CHAPTER VI

PROBLEMS OF URBAN CO-OPERATIVE BANKS, FINDINGS AND SUGGESTIONS FOR IMPROVING THE PERFORMANCE OF URBAN CO-OPERATIVE BANKS AND CONCLUSION

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CHAPTER VI

PROBLEMS OF URBAN CO-OPERATIVE BANKS, FINDINGS AND SUGGESTIONS FOR IMPROVING THE PERFORMANCE OF SALEM URBAN CO-OPERATIVE BANKS AND CONCLUSION

1 Problems faced by Urban Co-operative Banks

1.1 Problem of Dormancy

One of the most disquieting features in the working of urban co-operative banks has been the rising number of dormant societies. However the selected urban bank is not dormant.

1.2 Uneven Development

The Urban Credit Movement has not developed evenly in all the states and districts and Taluks. In states like Orissa, Jammu and Kashmir and Bihar the progress of non-agricultural credit movement was not satisfactory. The State Government must take effective steps to organise urban banks in places where they have not been organised. In Salem district urban co-operative banks lead other co-operative banks. In other places such as Suramangalam the progress of urban banks is limited.

1.3 LOW COVERAGE OF POPULATION

One of the major problems of the urban co-operative banking is the low coverage of population. Assuming that only one individual becomes a member.
1.4 ABSENCE OF FEDERAL STRUCTURE

In India almost all sectors of co-operatives have established their federal structures at State and National levels. But urban co-operative banks do not have their own federal structure. Steps have been taken in states like Gujarat and Karnataka to organise the federation of urban banks at State level. The federal structure should not function as a mere body of urban banks. Due to the absence of such a federal structure, the urban banks are at the mercy of the central co-operative banks which are mainly financing the agricultural credit societies.

1.5 ABSENCE OF BRANCH BANKING

One of the weaknesses of urban banks in many states is the absence of branch banking. Only by means of opening branches the urban banks can cover new customers and increase their deposits. This is named as horizontal growth and the mobility of staff. Even in co-operatively advanced states like Tamil Nadu, branch banking among urban banks is at a low key.

1.6 CLEARING HOUSE FACILITIES

One of the difficulties faced by urban banks is that the cheques issued on them take lot of time to get cleared. As the urban banks are not the members of the clearing house this difficulty arises. Due to this delay current accounts are not favoured by the customers. This difficulty could be reduced if
the urban banks organise federations at state levels and entrust such responsibilities to the apex institutions of their own.

1.7 RESTRICTION TO OPEN NEW BANKS

A recent set back for the urban co-operative banks is the restriction imposed by the Reserve Bank of India in organising new urban banks and opening further branches. In the urban and semi-urban centres with a population of less than Rs.10 lakhs, application for new urban co-operative banks will be considered, strictly on merits and the findings of the joint survey by a team of representatives of the Reserve Bank, Registrar of co-operatives societies and the Apex Co-operative Banks concerned.

The RBI has a feeling that new urban co-operative banks will not satisfy the requirements stipulated by the RBI further the feeling is that new banks should not go to rural areas for further business. Thirdly the urban banks should not poach the business of nationalised banks.

1.8 OPERATIONAL PROBLEMS

The operational problems of urban co-operative banks consist in their loaning policies and practices. It has been noticed that some of these banks are advancing loans which are unproductive. Though these banks are getting their deposits at low rate of interest they advance loans at exorbitant rates. Since
these societies have adequate resources and some of the banks are even facing the problem of surplus funds, a tendency is over-borrowing and over-indebtedness is witnessed.

1.9 FINANCIAL PROBLEMS

The question of resources always assumes importance in a banking institution. Though most of the urban banks have sufficient owned funds, there is a considerable scope for increasing them. The study group has recommended that the urban co-operative banks should have a minimum share capital of Rs.50,000 out of which Rs.25,000 may be contributed by the State Government. Some of the urban banks are facing competition from the joint stock banks in the matter of attracting deposits. As these banks do not have any federation they feel difficult in borrowing also. The central co-operative banks do not provide sufficient finance to urban co-operative banks.

1.10 UNTRAINED STAFF

Urban banks employ untrained staff and mostly employees get on the job training. The volume of business transactions is increasing and the number of employees are remaining stagnant throughout the year.

1.11 PROMPT GUIDANCE

Prompt guidance has been therefore the policy of the bank should change and according to guidance from RBI.
Nationalised banks issue many booklets for guidance of their officers regarding assessment of working capital, balance sheet analysis, specialised institutions and their functions in financing small scale industries, method of involving guarantee, etc. Similar facility norms are not available been with urban banks themselves.

