

CHAPTER-EIGHT

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CHAPTER NO. 08

CONCLUSIONS AND SUGGESTIONS

8.0 SUMMARY

This chapter presents the summary of the preceding chapters including the major findings of the study, general observations, suggestions and area for further research.

8.1 INTRODUCTION:

Human is a social being and Co-operation is an important element of human life. “All for each and each for all” is the outcome of values entrusted in meaning of co-operation. Co-operative Movement world over played a significant role in the development of human civilizations by satisfying common economic, social and culture needs. Self- help and service to its members are the prime concern of the co-operative movement.

Co-operative Movement in India has its roots in the beginning of 20th century and an organized and legal framework was enacted in the year 1912 in form of Co-operative Societies Act. Based on the theme of co-operation, Urban Co-operative Banks (UCBs) are governed by the said Act.

Urban Co-operative banks have a glorious history of more than nine decades with the motive of “reaching to the un-reached” and “serve the poorest of the poor”. However, due to the policy of liberalization and globalization started more than a decade ago have brought about vast changes in the working of Indian banking.

Though, urban co-operative banks have been able to manage their affairs under the first phase of economic reforms as is evident from their operation, the second phase of financial sector reforms have brought about big changes in the working of Indian banking and financial sectors and these changes have shown their impact on urban bank also. A number of reforms implemented by commercial banks have been introduced in urban co-operative banks as well.

The recommendation of Narasimham Committee have brought a number of changes and posed a big challenge for Urban Co-operative Banks. The introduction of Prudential Accounting Norms i.e. income recognition, classification of assets and

provisioning though created a new awareness in the banks, the banking industry is finding it difficult to maintain their position including Urban Co-operative Banks.

Besides, un-precedented crises added to the miseries of the UCBs in Gujarat. In the year 2001 the scam of Madavpura Mercantile Co-operative Bank (MMCB) gave deadly blow to many UCBs. As a result nearly 60 co-operative banks were closed and many more were declared sick and weak.

In the same year state of Gujarat suffered the worst earthquake, where the property and business worth thousands-crores was lost. Again in the same year the state faced the riots because of which business and banks remained closed for weeks together and revenue of several thousands was lost. All these ill events have affected the urban area the most that is the area of operation for the UCBs.

In the light of the above-mentioned events and the increasing competition from private and foreign banks, a question arises, whether UCBs in Gujarat are going to survive under this condition?

The main aim of this study is to provide answer to this question. It is mentioned in form of hypothesis no. 2 –“congestion environment for UCBs in Gujarat will not allow them to come out of adverse situation”.

8.2 PROGRESS OF UCBS IN GUJARAT- 1991 TO 2004:

As per Shri R.S. Patel, Chairman of Gujarat Urban Co-operative Banks Federation, Ahmedabad, the UCBs has witnessed phenomenal growth in last one and half decade which is evident from the following numbers.

Table No. 8.1 Growth of Urban Co-operative Banks (Rs in crores)

Level	Year	No. of banks	Deposits in crores	% Increased	Advances in crores	% Increased
All India	1991	1307	8600	-	7800	-
	2004	2105	100000	1162 %	65000	833 %
Gujarat	1991	288	2342	-	2150	-
	2004	327	15894	578 %	9825	357 %

Source: Statistical Report of Gujarat Urban Co-operative Bank Federation- 2004.

The growth of deposits of co-operative banks in the country exceeded Rs. 100000 crores as on 31st march 2004, which contributes, nearly to 9 % of the total deposits of

the banking industry. The State of Gujarat is the second largest state in the country in terms of number of banks, total deposits and advances after the State of Maharashtra.

The lack of confidence in depositors that prevailed during last three years in UCBs led to the impression and baseless allegation that the UCBs in Gujarat will be no more in the banking sector. Fuel is added to the fire when RBI tightened the norms regarding Non-performing assets and all banks including UCBs were in trouble. Some of the officials of UCBs narrated, “ Co-operative banks wonder why the RBI wants to impose on them prudential norms that are applicable to big public, private and foreign banks. We are small and different. It’s but logical that the same yardstick (prudential norms as laid out by Basle Capital Accord) cannot be used to compare us with the big daddies in the business like SBI or ICICI-bank. Our clientele is different and so are our ethos and culture”.

Therefore, the downfall that we observe in UCBs in Gujarat in terms of Deposits, Advances, number of depositors and borrowers is contributed by more than one factor as discussed earlier. However, UCBs are coming out of these down trends as observed from the following table and analysis.

8.3 DECLINE IN DOWNFALL OF UCBS IN GUJARAT:

The table No 8.2 clearly indicates that the deposits of UCBs in the state of Gujarat are declining but the rate of decline is reducing as the difference between the deposits of year 2000-01 and 2001-02 is Rs 1285 crores which has reduced to Rs. 165 crores in the year 2002-03. Similarly, the drop in advances in the year was RS 860 crores, which has reduced to Rs 300 crores in the year 2002-03.

Table No. 8.2 Decline in Downfall of UCBs in Gujarat - as compare to the previous year figure.

(Rs. in crores)

Year	Deposits	Advances	Profit	W. Capital
2001-02	-1285	-860	-32	-1887
2002-03	-165	-300	-28	+1200
2003-04	-451	-1479	-12	-746

Source: Based on Statistical Report of Gujarat Urban Co-operative Bank Federation-2004.

The picture of reduction in decline becomes clearer in terms of profit figures where the difference in the year 2001-02 is Rs. 32 crores, reduced to Rs. 28 Crores in the year 2002-03 and 12 crores in the year 2003-04. In case of working capital UCBs have recovered from the downfall of the previous year. So, it is very clear from the above figures that UCBs are recovering from down fall within a short period of one or two years.

