

A Study on Cooperative Banks in Haveri District with Special Reference to Lending Practices

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Abstract

In the Present scenario, banking business plays vital role for the world economy. Banking functions look very simple method of accepting money deposits from savers and then lending the same money to depositors; banking activity encourages the flow of money; its fruitful use and investments. This in turn allows the solid construction of economy. In the nonattendance of banking business, small investments like savings would be the most popular in our homes, the industrialist notable in a position to raise capital / money, common person dreaming for a new car, house and good education would not be able fulfill these dreams. In 1904, the government of India has started the new era of cooperative movement in India. At this stage, the government therefore determined to develop the cooperatives as the institutional agency to tackle the problem of semi urban and rural savers in population. Under these circumstances, cooperative banks act and operate as a balancing centre. Now a days there are several cooperative banks that are running in the market with multipurpose functions of administrative, financial, development and supervisory in the nature of extension and improving the cooperative credit system. The main objectives of the cooperative banks are to be operative as friendly and to guide the entire cooperative structure. The present study is purely based on some of the selected successful cooperative banks in Haveri district (Karnataka). The researcher covers the banks performances and the lending practices provided by banks to their customers. The customer has taken more than one type of loan from the banks. Besides, researcher suggested that bank should adopt the newest technology of the banking such as internet banking, ATMs, online banking, credit cards etc. which influence the new customer and also competitive player in the market.

Keywords: Cooperative movement of India, Cooperative Banks, Banks Performance, Lending Practices, Loans, ATMs, Internet/Online Banking, Credit Cards, Private Sector Banks

1. Introduction

A co-operative bank is run by the members as they are financial body, in fact at the same time members are called the owners also the customers of the banks. Cooperative bank established by the persons belonging to the same profession or group of friends or particular community. The banks raise the capital from the above stated persons and they are sharing a common interest. Generally, the cooperative banks provide their members with ample range of banking and financial services like loans, deposits, security etc. Comparatively, the cooperative banks are very different from the stockholders banks by their association, their goals, values and their governance. In most countries, banking authorities are controlled and supervised by the cooperative banking sector and they have more cautious banking regulations, which place them at a level of playing field with stockholder banks. In fact, controlling and supervising may differ depending on countries; it can be executed directly by the cooperative federation or state authorities or central body. Generally, cooperative banking is established with the objective of retail and commercial basis. Around the globe, cooperative banking institution normal function is to take deposit from the savers and lending the money. Presently, the cooperative banking includes retail banking, as it passes out by credit unions, mutual savings and loan associations, home loan and even all other commercial bank services by providing customers friendly environment.

The following information describes working structure of the cooperative banking, which has three tier federal one.

1. Primary co-operative credit societies at base level (works at village level)
2. The Central Co-operative Bank works at the Intermediate Level. (works at district level)
3. A State Co-operative Bank works at the apex level (works at state level).

As it describes in the above tier researcher undertaken the study of intermediate level (i.e works at district level). The investigator covers the area of Haveri district only. In fact, the survey area Haveri is located in between the two major cities such as Hubli and Davanagere; these two cities have cascading effect on Haveri. The survey area Haveri is a district but still it is semi-urban area. Cooperative banks operating in small sized units organized in the cooperative sector, which function both in urban and non-urban regions. In the light of communities, localities and work place groups, the cooperative banks cater essentially to the small borrowers and businessman. The term Urban Cooperative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. Moreover, while majority of the UCBs are operating within a Taluk heads, there are 10 UCBs having deposits Rupees 15408.39 lakhs and total loans of Rupees 11568.06 lakhs at the end of financial year 2012-13. 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. Under these rural cooperative banks having total 2,79,062 members and providing loans in all of the above purposes Rupees 16724.09 lakhs at the end of the financial year 2012-13 in the entire Haveri district. These banks provide most services such as savings and current accounts, safe deposit lockers, loan or mortgages to private and business customers. For 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 competitive. 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.

