

Appraisal of Retail Lending in DCCBs Based on Loans, NPAs, and Diversification

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Abstract

The biggest opportunity for the Indian banking system to grow and fulfill its natural obligations today is seen in the recent wave of consumerism and changing profile of the Indian consumer. Indian banks have changed their profile and have shifted to new operational strategies to face the challenges and volatility of the environment. The co-operative banks, which were promoted in India largely with a view to providing rural credit on easy terms and at low cost, are no exception to the rule and have responded to the above banking challenges with full vigour by opting for diversification in high-yield areas of retail banking like the commercial banks. This paper made an attempt to study the impact of retail loaning on the working of District Central Cooperative Banks of Punjab by using secondary data. The paper was divided into three sections, the first section examined the extent of retail loan disbursement and NPAs in the DCCBs of Punjab ; the second section examined the affect of extent of diversification on the level of component wise retail loan disbursement and NPAs ; and the last section attempted to render certain valuable recommendations for improvement in the functioning of Cooperative banks.

Key words : challenges, cooperative banking, new operational strategies, diversification, retail loans and NPAs

JEL Classification : G21, M21, N25

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Dr. A. P. J. Abdul Kalam, former President of India, delineated his vision to transform India into a prosperous nation by 2020 through realization of 'that ideal plentitude' for the Indian masses and urged the banking community to be the vanguard in this national development process (Kalam & Rajan, 1998). Banks, undoubtedly, occupied an important place in the former President's egalitarian vision because of their unparalleled outreach and resources in terms of network, manpower, expertise, and experience.

Indian banking has come a long way from being a sleepy business institution to a highly proactive and dynamic entity (Venugopal, 2004). For the last three decades, India's banking system has numerous outstanding achievements to its credit. The most remarkable is its extensive reach. This is one of the main reasons responsible for India's economic growth, which has accelerated significantly over the past two decades, that is, since 1990. The economic prosperity and resultant increase in purchasing powers has given impetus to consumer boom. This consumerism has provided new banking opportunities to Indian banks, and all banks have developed various products to reap rich dividends from this changing social scenario. Demographic shifts in terms of income levels and cultural shifts in terms of lifestyle aspirations are changing the profile of the Indian consumer (Manikyam, 2014).

As we know, seven out of every 10 consumers reside in rural India, therefore, the rural marketplace is considered destination next for marketers. The co-operative banks were promoted in India largely with a view to

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providing rural credit on easy terms and at low cost. The co-operative banking has to its credit 100% coverage of villages, 65% of households, 56% share of agriculture credit (Punjab State Cooperative Federation Ltd. (PUNCOFED), 2008). Cooperative banks go a long way in attaining the goal of rural upliftment and national reconstruction. All India Rural Credit Survey (1954) was also of the view that, in the villages, no form of credit organization will be suitable except the cooperative society. Therefore, under no circumstances can the role of cooperative banks be undermined. Cooperatives have to play a major role in the marathon task of the socioeconomic transformation of rural India.

As a result of financial sector reforms, technology outburst, prudential norms, and a deregulated as well as a market oriented banking system came out to be the main factors posing big challenges to the cooperative banks. Due to this, the policy makers and social thinkers were apprehensive that the cooperative banking sector may have to abandon its social objectives. However, the cooperative banking system has some inherent strength in the form of its reach, infrastructure, and intimate relations with its customers which have strengthened these banks to make an imperative contribution our nation's development. Although the cooperative banks have responded to the above banking challenges with full vigour and strength, yet, these institutions, being seriously committed to economic upliftment of rural masses, have to provide timely and adequate credit at low rates to agriculturists. Therefore, to supplement these low-yield assets, these banks had to opt for diversification in high-yield areas of retail banking like the commercial banks (Singh & Kaur, 2007). Retail banking involves providing transactions and savings services along with consumer finance to small customers (Tschoegl, 1987).

Retail Lending in Cooperative Banks

The loan portfolio of cooperative banks has shifted from agriculture credit to general advancement, which covers non-agriculture and other high-yield advances also. For the purpose of the present study, only retail loan schemes have been undertaken. Retail banking is that form of banking whereby financial needs of individual consumers such as professionals, salaried persons, self employed persons, housewives, students, etc. are dealt with (Joshi, 2008). Retail banking involves providing transactions and savings services along with consumer finance to small customers (Tschoegl, 1987). Retail banking is identified by a large customer base, voluminous transactions, and high level of cooperation between banks, retailers, and customers (Ramchandran, 2008). Retail banking has been a constant innovator as it converted the financial system of banks by innovating new products and mechanisms (Haque & Hameed, 2009).

The retail loans, the loan schemes that have been considered for the present study are namely Revolving Cash Credit Limit to Farmers (RCCL(F)), consumer durable loans, vehicle loans, and personal loans. The RCCL(F) scheme meets the socioeconomic needs of the farmers, on the basis of their land holding ; the consumer durable loan is provided by the cooperative banks to individuals whether in service or self employed for purchase of consumer durables. Maximum limit per loanee under this scheme is ₹ 50, 000. The vehicle loan scheme provides financial assistance for purchasing a new vehicle for business or personal use to any individual, group of individuals, or a partnership firm. The personal loan scheme is of the most-recent origin ; this loan is advanced by the bank to meet socioeconomic needs of its customers such as child's education, furnishing the house, buying a computer, son's/daughter's marriage, holiday tour, etc. Only salaried employees of Punjab Government, Cooperative Department, and Punjab State Cooperative Bank are eligible for this scheme.

It is felt that a serious attempt is required to evaluate the quantum of loans and NPAs by different banks. The quantum of outstanding loans depends upon efficient advancement and ineffective recoveries. Both the above factors are likely to result into an increase in outstanding loans. If the increase is due to new advances, it is a healthy sign for the bank, but if the loans show a rising trend due to improper recoveries, then the financial position of the bank is likely to worsen.

