CASE STUDY ON

THE COOPERATIVE BANK OF RAJKOT LTD.
(RAJ BANK)

Attaining **zero** Non-Performing Asset (NPA)
by Transparency, Trust and & Service

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If you want to be incrementally better: Be competitive. If you want to be exponentially better: Be cooperative." – Rajbank*

Gujarat is basically known for *saris*, salt and *satyagrah* but now, it is also known for scams. The rot that began in March 2001 with the collapse of the Madhavpura Mercantile Co-operative Bank (MMCB) refuses to fade away. If the ghost of the co-op bank scams of various hues and colors came to haunt the people of this unfortunate State in the form of the General Co-operative Bank and the Charotur Co-operative Bank earlier this year, the latest to join the ever growing list of co-operative banks going bust in Gujarat is the Visnagar Nagrik Sahkari Bank (VNSB).

Of the 370 co-operative banks in the State of Gujarat, some 275 are said to be fairly active and boast of an aggregate deposit base of over Rs 15,000 crore till March 2001. Since then, there has been massive diversion of funds from these banks to unidentified avenues, which is now said to be in excess of Rs 6,000 crore, thus bringing its deposit base to Rs 9,000 crore. The hard earned money of pensioners, small businessmen, farmers, widows and small self-employed persons of rural as well as urban areas are at stake.

In such circumstances, an obvious question will arise in anybody's mind as are cooperative banks floated only as vehicles for delivering funds into unspecified avenues or do they play large role in making credit more accessible to the most vulnerable and disadvantageous sections of the society?

Mr. Ramnikbhai Dhami, Managing Director of The Cooperative Bank of Rajkot Ltd. (RAJ BANK), a leading Urban Cooperative Bank (UCB) in Saurashtra Region of Gujarat elucidated about roles of cooperative banks in details :

"Cooperative banking structure **(Figure-1)** is viewed as an important instrument of banking access to the rural masses and thus a vehicle for democratization of the Indian financial system. Essentially cooperative banks mobilize deposits and deal in agricultural and rural credit with a wider outreach. They have also been an important instrument for various development schemes, particularly subsidy based programmes for the poor."

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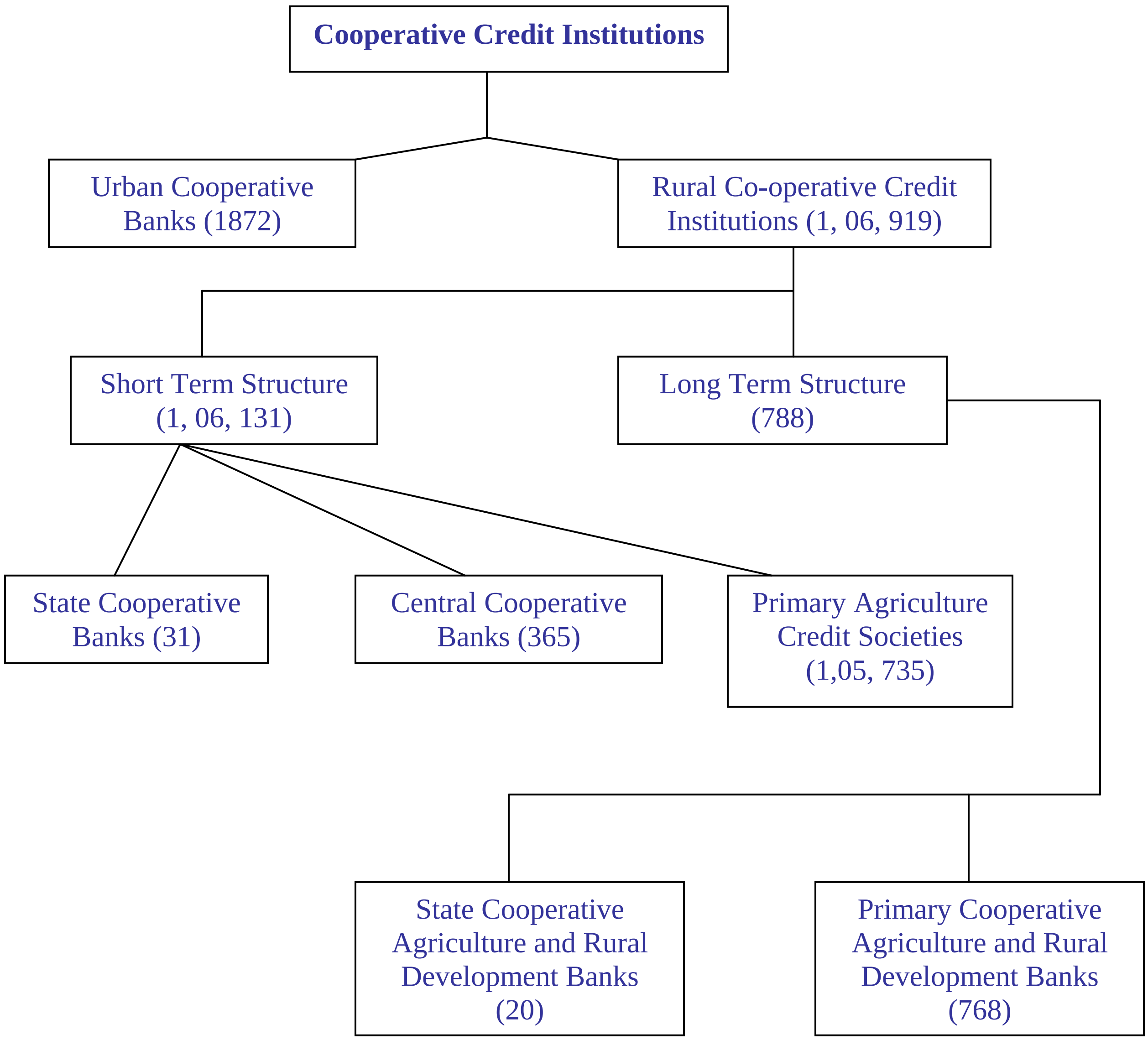
* Case is conceptualized and written by Academic and Research Associate, IIPM Ahmedabad. Cases are developed solely for the purpose of classroom discussions. They do not serve as endorsements, sources primary data or illustrations of effective or ineffective decision-making by corporate executives.

Figure-1 Structure of the Co-operative Credit Institutions is as follows



Adopted from Reserve Bank of India report on Development in Cooperative Banks in India

He added "As far as Urban Cooperative Banks (UCBs) like us are concerned, they play an important role in meeting the growing credit needs of urban and semi-urban areas. UCBs mobilize savings from the middle and lower income groups and deliver credit facility to small borrowers such as small artisans, farmers, small businessmen, craftsmen, Self-Help Groups (SHGs), and persons from weaker sections of the society such as Schedule Tribe, Schedule Castes, and socially and economically backward communities. In view of its importance, it is imperative that each Urban Cooperative Bank functions as a sound and healthy network of jointly owned, democratically controlled, and professionally managed institution"

When asked about where RAJBANK is heading and what are its future preparedness to cope up the uncertainty etc. when the UCB sector is suffering from certain weaknesses such as unsound corporate governance, unethical lending, comparatively high level of loan defaults and inability to operate in liberalized and competitive environment

Mr. Ramnikbhai Dhami, the founder and Managing Director (MD) of The Co-operative Bank of Rajkot Ltd. replied with a bright glow on his face. He shared that **the bank is Zero NPA[1]-Non Performing Asset Bank since 1990.**

The co-operative bank of Rajkot ltd. popularly known as "RAJBANK" is situated in Rajkot. Like every year since 1990, in this financial year 2005-06 also it declared itself "A ZERO NPA BANK". Its gross **Non-performing Assets stood at Rs. 48.35 lacs only which constitute 00.34 % of its gross advances.** Its net NPA as % of net advances continue to remain at Zero level since last 15 years[2]. RAJBANK is the only bank having Lowest Gross NPA[3] which is evident from the tables of the NPA performance of RAJBANK over the last five years. **(Table -1)**

Table – 1 NPA Management of RAJBANK

NPA Management (Rs. in lacs)						
Sr. No.	**Particulars**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
1	Total Advacnes	8131.43	8334.25	9149.74	11203.9	14211.77
2	No. of NPA accounts	6	9	15	23	29
3	**Gross NPA amount**	**11.26**	**14.69**	**22.89**	**29.19**	**48.35**
4	Gross NPA to Gross Advances	0.14%	0.18%	0.25%	0.26%	0.34%
5	Provision Required	2.69	4.68	6.2	4.47	7.26
6	Actual Provison Made	200	300	500	1200	1200
7	**Net NPA Amount**	**ZERO**	**ZERO**	**ZERO**	**ZERO**	**ZERO**

Here, it is noted that RAJBANK has not attempted to maneuver to show off zero NPA. Instead, its gross NPA is 0.34 % signifies its efficient recovery management as well as overall effective risk management.

HON. SHRI Ramnikbhai Dhami, Chief Promoter and founder of this Bank, co-operative leader and advocate by profession laid a strong foundation of the bank on 25.11.1980 and today The Co-operative Bank of Rajkot Ltd. (popularly known as "RAJ BANK") has become a very profitable co-operative bank.

The bank was started at small premises, gradually developed and has became a large and the most popular bank today having its area of operation in the entire Rajkot, Junagadh and Jamnagar District. In years to come the bank will expand its business in the entire Gujarat State.

