International Journal of Commerce and Economics
Online ISSN: 2664-7540; Print ISSN: 2664-7532
Received: 04-05-2019; Accepted: 05-06-2019; Published: 12-06-2019
www.commercejournal.in
Volume 1; Issue 3; 2019; Page No. 15-19

Current scenario and future prospects of urban cooperative banks in India

Dr. Hajera Fatima Khan
Accounting department, University of Hail, Hail, Kingdom, Saudi Arabia

Abstract
The cooperative banks are small sized banking units which operate both in urban and non-urban areas over the last 100 years. These banks play a pivotal role in meeting the credit requirements and development of Small & Medium size industries. It is a unique sector where banking and cooperation works together. These banks work on the basis of two tier system
and on the principles of cooperation, self-help and mutual-help. Cooperative banks are playing a very crucial role in catering the credit needs of small depositors and borrowers, mainly in the urban informal sector that are deemed non-credit worthy by the commercial banks. Urban and rural cooperative banks are the different types of cooperative banks functioning in India. The urban cooperative banks also known as primary cooperative banks operate in urban and semi urban areas. These are the small size cooperatively banking units cater the needs of small scale business units, retail traders, professionals, salaries classes etc. Despite of a sustained growth, the sector has gone through a lot of turmoil in the last few years. These banks are striving relentlessly to address the issues of economic inequality and the concentration of wealth that are causing exploitation of weaker sections by the stronger. The present study analyzed the evolution of urban cooperative banks in India, its financial performance and the developments that are needed to boost the performance of the banks to have better economic growth.

Keywords: cooperative banks, UCBs, NPAs, deposits, loans, advances

1. Introduction

1.1. Banking Regulations

According to the section "B" of the banking regulations act 1949, the term "banking" means accepting, for the purpose of lending or investment, of public deposits of money, repayable on demand or otherwise, and withdraw able by cheque, order, draft etc. Banks accepts deposits from public, makes the funds available to those who need them and helps in remittance of money from one place to another. Banking business has done wonders for the world's economy. This straightforward method of accepting money deposits from depositors and then lending the same money to the borrowers, banking activity encourages the flow of money to productive use and investments. This in turn allows the country's economy to grow. In the absence of banking business, the entrepreneurs would not be in a position to raise the money and the savings would sit idle in our homes.

1.2. Cooperative movement

In the year 1904 the government of India started the cooperative movement and decided to develop the cooperatives as the institutional agency to tackle the problem of usury and rural indebtedness. In such a situation cooperative banks operate as a balancing center. Presently we have several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system.

1.3. Cooperative banks

A co-operative bank is a financial institution that belongs to its members and they are in turn the owners as well as customers of their bank. These banks are small-sized units organized in the co-operative sector which operate both in urban and non-urban regions and are traditionally centered on communities, localities and work place.

Most of the services provided by these banks are savings and current accounts, safe deposit lockers, loan or mortgages to private and business customers. For middle class users, for whom a bank is where they can save their hard earned money, facilities like Internet banking or phone banking is not very important. Although these banks are not better than private banks in terms of facilities provided, their interest rates are definitely competitive. Unalike private banks, the documentation process is lengthy if not stringent and getting a loan approved quickly is rather difficult. The criteria for getting a loan from a UCB are less stringent than for a loan from a commercial bank.

Commercial banks are the widest spreading banking institutions in India. They provide major products and services. These banks run on commercial lines, for profits of the organization and are different from stockholder banks by their organization, goals, values and governance in most countries. These banks are supervised and controlled by the banking authorities and have to respect prudential banking regulations, which put them at a level of stockholder banks. The control and supervision can be implemented directly by the state entities or delegated to a co-operative federation or central body.

On the other hand, a co-operative bank is run for the benefit of a group of members of the co-operative body. These banks distribute only a very small portion of its profit as dividend, retaining a major portion of it in business. All the nationalized banks and almost all the private sector banks in India are commercial banks. In public sector, within a state, starting from the State capital, there are State Co-operative Banks and District Central Co-operative Banks at the District level. Under the District Central Co-operative Bank, there are Co-operative Societies.

