CHAPTER – I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction

Finance is the management of money and other valuables, which can be easily converted into cash. It is one of the most important aspects of business management and includes decision related to the use and acquisition of funds for the enterprise. The word of finance has been used in the financial circles in the following different senses.

Finance is the procurement of funds and effective utilization of funds. It also deals with profits that adequately compensate for the cost and risks borne by the business.

Finance is the study of how people allocate their assets overtime under conditions of certainty and uncertainty. A key point in finance, which affects decisions, is the time value of money, which states that a unit of currency today is worth more than the same unit of currency tomorrow. Finance aims to price assets based on their level and expected rate of return.

An entity whose income exceeds its expenditure can lend or invest the excess income. On the other hand, an entity whose income is less than its expenditure can raise capital by borrowings or selling equity claims, decreasing its expenses, or increasing its income. The lender can find a
borrower, a financial intermediary such as a bank, or buy notes or bonds in the bond market. The lender receives interest, the borrower pay a higher interest than the lender receives, and the financial intermediary earns the difference for arranging the loan.

A bank aggregates the activities of many borrowers and lenders. A bank accepts deposits from lenders, on which it pays interest. The bank then lends deposits to borrowers. Banks allow borrowers and lenders, of different sizes, to coordinate their activity. ¹

1.2 Funds management

Managing the available capital into the right direction of the profiled business with high prosperity of profit is a good explanation of funds management.²

Funds management in banks is more complex task due to the day to day fluctuations and frequent flow of funds. It is not possible for the banks to deploy all the funds they mobilize because of the statutory obligations. So, their net disposable resources will equal the funds they have mobilized minus statutory reserves. Earning a satisfactory return on capital and meeting the demands for money when they occur are the dual task of funds management in banks. In other words, the sources and uses of funds need to be arranged in such a way as to keep the bank funds as liquid as possible.

¹www. en.wikipedia.org/wiki/Finance
²http://wiki.answers.com/Q/What_is_fund_managementandsrc=ansTT
In recent years, funds management has centered on the management of reserves. A large part of bank funds are locked in Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements. These are statutory requirements and a commercial bank is bound to follow them. A new norm on income recognition, provisioning and assets classification has increased the pressure on banks to improve their profitability. It is not possible to increase profitability of banks, unless and until there is dynamic utilization and effective deployment of funds.

1.3 Indian banks

Banking industry is the heart of commercial activity and reflects the economic health of a country. If this sector is healthy, the economy of the country is also wealthy, while, on the other hand, if it is sick, the economy of the country would also be in the doldrums. In India, the banks are being segregated in different groups. Each group has their own benefits and limitations in operating in India. Each has their own dedicated target market. Few of them only work in rural sector while others in both rural as well as urban. Many even are only catering in cities. Some are of Indian origin and some are foreign players.

Indian Banks are classified into commercial banks and co-operative banks. Commercial banks comprise: Schedule Commercial Banks (SCBs) and Non-Scheduled Commercial Banks. The SCBs are further classified
into Private, Public, Foreign banks and Regional Rural Banks (RRBs); and Co-operative banks which include urban and rural Co-operative Credit Institutions banks. As on March 31, 2011 the Indian banking system comprised 83 SCBs, 82 RRBs, 1,645 Urban Co-operative Banks and 95,765 Rural Co-operative Credit institutions.3

1.4 Urban Co-operative Banks

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks were traditionally centered on communities, localities, work place groups. They essentially lend to small borrowers and businesses. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. The UCBs catering to the needs of the people of the weaker sections in the urban areas are a powerful means of financial empowerment and financial inclusion. Urban Co-operative Banking is based on the twin model of Banking and Cooperation. Today, their scope of operations has widened considerably.

