ABSTRACT

A sound and effective financial system of a country is a fulcrum in the growth of a nation. Banking system is the imperative segment of the financial system of a country. The growth of banks leads to the economic intensification of a nation. Both development of banks and growth of a nation are positively correlated. Banking institution is a vital establishment which provides support to financial and economic plans and policies of the government. Indian banks, being the important pillar of financial system, have always prevented the economy from economic devastation and remained stable during the global disturbances.

NEED FOR EFFECTIVE SUPERVISION

Banks act both as repository and trustee of the public's liquid savings. Banks are provider of credit to the factors of production to facilitate both the acceleration of growth and reduction of poverty in the economy. So it is essential to have an effective fool proof supervisory system in banking to ensure financial stability in the country and also to maintain depositors' confidence in it.

CONCEPT OF CAMELS RATING

Indian financial system has transformed its existing supervisory and regulatory mechanism into more comprehensive system. This new system has more emphasis on certain prudential norms of capital adequacy, control over non performing assets, system of internal control and complete upgradation of credit delivery system. It can be carried out all the way through by suitable supervisory and regulatory method known as CAMELS.

The CAMELS rating system is a technique to classify banks based on their financial status, operational management, compliance with norms and overall health. CAMELS rating system measures the performance of a bank in six areas namely, Capital adequacy (C), Assets Quality (A), Management Efficiency (M), Earnings Capability (E), Liquidity (L) and System and Control (S).

STRUCTURE OF INDIAN COOPERATIVE BANKING SYSTEM

In India, cooperatives have played and are still playing a major role in providing credit to the farmers. The structure of cooperative banking can be divided into two broad segments:

A. The Urban Cooperative Banks: These have a single tier structure i.e. Primary Cooperative Banks commonly known as Urban Cooperative Banks (UCBs).

B. The Rural Cooperative Banks: These have been further divided into two segments:

I) Long term cooperative credit structure: It comprises of two tier structure i.e.

a) State Cooperative Agriculture and Rural Development Banks (SCARDBs)

b) Primary Cooperative Agriculture and Rural Development Banks (PCARDBs)

II) Short term cooperative credit structure: It comprises of a three tier structure i.e.

a) State Cooperative Banks (SCBs)

b) Central Cooperative Banks (CCBs)

c) Primary Agriculture Cooperative Service Societies (PACSs)

OBJECTIVES OF THE STUDY

The research has been carried out with the following objectives:

1. To analyse capital adequacy of district central cooperative banks in Punjab.
2. To examine asset quality of district central cooperative banks in Punjab.
3. To evaluate management efficiency of district central cooperative banks in Punjab.
4. To examine earning capability of district central cooperative banks in Punjab.
5. To analyse liquidity of district central cooperative banks in Punjab.
6. To evaluate system and control in the district central cooperative banks in Punjab.

RESEARCH METHODOLOY

For the purpose of present study, all the twenty DCCBs of Punjab has been taken. The study covered the period of eight years from 2005-06 to 2012-13. Secondary data which was collected from annual reports of these banks and from 'Comparative Statistics of State and Central Cooperative of Punjab' published by the Punjab Cooperative Bank Ltd., Chandigarh has been used to conduct the study. Ratio analysis, simple statistical techniques such as percentages, averages and weighted averages have been used for analysis of data. Being a time series data, advanced statistical tools, such as compound growth rates, trend equations, t test has been applied to analyze the data to arrive at meaningful conclusions. The study is subject to all limitations of ratio analysis.

RESULTS

CAPITAL ADEQUACY

Ludhiana was ranked first followed by Jalandhar, Nawanshahar and Kapurthala DCCB on the parameter of capital adequacy; on the other hand Amritsar, Faridkot and Mansa DCCB were at the tail end in the ranking table. Amritsar, Bathinda, Faridkot, Fatehgarh Sahib, Fazilka, Ferozepur, Gurdaspur, Mansa, Moga, Patiala, Sangrur and Tarn Taran DCCBs had CAR less than 7 percent. Having CAR less than 7 percent is a matter of serious concern. Mansa, Faridkot and Amritsar DCCBs need fire fighting efforts to have CAR equal to 7 percent to avoid any legal complications.

