CHAPTER VII

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FINDINGS, RECOMMENDATIONS AND CONCLUSION

7.1 Findings of the Study

In the present study the researcher collected data from four banks. The data and information collected are presented in tabular form and analysed. Simple mathematical tools like percentage, arithmetic mean etc. are used for analysing data. The analysis reveals some important inferences relating to the financial management in banks in Kerala. The following paragraphs recapitulate and summarize the findings of the data analysis that has already been presented in the preceding chapters.

One of the objectives of the study is to analyse the risk return management in banks. Data relating to the risk and return in banks are analysed and it is found that:

1. All the banks under study are aware about the risk. It is an estimate that can be made about the degree of happenings of the loss in relation to the banking business.
2. All the banks give equal importance to the term uncertainty. So the banks directly deal with the planning process because they anticipate the future loss from the past experience.

3. Banks, being highly leveraged financial institutions that essentially thrive on public thrust, encounter many risks, the chief ones being credit risk, operational risk and market risk. All the banks have evolved a road map to move towards implementation of Basel II, as per the Reserve Bank of India directions.

4. The Dhanalakshmi Bank adopted only prevention of risk as the method of risk management. But the Federal Bank and the South Indian bank include avoidance of risk, prevention of risk and retention of risk as the methods for risk management. The Catholic Syrian Bank considers only two methods of risk management, such as avoidance of risk and prevention of risk.

5. All the banks under study have constituted risk management committees as required in the guide lines of the Reserve Bank of India. The banks have Risk Management Policy in place and adopt a pro-active approach to risk management across all risk areas. A comprehensive Risk Management system covering identification, measurement and
monitoring of risks across Credit, Market and Operational risks have been established by all the banks.

6. The Dhanalakshmi Bank applies only hurdle rates as the criterion for evaluating proposals to minimize risk. The Federal Bank uses two criteria for evaluating proposals to minimize risk. The other two banks select only the least risky proposals to minimize risk.

7. The important function of the top management of the banks is to measure the return which the banks earn on account of its operations. All the banks under study give equal importance for the definition of return.

8. The income approach is the most important approach followed by all the banks under study among the approaches for the measurement of return.

9. All the banks are equally aware and give equal importance to the components in the rate of return like return at zero risk, Premium for business risk and premium for financial risk.

10. The top management of the banks has to choose between risk and return in every area of financial management without endangering the liquidity of the bank. Among the four banks under study only the Federal Bank has adopted all the major risk return decision areas.
The second objective of the study is to analyse how financial planning and analysis are being carried out in banks. The analysis of data and information relating to these reveals the following:

1. All the banks under study give equal importance for financial plan. It is necessary for the smooth running of the banks. A bank cannot carry on without planning and it is done for each functional areas of management. Each functional manager plans for his area of management and it is linked to the objectives of the banks.

2. Financial planning results in the formation of the financial plan. It is primarily a statement estimating the amount of capital and determining its composition. The quantum of finance is the most important element for all the banks under study among the contents of financial planning.

3. All the seven principles of designing a financial plan were included only by the Catholic Syrian Bank. But the Dhanalakshmi Bank accepted four principles, namely, simplicity, long term view, liquidity and economy. The other two banks included five principles of designing a financial plan.

4. All the banks are aware about the financial planning. Financial planning means deciding in advance, the financial activities to be carried out to achieve the basic objectives of the bank.
5. All the ingredients of financial planning are considered only by the Federal Bank and the South Indian Bank. The Catholic Syrian Bank considers only one ingredient and the Dhanalakshmi bank includes two ingredients of financial planning.

6. Financial planning has different steps for the function of finance and includes the determination of the bank’s financial objectives, formulating and promulgating financial policies and developing financial procedures. The Federal Bank includes five steps for financial planning. The South Indian Bank starts financial planning with the collection and assessment of data and ends with reviewing and updating the plan. The other two banks accept a different angle in the steps for financial planning.

7. All the banks included in the study follow the same pattern of finance. They are internal, ownership, short term, medium term and long term.

8. Nearly 70% of the finance is from the long term finance for the four banks. But the ownership finance of all the banks are below 1% except the Dhanalakshmi Bank.

9. The Federal Bank and the South Indian Bank include all the three aspects for assessing the fixed capital requirements. But the other two banks include aspects such as inviting quotations for the fixed assets
and ascertaining the total funds required for the purchase of fixed assets.

