ABSTRACT

The Urban Cooperative Banking (UCB) system has come a long way since 1904 when the first UCB was started at Kancheepuram in Tamil Nadu. UCBs remain not-for-profit, owned and controlled by the members who use their services. They are unit banks of the American model rather than branch banks of the British model. With the tightening of prudential norms, the banking sector has been consistently conforming to and adopting international prudential norms and accounting practices. Such strengthening of prudential norms have resulted in increased levels of Non-Performing Assets (NPAs) for the Urban Cooperative Banking Sector. As per CAMELS rating model, the highest weight is given to asset quality components. Today, UCBs are compelled to maintain superior asset quality in the competitive market for their survival. In the wake of large scale defaults of UCBs in India, this study is an attempt to analyze the asset quality in select UCBs in Tamil Nadu. This paper also traces the Non-Performing Assets of financial cooperatives in other countries. A comparison of UCBs with financial cooperatives abroad is also done.

In the post-independence period, the Banking sector has played important and commendable role in supporting the government to achieve its social and economic objectives through deposit mobilization, mass branch networking, and priority sector lending, employment generation etc. The Urban Cooperative Bank (UCB) is also a part of it. It traces mainly an importance in the regional economic growth by serving the goals of economic policies enunciated in successive five-year development plan. The efficiency of UCBs is helping in the determination step of development in regional economy.

The role of banking sector is considered vital as banking service is backbone of the financial system. Banking system in India has had to help the goals of economic policies pronounced in successive five year development plan, particularly concerning equitable income distribution, balanced regional economic growth and the reduction and removal of private sector monopolies in trade and industry. The risks to financial stability continued to remain at elevated levels, with growth witnessing a delicate and multiple pattern of recovery. In the meanwhile, the macro-financial risks shifted from advanced to
emerging economies with the latter facing pressures from weakening prospects of growth, falling commodity prices and strengthening of the dollar.

Reserve Bank of India (RBI) committee, in 2015, suggested that multi-state urban cooperative banks with a business size of Rs. 20,000 crore or more be converted into full-fledged commercial bank, if the lender has no special need to remain a cooperative bank. In fact, the many achieves that were followed during pre-liberalization period that includes asset classification using health code system, accrual basis used to book interest in bank accounts etc., concealed the gravity of asset quality issues of the banking sector.

The asset quality is a prime concern and impacts various performance indicators, i.e., profitability, intermediation costs, liquidity, credibility, income generating capacity and overall functioning of banks. The reduction in asset quality results in accumulation of Non-Performing Assets (NPAs).

An urban cooperative bank (UCBs) is to receive deposits and lend money like other bankers. Receiving deposits contains no risk, since it is the UCB who owes a duty to repay the deposit, whenever it is demanded. On the other hand, lending always involves much risk because there is no certainty of repayment. So, UCBs shall be very careful in lending, because they are not lending money out of their own capital. A major portion of the money lent comes from the deposits received from the people. These deposits are mostly repayable on demand. Hence, while lending money, UCBs should follow a very cautious policy. The risk involved in lending business makes it very important as it involves making prominent decisions. Therefore while sanctioning credit the authority of UCBs should appraise the project reasonably or else it leads to the non-repayment of loans and advances.

Earlier studies revealed that most of the UCBs today in India are facing the escaping risk wherein some part of the profit is reserved for covering the non-performing assets. A sound and well-built financial system is a pre-requisite for rapid and balanced development of an economy. In this regard the role of urban cooperative banking sector is considered energetic backbone of the financial system in urban region. Maharashtra has realized remarkable progress in cooperation segment with several types of cooperatives contributing successfully to the growth of the state economy. But same time a position to repay the loan in time this leads to Non-Performing assets in achieved
remarkable progress. Today, UCBs are bound to maintain superior asset quality in the competitive market for their survival.

The present study focuses on the current scenario of urban co-operative banking system with would obtain returns or earnings in the normal sequence. The Interest on loans or advances is an important source of income for the UCBs. The strength and soundness of the UCBs primarily depends on the quality and performance of the loan selection, i.e. the contentment of responsibilities by borrowers punctually. The problem of NPA is linked to the function lending money and one of the most important concerns for the UCBs in study region.

The entire study covered approximately in four and half years which is delay due various obstacles faced. In order to understand the stated objectives, the researcher used a mutual approach that holds features of both expressive and analytical research designs. The qualitative and quantitative methods used for this research study tries to evaluate asset quality of urban cooperative banks.