Table 1. Non Performing Advances on All India Basis for Scheduled Commercial Banks and District Central Cooperative Banks

Year	Outstanding as at end of March (Amt. in ₹ Crore)						
	2004	2005	2006	2007	2008	2009	2010
Commercial Banks							
Total NPAs	50148	47696	41378	38602	39749	44042	57301
NPAs as %age to Loans Outstanding	5.8	4.31	2.8	2.04	1.7	1.58	1.75
Cooperative Banks							
Total NPAs	16101.37	14519.6	15708.94	16494.88	18753.62	17927.15	16015.45
NPAs as %age to Loans Outstanding	23.97	19.87	19.65	18.53	18.48	17.59	13

Source: Reserve Bank of India (2004-2010) and National Bank for Agriculture and Rural Development (2004-2010)

If the loan amount is not repaid within the specified time, it is termed overdue and the borrower of such a loan is called the defaulter. The overdues are stringently regulated under prudential norms, which got implemented in cooperative banks from the year 1996-97 and are known as NPAs. All the overdues are not categorized as NPAs. Only those overdues which qualify under NPA norms are called NPAs and are provisioned accordingly. It is the level of non-performing assets which, to a great extent, differentiate between a good and a bad bank (Monteiro & Ananthan, 2007).

The Table 1 shows the share of NPAs in total outstanding loans of commercial banks and cooperative banks, on an all India basis. As per the Table 1, there has been a constant decline in total NPAs as well as the share of NPAs in total outstanding loans of commercial banks. Similarly, there is a constant decline in total NPAs as well as the share of NPAs in total outstanding loans of cooperative banks, but the proportionate share of NPAs in total loans outstanding in respect of cooperative banks is very high.

Literature Review

Acharya, Hasan, and Saunders (2002) analyzed the tradeoffs between (loan portfolio) focus and diversification using a unique data set which was able to identify individual bank loan exposures to different industries, different sectors, and different geographical regions. Their most important findings were that industrial loan diversification reduced bank returns while endogenously producing riskier loans for all banks in their sample. The sectoral loan diversification produced an inefficient risk-return tradeoff only for high-risk banks, and geographical diversification resulted in an improvement in the risk-return tradeoff for banks with low levels of risk. Another very important finding of this study was that diversification of bank assets was not guaranteed to produce superior performance and/or greater safety for banks.

Sodhi (2004) observed that the possibility of deterioration in asset quality, the mounting pressure on margins partly because of fierce competition and partly as a result of falling interest rates environment are the major threats to retail lending. In spite of all these threats, banks having a dynamic retail strategy and well diversified products, services, and distribution channels are most likely to succeed in the longer term.

Bhadury (2010) observed that non interest related activities of banks were capable of contributing substantially to bank profitability. They involved much lower cost and operational problems, but brought higher volatility in bank revenue. The study was empirical by nature and was based on data of 12 foreign and 14 private commercial banks for the period from 1991-2006. Time series trend analysis and panel regression techniques were used for the study. The study concluded that only few private and foreign sector banks participated in major diversification, which helped them in terms of revenue earnings, but, with increased volatility.

Muley (2010) studied the trends in agricultural advances and overdues in loans given by cooperative and commercial banks of Jalna District of Maharashtra. The study also dealt with recovery problems and suggestions for improvement. The study was based on primary data, which had been collected through pre-tested questionnaire and secondary data, collected from reports of annual credit plans, periodicals, and journals. The statistical tools like percentage, simple annual growth rate, and average had been used. The study concluded that maximum crop loan had been made available by the central cooperative banks. The commercial banks were the main source of term loans as well as total agricultural loans in Jalna district. The study revealed that the mis-utilisation of crop loans was more as compared to the term loans. Recovery performance of commercial banks was better than that of the cooperative banks, and lowest recovery performance was found in case of marginal farmers. Reasons for non-repayment were crop failure, lack of irrigation facilities, mis-utilization of loans, and political interference. The study suggested that banks should supply more loans to small and marginal farmers at low rate of interest and should follow strict measures to improve upon the recovery of agricultural loans.

Karthikeyan (2011) undertook a study of scheduled commercial banks in India for a period of 10 years with the purpose to analyse the magnitude of NPAs, effectiveness of NPA management, and the perceptions of branch managers regarding management of NPAs. Statistical techniques like compound growth rates, averages, correlation, and factor analysis were used for the study. The growth rate (CGR) for net NPAs of SCBs showed a negative trend. Wilful default was ranked as most important reason for NPAs followed by diversion of funds. The SARFAESI Act, visit to borrowers' premises, and one time settlements (OTS) were considered as the most effective recovery measures. The study suggested that engaging of professional agencies right from the stage of loan proposal to the stage of recovery, restructuring of loan accounts in case of temporary problems, and building proper information system using information technology will improve recovery and management of NPAs.

Mitra (2012) conducted a study to evaluate the credit risk management and credit worthiness of Urban Cooperative Banks (UCBs). The study was based on structured questionnaires and statistical tools like arithmetic mean, standard deviation, correlation, and trend analysis. The study observed that credit risk is the biggest risk for cooperatives because of its rising NPAs ; poor resource base, conservative credit policy, interference of politicians, and lack of professional management are the other factors affecting cooperative banking. To reduce the menace of NPAs, banks should follow pre - sanction in depth scrutiny and post sanction regular follow up of loans. The banks also need to improve their risk management practices and integrate them into business strategy implementation.

Sharma (2012) observed that total outstanding non performing assets of Indian banks, which were close to 2.3%, could rise to as high as 3.5% in a year or two in case this trend was not checked. The main reasons affecting the interest paying capacity of the borrowing companies included rising interest rates, declining operating profits, higher inflation, and shrinking demand and, to some extent, policy delays. The author suggested that although restructuring was a necessity for the banking sector to control NPAs, yet, it should be done with great caution, and that too only for the projects with temporary problems. Large infrastructure projects, power, aviation, and electricity boards were the projects which had greater chances for restructuring.