1.12 OVER DUES

The Salem Urban Co-operative bank provide finance to many projects (Weaving, Non-agricultural sector). These projects are not successful and overdues on percentages is high. Consumer durable loans is provided by loans to members. Recently in this loan is not provided by members. The repayment of amount is not correct period paid by this bank from members when overdues are on the increase loans are stopped for sometime. One of the most disquieting trends in the working of the urban co-operative banks is the rise in the amount of overdue. It may be mentioned that if effective steps are not taken to recover these high overdues, it might lead to the virtual collapse of the co-operative movement in some parts of the country.

The bank is facing the problems of overdues. The overdues position of the bank is mounting through the bank is making profit and declaring dividend to its members.
1.13 SECURITY ON LOAN

One of the most important problems is the security on loan to members because an urban co-operative bank is not a charitable institution. Urban banks grant loans against various kinds of securities like mortgage of immovable properties. Pledge of merchandise, gold and silver ornaments, fixed deposits, agricultural produce, Government and other trustee securities etc. many securities on forgery on members since they are promptly checked for bonds from urban co-operative banks.

1.14 UNSECURED LOAN

The dangers inherent in the grant of a large amount of unsecured loans are obvious with the impersonal relationship that has developed in modern times, a person’s integrity and character alone can not constitute a reliable index of credit worthiness. Unsecured loans are issued on Ration cards. But the borrowers generally the poor and weak abscond without repaying the loans.

1.15 CAUSES OF NEGLECT OF INDUSTRIAL FINANCING

In spite of the facilities extended by the RBI to urban banks like share capital participation, refinance facilities, etc. majority of the urban banks neglected the financing of small scale and cottage industries. The reasons are as follows:
(a) Lack of Finance

Small scale industries are in need of both short-term and long-term finances. At present the urban banks are making attempt to provide only working capital (short-term finances) and the question of providing block capital (long-term finances), poses insurmountable financial difficulties. Further in many states, the state co-operative banks have not opened a separate cell for industrial financing.

(b) Lack of Co-ordination

The officials used to issue circulars pressing the urban banks to lend small scale industries without tackling the financial, administrative, technical and co-ordinating difficulties.

(c) Lack of Technical guidance

Majority of the urban banks have not technically analysed and trained personnel to undertake industrial financing. The personnel must possess elementary knowledge of industries, project approach, assessment of credit needs etc.

(d) Lack of Leadership

Lack of leadership and reluctance on the part of the Board of directors are also responsible for the neglect of industrial financing by urban banks. In
banks where the leadership is traditional, the board of directors do not wish to take risk and divert a part of the resources for industrial financing.

(e) Organisational Difficulties

Some of the urban banks are located in semi-urban centre with agricultural background. The scope for such banks to locate small scale industries is limited.

(f) Lack of response to RBI’s Helps

The Reserve Bank of India is providing refinance facilities besides the participation in the share capital and the extension of credit guarantee scheme. These facilities have not been fully utilised by urban banks to finance small scale and cottage industries.

1.16 DISHONESTY OF THE BORROWERS

The most important reason for default is the unwillingness on the part of the borrowers to repay the loan. Any problem can be solved and they can be made to repay the loan if they are willing. If they are not willing due to lack of basic honesty and integrity, banks cannot recover loans from them.

1.17 BANKING FACILITIES

At present, urban banks do not issue drafts nor accept drafts for collection which services are available in other commercial banks. The Salem
urban co-operative banks do not have a good premises and modern office arrangements. There is no reception room arrangement in the bank for the customer and do not have proper bonds protect to self facilities.

1.18 COMPUTER FACILITIES

Urban co-operative banks have not been provided with computer facilities which are provided with other banks. In our country computers are popular. As urban banks do not use computer, manual work is high and customer service is low cause delay on workings. Nationalised commercial and foreign private secured loans banks have wide computer net work throughout India.

1.19 ADMINISTRATIVE PROBLEMS

In some of the institutions having a large membership the calling and management of a general meeting assumes the proportion of a problem. In some of the societies the average attendance at the general meeting is very poor and societies are dominated by a few individuals. Another problem relates to the election of the board of directors.

The board of directors are taking loan amount exceeding the limits allowed in the case of cash loan (SSI) they should be a divided not to mis-use the co-operative institutions by way of exceeding the allowable limits of cash given under SSI schemes. Any suggestion is made for only permission in the general body.
1.20 POLITICAL AND HIGH POSTING OFFICERS PROBLEMS

Many a time political interference with the services of urban banks leading to maladministration. Due to these factors there is no proper administration of the urban co-operative banks. Rules and regulations are conveniently violated. As a consequence loan are granted even with the forged documents.