The origin of the urban co-operative banking movement in India can be traced to the close of nineteenth century. Inspired by the success of the experiments related to the Co-operative Movement in Britain and the Co-operative Credit Movement in Germany, such societies were set up in

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3Aric.adb.org/pdf/external/financial_market/India/india_bank.pdf
India. Co-operative societies are based on the principles of cooperation, mutual help, democratic decision making, and open membership. Co-operatives represented a new and alternative approach to organization as against proprietary firms, partnership firms, and joint stock companies which represent the dominant form of commercial organization. They mainly rely upon deposits from members and non-members and in case of need, they get finance from either the District Central Co-operative Bank to which they are affiliated or from the Apex Co-operative Bank if they work in big cities where the Apex bank has its Head Office. They provide credit to small scale industrialists, salaried employees, and other urban and semi-urban residents.⁴

1.5 Statement of the Problem

Urban co-operative banking sector is an important constituent of multi-agency banking system operation in the country. These institutions play an important role in the economic upliftment of lower and middle-income group of persons. Presently the global economy is going through turbulent times. In the present day highly competitive banking sector, UCBs is facing competition not only from commercial banks, foreign banks and private sector banks but also from other UCBs. To make it competitive, it is in the process of technology upgradation introducing core banking

solutions, requires considerable amount of investment. In recent years, the functioning of UCBs has come into sharp focus of the Govt. of India and the regulatory and supervisory authorities’ viz. Reserve Bank of India. The weakness which have crept into the urban co-operative banking system, over the years, leading to failure of some of them have posed systemic threat and shaken the confidence of the general public in the system. The operational efficiency of UCBs is unsatisfactory and characterized by low profitability, ever growing non-performing assets (NPA) and relatively low capital base. Their situation gradually worsened due to heavy overdue and non-collection of loans advanced by them. Over a long period of time, the performance of UCBs has been deteriorating due to non-recovery of interest and installment on loan portfolio. Probably the crucial challenge encountered by the banking sector, especially the UCBs is the availability of quality assets. Major concern suffering this sector include high levels of loan delinquency, erosion of capital base, paucity of funds for fresh deployment, ineffective credit planning, poor management system and inadequate internal controls governance structure. These problems are common to all the UCBs in India. In this concern, the researcher has interested to know the progress and functioning of UCBs in Salem, her won district and taken to study the Management of Funds in Urban Co-operative Banks in Salem District, Tamilnadu.
1.6 Review of literature

In order to obtain the views of experts who made studies on UCBs, in India and abroad, the researcher has reviewed the following studies.

KulandaiSwamy and Nagarajan (1993) in their study on “Viability of Urban Co-operative Banks in Coimbatore District”, inferred that in order to improve their viability the UCBs should improve their profitability, without altering the margin between lending and borrowing rate must adopt a positive approach in cost reduction.5

Padma G. Gokhale (1995) in his article “Smooth Functioning of Existing Mahila Urban Co-operative Banks” has highlighted its salient features in terms of dual control of the Reserve Bank of India and the State Governments through the Registrar of Co-operative Societies. The author has drawn conclusion that Indian women by their nature and heredity are more adaptable to co-operative sector than other service sectors and therefore, the time is ripe to give more role to women co-operative sector. 6

ParthoPratim Roy (1995) in his article entitled “Management of Urban Co-operative Bank in Jaipur District”, stated that the capital of the State of Rajasthan for conducting in depth, and macro level, research into both administrative and operational management of UCBs and their branches. The major findings of the study are:

1. General body meeting was not conducted regularly (i.e) once in a year.

2. There was poor attendance of members at general body meetings.

3. The banks were dependent more on fixed deposits than other types of deposits.

4. The credit deposits ratio of the sample banks was below the desired level of 70 per cent.

5. The banks under study fail to achieve viability target in respect of membership and share capital although the rest of parameters are found more than doubly viable.

6. The rate of recovery is very low.

7. The banks had no system of assessing / forecasting the man power requirements.  

Reddy. B.R. and Laxinarayanan was published (1996) in their article on “Overdues in Co-operatives: A case study in Andhra Pradesh”, stated that viability and self – reliance in co-operative can be brought about only through a more professional approach adopted by co-operatives in the sanction and recovery of loan.  

