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STATE COOPERATIVE BANKS VERSUS SCHEDULED COMMERCIAL BANKS: A COMPARISON OF THREE FINANCIAL RATIOS

Vijay Hooda
Junior Research Fellow,
Department of Commerce,
M.D.University, Rohtak, Haryana (India)
Email: hoodavijaymphil@gmail.com

ABSTRACT

"Banks are the backbone of Indian Financial System. In our country, the banking sector broadly consists of Scheduled Commercial banks (SCBs) and Co-operative Banks. The country witnessed rapid change in the banking sector after nationalization of banks. Co-operative banks supplement the commercial banks to deepen the financial intermediation by bringing large number of small depositors/borrowers under the formal financial sector. The present paper is an attempt to compare the position of State Co-operative Banks (StCBs) with Scheduled Commercial banks (SCBs) on the basis of three financial ratios. Cash-deposit ratio of StCBs has been more than that of SCBs during the study period. Investment-Deposit Ratio of StCBs has also always been more than that of SCBs during the same period. Credit-deposit ratio of SCBs has been more consistent in comparison to that of StCBs under the reference period. The paper concludes that SCBs and StCBs differ significantly as per these selected ratios during the reference period."

Keywords: Scheduled Commercial Banks, Co-operative Banks, State Co-operative Banks, Cash-Deposit Ratio, Investment – Deposit Ratio, Credit-Deposit Ratio

Introduction

Banking system occupies the central position in Indian Financial system. It is the backbone of Indian economy. It plays an important role in mobilizing savings and channelizing them into production activities etc. In our country, the banking sector broadly consists of Scheduled Commercial Banks (SCBs) and Co-operative Banks. Further, SCBs include public sector, private sector and foreign sector banks while co-operative banks include State Co-operative Banks (StCBs), District Central Co-operative Banks (DCCBs), State Co-operative Agriculture and Rural Development Banks (SCARDBs), Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) and Urban Co-operative Banks (UCBs). SCBs form the important part of the Indian financial landscape in terms of their business and outreach also. After the nationalization of fourteen major commercial banks in 1969 and 6 more commercial banks in 1980, there was a shift of emphasis from industry to agriculture and the interest in banking has increased considerably. The country witnessed rapid change in the banking sector after nationalization of banks. After Banking Sector Reforms (1991) took place, the scenario has been totally changed. After reforming waves, SCBs have become more competent, more efficient and a great up gradation technologically.

Co-operative banks in India are more than 100 years old. They came into existence with the enactment of Co-operative Credit Societies Act, 1904. Since their inception, these banks and their affiliated agencies have been playing a significant role in the socio-economic development of the country. Co-operative Banks enjoyed the monopoly till 1969. They supplement the commercial banks to deepen the financial intermediation by bringing large number of small depositors/borrowers under the formal financial sector. They form an integral part of the banking system in India. They mobilize deposits and supply agricultural and rural credit by an extensive network of their outlets (branches). They have played an important role in creating banking habits among the lower and middle-income groups and in strengthening the rural credit delivery system. Though much smaller as compared to SCBs in terms of business, they constitute an important segment of Indian Financial System. Though the banking sector reforms did not leave significant impact on the functioning of co-operative banks, co-operative banks are changing their banking facilities and products as per the changing environment. They are facing various types of problems and challenges in current competitive era; even then, they are equally important for making financial inclusion a success.

It is recognized that co-operative banks and SCBs are complementary to each others. Both are important for financial inclusion. More specifically, when we see the co-operative banking structure of our country, we find that State Co-operative Banks (StCBs) are important institutions in this structure. They control, regulate and supervise the entire co-operative movement in their concerned states. They are also known as Apex Banks. So, the evaluation and appraisal of their functioning, performance and efficiency become essential. Against this backdrop, the present paper aims to compare the position of StCBs with SCBs on the basis of three financial ratios.