The founder and the chief promoter of Raj Bank, Mr R K Dhami is providing noble contribution in Co-operative, political and social field for the last four decades. Recently, he has been honored by **"SAHAKAR RATNA AWARD"**[4] in the presence of OTHER State and National level Co-operative Leaders.

Customer profile

RAJBANK has truly realized the concept of cooperative bank. It is successful because it believes and practices the principles of cooperative banks such as welfare of the members. It consistently strives to achieve social objectives by helping to the disadvantageous and deprived sections of the society. Its diverse customer profile includes self employed persons, artisans, craftsman, small businessmen etc. engaged in various small scale industries in Automobile, cement, engineering, food processing sectors as well as in gems and jewellery, sugar, tobacco products (Table – 2). Moreover, it is also operating in the segment of consumer finance[5] by way of housing loans, retail financing and working capital financing.

Table – 2 Segment wise Credit Portfolio of RAJBANK on 31st March, 2005

Segment wise Credit Portfolio As on 31st March, 2005				
Sr.No.	**SEGMENTS OF BORROWERS**	**No.of A/c**	**Advances (Rs.in Lac)**	**%to Total Advances**
1	Automobiles & Ancillaries	290	335.5	2.36
2	Colour, Chemicals, Dyes, Paints, etc.	71	238.8	1.68
3	Cement	91	1804.4	12.7
4	Electronics & Electricals	57	477	3.36
5	Engineering Tools & Products	198	1524.2	10.73
6	Food Processing, Mfg. & Agricultural Products	105	1722.9	12.12
7	Iron & Steel	68	500	3.52
8	Gems and Jewellery	15	72	0.51
9	Jute Textiles	35	516.15	3.63
10	Leather & Leather Products	5	11.82	0.08
11	Metal & Metal Products	11	77.11	0.54
12	Paper, Paper Products & Printing	44	196.71	1.38
13	Rubber & Rubber Products	8	64.69	0.46
14	Textiles	40	1651.53	11.62

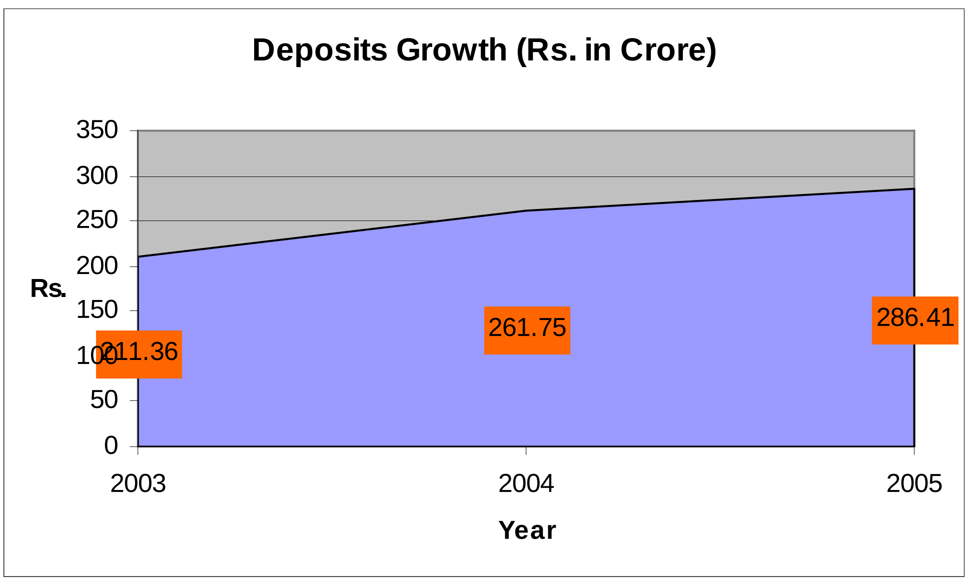
15	Sugar	1	3.91	0.03
16	Tobacco & Tobacco Products	0	0	0
17	Residential Loans	796	1540.65	10.84
18	Retail Traders	1027	907.00	6.38
19	Miscellaneous (Not covered in above)	3923	2567.02	18.06
	TOTAL	**6785**	**14211.77**	**100.00%**

RAJBANK's Performance Review

Deposits Growth

RAJBANK's total deposits as on 31/03/2005 were Rs. 28,640.94 lacs which translated into the **growth of 9.42 %** over the same as on 31/03/2004. The mounting deposits in the RAJBANK are partly due to better return and partly due to investors' confidence in the performance, efficiency and management of the bank.

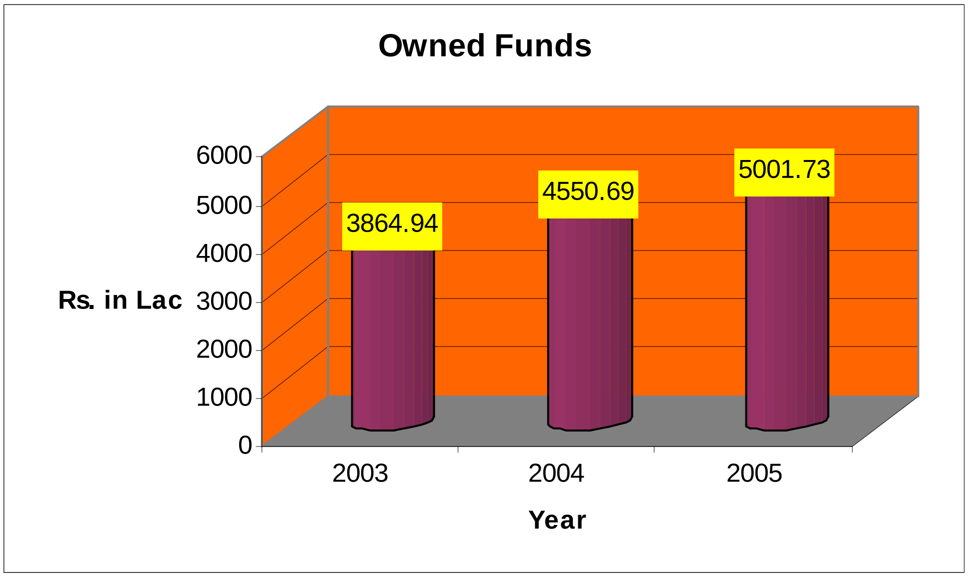
Figure 2 Deposits Growth



Owned Funds

The RAJBANK has increased its owned funds from Rs. 4550.69 lacs on 31-03-2004 to Rs. 5001.73 lacs on 31-03-2005 **registering growth of 9.91%.** It signifies increasing confidence level among the customers/members about RAJBANK since more and more persons are becoming the members of the bank. Secondly, it denotes a good signal for depositors as the overall contribution of promoters/members are mounting consistently **(Figure 3).**

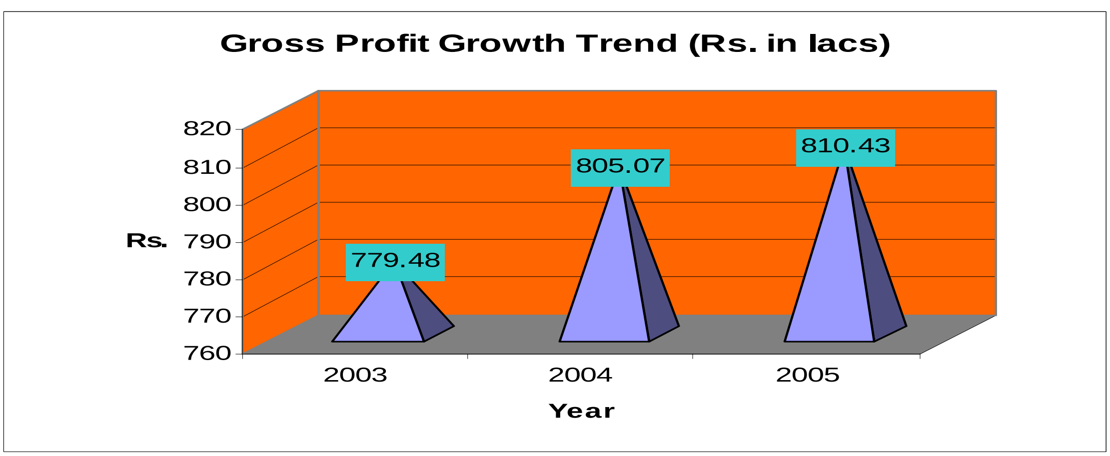
Figure 3 - Owned Funds



Gross Profit

Gross Profit growth for the financial year 2004-2005 stood at Rs. 810.43 lacs as compared to Rs. 805.07 lacs in the previous year, thus registering **an increase of 0.66 % as compared to 3.28 % Profit growth in the 2003-04.** RAJBANK's Manger, Mr. Atul Fichadiya said that decline in the growth rate of the profitability of the bank has mainly due to reduction of profit on sale of investment (in Government Securities) as compared to previous year.[6]

