



A study on 'Cooperative Banks in Amreli District with special reference to Lending Practices'

Abstract:

The business of banking has done wonders for the world economy. The simple practice of accepting money deposits from savers and then lending the same money to borrowers, productive use and investments activity encourages the flow of money by banking. The economy to grow allows turn in this banking system. Savings would sit idle in our homes, ordinary people dreaming for a new car or house would not be able to purchase cars or houses, the entrepreneurs would not be in a position to raise the money, in the absence of banking business. In 1904 in India government was started cooperative movement. The problem of usury and rural indebtedness, which has become a curse for population, then the government therefore decided to develop the cooperatives as the institutional agency to tackle. In this position such a cooperative banks operate as a blessing centre. Today several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system. 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 Gujarat. The study of the bank's performance along with the lending practices provided to the customers is herewith undertaken. Customer has taken not a single type of loan but they have taken multipurpose type of loans from bank. Cooperative banks has 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.

Key words:

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

Introduction:

In the co-operative sector, co-operative banks are small-sized units organized which operate both in urban and non-urban regions. These banks are traditionally cantered 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.

The cooperative banks provide services such as savings and current accounts, safe deposit lockers, loan or mortgages to private and business customers. For middle class and lower 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 lower. The private banks, the process of documentation is rigid and lengthy 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.

Objectives of the Study:

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

Research Methodology:

The method used was questionnaire and interview of the experienced loan officers. 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 research is based on both types of data primary and secondary.

Primary Data: – Observation Method; Interview Method; Structured Questionnaire

Secondary Data: - Annual reports of the bank; Manual of instructions on loans and advances; Books; Articles and Research Papers; Internet.

Sampling Unit and Sampling Size:

The Study population includes the customers of bank and Sampling Unit for Study was Individual Customer. Sample size is 50 respondents.

Limitations of the Study:

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

Data Analysis and Interpretation:

1: Preferences of the customers for the loans:

From the study following data were find out.

KIND OF LOAN	NOOF RESPONDENT	%
House Loan	16	32
Personal Loan	15	30
Consumer Loan	06	12
Educational Loan	08	16
Vehicle Loan	03	6
Others	02	4
Total	50	100

Source by: Primary Data.

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

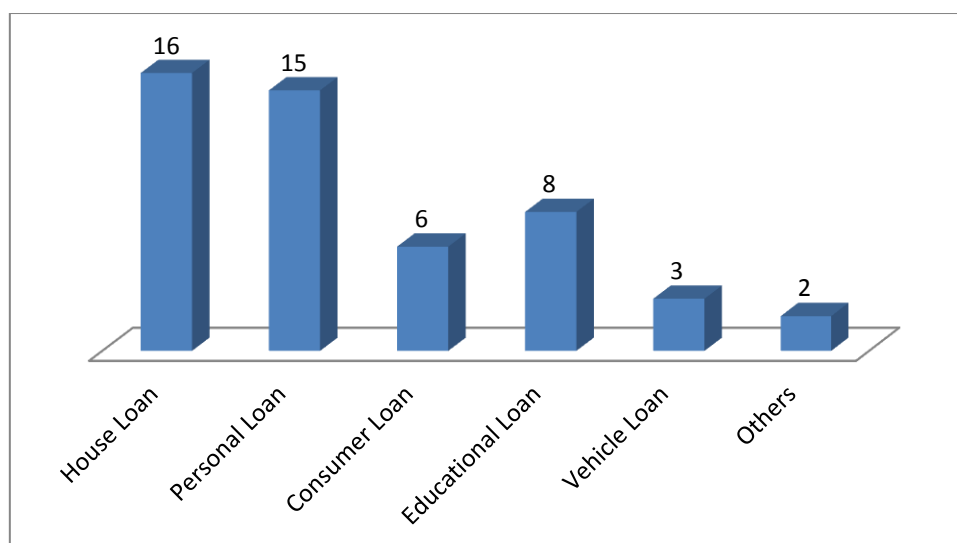


Fig 1: Preferences of the customers for the loans.

2: Range of the amount of loans:

From the study following data were find out.

Loan Amount	No Of Respondent	%
Less than 20,000	04	8
20,000 to 50,000	10	20
50,000 to 1,00,000	06	12
More than 1,00,000	30	60
Total	50	100

Source by: Primary Data.

Present Study reveals that 8 % people prefer loan less than 20,000, 20% respondents prefer 20,000 to 50,000, 12% prefer more than 1,00,000 and 60% of the respondents prefer more than 1,00,000.