Researcher collected secondary data; he compiled it on spatial regional concept of financial services and selected urban co-operative banks in their branches from the study region. He developed the tools for study and taken guidance from research guide. Then prepared the sample list, collected the data, analysed data and developed the tabulation. Research work is arranged and chapters are prepared alter discussion with research guide from time to time. Finally thesis is prepared on the basis of above information.

Significantly, UCB means the primary co-operative banks which are setup to meet the banking and credit requirements of urban and semi urban people and to protect them from exploitation. Due to liberalization formation of new banks become easy which created a competitive atmosphere in banking services and for UCB to stand in competition. New financial models of UCBs are introduced to checkup adaptability and efficiency of UCBs. It is also necessary to see whether UCBs are able to provide such services to its customers in effective manner or not. This study will try to reduce the gap of information regarding UCBs present setup and their efficiency of functioning. The key business of an UCB is to receive deposits and to provide loans to the needy customers. Receiving deposits include no risk, since it is banker who owes responsibility to repay the deposit as and when it is demanded. On the other hand advancing always contains
abundant risk as there is no certainty of repayment. A banker must be cautious in lending as it is not lending money out of its own capital but its major component come from deposits received from the public. These deposits are repayable on demand; hence bank should try to manage the timing difference between borrowing and lending of money. The risk involved in lending money is very high and as it involves taking of prominent decisions. Therefore, while sanctioning loans the banker should take appraisal and feasibility report to avoid funding to defaulting entities. Most of the UCBs in India are facing problems of ‘Default Risk’, wherein some part of profits is reserved for converting the non-performing assets.

The asset quality of urban cooperative banks is a prime concern and influences various performance indicators, i.e., profitability, intermediation costs, liquidity, credibility, income generating capacity and overall functioning of urban cooperative banks. The reduction in asset quality results in accumulation of Non-Performing Assets (NPAs). Researcher tried to evaluate the trend in the movement of NPA of urban cooperative banks in Thane district during period (from 2007-08). These UCBs are i) Thane Janta Sahkari Bank, ii) Dombivili Nagri Sahkari Bank, iii) Abhinav Sahkari Bank, iv) Bassein Catholic Cooperative Bank, v) Kalyan Janta Sahkari Bank, vi) Jai-hind cooperative Bank and vii) Thane Bharat Sahkari Bank. It also includes, the significant NPA management measures such as Debt Recovery Tribunal , Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act , 2002 (SARFAESI) and Adaptive Replacement Cache etc. were implemented during this period.

The present financial analysis on non-performing assets of the urban cooperative banks is crucial part. NPA management as per the RBI instructions is practically difficult to urban cooperative banks. A safety point of view it is very necessary to study NPA of urban cooperative bank.

In this study researcher considered an aggregate situation of the reduction in asset quality resulting in accumulation of Non-Performing Assets (NPAs). The intermediation process is the principal function of an every bank. It focuses on impact of selected UCBs in Thane district. Researcher has used quantitative methods for generating the data. The
data required for the study was collected by survey method with using the scientific tool from the selected UCBs of Thane district.

Primary data of study was collected with the help of structured questionnaire under the spatial regional approach and administered as per the random sampling method. A questionnaire was pretested and ambiguous questions were reframed while preparing final questionnaire. 470 samples were the targeted interviews and 372 (79.1 percent) were actually interviewed. Data was collected from 22 locations of six UCBs within the study region. Researcher by keeping in mind innovation of research activities collected the data by training post graduate students by assisting them data collection work.

A secondary data collected physically and electronic accessible libraries like UCBs, Mumbai University, Tata Institute of Social Sciences. An extensive use for supporting literature is made available from the documentation method and a review of literature taken. Financial information of urban cooperative bank is collected through Annual reports and web sites of the UCBs and RBI. As well as literature on financial reports of the banking sector, UCBs, RBI reports, website used.

Quota sampling methods are used for preparation of sample list of Officers and Board of Directors of UCBs for particular analysis and valid results of NPAs. Researcher restricted the area of sample size like six UCBs list was prepared on the equal proportion ratio with using random method. From this Individual selection of the respondents was drawn by using with random number 2. 470 samples were selected for the study and 372 samples are achieved by the researcher. Mathematically, a sampling design is denoted by the function P(S) which gives the probability of drawing a sample S. In the present study 2: 1 probability has been used.

After collection of the data from the questionnaire, collected responses made in form of data codes sheet with the help of variables list and inserted in Ex-cell data sheet. Data Entry was carried with the help data entry operator in the Excel form. Tabulation was according to study objective and it has related and produced tables for the report execution. Financial data of UCBs are arranged to make its fruitful use for the study purpose.