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Eric Girard in and Xie Ping (1997) in their article entitled on “Urban Credit Co-operatives in China”. It begins by putting the German, French, US and Japanese experiences into perspective, before constructing a macro-economic analysis of the operation, institutional context and the role of urban credit co-operatives within the savings and credit systems. A survey of 57 co-operatives in eight Chinese towns is used to study credit co-operative activities at the micro-economic level. The survey shows that within their heterogeneity, the credit co-operatives generally ignore the laws governing banking operations. Unsurprisingly, the most profitable are located in the fast-growing coastal regions, but they tend to use a large proportion of their funds for loans to the state, rather than the co-operative sector.9

Rajagopala Rao. A (1998) has observed in the study on “Strength, Weaknesses and Suggestions of Customers’ Services in Urban Co-operative Banks - A Study”, reveals that the competition in banks becoming fierce, it is natural for banks to vie with one another to win over customers. In a competitive environment, not only winning new customers, but also retaining the existing customers assumes great importance. The UCBs have to realise the implications of market economy and adjust accordingly. However, the UCBs have to equip themselves to meet the challenges of tomorrow’s banking. Their future depends upon their capability to provide better services in terms of

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variety, quality and cost. Therefore, the success of UCBs lies in democratic management, dedicated, enlightened and committed leadership, adoption of new technology and devotion of members.\(^\text{10}\)

Lopoyetum S.K. (2000) holds the view while analysing the “Performance of the Dindigul Urban Co-operative Bank”, that the UCBs have an intense local sentiment; enjoy greater confidence of the local populace. It is considered to be an effective instrument for economic development of the people particularly those riddled with limited means and economically-socially weaker sections of the community.\(^\text{11}\)

Srinath, A.R (2000) in his paper entitled “Co-operative Credit in India: Problems and Suggestions”, opines that urgent measures should be initiated to drastically reduce the NPA in UCBs. He also mentioned that greater attention should be given on member’s participation in decision making process through appropriate awareness and training programme.\(^\text{12}\)

Ramacharan, A. and Siva Shanmugam, D (2000) in their article, entitled “An Empirical study on the Financial Performance of Selected Scheduled Urban Co-operative Banks India”, states that the future of UCBs is challenging because of the competition from public sector banks and


private sector banks. Public and private sector banks are concentrating on their major expansion activities both vertically and horizontally. The growth of UCBs depends on transparency in control and operation, governance, customer-centric policies, technology-up gradation and efficiency. In the study, what has been done is applying imported prudential norms to the banks. Transplanting solutions from abroad would be of little help. To find a more pragmatic solution to the issues in UCBs a detailed socio-economic study has been conducted on the functioning of these banks.\textsuperscript{13}

Veerkumaran and Subash (2001) in their study on “Palakkad Urban Co-operative Bank in Kerala”, highlighted the efforts of these banks in promoting sustainable banking practices amongst a relatively specific target clientele, viz. the middle-income strata of the urban population. They observed that the rising percentage of overdue indicates the bank’s slackness in collection policy and this trend has thus become a warning signal for the bank to strengthen its recovery machinery.\textsuperscript{14}

Vikram, M, and Junare (2001) in their study on “Performance Budgeting - A Technique of Professional Management for Competence of Urban Co-operative Banks in Pune District”, stated that the final budget in terms of deposit budget, advance budget, surplus (profit) budget and input


budget need an on-going review of performance at the fixed time intervals. Such a performance gap and it will also locate the reporting variance by controlling the performance gap be removed.\textsuperscript{15}

Senprabal. K (2002) in his study on “Urban Co-operative Banks in India: Past, Present and Future”, stated that the attempted to trace the origin and the development of UCBs through the nineteenth and twentieth centuries. Growth of these institutions was facilitated by as tendency of middle classes. At the same time the commercial banks were unable to meet their increasing expectations. This study takes note of the posture form status of the UCBs sector and attempts to study of these problems in perspective. The paper argues that with increasing interdependence among financial institutions brought about by financial sector reforms, any deformity developed in one segment of the system gets quickly transmitted to the other segments. As such the issues involved and the problems forced by UCBs needed to be addressed urgently, not only ensure future growth of these institutions but also to secure orderly progress of the entire financial systems of the country.\textsuperscript{16}


Masthan. S (2002) conduct a study on “Urban Co-operative Banks in India”, observed that the UCBs do not follow the latest approaches in their growth plans. UCBs to need to emulate this practice and also utilise the services of retired bank officials and officers. Co-operative as consultants will help small UCBs. A change in the functioning of the current leadership, would help UCBs regain their lost image and turn them into professional institutions.17

Subburaj. B and Karunakaran. R (2002) in their article “Adoption of Modern Strategies in Urban Co-operative Banks in Tamilnadu”. The study pointed out that the viability of an UCB depends on the volume of business, a good service mix, cost efficiency and a sound system of NPA reduction. They have suggested adherence to capital to risk asset ratio norms (CRAR) and strict internal control system in the areas of capital adequacy, asset quality, management, earning appraisal and liquidity monitoring.18