Nair (2014) observed that the amass of bad loans is far more extreme in the case of smaller organizations that lend to agriculture and allied activities. Gross non-performing assets (NPAs) at district central cooperative banks (DCCBs), the smallest units of the Indian banking system, are swelling. The NPAs are higher at the DCCB level because they are easily affected by climatic changes and other agricultural yield-related issues. Moreover, the persistent trend suggests that operational issues like weak governance and delays in adopting technology are hurting the functioning of these banks. On the contrary, the state-level cooperatives banks, which are larger units that lend to DCCBs, are doing much better. Gross NPA ratio across all state cooperative banks stood at 4.7% compared with 10.7% in DCCBs as of March 31, 2014. In case of state cooperatives, better technology and more resources help them bolster their recovery procedures and manage their bad loans in an efficient manner. DCCBs often fall short in these areas.

Roy (2015) opined that over the years, banks have had debt recovery tribunals, which did not have enough judges or the process got delayed in the appellate tribunal. BIFR and AIFR also suffered with unending delays. The SARFESI Act, with the right to take possession, was able to bring some degree of fear in the minds of borrowers, but resorting to legal remedies has often stalled the banks. Instead of trying to lock up the stable after the money has run away, it is important that banks should tackle the genesis of the problem. There is a dearth of officials with adequate credit appraisals skills and ability for effective supervision and follow-up. Too much reliance is placed on system generated scorecard and ratios. Although these provide necessary input, there is a need for "offbalance sheet" surveillance. Qualitative analysis techniques such as meeting the customer in his/her den; observing if he/she is prone to living beyond his/her means; feedback from employees, suppliers, and buyers; past history of promoters, and visiting the site of operations, are few of the must dos to prevent entry of undesirable customers. RBI has directed banks to seek the consent of the lending banker before opening a current account, and it is often breached. It is a matter of intent and implementation by banks who should understand that if they do not comply, they could also be at the receiving end when their borrowers open accounts with other banks. The author suggested that RBI should stipulate that banks should annually update their records about the names of lending banks of their account holders as a part of enlarged KYC. RBI should also issue these directions to cooperative banks, which are under dual control and borrowers often use them as an escape route.

Objectives of the Study

The main objectives of this study are :

- (i) To examine the present status of retail lending in the District Central Cooperative Banks in Punjab (DCCBs).
- (ii) To examine the trends in proportionate share of retail loan and its components out of total advances.
- (iii) To study the present status of NPAs in retail lending in absolute terms and scheme-wise share of NPAs out of total retail NPAs in the District Central Cooperative Banks in Punjab.
- (iv) To pin point major lacunas in NPA management and give suggestions for their improvement.
- (v) To study the relationship and impact of extent of diversification on the performance of DCCBs in relation to retail lending and NPA management.

Research Methodology

The universe of my study consists of all the 20 DCCBs which are operating in Punjab. These banks have been divided into three administrative divisions by the Cooperative Department of Punjab. Three yearly average of non farm loans vis-à-vis the total loans was calculated for all DCCBs covering a period from 2005-06 to 2007-08 when the present study was planned. Two banks, that is, one with the highest degree of business diversification and other with least business diversification were selected as sample from the three divisions. Out of 20 DCCBs, Ropar, Faridkot, and Nawanshaher CCB (highly diversified) and Ludhiana, Ferozepur, and Tarn Taran CCB (low diversified) were selected as the sample banks for the study. Both secondary as well as primary data have been used for the research study. For the analysis of the collected data, simple statistical techniques, such as percentages and averages have been used; in addition, advanced statistical tools such as compound growth rates and trend equations were also applied.

Since 1992, these banks were permitted to advance loans in the non-farm sector, therefore, they started diversifying gradually in a non-disruptive manner. Initially, only a very few DCCBs were selected on 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. In order to study the immediate effect of diversifying into retail loaning, the immediate period of impact starting from 2000-01 to 2008-09 was selected for the present study.

Analysis and Results

As per the *bankwise analysis*, shown in the Table 2, in absolute terms, it was Ludhiana Central Cooperative Bank which had the highest retail loans outstanding among all the selected DCCBs. The total retail loans and the total loans outstanding both depicted generally increasing trend in all the selected DCCBs. The proportionate share of retail loans out of total loans was more than 20% for all the DCCBs except in the case of Ropar CCB and Ferozepur CCB, where it came out to be less than 20%. The proportionate share of the total retail loans out of the total loans was the highest (28.92%) in case of Faridkot CCB. It was, however, the lowest (15.01%) in Ferozepur CCB. The compound growth rate of total retail loans was higher than that of total loans in all selected DCCBs except in case of Ludhiana CCB. Therefore, it can be observed that both the total retail loans and total loans outstanding exhibited an increasing trend in all the selected DCCBs of Punjab, which signifies a favourable situation for retail lending.

As per the *component wise analysis*, as depicted in the Table 2, RCCL (F) dominated the retail lending scenario as the highest proportion in retail loans was represented by RCCL (F) followed by consumer durables, personal, and vehicle loans, respectively. Growth rate in proportionate share in retail loans and advances was significantly positive for personal loans and vehicle loans. This depicts that the share of personal and vehicle loans was rising fast, and if these trends persist, the future of vehicle loans and personal loans is likely to be bright in the selected DCCBs in Punjab. During the relevant period, the proportionate share of RCCL(F) and CD loans in total retail loans accounted for 80% on an average, but they displayed negative growth rates. These trends delineate that there was a significant shift in retail loans from RCCL(F) to vehicle and personal loans. In case these trends persist in the future, it is expected that vehicle and personal loans would increase, while there would be a fall in the RCCL(F) in the future.

It may be stated that the highest proportion in retail loans and advances is represented by RCCL (F) followed by consumer durable loans, personal loans, and vehicle loans, respectively. Although, at the time of conducting the study, the share of RCCL (F) and consumer durable loans was more, but personal and vehicle loans were rising fast in selected DCCBs in Punjab.

