Impact of Retail Lending on Profitability of DCCBs of Punjab

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Abstract

The cooperative banks were mainly established in India with a view to providing economic support to farmers by making available to them hassle - free loans. However, as a consequence of financial sector reforms, these banks faced a firm competition from several quarters on the account of gushing technical expertise, prudential guidelines, custom-built central banking systems, and a deregulated and market focused banking system. Consequently, cooperative banking organizations gradually advanced and prepared themselves to efficaciously meet recent challenges by reconceiving their operational strategies. One such change which came in a big way was the diversification of their loan portfolios - the movement from agricultural intensive loaning to retail loaning. Although profit was considered a forbidden word for cooperative banks, yet in view of the above changes, it became imperative to measure the change in the profitability performance of the cooperative banks. This paper made an attempt to study the outcome of retail loaning on the functioning of District Central Cooperative Banks (DCCBs) of Punjab by using secondary data. The paper examined the profitability of selected DCCBs in Punjab by determining the differential yield rate which is the difference in weighted average rate of return on total loans and weighted average rate of return on retail loans and further also determined the differential earnings resulting due to retail lending. The study also pin pointed major lacunas in cooperative banking relating to retail lending policies and otherwise and gave suggestions for their improvement.

Keywords : cooperative banking, reconceiving strategies, diversification, retail loans and differential earnings

JEL Classification Codes : G21, M21, N25

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The commencement of the 20th century in India observed the dawn of a new economic institution termed as 'Cooperatives.' The Co-operative Societies Act, 1904 was introduced on the recommendation of the Law Committee appointed by the Government of India, under the chairmanship of Edward Law (Kablana, Kumar, & Kumar, 2011). Intended to meet the credit needs of people in rural and urban areas, these institutions were solely an outcome of a government initiative to transfigure economic worries of the colonial citizens of that time. After Independence, cooperatives expanded to all gaits of economic life, although they continue to receive official patronage. The rural credit cooperatives comprising of State Cooperative Banks, District Cooperative Central Banks (DCCB), and Primary Agricultural Credit Society (PACS) in the short and medium term credit structure and the State Co-operative Agriculture Rural Development Banks (SCARDB) and Primary Cooperative Agriculture and Rural Development Banks (PCARDB) in the long-term credit structure aided and steered by NABARD play a main role in purveying credit. As per *Report of Trends and Progress of Banking in India* (Reserve Bank of India, 2017), cooperative banks - both rural and urban - can provide a superior alternate to the customers who are seeing a big gap between the promise and the performance of the rest of the banking system.

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India is an agriculture based country, and agriculture and its aided activities like cottage, small scale industries have a major role in the Indian economy (Suresh, 2010). The cooperative banks were mainly established in India with a view to providing economic support to farmers by making available to them hassle free loans. However, as a consequence of financial sector reforms, these banks faced a firm competition from various quarters on the account of gushing technical expertise, prudential guidelines, custom - built central banking systems, and a deregulated and market focused banking system. Consequently, cooperative banking organizations gradually advanced and are preparing themselves to efficaciously meet recent challenges by reconceiving their operational strategies.

Mr. A. P. J. Abdul Kalam, former President of India, delineated his forethought to transmute India into a successful nation by 2020 through realization of 'that ideal plentitude' for Indians and urged the banking community to be the vanguard in the country's development process (Kalam & Rajan, 1998). In consonance with his vision, there has been a tremendous transformation that the Indian banking system has been undergoing, mainly in the last few decades. The banking milieu in India has further expanded with payment banks, small finance banks, and postal banks coming in the scene. The cooperative banking system, being a significant player of the Indian financial structure, has also observed a vast and comprehensive change from regulated to a competitive and deregulated scenario. Another reform for these banks, which has come in a big way, is the diversification of their loan portfolios. The movement from agricultural intensive loaning to retail loaning has been undertaken with a purpose to increase bankers' yield on loans. From the moment these banks have been permitted to navigate into these excluded areas, cooperative banks have observed a remarkable conversion in the range of business products offered. In view of the above changes, it has become imperative to assess the swing in the profitability performance of the cooperative banks. Though, the term retail banking and retail lending are often used synonymously, yet, the latter is just one side of retail banking.