Samwel. K, Lopoyetum (2003) in his study on “Relevance of Assets - Liability Management Operations (ALMO) in Palani Urban Co-operative Bank: A micro study”. This article seeks to critically review the analysis of annual accounts and other records of UCBs in Rajasthan bring out several facts. The internal sources are not able to match with finances provided by state governments. The internal sources including reserves for bad debts

show an increasing trend. The inflow from external sources far exceeds that from internal sources. The outflow of funds is governed by norms of rationality, good principles of investments, statutory requirements and several other considerations. Investments are government securities, trustee securities and share in state governments and others. The term-wise advances showed a mixed trend. About 95% of loans are secured against several types of things and also on personal security. As of purpose-wise classification, retail trade leads the list. The banks are careful in providing advances to priority sector. The accountant as well as auditors of these banks must take due care of the short comings to; improve the performance of these banks. In view of advances to priority sector, these banks should also be subjected to social audit.19

Samwel Kakuko Lopoytum (2003) in his study on “A study of Business Performance with the Special Reference to Profitability and Viability Dimension – Uthamapalayam Urban Co-operative Bank, Theni District”, reveals that there had been a steady growth in membership, share capital, reserve, loan and advance, over the period. There were fluctuations in loan recovery, the researcher used a number of ratios to measure the performance of the bank and inferred that the success of bank was due to better quality of service and efficient management.20

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Raviprasad. S. (2004) in his article, “Performance of Urban Co-operative Banks: Some Aspects” has observed a number of problems faced by this sector, such as lack of banking knowledge by the Board of Management, lack of professionalism, political influence in the sanction and collection of loans, narrow margins and improper investment in government securities and other approved securities, bonds etc. He has opined that employees and members of board of management of all UCBs should have some moral values and sincerity, so that they should set an example for others to emulate.²¹

The Standing Adversary Committee of RBI on UCBs in its meeting in December 2004 discussed the issues of formalizing a vision document. The aim spelled out strategies to address the difficulties and needness of the sector, recognized the strength and unique features that differentiate UCBs from commercial banks and framed regulatory norms accordingly.

The salient feature of the draft vision document which has been placed by RBI on its website is stated below:

i) As per RBI's draft vision the proposed operating framework for UCBs may be classified into two tires: Tier I: Unit banks with deposits up to ₹ 50 crores; Tier II: all other banks. ii) different prudential norms were recommended for each tier of the banks. iii) Enhancing professionalism

and improve the quality of governess of UCBs. iv) A consultative arrangement for identifying weak, but potentially viable entities in the sector, v) to identify the unviable entities in the sector and provide an exit path for such entities. vi) A State level Tash Force on Co-operative Urban Banks (TAF CU Bs) could be set up in each of the 5 states with high concentration of UCBs. 

Usha Thora (2006) in his article “Urban Co-operative Banks – Evolution of the Banks”. She had traced the evolution of UCBs, their unique structure, strengths and weakness. She had also indicated the multi-pronged approach adopted by RBI to arrest deterioration and strengthen the banks in this sector, including the recent developments.

Singh Fulbag and Singh Balwinder (2006) in their study entitled “Funds Management in Central Co-operative Banks- Analysis of Financial Margin”, attempted to estimate the impact of identified variables on the financial margin of the central co-operative banks in Punjab with help of correlation and multiple stepwise regression approach. The ratio of own funds to working funds and the ratio of recovery to demand were observed to be having positive significant influence on financial margin, whereas over dues to total loans were found to be negatively associated with the concerned parameter. A high percentage of own funds and timely recovery of

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22 The RBI, (2004), Advisory committee on Urban Co-operative Banks, Bombay.
previous loans outstanding, as a source of funding new loans by the bank, increased the financial margin in these banks.²⁴

Ramu. N (2007) published his work on the “Functioning of Urban Co-operative Banks in Tamil Nadu: An Appraisal”. The performance indicators such as number of banks, membership share capital, reserves, deposits, borrowings, working capital, advances, overdue and the like were selected for their study. They used the linear and exponential growth models to estimate the linear and compound growth rates. Their study showed that the urban co-operative banks had made noteworthy progress in all their performance indicators. However, the borrowings and over dues had unfavorably augmented during the study period. Considering some deficiencies in the overall working of the urban co-operative banks, they suggested certain suitable policy measures for better performance.²⁵

