

Chapter 6

Conclusion and Suggestions

Co-operative Banking Sector :

1. On the basis of published data, for the period from 1999-00 to 2004-05. It is observed that credit and recovery management of **co-op. banking sector as a whole** is very poor. There was continuous increase in the percentage of gross NPA to loan and advances in respect of all the co-op. banks. The increasing trend of the NPA of the co-op. banks is a serious problem before co-op. banking sector.
2. The percentage of gross NPA to loan and advances of **PACS** is highest among other co-op. banks, indicating very poor credit management by PACS. It has reduced from 35.40 % in the year 1999-00 to 33.60% in the year 2004-05. The 33.60% is not only highest percentage in co-op. banking sector but also highest percentage among all banking sector in India.
3. The performance of **StCBs** in managing the NPAs and recovery of debts seems to be satisfactory. The percentage of gross NPA to loan and advances of StCBs is low among other co-op. banking sector. It is 16.3 % at the year end March 2005, but still it is a very high ratio as compare to other banking sectors.

The recovery ratio is 83.5 % in the year 2004-05 which is highest as compare to other co-op. banking sector. The recovery ratio of CCBs, StCARDDBs, PCARDDBs is 71.2 % , 43.7% & 50.6 % respectively. So it indicates a sound recovery management by StCBs.
4. In respect of **Rural co-op. banking sector**, the performance of long term structured banks are poor as compare to short term structured banks. The percentage of gross NPA to loan and advances of long term structured banks i.e. SCARDDBs, PCARDDBs is 31.3 % and 31.9 % respectively which is high as compare to short term structured banks.

The recovery ratio of long term structured banks is very low i.e. 43.7 % and 31.9 % as compare to short term structured banks. This denotes that performance of short term structured banks were sound as compare to long term structured banks.

5. The gross NPAs of UCBs are increasing in both absolute and relative terms. The percentage of gross NPA to loan and advances of UCBs are 12.2 % in the 2001-02 and thereafter it increased to 19.7 % in the year 2005-06. The amount of gross NPAs are increased form Rs. 4535 crores to Rs. 13871 crores for above mentioned period. It means 3.06 times increase in the gross NPAs. This clearly indicates that there is a poor credit management by UCBs.
6. As **compare to commercial banks** it is observed that, there is big difference between Gross NPA percentage. The percentage of gross NPA to loan and advances of commercial bank is 5.2 % and that of UCBs was 23.4 % as at year end March 2005. It means that UCBs are lagging behind in dealing with the problem of NPAs.

If we compare data of last 5 years form March end 2005, there is decreasing trend in NPAs level in respect of commercial banks and increasing trend in respect of UCBs. The gross NPAs percentage of commercial banks has decreased form 12.7 % to 5.2% and that of UCBs it has increased from 12.2 % to 23.4 %. Thus, all these facts throughs light on the situation that the UCBs are not efficient and serious in managing the problem of NPAs.

Case study The Commercial Co-operative bank, Kolhapur.

Overall working of the bank

Before study of issue regarding management of NPAs the researcher studied the overall working of the bank form the period starting

form 2001-02 to 2005-06. On the basis of data and information made available by the bank and the researcher's own observation the researcher concluded the following,

1. There is an increasing trend of paid up capital and no. of members. The bank's paid up capital as at year end March 2002 is 138.52 lakhs, contributed by 15,247 regular members. During the period it has increased upto 261.32 lakhs and the no. of members reached to 15,949 as at year end March 2006. It represent 1.87 times growth in respect of the paid up share capital.
2. The reserve fund of the Commercial Co-op. bank has increased from 315.72 lakhs at the year end March 2002 to 554.62 lakhs at the year end March 2006. It is a good sign because increase in own fund is necessary to fulfill the requirement of CRAR and it also maintain the credibility of the bank.
3. Deposit of the bank was increased from 4721.41 lakhs at the year end March 2002 to 7413.23 lakhs at the year end March 2006. This indicates the 1.57 times growth. It shows confidence of the public in respect of the bank. If the entire span of five year is observed, it is obvious that there is no. consistency in the growth of the deposits.

As on 31-3-2006 the fixed deposit percentage to total deposit is 82 % and that of saving and current deposit is 14 % and 3% respectively. The fixed deposit percentage is very high. The bank has to increase saving and current deposits. As the interest rate has been decreasing since last four to five years, the bank has to pay int. rate prevailing at the time at which the deposit has been made, which obviously affected the profitability of the bank.

