

Co-operative Bank Turning to Private : A Case Study on Saraswat Co-operative Bank



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Introduction

Urban Co-operative Banks (UCBs) are an important part of the financial system in India. It is, therefore, necessary that the UCBs emerge as a sound and healthy network of jointly owned, democratically controlled, and ethically managed banking institutions providing need based quality banking services, essentially to the middle and lower middle classes and marginalized sections of the society. The scene of urban cooperative banks in the country is a mixed lot with some of them capable of taking on corporate banks while others struggling to be in the business. While cooperative banks like Saraswat and Cosmos with turnovers in the range of Rs 20,000-30,000 crore are everybody's envy, many of UCBs are hot-bed of mismanagement and bad business practices. And while those which are successful could be counted on fingers the list of those in sorry mess runs into hundreds. They are simply not able to make any profitable business.

Objective

Last two decades the Bank has witnessed a steady growth in the business and also taken several Strategic Business Initiatives like undertaking Business Process Reengineering initiative. Besides being the largest Urban Co-operative Bank in India, Saraswat Bank has now become the largest in Asia.

Here an attempt has been made to highlight the performance of the bank, comparison with other banks and to search possible reasons of success which has caused for the turn from the status of a cooperative towards private bank having wider scope.

About Saraswat Bank

The Bank has a very humble but a very inspiring beginning. On 14th September 1918, "The Saraswat Co-operative Banking Society" was founded. J. K. Parulkar became its first Chairman, N. B. Thakur, the first Vice-Chairman, P. N. Warde, the first Secretary and Shivram Gopal Rajadhyaksha, the first Treasurer. The Society was initially set up to help families in distress. Its objective was to provide temporary accommodation to its members in eventualities such

as weddings of dependent members of the family, repayment of debt, and expenses of medical treatment etc. The Society was converted into a full-fledged Urban Co-operative Bank in 1933. The Bank has the unique distinction of being a witness to History. The Bank, which was originally founded in 1918, i.e. close on the heels of the Russian Revolution, also witnessed as a Society and as Bank-the First World War, the Second World War, India's Freedom Movement and the glorious chapter of post-independence India.

During the late fifties, the Bank grew from strength to strength. The Bank had established five branches within the city of Mumbai and one each at Pune and Belgaum. In its 50th year, the Bank chose a bee motif to symbolize the Bank's emblem – a fitting and appropriate characteristic of a Bank that believed in hard work, a search for all that is good, a team spirit to achieve its objectives and a selfless service to its members and customers. The Bank has grown in stature, progressed in its social and economic objectives and produced an image of what an ideal bank should be. Resultantly, in 1977-78, the Bank's gross income crossed the Rs. 3.00 crore marks for the first time. In 2008, the Bank launched the Branding Initiative. The purpose of such an exercise was to reconfirm the thrust of the Bank on its core values, which can be summed up as "Sense of Belonging". The name of the Bank should always inspire the Sense of Belonging in all its stakeholders and that the Bank continues to fulfill the changing needs and expectations of the customers with unflinching gusto and aplomb.

Different Credit Schemes

Saraswat Bank has introduced a wide range of credit schemes at attractive interest rates, which has become very popular, especially among the middle-class, in view of the easy repayment plans. Bank offers attractive interest rates on deposits and also various add-on features at very market competitive rates. A few are :

Udyogini

Saraswat Bank introduces a scheme for women entrepreneurs of today which takes care of their financial requirements allowing them to concentrate on their business growth. With lot of incentives/

discount being offered and minimum processing charges which are enumerated :

1. Micro Enterprises – Here the finance provided will be up to Rs 2.00 lacs.

2. Small Scale Enterprises – Here the finance provided will be above Rs 2.00 lacs up to Rs. 50.00 lacs.

3. Medium Enterprises – Here the finance provided will be above Rs. 50.00 lacs up to a maximum limit of Rs 100.00 lacs.

The following are/discounts offered to women under the scheme Udyogini :