2. Objectives of the Study

1. To know the satisfaction level of the customers from banks lending policies
2. To know the lending practices of cooperative banks in Haveri
3. To measure and compare the efficiency of cooperative banks
4. To know different type of loans preferred by different sets of customers
5. To suggest the appropriate measures to improve the efficiency of the cooperative banks

3. Limitations of the Study

1. The study is based on the information of 2010-11, 2011-12 and 2012-13 only.
2. Investigator covers only the Haveri district.
3. The present study is based on the cooperative banks of Haveri district.

4. Review of the Literature

Many of the researchers suggested various tools and techniques for effective analysis and interpretation of the financial and operational aspects of the financial institutions specifically cooperative banks. These have focus on the analysis of financial viability and credit worthiness of money lending institutions with a view to predict corporate failures and incipient incidence of bankruptcy among these institutions.

Cabo and Paula (2006) In this paper we describe the historical roots of Portuguese and Spanish cooperative credit, focusing our analysis on the governance structure, especially on the issues arising from the strict application of traditional cooperative rules.

Mavaluri, Boppana and Nagarjuna (2006) suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India.

Simeon Karafolas (2007) focused on the relationship between nonperforming loans (NPLs) and bank failure and argued for an effective bank insolvency law for the prevention and control of NPLs for developing and transitional economies as these have been suffering severe problems due to NPLs.

Dutta and Basak (2008) suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management.

Dr.Mrs.Ratna and K.Nimbalkar (2011), focused on the NPA evaluation of the Urban Cooperative Banks that have been facing cut throat competition with the private as well as public sector banks and at the same time have been greatly troubled by the increased rate of NPAs.

Ramesh Chander and Jai Kishan Chandel(2012) The study has highlighted its poor performance on various parameters. Its asset quality has been good and the recovery position been very comfortable, but the financial position in terms of capital adequacy, liquidity, earning quality and the management efficiency parameters was very lackadaisical necessitating immediate intervention. CAMEL Model has further endorsed and validated study findings drawn from Z-score analysis.

Sudesh; Makkar, Archana (2013) this paper reflects the financial performance of Kurukshetra central cooperative for the period 2006-2007 to 2010-2011.The financial performance was analyzed through the ratio analysis. After a detailed study of the financial statements of the bank, it is clear that although there is increase in deposits an indicator of growth but the profitability of the bank has decreased for the period from 2006-07 to 2010-11.the central cooperative bank should take appropriate steps and means to improve the profitability of the bank.

5. Methodology of the Study

5.1 Study is conducted on descriptive research in order to identify the best lending practices provided by the bank and formative customers' satisfaction level. The method used for collecting the sample data was questionnaire and interview of the loan officers.

5.2 Collection of data- sample data is collected through the following primary and secondary method.

5.2.1 Primary Data

- i. Questionnaire;
- ii. Interview Method; and
- iii. Observation Method

5.2.2 Secondary Data

- a) Books;
- b) Published Articles and Research Papers;
- c) Annual reports of the bank – provided by district statistical department;
- d) Manual of instructions on loans and advances; and
- e) Various web sites

5.3 Sample Size

Researcher has undertaken the randomly 121 sample units among the total population in the survey area.

5.4 The tools used for the analysis

In order to analyze the customer's behavior to describe the satisfaction level, the researchers have used the statistical techniques such as the average, percentage, bar diagram, pie chart and ANOVA etc.

6. Data Analysis and Interpretation

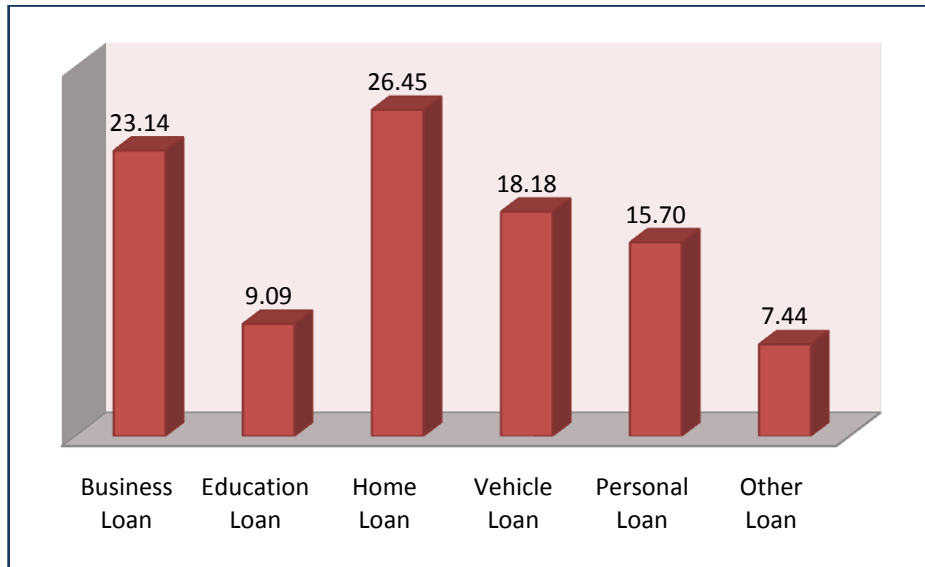
The following tables and diagrams and charts describe the customer satisfaction level in cooperative banks in Haveri district.