As per the *bankwise analysis of NPAs*, the CGR per annum of retail NPAs was not only the highest among all DCCBs, but was more than double the CGR of retail loans outstanding, which is a matter of concern. The share of retail NPAs out of total retail loans outstanding was the highest in case of Ropar CCB (13.21%) and was the lowest in case of Nawan Shehar CCB (5.85%) during the relevant period. The CGR per annum for NPAs against retail loans was the highest for Faridkot CCB (40.15%) and was the lowest in case of Ludhiana CCB (3.73%). Hence, Faridkot, Ferozepur, Tarn Taran, and Ropar CCBs need to take rapid remedial actions to improve their recovery management in retail loans. Nawan Shehar and Ludhiana CCB can increase their retail base as they have been, by and large, successful in the field of recovery management.

As per *component wise analysis of the NPAs*, in absolute terms, against all retail loan schemes, the NPAs increased during the relevant period. *Component wise analysis* discloses that the share of vehicle loan NPAs did not exceed 5% of total retail NPAs. The proportion of NPAs out of vehicle loans outstanding remained less than 11% and displayed negative growth rate during the relevant period. The share of CD loan NPAs ranged from 38% to 58% of the total retail NPAs. On an average, the proportion of NPAs out of CD loans outstanding came out to be 25.81% for all selected DCCBs, which is the highest as compared to all other retail loans. The CGR per annum of proportion of NPAs against its respective loans outstanding was the highest for personal loans. Personal loan NPAs, on an average, remained less than 10% of the total retail NPAs. The proportion of NPAs ranged between 2% and 12 % of personal loans outstanding during the relevant period. On an average, the share of RCCL(F)

Table 2. Trends in Retail Loans Outstanding and Retail Loan NPAs in Selected DCCBs of Punjab (2000 - 2009)

Details of Retail Loans Outstanding		Vehicle Loans		Consumer Loans		Personal Loans		RCCL (F)		Tot. Retail Loans		Details of Retail Loan NPAs		Vehicle Loans		Consumer Loans		Personal Loans		RCCL Tot. Retail Loans (F)										
ROPAR																														
Avg. Amt. . in Lakhs		362.38	(1.69%)	816.66	(4.19%)	1026.56	(4.02%)	1924.71	3788.12	Avg. Amt. . in Lakhs												19.76	(3.62%)	251.48	(46.06%)	101.9	(16.17%)	188	561.15	
Prop. of Total Loans									(9.52%)	(18.52%)	Prop. of Tot RL NPAs															(46.06%)			(34.15%)	(100%)
Coefficient of Variation (C.V.)		81.98		21.38		36.92		28.05	32.95	Coefficient of Variation (C.V.)												60.93		50.12		107.54		42.36	25.11	
Compound Growth Rate (C.G.R)		53.56		-5.48		15.57		9.16	12.64	Compound Growth Rate (C.G.R)												-4.84		15.74		110.66		-9.64	-0.12	
t-value		6.08***		2.53**		1.50		6.00***	6.61***	t-value												0.52		2.88*		4.40**		1.32	0.02	
										Prop. of Loan Outstanding (%age)												5.08		33.08		8.97		9.32	13.21	
FARIDKOT																														
Avg.Amt. . in Lakhs		237.69	(1.28%)	694.85	(4.21%)	554.14	(3.06%)	3509.17	4872.69	Avg.Amt. . in Lakhs Prop. of Total Loans												16.13	(3.03%)	251.95	(39.92%)	76.70	(12.70%)	216.93	561.71	
Prop. of Total Loans									(21.05%)	(28.92%)																(39.92%)			(44.35%)	(100%)
Coefficient of Variation (C.V.)		92.66		34.13		44.99		35.58	40.49	Coefficient of Variation (C.V.)												61.78		60.76		44.75		33.01	37.26	
Compound Growth Rate (C.G.R)		83.28		14.59		29.42		14.17	17.57	Compound Growth Rate (C.G.R)												-21.94		57.17		20.71		10.53	22.80	
t-value		5.73***		3.78***		4.51***		10.89***	11.3***	t-value												5.58**		2.68*		2.63*		1.20	2.25	
										Prop. of Loan Outstanding (%age)												7.79		29.88		12.14		5.41	9.37	
NAWANSHEHAR																														
Avg. Amt. . in Lakhs Prop. of Total Loans		385.15	(1.67%)	1098.45	(5.08%)	667.90	(2.90%)	2765.61	4768.69	Avg. Amt. . in Lakhs Prop. of Total Loans												10.32	(3.36%)	180.40	(58.46%)	18.32	(5.40%)	91.93	298.36	
Coefficient of Variation (C.V.)		85.11		17.86		60.03		21.74	30.83	Coefficient of Variation (C.V.)												65.90		39.73		75.96		58.80	19.82	
Compound Growth Rate (C.G.R)		38.94		6.18		53.56		6.59	11.57	Compound Growth Rate (C.G.R)												-19.30		18.30		89.89		-20.76	-4.35	
t-value		6.89***		3.71***		3.14**		4.30***	15.6***	t-value												4.76**		2.77*		2.09		4.61**	1.34	
										Prop. of Loan Outstanding (%age)												3.12		14.96		2.02		3.34	5.85	