The essence of retail banking lies in the services provided to the individual customers, whose all banking needs are taken care of in an integrated manner (Sodhi, 2004). Saikrishna (2009), in his study, explained retail lending by dividing it into two main parts on the basis of income. According to the author, retail lending activities will generate either interest income or fee income. Interest income can be attributed to either prime lending or subprime lending. Under prime lending, banks consider safety as the main concern and analyze the credit worthiness and track record and history of the client before issue of loan. Under subprime lending, banks give importance to profitability only. Fee income under retail activities can be obtained from locker facility, mutual fund services, interchange fee, insurance services, credit/debit cards, and demat accounts, etc. (Saikrishna, 2009). Deepshi and Kumar (2010) stated that customer service has remained as an anchor object of the entire gamut of retail banking services. According to Tschoegl (1987), retail banking embraces offering transactions and savings services and consumer loans to small consumers. Haque and Hameed (2009), in their article, believed that retail banking services have been an incessant innovator as these transformed the financial structure of banks by inventing novel products and mechanisms.

Retail banking has brought a major change in the work culture of cooperative banking. Therefore, it is pertinent to comprehend the effect of such a change on the earnings and workings of the cooperative banks. As these banks were instituted as a part of government strategy to meet social obligations, profit was considered a forbidden word for cooperative banks for a long time. Therefore, their performance was measured in terms of task achievement, that is, loan advanced to targeted borrowers and recovery thereof. However, this is no more true now. These banks are also supposed to generate sufficient profit for their survival and, at the same time, fulfil their socioeconomic obligations. A weak organization cannot carry the weight of social commitments. To achieve its targeted social objectives, an organization must have funds sufficient enough to ensure its survival.

Profitability is the capability of a particular investment to gain return from its usage (Raul & Ahmed, 2005). It is the earning potential of the investment and acts as a device to determine the efficiency of the concern.

Profitability-based performance assessment is essential to understand what a bank can do to earn profits and to benchmark the outcome of any such steps (Pricewaterhouse Coopers, 2011). A considerable part of the commercial banks' profitability is based on parameters like NPAs, profit per employee, operating profit to total assets, and investment to total assets (Jain, Metri, & Rao, 2019).

Profitability in District Central Cooperative Banks in Punjab was examined by determining the differential yield rate (i.e. the difference in weighted average rate of return on total loans and weighted average rate of return on retail loans) and differential earnings resulting due to retail lending. The weighted average yield rate on an investment or a portfolio is one that arises from totaling all interest, dividends, or other income generated from the investment, divided by the average of the investments for the year.

The retail loans, the loan schemes that have been considered for the present study, are personal loans, consumer durable loans, revolving cash credit limit to farmers (RCCL(F)), and vehicle loans. Personal loan scheme is of the most recent origin. This loan is issued by the bank to meet the socioeconomic requirements of its clients such as kid's education, furnishing household, purchasing a computer, children's marriage, procuring a vacation trip, etc. Only salaried employees of Punjab Government, Cooperative Department, and Punjab State Cooperative Bank are authorized to claim under this scheme. RCCL (F) scheme meets the socioeconomic requirements of the farmers based on their land owning. Consumer durable loan is provided by the cooperative banks to individuals who are either in job or are doing their own business for purchasing consumer durables. Vehicle loan scheme offers monetary support for the purchase of a new vehicle for occupational or private use to any individual, group of individuals, or a partnership firm.

The differential yield rate is the difference in yield rate accrued on total loan and yield rate earned on retail loans by the DCCB. Differential earning is a product of differential yield rate and retail loan outstanding for a specific period. Total earnings of the bank includes revenue generated from interest and other sources ; whereas, net profit is calculated by deducting operating and non - operating expenses from total earnings. A comparison of differential yield rate, differential earnings, ratio of differential earnings to net profit, and ratio of differential earnings to total earnings in the selected District Central Cooperative Banks (DCCBs) in different divisions of Punjab has been done through different tables. It is important to note that though retail earnings are included in total earnings, yet, it will give us some insight to know the impact of retail earnings on total earnings.

