Case study: Performance evaluation of District Central Co-operative banks (DCCBs) – an insightful analysis

DCCB banking –quick introduction

The Cooperative Credit Structure in our country has two separate structures. The short term credit structure and the long term credit structure. The short term credit structure consists of the Primary Agricultural Credit Societies (PACS) at the base level, which are affiliated at the district level into the District Central Cooperative bank (DCCBs) and further into the State Cooperative Bank (SCB) at the State level.

Being federal structures, the membership of the DCCB comprises all the affiliated PACS and other functional societies and for the SCB, the members are the affiliated DCCBs. The DCCB being the middle tier of the Cooperative Credit Structure, it is functionally positioned to deal with the concerns of both the upper and lower tiers. This very often puts the DCCB in a position of balancing competing concerns. While the SCB may wish the DCCB to prioritize its task in a particular manner, the PACs may have their own demands on the DCCB. Balancing these competing concerns could often be a dilemma for the DCCBs.

Plaguing issues with DCCBs

The financial health of most of these DCCBs banks has been a cause for concern and has so far proved to be a serious handicap in reaching out to the larger population. The focus of recent policy measures is on revitalizing and strengthening the co-operative banking sector in India. Few of the problems plaguing the DCCBs are

- Very poor asset quality and recovery performances
    - Large NPAs in the 'doubtful', 'lost assets' category
    - Poor recovery and accumulated losses.
- Plaguing compliance regulation issues

- As on June 30, 2008, 118 out of the 371 DCCBs did not comply with the provisions of Section 11 (1) of the Banking Regulation Act, 1949 (AACS).

- Similarly, 118 DCCBs did not comply with the provisions of Section 22(3) (a) of the Act, implying that they were not in a position to pay their present and future depositors in full as and when their claims accrued.

- Further, 343 DCCBs did not comply with Section 22 (3) (b) of the Banking Regulation Act, 1949, implying that the affairs of these banks were being conducted in a manner detrimental to the interests of their depositors.

Application of Capital Adequacy Norms to DCCBs

In order to strengthen the capital structure of DCCBs, in the context of financial stability of the whole system and pursuant to the announcement in the Mid -Term Review of Annual Policy Statement for the year 2007-08, all DCCBs were advised to disclose the level of CRAR as on March 31, 2008 in their balance sheets and thereafter every year as 'notes on accounts' to their balance sheets. They were also advised to furnish an annual return to the respective regional offices of RBI/NABARD, indicating CRAR in the prescribed format. NABARD undertakes statutory inspection of DCCBs for effective supervision.

At present, the CRAR norms do not apply to DCCBs. However, the Task Force on Revival of Rural Cooperative Credit Institutions (Short-term) (Chairman: Prof. A. Vaidyanathan), in its report recommended as under :

"The package will include assistance necessary to bring all co-operatives, including Primary Agricultural Credit Societies (PACS), to a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 7 per cent. While this ratio will be raised within three years to 9 per cent by PACS, DCCBs and StCBs shall raise their CRAR as prescribed by the Reserve Bank of India. This increase in CRAR shall be met by the CCS from its own resources."

Aaum's involvement in DCCB appraisal at Tamil Nadu

Data for the individual banks are received from NABARD, Tamil Nadu head office, Tamil Nadu Apex State Co-operative banks (TNASC) and Directorate of co-operative audits for the years 2006-07, 2007-08.

We observed that Balance Sheet and PL statements procured not in Sync for most of the DCCBs. This is also validated with the annual reports furnished by the DCCBs. Many discrepancies noted and communicated with Mrs. Lakshmi Krishnamoorthy, Chief Manager Inspection section, TNASCB.

Audit score of each DCCB is compared with some of the performance indicators. Segregation of performing DCCB from non performing DCCBs is accomplished this way.

Following are the key insights and inferences getting highlighted from this evaluation

- Our analytical framework is able to segregate performing DCCBs from Non performing DCCBS.
- Return on Equity, Net profit/loss and audit scores are very important indicators that resonate well with performance tracks.

Performing DCCBs

Chennai
Cuddalore
Erode
Kanyakumari
Salem
Thrichurapalli
Villupuram
Coimbatore
Dharmapuri
Kancheepuram
Vellore

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