4. After analysing last 5 years period starting from 2002 to 2006, it is seems that there is an increasing trend of loans and advances. As at year end March 2002 the loans and advances has 3430.83 lakhs, which has increased to 4785.40 lakhs as at year end March 2006, representing 1.40 times growth. Though there is increasing trend of the absolute figures of loans and advances, the compounded growth rate is decreasing year by year. For example, as on year end March 2002 the percentage increase in the loans as compare to last year is 31.79 % and thereafter the growth rate remained as 22.84 %, 5.41 %, 3.22 %, and 4.36 % in subsequent year respectively.
5. The profit figure of the bank depicts an increasing trend year by year form the period starting form 2002 to 2005. However the profitability has decreased by 35.78 % in the year 2005-06 (as compare to profit of the last year). Because profit in the year 2004-05 was 47.26 lakhs and reduced to 30.35 lakhs in the year 2005-06. After analysing the fact the researcher found that mediocre progress in long term loans, large portion of fixed deposits, decreasing trend of the int. rate on loans and advances, increasing provision in respect of the NPAs, increase in the management expenses are some of the reason of the decrease in the net profit.

Loan and Advances and NPAs

1. Loan sanction procedure: The BOD is a supreme authority to sanction the loan and advances in the BOD meeting . there is no separate loan sanctioning mechanism other than BOD meeting. However in respect of branches, the authority is delegated to the committee of the directors appointed at branch and manager of that branch. But such authority sanction upto a limited extent and committee has to inform particulars of such loans to the BOD. Who authenticate the loan proposals granted at

branch. The loan sanction procedure consists of verification of loan documents by various persons.

The branch manager first identify the needs of the borrower and then collect documents and other requirements and fill the loan application form. The manager transfer the loan applications form to the Asst. manager. The Asst. manager verify all the information and give his recommendation and forward the same to C.E.O. The C.E.O. also verify the application and forward to the BOD with his recommendation. On the basis of above procedure, the researcher can conclude that, the loan sanction procedure of the bank is sound. But some change has to be made to expedite and to minimize the time lag in the loan sanction procedure.

2. From the analysis of the figures, it is disclosed that there is a increasing trend of loans and advances. As at year end March 2002 the loans and advances were 3430.83 lakhs, which has increased to 4785.40 lakhs as at year end March 2006, representing 1.40 times growth. Though there is an increasing trend of the loans and advances, the growth rate is decreasing year by year. For example, as on year ended March 2002 the percentage increase in the loans as compared to last year is 31.79 % and it was 22.84 %, 5.41 %, 3.22 %, and 4.36 % in subsequent year respectively.
3. The average of the five year in respect of short term loans and advances are 54 %, medium term loans and advances are 45 % and long term loan and advances are 1 %. There is increasing trend of the short term loans and advances and decreasing trend of the medium term and long term loans and advances. If the int. rate is decreasing the long term loan gives better result, because bank earn more int. income. Here the long term loans are decreasing. It means that decreasing amount of long term loans and advances has affected adversely on the interest income of the bank.

4. As on year ended March 2006 the amount of secured loan and advances are 4562.26 lakhs and unsecured loan are 223.15 lakhs. i.e. 95.53 % and 4.47 % respectively of total loans and advances. If we see the trend of the last five years form 2002 to 2006, there is an increasing trend of secured loans and advances and decreasing trend of unsecured loan and advances. The average secured loans are 95 % and the proportion of unsecured loans are 5 % of total loans and advances. It shows that bank is shouldering less risk of recovery and ultimately the position of incurring NPAs is also less.
5. In respect of the asset quality it is observed that, the asset quality of the bank is decreasing. Because form the year 2002 to 2006 it is found that there is an increasing trend of non-performing assets. As at year end 2002 the std. assets as percentage of total loans and advances was 90.44 %. But it has reduced upto 88.11 % as at year end March 2006. As against this the percentage of non-performing assets is 9.56 % as at year end March 2002 and which has increased to 11.89 % as at year end March 2006. This trend shows that the asset quality of the bank loans was decreasing during the period.
6. In respect of the non-performing assets, it is observed that, most of the NPAs of the bank are belongs to sub-std. and doubtful categories. The loss assets constitute very small portion of total NPAs. At the year end March 2002 the sub std. assets was 71.09 % and doubtful assets was 28.14%. But at the year end March 2006 it was 30.77 % and 65.84 % respectively. So it is observed from the above percentage that substantial asset slippage occurred form the sub std. category to the doubtful category.
7. In respect of the no. of borrower, there found to be continuous decrease in the no. of Accounts in respect of total no. of loans and advances, total

no. of standard assets and total no of Non performing assets. There is also decreasing trend of sub-standard assets. However doubtful assets and loss assets have increased substantially, a trend in synchronize with percentage of substandard and doubtful assets with total non – performing assets. The total no. of accounts decreased from 5245 in the year 2002 to 4033 in the year 2006. Similarly , standard assets and non-performing assets decreased form 4433 and 812 in the year 2002 to 3368 and 665 in the year 2006 respectively.

Though total non performing assets in terms of amount is increased, there is a decrease in the no of borrowers which shows that bank has adopted adequate follow up in respect of NPAs holder borrowers.

