



The Problems and Prospects of Urban Cooperative Banks in India

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The Problems and Prospects of Urban Cooperative Banks in India Abstract Cooperative banking has been defined by various experts as a mutual society formed, composed and governed by people themselves for encouraging regular savings and for granting small loans on returnable basis with interest. In another words, "a cooperative bank is a small sized financial institution, where its members are the owners as well as customers".

Abstract

Cooperative banking has been defined by various experts as a mutual society formed, composed and governed by people themselves for encouraging regular savings and for granting small loans on returnable basis with interest. In another words, "A cooperative bank is a small sized financial institution, where its members are the owners as well as customers." Reserve Bank of India is the regulatory authority of Cooperative banks but they are registered under the central or state Cooperative Societies Act. These banks have played very appreciable role in meeting the financial need and growth of small and medium size enterprises (MSME). It is a sector where banking and cooperation works together and this is the unique features of Cooperative banks. These banks operate on the basis of two tier system and on the doctrine of self-help, cooperation and mutual-help. There are two types of Cooperative banks functioning in India which is known as Rural and Urban Cooperative banks. The Urban cooperative banks which also known as primary cooperative banks is operating in urban and semi-urban areas of the country. The Urban Cooperative banks have played very crucial role in mobilizing deposits from the various sections of urban and semi-urban area and catering the credit need of small income group. Basically their main target is urban unorganized sector that are considered non-credit worthy by the commercial banks. Although Urban Cooperative banks achieved a sustained growth but the sector has gone through a lot of chaos in the recent years. These banks are endeavoring persistently to deal with the issues of economic disparity and the concentration of wealth that are causing exploitation of marginalized section by the affluent section. The present study focus on the origin of

urban cooperative banks in India, its financial issues and the suggestions that are needed to improve the performance of the Cooperative banks particularly Urban Cooperative banks.

Key Words

The Cooperative banks, UCBs, deposits, loans, advances.

Introduction

Cooperative movement in India

The Co-operative movement was introduced in India with the chief object of making a breakthrough in the stagnation of the lives of the poor classes, especially the vast majority of agriculturist who were groaning under the heavy weight of indebtedness. The introduction of the Co-operative Societies Act in 1904 marked the beginning of the Indian Co-operative movement. With the passing of this Act Government of India wanted to develop the Co-operatives as the institutional agency to deal with the problem of usury and rural indebtedness. The limitations of 1904 Act were rectified in 1912 when another Co-operative Societies Act was enacted. With the passing of this Act, the movement entered on the second stage of its progress. During the period of 1911-12 to 1917-18, the Indian Co-operative movement made rapid strides and entered into many new fields. After the Reforms Act of 1919, co-operation became a provincial subject and was placed under the charge of a minister. This was another achievement in the history of this movement. After several amendments and reforms presently we have numerous Cooperative banks which are performing different type of functions like administrative, financial, supervisory and development in nature.

Cooperative banks

Cooperative bank was first set up in Germany around the end of the 19th century. It was set up in India in 1904 after its popularity in Italy, England, Denmark, Ireland etc. A Co-operative bank is a little sized financial institution where its members are the owners as well as customer of the bank. Its main objective is to make affordable institutional credit to economically weaker section of the societies. These types of banks operate both in urban and non-urban regions and are usually centered on communities, localities and work place. Most of the services provided by these banks are opening savings and current accounts, available locker facility and loan facility to its customers. As far as lower middle class are concerned they want to save their hard earned money. Facilities like Internet banking or phone banking is not very much relevance for them. When we compare Private banks and Cooperative banks in terms of facilities provided by them, definitely Private banks on upper hand. As far as interest rates are concern Cooperative banks is better than Private banks for depositors. It is easier to get a loan from private banks than Cooperative banks but process of getting loan from UCBs are less rigid compare to a commercial bank.