Table 1: Customers Loans Preferences

Type of Loan	Counts	%
Business Loan	28	23.14
Education Loan	11	9.09
Home Loan	32	26.45
Vehicle Loan	22	18.18
Personal Loan	19	15.70
Other Loan	9	7.44
	121	100.00

Source: Field survey

Figure1 – Customers Satisfaction Level in %



Source: Table 1

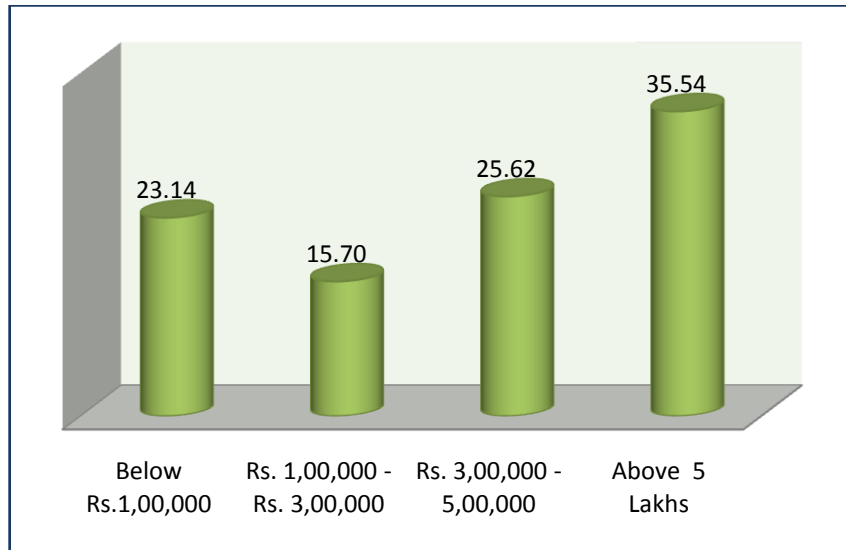
A very large population of respondents preferred home loan first (i.e.26.45%), secondly business loan 23.14%, thirdly 18.18% preferred vehicle loan and rest of the loan follows accordingly.

Table 2 – Quantum of Loan Sanctioned

Loan Amount	Counts	%
Below Rs.1,00,000	28	23.14
Rs. 1,00,000 - Rs. 3,00,000	19	15.70
Rs. 3,00,000 - 5,00,000	31	25.62
Above 5 Lakhs	43	35.54
	121	100.00