In order to have in-depth understanding about facts that even though UCBs in Gujarat are under tremendous pressure due to problem of lack of confidence amongst the customers created by unprecendential occurrence of socio-economic events, it is worthwhile to present solid facts, figures and analysis.

To get the answer and analysis of the above questions ten UCBs from different areas of Gujarat with distinct features in terms of capital, assets, liabilities etc. are taken as random sample.

8.4 GENERAL OBSERVATIONS:

The balance sheet and the profit & loss account of any bank is the mirror of its performance that reveals true and fair positions of the state of affairs of the business. From the chapter No 4 and 5 following developments or declines are observed.

8.4.1 Analysis of Management of Assets:

Under the head 'cash in hand and balance with other banks' all the UCBs under study for the period of 12 years from 1992-93 to 2003-04 shows an upward trend with exception to one or two unscheduled UCBs in last 1-2 years of the study.

1. The decline is temporary as rate of decline is reducing from the very next year. (From -Table no. 4.2 and 4.3)

In terms of investments of the these UCBs only three out of ten banks shows fall in the investments (non scheduled -Anyonya, Dahod and Godhara) and one scheduled UCB i.e., Mehsana urban co-operative bank.

2. Here also the decline is for one year and all the banks started recovery in the very next year as the rate of decline in falling down. (From -Table no. 4.6)

If we examine the proportion of liquid assets to working capital, it ranges from 17 per cent to 39 per cent where as the proportion of liquid assets to total deposits ranges from 27 per cent to 58 per cent for these banks.

3. This shows that these UCBs are sound enough to meet the liquidity crises if arises. On an average $\frac{1}{4}$ of there assets are in liquid form that will avoid the possibility of liquidity problem and display that they are well managed in terms of fluid assets. (From -Table no. 4.4 and 4.5)

Advances or credit is the important head among the assets of the bank. This is the most risk prone asset as well as major contributor to aggregate revenue in from of interest income for the banks. However, the risk is also based on quality and proper mix of advances. If we examine the positions of total advances (From -Table no. 4.9) of these UCBs under study, five out of ten banks shows upward trend, where as the declining trend is only in the last two years (non-scheduled banks -Anyonya, Dahod and Godhara and scheduled banks Sardar, and Kalupur)

The available annual reports of 2004-05 for some of the banks like Anyonya Co-operative and Kalupur Co-operative bank shows that the rate of decline in advances has reduced i.e., total advances of Anyonya in 2004-05 is Rs 6997.22 lakhs and for Kalupur bank it is Rs. 56660.84 lakhs.

4. It is evident from the above facts that these banks are overcoming the problem of advances crunch. Hard efforts are made by these banks to restore the confidence as appear from there annual report. For example, Anyonya co-operative bank has provided a comparative statement of cost-benefit in relation to the cost of services provide by nationalized banks and private sector banks.

8.4.1.1 Loan Mix

Quality of loans is an important aspect in credit mix. An analysis of loan portfolio of these selected UCBs realizes the following observations.

Table No. 8.3 **Average Percentage of Loan mix of selected UCBs in Gujarat (1992-93 to 2003-04)**

Bank	ST Loan	MT Loan	LT Loan
Anyonya bank	39	38	23
Bhavnagar bank	02	84	14
Dahod bank	41	42	17
Godhara bank	61	31	08
Modasa bank	50	28	22
Percentage for Non-scheduled bank	38.6	44.6	16.8
Meshana bank	57	12	31
Kalupur bank	71	25	04
Rajkot bank	41	37	22
Sardar Bhildwala bank	30	52	18
Surat peoples' bank	26	45	29
Percentage for scheduled bank	45.0	34.2	20.8
Average total percentage of UCBs	41.8	39.4	18.8

Source: Based on The Annual Reports of respective UCB.

The selected UCBs in Gujarat has more proportion of total advances as short term advances i.e., 41.8 per cent followed by medium term 39.4 per cent and long term 18.8 per cent

If we observe the same from the point view of scheduled and non-scheduled UCBs than in case of non-scheduled UCBs more proportion of the total advances is devoted to medium term i.e., 44.6 per cent followed by short term 38.6 and long term 16.8 per cent. However, in case of scheduled UCBs more proportion of total advances goes to short term i.e., 45 per cent followed by medium term 34.2 per cent and short term 20.8 per cent. The significant findings are:

5. The loan mix also depends upon financial need of the area. Short-term loans are required more in the cities like Ahemdabad, Surat and Rajkot with more frequency of business operations than the small town like Dahod Godhara and Modasa. This is clearly visible from the above analytical table.
6. Short-term loans are more feasible from the point view of liquidity and profitability. Such loans bears more interest and mature with in one year. Moreover, these loans help in changing and adjusting the loan portfolio as and when required. It facilitates the management of assets tactfully and efficiently.

Thus, advances are efficiently managed by UCBs according to their needs.

8.4.1.2 Non-Performing Assets

The discussion of advances is incomplete without note of NPA. The table no 8.4 shows that the problem NPA is not so acute in case of these banks. Bearing some exceptions most of them have achieved or going to achieve the mission of ZERO NPA.

Table No. 8.4 Statement of Non-Performing Assets of Selected UCBs in Gujarat as on 31st March 2004

(Rs. in Lakhs)

UCBs (Non-scheduled)	Gross NPA	Net NPA	UCBs (Scheduled)	Gross NPA	Net NPA
Anyonya bank	4531.54	3789.57	Meshana bank	3608.84	NIL
Bhavnagar bk	2000.22	119.81	Kalupur bank	15773.00	NIL
Dahod bank	1388.36	433.05	Rajkot bank	14170.60	NIL
Godhara bank	2574.48	952.92	S.B. bank	6248.02	3378.56
Modasa bank	144.45	1.37	Surat bank	5544.57	NIL

Source: The Annual Reports of respective UCB.