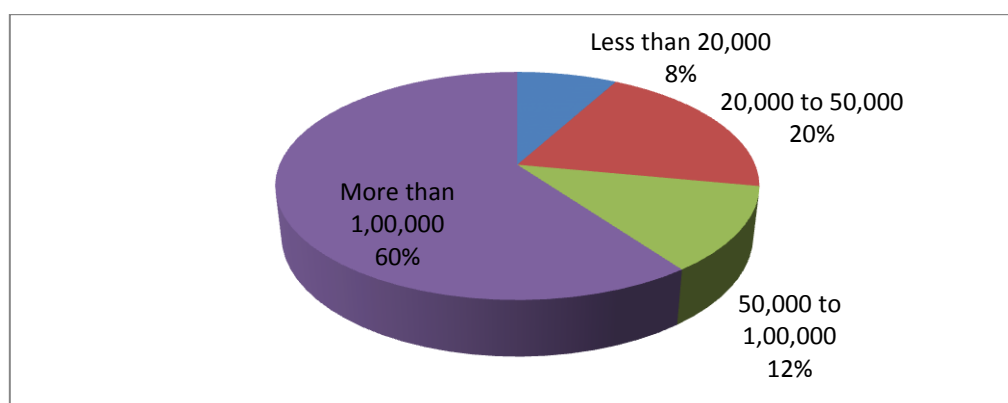


Figure 2: Range of the amount of loans

3: Preferable term of loan:

From the study following data were find out.

Term of Loan	No of Respondent	%
Less than 1 Year	06	12

1 to 3 Year	10	20
More than 3 Years	32	64
Total	50	100

Source by: Primary Data.

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.

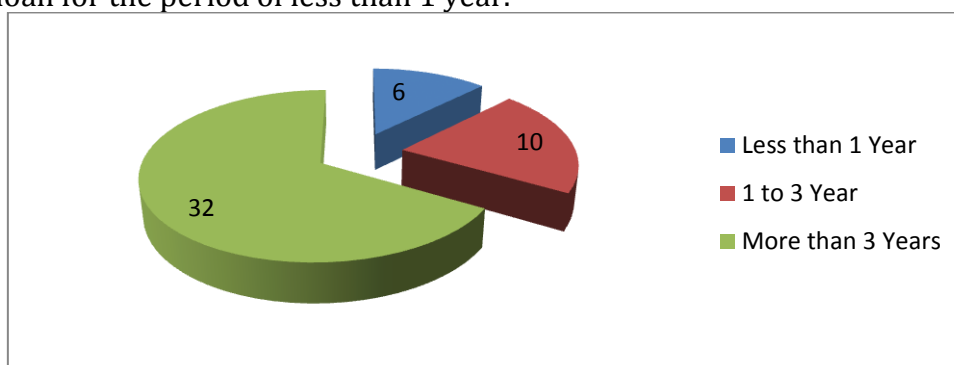


Figure 3: Preferable term of loan.

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

Reason for taking Loan	No Of Respondent	%
Reasonable rate of Interest	06	12
More Schemes	05	10
Less formalities	17	34
Easy repayments	19	38
Any other	03	6
Total	50	100

Source by: Primary Data.

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

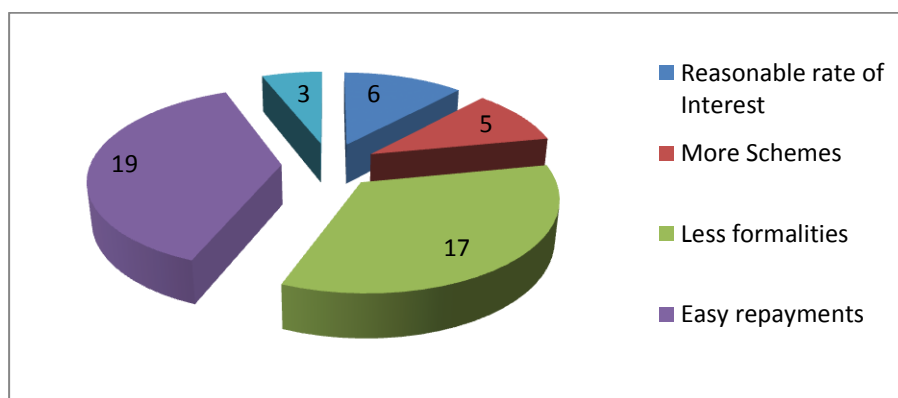


Figure 4: What prompted the customers to take loan from cooperative banks.

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

From the study following data were find out.

Average time for processing of loan	No of Respondent	%
Less than 7 days	34	68
Between 7 to 14 days	13	26
More than 14 days	03	06
Total	50	100

Source by: Primary Data.

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.