Figure 4 Gross Profit

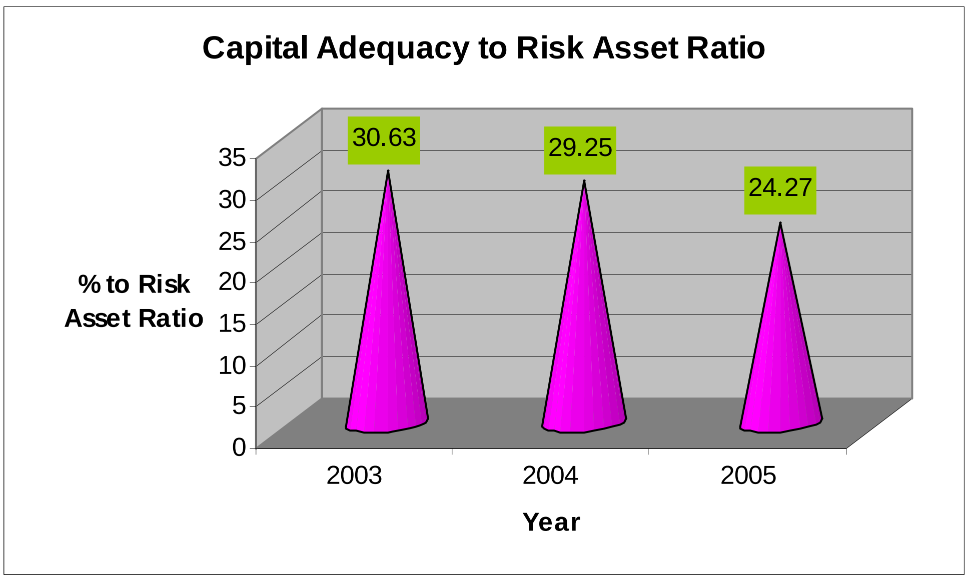


Capital Adequacy to Risky Asset[7]

The capital maintained against the various types of risky assets is measured by the Capital to Risk Asset Ratio (CRAR). It was marginally declined from 29.25 % as on 31-03-2004 to 24.27 % as on 31-03-2005 **(Figure 5)**. The main reason for this decline was increase in advances. However, the same was much more than stipulated by Reserve Bank of India's norms of 9 % for the year ended 31st March, 2005

Out of above, CRAR, Tier-1[8] Component of capital adequacy ratio is 21.09 % as on 31st March, 2005

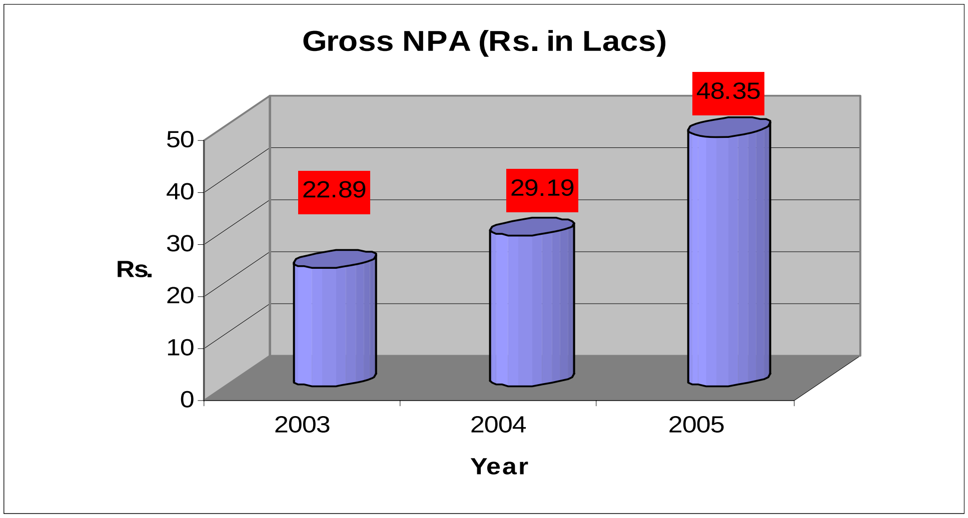
Figure 5 Capital Adequacy to Risk Asset Ratio



Asset Quality

Gross NPA of the bank stood at Rs. 48.35 lacs which constitute 00.34 % of gross advances. Net NPA as % of net advances continue to remain at zero level since last 15 years. RAJBANK is the only bank having **LOWEST Gross NPA** across the nation. However, its NPAs are rising marginally year by year as reflected in **Figure 6.**

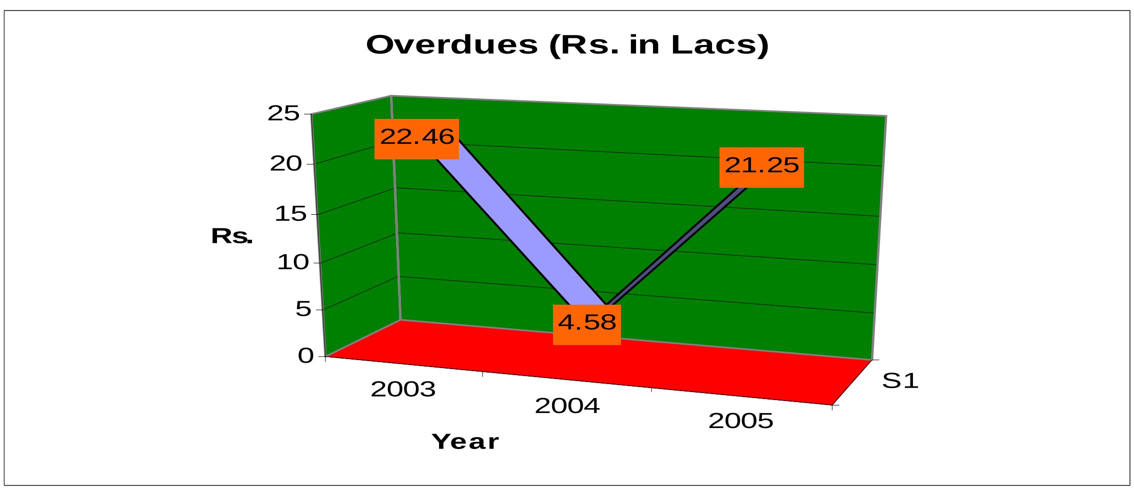
Figure 6 Gross NPA



Recovery Management

The RAJBANK has advanced its various deposits funds based on its maturity pattern to various borrowers looking to their **3 C's namely: - Capacity, Character, and Collateral[9].** This is the main reason why the bank has used debt recovery instruments such as Debt Recovery Tribunal, Securitization Act, etc. very often. It is evident from **Figure 7** that only **Rs. 21.25 lacs were remain overdue as on 31st March, 2005**.

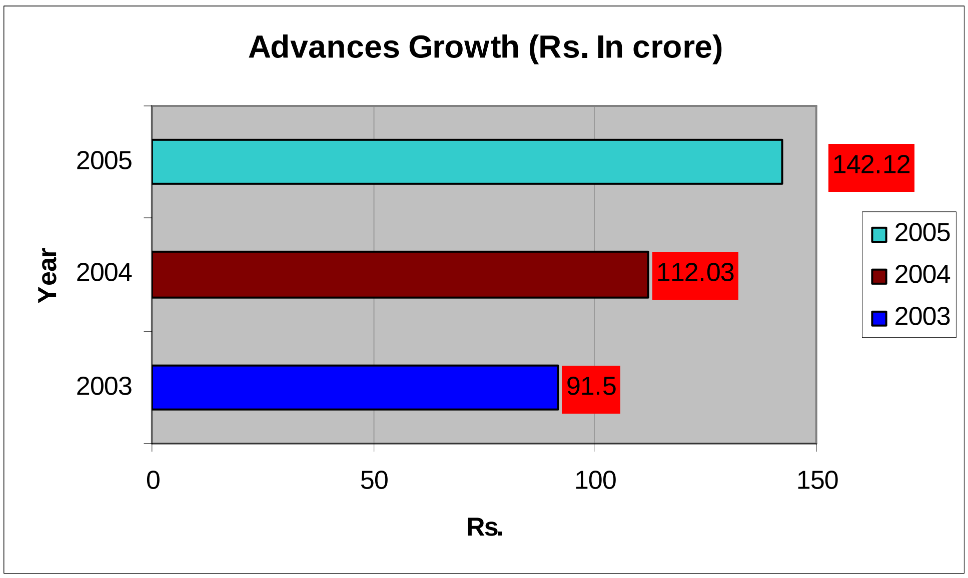
Figure 7 - Overdues



Advances Growth

Total advances of RAJBANK stood at Rs. 14,211.77 lacs as on 31-03-2005 compared to Rs. 11203.90 lacs as on 31-03-2004 registering growth of 26.85 %. The credit-deposit (CD) ratio of RAJBANK as on 31st March, 2005 was 49.62 %. **(Credit-deposit ratio implies total portion of deposits given to customers in the form of credit, loans or advances)**. The next year RAJBANK has projected to heighten this CD ratio.

Figure 9 Advances Growth



Looking into the strengths and weaknesses of RAJBANK by using Balance sheet **(Table – 3),** the author found that in addition to above mentioned accomplishments RAJBANK achieved escalation in Reserve and Surplus at the rate of **11.42 %.** The bank's borrowing is zero which indicates that its outside long-term liabilities to various financial institutions were very low hence their other liabilities constitute only **7.95 %** of its total capital employed in Financial Year (FY) 2004-05.