Literature Review

Ramamoorthy (1997) opined that in the previous system of regulated market, banks were not conscious of their profitability and productivity levels. However, the new economic system compelled these banks to head for market oriented commercially led banking system. According to him, profitability of a banking institution is a function of distribution efficiency, quantity of credit, providing for credit delinquencies, interest rate oscillations, and operating cost structure. Singh (2006) observed that the central cooperative banks are still attached to the conventional banking business of taking deposits and giving loans only. The modern service avenues have not been explored and exploited much by these banks. The emergence of high yield non - farm sector loans helped in an increased yield on loans. As per CRISIL (2008) report, lesser operating outlays, including rationalization of employee expenses, have enriched the profitability of banks, opposing the common perception that only trading earnings help the banking segment bolster their earnings. The drop in operating expenses was reached through extensive voluntary retirement plans executed by public sector banks. A decline in core operating expenses by the public sector banks caused substantial improvement in the profitability of the entire Indian banking sector. The report further observed that in the private sector banks, the profitability enhancement was chiefly because of the upsurge in treasury income and not due to any substantial decline in operating expenses.

Bhadury (2010) observed that non interest related activities of banks were capable of contributing significantly to bank profitability. These non interest related activities consisted of much lesser cost and operational difficulties, but brought higher volatility in bank revenue. This study was based on data of 12 foreign and 14 private commercial banks for the period of 1991 - 2006. Time series trend analysis and panel regression techniques were used for the study. Deepshi and Kumar (2010) examined the forces shaping the banking industry and revealed that the future would require superior efficiency and operational excellence from all banks. The retail banking industry would be ruled and directed by changing customer expectations. Customer diversity and individualism will pervade buying behaviour. Banks were facing pricing pressures, squeeze on spread, and had to give thrust on retail assets. They concluded that innovation was and would be the success mantra, but it would not have the desired impact unless banks created the requisite conditions for innovation development.

Varghese (2016) stated that the performance evaluation of the banking sector is an effective measure and indicator to check the soundness of economic activities of an economy. The study assessed the performance and financial soundness of Service Cooperative Bank using the CAMEL approach by analyzing the 10-year data. It was observed that the Service Co-operative Bank, Ranni made progress in its capital adequacy ratio over the preceding years. Although the bank needs to get better in effective utilization of assets and in terms of profitability, yet, the overall performance of the bank was found to be efficient in terms of capital adequacy and management.

Kumar (2008) opined that NPAs have seriously affected the profitability of the DCCBs in Punjab. As per her study, highest average percentage of NPAs to respective loans outstanding was found in the non - farm sector loans (36.68%) followed by proportionate share of NPAs in retail loans (31.31% in vehicle loans and 27.33% in consumer durable loans). Crop loans were found to be the least risky in almost all the selected DCCBs. It shows that the management and employees of these banks had not responded and adapted to business diversification efforts in these banks (NPAs in project loans : 36.68% in non farm sector loans ; retail loans : 31.31% in vehicle loans, 27.33% in consumer durable loans). This startling proportion of NPAs brought to light the inherent weaknesses in the loaning policies, that is, pre - sanction loan appraisal and post sanction monitoring of loan utilization in the banks of Punjab.

Kaur (2010) observed that business diversification in cooperative banks was not profitable and, as such, the shift of funds from agricultural to non - agricultural sector, by and large, resulted into huge NPAs. The study suggested increase in advances to non - agricultural sector, increase in the marketing activities for promotion of non-farm sector loans, acceleration of recovery machinery, proper credit evaluation of the customers before sanctioning loans to them, and proper training programmes for employees.

Kaur (2011) observed that profitability and productivity performance of DCCBs in Punjab was far better than that of the DCCBs in Haryana. The study also found that the DCCBs of Punjab succeeded in diversifying their business in non - farm/commercial loans. She suggested that the DCCBs in both the states should enhance their resource base at low cost and diversify their operations to high yielding loan portfolios. She also recommended that a separate Act called, "The Punjab Co-operative Credit Societies Act," should be enacted keeping in view the special nature of banking business and the changing economic environment.