	Micro Enterprises	SSI Enterprises	Medium Enterprises
Amount	Up to Rs 2.00 lacs	Above Rs 2.00 lacs up to Rs. 50.00 lacs	Above Rs 50.00 lacs up to Rs 100.00 lacs
Margin	Nil	10%-15% lower than the Bank's norm	10% - 15% lower than the Bank's norm
ROI	PLR – 0.5%	PLR – 0.5%	PLR
Repayment	6 yrs	6 yrs	7 yrs
Security	Hypothecation + Guarantee of (spouse / a family member wherever required)	Hypothecation + 2 Guarantors + Collateral Security (25%)	Hypothecation + 2 Guarantors + Collateral Security (30%)
Processing Fees	Rs. 500/-	Rs. 750/-	0.1% of finance limit

Micro Finance : Self Help Groups (Bachat Ghat)

Since inception the cause of the Small Man lay at the core of the Bank's heart. The Bank has grown manifold but its basic values have remained the same. Saraswat Bank has, therefore, launched a scheme for self help groups so as to help them raise the income levels and improve living standards of their members'. The Bank aims at teaching the members of these groups to save and to borrow responsibly.

The Bank caters to the self help groups who are involved in the following activities :

1. Selling fruits, vegetables, milk, fish, etc.
2. Making of brooms, basket weavers, and other bamboo products, etc.
3. Any other activities viz. plumbing, hairdressing, electrician, including flowers/vegetable growers, spices and papad making, etc.

Maximum amt of Loan	Rs 2.00 lakhs
Interest Rate	PLR – 1%
Security	Guarantee of Group Members
Repayment Period	Not more than 36 months
Processing Fees	Reasonable
Shareholding	Nominal Membership

Table : Few financial indicators of the Saraswat bank for the last 5 years :

Year	Deposit (Rs in Cr)	Loans & Advances (Rs. in cr)	Credit Deposit Ratio	Invest ment in (cr)	Gross NPA	Net Prorit (Rs in crore)
2006-07	89,24.94	6,370.46	71%	2,609.90	5.32%	155.18
2007-08	11,430.82(28%)	7,448.31(17%)	65%	4,350.06	4.78%	202.26
2008-09	12,918.85(13%)	8,110.41(9%)	62%	4,791.51	4.5%	241.29
2009-10	14266.73(10%)	9,250.35(14%)	65%	5,321.39	3.92%	139.16
2010-11	15,800(10%)	11,511.99(24%)	73%	5,253.77	3.25%	213.57

Note : Figures in parenthesis indicate yearly growth

Source : Saraswat Bank

Small & Medium Enterprises (SMEs)

For a business on the growth phase with a wide range of opportunities to explore, timely availability of credit is essential to scale new heights. Saraswat Bank always enables SME sectors' business needs.

Performance

In 1988 the bank was conferred "Scheduled" status by Reserve Bank of India. The Bank is the first cooperative bank to provide Merchant Banking services. The Bank got a permanent license to deal in

foreign exchange in 1978. Presently the Bank is having correspondent relationship in 45 countries covering 9 currencies with over 125 banks.

In 1992, the Bank completed 75 years. Platinum Jubilee celebrations were inaugurated on 14th September 1992. The Bank also crossed the business level of Rs 700 crores. The beginning of the 21st century has been a giant leap forward for the Bank. The Bank chose a path of organic/inorganic growth and its pace of growth accelerated. Bank's total business which was around Rs. 4,000 crore in 2,000 almost tripled to Rs. 15.295 crore in 2007.

Saraswat Bank has now 226 fully computerized branches, 15 Zonal Offices and departments located across 6 States – Maharashtra, Goa, Gujarat, Madhya Pradesh, Karnataka, and Delhi. It has merged seven coop Banks and is consciously nurturing them. Bank tied up with VISA international for issuance of Debit Card. The Bank is providing 24- hour service through ATM at 147 locations. As on 31st March 2012 Bank business had surpassed Rs. 33,000 crores. Bank has retained its coveted position as ZERO NET NPA Bank for the eighth successive year.