Table – 3 Comparative Balance sheet of RAJBANK as on 31st March, 2005 and 2004

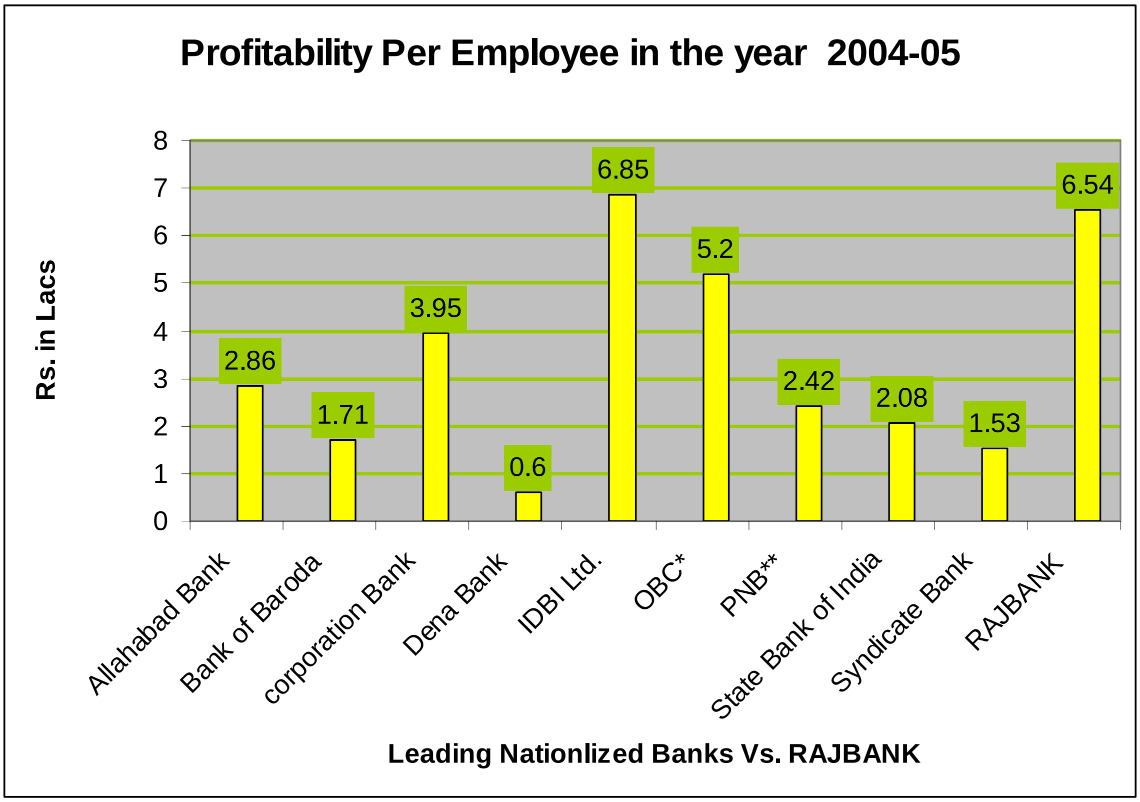
RAJBANK'S BALANCE SHEET OF 2005 & 2004

Particulars	As on 31-03-2005 Amount (Rs.)	As on 31-03-2004 Amount (Rs.)
Capital & Liabilities		
Capital	4,60,22,125	4,74,89,725
Reserve and Surplus	45,41,50,894	40,75,78,985
Deposits	286,40,94,335	261,74,81,094
Borrowings	**NIL**	**NIL**
Other Liabilities & Provisions	2,69,82,198	2,08,80,394
Total	**339,12,49,553**	**309,34,30,198**
Property & Assets		
Cash Balance with RBI	3,98, 64,991	3,69,84,615
Balance with Bank and money at call & short notice	76,21,65,056	114,30,38,014
Investment	108,64,62,500	71,87,85,000
Advances	142,11,77,105	112,03,89,619
Fixed assets	4,85,78,366	4,04,65,702
Other assets	3,30,01,534	3,37,67,246
Total	**339,12,49,553**	**309,34,30,198**
Contingent Liabilities	57,18,730	26,95,400

A Comparative Study of RAJBANK with the leading Nationalized Banks, Foreign Banks operating in India and Schedule Commercial Banks commonly known as Private sector banks on critical parameters.

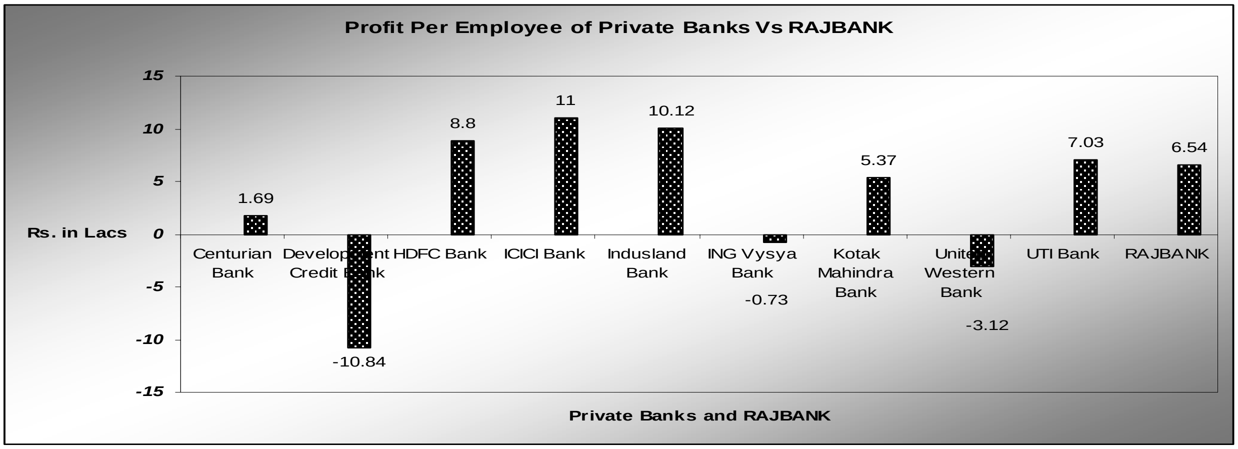
(1) Profitability Per Employee

Figure 9 Profitability per Employee of leading Nationalized Banks and RAJBANK



*** OBC – Oriental Bank of Commerce ** PNB – Punjab National Bank**

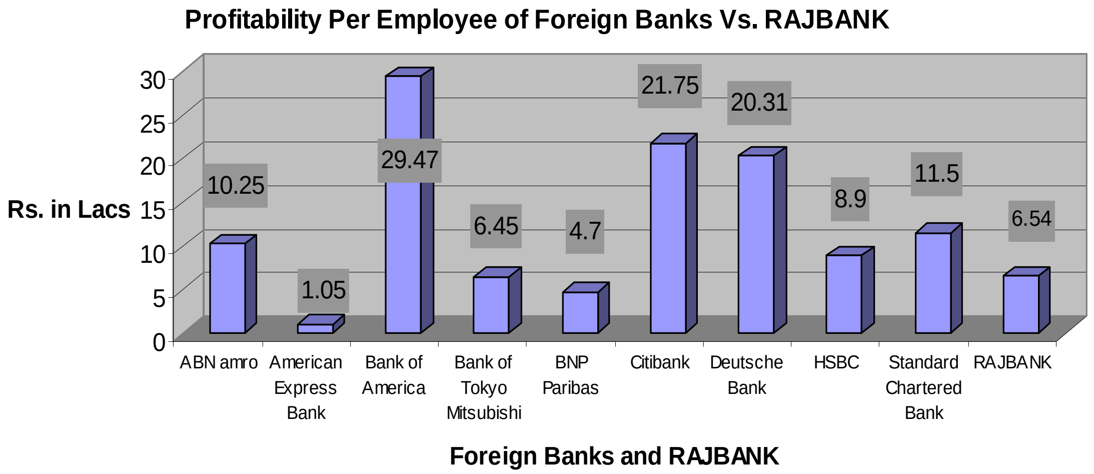
Figure 10 - Profitability per Employee of leading Private Banks and RAJBANK



As per Figure 9 and 10 profitability per employee of RAJBANK is considerably high (Rs. 6.54 lacs) as compared to State Bank of India, Corporation Bank, Dena Bank, Bank of Baroda, Allahabad Bank in nationalized bank segment and Kotak Mahindra, Centurian Bank, Development Credit Bank, ING Vysya Bank in private or Schedule Commercial Bank segment. IDBI ltd. has outperformed in profitability per employee (Rs. 6.85 lacs) as far as the category of nationalized bank is concerned whereas ICICI bank has proved itself the best performer in this area.