Here we also consider our hypothesis no. 3 for discussion.

7. It can be observed from the table no. 8.4 that every UCB under study have a big amount of gross NPA but net amount of NPA is very less. This is due to provisions made against NPA from the profits. *It is clear that provision for NPA has swallowed the income of these banks.*
8. It is baseless to say that UCBs have a large amount of NPA as compare to PSBs. The average NPA as a proportion to total advances for last ten years from 1995 to 2004 is 14.23 in case of PSBs where as it is 13.06 in case of UCBs at all India level. (From table no. 6.8)

Further analysis of credit portfolio shows that the proportion of credit to working capital for selected UCBs ranges between 37 per cent to 62 per cent with an over all average of 49.60 per cent.

9. The C/D ratio of UCBs at all India as well for the state of Gujarat is 0.62 for the year 2003-04 (from Table No, 3.11 and 3.17) that is as prescribed by the RBI. However, it more than the C/D ratio of public sector banks (0.52) and near to private sector banks (0.64) which discloses that UCBs are well

maintaining their deposits and advances proportion in comparison to these banks

10. Fixed assets of the banks do not play any major role in core banking business but its proportion in the total assets needs to be analyzed. Average of fixed assets ranges from 5 per cent to 17 per cent with an overall average of 11.2 per cent that is well in the limits, as fixed assets are also given a risk weightage of 100 per cent. (From table no. 4.19)

8.4.2 Analysis of Management of Liabilities

The liabilities side of the balance sheet of a bank mainly constitute of capital, reserves, deposits and borrowings.

8.4.2.1 Capital to Risk Adjusted Asset Ratio

Capital serves as buffer to observe future, identified and improbable losses and allows the bank to function at the same level of capacity. Banks like any other commercial venture, should possess adequate capital to meet unforeseen contingencies that may arise at any time. According to Basel committee the capital adequacy ratio of 8-9 per cent is intended as an average minimum ratio to protect the bank from credit risk.

Table No. 8.5 Capital to Risk Adjusted Asset Ratio (CRAR) of selected UCBs in Gujarat as on 31st March 2004

UCBs (non-scheduled)	CRAR	UCBs (scheduled)	CRAR
Anyonya bank	Negative	Meshana bank	12.95 per cent
Bhavnagar bank	14.22 per cent	Kalupur bank	51.22 per cent
Dahod bank	20.60 per cent	Rajkot bank	34.07 per cent
Godhara bank	17.95 per cent	Sardar bank	28.22 per cent
Modasa bank	41.92 per cent	Surat bank	27.03 per cent

Source: The Annual Reports of respective UCB

11. It is observe that except Anyonya co-operative bank all the UCBs are maintaining CRAR much higher than required by the RBI norms

‘Reserve funds and other reserves’ as a head of liability side of the banks’ balance sheet shows an increasing trend in all the 12 years from 1992-93 to 2003-04 for all the urban co-operative banks under study.

If we see the above two heads in form of owner fund and check it in proportion to working capital than for the UCBs under study the proportion ranges from 3 per cent to 22 per cent.

Table No. 8.6 Average proportion of Owner fund to Working capital for Selected UCBs in Gujarat (1992-93 to 2003-04)

Urban Co-op. Bank (Non-scheduled)	Average Proportion of owners fund to W.C.	Urban Co-op. Bank (Scheduled)	Average Proportion of owners fund to W.C.
Anyonya bank	10	Meshana bank	09
Bhavnagar bank	03	Kalupur bank	21
Dahod bank	04	Rajkot bank	22
Godhara bank	04	Sardar bank	16
Modasa bank	08	Surat bank	17

Source: Based on The Annual Reports of respective UCB.

The average proportion of owners fund to working capital in case of non-scheduled UCBs ranges from 3 to 10 per cent where as in case of scheduled bank it ranges from 9 per cent to 22 per cent. The over all average proportion of owner fund to Working capital is 11.4 per cent

Deposit is the major and most sensitive head on the liability side of the balance sheet. They are seen as liabilities purchased at a cost with an intention to deploy in assets (loans) and earn profit out of it. Here, the average proportion of average deposits to average working capital for the UCBs under study ranges from 46 per cent to 87 per cent.

12. The proportion shows a standard trend with out much variation. (From table no. 7.10)

8.4.2.2 Deposit Mix

It is not only the cost of deposits that is important but the volume and the type of deposits are also equally important.

Table No. 8.7 Average percentage of Deposit mix of selected UCBs in Gujarat (1992-93 to 2003-04)

Urban co-operative Banks	Fixed & others	Saving	Current
Anyonya bank	77	20	03
Bhavnagar bank	81	17	02
Dahod bank	80	17	03
Godhara bank	84	14	02
Modasa bank	81	17	02
Percentage for Non-scheduled bank	80.6	17.0	2.4
Meshana bank	79	10	11
Kalupur bank	80	08	12
Rajkot bank	72	22	06
Sardar Bhildwala bank	62	25	13
Surat peoples' bank	66	23	11
Percentage for scheduled bank	71.8	17.6	10.6
Average total percentage of UCBs	76.2	17.3	6.5

Source: Based on The Annual Reports of respective UCB.

The above table shows a general trend for all the UCBs under study. Out of the total deposits, fixed deposits ranks first with 76.2 per cent followed by saving deposits 17.3 per cent and current deposits 6.5 per cent. Following are the specific observations.