Objective of the Paper and Methodology

The present paper compares the performance of State Co-cooperative Banks (StCBs) with that of Scheduled Commercial Banks (SCBs) with the help of three selected financial ratios. These ratios are (i) Cash-Deposit Ratio (ii) Investment – Deposit Ratio and (iii) Credit-Deposit Ratio. These ratios are undertaken because RBI publishes all these three ratios for both SCBs and StCBs in its Monthly Bulletin. Hence RBI Monthly Bulletin and RBI website have been accessed and used. No doubt, there is no comparison between the business and performance of SCBs and StCBs in absolute terms. But in relative terms, they may be compared. Ratios are good techniques to compare the performance of different firms/units/institutions which belong to the same industry

Hypotheses for the Study

H_1: There is no significant difference between the average values of Cash Deposit Ratios of SCBs and StCBs during the study period.

H_2 : There is no significant difference between the averages of Investment-Deposit Ratios of SCBs and StCBs during the study period.

H_3 : There is no significant difference between the averages of Credit-Deposit Ratios of SCBs and StCBs during the study period.

Besides the figures of 1990-91, ten years from 2000-01 to 2009-10 are taken in this study. Various statistical techniques like mean, standard deviation, minima, maxima, correlation and t-test have been used.

Limitation of the study

On the basis of the comparison of only three financial ratios, we cannot judge the actual extent of the comparison and generalize the findings.

Results and Discussion

Table 1: Cash-Deposit Ratio, Investment-Deposit Ratio and Credit Deposit Ratio of SCBs and StCBs: 1991, 2001 and 2010

	1990-91		**2000-01**		**2009-10**	
Financial Ratios	**SCBs**	**StCBs**	**SCBs**	**StCBs**	**SCBs**	**StCBs**
Cash- Deposit Ratio	13.3	15.5	6.8	10.0	6.8	15.4
Investment -Deposit Ratio	39.0	49.2	38.5	80.6	30.8	92.6
Credit-Deposit Ratio	60.4	188.6	53.1	134.5	72.2	72.3

Source: RBI Monthly Bulletin

Table 1 shows comparative picture of three financial ratios of SCBs and StCBs. During 1990-91 when reforms were taken place, these two groups of banks were maintaining almost same Cash-Deposit Ratio while a small difference between Investment-Deposit Ratios of SCBs (39.0) and StCBs (49.2). But there was a significant difference between C-D Ratio of SCBs and that of StCBs. It reflects that StCBs advanced more credit in the percentage of their deposits amounts as compared to that of SCBs when the Govt. of India was deciding for financial reforms. After a decade, in the year 2000-01, Cash-Deposit Ratios of both groups have been declined to 6.8 (SCBs) and 10.0 (StCBs). It means that banks under consideration had kept a low level of cash in percentage of their deposits in the year the 2000-01 as compared to 1990-91. In 2000-01, Investment-Deposit Ratio of SCBs remained almost same in 1990-91 but this ratio of StCBs increased to 80.6 as compared to

49.2 in 1990. It shows that StCBs invested a major portion of their deposits in various types of investment avenues.

In the same year, C-D Ratio of SCBs declined to 53.1 from 60.4 in 1991 while this ratio increased to 134.5 in 2001 from 118.6 in 1991. If we see the current picture comparatively, in 2009-10, Cash-Deposit Ratio of SCBs has been remained same as in the year 2000-01 while this ratio of StCBs has been increased up to 15.4 from 10.0 in 2000-01. Investment-Deposit Ratio of SCBs decreased to 30.8 in 2009-10 from 38.5 in 1990-91 while this ratio of StCBs has been increased up to 92.6 in the year 2009-10 from 80.6 in 2000-01. In the year 2009-10, C-D Ratio of SCBs increased up to 72.2 from 53.1 in 2000-01 while this ratio of StCBs decreased to 72.3 as compared 134.5 in 2000-01. It may be conceded that as per this ratio, SCBs and StCBs have adopted the same policy.