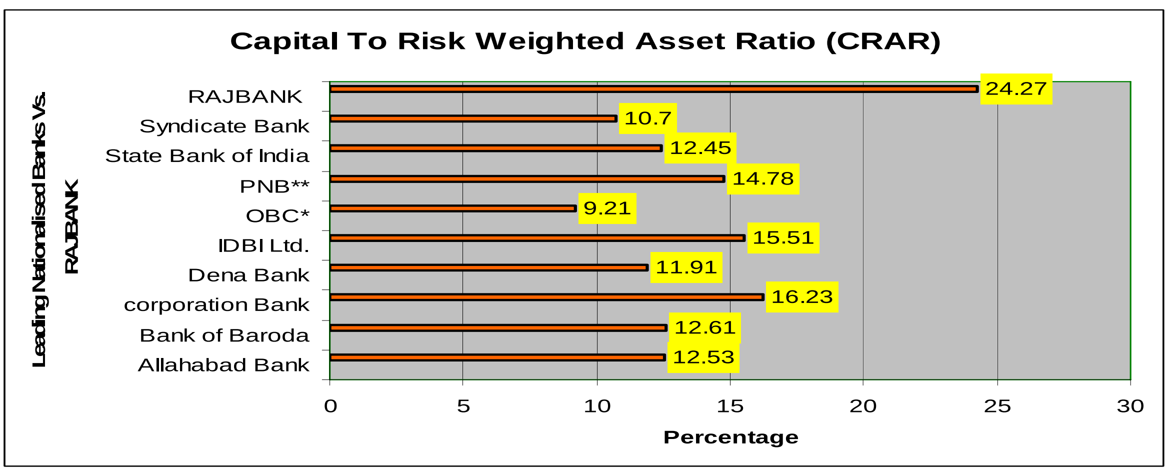
The performance of RAJBANK in comparison to leading foreign banks in terms of per employee profitability is remarkable **(Figure 11)** . It left American Express Bank (Rs 1.05 lacs), BNP Paribas (Rs. 4.7 lacs), and Bank of Tokyo Mitsubishi (Rs 6.45 lacs) behind in a race to achieve higher per employee profitability.

Figure 11 - Profitability per Employee of leading Foreign Banks and RAJBANK



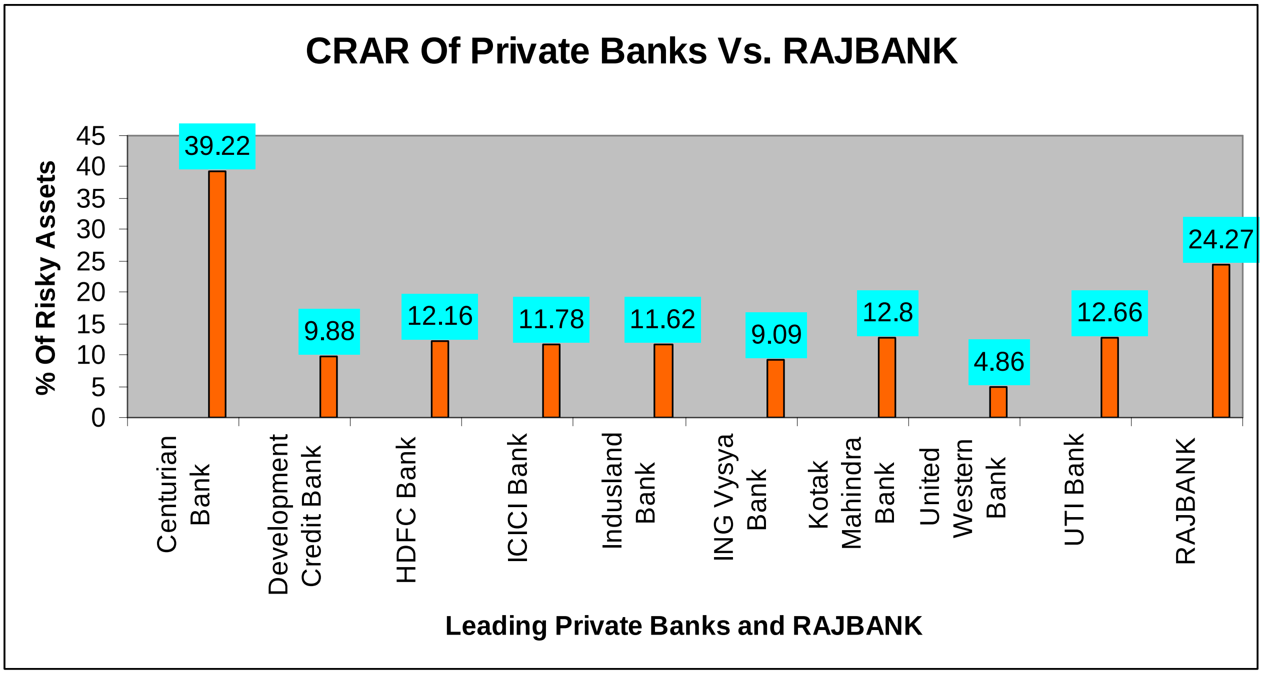
(2) Capital to Risk Weighted Assets Ratio

Figure 12 - A comparison of Capital to Risk Weighted Assets Ratio (CRAR) of RAJBANK with Nationalized Banks



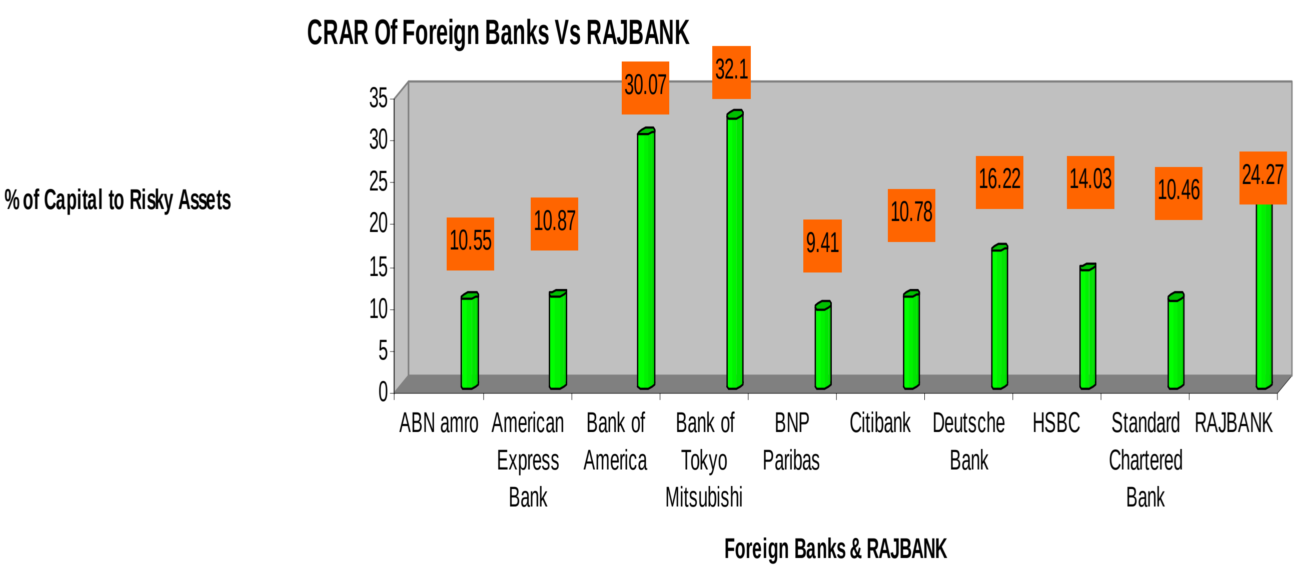
As mentioned previously, capital adequacy against the risky asset is the measure of better management and efficient provisioning. RAJBANK has shown outstanding performance in this area by maintaining 24.27 % CRAR **(Figure 12)** which is much more than leading nationalized banks such as SBI, IDBI, Bank of Baroda etc.. As far as private banks are concerned, only Centurion Bank has higher CRAR (39.22%) as compared to RAJBANK **(Figure 13)**

Figure 13 - Comparison of Private Banks and RAJBANK with reference to CRAR



In an effort to match with the international best practices, RAJBANK has set a benchmark in front of all banks. From **figure 14** we can infer that only two international banks namely Bank of America and Bank of Tokyo Mitsubishi have more Capital to Risk Weighted Ratio which is 30.07 % and 32.1 % respectively. Other foreign banks operating in India have lesser CRAR than RAJBANK though they are above the stipulated guideline of RBI that is 9 % of CRAR.