Urban co-operative banks political powers have got banks directors efficient facilities, dominated by banks and other interruption on rules and regulation have not followed by directors, they are without rules on given for loans many urban banks non-performing. Many state urban banks given by loans 'forgery loans' doing on invention.

1.21 DEPOSITS OF URBAN BANK AND COMMERCIAL BANKS COMPARED

It will be interesting to compare the deposits of urban co-operative bank in Salem and commercial banks deposits. Nationalised commercial banks have wide network throughout India. Large amount of facilities commercial banks provide to the deposit or one of the important facility is the remittance facility which is not available to urban banks.

1.22 BORROWINGS

The urban bank generally borrowed from central co-operative banks, while a few borrowed from the apex banks. Special encouragement and financial needs were not given by the Government for the urban co-operative
bonds. This had undermined the seriousness of urban bank poverty and misery.

1.23 FACE VALUE OF SHARES

The face value of shares of urban co-operative banks ranges between Rs.10 and Rs.100. In the face value of a share is usually Rs.10. The value of shares has been kept low in order to provide opportunities for the weaker sections to become members. But low value of shares will increase the operating cost of banks.

2. PROBLEMS FACED BY THE BORROWERS

- Inadequate credit limit provided by urban co-operative banks.
- Poor term loan facilities provided by urban co-operative banks.
- Relay in sanctions of loans is a great bottleneck in the development of artisans, small trade business.
- Security oriented advances given by urban co-operative banks.
- The urban co-operative banks are functioning in selected areas of Salem town.
- Certain urban banks are functioning amongst selected classes of the community.
- The facility of remittance of funds is not available in the urban banks.
- Women and people from weaker sections are less attracted by the urban banks for membership, borrowings and deposits.
The facility of collection of bills is not available with the urban banks in Salem.

Communal violence affects banking in Salem urban co-operative banks in Salem.

Cash-Reserve Ratio and Statutory Liquidity Ratio are very high which restricts loaning operations of the banks.

Though credit deposit ratio is high, Salem urban co-operative banks experience the unproductive funds lying with them.

The Salem urban co-operative banks are not still advancing more for consumption purposes.

Many urban co-operative banks have new building construction customer service on front office is not developed.

Many urban co-operative banks service are not computerised. Technical guidance is not developed this bank.

‘A’ class members are eligible for all types of loans and they enjoy all the rights and ‘B’ class members cannot vote and they are entitled for only loans on jewels and deposits.

Many urban co-operative banks do not have a good building with modern arrangements for business activities e.g., well-ventilated banking hall, good counter seating arrangements, meeting hall, safe deposit
vaults, etc.

- Entire resource raised by way of owned funds and borrowed funds cannot be used as 'Loanable funds' by urban banks.
- The urban banks should not lend more money on one type of security.
- Urban co-operative banks do not have proper maintained accounts.
- Due to this delay current accounts are not favoured by the customers.
- Security must be related to the production-oriented do not have lending facilities also.
- The loan applications for various loans are not uniform and they differ from state to state and within the state there is no uniformity in their application.
- Though the volume of loans lent for consumption purposes was low, in certain regions loans for such purposes were very high.
- There is a feeling that urban banks have not done much to encourage handicrafts and cottage industries.
- Existing restrictions, if any, which inhibit them from advancing block capital loans.
- Urban banks do not deal in foreign exchange.
- Deposits on rate of interest is very low.
- Installment repayment should be allowed for long-term loans.
3. FUTURE PLANS AND SUGGESTIONS FOR IMPROVEMENT OF THE SALEM URBAN CO-OPERATIVE BANK

- The bank has the following plans for the future:
- While opening a new urban bank or its branches preference should be given to opening it in the remote areas like Rettiyur, Attaiyampatti, etc.
- Care should be taken while giving a licence for a new urban bank and that it should not become a bank of a particular class or community of people.

- Every year three new directors get elected from the three questions Board of an urban Co-operative bank. Hence, the leadership should see that there is at least one new entry on the board in three years so that the new sight, new thinking, new style of working and the enthusiasm of young blood boosts the progress of urban banks.
- To serve the weaker section of the society. People coming from scheduled castes and scheduled tribes should be brought under the preview of urban Co-operative banks by admitting them as members, borrowers or depositors. Besides concerted efforts should be made to increase the women membership also.
• The urban banks should see that, as far as possible, every requirement of the customer as regards to the remittance facilities e.g. collection of bills, cheques etc, should be provided Co-operative bank should provide loan for the lowest possible amount so that people from poor income group can also avail of the advances of urban Co-operative banks.

• Because of the increasing profitability of urban banks, they should be allowed to apply more dividend and issue more shares to new members.