Cash-Deposit Ratio

Table 2: Cash-Deposit Ratio of SCBs and StCBs: 2001- 2010

	SCBs	StCBs
2000-01	6.8	10.0
2001-02	6.2	18.0
2002-03	5.1	14.7
2003-04	5.1	14.8
2004-05	5.7	14.5
2005-06	6.6	16.0
2006-07	7.5	17.9
2007-08	8.6	18.6
2008-09	6.7	15.0
2009-10	6.8	15.4
Mean	**6.51**	**15.49**
S.D.	**1.07**	**2.46**
Min	**5.1**	**10**
Max	**8.6**	**18.6**
Correlation	**0.39**	

Coeffi.[1]	

Source: RBI Monthly Bulletin

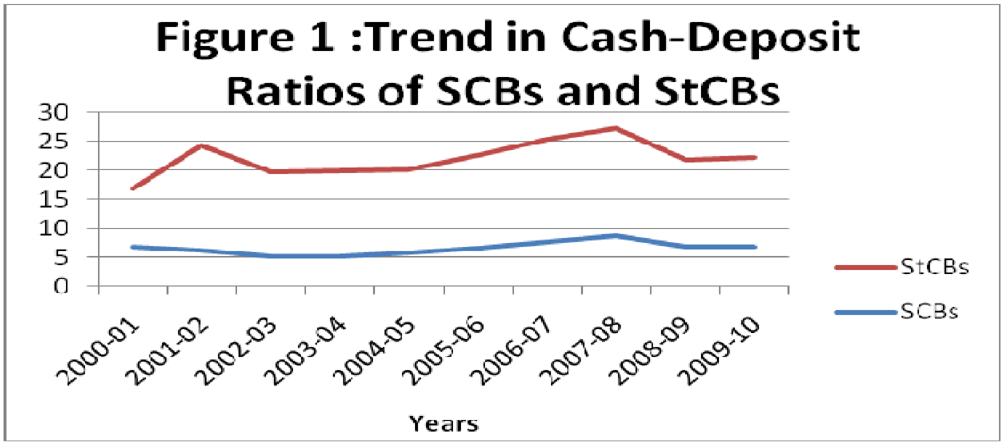


Table 2 shows that the average value of Cash---Deposit ratio of StCBs is more than the average value of SCBs. SCBs have been maintaining about ,on an average, 7 percent (6.51%) cash in percentage of total deposits while StCBs have kept higher cash funds (15.49%) in percentage of total deposits during the study period. The minimum Cash-Deposit Ratio in case of SCBs has been in the years 2003 and 2004 while maximum was in the year 2008. In case of StCBs, the minimum of this ratio was in the year 2001 while maximum was in the year 2008. It means that both groups have kept highest cash-deposit proportion in the same year i.e. 2008. This analysis concludes that SCBs have maintained a lower level of cash in percentage of their deposits as compared to that of StCBs. Figure 1 reflects a clear picture of trends in this ratio for SCBs and StCBs in a comparative manner. Correlation coefficient shows that there is a lower positive moderate association between Cash-Deposit Ratios of SCBs and StCBs and this relationship is statistically not significant.

Investment-Deposit Ratio

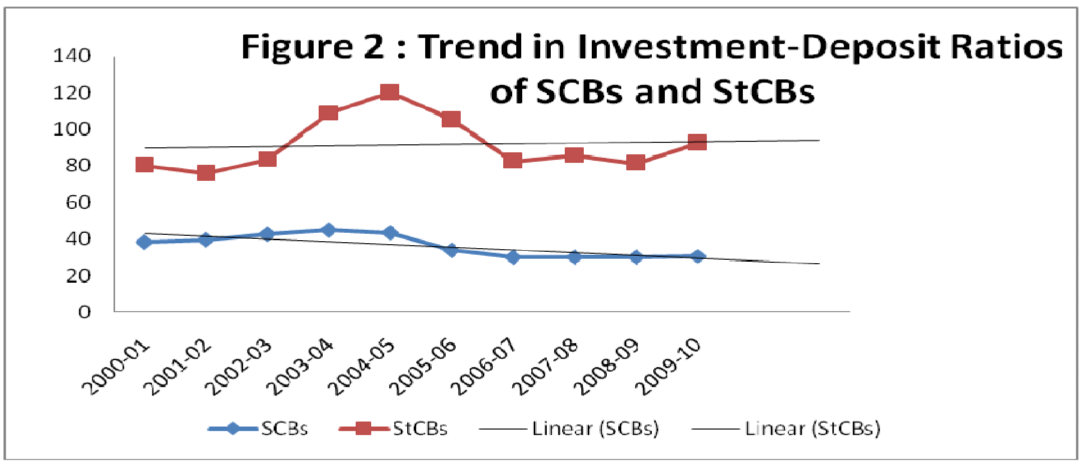
Table 3: Investment-Deposit Ratio of SCBs and StCBs: 2001- 2010