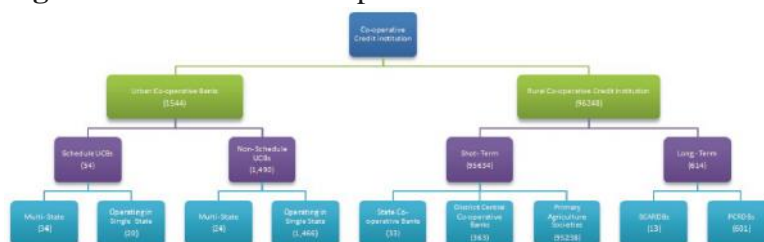
We all know commercial banks are the widest spreading banking institutions in India. They provide major products and services. Commercial banks are working on business lines, for profits of the organization. They are completely different from Cooperative banks by their objectives, organization, principles and governance. These banks are monitored and controlled by the Reserve Bank of India and have to follow banking regulations.

On the other hand, Cooperative banks, which are distinct from commercial banks, were born out of the concept of co-operative credit societies where group of people comes together to extend loans to each other, at favorable terms. Credit co-operatives or Cooperative banks are broadly categorized into urban or rural Cooperative banks depend on their area of operation. Further Urban Cooperative banks are also classified into scheduled and non-scheduled banks. There are three main points of differences between scheduled commercial banks and Cooperative banks.

- I. Commercial banks are incorporated as Joint Stock Company with their members carrying limited liability, but UCBs are structured as cooperatives, with their members carrying unlimited liability
- II. Commercial banks completely regulated by RBI but Urban Cooperative banks only partially regulated by the Reserve Bank of India with Registrar of Co-operative societies either under the State or Central government. .
- III. Where there is a clear cut division between commercial banks shareholders and its borrowers, in case of Urban Co-operative bank borrowers can become shareholders.

Cooperative banks have been established with the principle of 'no-profit-no-loss' so their most of the members are from weaker section of societies. The main purpose of establishment of Cooperative banks is to help each other. These banks distribute only a very small part of its profit as dividend to the member, major portion of profit retained in business. All the nationalized banks and almost all the private sector banks in India are commercial banks. In public sector, within a State, there are three categories of institution granting loans for short and medium term. These are: Primary Cooperative Credit Societies at village level, Central or District Cooperative bank at the district level and State Co-operative bank at the State level.

Figure 1 : Structure of Cooperative credit institution in India



Source: rbi.org.in and NABARD Key Statistics of Cooperative banks

Note: Figures in parenthesis point out the number of institutions as on 31-3-2019

Urban Cooperative banks

Urban Cooperative banks are known as one of the most important segments of the banking industry in India. These types of banks normally situated in urban and semi-urban areas. They specifically focus on communities, localities, work place and groups. Till the year 1996, these banks were allowed to give loan only for non-agricultural purposes, but this type of restriction doesn't hold today, there operational area has been widened considerably. Co-operative movement in India started during the nineteenth century when inspired by the achievement of co-operative movement in European countries.

About 1,540 Urban Cooperative banks working in india as on 31st March 2020, of which 82 were Multi-State. Cooperative banks working for the benefit of a group of members of the co-operative body. Since 2001, Co-perative sector has gone through a lot of chaos due to different regions like chain of scams, rising competition with the inception of liberalization, and globalization. Dual control, inadequate capital, high level percentage of NPAs, absence of modern technology, and mismanagement are also responsible for bad performance of these banks. In India all the nationalized banks and almost all the private sector banks are commercial scheduled banks. At present there are different type of Cooperative banks operating in India which is as follows:

Public Sector Banks, which are co-operative and non-scheduled- These are state owned banks like the Jharkhand State Co-operative Bank Ltd.,

Private Sector Banks, which are Cooperative and scheduled- These are large Cooperative sector banks like Cosmos Co-operative bank Ltd. Saraswat Co-operative Bank Ltd., etc.

Private Sector Banks, which is Cooperative, and non-scheduled- These are non-scheduled small Cooperative banks, for example: Local Cooperative banks which operate within a town or a city,

like Mahesh Sahakari Bank Ltd.

The Urban Cooperative banks provide financial assistance especially to those people who want a loan for their self-employment, small scale industries, and construction of house. On the other hand the rural cooperative banks mostly lend money for agricultural activities like farming, cattle, milk production, pisciculture, personal finance, small scale industries at village level and self-employment activities.