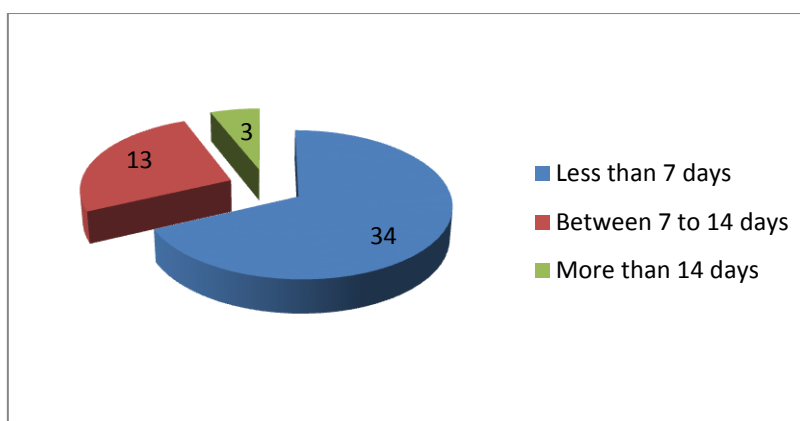


Figure 5: Average time taken for the processing of the loan.

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

From the study following data were find out.

Rank the facility	No of Respondent	%
Above average	16	32
Average	30	60
Below average	04	8
Total	50	100

Source by: Primary Data.

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.

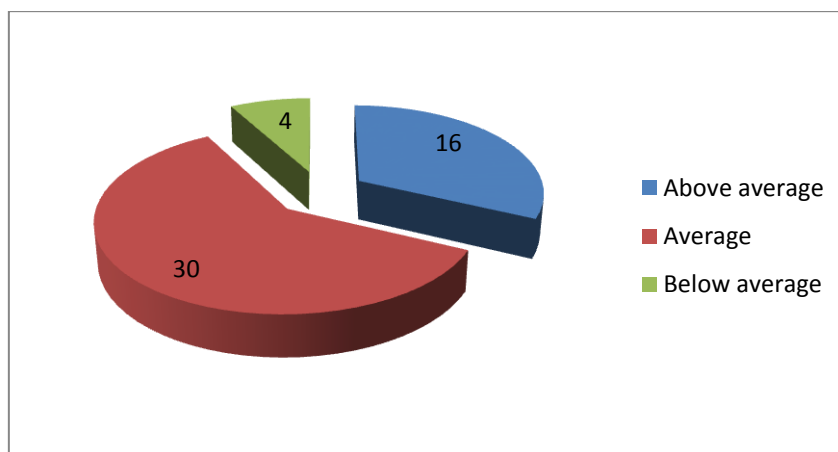


Figure 6: Ranking of the facilities provided by the co-op. Banks.

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

From the study following data were find out.

Rank the customer services	No of respondent	%
Excellent	12	24
Good	26	52
Average	12	24
Poor	01	2
Total	50	100

Source by: Primary Data.

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 it's poor.

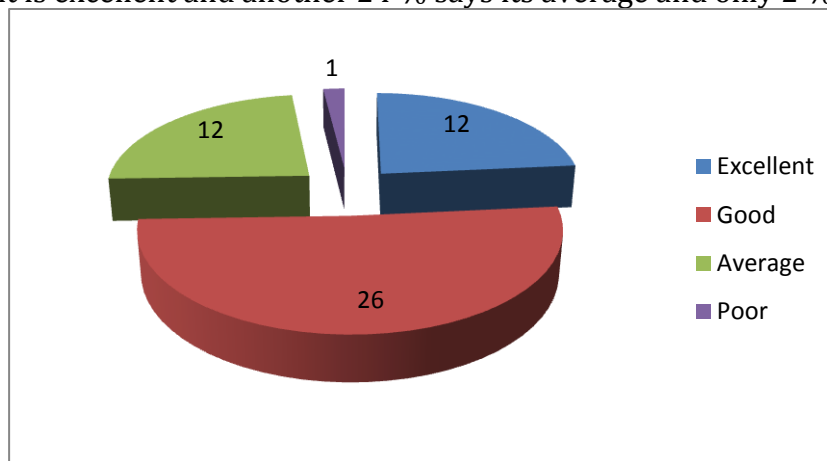


Figure 7: Customer's ranking for service of the bank.

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

From the study following data were find out.

	No of Respondent	%
YES	34	68
NO	06	12
Can't Say	10	20
Total	50	100

Source by: Primary Data.