10. The amount of fixed capital requirements of a bank depends basically on two factors, namely, size of the bank and method of acquisition of fixed assets. The Dhanalakshmi Bank and the Federal Bank consider the two factors. But the other two banks consider only one factor i.e., method of acquisition of fixed assets.

11. The Federal Bank uses five principles for efficient financial management except the proper depreciation provided out of profits to enable the timely replacement of fixed assets. The Catholic Syrian Bank considers principles like increasing the earning capacity of the bank, idle capacity and proper depreciation provided out of profits.

12. All the banks under study are not over capitalized. But they are well aware about the causes of over capitalisation and consider different factors as the causes of over capitalisation.

13. All the banks under study are in a position of under capitalisation. This is because its actual capitalisation is lower than its proper capitalisation. This particularly happens in the case of well established banks, which have insufficient capital but have large secret reserves in
the form of considerable appreciation in the values of the fixed assets not brought into books.

14. All the banks under study are in the position of under capitalisation. The Catholic Syrian Bank’s position is increasing year by year after 2000-2001. A tremendous increase in the case of the Dhanalakshmi Bank occurs only in the year 2001-2002. The maximum increase shown by Federal Bank is in the year 2002-2003.

15. All the banks under study consider factors like under estimation of the initial earnings and maintaining high standards of efficiency as the main causes of under capitalisation.

16. High rate of dividend which gives an opportunity to workers to demand high wages and encouragement of acute competition are the main effects of under capitalization for all the banks under study.

17. The situation of under capitalisation is mainly corrected by the issue of bonus shares by all the banks under study. By this the banks can reduce both the dividend per share and the average rate of earnings.

18. The Federal Bank has increased the capital up to 1350.51% and the Catholic Syrian Bank to 34.56% during the past ten years.
19. The Catholic Syrian Bank set aside more amount for reserves and surplus. Among the four banks under study the Dhanalakshmi Bank set aside the least amount for reserves and surplus.

20. In the case of deposits the maximum amount raised by the South Indian Bank was 437.27% in the year 2006-2007. The least importance on deposits was given by the Catholic Syrian bank as they have increased only 154.94% in the year 2006-2007.

21. The South Indian Bank has increased the rate of borrowings, which is upto 80.84% in the year 2006-2007. All the other banks have decreased their rate of borrowings. The maximum reduction is in the case of the Catholic Syrian bank which is up to 113.55% in the year 2006-2007.

22. All the banks increased their other liabilities and provisions. The highest rate was 501.37% in the year 2006-2007 shown by the Catholic Syrian Bank. The Federal Bank has given less consideration for the other liabilities and provisions among the four banks.

23. The cash and balance with RBI have gone up in the case of the Federal Bank. The Dhanalakshmi Bank showed the least increase, 107.45% in the year 2006-2007 when compared with the other banks under study.

24. The Federal Bank has increased the balance with banks and money at call and short notice to 2239.10% in the year 2006-2007. When
compared with the other banks, the Dhanalakshmi Bank has reduced it year by year. In the case of the South Indian Bank it has gone up to 637.30% in 2006-2007.

25. The Federal Bank has increased the investments remarkably among the four banks. In case of investments the next position goes to the South Indian Bank, which has gone up to 213.85% in the year 2006-2007. The Dhanalakshmi Bank shows the least increase regarding the investment.

26. The South Indian Bank gives maximum consideration for advances when compared with other banks. The percentage of advances of the South Indian Bank has gone up to 832.07% in 2006-2007. In the case of advances the least increase is recorded by the Dhanalakshmi Bank.

27. The Catholic Syrian Bank shows the least increase in other assets when compared with the other banks. The maximum amount invested in other assets is made by the South Indian Bank. In case of the Federal Bank it has gone up to 172.75% in the year 2006-2007.

28. The maximum interest earned was recorded by the South Indian Bank in the year 2006-2007. The percentage of increase is less in the case of the Catholic Syrian Bank, which was recorded as 64.61% in the year 2006-2007.
29. The Federal Bank shows a higher increase in case of other income when compared with the banks under study. The percentage increase is lesser with the Catholic Syrian Bank, which is recorded as 45.60 in 2006-2007.

30. Regarding the payment of interest the least amount is shown by the Dhanalakshmi Bank in the year 2006-2007. The percentage increase is higher in the case of South Indian bank, which is recorded as 91.76% in 2006-2007.