Literature Review

Dutta and Basak (2008), recommended that recovery performance should be promoted by adopting modern technique like monitoring of loans from computer, follow proper rules and regulations at the time of lending money and organize regular workshops for personnel to sustain in the competitive banking environment.

Bhaskaran and Josh (2000), examined that the poor recovery performance of Co-operative credit institutions are responsible for high level percentage of NPA. He recommended statutory and policy decisions for the upliftment of Co-operative credit institutions, which should be more efficient like commercial banking.

S. Raju and S. Mohan (2013), in their research article said that, UCBs must have a vision and mission to increase their membership base. The administration of the UCBs has to instigate professional marketing strategies among their personnel to attract more members and customers.

Sachin R. Agrawal (2012), suggest that the self reliance can help in the progress of cooperative deposit mobilization. Cooperative banks should work in a totality and build up self reliance. The higher administration should assist the lower administration like mother institutions. They should provide proper guidance, leadership, support, supervision and control.

Research methodology

The study is based on only secondary data. The available information on internet regarding the Urban Co-operative Banking has been comprehensively 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, journals, and websites.

Objectives of the study

The main purpose of this research article is to assess those factors to manipulate the issues of Urban Cooperative banks and its nature.

- A. To study the concept of Co-operative credit structure particularly Urban Co-operative banking in India.
- B. To identify the problems faced by Urban Cooperative banks.
- C. To recommend appropriate suggestions to strengthen the sector.
- D. To analyse the operational performance of Urban Co-operative Bank.

Problems of urban Cooperative banks

After incredible performance in early years particularly in the area of financial inclusion, the Reserve Bank of India began to get worried for their poor performance from 2005 when it restricted issuing new Urban Co-operative Bank licences. After many of the banks failed, RBI started to encourage weak ones to merge. After amalgamation and merger process the number of UCBs operating in India has reduced from 1,926 in 2005 to 1,551 by 2018. The Reserve Bank of India has also been trying to improve governance at these banks by putting up a Board of Management to oversee them. But the PMC Bank case discloses that a lot of shenanigans still escape RBI'S oversight. Despite not being

liked by the Reserve Bank of India in recent year, UCBs remain quite popular in small saving groups and small scale businesses because they promises to pay interest on deposits at an attractive rate, which is much higher than commercial banks. By the end of financial year 2018 UCBs managed total assets of 5.63 lakh crore had advances of 2.80 lakh crore and managed 4.56 lakh crore in deposits.

Some of the common Problems of UCBs are summarised as under

1. The Urban Cooperative bank, which was considered as one of the fastest developing segment of the banking industry in India till late 1990s, has become now one of the most vulnerable banks with regular cases of failures. Presently these banks have become more susceptible in size, location and compulsions to lend to a sector and thus, are deprived of scale economies.
2. The management style of Urban Cooperative banks is more individualistic rather than professional. As a result they were neither interested in nor were able to attract professionals.
3. Recently Cooperative banks have been in news after RBI imposed moratorium on one of the leading multi-state banks, where they were deprived of any kind of money withdrawal for some times. This type of unfortunate incident which is occurred in the Punjab and Maharashtra Co-operative Bank (PMC) has raised questions over the reliability of such financial institution.
4. Apart from their strengths, the Urban Cooperative banks are very feeble in generating capital through shares. Therefore this sector is finding it more and more difficult to sustain their cooperative character with the needs of a strict regulatory system and prudent banking norms insisted upon by the RBI.
5. The regional distribution of Urban Cooperative banks in India is uneven. More than 80% of Cooperative banks situated in only some states such as Andhra Pradesh, Gujarat, Maharashtra, Karnataka, and Tamil Nadu. About 75% of total deposits comes from these States.
6. There is no investment in majority of UCBs. The size and quality of personnel affected their investment in technology and the ability to come out with innovative products. They are making investments on their experience and according to circulars and guidelines issued by the RBI time to time.
7. A high level committee set up by Reserve Bank of India finds that the NPA levels in UCBs are too high, which is a major challenge to be addressed. Like the policy of loans and advances Urban Cooperative banks should have a good Investment Policy which should be updated every year and approved by the Board of directors.
8. UCBs are subjected to duality of regulatory authorities, namely RBI and the department of cooperation of the State government. Dual regulation and control from central and state authorities obstruct the smooth and efficient functioning of the banks. Contrarily the lack of administrative control by the government establishment leads to arbitrary usage of funds, and putting stakeholders interest at risk.
9. UCBs borrowers have a considerable interference in the management of the banks. This has the possibility of influencing the boards to take decisions that may not always be in the favour of the depositors who constitute the most important stakeholders of the bank.
10. There are no solid loan policies in most of the Urban Cooperative banks. Many of the banks give loans without pre-credit appraisal. Finally the outcome of this kind of unprofessional conduct and non-appraisal of the risk in credit is non-recovery of loans and assets trickling down to the non performing assets.