LUDHIANA		LUDHIANA									
Avg.Amt . in Lakhs	992.89	1288.31	978.77	5062.25	8104.71	Avg.Amt . in Lakhs Prop. of Total RL NPAs	12.22	443.41	61.01	370.53	883.67
Prop.of Total Loans	(2.5%)	(3.7%)	(2.48%)	(15.47%)	(23.6%)		(2.64%)	(49.74%)	(16.85%)	(30.78%)	(100%)
Coefficient of Variation (C.V.)	85.20	37.57	49.06	16.31	28.84	Coefficient of Variation (C.V.)	55.92	4.23	94.41	33.51	17.55
Compound Growth Rate (C.G.R)	52.12	15.81	32.93	52.75	10.80	Compound Growth Rate (C.G.R)	39.70	0.11	71.56	-13.28	-6.52
t-value	10.2***	4.70***	4.68***	1.44	18.9***	t-value	1.62	0.12	4.51**	3.89*	3.06*
						Prop. of Loan Outstanding (%age)	0.68	29.91	4.60	7.46	10.30
FEROZEPUR		FEROZEPUR									
Avg.Amt . in Lakhs Prop. of Total Loans	283.26	355.17	285.92	2005.65	2866.46	Avg.Amt . in Lakhs Prop. of Total Loans	15.95	99.09	31.44	86.34	223.70
	(1.29%)	(1.93%)	(1.42%)	(10.68%)	(15.01%)		(2.02%)	(40.92%)	(11.01%)	(46.06%)	(100%)
Coefficient of Variation (C.V.)	101.03	49.43	57.70	59.21	60.45	Coefficient of Variation (C.V.)	39.73	54.80	96.33	46.36	15.92
Compound Growth Rate (C.G.R)	102.88	22.69	36.14	19.17	23.90	Compound Growth Rate (C.G.R)		26.84	37.46	-16.29	1.05
t-value	3.37**	5.79***	2.28*	5.93***	15.3***	t-value		6.84**	1.67	2.35	0.33
						Prop. of Loan Outstanding (%age)	2.55	21.74	10.44	4.50	6.64
TARN TARAN		TARN TARAN									
Avg.Amt . in Lakhs Prop. of Total Loans	549.83	1031.24	639.96	3932.72	6011.54	Avg.Amt . in Lakhs Prop. of Total Loans	21.28	273.95	44.82	370.70	704.66
	(2.05%)	(4.52%)	(2.38%)	(17.45%)	(25.88%)		(2.69%)	(38.33%)	(5.41%)	(54.34%)	(100%)
Coefficient of Variation (C.V.)	94.43	26.64	67.78	23.36	35.01	Coefficient of Variation (C.V.)	41.42	22.31	40.58	10.64	8.78
Compound Growth Rate (C.G.R)	84.85	10.69	56.35	7.98	13.74	Compound Growth Rate (C.G.R)	-20.98	9.03	22.56	1.28	1.77
t-value	5.72***	8.40***	4.83***	5.37***	15.9***	t-value	2.25	2.77*	3.53*	0.57	1.04
						Prop. of Loan Outstanding (%age)	2.53	23.54	5.78	8.79	10.48

*Significant at 10% , **Significant at 5%, ***Significant at 1%

Source: Statistics of State and Central Co-operative Banks of Punjab, Published by The Punjab State Co-op. Bank Limited, Chandigarh

NPAs in total retail NPAs was more than 45%. The proportion of NPAs out of RCCL(F) ranged between 3% and 9%. Moreover, it displayed a negative growth rate, which indicates a good future for RCCL(F). Generally, personal loan NPAs had the highest and RCCL(F) had the lowest CGR in all DCCBs. As per the component wise analysis, the proportion of NPAs, out of CD loans, was the highest for all the CCBs.

Overall, one of the main factors contributing towards declining share of RCCL(F) in the total retail loans is that it is issued to farmers in accordance with their land holdings, and majority of the farmers have land holdings less than 3 acres. The CD loans outstanding had the second largest share in total retail loans. Lot of CD loans were issued, this can mainly be attributed to the reason that it is a small amount, clean loan (without security). One of the main reasons contributing towards rising personal loans in all the selected DCCBs is that DCCBs are offering it at cheaper rate as compared to all other banks. The overall position of NPAs against loans outstanding in DCCBs of Punjab (9 %) was much better than the DCCBs on an all India basis (13%), but the position was really grave when compared with commercial banks on an all India basis (1.75%) (as per Table 1). The total retail NPAs increased at a significantly higher rate as compared to the growth rate of retail loans outstanding. This may cause serious financial problems in the future if corrective measures are not taken. If we look into the NPAs in retail loans of the DCCBs in Punjab, there is a large variation in retail loan schemes. NPAs were very high in the case of consumer durable loans and personal loans. On the other hand, it seems that NPAs against RCCL(F) could depict an encouraging trend, that is, a declining trend during the period under study. The NPAs against vehicle loans were within the manageable limits.

Retail Loans Outstanding and Retail Loan NPAs in Low and High Diversified DCCBs

Two banks, that is, one with the highest degree of business diversification and other with the least business diversification from each administrative division were selected for the study. The Ludhiana Central Cooperative Bank Ltd., The Ferozepur Central Cooperative Bank Ltd., and The Tarn Taran Central Cooperative Bank Ltd. were found to be the least diversified DCCBs from Patiala, Ferozepur, and Jalandhar divisions, respectively. Trends in advances outstanding in different types of retail loans and total retail loans in the least diversified

Table 3. Performance of Retail Loans Outstanding in Selected Low Diversified DCCBs of Punjab (2001-2009)

Particulars of RL Outstanding	Vehicle Loans	CD Loans	Personal Loans	RCCL(F)	Total Retail Loans
Average (in Lakhs)	1825.98	2674.72	1481.40	11000.61	16982.71
C.V. (In %age)	90.09	34.41	83.00	25.36	36.19
C.G.R. (In %age)	53.51	13.35	36.22	9.22	14.24
t-value	10.11***	4.41***	4.31**	5.17***	24.41***
Avg Loan Projected for 2020-21	9480.72	7737.29	10961.41	23923.73	50809.48
Projected % change over 2008-09	111.70	132.71	242.26	46.63	85.97
Particulars of NPAs					
Average (in Lakhs)	30.76	816.45	137.26	827.57	1812.04
C.V.	64.11	34.81	88.35	14.77	26.42
C.G.R.	61.08	19.37	76.73	3.36	13.99
t-value	3.11**	4.30***	7.23***	1.14	5.83***
Avg NPAs projected for 2020-21	204.92	3141.46	1271.07	1389.72	6007.16
Projected % change over 2008-09	163.08	191.97	252.51	45.61	143.33

Significant at 5%, *Significant at 1%

Source: The Punjab State Cooperative Bank Limited (1999-2009)

District Central Cooperative Banks (DCCBs) in Punjab have been studied. The Table 3 shows the total retail loans outstanding and their various components in absolute terms in the least diversified DCCBs.

A perusal of the Table 3 indicates that in low diversified DCCBs, total retail advances increased significantly from 2000-01 to 2008-09 at the rate of 14.24%, compounded annually. The analysis further reveals that all types of retail loans increased significantly. It is noteworthy that, on an average, the vehicle loans had the second lowest value of ₹ 1825.98 lakhs, but its CGR was found to be the highest at 53.51% ; whereas, the RCCL (F), on an average, was the highest at ₹ 11000.61 lakhs, with the lowest CGR of 9.22% per annum.

