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A CASE STUDY ON CASH MANAGEMENT PRACTICES IN COOPERATIVE BANKS

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ABSTRACT

Inadequate recovery, poor management, lack of deposit mobilization, ineffective cash management procedures are some of the problems which hinder the growth of cooperative banks. In this study cash management with regard to cash holdings and flow of funds between branch level and head office has been studied in relation to a selected cooperative bank. A suggestive approach worked out by the author, if implemented, will streamline the procedure and practices of cash planning adopted by the Bank.

KEYWORDS
cash management, co-operative bank, co-operative finances.

INTRODUCTION
Measurement of cash balances is an important part of the cash management. The relevance of cash balance in the study of cash management is because of its important role in an organization. It is the cash which keeps an organization going. Hence, every organization has to hold necessary cash for its existence. But in the modern business world, no business can afford the luxury of having too much of cash because of its non-availability particularly due to ever increasing difficulties and cost of borrowings. Moreover, cash being the least productive of assets incurs for organization as opportunity cost through its non-use. Brandth (1965) has amply emphasized the fact of opportunity cost of cash as, "The cost results from holding cash inactive in the bank or on the premises of the enterprise instead of employing it profitably in operations. The cost is present regardless of the amount in the balance but it becomes more significant as the quantity of cash increases. When the stock of cash falls to very low levels, cost consideration becomes secondary in importance to liquidity risk". In other words, there are distinct economic disadvantages in maintaining cash inventories which are too far below or above actual demand. It is, therefore, desirable that the cash balances in the bank as well as in the organization be minimized as much as possible at lowest figures adequate to meet current obligations. Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters. Mavaluri et. al., (2006) suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India. Dutta and Basak (2008) suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment. Though research studies have been conducted to assess the efficacy of cooperative banks but no such serious study is visible in J & K state. Therefore, the study has been designed to study the cash management practices in one of the selected cooperative banks.

METHODOLOGY
The selected cooperative bank is one of the most suitable agencies for providing rural credit in the J&K State and has to play a decisive role in future loaning programmes of the State. The unsatisfactory functioning of the Bank during past has been the outcome of some glaring problems faced by the Bank viz., inadequate recovery, poor management, lack of proper coordination, lack of deposit mobilization, ineffective cash management procedures etc. In this study cash management practices and flow of funds between head office and branch offices have been studied through discussions with bank officers, cash flow practices and balance sheet data with a view to provide a suggestive approach for effective cash planning.

RESULTS AND DISCUSSIONS
The selected cooperative Bank has adopted the system of raising funds for its lending operations almost through floatation of debentures. The Bank is providing the long term credit to the farmers of the State through its branches located at Tehsil/Block headquarters. For this purpose, the head office provides funds to its branches. The branches have been asked to maintain three accounts, viz., General Accounts, Loan Account and Recovery Account with the branch of respective district co-operative bank. The General Account is to be maintained for the purpose of payment of salary to its staff and to meet the recurring and non-recurring expenses. The Loan Account at branches is being operated to disburse loans to borrowers and recovery accounts is maintained to deposit the amount recovered from borrowers which is to be passed on to the head office. There is no provision to transfer the money from one account to the other.

During the past years the bank has changed the system of providing funds to the branches for loaning by the head office directly. Under the system, the branches have to send their requirements to the district office weekly or whenever they require funds. Thereafter, the district office shall send the consolidated demand for the district to the head office. The head office provides the funds to the district office which are to be distributed among the branches of the district as per their requirements. The branch manager is made responsible to deposit the recovery amount in the recovery account and pass it on to the head office directly through bank draft. Besides this, the head office has delegated the powers to avail cash credit facilities from District Co-operative Bank to the extent of Rs. 2.0 lakhs to each branch. Inspite of the above arrangement, the selected bank has huge amount in the shape of cash and bank balances at branch level as well as at head office level. The cash and bank balances of the bank as on 31st March 2010-11 to 2014-15 has been presented in the Table-1 which reveals that the cash and bank balances of the branches which were Rs. 236.81 lakhs as on 31st March 2011, inspite of a decreasing trend, was Rs. 133.11 lakhs as on 31st March 2015. On the other side the cash credit and overdraft account balances of the branches showed zero. Similarly, the cash and bank balances at the head office level have remained fluctuating over the number of years under study as against the cash credit and bank overdraft account balances showing a declining trend from Rs. 374.67 lakhs as on 31st March 2011 to Rs. 79.71 lakhs as on 31st March 2015. A nominal amount was in the transit each year, the highest figure of Rs. 7.77 lakhs were in 2010-11. If the cash credit and bank overdraft accounts get liquidated out of the money available in the cash and bank balances, there remains idle cash with the bank in the years 2010-11, 2012-13, 2013-14 and 2014-15 as against a deficit in the year 2011-12.