31. The operating expense is higher for the Federal Bank in the year 2006-2007 among the four banks.

32. The maximum provisions have been given by the Federal Bank in all the years when compared with the other banks under study. The Dhanalakshmi Bank gives a lesser consideration to provisions and contingencies.

33. The Federal Bank has increased the percentages of net profit by 4093.17% in the year 2006-2007. In the case of the Dhanalakshmi Bank this has come down to -12.13% in the year 2006-2007.

34. The percentage of capital to total liabilities is decreasing in the case of all banks except the Federal Bank. It is clear that they are using more outside liabilities for the operation of the banking business. But in the
case of the Federal Bank they issued more capital in the total capital structure of the bank. All the banks are using below 2% of the capital in the total capital structure of the bank. When compared to the other banks, only the Dhanalakshmi Bank uses more capital.

35. The percentage of reserves and surplus to total liabilities is decreasing in the case of all banks except the Dhanalakshmi Bank. It is clear that they are transferring more amounts to reserves and surplus. The reserves and surplus are reducing year by year because the profitability of the Dhanalakshmi Bank is decreasing.

36. The Dhanalakshmi Bank has used maximum outside liabilities for the total capitalisation of the banking business. But in the case of the Federal Bank, they are using lesser amount when compared to other banks.

37. When the borrowings are compared with the deposits, the percentage is very low. The maximum shown by all the banks under study were in the year 1997-1998. After this year they reduced the borrowings below 1% except the Federal Bank.

38. All the banks under study are using other liabilities and provisions ranging from 2% to 7% of the total liabilities. The percentage of the Catholic Syrian Bank was 2.5% in 1997-1998. It has gone up to 5.67%
in 2006-2007. This means that they have increased the other liabilities and provisions. The Catholic Syrian Bank’s case is similar to the Dhanalakshmi Bank but the range varies from 3.83% to 6.4 %. The other two banks have decreased their percentage, i.e., highest in the year 1997-1998 and lowest in the year 2006-2007.

39. The Catholic Syrian Bank has increased the percentage of cash and with RBI to total assets year by year. But in the case of the Dhanalakshmi Bank the percentage is decreasing year by year. In the case of the Federal bank there was a slight increase from 1997-1998 to 2006-2007. The South Indian Bank showed the highest percentage in the year 1997-1998 and the lowest in the year 2006-2007.


41. All the banks under study show the highest investment in the year 1997-1998 and after this shows a decreasing trend.

42. The major revenue depended upon by all the banks under study are advances. Year by year, advances were increasing in the case of all the banks. The Catholic Syrian Bank’s advance varies from 31.45% to 52.22%. The highest percentage is shown by the Federal Bank.
43. The Federal Bank shows the highest percentage of fixed assets to total assets in the year 1997-1998 and after this year the Federal Bank has decreased the percentage of fixed assets below 1%. Throughout the years the South Indian Bank maintained a percentage below 1%. The Dhanalakshmi Bank is increasing the amount of fixed assets year by year.

44. All the banks under study have reduced the other assets for the period under study. The Catholic Syrian Bank showed a maximum percentage in the year 1997-1998. In the case of Dhanalakshmi Bank its percentage varies from 4% to 5%.

45. The major revenue part of the bank is connected under the head, interest earned. Almost all the banks under study have a percentage range of interest earned to total income from 83% to 86%. The Federal Bank showed the highest percentage in the year 1997-1998 which means they were using their funds most effectively than other banks. In the case of the Dhanalakshmi Bank the interest earned are increasing year by year. In the other two banks the percentages of interest earned varies from 84% to 86%.

46. All the banks show a decreasing trend in the case of other income. The maximum percentage is shown by the Catholic Syrian Bank.
47. All the banks under study show a decreasing trend in the case of interest expended. The maximum interest payment showed by the Federal Bank in the year 1997-1998 was 80.75%. It has gone down to 49.13% in 2006-2007. The maximum of the South Indian Bank, the Catholic Syrian bank and the Dhanalakshmi bank were 72.03%, 71.09% and 70.14 respectively in the year 1997-1998.

48. The operation expenses of all the banks show an increasing trend. The maximum percentage of the Catholic Syrian bank was in the year 2006-2007. The operating expenditure percentage of the Dhanalakshmi Bank is very high when compared to the other banks.

49. The provisions and contingencies of all the banks are increasing year by year. The Federal Bank shows maximum percentage in the year 2006-2007.