Mukul G. Asher, (2007) in his article entitled “Reforming Governance and Regulation of Urban Co-operative Banks in India”. State that to argue a case for a paradigm shift in the way UCBs are managed, governed, and regulated in India to enable them to enhance their contributions to achieving greater degree of financial inclusion, and more broad-based growth. This paper represents a part of public debate on ways of integrating the UCBs into the mainstream of banking sector. This is an

important public policy issue as even though the UCBs represent relatively small proportion of the total banking assets, they still represent a systemic risk to India's financial system, and without reforming them, broad-based economic growth would be difficult to achieve.  

Dutta and Basak (2008) conduct a study on “Appraisal of Financial Performance of Urban Co-operative Bank - A case study”, opines that co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

Kolhe S.M (2009) in his article entitled “Urban Co-operative Banks Reforms and Future Role”, stated that the UCBs are unique in terms of their clientele mix and channels of credit delivery. UCBs are organized with the objective of promoting thrift and self-help among the middle and lower middle class population and providing credit facilities to the people with small means in the urban centres. On account of their local feel and familiarity, UCBs are important for achieving greater financial inclusion. In recent times, however, UCBs have shown several weaknesses, particularly related to their financial health. Recognizing their in- portent role in the financial system, it has been the endeavour of the RBI to promote their

healthy growth. However, the heterogeneous nature of the sector has called for a differentiated regime of regulation. In recent years, the RBI has provided regulatory support to small and weak UCBs, while at the same time strengthening their supervision.\textsuperscript{28}

Bandil, R. P. and Tripathi, A. K. (2009) in their study on “Umbrella Organisation for Urban Co-operative Bank” stated that the customer of a bank will deal with the customer of another Umbrella Organization will help in moving UCBs on the path bank through their respective bank. Each member bank will of development by functioning as a complimentary of these is allocated a bank participant number and customers will banks and by eliminating their incapability and weakness be provided with the customer’s identification number. Umbrella Organization will act as a guide for establishing the UCBs; as a patron for running banks and as physician for sick and weak banks. \textsuperscript{29}

Kamachi T. H. (2009) in his article entitled, “Performance of Alnavar Urban Co-operative Bank”, pointed out, this UCB is operating in highly competitive financial environment. The surrounding areas are fast growing commercial areas and volume of transactions and financial

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services are also growing. Therefore the UCBs have to diversity its business. With these thoughts of his mind, let he rededicate himself through this article to take this UCB to further greater heights of glory, strength, purpose, and viability. And he concluded that the Financial Sector Reforms have thrown up challenges as well as new opportunities to UCBs. To prepare them for these challenges certain measures have to be undertaken like development of infrastructure, enhancement of involvement of trained staff, practices of stringent measures for recovery of loans, location specific and open membership, norm to be practiced, recruitment of at least one able man from the locality as an employee, more credit disbursement for employment creation and income generation activities, along with credit training, advise and necessary skills should be made available to beneficiaries etc.30

Avudaiammal. B and Vasanthi. G (2009) in their article entitled “NPAs Urban Co-operative Banks in India”, observed the operational efficiency of UCBs is crucial in ensuring adequate and timely flow of credit to urban and semi-urban people. In this situation serious and intensive observation of their non-performing assets position is essential to cooperative principle by the UCBs.31

Ramesh, R. P. et al. (2009) in their article, "Performance of Urban Co-operative Banks in Thanjavur District: An Empirical Investigation", sought to critically review the purpose of this performance evaluation is to add strengths and to remove the weaknesses in the management of the banks, and the UCBs face number of changes and challenges. Though they have the threat of dual control, limited area of operation, absence of network of branches, political interference, etc., they have ample opportunity to specialize in areas like, jewel loans, mortage loans, housing and personal loans, etc.\(^{32}\)

James Jacob (2009) in his article entitled, "CRM in Urban Co-operative Banks", had observed a number of problems were faced by this sector such as today’s growing competition, dynamic market situation, changing global marketing strategies and increasing use of online, channel of communication and transaction. It had become extremely difficult for the UCBs to stay ahead of their competitors. Many banks which have understood the importance of retaining customers and corresponding life value of customers are turning towards implementing CRM is their organisations. CRM has its higher and most successful implementation in financial service industry. Customer intimacy or relationship with customer is observed as one of the competitive differentiators in this industry, with