Suggestions

On the basis of the above observations the following measures are suggested to improve the performance of the Urban Co-operative Bank:

1. Urban Co-operative bank should adopt modern practices of banking in there working, viz. net banking, mobile banking, e- banking, ATM banking and all other modern practices. These banks should also plan to launch new schemes for attracting potential investors and satisfying the present ones.
2. For development of management and business skill in members and employee, proper education and training programme should be launched. It will strengthen the members and employees to maintain the UCBs in a sustainable way.
3. Necessary advice and support should be provided in arranging finances. It will help the Urban Co-operative bank to protect themselves from financial troubles.
4. Proper enquiry should be taken place while issuing a license for new UCBs so that it cannot help only a particular community or section of the society.
5. To check indiscipline and unfair means, government should form a separate body to monitor the transactions in UCBs.
6. To help the marginalized section of the society these banks should increase the female participation and also should give an opportunity to the people who belongs to schedule-cast and schedule tribes as, borrowers or depositors.
7. These banks should provide loans at affordable rate of interest so that people from low income group can also benefit from it. Apart from this, the bank should also focus on customer's services like collection and discounting of bills, clearing of cheques, etc.
8. We all know audit plays an important supervisory role in ensuring the best performance of any financial institution. While conducting audit, a proper system of checks and balances may be evolved and made compulsory for all the Urban Cooperative banks. Responsibility for wrong audit along with strict action should also be ensured through proper statue.
9. UCBs must have a vision and mission to widen their membership base. The management of the Urban Cooperative banks have to initiate professional marketing strategies among their personnel to attract more customers.
10. Government of India should authorize the Reserve Bank of India to wind up and liquidate banks free from other regulators under the cooperative society's law and allowing Urban Cooperative banks to be converted into small finance banks under the RBI's supervision.

Conclusion

Urban Cooperative banks hold its place in important financial institutions of our country. These banks have been serving poor people for years. They are also playing very crucial role in meeting the growing credit needs of urban and semi-urban areas of the country. It is an important constituent of multi-agency banking system. Apart from its members, it also provides necessary financial assistance to non-members. The core issue in the new decade is to reorganize the structure functioning and management of the cooperative institutions. There should be a proficiently action program to provide precise guidance to the cooperative in the areas of professionalism and effective cooperation of inter cooperative relationship, mobilization of resources and increasing involvement of members in decision making process.

The failure of certain banks in achieving their objectives cannot be looked as isolated issue. This general propensity prevailing in the whole cooperative movement and specific problems faced by PACs have an influence on the marketing organizations involved in the cooperative movement. The

matter of greatest concern is rising over dues which are responsible for NPA.

The mounting over dues has paralyzed the whole credit structure, due to improper management and incapability of people to pay back their loans and advances, which are the key elements responsible for the mounting over dues of failure banks. In recent times, customers were left in a dilemma by the scam that occurred at the Punjab & Maharashtra Co-operative Bank (PNCB). The bank, which had Rs. 11,617 crore in deposits as on 31st March 2019, had violated Reserve Bank of India regulations to lend heavily to one client real-estate firm Housing Development and Infrastructure Limited (HDIL), which was already facing insolvency proceedings.

There is no end to scam in the Indian financial space, where in a matter of years, public sector banks, private banks, non-banking financial companies, and recently financial irregularities have been found in Cooperative banks.. The inherent follies in their operations need to be addressed effectively if the public has to continue placing its trust in the banking system.

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