50. The Federal Bank has increased the capital to 1450.51% in 2006-2007. This means that they employed more capital for the effective development of the banking business. In the case of the Dhanalakshmi Bank the percentage has gone up to 134.56% in 2006-2007. The other two banks also give an equal importance in the raising of capital.

51. The Catholic Syrian Bank has given more consideration in the reserves and surplus. The percentage is 2101.43% in 2006-2007. Among the
other banks, the Federal bank has increased the reserves to 1683.28%. The least importance to reserves and surplus is given by the Dhanalakshmi Bank.

52. The South Indian Bank has increased the deposits to 537.27% in 2006-2007. But in the case of the Catholic Syrian Bank the average increase is less when compared with the other banks under study. The Federal bank has also shown an increasing trend for the last 10 years.

53. The borrowings have decreased in the case of the Catholic Syrian Bank to -13.55% in 2006-2007. But the Federal bank’s rate of borrowings has increased by 180.84% in 2006-2007. The other two banks show only a small increase when compared with the other banks under study.

54. The Catholic Syrian Bank has increased the other liabilities and provisions to 601.37% in the last year. This has been the maximum increase when compared with the other banks under study. The level of increase is less in the case of the Federal Bank because it is only 440.79% in 2006-2007.

55. The Federal Bank has the highest increase in the cash and balance with RBI when compared with the other banks under study. In the year 2006-2007 the cash and balance with RBI comes to 493.85%. The least increase is recorded by the Dhanalakshmi Bank in the year 2006-2007.
56. A tremendous increase has been shown by the Federal Bank in the case of balance with banks and money at call and short notice for the ten years under study because in the year 2006-2007 it comes to 2339.10%. The least growth has been recorded by the Catholic Syrian Bank.

57. When advances are concerned, the South Indian Bank has a huge increase when compared with the other banks under study. The least increase is recorded by the Dhanalakshmi Bank.

58. The Federal Bank gives the least importance to the investment of fixed assets. The South Indian Bank invested a huge amount in the fixed assets when compared with the other banks for the ten years under study.

59. The Catholic Syrian Bank records the least increase in the investment in the other assets. But the South Indian Bank shows the highest.

60. In case of interest earned, the higher trend percentage is recorded by the South Indian Bank.

61. In the other income concerned the maximum increase is recorded by the Federal Bank.

62. In the interest expended, the rate of increase is higher in the case of the South Indian Bank.
63. The Catholic Syrian Bank records the least increase in the trend percentage of operating expenses. In case of operating expenses the trend percentage is the highest for the Federal Bank.

64. The Dhanalakshmi Bank records the least increase in the trend percentage of provisions and contingencies.

65. The Dhanalakshmi Bank records the least increase in the trend percentage of net profit.

66. In the year 1998 the cash from operations of the Catholic Syrian Bank was Rs.1629197. But as it reaches 2007 it comes to Rs.722090. The highest cash from operations was shown in the year 2002, Rs.2728454 and the least in the year 2003, Rs.3492197.

67. Cash flow from investing activities of the Catholic Syrian Bank showed a negative trend in all the years. During the year 1998, the cash flow from the investing activities was Rs.-79835. It varies from Rs.-2708 in the year 2001 to Rs.-103875 in the year 2004. But as it reaches 2007 it comes to Rs.-60196.

68. In the year 1998 the net cash used in financing activities of the Catholic Syrian Bank was Rs.-116826. But as it reaches 2007 it comes to Rs.-99100. The highest net cash used in financing activities was shown in the year 2006, Rs.310516 and the least in the year 2003, Rs.-116826.
69. In the year 1998 the cash from operation of the Dhanalakshmi Bank was Rs.-525175. But as it reaches 2007 it comes to Rs.2919177. The highest cash from operations is shown in the year 2007, Rs.2919177 and the least in the year 2000, Rs.-905785.

70. Cash flow from investing activities of the Dhanalakshmi Bank showed a negative trend in all the years. During the year 1998 the cash flow from the investing activities was Rs.-32387. But as it reaches 2007 it comes to Rs.-52228.

71. In the year 1998 the net cash used in financing activities of the Dhanalakshmi Bank was Rs.14192. But as it reaches 2007 it comes to Rs.95921. The highest net cash used in financing activities was shown in the year 2002, Rs.226717 and the least in the year 2000, Rs.-36359.