Singh (2011) opined that with the introduction of the financial sector reforms, not only did the cooperative banking system underwent a major change since, but there has also been a wide-ranging variation as regard to the profitability position of the central cooperative banks in Punjab. The study was based on the return on equity (ROE) model which was used to analyze the results of two different years, that is, 1991 - 92 and 2008 - 09. A conceptual approach as well as pragmatic approach was used for the study. It was observed that the profitability performance of the central cooperative banks of Punjab was satisfactory. The shift made by the cooperative banks towards the high yield non- farm sector advances assisted in recording a progressive trend in financial margins in almost all the banks. Another alarming observation by the study was in relation to the high percentage of overdues to total loans, which requires some serious measures to be adopted.

Singh (2014) observed that diversification practically could not benefit the central cooperative banks in amassing returns and reducing risk. This can be attributed mainly to the fact that the bank personnel were proficient in advancing and recovering farm loans, and they were not familiar with fitting expertise to appraise the loan tenders of merchants, manufacturers, and servicemen. The author suggested that intensive method of loaning to agriculturalists and rural crafts persons was better for the cooperative banks, therefore, the DCCBs should endeavor to consolidate their business of loaning to agriculturalists, rural crafts persons, and traders.

Despite certain attempts made to study different aspects of diversification in cooperative banks, there remain certain pertinent omissions. There is hardly any other study which reviewed the effect of retail lending on the functioning of cooperatives. So, the current analysis is an effort to overcome the omissions, and hence examine the performance of DCCBs in Punjab based on the parameters of retail loan disbursement. In this study, some of these gaps revolve around certain questions, such as :

(i) What is the magnitude of retail loans in the District Central Cooperative Banks of Punjab ?

(ii) Have these retail loans resulted into additional revenue in the DCCBs of Punjab ?

(iii) How far have these retail loans in DCCBs in Punjab contributed towards gross profits and net profits ?

Keeping in view the above considerations, an attempt has been made in the present study to examine certain issues and pursue the following objectives.

Objectives of the Study

The key objectives of this analysis are :

(i) To assess the current position of retail loaning in the District Central Cooperative Banks in Punjab (DCCBs).

(ii) To examine the trends in differential earnings accruing due to retail loaning in absolute terms.

(iii) To assess the trends in ratio of differential earnings to net profit and ratio of differential earnings to total earnings.

(iv) To pin point major lacunas in cooperative banking relating to retail lending policies and otherwise and propose recommendations for their progress.

Research Methodology

The universe of this analysis entailed all the 20 DCCBs presently functioning in Punjab. These 20 DCCBs have been segregated into three administrative blocks by the Cooperative Department of Punjab. Three - yearly mean of non - farm loans in relation to the total loans was computed for all DCCBs encompassing a period from 2007 - 08 to 2009-10 when the present study was planned. The chosen sample for the study is represented by two DCCBs from each administrative division. One DCCB representing high diversification and another representing low diversification. Out of 20 District Central Cooperative Banks, Nawanshahr, Ropar, and Faridkot represented higher diversification and District Central Cooperative Banks - Tarn Taran, Ludhiana, and Ferozepur represented lower diversification. The study is based on secondary data. Statistical techniques such as compound growth rates and averages & percentages have been applied on the collected data for the relevant analysis.

Since 1992, these banks were permitted to advance loans in the non - farm sector, and therefore, they started diversifying gradually in a non-disruptive manner. Initially, only a very few DCCBs were selected on a pilot basis, then after some time, few more joined them, and finally, it was only by the year 1999 - 2000 that all DCCBs in Punjab participated in this process. The period of the study ranges from 2008-09 to 2015-16.