Keeping in view the trend coefficients, it can be predicted that the total retail loans may increase by 85.97 % in 2020-21 over that in 2008-09. The vehicle loans are expected to increase by 111.70%, CD loans by 132.71 %, personal loans by 242.26%, and RCCL(F) by 46.63% in 2020 - 21 over that in 2008-09. This shows that the future of retail lending is bright in low diversified DCCBs.

A perusal of the Table 3 indicates that in low diversified DCCBs, total retail loan NPAs increased significantly at the rate of 13.99%, compounded annually. The analysis further reveals that all types of retail loan NPAs increased during the period under study. Barring RCCL(F), NPAs against all components of retail loans more than doubled during the period under study. Personal loan NPAs displayed the highest rise as the rate of increase came to be 76.73%, compounded annually. The highest share in retail loans NPAs was of RCCL(F), followed by CD, personal, and vehicle loan NPAs. However, the CGR of personal loans was the highest and that of RCCL(F) was the lowest.

Keeping in view the trend coefficients, it can be predicted that total retail loan NPAs would increase by 143.33 % in 2020-21 over that in 2008-09. The vehicle loan NPAs may increase by 163.08%, CD loan NPAs by 191.97 %, personal loan NPAs by 252.51%, and RCCL(F) NPAs by 45.61% in 2015-16 and 2020-21, respectively over that in 2008-09. This shows that retail loan NPAs were on the rise and will continue to remain so in the future as well in the selected low diversified DCCBs.

The analysis given in the Table 3 indicates that in high diversified DCCBs, total retail advances increased significantly from ₹ 7047.91 lakhs in 2000-01 to 2008-09 at the rate of 13.90 %, compounded annually. The analysis further reveals that all types of retail loans increased significantly. Vehicle loans increased at the compound growth rate of 49.34% per annum. CD loans registered a significant increase at the rate of 4.16%, compounded annually. The personal loan rate of increase came out to be 45.49%, compounded annually. The RCCL(F) increased at the rate of 10.26 %, compounded annually.

Keeping in view the trends coefficients, it can be predicted that the total retail loans may increase by 97.23 % in 2020-21 over that in 2008-09. The vehicle loans is likely to increase by 147.51%, CD loans by 53.36 %, personal loans by 214.42%, and RCCL(F) by 74.78% in 2020-21 over that in 2008-09.

Analysis of the findings detailed in the Table 4 indicate that in the highly diversified DCCBs, total retail loan NPAs increased significantly from 2000-01 to 2008-09 at the rate of 18.23 %, compounded annually. The analysis further reveals that all types of retail loan NPAs increased. The highest share in retail loan NPAs was of CD loans followed by RCCL(F), personal, and vehicle loan NPAs. However, the CGR of personal loans was the highest and that of RCCL(F) was the lowest.

A few distinguishing trends in the analysis of low diversified DCCBs reveal that the share of retail loans out of total loans increased and remained between 15% to 26% in all selected low diversified DCCBs . The lowest proportion in total retail loans in low diversified DCCBs is represented by vehicle loans. The growth rate, on an average, for retail loans in low diversified DCCBs was 14.24%. CD, personal, and vehicle loan NPAs increased more than two times in all the low diversified DCCBs. Personal loans had the highest CGR per annum, the same was the lowest for RCCL(F) NPAs, whereas its share in total NPAs was the highest. The compound growth rate for retail loan NPAs in low diversified DCCBs was 13.99%.

A few distinguishing trends in the analysis of highly diversified DCCBs depict that lowest proportion in total retail loans in highly diversified DCCBs is represented by personal loans. The growth rate, on an average, for retail

Table 4. Performance of Retail Loans Outstanding in Selected High Diversified DCCBs of Punjab (2001-2009)

Particulars of RL Outstanding	Vehicle Loans	CD Loans	Personal Loans	RCCL(F)	Total Retail Loans
Average	985.22	2609.95	2101.95	8199.48	13429.50
C.V.	84.36	16.70	52.27	28.18	34.03
C.G.R.	49.34	4.16	45.49	10.26	13.90
t-value	6.98***	2.05*	3.67**	10.15***	18.06***
Avg Loan Projected for 2020-21	5690.96	4100.35	10162.00	21078.21	39968.04
Projected % change over 2008-09	147.51	53.36	214.42	74.78	97.23
Particulars of NPAs					
Average	46.21	683.84	194.31	496.86	1421.22
C.V.	45.29	36.37	92.82	23.19	34.63
C.G.R.	29.91	21.04	89.23	4.16	18.23
t-value	3.06**	4.41***	6.17***	0.92	7.13***
Avg NPAs projected for 2020-21	174.91	2328.90	1405.42	842.30	4751.52
Projected % change over 2008-09	191.03	136.28	190.76	20.47	113.24

*Significant at 10% , **Significant at 5%, ***Significant at 1%

Source : The Punjab State Cooperative Bank Limited (1999-2009)

loans in highly diversified DCCBs was 13.9%. CD, personal, and vehicle loan NPAs trebled in all highly diversified DCCBs during the period under study. The compound growth rate for retail loan NPAs in highly diversified DCCBs was 18.23%.

Overall, the growth rate, on an average, for retail loans in low diversified DCCBs was higher than the growth rate for retail loans in highly diversified DCCBs, therefore, it follows that the low diversified DCCBs show better growth prospects. Although retail lending may increase in both low and highly diversified DCCBs in Punjab, the compound growth rates of NPAs in total retail loans and in all components of retail loans (except the vehicle loans) were higher in high diversified DCCBs as compared to the low diversified DCCBs. The proportion of NPAs out of the respective loan amount on an average was again higher in high diversified DCCBs. The compound growth rate for retail loan NPAs in highly diversified DCCBs was more than the compound growth rate for retail loan NPAs in low diversified DCCBs by 4.24%. Therefore, the analysis evinces that the highly diversified DCCBs have shown poorer performance in NPA management.