72. In the year 1998 the cash from operations of the Federal Bank was Rs.502853. But as it reaches 2007 it comes to Rs.4677581. The highest cash from operations was shown in the year 2001, Rs.5235692 and the least in the year 2000, Rs.-1955069.

73. Cash flow from investing activities of the Federal Bank showed a negative trend in all the years except 1999 and 2002. During the year 1998 the cash flow from the investing activities was Rs.-232983. But as it reaches 2007 it comes to Rs.-246314.
74. In the year 1998 the net cash used in financing activities of the Federal Bank was Rs.-61828. But as it reaches 2007 it comes to Rs.-299596. The highest net cash used in financing activities was shown in the year 2006, Rs.3194578 and the least in the year 2000, Rs.-299596.

75. In the year 1998 the cash from operations of the South Indian Bank was Rs.1577245. But as it reaches 2007 it comes to Rs.6284512. The highest cash from operations was shown in the year 2007, Rs.6284512 and the least in the year 2000, Rs.-1223786.

76. Cash flow from investing activities of the South Indian Bank shows a negative trend in all the years. During the year 1998 the cash flow from the investing activities was Rs.-58529. But as it reaches 2007 it comes to Rs.-120015.

77. In the year 1998 the net cash used in financing activities of the South Indian bank was Rs.311115. But as it reaches 2007 it comes to Rs.-144504. The highest net cash used in financing activities was shown in the year 2006, Rs.1500000 and the least in the year 2007, Rs.-144504.

78. When we compare the cash from operations of the four banks under study the highest was shown by the South Indian Bank in the year
2007, Rs.6284512 and the least was in the case of the Catholic Syrian Bank in the year 2003, Rs.-3492197.

79. When we compare the cash from investing activities of the four banks under study the highest and the least is shown by the Federal Bank in the year 2002 and 2001, Rs.853477 and Rs.-5498358, respectively.

80. When we compare the cash used in financing activities of the four banks under study the highest and the least is shown by the Federal Bank in the year 2006 and 2007, Rs.3194578 and Rs.-299596 respectively.


82. In the case of the Catholic Syrian Bank break even income is increasing year by year except in 2003-2004. The break even income of the Dhanalakshmi Bank is the highest in the year 2004-2005. In the year 2006-2007 the Federal Bank and the South Indian Bank show the maximum break even income.

83. The maximum margin of safety showed by the Dhanalakshmi Bank is in the year 2003-2004. The other three banks show the highest margin of safety during the year 2006-2007.
84. All the banks under study have different ratios in the different years. The Catholic Syrian Bank, the Federal Bank and the South Indian Bank have approximately ideal ratios. But in the case of the Dhanalakshmi Bank the majority of the investments in the fixed assets are financed by the long term funds.

85. All the banks have a very high current ratio. This position is not desirable because the banks are in the position of less efficient use of funds. This is because a high current ratio means excessive dependence on long term sources of raising funds. Long term liabilities are costlier than current liabilities and therefore will result in considerable lowering down of the profitability of the bank.

86. All the banks have more hold ups in the current assets. This will affect the profitability of the bank.

87. No banks under study attained the ideal ratio because the majority of their funds are financed by the long term funds from outside.

88. All the banks have a very high current ratio. This position is not desirable because the banks are in the position of less efficient use of funds. All the banks have adequate funds for the repayment of interest. Therefore all the banks are adequately covered and the higher the ratio the better it is.
89. No banks have reached the standard in respect of periodical interest income.

90. The Dhanalakshmi Bank have more fixed asset coverage ratio but in the case of other banks the ratios are below one.


92. In the case of the Catholic Syrian Bank and the South Indian bank the maximum return to the shareholders was in the year 1997-1998. This ratio is different in the case of the Dhanalakshmi bank because the maximum return to the shareholders was in the year 2000-2001. The Federal Bank showed a ratio of 239.95 in the year 1998-1999.

93. The productivity of the assets in the case of the Catholic Syrian Bank was the highest in the year 2003-2004. But in the case of the Dhanalakshmi Bank, it was negative in the year 2004-2005. It is clear that the year 2006-2007 was the year of maximum productivity of the total assets in the case of the Federal Bank.

94. The earning per share in the case of the Catholic Syrian Bank was the highest in the year 2003-2004. The Dhanalakshmi Bank showed a
negative balance in the year 2004-2005. The Federal Bank was able to attain the highest in the year 2002-2003.