8. Gross NPAs of the Commercial Co-op. Bank increased both in absolute and relative terms. It was 328.26 lakhs as at year end March 2002 and increased to Rs. 569.14 lakhs as at end March 2006. Similarly the ratio of gross NPAs to total advances increased form 9.56 % to 11.89 %. If we compare last five years from 2002 to 2005, there is an increasing trend of Gross NPA. But in the year ended 2006 there is decline in the Gross NPA in both term i.e. in absolute term and in percentage. This indicate that bank have taken adequate action to minimize NPA in the period under study.
9. The Net NPAs increased in absolute term from 246.26 lakhs at year end March 2002 to 289.68 lakhs at year end March 2006. But there is decline in the ratio of Net NPAs to net advances from 7.35 % to 6.43%. This may be due to increase in the total loans and advance and reduction of gross NPA by way of provision made in that year.

Testing of Hypothesis : -

1. The bank has taken necessary steps to ensure the timely and regular repayment of loans by the borrower. The sanction procedure of the bank is sound. The bank has proper internal control system to ensure the repayment capacity of the borrower. During the period under study the portion of secured loans and advances are 95 % and unsecured loans are 5 %. It is satisfactory according to statutory norms.
2. The recovery procedure of the bank is satisfactory. The bank make overall change in the recovery procedure form last two year. The duties are segregated to each staff. Periodically reports are extracted to know the exact status about the loans and advances. And according recovery has been made.
3. The bank makes adequate provision towards NPAs a/c as per RBI norms. For the period under study for every year the bank made excess provision than the provision actually required.

Suggestions :

1. The first step to reduce the level of NAP is a systematic appraisal of loan application. If systematic and careful appraisal of loan proposals is adopted then there will be no possibility of becoming account overdue or NPA. The bank present sanction procedure is sound, but bank should form a separate Loan Sanction Committee having experts as Chartered Accountant, Advocate to look after technical matters related to financial and legal position, who expedite the sanction and make proper follow up in respect of documents and other formalities before and after sanction of loans.
2. Segregation of work :- Currently the work related to NPA is done by the branch manager and few other clerical staff. Who are busy with there other regular work load. The bank can employ specific staff only to follow up the NPA accounts that will facilitate better recovery.
3. The financial year of the bank is ended on 31 March every year, but they can ascertain the position of NPA as per balance in loan a/c on the date 31 Dec. (90 days criteria) & accordingly calculate the critical due amount and strictly follow up the borrower to recover this amount. In the last quarter bank should expedite the procedure of recovery. Because ultimately it affects statutory reporting .
4. With prior consent of borrower, sometimes bank can transfer the critical due amount from borrowers saving A/c or current A/c to the concern loan a/c.

5. Borrower whose income is not regular and use to pay lum some amount, some times more than their installment due and in the subsequent months their A/c become NPA. In such a situation, bank should instruct / advice such borrower to hold / transfer such amount to saving A/c and used that amount in such a manner that in subsequent months his A/c will not be NPA.
6. When it is not possible to recover installment with interest, the bank should try to recover at least int. portion, which is minimum as compare to installment. Though the A/c goes into NPA, the recovery of int. amount help the bank to some extent i.e. not require to make provision in respect of int. or reversal of int.
7. It is observed by the researcher that sometimes A/c become NPA because they are not renewed on time. The bank follow the system to ensure that A/c is renewed immediately after expiry of their period.
8. In respect of cash credit on hypothecation on goods, bank should insure that they have obtained the stock statement on time.
9. Granting of loan should be on the basis of income generation capacity and not only on the basis of security provided. The bank assume that as the borrower provided adequate security, the bank will recover loan if not paid by the borrower. But due to lack of income generation capacity it results into NPA and bank is required to make huge amount of provision. This affects the profitability of the bank.
10. In respect of the term loan which become NPA, the bank should review and reschedule the repayment of the loan in consultation with the borrower. But such reschedulement should be as per RBI guideline.

11. The bank should give adequate training to the staff by conducting seminars or arranging lectures of the experts from other banks. Presently there are few staff who know how to calculate and manage NPA. Training will facilitate the awareness among the staff and avoid minor error or negligence by which the A/c become NPA.
12. The bank should provide insurance coverage about the large loans and advances. The insurance company will take the responsibility to pay if ✓ loan is not recovered by the bank. i.e. DICGC
13. The bank should outsource the recovery activity by hiring outside agency. The outside agency will recover the amount on commission basis.
14. In order to avoid time consuming court procedure, the bank should pay attention to settle case outside the court without filing legal suit.
15. There is a scope to reduce the level of NPA by implementing OTS scheme in respect of doubtful and loss loans. Therefore The bank should ✓ implement the scheme as early as possible to avoid risk and delay.
16. In respect of willful defaulter the bank should take legal action as early as possible. To avoid time consuming legal procedure and formalities, the bank should provide adequate facility, expertise and mechanism ✓ which will expedite the recovery procedure.
17. The bank can transfer the assets which is doubtful and loss to the Asset ✓ Reconstruction company.