The yearly average growth of deposit is 15% and that of Loans and Advances 16%.

In order to see the net profit of Saraswat Bank in proper perspective, a comparative chart giving profits and total business of some Private Banks as on 31st March 2008 are highlighted :

Table : Comparison on Total Business and Net Profit after Tax as on 31.03.2008

Name of the bank	Total Business	Net Profit after Tax (in cr)
Dhanalakshmi Bank Ltd.	5,772.15	28.46
Catholic Syrian Bank Ltd.	10,067.00	36.56
Bank of Rajasthan Ltd.	21,000.00	115.20
South Indian Bank Ltd.	25,910.00	151.62
ING Vysya Bank Ltd.	35,148.00	156.93
Saraswat Co-operative Bank Ltd.	18,879.13	202.26

Source : RBI website

Return on average assets – which is a testimony to insightful and efficient deployment of funds – increased from 1.67% in F.Y. 2007 to 1.71% as of 31st March 2008. This is considered to be very satisfactory and is well above the industry performance. It may be noted that the return on assets is well above the returns earned by all the leading private and public sector banks as on 31st March 2008 as shown :

Table : Comparative Return on Average Assets on 31.03.2008

Name of the Bank	Return on Average Assets
Yes Bank	1.42
Corporation Bank	1.38
HDFC	1.30
PNB	1.15
BOI	1.22
ICICI	1.12
BOB	0.89
SBI	1.01
Saraswat Co-operative	1.71

If we compare with SBI in certain parameters like Capital Adequacy Ratio or CRAR (which is the indicator of risk absorbing capacity) and Return on Average Asset, the findings are depicted through following table :

Table : Comparison with SBI

Year	Capital Adequacy or CRAR (%)		Return on Average Asset (%)	
	SBI	Saraswat	SBI	Saraswat
2006-07	12	11.37	0.84	1.67
2007-08	14	10.85	1.01	1.71
2008-09	13	10.92	1.04	1.46
2009-10	12	14.63	0.88	0.74
2010-11	10.69	12.74	0.71	1.16

Findings

The possible causes for the success story of the Saraswat Co-operative as well as the reasons for applying to RBI for getting the status of Private Bank are :

(i) The bank always focused on Customer Centric Banking i.e., the policy of the bank is related and inclined towards the customer.

(ii) Higher credit deposit ratio than the RBI norms of 66% but with proper monitoring and Recovery schedule.

(iii) Loan appraisal at the pre and post sanction stage to minimize Gross NPA.

(iv) Leveraged on technology to offer many ultramodem technology enabled products like SMS banking, Debit card in tie up with VISA, net banking.

(v) Core banking among all the branches of the bank.

(vi) Provided employment to kith and kin of individuals who have suffered or gave up their lives for saving the honor and integrity of the country.

(vii) The Bank also provides different services like Merchant Banking, Foreign Exchange etc.

(viii) Competitive net profit than quite a few private banks over the years.

(ix) Well-trained courteous staffs and employees.

(x) Finally, highly qualified, dedicated and vastly experienced Board of Directors has lead to proper Corporate governance.

Conclusion

“Service to the Common Man” has been the motto of Saraswat Bank for the last 91 years. The Bank, in spite of its growth in size, has been able to offer to the customers the dual advantage of “Ability of Big Banks and Agility of Small Banks”. Saraswat Bank attributes this success to its undying spirit to serve the common man and to the sharpening of its competitive edge by constantly upgrading technology to match international standards. The Bank is fully computerized and offers convenient working hours.

In 2011, the Bank was granted permission for All India Area of Operation by Reserve Bank of India. The bank has applied to RBI for getting a status of private bank and has an ambitious business expansion plan in place to have a presence in all major cities of the country, reach a business level of Rs 50,000 crores by 2016 and Rs 100,000 crores by 2018. □

References

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