95. The Catholic Syrian Bank and the Dhanalakshmi Bank showed the highest only in the year 2003-2004. But the other two banks namely, the Federal bank and the South Indian Bank, showed the highest in the year 2004-2005 and 2003-2004 respectively.

The third objective of the study is to determine the cost of capital and capital structure in banks. The analysis reveals the following:

1. All the banks included only the equity shares and reserves and surplus in the capital structure and increased their pattern of capital structure for the ten years. The highest shown by all the banks was in the year 2006-2007.

2. All the banks attained the optimum capital structure by using an ideal combination of owned capital and Reserves and Surplus.

3. The Dhanalakshmi Bank and the South Indian Bank consider that the appropriate features of capital structure are profitability and control. But in the case of the Federal Bank, five features for a capital structure are considered to be appropriate.
4. All the banks give equal importance for trading on equity and RBI guidelines on any financial matters of the bank.

5. All the banks under study give due consideration for the cost of capital.

6. The Catholic Syrian Bank and the Dhanalakshmi bank consider only one factor, capital budgeting decisions. But the other two banks consider the two factors for the determination of cost of capital such as capital budgeting decisions and capital structure decisions.

7. The Catholic Syrian bank takes into account the implicit cost, average cost and marginal cost for the determination of cost of capital. Historical cost is the only element taken into account by the Dhanalakshmi bank. But in the case of the Federal bank historical cost, average cost and marginal cost are included.

8. The Federal Bank faces five problems on computation of cost of capital. But the South Indian Bank faces two problems i.e., computation of cost of capital and computation of cost of retained earnings and depreciation funds.

The fourth objective of the study is to analyse the working capital management in banks. The analysis of the data reveals the following:
1. All the banks under study consider total investments in current assets as the concept of working capital i.e., gross working capital concept. The maximum amount invested by all the banks was in the year 2006-2007.

2. All the banks under study invested maximum amount in current assets in the year 2006-2007. When compared with all the banks under study the Federal Bank invested the greatest amount in current assets in all the years under study.

3. All the banks under study raised the maximum amount in current liabilities in the year 2006-2007. When compared with all the banks the Federal Bank raised the maximum amount in current liabilities in all the years under study.

4. In the year 2006-2007 the variable working capital of the Catholic Syrian Bank was Rs.23358628. The highest variable working capital was shown by the Federal Bank in the year 2006-2007, Rs.130819647 and the least by the Dhanalakshmi Bank in the year 2006-2007, Rs.17173123.

5. All the banks maintain and update the adequate working capital for the smooth running of the business.

6. It is revealed that managing the current assets require more attention than managing the fixed assets of the banks. This is done by all the
banks under study as per the direction of the Board of directors and the guidelines of RBI.

7. The operating cycle approach is followed by all the banks for the assessment of working capital. The operating cycle begins with the advances and ends with the collection of receivables. The duration of the operating cycle for the purpose of estimating working capital requirements is equivalent to the sum of the durations of each of these stages less the credit period allowed by the depositors or suppliers of the bank.

8. All the banks have to make use of both the long term and short term sources of funds in a way that the overall cost of working capital is the lowest and the funds are available on time and for the period they are really needed.

9. The Catholic Syrian Bank and the Dhanalakshmi Bank follow the hedging approach while the other two banks follow the conservative approach.

10. All the banks under study have kept cash balance with the transaction motive of meeting the routine transactions.
11. All the banks under study are holding cash with the objective of meeting the cash disbursement needs as per the payment schedule and to minimise the amount locked up as cash balance.

12. The Dhanalakshmi Bank and the South Indian Bank face two problems such as, controlling the levels of cash and optimum investment of surplus cash. The Catholic Syrian Bank finds it difficult in controlling the levels of cash, controlling the inflows of cash and optimum investment of surplus cash. There are four basic problems existing in the case of the Federal Bank.

13. All the banks under study except the Federal bank attempts to maintain or expand scale of operations of the business with insufficient cash resources.

14. In the case of the Federal Bank the important cause of over trading is over expansion. In the case of the Catholic Syrian Bank and the Dhanalakshmi Bank, the depletion of working capital and the over expansion are the main causes of over trading. But in the case of the South Indian bank, depletion of working capital and inflation and rising prices are the main causes of over trading.

15. In the case of the Catholic Syrian Bank, consequences of over trading are reduction in advances and difficulty in making payments. But in the
case of the Dhanalakshmi Bank over trading results in costly purchases, reduction in advances and difficulty in making payments.

