

Relevance of Urban Co-Operative Banks In 21st Century

B.Sudhakara Rao¹, Dr.D.Suryachandra Rao²

¹Research Scholar, Krishna University, Machilipatnam, Krishna (Dt.), Andhra Pradesh

²Dean, Faculty of Commerce & Management, Krishna University, Machilipatnam, Andhra Pradesh

Corresponding Author: B.Sudhakara Rao

Abstract: Urban Co-operative Banks have been functioning in India over the last 100 years and the consolidation in the sector as well as the structural changes made them relevant even in 21st century. This can be substantiated by the size of business and growth of network of Urban Co-operative Banks across India and their banking practices in tune with the standards and practices of the private sector banks and foreign banks. The size of business of a few of the prominent Urban Co-operative Banks matches that of a few private sector banks as well as public sector banks. All these are possible because of their prudent banking practices and in the current day cut-throat competition expecting an organisation to sustain for such a long period without a strong fundamental base is hard to imagine. The best banking practices and managerial efficiency coupled with adherence to Reserve Bank of India's guidelines from time to time made these Urban Co-operative Banks relevance even in 21st century.

Keywords: UCBs, Deposits, NPAs, CRAR

Date of Submission: 24-02-2018

Date of acceptance: 12-03-2018

I. Introduction

The Co-operative Movement in England under the leadership of Robert Owen with an idea of self-help through mutual help addressed the concerns of the exploited classes of people to a large extent and it influenced the people from across the world to fight against exploitation and notable examples were from Denmark and Germany (Raiffeisen Union), Netherlands (Robo Bank) etc., took a lead and further strengthened the ideology cooperative movement to fight against exploitation and for the welfare of people through their activities against the exploited class of traders and moneylenders.

Anyonya Sahakari Mandali by Shri Vithal Laxman Kavthekar that was started as a Mutual Aid Society in Baroda state in 1889 was an offshoot of influence by developments in cooperative credit movement in Germany and Italy. Subsequently, in 1904 Co-operative Credit Societies Act was enacted thus giving impetus to Cooperative Credit Movement in India. In October, 1904 first of its kind Cooperative Credit Society was started in Conjeevaram. Subsequently, several Cooperative Credit Societies across India were started functioning on the basis of cooperative principles. Further, the rapid rise in the Urban Co-operative Banks can be witnessed w.e.f. 01.03.1966 since the day this sector was brought under the purview of Reserve Bank of India's Banking Regulations Act, 1949. Government of India has constituted several committees to study the functioning of Urban Co-operative Banks and based on the recommendations of these committees various measures were undertaken to streamline the functioning of these banks.

II. Objectives

- (1) To study the growth and progress of Urban Co-operative Banks.
- (2) To analyse the problems faced by Urban Co-operative Banks.
- (3) To offer suitable suggestions to strengthen the sector.

III. Growth And Progress Of Urban Co-Operative Banks In India:

The remarkable growth of the sector witnessed after the Urban Co-operative Banking sector was brought under the purview of Banking Regulation Act, 1949 from 1st March, 1966. Government of India had constituted several committees from time to time to study the functioning of Urban Co-operative Banking sector and to offer recommendations to strengthen the sector. In accordance with the valuable recommendations of the committees like Varde Committee-1963, Banking Enquiry Committee-1972, Joglekar Committee-1976, Madhavadas Committee-1979, Narasimham Committee-1991, Marathe Committee-1991, Madhava Rao Committee-1999, YH Malegam Committee-2011, High powered Committee on UCBs-2015, various remarkable changes were brought into their administrative as well functional perspectives to make the Urban Co-operative Banks relevant despite their structural weaknesses. If we observe the statistics pertaining to the