In order to study the effect of diversifying into retail loaning, the period of impact starting from 2008-09 was selected for the present study so that all the teething problems relating to diversification into retail loaning may settle down and a better analysis of the impact can be done. The study was extended up to 2015-16 and not beyond due to some very pertinent factors. The focus area of banks has shifted from retail lending ; no doubt the returns are high, but non - performing advances are also very high ; moreover, the risk weightage of retail loans as per capital adequacy norms is also very high. In DCCBs of Punjab, the percentage of NPAs to loan outstanding was 4.1% as on March 31, 2015, which increased to 6.75% as on March 31, 2017, which was mainly attributed to retail loaning. The rising NPAs in retail lending has a dual effect on the capital adequacy ratio (CAR) as firstly, it increases the provisioning, and secondly, it results in the loss of interest income as interest ceases to be accounted for NPAs (as per income recognition norms). Cooperative banks are dealing with the pressure to increase CAR as RBI required banks to achieve 9% CAR (from 7%) by March 2017 and further to 11.5% by March 2019. In order to manage CAR as per RBI directives, the cooperative banks had to shift from retail loans, and this shift was meagre till 2015-16, but it took major drift since then, therefore, this study based on retail loans was restricted till 2015 - 16.

Analysis and Results

As shown in Table 1, the trends in differential yield in Ropar CCB displayed a rising trend during the period of this study. The DCCB, on an average, was able to generate differential earnings to the tune of ₹ 205.66 lakhs mainly due to an increased volume of retail loans and growing differential yield rate. The retail lending had an encouraging impact on the yield generating capacity of the DCCB. The ratio of DY to net profit generally displayed a rising trend. The differential earnings on retail lending contributed more than 55% of the net profit in the period of the study. The ratio of DY to gross yield on an average was 9.15%. The amalgamation of widening differential yield (DY) rate with the rising retail loans in the DCCBs resulted in accrual of additional revenue of more than ₹ 2 crores in the last year of the study. These results in Ropar DCCB corroborated the favourable impact of retail loans on its earnings.

The Table 1 depicts the trends in differential earnings on retail loans in Ludhiana CCB, which exhibited a rising trend during the relevant period. The differential earnings by the DCCB increased manifold during the relevant period due to the fact that not only the differential yield rate on an average was as high as 4.29%, but the retail loans issued by the DCCB also escalated ceaselessly during the same period. The contribution of retail lending in the net profit of the DCCB was highest among all the selected DCCBs. The ratio of differential earning to gross earning on an average was 12.11% during the same period, which highlights the positive role of retail lending in the DCCB's overall performance.

The analysis of the Faridkot CCB (Table 1) highlights that the differential earnings arising due to retail loans portrayed an upward trend. During the years ending 31-03-2008 and 31-03-2010 to 31-03-2012 consecutively, the bank incurred losses. Had the retail loans not been there in the DCCB, these losses would have shot up further. The analysis reveals that with an increase in retail loans, the total earning potential of the DCCB enhanced considerably.

The performance of Ferozepur CCB (Table 1) highlights that the differential earnings increased during the study period. The ratio of differential earnings to net profit and the ratio of differential earnings to total earnings displayed a lot of volatile moments during the study period due to fluctuations in differential earnings and the profit earned. The bank incurred losses during the period of the study. Had the retail loans not been there in the DCCB, these losses would have mounted substantially. The DCCB was able to exhibit growth potential mainly by

Table 1. Impact of Retail Loans on the Profitability of Selected DCCBs

Particulars	Ropar	Ludhaina	Faridkot	Ferozepur	Nawanshahr	Tarn Taran
Retail Loans						
Average amt. in lakhs	5195.97	16340.52	9193.28	6347.66	9110.46	9383.77
Coefficient of Variation	6.48	25.00	20.31	10.77	19.7	8.02
Compound Growth Rate	1.31	8.43	4.82	2.01	6.42	3.41
Differential Rate						
Average amt. in %	3.96	4.29	3.46	4.85	3.21	3.93
Coefficient of Variation	4.83	13.40	9.15	10.71	11.15	17.19
Compound Growth Rate	1.52	-1.12	-1.76	1.14	-1.70	-3.66
Differential Yield						
Average amt. in lakhs	205.66	684.88	313.82	306.66	292.11	367.48
Coefficient of Variation	8.7	17.94	14.97	12.41	22.20	16.98
Compound Growth Rate	2.84	7.21	2.98	3.18	4.61	-0.38
***Ratio I (in %)**						
Average	84.77	332.69	444.38	1537.59	47.67	1197.04
Coefficient of Variation	30.49	58.00	187.53	114.73	41.01	67.02
Compound Growth Rate	8.07	13.60	-2.53	-17.32	3.94	-4.62
****Ratio II (in %)**						
Average	9.15	12.11	13.07	11.43	9.12	11.56
Coefficient of Variation	18.33	24.13	16.26	31.49	16.29	34.42
Compound Growth Rate	-2.25	-3.18	-4.75	-6.35	-2.07	-9.71

Source : PUNCOFED (2008-2016).