16. Over trading is rectified by the Catholic Syrian Bank and the Federal Bank by increasing the advances. But the Dhanalakshmi Bank and the South Indian Bank treated it with increased advances and controlling payments.

17. All the banks under study control the working capital as per the RBI guidelines and the directions of Board of directors.

18. The Catholic Syrian Bank accepts the independent proposals. The Dhanalakshmi Bank accepts the mutually exclusive proposals. But in the case of the Federal Bank and the South Indian Bank, accepting proposals depend on the acceptance of one or more other proposals i.e., dependent proposals.

19. The rationale of investment decision of the Catholic Syrian Bank is to reduce the total cost and thereby add to the total earning of the bank. The objective regarding other banks is to bring more revenue to the bank either by expansion or by present operations.

20. The Federal bank and the South Indian Bank have given due consideration to the amount of investment. In the case of the Dhanalakshmi bank, risk and uncertainty are the major constraints taken
into account while taking a capital investment decision. But in the case of the Catholic Syrian Bank, minimum rate of return is the pivotal element.

21. The Catholic Syrian Bank and the Federal Bank are using the appraisal methods to take an investment decision. But the other two banks are not vigilant about the investment appraisal methods.

22. The Catholic Syrian bank and the Federal Bank rank their investment proposals according to the fund availability and act accordingly. But in the case of other two banks they do not practice capital rationing.

23. All the banks prepare a capital investment budget, on which work is started and approved as per the recommendations of the finance committee, together with the source or sources from which the required funds would be obtained.

24. All the banks under study except the Dhanalakshmi Bank have done economic analysis to determine the financial viability.

25. The average annual growth of financial leverage for the Catholic Syrian Bank, the Dhanalakshmi Bank, the Federal Bank and the South Indian Bank are 10.91, 3.91, 7.28 and 4.37 respectively.
26. The average annual growth of operating leverage for the Catholic Syrian Bank, the Dhanalakshmi Bank, the Federal Bank and the South Indian Bank are 2.43, 0.61, 1.80 and 2.18 respectively.

7. 2 Suggestions and Recommendations

The bottom line of the survey report is that private sector banks in Kerala are not found wanting in attuning themselves to the new wave of changes. But as a natural outcome of the study the researcher would like to make some recommendations for the effective financial management in banks in Kerala.

7. 2.1 To the Banks

- The global economy has been hit by a massive slowdown and India has not been spared its rippling effects. Globalisation is a double-edged sword. Banks enjoyed its benefits over the past few years and it is necessary that they overcome its trials with a brave face.
- Banks have been turning out impressive staff productivity performance but there has to be a clear vision about this in the future also.
• The risk management systems in banks under study are not rated all that high. The new Basel II Accord drives the banks to adopt more comprehensive risk management systems with an objective to optimally utilize the scarce capital. The banks should improve methods for measuring and managing credit, market and operational risks according to the new Basel II Accord.

• Paucity of trained staff should be rectified at the earliest and quality of staff should be assured.

• Banks need to augment capital and put in place sophisticated automated risk management models.

• Banks should devise innovative methods in credit delivery and adopt new mechanisms to favorable climate for debt recovery.

• Banks should try to accelerate the pace of automation, in automating exposures to capital markets and cross-selling new products like insurance and credit cards.

**Proposed Financial Management Planning for Banks**

In accordance with the objectives of the study a suitable financial management planning is designed for banks on the basis of the findings. The financial management planning for banks is drawn based on the following premises.
The Challenges

- Competition with other banks
- Globalisation—a challenge as well as an opportunity
- Global challenges in banking
- Basel II implementation
- Enhancing corporate governance
- Compliance with international accounting standards
- Outsourcing risks
- Application of advanced technology
- Capacity building

The Focus

- Focus on customer needs
- Focus not on customer satisfaction but on customer delight
- Strive constantly for excellence
- Innovative approach towards services offered
- New opportunities in banking area
- RBI directions
- Focus strongly in technological changes
- Focus on brand image
- Quality of staff
- Good alternate delivery channels in terms of availability
Financial Management Planning for Banks

**Determining Financial Objectives**
- Proper capitalisation
- Risk Management
- Determining capital structure
- Working capital management

**Formulating Financial Policies**
- Estimation of capital requirements
- Relationship between bank and customers
- Guidelines regarding sources of raising capital
- The form and proportionate amount of securities to be issued
- Distribution of earnings
- Proper administration of fixed and current assets

**Reviewing Financial Plan**
- Bank’s short-term objectives, policies and procedures should be updated in the light of changed economic, social and banking situation.