Source: Field survey

Figure 2 – Shows the Percentage of Range of Loan Amount



Source: Table 2

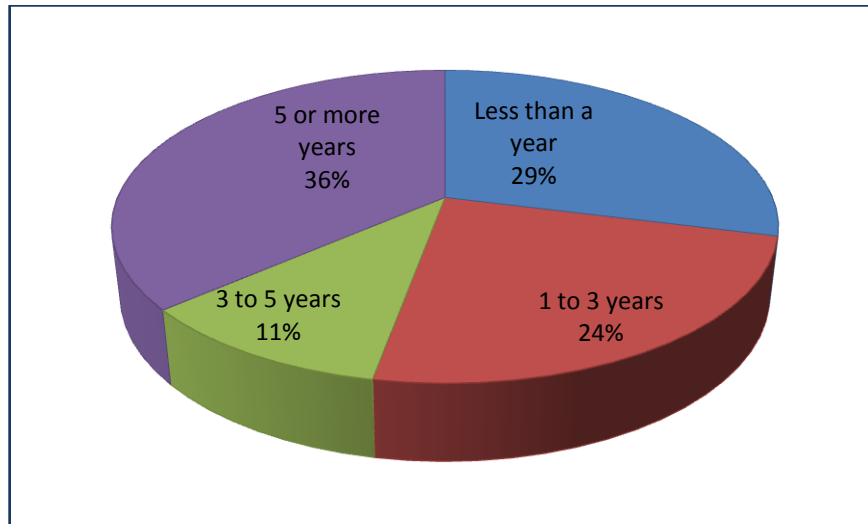
As the figure 2 describes that, most of the customers has taken the loan above Rupees five lakhs and followed by between loan amounts of Rupees three to five lakhs. The entire 35.54% customers preferred loan amount of Rupees more than five lakhs for the purpose of home construction, purchase of house or plots. 25.62% of customers have taken the loan for the purpose of vehicle for domestic use or business purpose. However, 23.14% customers required the loan below Rupees one lakh for the purpose of business (Overdraft), rest of the 15.7% customers' those, who taken loan amount between Rupees one lakh to three lakhs for the other purposes.

Table 3 – Duration Preferred by the Customers

Period	Counts	%
Less than a year	35	28.93
1 to 3 years	29	23.97
3 to 5 years	13	10.74
5 or more years	44	36.36
	121	100.00

Source: Field Survey

Figure 3 - Shows the duration preamble by the customers.



Source: Table 3

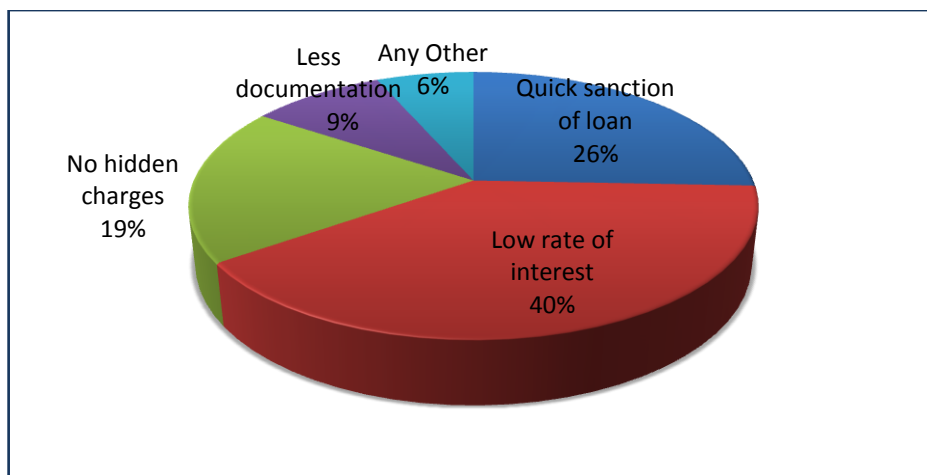
The above chart shows that long term (i.e. more than 5 years) type loan preferred in cooperative bank by the customers is 36% but only 11% customers preferred the loan between 3 to 5 years.

Table 4 - what was the reasons customers borrowing from cooperative banks

Reasons	Counts	%
Quick sanction of loan	31	25.62
Reasonable rate of interest	48	39.67
No hidden charges	23	19.01
Less documentation	11	9.09
Any Other	8	6.61
	121	100

Source: Field Survey

Figure 4 - Why customers borrowing the loan from cooperative banks.