13. Bearing one or two exceptions like Mehsana and Kalupur bank a clear distinction is that the non-scheduled UCBs has kept more attention towards fixed deposits, less towards saving and least for current deposits. We know that both saving and current deposits are low cost deposits, as compare to fixed deposits but require more liquidity.
14. If we observe the scheduled UCBs it indicates that they are heading towards right direction as the share of saving and current deposits is increasing. This is a signal that the UCBs are managing their liabilities (deposits) in an efficient and effective way.
15. It can be noted that hard efforts are made by Anyonya co-operative bank to reduce the cost of deposits, as the proportion of average saving deposits to average total deposits is 20 per cent, which is highest in case of all non-scheduled banks under study.

After analyzing the major heads of liabilities side following are important observations:

16. All the ten UCBs under study are maintaining the Capital to Risk-Adjusted Assets Ratio (CRAR) as prescribed by the RBI. Some of the UCBs i.e., Kalupur co-operative bank, Sardar Bhiladwala Pardi Peoples' bank and The Surat peoples' co-operative bank maintain a CRAR that is more the 30 per cent.
17. Under the head Reserve funds and other reserve secret reserves can be observed. How ever, it necessary for banks to maintain secret reserve because the stability of the bank is of great importance in wider interest of the customers and depositors and ultimately helps to build faith and trust that is required for the functioning of banking system. It is also observed that full disclosure of bad debts will have a psychological impact on the bank management particularly at the field level and they would tend to become overcautious and conservative. The secret reserve system encourages bank management to take risks and undertake innovative banking. However, transparency in banking business is an important aspect.

8.4.2.3 Phases

18. It is fortunate for the study that more or less it has all the three phases of deposits collection and mobilization.
 - Boom period – When UCBs have bulk of deposits (1992-93 to 1999-2000)
 - Decline period – When UCBs faces a fall in amount of deposits or the deposits where increasing at a declining rates. And banks were forced to cut down the loan and advances. (2000-01 and 2001-02)
 - Recovery period – When UCBs build confidence in the society and again started getting the deposits. However, now they are facing problem of mobilization of deposits in form of loans and advances. (2002-03 and 2003-04)
19. It is observed that UCBs are eager to increase the saving deposit as currently such deposits is of less cost than time deposits. Various off banking facilities

provided to Senior Citizens in order to have their saving account in their bank are some of the good examples of encouragement towards having more of saving deposits.

8.5 Findings

P.K. Bhattacharjee, deputy managing director and chief financial officer of the State Bank of India, says “The importance of managing the Asset-liability mix emerges from the deregulated interest rate environment that has evolved after liberalization. Banks are exposed to new products such as fund based and non-fund based activities, derivatives, long duration swaps and so on. Here, unless a bank has its asset-liability matched, it could be in trouble”.

“Once the entire Indian banking system has adopted sophistication in ALM it would go in a long way in strengthening the entire bank sector which will have a positive impact on banks’ profitability”.¹ The scheduled UCBs are required to put in place an ALM system by 30th June 2002. The guidelines have been formulated to serve as a benchmark for those banks, which lack a formal ALM system.

Following are the findings of the study using suitable tools for bank’s asset-liability management.

8.5.1 Financial Ratio Analysis

Urban co-operative banks are following overall ALM with help of simple techniques like Financial Ratio Analysis. These ratios are divided in to three categories.

Asset Structured Ratios, Liability Structured Ratios and Profitability Structured Ratios.

8.5.1.1 Asset Structured Ratios:

Liquid Resources to Deposits – This ratio is an indicator of liquidity position of the bank. An increase in the ratio over a period of time suggests the liquidity strength of the bank. However, liquidity beyond a specific limit as decided by ALM committee of the bank will cut

¹ Sangita Mehta, ALM by Indian banks, Risk management – An introduction, ICFAI, p189.

down the profitability of the bank. For the UCBs under study this ratio ranges from 27 per cent to 58 per cent.

1. No specified trend is observed because the liquidity needs differs from bank to bank. The overall ratio of liquid resources to deposits is 40.3 per cent. (From table no 7.1)

Liquid Resources to Working Capital- This ratio shows the operational flexibility of the bank. As the ratio increases the operational flexibility decreases and if the ratio decreases the operational flexibility increases. The ratio ranges from 17 per cent to 39 per cent with an over all ratio of 26.6 per cent that indicates the moderate operational flexibility.

2. However, there is an over all growth in the operational flexibility is observed over a period of last three years of study in case of all UCBs. (From table no 7.2)

Credit-Deposit Ratio – The ratio indicates the profitability. As the ratio increases it denotes a profitable combination of credit and deposits. C/D ratio of 60 to 70 per cent is appropriate for UCBs.

3. Most of the banks under study fulfill this criterion, which shows the strength of UCBs in Gujarat. (From table no 7.3)

Credit to Working Capital- This ratio shows the extent of credit creation by the banks. More the ratio more is the amount of credit creation and vice versa. The ratio ranges from 37 per cent to 62 per cent with an over all average of 49.6 per cent.

4. This signals a satisfactory credit creation process by the UCBs under study. (From table no 7.4)

Loan Mix- An appropriate combination of different types of loans is important from the point view of profitability and sustained liquidity. The loan mix of selected UCBs under study for the period from 1992-93 to 2003-04 shows that more proportion of total advances goes to short-term loans i.e., 41.8 per cent followed by medium term loans with 39.4 per cent and 18.8 as long-term loans.

5. Large proportion of short-term loan increases the operational efficiency and management of loan portfolio as per the need becomes easy and effective. (From table no 7.5, 7.6 and 7.7 and Chart No 7.1 to 7.10)

8.5.1.2 Liability Structured Ratios:

Own Funds to Working Capital- This ratio is popularly known as Capital Adequacy Ratio. It indicates buffer for the lender. A higher share of own funds minimizes the cost of funds and strengthens the buffer for the banks. For the non-scheduled UCBs under study the rate ranges from 3 to 10 per cent where as for scheduled UCBs it ranges from 9 to 22 per cent.