Discussion and Major Findings

The following are few studies which are related to the present study (also refer to Table 5) :

Singh and Kaur (2007) observed that Revolving Cash Credit to farmers (RCCL (F)) had the highest share in total advances. Initially, the scheme did good business, but later on, its business declined due to competition from commercial banks. Retail loans for housing, consumer durables, and personal loan sector - all were increasing by leaps and bounds. Though the DCCBs had a huge amount of outstanding balances in RCCL (F) loan scheme, yet, the growth rate was very low.

Kumar (2008) took a sample of 10 DCCBs, five with high level of NPAs and five with low level of NPAs for her study. It was found that despite the best efforts, the central co-operative banks had not succeeded in diversifying their businesses. The NPAs were found to be the lowest in crop loans and were found to be the highest in the non-farm sector loans.

Kaur (2010) observed that business diversification in cooperative banks was not profitable and, as such, the

Table 5. Comparative Analysis of the Present Study with the Related Previous Studies

ISSUE	PREVIOUS STUDIES		PRESENT STUDY
	NAME OF THE STUDY	COMMENTS	
TRENDS IN RETAIL LENDING	Singh & Kaur (2007) Kumar (2008) Kaur (2011) Kaur (2010)	Retail loans showed increasing trend.	Retail loans showed increasing trend.
SCHEME-WISE TRENDS IN RETAIL LENDING	Singh & Kaur (2007) Kumar (2008) Kaur (2010)	RCCL(F) had highest share but lowest growth rate. Personal loans had low share but highest growth rate. RCCL(F) had highest share but lowest growth rate. Consumer Durable loans had second highest share and highest growth rate. RCCL(F) had highest share but lowest growth rate. Con.Durable loan had second highest share and highest growth rate.	RCCL(F) had highest share followed by consumer durable loans, personal loans, and vehicle loans, respectively. Growth rate of personal and vehicle loans was much higher as compared to RCCL(F) which had lowest growth rate.
TRENDS IN NPAs IN RETAIL LENDING	Kumar (2008) Kaur (2011) Kaur (2010)	More NPAs were observed in retail lending. They were increasing and would increase in future.	Retail NPAs increased at a significantly higher rate as compared to the growth rate of retail loans outstanding. NPAs against RCCL(F) could depict declining trend but all other retail loans would show increasing trends in future, if not controlled properly.
MAIN SUGGESTIONS	Ravi Kaur (2010) Kumar (2008) Kaur (2011)	A domestic model for diversification should be developed rather than adopting constructs from West. Acceleration of recovery machinery, introduction of advanced technology, proper credit evaluation & appointment of professionals on the board. Modification of the prudential norms, special cell to monitor NPAs and should take services of recovery agents, etc. Representation of professionals on Board, strengthening of internal control systems, need based computerization, etc.	Measures like improving risk management practices, more objective loan appraisal procedure and documentation, credit counselling for clients, using legal action for recovery more effectively, creating a common pool of high tech employees for designing and guiding in various retail products, proper training and developing a better professional attitude of cooperative staff are required.

shift of funds from agricultural to non-agricultural sector, by and large, resulted into huge NPAs. The study identified the gaps in the infrastructure for proper credit evaluation. Problem of NPAs, non-professional attitude of the bank staff, and insufficient knowledge of loan rules were the serious challenges faced.

Kaur (2011) found that in comparison to Haryana, DCCBs of Punjab performed better in diversifying their business in non-farm/commercial loans, and they were also more efficient in recovery management of short-term agricultural loans. She suggested that the DCCBs in both the states should enhance their resource base at low cost, strengthen the internal control systems, and introduce need based computerization.

Singh (2014) observed that diversification did not help the central cooperative banks in increasing returns and reducing risks. This can be attributed mainly to the fact that the bank employees are trained in lending and

recoveries of loans related to agricultural purposes and were not accustomed with appropriate skills to evaluate loan proposals of traders, industrialists, and servicemen. Lending to agriculture is regulated lending, whereas evaluation of retail loan projects is a technical process. Furthermore, the strategy required for recovery is entirely different as the recovery of loans given for agricultural purposes is done mostly on a bi-annual basis, whereas recovery of loans for non-agricultural purposes is mainly done on a monthly basis. The author suggested that focused approach of lending money to farmers and village artisans was better for the cooperative banks; therefore, DCCBs should put in efforts to strengthen their business of lending to farmers, small artisans, and traders.

As per the Table 5, the previous studies generally concluded that diversification did not help the central cooperative banks to increase their revenue or to reduce their risks. By and large, diversification resulted into huge NPAs (Kaur, 2010 ; Kumar, 2008 ; Singh, 2014). Findings of all these studies are in affinity with the findings of the present study, although Kaur (2011) was of the opinion that DCCBs of Punjab outperformed the DCCBs of Haryana on the basis of diversification and recovery management.

Despite certain attempts made to study different aspects of diversification in cooperative banks, there remained certain pertinent gaps. There was hardly any other study which attempted to find out the impact of retail loaning on the working of cooperatives. So, the present study is an attempt to bridge that gap, and hence, examine the performance of DCCBs in Punjab based upon the parameters of retail loan disbursement, NPAs, and extent of diversification. In this study, some of these gaps revolved around certain questions such as:

- (i) What is the magnitude of retail loans in the District Central Cooperative Banks of Punjab?
- (ii) How far have these retail loans affected the recovery performance of the DCCBs of Punjab?
- (iii) Have the highly diversified (in terms of retail loaning) DCCBs in Punjab performed better than the low diversified DCCBs or vice versa?