Note. *Ratio I is ratio of differential earnings to net profits ; **Ratio II is the ratio of differential earnings to total earnings.

raising the retail lending. The retail lending increasingly contributed towards the net profit and total earnings of the DCCB.

Although the differential yield rate in absolute terms in Nawanshahr CCB was fluctuating, yet the differential earnings registered a major rise during the period under study (Table 1). This was mainly attributed to a major increase in the retail lending in the DCCB. The ratio of differential earnings accruing from retail loans to net profit showed rising trends in general. The share of differential earnings out of total earnings on an average was 9.12% during the period under study. Therefore, we may conclude that retail lending had a positive impact on total earnings by the DCCB.

The analysis relating to Taran Tarn CCB evinced that its differential earnings remained almost stagnant during the period under study. The ratio of differential earnings to net profit and total earnings actually decreased at a CGR of -4.62% and -9.71%, respectively. The share of differential earnings in net profit displayed a fluctuating trend, mainly due to volatility in the amount of net profit. Weighted average yield rate on retail loan in Ropar CCB was high, but still, its retail earnings were at the lowest ebb as shown in the Table 1. The bank can improve upon its profits by issuing more retail loans and controlling its NPAs. Inspite of the good amount of retail earnings, Faridkot DCCB had the lowest net profit. The bank can improve upon its profits by controlling its NPAs.

In spite of less retail loan disbursement and low retail earnings as compared to other DCCBs, Nawanshahr CCB had the highest net profit among all selected DCCBs. This can also be attributed to the reason that the bank was able to control its NPAs. The bank needs to concentrate on granting more retail loans in order to strengthen its profits. On an average, retail earnings, gross earnings, and retail loan outstanding of Ludhiana CCB were the highest among the selected DCCBs. The lowest earnings on retail loan and gross earnings were accrued to Ropar CCB. This may be attributed to the reason that this DCCB had the lowest amount of retail loans. The bank can improve upon its profits by making efforts for disbursement of various retail loans. In the case of Tarn Taran CCB, inspite of high base of retail loan outstanding and retail earnings, the bank had low net profits, which may be attributed to very high NPAs in the bank. Therefore, in order to improve upon its profits, the bank needs to concentrate on managing and controlling its recovery mechanism effectively.

The overall analysis shows that when the retail lending augmented, it increasingly contributed to net profit and total earnings of DCCBs, thereby confirming the favourable impact of retail loans on earnings of the selected DCCBs of Punjab. The non-fund income, an important source of revenue generation in the banking system, was very low, rather negligible in the cooperative banks, and fund transfer system in the DCCBs was very lengthy. The cooperative banks also do not have proper methods for product pricing. Therefore, they follow arbitrary product pricing. These lacunas have an adverse effect on the profitability of the DCCBs, and these need to be improved.

As the pressure to adhere to capital adequacy ratio norms (CAR) had mounted on the whole banking system, cooperative banking obviously being no exception, I noticed an apparent resistance by cooperative banking for retail lending. Post 2013, the ratio of agriculture lending increased and cooperative banks cut down on many loans eg. non - farm loans, personal loans, composite loans, etc. One of the impelling reasons may be creation of high non - performing advances under retail loaning. Cooperative banks, in a rush to comply with CAR, have virtually decreased retail lending. Moreover, whatever lending is done is based on the policy of using old recoveries for new lendings. Furthermore, there are problems that are unique to cooperative banking, like the cost of funds is high as it is market based and their maximum lending is to agriculture loans, which are given at a very low rate (government controlled, presently at 4.5%) ,therefore, cooperative banks find themselves in a tight space. As per RBI's *Report on Trend and Progress of Banking in India (2016-17)*, operating expenses on staff and other heads also elevated the share of operating expenses in the total expenditure of DCCBs due to their large district-level set-up and lagged adoption of technology.