6. Except in case of Bhavnagar nagrik sahakari Bank and Dahod urban co-operative Bank all the other UCBs are maintaining the required buffer of 8 –9 per cent as prescribed by the RBI. . (From table no 7.9)

Deposits to Working Capital- This ratio shows the cost of funds. If the ratio rises less is the cost of funds and vice versa. For non-scheduled UCBs the ratio ranges from 63 to 87 per cent and in case of scheduled UCBs it ranges from 46 to 78 per cent with an overall average of 72.3 per cent.

7. In all the banks the movement of this ratio is with in the limits and no wide fluctuations are observed, which is an indicator of standardization of cost of funds. (From table no 7.10)

Deposit Mix- It is an important factor in the over all ALM. Appropriate deposit mix help to increase the operational flexibility and operational efficiency of the bank. If the proportion of fixed deposits to total deposits increases more is the operational flexibility and less will be the operational efficiency where as if the proportion of fixed deposits to total deposits decreases less is the operational flexibility and more will be the operational efficiency. The ratio of fixed deposits to total deposits for UCBs under study from the year 1992-93 to 2003-04 ranges from 71 per cent to 84 per cent in case of non-scheduled

UCBs and from 62 to 80 per cent in case of scheduled UCBs with an overall average of 76.2 per cent.

8. It is found that non-scheduled UCBs are having operational flexibility where as scheduled UCBs are having operational efficiency. (From table no 7.11, 7.12 and 7.13 and Chart No 7.11 to 7.20)

Proportions of saving and current deposits to total deposits are discussed earlier.

8.5.1.3 Profitability Structured Ratios:

Return on assets- the ratio of return on assets shows the efficiency of deployment of funds. If the ratio increases the more will be the deployment of funds and if it decreases less will be the deployment of funds. The ratio ranges from 0.92 to 3.56 for selected UCBs under study.

9. Kalupur co-operative bank and Modasa nagrik sahakari bank show a good mobilization of fund where as for other banks the capacity of mobilization of funds shows unequal trend, which means there is no consistency in rate of return. (From table no 7.14)

Cost of Funds- The ratio of cost of funds indicates the efficiency of mobilization of funds. If the ratio raises it will show an effective mobilization of funds by the banks where as a decline in the ratio indicates less mobilization of funds by the bank. The ratio ranges from 12.04 to 14.42.

10. With an exception of Meshana urban co-operative bank the efficiency of mobilization of funds is more or less remains same for the period of study from the year 1992-93 to 2003-04. (From table no 7.15)

Interest Margin to Working capital- The ratio of interest margin to working capital shows the over all efficiency of the bank which cover the aspects like effectiveness in deployment of funds, efficiency in mobilization of funds and good managerial ability. The ratio ranges from 1 to 5 per cent with an over all average of 3.6 per cent it found out that:

11. The over all work efficiency of bank is more in case of scheduled UCBs than the non-scheduled for the period of study. (From table no 7.16)

Cost of Management to working capital- this ratio indicates the ability of the banking authorities to manage the affairs of the bank. If the ratio of cost of management to working capital increases it shows the degree of ineffectiveness of the bank to manage its business. However, if the ratio of cost of management to working capital falls it is good for the bank from the point view of managerial ability.

12. All the banks shows more or less same managerial ability with some exception in scheduled UCBs like Kalupur co-operative bank as the ratio ranges from 0.01 to 0.02. (From table no 7.17)

Asset-Liability Management as a part of overall risk management can be evaluated on the bases of cost. Deposits and Advances are the two major cost components of the financial statement.

8.5.2 Analysis of Cost and Revenue

A graphical presentation of the performances of the selected UCBs in Gujarat for the period of 12 years from 1992-93 to 2003-04 with respect to fixed cost, variable cost, total cost and total revenue. Where the total cost is equal to fixed cost plus variable cost and total revenue minus total cost is equal to profit of the bank.

It can be inferred that if fixed cost remain constant over a period of time every change in the total cost is the result of change in variable cost. In case of all the UCBs under study we can observe that the fixed cost is increasing which is normal and considerable. However, Anyonya co-operative bank is an example where the fixed cost is showing a decline in the year 2003-04 as against 2002-03. (graph no. 7.1) From the other graphs of cost and revenue curves of these UCBs, it is easily observed that the portion of fixed cost in case of Bhavnagar nagrik sahakari bank, Kalupur commercial co-operative bank and Meshana urban co-operative bank is comparatively less than the other UCBs under study.

Three financial years 2000-01, 2001-02 and 2002-03 are crucial for these banks because more or less all the banks are observing a downfall in the revenues where as the fixed cost and variable cost are increasing that results in reduction in the profits of these banks. Anyonya Co-operative bank is facing the worst, as the total cost is more than total revenue.

If we observe the total revenue curves of these banks it can significant that-

13. In case of three banks i.e., Sardar Bhiladwala Pardi Peoples' co-operative bank, Bhavnagar nagrik sahakari bank and Surat peoples' co-operative bank the total revenue curve has started rising again. (From graph no. 7.7, 7.8 and 7.10)
14. In case of six banks i.e., Rajkot nagrik sahakari bank, Dahod urban co-operative bank, Godhara city co-operative bank, Kalupur co-operative bank, Meshana urban co-operative bank and Modasa urban co-operative bank the total revenue is going down but the pace of downfall has reduced. (From graph no. 7.2, 7.3, 7.4, 7.5, 7.6 and 7.9)
15. In case of Anyonya co-operative bank the total revenue curve is still showing a decline.