Major Findings

- ✎ The total retail loans outstanding exhibited an increasing trend in all the selected DCCBs of Punjab, which signifies a favourable situation for retail lending.
- ✎ Although the share of RCCL(F) and consumer durable loans was more, but personal and vehicle loans were rising quite fast in the selected DCCBs in Punjab.
- ✎ The overall position of NPAs against loans outstanding in DCCBs of Punjab (9%) was much better than the DCCBs on an all India basis (13%), but the position was really grave when compared with commercial banks on an all India basis (1.75 %).
- ✎ The total retail NPAs increased at a significantly higher rate as compared to the growth rate of retail loans outstanding.
- ✎ NPAs were very high in the case of consumer durable loans and personal loans. On the other hand, it seems that NPAs against RCCL(F) could depict a declining trend in the near future.
- ✎ Although retail lending may increase in both low and highly diversified DCCBs in Punjab ; yet, the highly diversified DCCBs had poorer performance in NPA management.

Recommendations

On the basis of the various observations and analysis, the following recommendations are put forth for consideration :

- (1)** Banks are required to act as financial engineers and innovate customer specific products to achieve greater customer attention and satisfaction.
- (2)** Vehicle loans have shown promising growth, and have the least NPAs, therefore, as it stands out to be one of the strongest components of retail loans, banks should plan to strengthen them strategically. In order to promote them further, the banks can build fruitful collaborative relationships with auto dealers. The share of vehicle loans in total retail loans is the lowest and moreover, the share of vehicle loan NPAs is less than 5% of total retail loan NPAs. To increase the vehicle loans, steps like reduction in their lending rate is suggested as it is a secured loan.
- (3)** Special attention should also be given in the case of RCCL (F) as they have huge potential. These have the highest share in retail loans and declining NPAs. Therefore, the banks should take special measures to widen their clientage and try to bring maximum farmers under this scheme.
- (4)** The performance of CD loan highlights very poor NPA management. Therefore, it is suggested that either the CD loans may be discontinued or may be restructured by the DCCBs.
- (5)** NPAs are a serious problem in the banking system. DCCBs should establish a special cell for recovery of the NPAs in non-agriculture loans and monitor the recovery performance on a day to day basis.
- (6)** The loan appraisal procedure and documentation need special attention, which may be made objective by these banks.
- (7)** The personal loan NPAs are rising at highest CGR compared to other retail loans mainly because this loan is essentially issued to government employees, and there is laxity in verification and follow up procedures by the DCCBs. A special attention is required for personal loans where there is laxity on the part of banks leading to higher delinquencies.
- (8)** Self help groups can act as an effective tool for resolving issues related to rural credit such as non recovery of loans and for bringing more number of rural poor into the institutional credit web.
- (9)** DCCBs can plan to outsource their recoveries. Hiring or appointing recovery agents may improve recovery performance of these banks.
- (10)** Banks still have inhibitions to take legal action for recovery. They need to concentrate on legal backing for recovery. It should be used more effectively, specially for non farm sector loans.
- (11)** Cooperative banks have a unique legal weapon for recovery, they can recover their dues as revenue under the Land Revenue Act. This weapon can be used very effectively, which is still not insisted upon.
- (12)** Keeping in view the objective of social welfare of masses, cooperative banks, instead of mass loaning, should lay stress on loaning to masses. Suitable schemes should be developed for people other than agriculturists like landless labourers, rural artisans, small traders, etc.
- (13)** Cooperative bank employees are traditionally known and groomed for agricultural loans mainly. Therefore, to assist them, the Punjab State Cooperative Bank should create a common pool of high tech employees for designing various retail products, policies, and for developing adequate risk management techniques. This can save costs and give access to highly paid services of experts.
- (14)** The staff needs to have proper training and more professional attitude towards retail lending which can best be imbibed through training programmes in the form of workshops, seminars, and camps.

(15) There is an urgent need of introduction of advanced technology for banking activities in cooperatives because cooperatives are still using age old technology which is acting as a hurdle in their progress.

(16) A three-tier structure should be revamped. There should be only 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.

(17) Representation of some professionals on board of directors of DCCBs may be made mandatory. All BOD members should be properly educated about their role, responsibilities, and duties, so that they may actively participate in decision making.

(18) Credit counseling is needed by borrowers, who find themselves in debt trap. The RBI has formulated a scheme for credit counseling centres to be established in all districts of India. Cooperative banks should also take initiative by setting up credit counseling centres to help their clients.

It is impossible for a bank with high level of NPAs to be either vibrant or competitive. In fact, one of the most important dimensions of the banking sector reforms was the reduction of NPAs and the whole effort to reform the banking sector would collapse if banks are not able to contain and reduce their NPAs. Special efforts are required to check the increasing trends, particularly in NPAs against consumer durables and personal loans so that the overall quantum of retail loan NPAs could be curtailed. Cooperative banks need to improve their risk-management practices and integrate them into business strategy implementation. Measures like improving risk management practices, establishing a special cell for recovery, more objective loan appraisal procedure and documentation, hiring recovery agents, using legal action for recovery more effectively, creating a common pool of high tech employees for designing and guiding in various retail products, and proper training and developing a professional attitude of cooperative staff is need of the hour. It will go a long way in improving the NPAs management if the above suggestions are implemented in the true spirit.

Limitations of the Study and Scope for Further Research

The present study has some limitations considering the objectives of the study and the coverage in terms of the formidable time span. Due to resource and time constraints as well as easy accessibility and convenience, the study was confined to the state of Punjab only. Financial information collected for the study, which is secondary data based, carries all the limitations inherent with secondary data. Data of advances under the scheme of personal loans could not be obtained for all the 9 years as the loan scheme was introduced late, that is, in 2002-2003. The Table 2 displays, on an average basis, the amount of retail loans outstanding, retail loan NPAs component wise, share of NPAs out of each component of retail loans outstanding, their coefficient of variation (C.V.), and compound growth rate (CGR) in selected DCCBs during the study period. The table also depicts the likely amount of share of NPAs out of each component of retail loans outstanding.

The following are certain promising areas for those who are interested in empirical research in the field of performance evaluation of cooperative banks:

(i) The present study is based on six district central cooperative banks, so business diversification could be studied for all the 20 Districts Central Cooperative Banks of Punjab.

(ii) Retail lending performance could be studied for Haryana and comparison of Punjab and Haryana could be done. This study could be extended to North India also.

(iii) Comparison of cooperative banks with commercial banks could be done.

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