As depicted in Table 2, weighted average yield on both retail and total loans was higher than the weighted average cost of capital, but the contribution of retail loans was more than the contribution of total loans. The difference in the yield rate on retail and total loans in all the selected DCCBs was around 3%, which indicates a favourable impact of retail loans on profits of these DCCBs. Therefore, retail loans contributed more towards the earnings of the DCCBs.

Table 2. Trends in Weighted Average Yield on Retail Loans, Total Loans, and Weighted Average Cost of Funds from 2007 - 08 to 2015 - 16

DCCBs	Weig. Avg .Yield on Retail Loans	Weig. Avg. Yield on Total Loans	Weig. Avg. Cost of Funds
Ropar	12.21	8.26	4.87
Ludhiana	12.14	7.85	4.79
Faridkot	11.87	8.42	5.33
Ferozepur	11.83	6.98	4.70
NawanShehr	12.36	9.16	5.31
Tarn Taran	12.23	8.29	4.64

Source : PUNCOFED (2008 - 2016)

Retail Lending : Specific Suggestions

On the basis of several observations, a few suggestions are proposed herewith :

- The retail market in India is expanding at a very high rate. The DCCBs should concentrate on expanding their retail lending operations in a big way.
- It was observed that the non-fund income, an important source of revenue generation in the banking system, was very low, rather negligible in the cooperative banks. Fund transfer system in DCCBs of Punjab was very lengthy. This hinders the process of revenue generation.
- Cooperative banks do not have proper methods for product pricing. They follow arbitrary product pricing. This obviously has an adverse effect on the profitability of the DCCBs.
- The loan assessment system and documentation need special consideration, therefore, it should be done with a thoroughly objective approach by these institutions. Extraordinary care is essential for personal loans, where some kind of sloppiness was observed on the part of DCCBs, resulting in greater credit defaults.
- Cooperative banks should have effective component-wise cost calculation methods. The management should develop an appropriate formula for product pricing so that profit or yield contribution of each loan scheme could be known separately.
- According to trends, vehicle loan being a secured loan has come out to be a very promising loan category, therefore, the DCCBs should plot for them strategically. In order to further promote growth of vehicle loans, the DCCBs should make efforts to build fruitful collaborative relationships with auto dealers.
- Cooperative bank personnel are proficient in advancing and recovering farm loans as they are tutored mainly for agricultural lending. In the given scenario, in order to facilitate them, the Punjab State Cooperative Bank should form a collective team of high tech personnel for constructing various retail product lines, strategies, and creating suitable risk management techniques. This expert team will not only act as a cost saving device, but will also benefit the DCCBs with their expert knowledge on the subject.
- The need of the hour is to instill in the cooperative employees a more professional approach towards retail loaning. This can best be achieved through training programmes in the form of workshops, conferences, and mentoring & simulation sessions.
- It is true beyond doubt that cooperative banks are lagging behind in technology. Cooperative banks need to adopt the latest technology. Although a modest beginning has already been made in this direction, yet a lot remains to be done. Urgent steps are mandatory so as to enable the cooperative banks to compete with corporate banks.

General Recommendations

- Banks are required to act as financial engineers and innovate customer specific products to achieve greater customer attention and satisfaction.
- High NPAs in non-agriculture loans are hindering the smooth functioning and growth of the DCCBs. To curb this menace, the DCCBs should establish a separate division for recovery of the NPAs which shall observe and discipline the recovery performance of non - agriculture loans.
- Taking a legal recourse for recovery has a very low count in case of cooperative banks. These banks need to shed their inhibitions for legal action for recovery. Legal recourse should be used more effectually and

sagaciously, particularly for non - farm sector loans. Cooperative banks can further go for outsourcing their credit collections. Contracting or employing recovery agents may enhance recovery operations of DCCBs.