If we compare the width between total cost curve and total revenue curve which is the indicator of the profit, it can be observed that in all the banks under study the profit is rising with an increasing trend except in case Anyonya, Modasa and Rajkot banks where this trend is not observed. (From graph no 7.1)

8.5.2.1 Fixed cost and Variable cost

When we compare the fixed and variable cost of the UCBs under for the period of 12 year from 1992-93 to 2003-04 the following are the major findings (from chart no. 8.1)

16. In case first five non-scheduled UCBs, Anyonya co-operative bank has highest fixed cost (20%) and Bhavnagar nagrik sahakari bank least fixed cost (10%). Where as in case of scheduled urban banks Surat peoples co-operative bank

has the highest fixed cost (24%) and Meshana urban co-operative bank has the least fixed cost (7%). However, it is interesting that average fixed cost of scheduled as well as non-scheduled UCBs under study remain nearly 15%. In general we can say that the fixed cost is same of all the UCBs banks.

Chart No. 8.1

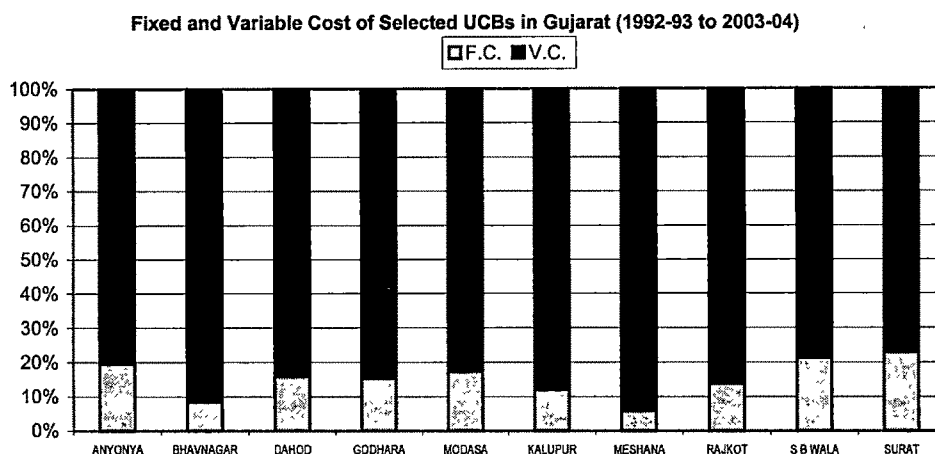
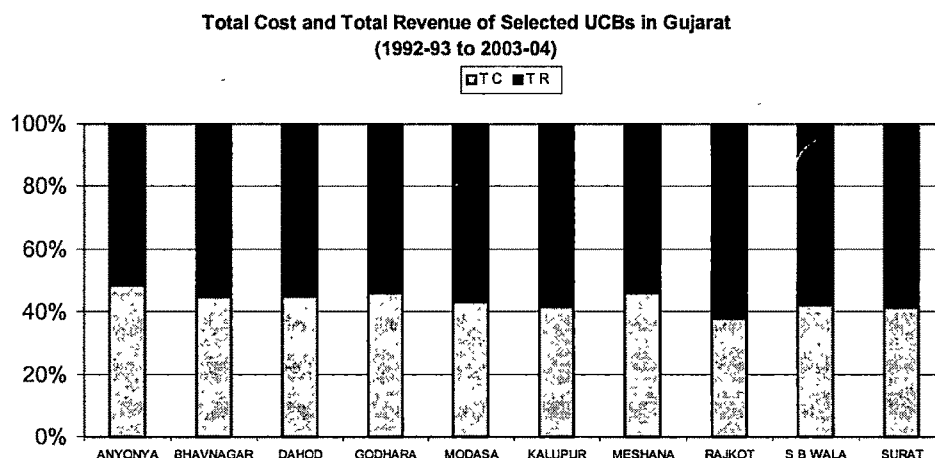


Chart No.8.2



8.5.2.2 Total Cost and Total Revenue

The comparison of total cost and total revenue selected UCBs for a period of 12 years from 1992-93 to 2003-04 shows the following result. (from the chart no 8.1 and 8.2)

17. In case of all the banks whether scheduled or non-scheduled the pattern of cost and revenue is same. It ranges from 39% to 45% in terms of cost and 71% to 79% in term of revenue. It is very significant to note that though all these banks are located in different areas of Gujarat they show similar percentage of cost and revenue tends in their individual capacity.

8.5.3 RSA and RSL

ALM as a process of over all risk management must consider all the Risk Sensitive Assets (RSA) and Risk Sensitive Liabilities (RSL) in such a way that keeping them all together one should be in a position to get comprehensive picture of management of assets and liabilities.

Finally, the study provides a simple, logical and practically possible formula that can be worked out for any Co-operative bank whether scheduled or non-scheduled by providing the over all position of assets and liabilities at any point of time in the year.

FORMULA

ALM =	CASH WITH BANK + BAL. WITH OTHER BANKS + CALL AT SHORT NOTICE + (INVESTMENTS -10%)
	25% OF FIXED DEPOSITS + SAVING DEPOSITS +CURRENT DEPOSITS

The above formula is worked out in case of all the UCBs under study for the period of 12 years from 1992-93 to 2003-04. (The figures are taken on the basis of moving average like figure of 2001-02 plus figure of 2002-03 divided by 2). Following results and findings are derived out from chart no. 7.30 to 7.39 plotted for these selected UCBs in Gujarat.