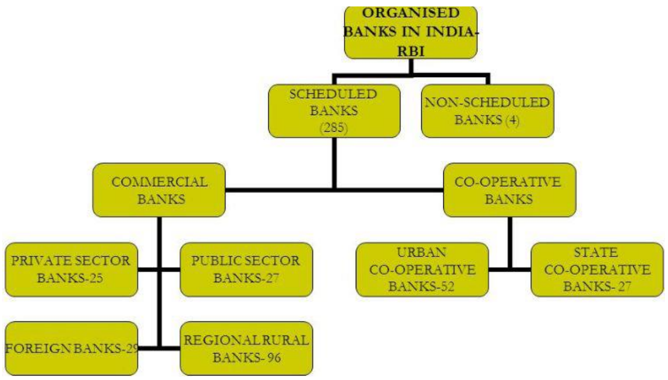

Fig 1: Structure of Indian banking system

Presently, In India, the banks can be bifurcated into Public Sector or Nationalized Banks, which are commercial and scheduled Examples of these banks are State Bank of India, Bank of India etc. Public Sector Banks, are co-operative and non-scheduled banks. These, are state owned banks like the Maharashtra State Co-operative Bank, Junnar Co-operative Society etc.

In short, Co-operative banking, incorporate retail banking, as carried out by credit unions, mutual savings and loan associations, building societies and co-operatives, as well as commercial banking services provided by manual organizations like co-operative federations to the cooperative business.

Types of Co-operative banks

- Primary Co-operative Credit Society.
- Central co-operative banks.
- State co-operative banks.
- Land development banks.
- Urban Co-operative Banks.

2. Urban cooperative banks

Urban Co-operative Banks (UCBs), are the primary cooperative banks located in urban and semi-urban areas. These banks were traditionally centered on communities, localities work place and groups. Till the year 1996, these banks were allowed to lend money only for non-agricultural purposes. But this distinction doesn’t hold today, there scope of operation has widened considerably. The Urban cooperative banking movement in India, started during the nineteenth century when inspired by the success of the experiments related to the cooperative moment in Britain and the cooperative credit moment in Germany.

By the end of March 2018, there were 1,515 UCBs operating in the country, of which majority were non-scheduled UCBs. Co-operatives run for the benefit of a group of members of the co-operative body and distribute a very small portion of its profit as dividend, retaining a major portion of it in business. Since 2001, the sector has gone through a lot of turmoil due to various factors like series of scams, rising competition with the onset of liberalization, globalization, twofold control, low capital, high level percentage of NPAs, poor professional management, absence of modern technology in UCBs banking business, poor governance and mismanagement, etc. All the nationalized banks and the private sector banks are commercial scheduled banks. There are State Co-operative Banks and District Central Co-operative Banks at the District level and Under the District Central Co-operative Bank, there are Co-operative Societies. Presently in India, the banks can be bifurcated into Public Sector Banks or Nationalized Banks, which are commercial and scheduled banks some of the examples of these banks are State Bank of India, Bank of India etc. Public Sector Banks, which are co-operative and non-scheduled, are state owned banks like the Maharashtra State Co-operative Bank, Junnar Co-operative Society etc. Private Sector Banks, which is commercial and scheduled, could be foreign banks, as well as Indian Banks. Example: Foreign Banks- CITI Bank, Standard Chartered Bank, etc.

The Urban co-operative banks mainly finance to the various categories of people for self-employment, industries, small scale units and home finance. Whereas on the other hand the rural co-operative banks mainly finance for agricultural activities like farming, cattle, milk, hatchery, personal finance, and some small scale industries and self-employment driven activities.

3. Literature Review

Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of the financial institutions. Narsimham Committee (1991) emphasized on capital adequacy and liquidity, Padamanabhan Committee (1995) suggested CAMEL rating (in the form of ratios) to evaluate financial and operational efficiency, Tarapore Committee (1997) regarding Non-performing assets and its quality, Kannan Committee (1998) [4] opined about working capital and lending methods, Basel committee (1998 and revised in 2001) [4] recommended capital adequacy norms and management measures. Kapoor Committee (1998) [4] has suggested for credit delivery system and credit guarantee and Verma Committee (1999) [5] recommended seven parameters (ratios) to judge financial performance and several other committees constituted by the Reserve Bank of India to bring reforms in the banking sector by emphasizing on the improvement in the financial health of the banks. Experts recommended numerous tools and techniques for effective analysis and interpretation of the financial and operational aspects of the financial institutions specifically banks. Their center of interest was on the analysis of financial ability to work successfully and credit worthiness of money lending institutions with a view to predict corporate failures and incipient incidence of bankruptcy among these institutions.

Bhaskaran and Josh (2000) concluded that the recovery performance of co-operative credit institutions continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable in tune with competitive commercial banking.

Jain (2001) [9] has compared the performance analysis of District Central Co-operative Banks (DCCBs) of Western India, like Maharashtra, Gujarat and Rajasthan and found that DCCBs of Rajasthan have performed better in profitability and liquidity as compared to Gujarat and Maharashtra.

Singh and Singh (2006) studied the funds management in the District Central Co-operative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin.

A higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Co-operative Banks and thus had a larger provision for non-performing assets.

Mavaluri, Boppana and Nagarjuna (2006) recommended that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the country's economy. As per their study, public sector banks have been more efficient than other banks operating in India.

Pal and Malik (2007) look over the differences in the financial characteristics of 74 publics, private and foreign banks in India based on factors, such as profitability, liquidity, risk and efficiency. It is suggested that foreign banks were better performers, as compared to other two categories of banks, in general and in particular utilization of resources.

Campbell (2007) focused on the relationship between nonperforming loans (NPLs) and bank failure and argued for an effective bank insolvency law, for the prevention and control of NPLs for growing and transitional economies as these have been suffering from severe problems due to NPLs.

Singla (2008) draw attention on financial management and examined the financial position of 16 banks by considering profitability, capital adequacy, debt-equity and NPA.

Dutta and Basak (2008) suggested that Co-operative banks should improve their recovery performance by adopting new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

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.

4. Research methodology

The primary source of the information in this research study is the secondary data. The available information on internet regarding the Urban Cooperative Banking has been extensively used to complete this paper. Beside this the study also completed by making the use of various sources related to the subject of study like research articles, scientific journals, websites, and some banking and e-banking books.

Objectives of the study: The key intention of this paper is to evaluate those factors to manipulate the issues of urban cooperative banks and its nature.

A. To study the conceptual background of cooperative banking and urban cooperative banking.
B. To analyze the issues faced by UCBs.
C. To offer suitable suggestions to strengthen the sector.

5. Issues of urban cooperative banks

Despite of the growth in various sectors Urban Co-operative Banks in India are facing severe problems like limited liability to mobilize resources, low level of recovery, high transaction cost and administered rate of interest for a long time, which are restricted their ability to ensure smooth flow of credit. Now a days these banks are striving relentlessly to address the issues of economic inequality and the concentration of wealth that are causing exploitation of weaker sections by the stronger sections.

Some of the common Issues of UCBs are summarized as under

1. Certain problems that arises out of the applicability of the cooperatives legislative are deliberate control of cooperatives by the government, Nomination of board of directors by the government, deputation of government officials to the cooperative institutions etc.
2. The Urban Co-operative Banks' (UCBs), which was considered as one of the fast expanding segments of the banking system of India till late 1990s, has become now one of the weakest banks with regular cases of failures. Presently these banks have become more vulnerable in size, location and compulsions to lend to a sector and thus, are deprived of scale economies.
3. In the year 2001 series of scams of Gujarat and Andhra Pradesh in the share market has lowered the public confidence on these banks. As a result of total mismanagement and frauds, the Non-Performing Assets do not yield any income due to which these banks became very weak/sick.
4. Further in spite of their strengths, the Urban Cooperative Banks are very weak in generating share capital. Thus, this sector is finding it increasingly difficult to maintain their cooperative character with the requirements of a strict regulatory regime and prudent banking norms insisted upon by the RBI.
5. Uneven geographical distribution of UCBs in few states such as Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu is evident from the fact that these states account for above 80% of urban cooperative banks presence and 75% of their total deposits.
6. Most of the UCBs have no Investment. They are making investments on their experience and on the basis of circulars and guidelines issued by the RBI from time to time. But there are certain instances of violation of directives of RBI by some banks in the past, by purchasing securities from fake brokers and ultimately the money invested are turned into huge losses of assets.
7. A high power committee constituted by RBI finds that the NPA levels in UCBs are too high, which is a major challenge to be tackled. Like the policy of Loans and advances UCBs should also have an Investment Policy which should be updated each year and approved by the board of directors.
8. UCBs are controlled by the reserve bank of India as well as Registrar of Cooperative Societies. The multiplicity of regulation and control from central and state bodies hinders the smooth and efficient functioning of the banks. On the other hand the absence of administrative control

by the government authorities leads to arbitrary usage of funds, and putting stakeholders' interests at stake.

9. UCBs borrowers have a significant say in the managements of the banks. This has the potential of influencing the Boards to take decisions that may not always be in the interest of the depositors who constitute the most important stakeholders of the bank.
10. In most of the UCBs, there is no clear-cut Loan Policies. Pre-credit appraisal which is known as the most important part of the loan policy is absent in many banks. Ultimately the result of this type of mismanagement and non-appraisal of the risk in credit is non-recovery of loans and assets trickling down to the non-recoverable loss.