Source: Table 4

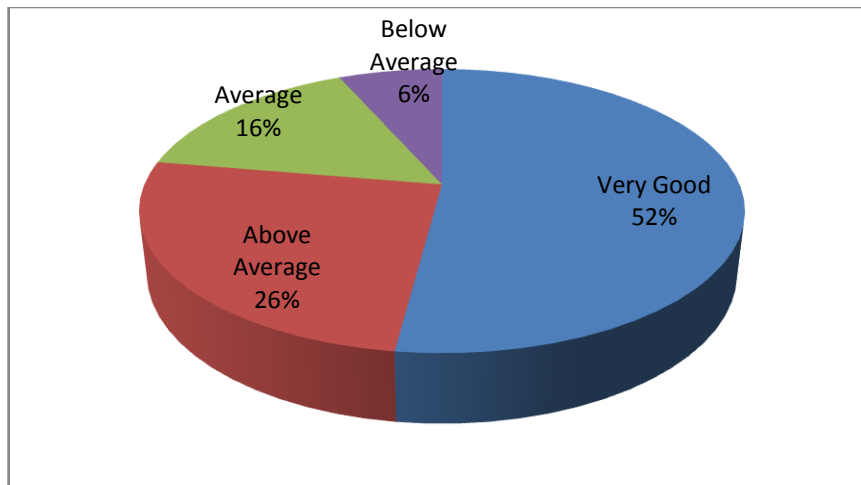
It reveals that most of the customers borrowing from cooperative banks because of reasonable rate of interest. As it shows in the above chart, 40% of the customers decided to take loan from the UCBs because of low rate of interest. These 40% customers' banks may be offered the home loan or long-term loan (i.e. more than 5 years) and another 29% of customers borrowing the loans with the reason of UCBs sanctioning loans quickly. This 29% customers offering loan from banks for vehicle loan as it found by the researcher while collecting information through the questionnaire from the personal interview with the customers.

Table 5 – Satisfaction level of the customers on the bases of facility provided by the cooperative bank.

Grades	Counts	%
Very Good	63	52.07
Above Average	31	25.62
Average	19	15.70
Below Average	8	6.61
Total	121	100

Source: Field survey

Figure 5- Satisfaction level of customers



Source: Table 5

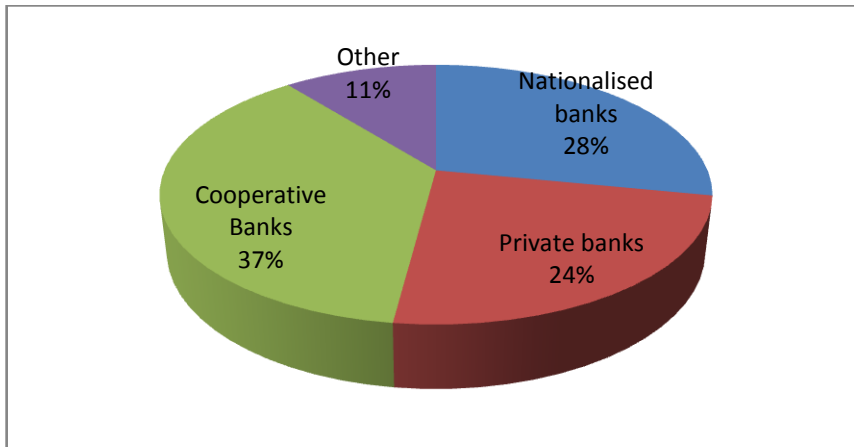
Above analysis indicates the satisfaction level of the customers towards banking facilities provided by the cooperative banks. Majority of the respondents accepted that UCBs facilities very good and 26% respondents graded as above average. Only, 6% respondents pointed that facilities provided by UCBs below the average.

Table 6 – Customers Preference for borrowings

Preference	Counts	%
Nationalized banks	34	25.62
Private banks	29	26.45
Cooperative Banks	45	37.19
Other	13	10.74
Total	121	100

Source: Field survey

Figure 6 – Represents customer preference for borrowings



Source: Table 6

As the above figures reveal that, 37% of respondents preferred the cooperative banks but on the other hand, 28% respondents preferred the nationalized banks. In fact, in Haveri district nationalized banks are the direct competitor for cooperative banks.

Analyzing with ANOVA

As all of the above table and figures shows, respondent counts and percentage of satisfaction level on different banking services provided by cooperative banks in the study area. Researcher uses the most popular statistical tool ANOVA for the scientific evaluation of customers' satisfaction level. The following are the tools used for ANOVA calculation.