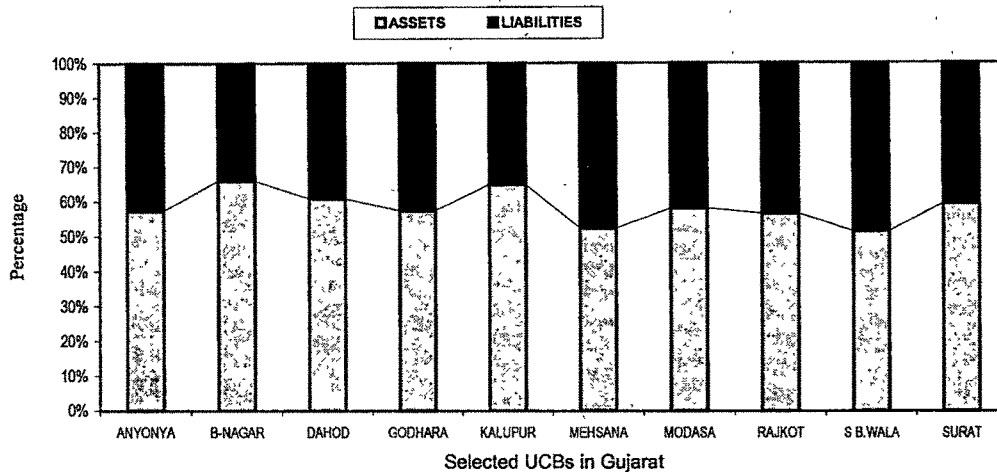
18. All the UCBs under study show an increasing trend in terms of their RSA and RSL up to the year 2000-01.

However, there after these banks are showing different trends on the basis of which they can be divided in three categories

- Banks observed decline in their business but recovered.
- Banks observed no decline in their business.

- Banks still observing decline in their business.
19. Bhavnagar Nagrik Sahakari bank, Modasa Nagrik Sahakari bank, Kalupur co-operative bank and Surat peoples' co-operative bank shows decline in their RSA and RSL in the year 2001-02 or 2002-03 but recovered in year 2003-04.
 20. Godhara city co-operative bank, Modasa Nagrik Sahakari bank, Rajkot Nagrik Sahakari bank and Sardar Bhiladwala Pardi Peoples' co-operative bank are least affected by the crises occurred in the year 2001 as they do not show any decline in there business their assets as well as matching liabilities are continuously increasing.
 21. Anyonya Co-operative bank and Dahod urban Co-operative bank are the banks more affected by the crises of the year 2001 as they still shows a decline in there business but maintain more than one proportion of RSA to RSL.
 22. In case of non-scheduled UCBs out of the five Anyonya Co-operative bank is the first in managing the overall assets and liabilities as both the bars of assets and liabilities going at almost with the same pace one next to the other as compare to other banks in this category (from chart no. 7.30) Godhara city co-operative bank and Modasa Nagrik Sahakari bank stands second managing the assets and liabilities in the same pattern (from chart no. 7.33 and chart no. 7.35). In case of Bhavnagar Nagrik Sahakari bank and Dahod urban co-operative bank the portion of RSA to RSL is high in last 3-4 years that indicates less effective Asset-Liability Management in this category of non-scheduled UCBs (from chart no. 7.31 and chart no. 7.32).
 23. In case of scheduled UCBs under study out of the five banks Sardar Bhiladwala Pardi Peoples' Co-operative bank is the first and most efficient bank as both the bars moves almost neck to neck in every year under study from 1992-93 to 2003-04(from chart no. 7.37). Mehsana urban co-operative bank (from chart no. 7.34), Rajkot Nagrik Sahakari bank (from chart no. 7.36) and Surat Peoples' co-operative bank ranks second with same and moderate pattern of ALM (from chart no. 7.38) followed by Kalupur Commercial Co-operative bank (from chart no. 7.39) where RSA are comparatively more than RSL after the year 1999-2000.

Chart No. 8.3
Percentage of Assets and Liabilities of Selected UCBs in Gujarat
(1992-93 to 2003-04)



If we analyze of all the above observations and findings it is crystal clear that “ none of the UCB under study, whether scheduled or non-scheduled going to loose it's business. All of them are managing their assets in proportion to their liabilities including Anyonya Co-operative bank, which is incurring losses since last two years.

We can precisely state that, “ All the UCBs are going to survive in this cutthroat competition from public sector banks, private sector banks and foreign banks. The downfall that is observed during some years is temporary. Most of UCBs have recovered from the phase of downfall. It is only a matter of time that one or two banks will take little long time to recover their lost ground”.

There are booster injected in the weak aspects of UCBs by Govt. of Gujarat and RBI, which will add to the strength of these banks. Some illustrations of such initiative are given below:

- Gujarat is the only state in the country has entire in to MOU with the RBI where UCBs in Gujarat will be under the straight directives of RBI in the matters of governance and control.
- RBI has came out with a ‘Vision Document-2010’ to take care of the problems faced by UCBs when they have been placed at par with nationalized, foreign and new generation banks

- In order to facilitate the customer and reduce the possibility of liquidity crises the UCBs are equipped by INTRA banking money transfer facilities, which is over and above the INTER banking money transfer provided by these banks.

However, a recent event that will affect the profitability of co-operative banks is the withdrawal of exemption given under section 80 P of income tax Act in the union budget 2006. This was the only benefit that was remaining with the co-operative banks. By taking away this facility co-operative banks are now suppose to pay income tax at the prescribed rate on their incomes.

8.6 TEST OF HYPOTHESIS:

- H-1** As per the specific discussion in point no 3.11 (chapter no.3) and analysis of table no. 3.19, 3.20 and 3.21, the hypothesis no-1 is accepted that the competition of UCBs with public sector banks, private sector banks and foreign banks will not stop the progress of UCBs in Gujarat.
- H-2** As per the discussion in point no. 8.2 (chapter no. 8) and analysis of table no. 8.1 and 8.2, the hypothesis no.2 is rejected that congestion environment for UCBs in Gujarat will not allow them to come out of the adverse situation.
- H-3** As per the discussion in point no. 6.13 (chapter no. 6) and analysis of table no. 6.6, 6.10 and 8.4, the hypothesis no.3 is accepted that non-performing assets swallow the income of UCBs in Gujarat during the period of study.