The scientific questionnaire included three types of questions, (1) questions with five point scale (2) multiple choice questions (other than five point scale), and (3) open
ended questions. In addition, there are questions on ranking factors, according to its importance. Demographic variables are subject to descriptive analysis using average and percentage. Questions based on the ranking are analyzed using a weighted average. The other questions were analyzed using percentage; Mean Percentage Value, Z-value, etc.

In order to achieve the various objectives mentioned, the data collected were entered, arranged and presented using Microsoft Excel and SPSS 17. Statistical measures utilized include Averages, Ratio, Moving average and Growth Rate and t-test are used as other analytical tools. Similar way other objectives i.e. to study the functioning and management, the structure/pattern of loaning, the reasons of decline in profitability of Urban Co-operative Bank have been conducted.

The study organised on the hypothesis ‘there exist significant differences in the movement of NPA among different UCBs in Thane district, Maharashtra state, India’, ‘Sanction of Bad Loans leads to increase of NPA in UCBs’, ‘NPA is an important controlling variable in the relationship between interest income and net profit of UCB’.

This study comprises with six chapters, first chapter explained with Background of Study, Concept of Co-operative, World Council of Credit Unions Rochdale Society of Equitable Pioneers, Granger movement, International Co-operative Alliance, Cooperative movement of Banking Sector in India & Maharashtra, Non-performing Assets meaning and Norms, Basel Committee, Basel-I, II, III, and IV, Evolutionary path of Indian Cooperative Banks.

Second chapter explains introduction of phraseology with title, importance, methods used study. It also explains geographical, economic situation of Thane district, selection of problem for research, objectives and specific hypothesis of the present study. Further explains testing of hypothesis, tools, data-collection & data analysis with questionnaire, sampling techniques, analytical tools, data collection process, scope and limitation of study and lastly chapter plan.

Third Chapter explains about Review of literature, conclusions and intention of previous research studies on NPA. The review of literature is extreme important in any research as it offers an explanation for the necessity of the current research initiatives. The asset quality and non-performing assets (NPAs) is debated in many academic literatures across the world. In Indian context, the literature mainly focused on a review
of NPA among different bank groups and its management since the post-liberalization period. The review of the literature offered an in-depth view on the treatment of NPA in Indian banking sector. In general, studies on NPA had done on Urban Cooperative Banks (UCBs) in Thane district of Maharashtra state in India.

Fourth chapter focuses on history of urban cooperative banks and expansion phases in India indicating earlier 1900 then Pre-independence and Post-independence Period. Conversion of multi state UCBs into commercial banks Current situation of UCBs in India, Guidelines and efforts towards development of UCBs by RBI, overview of the studied UCBs and lastly social Commitment of UCBs.

Fifth Chapter focuses on the results and discussions of the non-performing asset with diagrammatic representation of data and impact on UCBs function and management. Section first comprises individual information respondents like name, age, sex, marital status, educational qualifications, cast, religion and when his starting year of service in UCB’s or when he became a director in UCB’s. Second section comprises on the basis of information collected from same respondents which reveals UCB’s environment. Third section encompasses on the basis of information collected from same selected respondents which particular Non-Performing assets (NPA).

Sixth Chapter explains about findings based on primary and secondary data sources which covers the study objective one to study the functioning and management of UCBs. Second objective explains about study of the structure/ pattern of loaning to its members by Co-operative Banks and procedure for its disbursement and recovery. Third objective studies the guidelines issued by RBI and Govt. of India relating to NPA and also to see whether these guidelines are followed by bankers or not. Objective four explains about study of adoption of Basel-I, II, III & IV guidelines. Objective Five explains about study of growth of non- performing assets in Urban Co-operative Banks. Objective six analyzes the reasons of decline in profitability of Urban Co-operative Banks due to increasing NPA. Objective seven recognizes reasons that lead to NPAs and study of various provisions of the Act with special emphasis on reduction of NPAs. Objective eight explains about UCBs facing the problem of NPA swollenness even after the passing Act to formulate methods for efficient recovery in UCBs.
Seventh chapter explains about findings and suggestions. The major findings of the study revealed that NPA is there because of miss-utilization of loan and subsidies, diversion of funds, dominations of NPA accumulations. The study formed certain recommendations and suggestions such as UCB’s should take initiative to improve their functioning by reducing NPA, UCB’s are advised to continue and maintain their procedure while sanctioning the loans, the problem of bad loans of UCBs will get solved only when these banks have a strong internal mechanism for protecting their self-interest, the change in law regarding controlling NPAs is meaningful provided Board Of Directors of UCBs takes it positively, an effort should be made to compare the types of business in the area of advances handled by the UCBs, the focus should be on Minimum Government but Maximum Governance, the UCBs should therefore take a liberal approach as far as NPA management is concern in providing staff.