitive environment hinges on matching of assets and liabilities in terms of rate and maturity pattern with a view to obtaining optimum yield.

To put it simply, ALM is the management of total balance sheet dynamics with regard to its size and quality. It involves, quantification of risks and conscious decision making with regard to asset-liability structure in order to maximize interest earning within the framework of perceived risk.

In other words, ALM can be defined as the process of managing the net interest margin within the overall risk bearing capacity of a bank. Thus it calls for an integrated approach towards financial management conditioned to simultaneous decision making with regard to type and size of financial assets and liabilities in terms of rate and maturity with a view to obtaining optimum yield.

Scope and Objectives of ALM : A sound ALM system should focus on :

- a) Review of interest rate outlook.
- b) Fixation of interest or product pricing on both assets and liabilities.
- c) Examining the portfolio.
- d) Examining investment portfolio.
- e) Managing liquidity risk.
- f) Review of actual performance via-a-vis projections in respect of net profit, interest spread and other balance-sheet ratios.
- g) Budgeting and strategic planning.
- h) Examining the profitability of new products.

Since the management of risk is fundamental to sound banking practice. The primary objectives of the ALM is not to eliminate risk, but to manage it in such way that the variation of net interest income is minimized in the short term period and net economic value of the organization is protected in along term period. Risk is inherent in banking business. Risk may be simply

defined as the probability of loss or damage. Broadly speaking bank is exposed to the following types of financial risks. There are:

- a) Credit Risk
- b) Interest Rate Risk
- c) Capital Risk
- d) Liquidity Risk
- e) Market Risk

In short the objective of ALM would include controlling the variations in net income, net interest margin, capital adequacy, liquidity risk and finally an acceptable balance between profitability, growth and risk. Thus it is high time to SDCCB to effectively implement the ALM system with the help of banking experts. This leads to effective functioning of the SDCCB.