ASSET QUALITY

Nawanshahar, Kapurthala and Jalandhar DCCBs had managed their asset quality effectively. These banks had location benefit also, as they are operating in cash rich NRI belt of Punjab. On the other hand Gurdaspur, Amritsar. Mansa and Tarn Taran DCCB had not managed their asset quality properly and need immediate surgical operations to improve their asset portfolio.

MANAGEMENT EFFICIENCY

Various management efficiency ratios analysed shows different results. Muktsar and Ropar DCCBs were the best banks among all the DCCBs on the basis of combined ranking of various efficiency ratios. On the other hand, Nawanshahar DCCB, Jalandhar DCCB and Kapurthala DCCB which are known to be financially strong DCCBs require more efforts to manage their operations in an efficient way. These banks are required to strengthen their Non Farm Sector (NFS) loaning to achieve their full potential, as their area of operations is known as Non Resident Indian (NRI) belt and agriculture loans are less.

EARNING CAPABILITY

Major loan portfolio of DCCBs in Punjab is agriculture loans, which have low administrative rates of interest and low profitability. Analysis of earning capability in DCCBs shows that Nawanshahar, Kapurthala and Jalandhar (banks in cash rich NRI belt of Punjab) had very high profitability as their agriculture loaning is very less and they have earned from other operations, whereas DCCBs which are dependent only on agriculture loans had a meagre income. These DCCBs have to diversify their business in high yield portfolio to earn sustainable profits.

LIQUIDITY

Overall ranking of DCCBs in terms of Liquidity position of DCCBs shows that Nawanshahar, Hoshiarpur and Ludhaiana DCCBs were the best banks where as Fatehgarh Sahib, Jalandhar and SAS Nagar DCCBs need more efforts to improve their liquidity.

SYSTEMS AND CONTROL

On the parameter of systems and control, all DCCBs had shown complete adherence to various norms and provisions of Reserve Bank of India.

OVERALL RANKING

Overall ranking of the DCCBs on the parameters of CAMEL Model, Nawanshahar, Kapurthala and Hoshiarpur DCCBs stand first, second and third respectively according to CAMEL rating. Faridkot, Mansa and Amritsar DCCBs were on last ladder and needs immediate attention for turnaround. Nawanshahar, Kapurthala and Hoshiarpur DCCBs though performing well but have a potential to improve their performance.

RECOMMENDATIONS

Cooperative banks which had been established to fulfil a social cause are still very important organization for socio economic transformation. Therefore, in the interest of economy and society, these banks need to be strengthened. Following are some suggestions which if implemented will improve the performance of DCCBs:

1. Government should contribute to the share capital of cooperative banks to strengthen their capital base without any condition and bureaucratic interference.
2. Public sector undertakings should be allowed and motivated to contribute towards capital in these banks.
3. Cooperative banks are special banks created for a social cause and are working in a peculiar working environment. Therefore, parameters which are applicable to commercial banks should not be made applicable to cooperative banks in toto. State government should approach Reserve Bank of India to develop new parameters, for supervisory control of these banks taking into consideration working conditions and social obligations of these banks.
4. Structural changes should be made to make these banks strong and financially viable.

5. State government and public sector undertakings should conduct their business through these cooperative banks.
6. DCCBs should establish a special cell towards the recovery of NPAs.
7. A fool proof system should be developed to take financial decisions. Product pricing must be according to some specific parameters.
8. In three tier cooperative structure, apex to central cooperative banks and central cooperative banks to PACS provides loans for on-lending purpose. Therefore, CAR parameter should be applicable at level of apex bank only.
9. Short term agriculture loans are provided by creating floating charge on agriculture produce of farmers. Therefore, it should be treated as secured loans for calculation of RWA.
10. In cooperative banks, there is no uniformity in accounting data. Common accounting standards should be developed for cooperative banks.

SCOPE FOR FURTHER RESEARCH

- Human Resource Development (HRD) practices in these banks are another area which may be studied.
- A product pricing policy of cooperative banks is another good area for study.
- A study may be conducted on the cooperative banks to evaluate their social contribution to the society.
- Impact of changes in the banking policies of RBI and Government of India on cooperative banking system needs to be studied.