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the increased income levels customers are now looking for better banking investment facility. UCBs should today acknowledge that appropriate understating and implementation of CRM strategy is the key to success. 33

Ratna Nimbalkar, K (2011) in his article entitled "A Study of NPAs" revealed that the urban Co-operative banks are facing keen competition with public sector banks and private sector banks, particularly after globalization in 1991. At the same time these banks are facing the problem of Non-Performing Assets also. Many people in rural areas are doing thousands of rupees of business like-dairy, poultry, fruit farming etc. and for that they have emergency of finance or they want to deposits their daily amounts, but the banks and their branches are not available in these areas. So these people are taking loans from the money lenders, who are charging exorbitant rates of interests. The UCBs can open their extension counter in those areas. This system will increase the deposits from the rural areas also.34

Shamina, H (2011) conduct a study on “Financial Management of Urban Co-operative Bank in Udumalpet”, and suggested that in the era of new economic environment, professionalization of management and efficient administration must be made mandatory in the entire bank. Bank can collaborate with Telecom and IT companies to develop vast database that can help to reach out to large customer base and also provide customer

centric services. The UCB can be encouraged to take up “micro credit” in a big way and UCBs can take the initiative for opening “No Frills Account”. The bank can mobilize savings through greater member participation.35

Ajit Prasad (2011) in his article, "The Pioneer Urban Co-operative Bank Ltd., Belgaum, Karnataka", pointed out, the Reserve Bank of India had imposed a monetary penalty of ` 5.00 lakh (Rupees five lakh only) on the Pioneer Urban Co-operative Bank Ltd., Belgaum, Karnataka, in exercise of powers vested in it under the provisions of Section 47A(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for violating the Reserve Bank's instructions for sanctioning loan to a company in which a Director of the bank is interested and suppressing such information by not reporting it in the relevant quarterly statement pro forma I and II submitted to the Reserve Bank of India.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the facts of the case, bank’s reply and personal submissions in the matter, the Reserve Bank of India came to the conclusion that the violations were substantiated and warranted imposition of the penalty.36

Siva Shanmugam, D (2011) in his article entitled, "Urban Co-operative Banks: Problem and Prospects", stated that, urban co-operative banking sector has come to occupy a formidable place in the Indian financial system. However, sustenance of its growth is attendant to professionalization of its management, inculcating good corporate governance, technology absorption and scrupulous adherence to regulatory framework. I hope the sector will learn from its past experiences and adjust to new realities since banking is a risky business.37

Rajesh Chakrabarti (2011) conducted a study on “The Role of Urban Co-operative in Financial Inclusion”. He observed that the advantages of the local nature of the UCBs also manifest themselves in the flexibility that these banks can provide to their local clientele. Unlike their commercial counterparts, who need to adhere to national and global policies to change in order to alter their practices, UCBs can be far more responsive to the needs of the local community and the changes there. Once again, that provides a massive competitive advantage.

Recently, the UCBs have increasingly started adopting the three-pronged financial inclusion strategies used by commercial banks like banking correspondents (BC), “No-frill” accounts and promoting microfinance activities. Once again, their local nature gives them an advantage over their national rivals in executing these moves better. UCBs enjoy an undeniable edge in the area of relationship banking.38

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Kannapiran. P (2011) in his article entitled, “A study on the Progress and Deposits Mobilisation Pattern of Coonoor Co-operative Urban Bank Limited in Nilgiris District of Tamilnadu”, highlighted the overall analysis shows that the bank is not progressing well during the study period. So, it must take into account all the suggestions stated above to improve its overall financial health. One of the important activities of the bank to be undertaken in future is decreasing fixed deposits, while increasing current and savings deposits. The bank must also undertake safe lending practices to reduce it’s over dues.\(^{39}\)

Rajesh Agrawal (2011) in his study on “Member - Funds and Co-operative Performance", opined that the research represents the outcome of the meeting of two worlds: the world of corporate finance and the world of organizational behaviour, that seldom meet. The 'bottom-line' of this research is that member-funds have a central role in enhancing co-operative performance. Funds voluntarily provided, either as an outcome of collective co-operative level decision making or of individual level decisions are of high quality. Externally compelled member-funds are of low quality, as are short-term member funds.\(^{40}\)