• While appropriating the profit, urban banks appropriate for the donation funds. The social responsibilities of the urban banks are increasing as their area of activity has widened so the urban bank should make more donations to charitable purpose in Salem. But care should be taken to ensure that the benefit reaches the actual users. The bank should make sure before sanctioning a donation that it will be properly utilised.

• Increasing the quantity and quality of loans and advances to members.

• Rigorous recovery operations of the loan overdues to be implemented.

• Increasing the number of staff/employees. As per the special bye-laws relating to service conditions of employees of the Salem urban Co-operative bank.

• Computerisation of the branches and head of the Salem urban Co-operative bank to be taken by the future and quick service to customer.
• Co-operative education publicity and training programmes/schemes to be formulated for the employees and members. This needs to be strengthened and expanded in the future.

• The bank is general towards deposits mobilisation schemes/programmes. The bank is having business compelling strategies and intensive efforts to attract more deposits therefore contribute to higher savings in the Co-operative Salem urban banking system and overall financial system in the area.

• The Salem urban Co-operative bank do not have enough space and modern office arrangements. There is no reception room arrangement in the bank for the customer such computerisation should be implemented on this bank. This computer is easily and quickly service to customer, this system has been suddenly implemented in the Salem urban Co-operative bank.

• Nationalised banks equal on many deposit schemes and loans provided and cheque issued should be implemented on Salem urban Co-operative bank.

• Trade industry and commerce can develop only when they get required advances. Urban Co-operative banks have that special qualities for advancing the small shopkeepers and small industries. The managers of
urban banks are local, the resources of urban banks are local, they are aware about the environment of local small shop keepers and small industries, have enough information about them, in such a situation if urban banks give loans to such small producers and business men, then in that cities small industries and business will develop, local people will get employment and income. Thus, the members' standard of living will improve. Advancing for this purpose, will increase production, will increase income of the members and will improve their standard of living.

- City urban banks branches are paying building rent Rs.10,000 increased on Rs.25,000. For the conveniencing most of the customers.

- This urban bank got Rs.100 crores deposits 10 branches urban Co-operative banks post with general manager. Assistant secretary post was converted with general manager. The bank got Assistant General Manager (deposits), Assistant General Manager (loans), Assistant General Manager (administrative), Assistant General Manager (research branches).

- The limit staff related activities should be raised from the present 2% to 4%.
• The modern equipments like computers, network. (that is LAN, WAN and Internet should be made use of)

• As such, for the present, Co-operative urban banks may confine themselves to the provision of working capital loans to small scale and cottage industries.

• The resolution to increase the individual maximum limit in respect of house mortgage loans to Rs.15,000 is agreed in principle. Individual proposals will be considered on merits.

• The direction of the Reserve Bank of India is mandatory. There is no case for taking up the resolution with the RBI in view of the fact that urban banks have been permitted to allow interest on deposits at 1% in excess of the rates allowed by commercial banks.

• The urban banks can introduce any such scheme after framing necessary regulations for the purposes after obtaining the prior approval of the Registrar of co-operative societies.

• Proposals for state participation in the share capital of Co-operative urban banks for financing of cottage and small-scale industries are considered from all eligible banks.

• Fixed deposit collection by the members, 1% additional incentive bonus paid on permission.
• Urban Co-operative banks state level coming on efficient for this bank.

• Self-employment scheme was introduced provided by loan. This loan provided on unemployment removed in urban areas.

• Urban Co-operative bank provided loans to small-scale industry and Siruthozil. In this industries develop on the economy development on country.

• Productive business loan provided by urban banks and improvement on business.

• Non-agricultural loan provided by urban banks and improvement on other small-scale business.

• Women welfare and women small trade plan scheme and many scheme on women’s facilities need for created implemented in this bank.

• Commercial bank and Nationalised bank equal bank translation, section and computerised to be implemented in this bank so as to improve.

4. CONCLUSION

The Salem urban Co-operative bank in its 96th year of working is operating in a highly competitive financial environment. This bank have got 152 crores deposit and awarded as schedule bank status for the first time among urban banks in Tamil Nadu. Salem town is a fast growing commercial area due to its proximity to big cities such as Trichy, Madras, and Coimbatore.
Therefore, the volume of transactions and financial services are increasing daily. The bank can chalk out a competitive lending programmes and diversified banking/financial service operations to attract small and medium class customers.

This study on Salem urban co-operative bank has been undertaken to review its progress and to assess, members identification, member satisfaction and knowledge of members. The analysis-review that member identification, member satisfaction and knowledge of Salem urban co-operative bank are good. Therefore there is no wonder, this bank progress very well. If this study prompts anybody to make further study. I would feel happy.