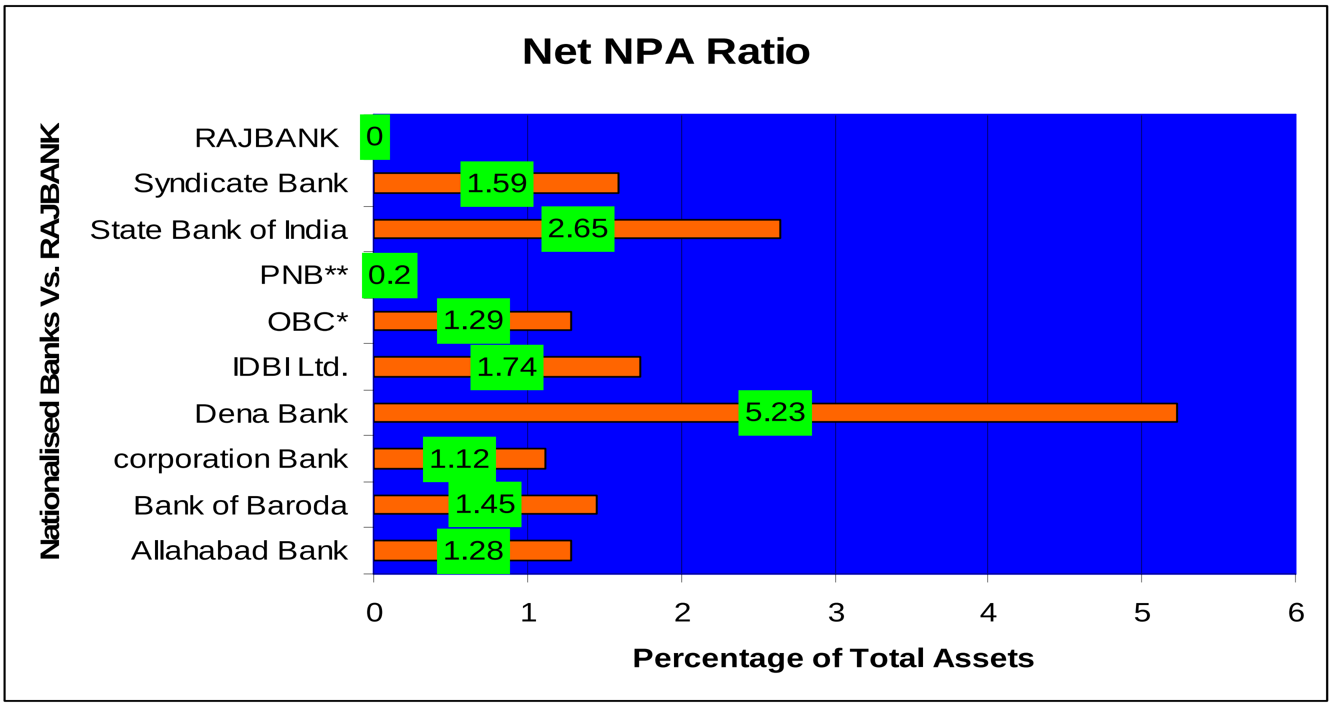
Figure 14 - CRAR of Foreign Banks operating in India as well as RAJBANK



(3) Net NPA Ratio

As mentioned earlier, gross NPA of RAJBANK is 0.34 % of its total advances (Refer Table 1 NPA of RAJBANK) whereas its Net NPA is Zero. On comparing RAJBANK'S NPA management with Nationalized Banks **(figure 15),** the author found that RAJBANK has achieved unexpected results. Only Punjab National Bank (PNB) has below 1 % Net NPA whereas Dena Bank, State Bank of India, Bank of Baroda have 5.23 %, 2.65 %, and 1.45 % net NPAs of its total advances respectively. Here, it needs to keep in mind that net NPA

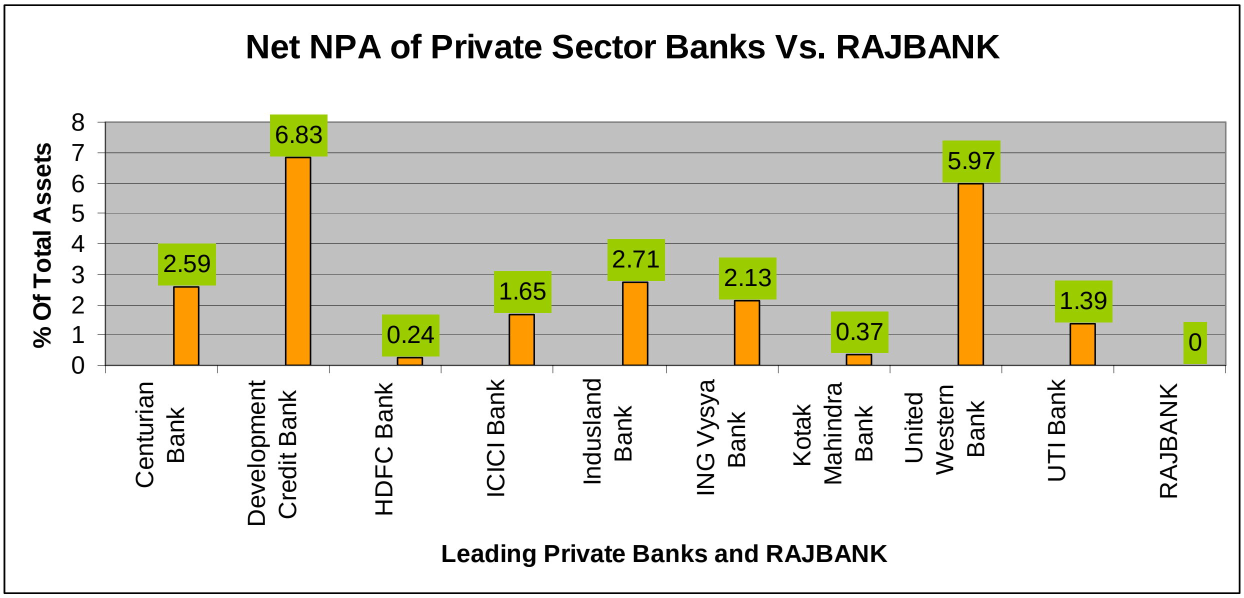
Figure 15 - Net NPA Ratio of Nationalized Banks and RAJBANK



reveal total amount of non-performing assets after making provisions on gross NPAs which is the true measure of efficient recovery. (Refer illustration in note no.3).

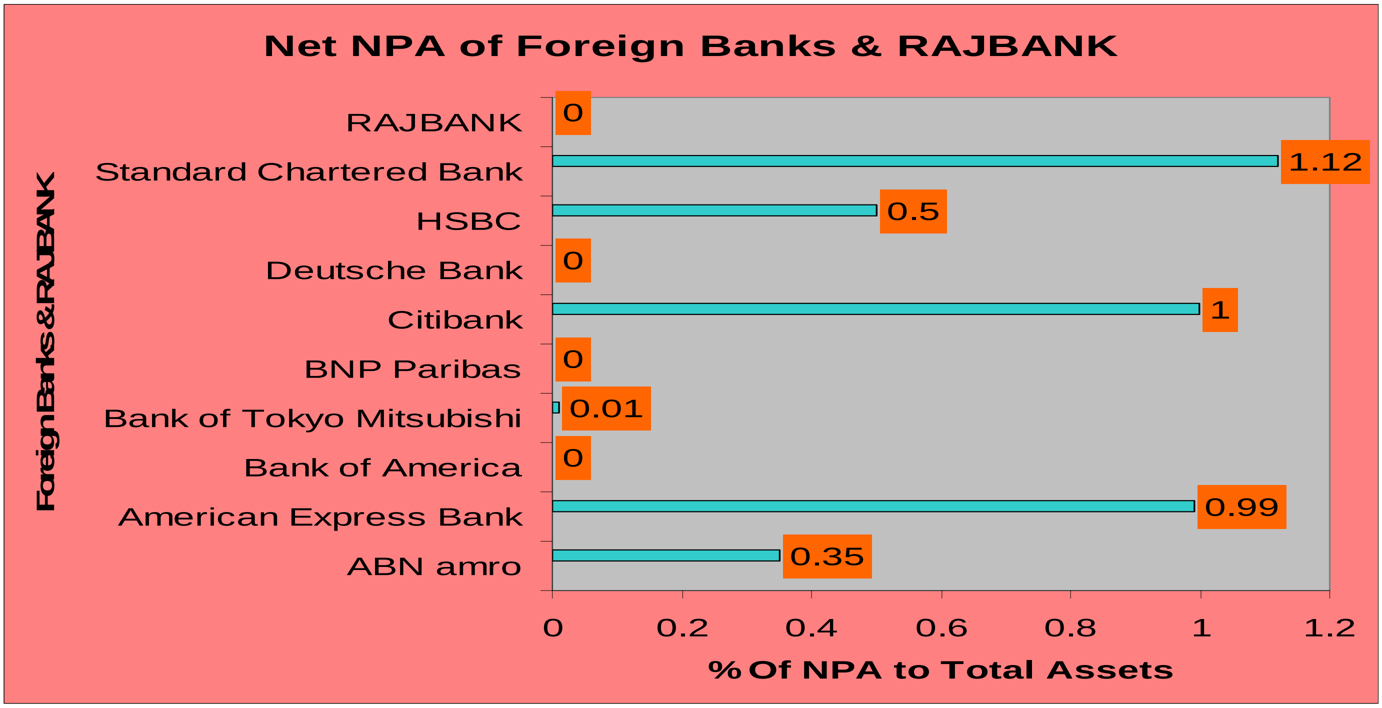
In private segment of banking business, HDFC Bank and Kotak Mahindra Bank have achieve good result by keeping their Net NPAs

Figure 16 - Net NPA of Private Sector banks and RAJBANK



Below 1 %. Other banks such as ICICI Bank, Indusland Bank, ING Vysya Bank, Centurian Bank and UTI bank have their Net NPAs ratio from 1 % to 3 %. Development Credit Bank and United Western Bank need to rethink their credit delivery policies since its net NPAs are far above than their competitors. The zero net NPAs ratio of RAJBANK is really an example in front of all these private sector banks. None can deny that fact that RAJBANK has kept itself up to the standard of international bank. Looking into the Figure 17, one could

Figure – 17 Net NPA of Foreign Banks operating in India and RAJBANK



interpret that in managing Non Performing Assets (NPAs), RAJBANK enjoys membership of the league of the most efficient international banks that are Bank of America, Deutsche Bank, BNP Paribas, Bank of Tokyo Mistsubishi whose net NPA ratio is almost zero like RAJBANK. It can also be believed that RAJBANK has been operating more successfully in India as compared to ABN Amro Bank, HSBC and Standard Chartered Bank since managing your Non-Performing Assets has become the most critical task from the banking operation, supervision and regulation is concerned.