Ramakrishna (2011) in his article entitled, "Performance and Problems of Urban Co-operative Banks in Karnataka - A Financial Analysis", had made an attempt to evaluate their financial performance and to identify the problems faced by these banks in the State. Bangalore city was selected as the study area and 5 UCBs in the city were selected randomly. The overall increase in number of UCBs in the State as a whole was 3.24 per cent per annum. The number of branches increased significantly with the growth rate of 8.44 and the membership registered a growth rate of 4.89 per cent per annum. The current ratio of UCBs in the study area was in the range of 0.52 to 3.64 which found to be above the standard norms indicating that these banks have maintained reasonable level of liquidity. Credit deposit ratio ranged from 44.4 to 83.2. However these banks are facing several problems like over dues, competition, dual policy of government, low level of deposit mobilization, absence of trained staffs and continuous losses.41

Seema Sant and Chaudhari P.T. (2012) in their study entitled, "A Study of the Profitability of Urban Co-operative Banks (In Greater Mumbai Andjalgaon for 5 Years)", revealed that the financial ratios are employed to measure the profitability, liquidity and credit quality performance of ten

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UCBs from Jalgaon and Greater Mumbai. The study found that overall bank performance increased considerably in the years of the analysis. A significant change in trend is noticed at the onset of the global financial crisis in 2007, reaching its peak during 2008-2009. This resulted in falling profitability, less liquidity and deteriorating credit quality in the Indian banking sector.

The analysis of different financial ratio of UCBs operating in Greater Mumbai and Jalgaon suggest that the technological changes have significantly improved the productivity and profitability margins of these banks. Further, the statistics indicate that the performance of UCBs in Greater Mumbai is significantly better than the performance of UCBs in Jalgaon. Moreover, with the advancement of communication technology the UCBs have been successful in reducing their burden ratio and credit-deposit ratio over the time.42

JawaharBabu (2012) in his article entitled, "Performance Evaluation of Urban Co-operative Banks in India", concludes the UCB is a key sector in the Indian banking scene, which in the recent years has gone through a lot of turmoil. Though some UCBs have shown credible performance in the recent years, a large number of banks have shown discernible signs of

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weakness. The operational efficiency is unsatisfactory and characterized by low profitability, ever growing non-performing assets (NPA) and relatively low capital base. Also, UCBs have not been able to service the growing credit requirements of clients or the newer demands for loans in the field of personal finance. In the interest of healthy competition, the UCBs should be encouraged to grow. Thus a few bad eggs should not curb the growth of a key banking entity.\textsuperscript{43}

Geeta Sharma, and Ganesh Kawadia, (2012) in their study on "Evaluating and Mapping the Indian Urban Co-operative Banking Sector for Better Survival", conclude about their study is a combination of financial restructuring and institutional reforms can only help UCBs to improve the efficiency. Moreover, the objective of financial restructuring must be to induce regulatory, legal and administrative changes considering co-operatives member-centric, democratic, autonomous and self-reliant institutions. Pollicisation and bureaucratisation are running through the warp and woof of the UCBs. This selected management is unable to take on the emerging challenges. Perhaps, the need of the hour is to ensure that in UCBs, the system of governance including the size and composition of the board of directors (or elected management) is driven by the purpose and objectives of the business. At present in India, UCBs are subjected to

duality of control and this has understandably resulted in over lapping jurisdiction of the state government and the central bank of the country. Moreover, a clear-cut demarcation of the financial and administrative areas for regulation is almost impossible and even if it is possible it surely acts as an impediment in effective supervision. Thus, the duality of control not only affects the quality of supervision and regulations, but also the functioning of the urban co-operative banking sector. Needless to mention, under this regime of duality of control the UCBs may turn out to be neither efficient co-operative nor commercial banks. It appears that ‘duality’ is not an unresolved concurrent jurisdiction issue. The real problem is that under the existing framework, the central bank is required to enforce its regulatory prescriptions through the registrar of co-operative societies.\textsuperscript{44}

Anbalgan, M (2012) conducted a study on “A study on the Urban Co-operative Banks Success and Growth in Vellore District – Statistical Analysis”. He stated that the overall financial performance of the UCB’s in all fronts namely, Membership, Share Capital, Deposits, Loans and Advances, Profit and Reserve Funds, Working capital, Over dues, Loans issued etc., are showing a significantly and undisturbing trend through the application of different statistical tools applied in the study. Therefore it may be un doubtfully concluded that the UCBs are the road of progress.