Urban Co-operative Banks, it can be observed that the deposits have risen from Rs.1.67 billion to Rs.111.08 billion from the year 1966 to 1993; similarly the advances were risen from Rs.1.53 billion to 87.13 billion during the same period. Thus the business of the Urban Co-operative Banks had risen from Rs.3.2 billion to Rs.198.21. It is evident that the size of the business has growth approximately 6094% growth within a short span of 27 years. By the year 2013 the deposits have risen to Rs.2769.41 billion and advances to Rs.1809.60 billion. It is evident that within another twenty years that is from the year 1993 to 2013, the deposits have risen from Rs.111.08 billion to Rs.2769.41 billion thus registering a growth of approximately 2393% whereas the advances have grown from Rs.87.13 billion to Rs.1809.60 billion, thus registering a growth of approximately 1977%. In terms of total business, as well, there is a progress from Rs.198.21 billion to Rs.4579.01 billion within a span of twenty years, thus registering a growth rate of 2210%. The growth of the deposits from the year 2013 to 2017 is from Rs.2769.41 billion to Rs.4435 billion registering a growth rate of 60%. As on 31st March, 2017, there are 95946 Credit Co-operatives and among them 1562 Urban Co-operative Banks and 94384 Rural Cooperatives are functioning. Among Urban Co-operative Banks, 54 are scheduled Urban Co-operative Banks, 1508 are non-scheduled Urban Co-operative Banks. Within the scheduled Urban Co-operative Banks, 31 are Multi-State Urban Co-operative Banks and 23 are single state Urban Cooperative Banks. Among 1508 non-scheduled Urban Co-operative Banks, 20 are Multi-State Urban Co-operative Banks and 1488 are single state Urban Co-operative Banks. The latest position of Urban Co-operative Banks at the end of the financial year 2016-17 is as under:

Liabilities and Assets of Urban Co-operative Banks (By the end of March, 2017)

(Amount in ₹ billion)

Assets/Liabilities	Scheduled UCBs		Non-Scheduled UCBs		All UCBs		Rate of Growth (%) (All UCBs)	
	2016	2017	2016	2017	2016	2017	2015-16	2016-17
1	2	3	4	5	6	7	8	9
Liabilities								
1. Capital	36 (1.6)	40 (1.6)	74 (3.0)	82 (2.9)	110 (2.3)	122 (2.3)	10.6	10.3
2. Reserves	142 (6.3)	156 (6.2)	194 (6.1)	177 (6.2)	296 (6.2)	338 (6.2)	8.1	13.3
3. Deposits	1,844 (81.1)	2,073 (81.5)	2,078 (82.6)	2,362 (82.7)	3,922 (81.8)	4,435 (82.1)	10.4	13.1
4. Borrowings	34 (1.1)	31 (1.2)	3 (0.1)	3 (0.1)	26 (0.5)	34 (0.6)	16.5	29.2
5. Other Liabilities	258 (10.0)	342 (9.5)	208 (8.3)	232 (8.1)	437 (9.1)	474 (8.8)	7.9	8.5
Assets								
1. Cash in Hand	12 (0.5)	15 (0.6)	30 (1.2)	30 (1.0)	42 (0.9)	45 (0.8)	12.1	6.0
2. Balances with RBI	87 (3.6)	99 (3.9)	18 (0.6)	18 (0.5)	102 (2.1)	113 (2.1)	4.5	12.8
3. Money at Call and Short Notice	19 (0.8)	29 (1.1)	14 (0.5)	12 (0.4)	33 (0.7)	51 (0.9)	66.0	55.1
4. Investments	565 (25.7)	662 (26.0)	634 (24.8)	759 (26.6)	1,209 (28.3)	1,420 (26.3)	63.9	17.5
5. Loans and Advances	1,187 (52.2)	1,292 (50.8)	1,362 (50.3)	1,320 (46.2)	2,449 (51.2)	2,612 (48.4)	8.2	6.7
6. Other Assets	235 (10.3)	259 (10.2)	198 (6.3)	290 (10.1)	394 (8.2)	549 (10.2)	8.0	39.3
Total Liabilities/Assets	2,274 (100)	2,543 (100)	2,514 (100)	2,856 (100)	4,788 (100)	5,399 (100)	10.0	12.8

Notes: 1. Data for 2017 are provisional.
 2. Figures in parentheses are percentages to total liabilities / assets.
 3. Components may not add up to the total due to rounding off.
 4. Y-o-y variations could be slightly different because absolute numbers have been rounded off to ₹1 billion in the table.