6. Suggestions

1. The banks should adopt the modern methods of banking like internet banking, mobile banking, credit cards, ATM, etc. These banks should also plan to introduce new schemes for attracting new customers and satisfying the present ones.
2. The banks should plan for expansion of branches in the remote areas to help the poor and needy people. Likewise, with the advancement of loans, small producers and business men will develop and the local people will get employment. Thus, ultimately the standard of living of the people of these remote areas will improve.
3. The banks should improve the customer services to a better extent by providing online services and also by providing co-operative education publicity and training programs /schemes to their members and employees.
4. Care should be taken while issuing a license for new UCBs so that it should not help a particular class or community of the society.
5. At least one new board of director should be nominated in every three years so that the new sight, new thinking, new style of working and the enthusiasm of young blood boost the progress of these banks.
6. To serve the weaker section of the society these banks should increase the women membership and also should give a chance to the people who belongs to schedule cast and schedule tribes as, borrowers or depositors.
7. These banks should provide loans at lowest rate of interest so that people from low income group can also benefit from it. Beside this the bank should also take care of customer’s remittances like collection of bills, collection and payments of cheques, etc.
8. Because of the increasing profitability of urban banks, they should be allowed to apply more dividend and issue more shares to new members.
9. Most important of these problems is the issue of recovery of loans over dues to be implemented wherein the award given by an arbitrator has to be executed through the Civil Courts, and this has led to a huge backlog of awards. These banks have been experiencing certain problems on account of provisions of the Multi State Cooperative Societies Act, 2002. A High Power Committee on Urban Cooperative Banks must be constituted by the Government of India to review the loan recovery.
10. Freedom must be given to urban cooperative banks to determine lending rates subject to a minimum 13 per cent. They must also be given freedom for interest rates to be charged to the ultimate borrower on advances sanctioned to tiny/cottage industrial units eligible for refinance from RBI.

7. Conclusion

The Urban Co-operative Banks is an important constituent of multi-agency banking system operation in the country. It provides financial helps to the members and non-members of urban and semi-urban areas. The main issue in the millennium is to reorient the structure functioning and management of the cooperative institutions. There should be a skillfully action program to provide specific guide points to the cooperative in the areas of professionalism and effective interplay of inter cooperative relationship mobilization of resources and enhancing participation of members in decision making process.

The failure of certain banks in achieving their objectives cannot be looked as isolated issue. This general tendency prevailing in the entire cooperative movement and particular problems faced by PACs or influencing the marketing organizations involved in the cooperative movement. The highly distressing problem is mounting over dues.

The raising over dues has paralyzed the entire credit structure, due to the lack of supervision and inability of peasants to pay back their loans, which are the major factors responsible for the mounting over dues of failure banks. The loaning policy and structure should be revised in favor of small micro projects. The loan applications and projects should be checked carefully by the cooperatives before the loan advancement.

8. References

1. Mithani DM, Gordon E. Banking and financial system published by, Himalaya publishing house 2008.
2. Hough EM. Co-operative movement in India”Published by: Oxford university press,London, 1960.
3. Rao KV, Nirmala D. October-December). Performance Evaluation of Urban Cooperative Banks. The Indian Journal of Commerce: Indian Commerce Association, 2006, 36-50.
4. Government of India. Report of the Committee on Banking Sector Reforms, RBI, Mumbai Reserve Bank of India Report of the High Power Committee on Urban Cooperative Banks, RBI, Mumbai, 1998-1999.
5. Jawahar Babu KVSN. Performance evaluation of Urban Co-operative Banks in India”, IOSR Journal of Business and Management (IOSRJBM). 2012; I(5):28-30.
6. Khan HF. A critical study of the functioning of urban cooperative banks in Hyderabad. M. Phil, Thesis, Madurai Kamraj University, 2010.
7. Hajera Fatima Khan. Current scenario of urban cooperative banks in India, IJMRR/Oct. 2018/ Volume 8/Issue 10/Article No-3/27- 38.
8. Sudhakara Rao B, Suryachandra Rao D. Evolution of Urban Co-Operative Banks In India and Their Current Status. Journal of Business and Management. 2017; 19:7.
9. Gupta J, Jain S. A study on Cooperative Banks in India with special reference to Lending Practices. International Journal of Scientific and Research Publications. 2012; 2:10.

10. Shantanu Bose. Urban cooperative banks in India current scenario, Abhinav International Monthly Refereed Journal of Research in Management & Technology. 2014; 3:6.
11. Venkatesulu A. A Study on Urban Co-operative banks in India - Issues and Prospects International Journals of Advanced Research in Computer Science and Software Engineering ISSN: 2277-128X (Volume-8, Issue-4) 2018
12. www.rbi.org.in
13. https://shodhganga.inflibnet.ac.in
14. https://www.gktoday.in/gk/marketing-aptitude-co-operative-banks/
15. http://www.indianmba.com