This also clear that, the UCBs are enjoying a predominant position in the banking industry occupied in eighth place in the banking institution serving in Vellore District.45

Thus, the previous literatures are revealed that the funds management in banks is examined by the researcher from different perspectives. A study on funds management of three individual UCBs is found to be unexamined by the researcher. This focus on funds management is accomplished by the present study title “Management of Funds in UCBs in Salem District, Tamilnadu”.

1.7 Objectives of the study

The study has been carried out with the following objectives:

1. To assess the sources of funds in selected UCBs in Salem District

2. To analyze the deployment of funds and non-performing assets of selected UCBs in Salem District.

3. To evaluate the overall financial performance of selected UCBs in Salem District.

1.8 Methodology

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The study is based on the collection of both primary and secondary data. The primary information gathered through discussions with the officials in the selected banks and offices of the Tamilnadu Apex Co-operative Bank and co-operative union has been supplemented. The secondary information has been gathered from financial statements, audit reports and records of the sample UCBs and other institutions connected with the banks and from the literature, books, journals, magazines, and various reports.

The profit and loss accounts and balance sheets of selected UCBs have been recast and presented in a condensed form.

1.9 Sampling

Simple random sampling method has been used in this study. There are eight urban co-operative banks are functioning in Salem District. Out of which, three banks are only chosen by the researcher in this study. The selected banks are Salem urban co-operative banks, Ammapet urban co-operative banks and Sankari urban co-operative banks. Hereafter, these banks are called SUCB, AUCB, and SKUCB in this study.

1.10 Period of the study

The study covers a period of ten years from 2001-02 to 2010-11.

1.11 Hypothesis
The following hypothesis have been framed and tested in this study.

1. The targets and achievements of the total deposits are homogenous
2. There is no significant difference in fixed deposits, current deposits, savings deposits and total deposits of the selected UCBs.
3. Utilization of loanable funds (proportion of actual loaning to loanable funds) is uniformly distributed over the selected period of decade.
4. Utilization of investable funds (proportion of actual investments to investable funds) are uniformly distributed over the selected period of decade

1.12 Limitations of the study

The main sources of data are only the published reports of the selected UCBs. No doubt, the annual published reports incorporated complete information in quantitative terms of the past performance of a business unit but the use of these reports for analysis and interpretation is not without limitations. The financial position reflected by the annual reports is true only for the last day of the accounting year and it may not be relevant for the remaining part of the year. Moreover, the published accounts exhibit values at historical prices. In this study, no attempt has been made to convert data into current prices as such a conversion through inflation would have yielded an unrealistic picture.
While the executives and officials in the selected units supplied freely the financial reports, the experience in the collection of primary data was not so encouraging. The emotional aspects like staff relation inside and outside the bank, the motivation and morale of the staff or customers behavior are psychological aspects and attempt has not been made to make an in depth analysis in these area.

1.13 Data Processing and Analysis

The collected data have been categorized and processed manually as well as through computers. The important tools used for the analysis are standard deviation, co-efficient variation, geometric mean, arithmetic mean, annual compound growth rate, ANOVA, Growth Index (Percentage).

All the statistical analysis is performed using statistical package for social science (SPSS).

1.14 Chapters Scheme: The report of the thesis is presented in six chapters.

Chapter – I Introduction and Design of the Study

This chapter makes with a brief introduction to the study and also explains the design of the study.

Chapter – II Urban Co-operative Bank – An Overview

This chapter describes the theoretical background of the UCBs in India and Tamilnadu.
Chapter – III Sources of Funds

This chapter reveals the various sources of working funds in selected UCBs in Salem District.

Chapter – IV Deployment of Funds

This chapter traces the deployment of funds by selected UCBs in Salem District.

Chapter – V Financial Performance

This chapter analysis the financial performance of selected UCBs in Salem District.

Chapter – VI Findings, Suggestions and Conclusion

This chapter summarizes the major findings of the study and suitable suggestions for improve the study.