Source: RBI's report on trend and progress of banking in India, 2016-17

The above statistics depicts that there is a growth in all the above aspects of Urban Co-operative Banks.

IV. Problems Of Urban Co-Operative Banks:

Despite the growth in terms of various parameters in respect of Urban Co-operative Banks in India, the sector as a whole is facing lot many problems owing to structural weaknesses as well as due to policy issues related to Urban Co-operative Banks. The problems can be summarised as under:

- (1) Mushrooming of Urban Co-operative Banks during the period from 1993 to 2003 owing to liberalisation of licensing policy from 1311 to 2104 in number.
- (2) Dual control by reserve bank of India as well as Registrar of Cooperative Societies
- (3) Low capital base of the Urban Co-operative Banks when compared to cash-rich private sector or foreign banks.
- (4) Series of scams that surfaced from the year 2001 with the fall of Madhavpura Mercantile Bank in the state of Gujarat.
- (5) Weak governance due to unqualified as well as less experienced in the decision making positions.
- (6) Poor professional management further weakened the functioning of the Urban Co-operative Banks.
- (7) Managerial failures and siphoning of funds by Directors for their personal interests thereby ignoring the rules and regulations stipulated by RBI.

- (8) In the rat race to attract more and more deposits, Urban Co-operative Banks created an unhealthy competition among themselves by offering high and unviable interest rates on deposits.
- (9) No clear-cut loan policy was practised by the Urban Co-operative Banks and even in a single bank also, the rules were varied from branch to branch.
- (10) Piling up of Non Performing Assets owing to offering loans and advances without scrutinising the viability of the loan proposal or the repaying capacity of the borrower.
- (11) Ignoring the guidelines and directives issued by Reserve Bank of India from time to time.
- (12) Non-existence of proper internal audit in most of the Urban Co-operative Banks has given the scope for a few banks to deviate the rules & regulations and resorting to unfair practices to inflate the major statistics.
- (13) Absence of modern technology is one of the main reason for the assessment of health of the bank either by the management of the bank or by the regulator.

V. Suggestions To Strengthen The Urban Co-Operative Banking Sector:

- (1) Technology absorption and deploying smart-banking techniques: With the onset of technological invasion into all aspects of businesses, functioning of organisations, our daily lives and healthcare, it is more and more evident in the current day cut-throat competitive world to adopt technology wherever it deems fit to outsmart the competitors and to sustain as well as to grow. Banking is nowhere an exception to technological advances and banking has crossed the passbook stage to app-based stage wherein almost all the services are being offered by the banks through their personalised smartphone based app services. The services hitherto took days together for the banks to process or deliver, now-a-days being done away within a fraction of minutes thereby delivering hand-on experience of state-of-the-art technology enabled banking services.
- (2) Adhering the corporate governance practices : with a high scale of commitment the organisations are committing to exemplify the characteristics of best corporate governance practices to attract the much needed customers as well as to withstand the competitors strategies to lure the life-line of the banks i.e. the quality customer-base. To address multiple problems related to globalisation and simultaneously the liberalisation, banks have to practice best corporate governance practices to face the tough competition from the cash-rich private sector banks and the public sector banks.
- (3) Customer service is the base line for the banks to retain their customer base and to attract the additional set of customers to augment their growth trajectory in terms of various ratios as well as size of the business, almost all the banks are introspecting themselves to find their place in extending the services with a smile on face and trying to correct themselves wherever they deem it to be. The local feel of the environment in the Urban Co-operative Banks along with their ambience and state-of-the-art services can ensure the customers to be content with the Urban Co-operative Banks instead of looking at the corporate based private sector banks.
- (4) The Reserve Bank of India has been framing the rules and regulations from time to time to address the issues that could possibly crop up or to address the loopholes that have been noticed by the regulator to curb the possible fall out of the banks. In view of the above, the foremost duty of the Urban Co-operative Banks is to implement the rules and regulations and strictly adhere to the set of rules and regulations framed by the Reserve Bank of India for the healthy growth of their bank as well as the healthy growth of the Urban Co-operative Banking sector.