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

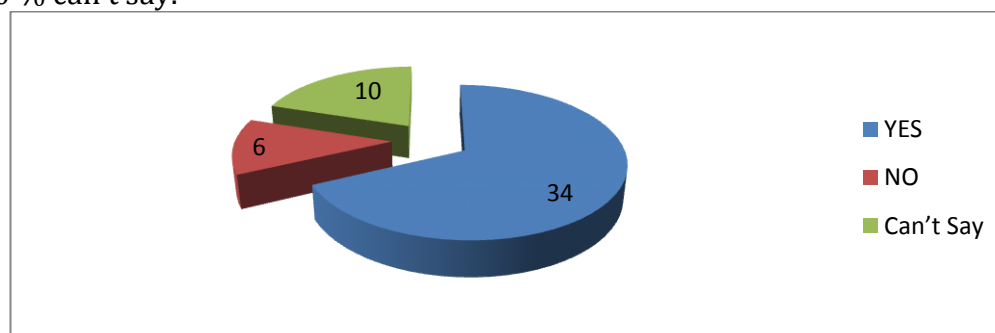


Figure 8: Satisfaction of the customers with the amount & period of instalment.

9: Preferable banks for borrowing facilities.

From the study following data were find out.

Preferable bank in future	No of Respondent	%
Public bank	07	14
Private bank	15	30
Cooperative bank	28	56
Total	50	100

Source by: Primary Data.

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

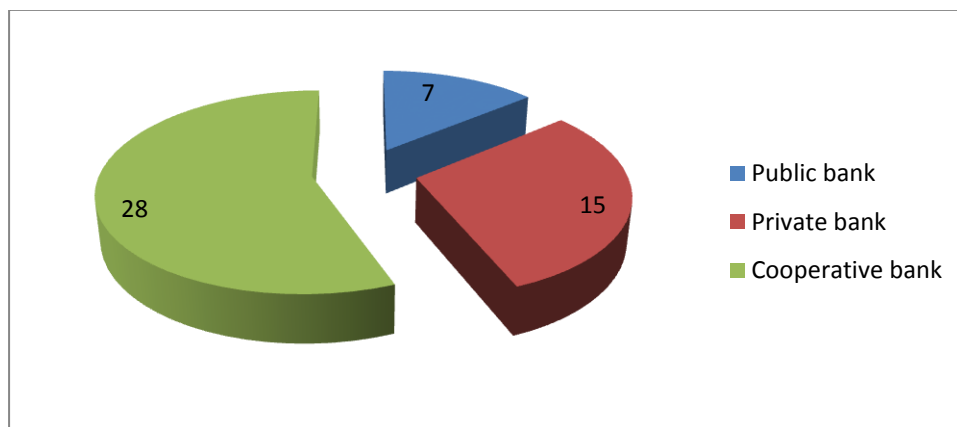


Figure 9: Preferable banks for borrowing facilities.

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

Bank refer to others	No of Respondent	%
Always	39	78
Sometimes	09	18
Never	02	4
Total	50	100

Source by: Primary Data.

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.

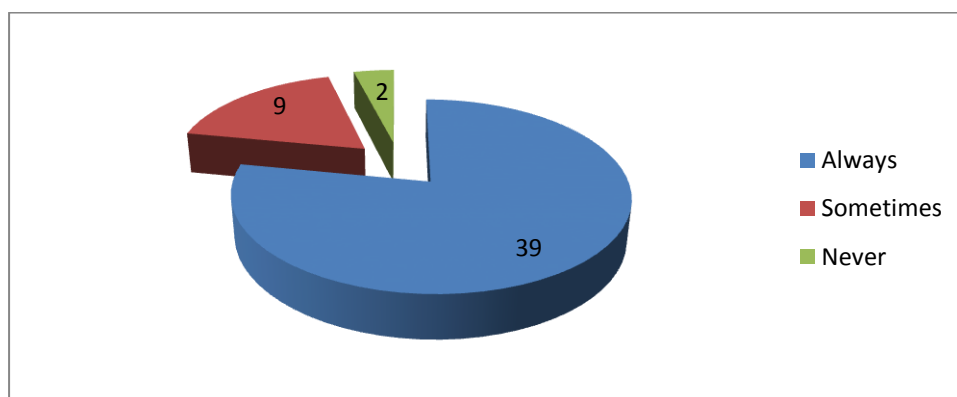


Figure 10: Customers who would like to refer the co-op. banks to their friends and relatives.

Findings of the Study:

1. Majority [32% as per the study] of the respondent were having housing loan from this cooperative banks.
2. Most [64% as per the study] of the people prefer to take long term loan which is more than 3years.
3. There is a very simple procedure followed by bank for loan.
4. Easy repayment and less formality 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 instalments.
7. Average time for the processing of loan is less i.e. approx 7 days.

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.

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:

- Limited ability to mobilize resources.
- Low level of recovery.
- High transaction of cost.
- 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 arises out of the applicability of the cooperatives legislative is:

- 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.

Suggestions:

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

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