Human Resource Management

The bank has continued their commitment right from the inception to acquire, develop, and enhance human resources. It has combination of a good mix of experienced, dynamic and young people among its employees. They have unique strategy of placing skilled manpower to serve the new branches. Moreover, it imparts regular training to its employees in customer relationship management, computer education and advance banking. **The significant fact is that employees have not formed any association or union for their grievance redressal. It signifies that employees are well satisfied and self-motivated for better performance.**

Management is flexible towards any suggestion. They basically follow an open door policy. Ramnikbhai Dhami uttered "we are open to all. Even a peon can come to my office at anytime and can suggest any measure" He added "we believe in two – way communication and we have adopted human resource accounting also as a performance measurement technique" As per annual report of RAJBANK for the year 2004-05, its leading human efficiency parameters have been listed below in **Table 3**

Table 4 Human Efficiency Parameters of RAJBANK

No.	*Parameters*	*As on 31-03-2002*	*As on 31-03-2003*	*As on 31-03-2004*	*As on 31-03-2005*
1	**Gross Profit Per Employee (Rs. in Lacs)**	6.58	7.15	7.00	6.54
2	**Deposits Per Employee (Rs. in Lacs)**	173.40	193.90	227.61	230.98
3	**Advances Per Employee (Rs. in Lacs)**	77.89	83.94	97.43	114.61

From the **Table 4,** we can interpret that **annual Profitability per Employee[10] is on an average 6. 81 lac Rs.** Advances per employee are increasing year by year which implies positive attitude of the banker towards their target audience notwithstanding they are cautious in risk taking. In totality, the human resource of RAJBANK is the real asset of the organization and its human resources practices must be replicated by each and every cooperative bank especially when the clouds of setback are set to destroy the whole cooperative structure in India.

But when the author tried to unearth the fact with regard to success mantras of this bank, he found the following four pillars of success of this bank.

1. **Excellent Corporate Governance**
2. **Exceptional Services and**
3. **Innovation in Products and Processes**
4. **Zero exposure to stock market and risky securities**

1. EXCELLENT CORPORATE GOVERNANCE

The purpose and objectives of co-operatives provide the framework for co-operative Corporate Governance. Co-operatives are organized groups of people and jointly managed and democratically controlled enterprises. They exist to serve their members and depositors and produce benefits for them. Co-operative corporate governance is therefore about ensuring co- operative relevance and performance by connecting members, management and the employees to the policy, strategy and decision-making processes.

Needless to say, for the co-operative banks in India, these are transitional times. Never before has the need for restoring customer confidence in the co-operative sector been felt so much. Never before has the issue of good governance in the co-operative banks assumed such criticality. **Corporate governance in its wider connotation basically covers a range of issues such as protection of shareholders' rights, enhancing shareholders' value, Board issues including its composition and role, disclosure requirements, integrity of accounting practices, the control systems, in particular internal control systems.** Corporate governance especially in the co-operative sector has come into sharp focus because more and more co-operative banks in India, both in urban and rural areas, have experienced grave problems in recent times which has in a way threatened the profile and identity of the entire co-operative system. These problems include mismanagement, financial impropriety, poor investment decisions and the growing distance between members and their co-operative society. Such practices lead to maximum defaults and growing Non Performing Assets (NPAs). However, **RAJBANK has remained an exception to all such problems.**

(A) Objective assessment system for credit delivery

In order to be in command of Non Performing Assets (NPAs), the RAJBANK has instituted a unique screening system for loan sanctioning so that they can identify their NPA at the initial stage of receipt of the loan application. Usually, nationalized banks rely on papers such as IT return, Project Report, Payment of Dues and on paper creditworthiness of the loan applicant. But RAJBANK has constantly relied on its own system of screening of the loan application.

As per this system, they have set up a committee which is known as **"SAAKH Committee (Saakh means goodwill)".** It is a group of persons from various backgrounds such as Business, Legal service, Banking, Public Service and Entrepreneurs. It also contains representatives of Chamber of Commerce, Trade Association, and self – employed persons.

They conduct mainly three consecutive tasks

1. **Verbal interview of the loan applicant**
2. **Detail Scrutiny**
3. **Examination of relevant papers**

In verbal interview, the committee members meet the loan applicant and his guarantor. Then in a normal but considerable conversation, the committee examines and cross-examines his/her proposal. They used to look at the proposal from all perspectives. Here, if necessary they may make certain changes in the proposal or in the loan amount. The unique strengths of the committee such as experienced group of persons, their ability to understand, analyze and scrutinize loan application, loan applicant and guarantor have significantly contributed to manage credit risk of RAJBANK. In the detail scrutiny of loan application, the committee conducts on site inspection, examine customer or member profile in terms of his/her credit worthiness, his credit history and his economical capabilities to repay the loan.

Notwithstanding they emphasis relatively modest on papers, they do study the past records, his/her income tax /sales tax / excise profile etc.

The most important point to be noted is that top management and directors have relatively very minute role to play here. Once a loan application has been approved by the 'SAAKH COMMITTEE', it goes to board of directors. They approve it keeping in mind the overall interest of the cooperative banks. So in RAJBANK, overall political control of the external forces is minimal. The loan is approved by group of scholarly people on objective grounds.

At the same time, top management and directors are observes a principle of honesty and integrity by not interfering into the normal proceedings which is a very unusual phenomenon as far as cooperative banks is concerned.

Moreover, they have adopted credit rating system for their customers/members. As per their ratings different members are eligible for different type of assistance such as advances for building, machinery, personal usage etc. Such rating system has reduced their burden of frequently scrutinizing the same members as and when they applied for advances second time onwards.

The most significant aspect of RAJBANK is that it had only 10 customers in financial year 2004-05 who borrowed more than Rs. 1 crore whereas almost all other customer's individual borrowing fell below Rs. 50, 00,000. The underlying truth of the above mentioned fact is that RAJBANK believes in catering to credit facility to all the segments of the market without any distinction.

(B) Strict Compliance with *CAMELS* Regulations of RBI

For the overall supervision of Reserve Bank of India on Schedule Cooperative Banks, the former has introduced on-site examination process since 30th October, 2002. In this process the urban cooperative banks (UCBs) are rated on **CAMELS model[11] (Capital Adequacy, Asset quality, Management, Earnings appraisal, Liquidity and Systems and controls)**, which combined financial management, systems and control elements.

Under this approach core assessments of an Urban Cooperative Bank are being made based on the Capital Adequacy, Asset quality, Management, Earnings appraisal, Liquidity and Systems and controls with a view to assigning a rate[12] for the bank. A composite rating under CAMELS is arrived at after rating each of the individual components specified by Reserve Bank of India. The ratings of banks under CAMELS are updated only once in a year. The bank rating process takes into account quantitative parameters as well as certain qualitative parameters. Quantitative parameters are computed and updated on a quarterly basis while in respect of the qualitative parameters the ratings / marks given at the time of previous on-site examination. This exercise is meant to identify significant deterioration in the financial health of the Urban Cooperative Banks (UCBs) in between two examination cycles.

In short, CAMELS rules are the true measurement of financial performance of any cooperative bank. If a cooperative bank fails to obey CAMELS norms in true spirit and letter, it can be construed as a failed cooperative bank.

Simply saying, RAJBANK has outperformed in satisfying CAMELS rules

In the following **Table - 5** some of the various parameters of capital adequacy, asset quality, management, earning appraisal, Liquidity and Systems and Control are given along with Norms prescribed by Reserve Bank of India for UCBs, Position of RAJBANK on 31st, 2005 and remarks by the author.

Table 5 – Table of CAMELS indicators of RAJBANK

TABLE OF HIGHLIGHTS OF "CAMELS" INDICATORS

S.No	Parameters	Norms Prescribed by RBI for Scheduled Urban Commercial Banks(UCBs)	**Position of RAJBANK as on 31-03-2005**	Remarks
1	CRAR (Capital to Risk-Weighted Assets Ratio)	9 % minimum	**24.27 %**	Highest provision to tide over the problem of defaults.
2	Ratio of Tier-1 and Tier-2 capital basis	1.5 : 1	**6.63 : 1**	It denotes supplementary Financial strength
3	Ratio of Net NPA to Net Advances	0.00 %	**0.00%**	Net NPA is zero
4	Ratio of Non Performing Investment to Non SLR Investment	0.00%	**0.00%**	Non Performing Investment is zero
5	NET interest income to NET Interest Expense Ratio	Above 60%	**92.08%**	It shows asset quality to earn higher return
6	Ratio of Operating Profit	Above 2%	**2.50 %**	It indicates

	to Average Total Assets			efficiency of total assets of the firm
7	Cost – Income Ratio	Below 50 %	**37.45%**	It shows management efficiency to control the cost of the firm as well as maintain the income level intact.
8	Return on average owned funds(Net)	Above 20 %	**20.47%**	It measures the earnings of the owners.

(Adopted from last three years (2003, 2004, 2005) annual reports of RAJBANK)

All these measures in one or another way portray a robust financial as well as managerial depiction of RAJBANK.