VI. Conclusion

The banking sector has widened the scope for business as well as lifestyle changes to people across the country and the Co-operative Banks with their focus on self-help, cooperation and mutual help, contributing to the banking habits of the hitherto marginalised sections of the society to get used to banking benefits and thereby facilitating the much needed objective of financial inclusion thereby saving their hard earned money from the clutches of moneylenders and traders who have been exploiting these people over the generations. The ideology of Urban Co-operative Banks coupled with the latest smart banking services have made their presence relevant and much more useful, helpful and beneficial even in 21st century despite competition from cash-rich private sector banks as well as foreign banks.

References

- [1]. Dr.Jawahar Babu K.V.S.N., (2012), "Performance evaluation of Urban Co-operative Banks in India", IOSR Journal of Business and Management (IOSRJBM), Vol. 1 Issue 5, pp.28-30.
- [2]. Reserve Bank of India (1992), Report of the committee on licensing of new Urban Co-operative Banks (Marathe Committee), Mumbai.
- [3]. Dr.Shirasi R.S., (2012), "A study of financial working and operational performance of Urban Co-operative Banks in Pune District", Indian Streams Research Journal, Vol.1, Issue 5, pp.1-4.
- [4]. Dr.Jawahar Babu K.V.S.N., and Muniraja Selkhar B., (2012) : "The emerging Urban Co-operative Banks (UCBs) in India : Problems and Prospects", IOSR Journal of Business and Management (IOSRJBM) Vol.2, Issue 5, pp. 01-05.

- [5]. RBI's report on trend and progress of banking in India, 2016-17.
- [6]. Dr.R.S.Shirasi, A study of financial working and operational performance of Urban Co-operative Banks in Pune District, Indian Streams Research Journal, 1(5), 2012, 1-4.
- [7]. N.A.Kavitha., M.Muthumeenakshi, A study of customer satisfaction and perception towards the services of co-operative banks, International Journal of Engineering Technology, Management and Applied Sciences, 4(10), 2016, 127-130.
- [8]. Reserve Bank of India (2015), Report of the High powered committee on Urban Co-operative Banks (UCBs), Mumbai.
- [9]. Preety, Dr.D.K.Maheshwari, Dr.Prabhat Kumar, Dr.PushpendraKr.Verma, Benefits and Challenges faced by the Cooperative Banks, International Journal of Emerging Technologies in Engineering Research, 4(4), 2013, 61-64.
- [10]. Reserve Bank of India (2014), Address by R.Gandhi, Dy.Governor on "New –gen Urban Co-operative Banks – Some Musings".
- [11]. N.Anitha, Dr.M.Karthikeyan, Liquidity Management of Urban Co-operative Banks in Namakkal District, International Journal of Recent Research and Applied Studies, 2(8), 2015, 28-30.
- [12]. Reserve Bank of India (2017), Publication on Developments in Co-operative Banking as on 31.03.2016, Mumbai.
- [13]. Shantanu Bose, Urban Co-operative Banks in India : Current Scenario, Abhinav International Monthly Refereed Journal of Research in Management & Technology,3(6),2014, 47-51.
- [14]. VinitRokade (2014), Development in Cooperative Banking and financial inclusion, Abhinav International Monthly Refereed Journal of Research in Management & Technology, 3, 2015, 77-84.
- [15]. Reserve Bank of India (2017), Publication on Developments in Co-operative Banking as on 31.03.2016, Mumbai.
- [16]. Amit Basak, Co-operative Banks in India: Functioning and Reforms(New Delhi, New Century Publications, 2010).

IOSR Journal of Business and Management (IOSR-JBM) is UGC approved Journal with SI. No. 4481, Journal no. 46879.

B.Sudhakara Rao " Relevance of Urban Co-Operative Banks In 21st Century "IOSR Journal of Business and Management (IOSR-JBM) 20.3 (2018):01-04