	SCBs	StCBs
2000-01	38.5	80.6
2001-02	39.7	76.0

[1] Pearson method is used to calculate coefficients of correlation

2002-03	42.7	83.6
2003-04	45.0	108.8
2004-05	43.5	120.2
2005-06	34.0	105.2
2006-07	30.3	82.7
2007-08	30.4	85.7
2008-09	30.4	81.6
2009-10	30.8	92.6
Mean	**36.53**	**91.7**
S.D.	**6.01**	**14.69**
Min	**30.3**	**76.0**
Max	**45.0**	**120.2**
Correlation Coeffi.	**0.42**	

Source: RBI Monthly Bulletin



StCBs have invested more than 90 percent of their amounts as deposits while on an average, SCBs invested about 37 percent of their deposits during the study period. As per this indicator, StCBs have been more inconsistent than SCBs. Investment-Deposit Ratio of SCBs fluctuated between 30.3 to 45.0 and this ratio of StCBs varied between 76.0 to 120.2 during 2001-2010. Figure 2 reflects that the figure of Investment-Deposit Ratio of StCBs has always been more than that of SCBs. There was significant difference between their ratios in the years 2004, 2005, 2006 as compared to other years of the study period. Table under

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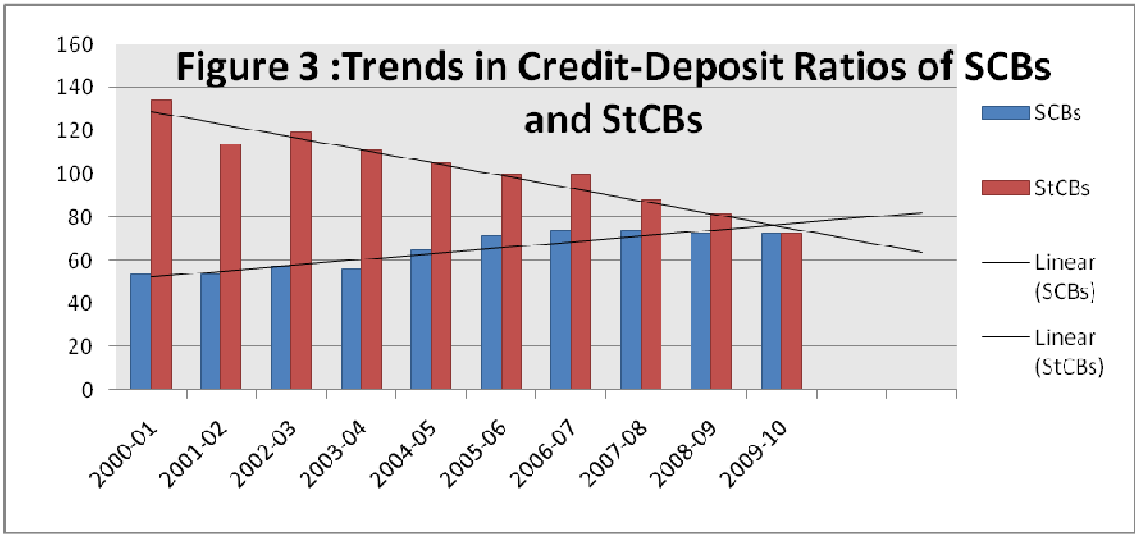
consideration reflects that there is a moderate positive correlation between Investment-Deposit ratios of SCBs and StCBs. This association is significant.

Credit-Deposit Ratio

Table 4: Credit-Deposit Ratio of SCBs and StCBs: 2001- 2010

	SCBs	StCBs
2000-01	53.1	134.5
2001-02	53.4	113.8
2002-03	56.9	119.3
2003-04	55.9	111.0
2004-05	64.7	105.2
2005-06	71.5	99.5
2006-07	73.9	99.5
2007-08	73.9	88.4
2008-09	72.4	81.9
2009-10	72.2	72.3
Mean	**64.79**	**102.54**
S.D.	**9.02**	**18.46**
Min	**53.1**	**72.3**
Max	**73.9**	**134.5**
Correlation Coeffi	**-0.85****	

Source: RBI Monthly Bulletin, ** Correlation is significant at the 0.01 level (2-tailed).