**Developing Financial Procedures**
- Budgetary control
- Cost-control
- Analysis of financial accounts
- Interpretation of financial accounts

*Fig. F 155: Financial Management Planning for Banks*
The proposed financial management planning envisages a comprehensive financial management planning process to be practically followed by the banks for its effective implementation. The entire financial management planning process is suggested below:

**Fig. F 156:** Financial Management Planning Process
The practical hints for the above financial management planning process are recommended below:

1. **State the Mission**
   - Define the banking activities in terms of present service offering
   - Redefine the banking business based upon customer needs
   - Communicate the bank’s mission to all concerned
   - Use metaphors and analogies to explain your mission
   - Adopt the two way communication with staff at all levels

2. **State the Financial Objectives and Goals**
   - State the long-term objectives in terms of capitalisation and capital structure
   - State the immediate and short term goals in terms of working capital management

3. **Conduct the Financial Analysis – Tools Applied**
   - Comparative financial statements
   - Common size financial statements
   - Trend percentages
   - Cash flow analysis
   - Ratio Analysis
   - Cost volume profit analysis

4. **Conduct the Cost analysis**
   - Computation of costs of various banking products and services
   - Marginal costing

5. **Evaluate the Funds management**
   - Financial Planning
   - Working capital management
   - Leverages
   - Cost of capital
6. Analysis the External Environment

- Inflation
- Economic condition
- RBI policies and directives

7. Implement the Financial Plan

- Put the plan into action
- Co-ordinate the financial management activities
- See the objectives are achieved
- Make contingency planning

8. Regular Feedback

- Measure the results
- Evaluate the results
- Analyse the pitfalls
- Take corrective actions
- Conduct Financial Audit

7.2.2 To the Government and the Regulators

These are times when governments across the world have been forced to rethink their long held economic beliefs, when systems that seemed infallible suddenly appeared remarkably brittle, and when institutions that were invincible collapsed like nine-pins. Times like these come but only rarely and when they do arrive, they invariably leave behind some lessons in their wake. We have witnessed in recent past, at least three cases of ailing private sector banks being rescued by strong public sector banks.
• The role of private sector banks could be that of a self–regulatory body, developing benchmarks on risk management, corporate governance, disclosures, accounting practices, valuation of assets, customer character, lender’s liability etc.

• RBI has recently issued guidelines relating to a comprehensive framework for ownership and governance in private sector banks. With a view to diversify ownership and control of private sector banks, the guidelines prescribe a 10% ceiling on shareholding. The private banks are required to have a net worth of Rs. 300 crore and its policies and processes are to be fair and transparent. While large industrial houses will not be allowed to set up banks, they will be permitted to acquire by way of strategic investment in shares upto 10% of the paid up capital of a bank. The aforesaid guidelines are welcome from the viewpoint of providing diversified ownership but they may not help the private sector banks in securing the much needed foreign capital. At least in the case of investors who are finance entities, certain relaxation in percentages may be required.

• Corporate governance is not at all about diversified ownership. It has more to do with sound and prudent management policies
and objectives. That is why it is often said in banking, what matters is management and not ownership

7.2.3 To the Customers

Banks, generally perceived as conservative institutions, have been displaying excellence in innovation so as to remain competitive, in an environment of financial globalisation. In the earlier phase, the innovative efforts were confined to marketing, services and products. However, great strides have since been made in areas like new business models and operational innovation. The customers should not trust any of the banks blindly. Constant and continuous monitoring is essential and decisions should be taken accordingly.

7.3 Conclusion

The respondents of the study were the banks in the private sector registered in the state of Kerala. The findings of the study throw light on the new wave of changes that are on the anvil in the banking industry. Banks were in a self-congratulatory mood when they awarded high marks for their performance, by rating it as “Good to Very Good”. Banks did turn out impressive profit performance during the last years. But that is
history now and interest rates, from all indications cannot fall further and the upward trend is expected any time, principally because of the fluctuating inflation figures in India and changing interest rates in major economies. The real challenge, therefore, is in ensuring profitability when interest rates are diminishing – a daunting task which needs well-defined strategies for accomplishment especially in the area of modern bank financial management.