1. Correction Factor (CF) = $\Sigma (X_1 + X_2 + X_3 + X_4)$
2. Total $X^2 = \Sigma ((X_1)^2 + (X_2)^2 + (X_3)^2 + (X_4)^2)$
3. SST = Total $X^2 - CF^2 / N$
4. SSC = $X_1^2 / n_1 + X_2^2 / n_2 + X_3^2 / n_3 + X_4^2 / n_4 - CF^2 / N$
5. SSR = $R_1^2 / n_1 + R_2^2 / n_2 + R_3^2 / n_3 + R_4^2 / n_4 + R_5^2 / n_5 + R_6^2 / n_6 - CF^2 / N$
6. SSE = SST – SSC – SSR
7. MSC = SSC / (C – 1)
8. MSR = SSR / (R – 1)
9. MSE = SSE / (C-1) (R-)
10. $F_C = MSC / MSE$
11. $F_R = MSR / MSE$

Where

X = individual variables of column side

R = individual variables of row side

SSC = Sum of Squares of Column

SSR = Sum of Squares of Row

SSE = Sum of Squares of Errors

MSC = Mean Squares of Column

MSR = Mean Squares of Row

MSE = Mean Squares of Error

F_C = Test on column variables

F_R = Test on row variables

Null Hypothesis

Ho: a) There is no significance difference between terms of loan on customer’s preference towards borrowing satisfaction.

b) There is no significance difference between different kinds of loan on customer’s preference towards borrowing satisfaction.

Alternative Hypothesis

H₁: a) There is significance difference between terms of loan on customer’s preference towards borrowing satisfaction.

b) There is significance difference between different kinds of loan on customer’s preference towards borrowing satisfaction.

Table 7 – Computed ANOVA table

Sources of variation	Sum of squares	Degrees of Freedom	Mean square	F Ratio
Between Terms of Loan	SSC = 2.14	C-1 = 3	SSC/3 = 0.713	FC = MSC/MSE = 0.22
Between kinds of loan	SSR = 49.79	R-1 = 5	SSR/5 = 9.96	
Residual (Errors)	SSE = 47.65	(C-1)(R-1) = 15	SSE/15 = 3.18	FR = MSR/MSE = 3.13
Total	SST = 99.58	23		

Source: Computed by using table 1 to 6

The computed value of $F_C = 0.22$ less than the table value of F at $\alpha = 0.05$ and 3 and 15 degrees of freedom $F_{0.05 (3, 15)} = 3.29$, the null hypothesis is accepted (Ho). It means there is no significance difference between terms of loan on customers’ preference towards borrowing satisfaction.

The computed value of $F_R = 3.13$ more than the table value of F at $\alpha = 0.05$ and 5 and 15 degrees of freedom $F_{0.05 (5, 15)} = 2.90$, the null hypothesis is rejected (Ho). It means there is significance difference between different kinds of loan on customers’ preference towards borrowing satisfaction.

7. Findings of Study

1. The present study reveals that, majority of the respondents were having housing loan from cooperative banks and they sanctioned low portion for education loan.
2. A major portion population borrowed the loan in long term once comparatively other term loan in cooperative banks.
3. Researcher found that, majority of respondents borrowed loan more than five lakhs amount.
4. It clears in analysis that, respondents taken loan from the cooperative banks because of reasonable rate of interest and quick sanction of loan even no hidden charges.
5. There is a very simple procedure followed by bank for loan.
6. Easy repayment and less formality are the main factors determining customers’ selection of loans.

7. Quality of services provided by the employees at bank is satisfactory because bank is catering to a small segment only and the customers are properly dealt with.
8. Customers are satisfied with the mode of repayment of installments.

This paper also describes that, the financial performances of Urban Cooperative Banks (UCBs) improved year. In study area all the different financial institutions operating even, they are the competitor but still UCBs running successfully.

8. Conclusion

In the present scenario customers not ready to wait for withdraw their money in bank by ordering with cheque. Every one-need money urgent without wasted of time, the researcher found that banks should adopt the modern methods of banking like internet banking, credit cards, ATM, etc. As it was competitive word, the banks should plan to introduce new schemes for attracting new customers and satisfying the present ones. In order to increase market area and for more profit the banks should plan for expansion of branches. Good service is one of the mode of attracting the customers, so the banks should improve the customer services more than what they are proving now.

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