2. EXCEPTIONAL SERVICES TO CUSTOMERS

FOR long, Indian cooperative banks had presumed that their operations were member-centric, simply because they had their existence just because of their members.

However, since the era of lazy banking is soon to end and era of crazy banking is to onset, customer services have become one of the sharpest and sustainable competitive advantages for the cooperative banks.

According to a RBI road-map, India will have a competitive banking market after 2009. As one of the most attractive emerging market destinations, India will see foreign banks come in with more freedom to penetrate, grow and acquire. Considering such developments, RAJBANK has waken up and re-focus on their core asset — the members/customers. RAJBANK is one of the only cooperative banks in Gujarat which learnt to protect its market share and boost growth by way of better services and greater emphasis on Customer Relationship Management (CRM)

Apart from normal customer services such as quick disposal of cases for advances, timely payment, fast processing of Cheque, Demand Draft, and other financial products, excellent office ambience, cooperative staff and prompt response by way of latest tools of electronic communication, RAJBANK has arranged their counters in such a way that a customer does not have to wait in a long queue. For example, its one of the branch is three storied building. On the ground floor, they have set up counters of Cheque receipt - payment, Demand Draft delivery or issue, and other routine matters. The logic behind this is that any customer who has arrived at the bank for such normal routine type of tasks need not to go to anywhere in the bank and does not to stand in a long queue. Secondly, its all windows are being treated as single window. This implies that any type of transactions can be handled at any window except counters on the ground floor. In fact, this arrangement has created a splendid hassle –free environment for the customers. Thirdly, in any branch of RAJBANK except peons and messengers, any employee can execute any transaction for speedy disposal of case matter. So passing the buck is never being an easy task for employees.

3. INNOVATION IN PROCESSES AND PRODUCTS

Transforming socio-economic milieu, shifting paradigms, level of techno-economic development and different socio-economic needs and goals necessitate RAJBANK to become the constant innovator in the market. It is consistently endeavor to innovate banking products and processes which minimize customer cost, lesser transaction time or cycle time and result into the best customer services. It is the first cooperative bank in Gujarat which gives ATM – Automated Telling Machine facility to its customers. Secondly, its new product “Cash Card” is very unique in its own way.

“Cash Card”

Cash card is a new and innovative plastic product with whose help the clients can withdraw specified amount from ATM machine. Cash card works like token and do away with the lengthy and complex procedure. Any customer can write a Cheque and give it to the authorized person of the bank. He will be given the cash card for the same amount. Then that customer can withdraw that amount from ATM machine of RAJBANK according to his convenience during the banking hours of the same day. That customer will also get the receipt for the same amount from the ATM machine.

So, clients are not required to stand in a long queue for the receipt of the amount of the Cheque. This proves to be a wonderful innovative product which is beneficial for the bank official and clients.

We can say that Cash Card helps in saving of cost, time, labor of internal clients (bank officials) and customers/members.

As far as innovation in banking is concerned, we believe in the principle of "Change yourself if you want to change the world" Ramnikbhai Dhami quoted.

Simple and Streamlined Procedure for Loan application and processing

Usually a customer faces a number of problems such as (a) submission of insufficient papers, (b) certified copies of identity, papers connected with land, building and income, (c) time taken at each stage of sanctioning of loan and authority concerned, (d) the lack of information on various charges such as inspection charge, clearing charge, commitment charge, stamp duty, documentation charge and other hidden charges of the banks etc., while applying for the loan or advances. **RAJBANK** has devised one unique process in which a loan applicant is given a statement of requirements to be satisfied while taking loan. Along with this statement, **RAJBANK** is publishing its offers in terms of interest rate, exempted charges, time taken to complete each step of process and so on. It facilitates easy and speedy proceedings of the loan application. Customers are very contented since it promotes convenience, transparency, and accountability towards the members/customers.

4. ZERO EXPOSURE TO STOCK MARKET AND RISKY SECURITIES

With the unfolding of the Government securities scam due to total disregard of sound banking principles involving the brokerage houses and co-operative banks in Maharashtra and Gujarat, the Reserve Bank of India guidelines once again highlights the deep-rooted malaise afflicting this sector. It is now feared that more than 17 co-operative banks in Maharashtra and eight in Gujarat may have lost about Rs 400 crore in dealings with one brokerage firm — Home Trade alone. The other brokers implicated in the scam include Giltedge Management Services, Indramani Merchants, Century Dealers and Syndicate Management Services.

The shocking irony is that the gilt scam has spread to even provident funds. According to reports, the RBI discovered that an urban co-operative bank in Ahmedabad had not only given brokers power of attorney to participate in the bond market but also authorized them to raise deposits from the public. This is the most serious violation of prudential norms by a co-operative bank.

One is at a loss to understand the continuing laxity of the regulatory authorities in the inspection and audit of co-operative banks even after several co-operative banks went into liquidation. The weaknesses and instances of gross mismanagement of the co-operative banking sector were highlighted once again when the Ahmedabad-based Madhavpura Mercantile Co-operative Bank (MMCB), with deposits of Rs 1,200 crore, went under in March 2001 because loans worth Rs 977 crore were given to the stock broker, Ketan Parekh, without securing adequate collateral. The money found its way to the stock market and was never returned back to the bank.

This over-exposure of several other co-operative banks in the stock market by forging nexus with the BIG BULLS (brokers) is responsible for putting them in a spot.

But very surprisingly, when the author took a closer look at the 'Additional Disclosure of Information statement' of the RAJBANK he had discovered that its exposure to the stock market (investment in shares and securities) is NIL from the financial year 2002-03. It proves that one of the major reason of the success and continued profitability of the RAJBANK is its ZERO Exposure to Capital market whose movements is unpredictable, unexpected and sometimes harmful for the overall interest of members of the Cooperative banks. Surprisingly it nullify the belief that cooperative banks are established, managed and controlled by highly influential politicians whose main interest is in raising resources for the benefit of certain vested interested rather than making bank credit available to the weaker sections.

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1. NPA stands for Non-Performing Assets. The asset (Dues from the Borrowers) is "non-performing" if interest or installments of principal due remain unpaid for more than 180 days. As per recent guidelines of the Reserve Bank of India for Urban Cooperative Banks (UCBs), the asset up to 1 lac is Non Performing if its interest or installments of principal remain unpaid for 180 days whereas above 1 lac this limit is kept for 90 days.

2- NPA as % of net advances is Zero implies that the bank has very insignificant amount of bad debt out of its total loans and advances that is 00.34 paisa NPA on 100 Rs loan

3 – An illustration on how gross NPA and Net NPA are being calculated in banking business.

An Illustration

Difference Between Gross NPA and Net NPA

Gross NPA ………………5,00,00,000

Provisions BDDR ……… .. 20,00,000

Net NPA ……………….. 4,80,00,000

BDDR stands for Provision for Bad Debt and Doubtful Reserve

So many banks maneuver to show lesser NPA by making provisions against gross NPA. It means that Gross NPA is the true figure of overall non-performing advances of any bank.

4. Sahkar Ratna Award is endowed to selected people in recognition of their services in cooperative sector.

5. Consumer finance is one of the vibrant areas of banking business. Basically, it covers a wide range of activities, including loans like housing loan, car loan, working capital financing etc. from banks and indirect finance such as hire-purchase agreements, and loans by specialist retail finance companies.

6. The total profit on sale of investment on 31st March, 2004 was 309 lacs whereas it decreased to 173 lacs **(profit reduced up to Rs. 136 Lacs or 44% as compared to previous year)** on 31st March, 2005. *(Adopted from Annual report of RAJBANK 2004-05)*

7. Capital Adequacy to Risky Asset (CARA) or Capital Adequacy Ratio is the ratio of a bank's capital to its risk-weighted credit exposure. Reserve Bank of India (RBI) recommends a minimum 9% for this ratio which basically intended to permit banks to absorb losses without becoming insolvent, in order to protect depositors.

8. About Tier 1 and Tier 2 Capital - A bank's capital is defined as comprising two tiers. Tier 1 ("core") capital included the book value of common stock, non-cumulative perpetual preferred stock and published reserves from post-tax retained earnings. Tier 2 ("supplementary") capital is deemed of lower quality. It included, subject to various conditions, general loan loss reserves, long-term subordinated debt and cumulative and/or redeemable preferred stock. A maximum of 50% of a bank's capital could comprise tier 2 capital.

9. Capacity – Capacity of the borrower to repay his/her dues
Character – Reputation and moral fiber of the borrower
Collateral - Property or goods pledge as security against a loan by a borrower. It can be forfeited if the loan is not repaid by him/her.

10. Profitability per Employee – It is the measure of employee's productivity and effect of his/her efforts on bottom line of the business. It is more used in service sector as compared to manufacturing sector. It is calculated by Profit after Tax minus All expenditure incurred directly or indirectly on employees (Right from the salary, allowances, and training expenses to the daily expenditure of employees paid by the organization/department) divided by total number of employees in the organization/department.

11. Adopted from RBI research paper on Seven Years of Off-Site Monitoring and Surveillance System (OSMOS) – Looking back and way forward, published on 16th December, 2002)

12. Rating a bank means using a system by regulatory agency such as RBI to indicate a bank's financial strength by analyzing their norms of operations like credit policy, payment policy etc. Rating systems use a combination of numbers, letters, or symbols.

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