- Appointment of some experts and specialists on board of directors of District Central Cooperative Banks can be made compulsory.
- Members, the cardinal stakeholders of any cooperative, are unfortunately not aware of their role. To remedy the present situation, firstly, provisions in law enumerating the minimum level of participation by a member in the business of the society annually should be introduced. Failure on this account should result in disqualification of members. Cooperative management should take active steps for propagation of achievement stories of cooperatives in conventional media and further in social media also to create awareness and an optimistic feel among the masses.
- The DCCBs should make efforts to expand their business towards semi-urban and urban clients.
- The DCCBs should work on increasing non - fund income from sources like fund transfers, lockers, etc.
- Credit counselling is required by debtors in order to escape the debt - trap situation. In order to assist their clients, the cooperative banks should take initiatives to benefit the schemes developed by the RBI for forming credit counselling centres in all districts of India.
- A three - tier structure should be revamped. There should only be one state cooperative bank in each state, covering whole of the state with its branches. It will reduce the cost of funds transfer and cost of operations. It will also help to generate non-fund income.
- The grounds advanced by the Centre/RBI on excluding CCIs in implementing demonetization, among others, include that CCIs are not covered under core banking solutions that they don't strictly adhere to KYC norms & lack professional management. CCIs must introspect and improve and adopt technologies of a superior order such as artificial intelligence and predictive analytics.
- Cooperative banks can improve the bottom lines through reduced costs, enhance customer experience and strengthen security and compliance through state-of-the-art encryption practices, audit trails, and security certifications.

It will go a long way in the improvement of the cooperative banking system if these recommendations are executed sincerely.

Singh (2011) and Kaur (2011) obtained results which are in affinity with the findings of the present study as they concluded that the diversification by the cooperative banks from farm sector advances resulted in recording a progressive trend in financial margins. However, Kumar (2008), Kaur (2010), and Singh (2014) generally concluded that diversification did not help the central cooperative banks to increase their revenues or to reduce their risks and by and large, diversification resulted into huge NPAs.

Research Implications

The overall analysis shows that when the retail lending augmented, it increasingly contributed to net profit and total earnings of DCCBs, thereby confirming the favourable impact of retail loans on earnings of the selected DCCBs of Punjab. Weighted average yield on both retail and total loans was higher than the weighted average cost of capital, but the difference in the yield rate on retail and total loans was around 3%, which indicates that retail loans contributed more towards the earnings of the DCCBs.

The study corroborates that a DCCB having lowest earnings on retail loans and gross earnings was due to the reason that the DCCB had the lowest amount of retail loans (Ropar CCB). Therefore, it may be implied that such DCCBs can improve upon their profits by making efforts for disbursement of various retail loans. On the other side, the study also highlights that a DCCB, in spite of high base of retail loans outstanding and retail earnings, had low net profits, which may be attributed to very high NPAs in the bank (Tarn Taran CCB). Therefore, it may be implied that in order to improve upon their profits, such banks need to concentrate on managing and controlling their recovery mechanism effectively. The study gives a clear implication that there should be no qualms about retail lending in cooperative banks. The problem lies not in the policy of retail lending, but in its execution by the cooperative banks. Cooperative banks should consider retail lending as a brilliant opportunity to build a sound base of income. To smoothen this path, they should establish, at every district level, a separate division for marketing as well as a division for recovery management managed by professionals.

Limitations of the Study and Scope for Further Research

There are some limitations faced by the study. Owing to resource and time constraints in addition to easy accessibility, the study was limited to the state of Punjab only. Since the study is restricted to only six districts of Punjab, its findings may not be generalized for other states. As the study is primarily based on secondary data relating to financial details of DCCBs, it is very likely that the data carries all the shortcomings in-built within the secondary data.

There are some engaging areas for those researchers who are interested in the field of performance evaluation of cooperative banks :

- Studies may possibly be done on factors responsible for NPAs in various retail loan schemes offered by cooperative banking organizations.
- Studies may possibly be done on evaluation of retail loaning performance for DCCBs in other Indian states and comparison of Punjab with other states could be done.
- Examining the product pricing policy of the cooperative banks is another good area of research.
- Another important area which needs to be studied is related to influence of amendments in the recent banking guidelines of RBI and Basel norms on cooperative banking organizations.

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