Credit-Deposit Ratio is an important parameter to judge the business policies of any banking institution. SCBs have, on an average, advanced loans about 65 percent in the percentage of their deposits during the study while in the same years, StCBs have advanced credit almost in equal proportion of their deposits amounts. In the earlier years from 2001 to 2005, there was a significant difference between C-D ratios of SCBs and StCBs. After that, C-D Ratios of both groups have come near to each other and furthermore in the year 2009-2010, these ratios were also almost same. Figure 3 shows decreasing trend in C-D Ratio of StCBs while increasing trend in the ratio of SCBs. This ratio of SCBs has been more consistent in comparison to that of StCBs under the reference period. C-D Ratio of SCBs fluctuated between 53.1 to 73.9 and this ratio of StCBs varied from 72.3 to 134.5 during the same period. There is high negative relationship between C-D ratios of SCBs and StCBs during the study period and this correlation is statistically significant.

Testing of Hypotheses:

Table 5: Description of t-test

Financial Variables	**SCBs**		**StCBs**		**t-value**	**Table Value**	**Result**
	Mean	**S.D.**	**Mean**	**S.D.**			
Cash-Deposit	6.51	1.07	15.49	2.46	10.586	$t_{0.025}(18)=2.1009$	Sig.difference

Ratio							between means
Investment-Deposit Ratio	36.53	6.01	91.7	14.69	10.992	$t_{0.025}(18)=2.1009$	Sig.difference between means
Credit-Deposit Ratio	64.79	9.02	102.54	18.46	5.8102	$t_{0.025}(18)=2.1009$	Sig.difference between means

H_1: There is no significant difference between the average values of Cash Deposit Ratios of SCBs and StCBs during the study period.

Table 5 shows calculated value of t-test for cash-deposit ratio and its table value. The results show that the calculated value of t is more than its table value. It means that our null hypothesis is not accepted. Hence, there is significant difference statistically between the means of cash-deposit ratios of SCBs and StCBs during the reference period.

H_2: There is no significant difference between the averages of Investment-Deposit Ratios of SCBs and StCBs during the study period.

The calculated value of t for investment-deposit ratio is more than its table value. Hence, there is significant difference between the means of investment-deposit ratios of SCBs and StCBs during the reference period.

H_3: There is no significant difference between the averages of Credit-Deposit Ratios of SCBs and StCBs during the study period.

The results show that the calculated value of t for credit-deposit ratio is more than its table value. It means that our null hypothesis is not accepted. Hence, there is significant difference statistically between the means of credit-deposit ratios of SCBs and StCBs during the reference period.

CONCLUSION

Even though the objectives of cooperative banks and commercial banks primarily differ, both types of banks are important for financial inclusion in particular and socio-economic development of our population in general. The present study has compared the performance of StCBs with SCBs by considering the three financial ratios. Firstly, the study has shown a comparative picture of three financial ratios of SCBs and StCBs for 1991(when banking reforms were undertaken), 2001(a comparative snapshot after a decade of reforms initiative taken) and the current comparative picture by the figures of 2010. Cash-deposit ratio of StCBs has been more than that of SCBs during the study period. This ratio of SCBs has been more stable as compared to StCBs. It is concluded that SCBs have been investing, on an average, 37 percent amount of their deposits while the average of investment-deposit ratio of StCBs is 91.7 percent. SCBs have maintained approximately this proportion constantly during the study period but investment-deposit ratio of StCBs fluctuated with a significant variation. The averages of credit-deposit ratio of SCBs and StCBs were 64.79 and 102.54 respectively. Furthermore, there is a highly negative relationship between C-D ratio of SCBs and that of StCBs and this association is statistically also significant. SCBs have been showing decreasing trend and StCBs are showing increasing trend. All the three set hypotheses are not accepted. It concludes that SCBs and StCBs differ as per these selected ratios during the reference period.

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