This indicates the attitude of the bank in the past not to use the money recovered for further lending which is based on their conservative thinking of keeping money very secure for redemption of debentures and contribution towards the sinking funds only. Similarly, the branches were maintaining three different accounts for different purpose and they were not empowered to transfer money from each other. In other words, the branches were bound to avail the cash credit and bank overdraft for loaning operations, although there was sufficient amount in the General and Recovery Account. Such practice is ultimately bound to block the liquid resources as well as resulting in loss of interest, as the bank not receiving return any on cash and bank balances, while it has to pay the interest at higher rate on cash credit and overdraft account balances than other sources. The practice of maintaining separate accounts for different purposes is old technique of controlling the diversion of money for other purposes which has been adopted by the Govt. departments and social institutions, where the cost of funds has no consideration as they have to receive the funds on accounts of aids, grants, etc. In the case of this selected bank dealing with borrowed funds, the maintenance of separate accounts is not justified as diversion of money can be controlled through modern financial techniques viz., funds flow analysis, cash budgeting etc.

The table further shows that there was a nominal amount of cash in transit every year, which indicates that the system is more time consuming and also there are chances of loss in transit. The district managers have powers to distribute the funds to the branches as per their requirements, but they have no power to transfer the funds of one branches to another branch of the district even the branches has the sufficient idle funds in account and the other is in acute need of funds.

A SUGGESTIVE APPROACH

The selected cooperative bank had the idle funds at the level of branches and also at the level of head office. This position has not been beneficial to the bank. Therefore, it is suggestive that the bank should evolve the system of flow the funds from the head office to branches and vice-versa as under:

- The branches should function as pay office in the matter of cash receipts and payments. The branches should be directed to send the debit/credit notes for payments and receipts to the district co-operative bank under intimation to district office of the selected bank.
- District office should open a 'Central Account' in respective district co-operative bank of the district and ask the branches to maintain their accounts in the branches of district co-operative bank at their headquarter.
- The district office should have close contact with the district co-operative bank and have a clear and upto date position of the account. If the balance of the Central Account exceeds the subsequent weekly requirement of the branches of the districts, it should be remitted to the Central Account under intimation to head office or vice versa. For this purpose, an Assistant Manager (Accounts) should be deputed in the district office to look after and supervise the funds. In this connection, they should be trained with modern financial techniques.
- At the head office level, the bank should open a Central Account and watch the position. If there is any deficit, it should be recouped from drawing the cash credit and overdraft account from NABARD/J&K State Co-operative Bank. The amount of cash credit and overdraft accounts should be repaid through floatation of debentures. For this purpose, NABARD had allowed the banks to float the debentures once in a quarter or even once in a calendar month.
- If the selected bank has not sufficient funds for redemption of debentures or for contribution towards the sinking funds, the bank should draw the deficit amount from cash credit and overdraft for the time being.
- In case the amount available in Central Account exceeds the subsequent requirements, it should be utilized for redemption of special debentures before the due date or invented into call deposits.
- As suggested by Gupta & Jain (2012) the cooperative banks should plan to introduce new schemes for attracting new customers and satisfying the present ones.

If the selected bank adopts the above suggested system of flow of funds between branches and head office, it shall definitely minimize its liquid funds (cash and bank balance) which would result into low cost of funds on the one hand and make funds available without delay to the branches for providing the loans to the farmers on the other hand.

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ANNEXURE

TABLE-1: CASH AND BANK BALANCE OF SELECTED COOPERATIVE BANK (As on 31st March)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
• **Branch Balances:**					
• Cash and Bank Balance	236.43	113.46	160.65	230.55	133.11
• Cash Credit & Bank Overdraft	---	---	---	---	---
• Net Balance (a-b)	**+236.43**	**+113.46**	**+160.65**	**+230.55**	**+133.11**
• **Head Office Balance:**					
• Cash and Bank Balance	180.69	311.55	212.67	160.86	160.89
• Cash Credit & Bank Overdraft	374.67	463.65	176.10	79.71	---
• Net Balance (a-b)	**-193.98**	**-152.10**	**+36.57**	**+81.15**	**+160.89**
• Cash in Trasit	7.77	0.75	0.69	0.96	1.41
Total Net Cash and Bank Balance {1(c)+2(c)+3}	**+50.22**	**-37.89**	**+197.91**	**+312.66**	**+295.41**

Source: Compiled from the Annual Reports of the Bank for the respective years

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