8.7 RESPONSES OF QUESTIONNAIRE:

In order to study the various aspect of over all risk management and pattern of maturity of fixed deposits in UCBs, questions mostly in form of objective response were asked to various authorities in co-operative banks in various parts of Gujarat. Following are the main points of these responses.

1. Out of the 152 copies of questionnaire distributed in various districts of Gujarat total 118 responses were received which includes 5 scheduled UCBs. The responses were collected in the year 2003-04.

2. It is observed that most of the bank employees and authorities do not want to disclose their names in the response sheet.
3. In response to 1st question,” Do your bank has special person(s) or department to look after risk management?”.- 51 banks out of 118 stated that they have such person or department.
4. Which of the following risk does your bank experience? – The summary of the responses in as follows:

Type of Risk	No. of Banks out of 118 banks
Market risk	24
Credit risk	14
Interest rate risk	15
Liquidity risk	25
Investment risk	12
Reputation risk	54
Capital risk	11
Legal risk	02
Operational risk	13

25 banks did not respond the question.

5. In response to the question no. 3 “ How the bank identify the risk?”- The responses were as follows:

By methods provided by RBI.	By own methods	By outsider/ agency
76% banks	15% banks	5% banks

23 banks did not respond this question

5. What are the methods / techniques used by your banks to measure the risk?”

- 69 per cent banks – CRAR
- 72 per cent banks – CRAR and ratio analysis
- 42 per cent banks – ALM – Gap method

6. In response to question no. 5 “ what are the steps you will take to minimize risk? – Only 12 responses-where most of them are of the view that it all depend up on the head office.

7. In response to the last question –“ what is the portion of averaged fixed deposits that get matured during the year?”- The responses were:

- 89 per cent banks – responded in the range of 21 % to 30 %.
- 14 per cent banks – responded in the range of 11 % to 20 %.
- 05 per cent banks – responded in the range of 0 % to 10 %.

11 per cent banks did not respond this question. Out of the 89% of banks responded, it is observed that on an average 25.2 % of fixed deposits get matured during the year.

8.8 SUGGESTIONS:

1. Over the period of functioning banks, faces with structural weakness mainly due to democratic character, non-professional management, community commitments and political interference. The UCBs have to be more cautious and vigilant in policy framing and decision making, as on any adverse publicity of any fraudulent deal or bad loaning, being a local area bank, people are much sensitive and react instantly on the working of UCBs and once their faith and confidence is seen shaken, market has observed dramatic collapse and crash.
2. UCBs being local in character largely driven by local ambitions and are seen sometimes to be used as ladders for political gains, However, with prudential

culture in place, managements of UCBs have to be alert and watchful about the quality of Balance sheet as they have to operate in market economy.

3. There is a big need in the emerging fearless, competitive, dynamic and complex market scenario to develop organizational competitive efficiencies and allowing their management down the line to work autonomously and professionally.
4. The bank should fix accountability for organizational performance on key performance areas like deposit collection and mobilization, securities or guarantees against the loans, asset liability mismatch, cost management, customer's satisfaction, employees problems etc.
5. UCBs will be further threatened not only by ever growing competition but also due to fast development in the information and communication along with the advancement in the technology. Management of organization has become more and more complex. E-commerce, e-banking, and e-financial services are going to change the entire face of banking.
6. In order to align with Schedule Commercial Banks (SCBs) and to increase the operational autonomy of the Urban Co-operative Banks (UCBs), the practices of fixing floor interest rates chargeable to internally, decide their own lending rates taking into account the cost of funds, transaction cost, etc. with the approval of managing committee are required.
7. UCBs must now appreciate that there is a paradigm shift from the sole deposit orientation to profit orientation and hence local area war of offering higher rates of interest on deposits should be given rethinking.
8. UCBs are facing a pressure on margins, there is a need to conduct costing exercise and concentrate on substantially reducing the cost of funds and transaction cost.
9. UCBs should seriously address the new risks that have now emerged due to policy of deregulation, liberalization and globalization. The ability to assess, contain and manage these risks and more particularly vulnerability of market,

liquidity and interest rate risks has become very crucial and critical especially for UCBs. Assets Liability Management and Risk Management are the areas, which must be deeply understood, adopt and master it. Management of Balance sheet will be of great importance.

10. UCBs should now primarily refocus on continuously improving on their efficiency, quality speed and pricing by offering a unique experience to customers coherently and consistently.
11. UCBs should also conduct market research and carve a niche for themselves in the changing market conditions and environment.
12. UCBs with the strong advantage of homely atmosphere and homogeneous group should also endeavor to set their own benchmarks of organizational standards of behavior and service excellence to brand its cultural difference in the industry.
13. In the new millennium, although the market indicates the heavy reliance on use of technology, still not the machines alone but human face in trustworthy environment always predominantly will be a decisive factor while choosing a bank, which UCBs have always long cherished.
14. In order to ensure transparency co-operative banks should publish the minimum lending rates and display such information in every branch.
15. UCBs including non-scheduled banks should have a committee approach to manage various risks. Risk Management Committee, Credit Policy Committee, Asset-Liability Committee, etc are such committees that handle management aspect.
16. The progressive and forward looking Management of UCBs in the coming future without much loss of time should ensure that the organization is put at the right place and at the right time, with the right characteristics the right way.

8.8 SCOPE OF FURTHER STUDY:

On the basis of formula or proportion derived in this study a model can be developed in such a manner that it's applicability will help any co-operative bank to know what proportion of RSA and RSL to be maintained to have a optimum mix and have the appropriate balance between it's assets and liabilities at any point of time during the year.