CHAPTER - 1

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A sound banking system is very essential to increase the tempo of economic development of a nation in general and a district in particular. Like any other institution, bank is a financial institution which lends money to the public. Actually, bank inculcates habit of thrift, saving among inhabitants of the Nation. In a country like ours, a sound banking system is very essential to face global competition, to eradicate poverty, unemployment etc.

Banking scenario has changed rapidly since 1990s. The decade of 90s has witnessed a sea change in the way banking is done in India. Technology has made tremendous impact on banking. Anywhere and anytime banking have become a reality. The financial sector now operates in a more competitive environment than before and intermediates relatively large volume of international financial flows. In the wake of greater financial deregulation and global financial integration, the biggest challenge before the regulators is of avoiding instability in the financial system. Strengthening of the financial sector and improving the functioning of financial markets can be described as the core principles of financial sector reforms in India.

The central bank is a set of prudential norms that are aimed at imparting strength to banks and financial institutions, and inducing greater accountability and market discipline. These norms
include not only capital adequacy, asset classification, and provisioning but also accounting standards, exposure and disclosure norms and guidelines for investment, risk management and asset liability management. The Indian banks approach has been to benchmark our norms against international standards.

The significant transformation of banking industry in India is clearly evident from the changes that have accrued in the financial markets, institutions and products. While regulations have opened up new vistas for banks to augment revenues. It has entailed greater competition and consequently greater risks. Cross border flows and entry of new, particularly derivative instruments have impacted significantly on the domestic banking sector, forcing banks to adjust the product mix, as also to effect rapid changes in their processes and operations in order to remain competitive to the globalised environment. These developments have facilitated greater choice for consumer, who have become more discerning and demanding competing banks to offer a broader range of products through diverse distribution channels. The traditional face of banks as mere financial intermediaries has since altered and risk management has emerged as their defining attribute.

The Indian banking industry duly led by public sector banks, including Nationalized banks, SBI Group followed by new private sector banks, co-operative banks and Foreign banks. As on 31st March 2006, the share in total deposits of public sector banks was 75%, private sector banks was 19.7%, foreign banks was 5.3%, and
co-operative banks including Rural co-operative banks, urban co-operative banks and RRBs was 13.3%.

1.1 Historical Back Ground of Co-operative Banks

The ‘term credit’ union was first used by Francis Haeck, in Belgium to describe his co-operative credit society in 1848. The ideas of Robert Owen and Stephen King of Rochdale equitable pioneer society, England and Victor Huber of Germany, has been accepted by him. Therefore, Germany is considered as the birth place of the co-operative credit movement. Raiffesen, described as a kindly, cranky half blind, poor and chronically sick philanthropist, laid down the foundation of the agricultural co-operative credit unions, while Herman Schulze Delitzch initiated a similar movement for the benefit of artisans in the cities. Schulze’s unions were known as urban credit societies because they catered to the needs of urban areas and when they grew in strength, were considered as urban co-operative banks.

The urban credit movement in Germany was extended around the same time in Italy by Luigi Luzatti. Encouraged by the success of these two veteran leaders between 1855 and 1885, social workers in India also began to think in terms of co-operation as a means to bring succor to the middle class Maharashtrian families in Baroda drove them to get the have-nots together on February 5, 1889 for starting a mutual aid society, the Anonya Sahakari mandal, under the guidance of the late Sri Vithal Laxman Kavthekar. The co-operative credit societies act 1904 conferred legal status on credit societies. The first urban co-operative credit society
was registered at Kanjeevaram in Madras province. This was followed by registration of one credit co-operative society organized on 18th October 1905 in Dharwar District at Betigeri was the first urban credit co-operative society formed in Bombay Karnataka area. The Bangalore city co-operative credit society was registered on 8th December 1906.

1.2 The Co-operative Credit Structure

The credit needs of the borrowers are most commonly classified on the basis of period as, short term, medium term and long term credits, so does the co-operative credit structure consist of two types. One dealing with short term as well as medium term credit, and the other in long term credit. The short term and medium term credit structure are a three tiered pyramidal federal structure constituted by primary credit societies at village level, central co-operative banks at the district level, State co-operative banks at the apex i.e. state level.

The co-operative credit structure exists today is brought under three broad categories viz., short term, long term and urban co-operative banking structure. The short term credit structure is meant for taking care of production credit, where as long term credit structure is meant for extending investment credit to farmers. The urban co-operative banks meant for providing consumption credit to the people in urban areas. However, due to passage of time, the said arrangement lost its relevance and at present all the credit institutions started providing all type of credit arrangements. The below chart-1 shows an overview of the co-operative credit societies.
Chart – 1.1
Structure of Co-operative Credit Institutions in India as on 31st March 2008

Co-operative Credit Institutions

Urban Co-operative Banks (1,770)

- Scheduled UCBs (53)
  - Multi - State (25)
  - Operating in Single State (28)

- Non Scheduled UCBs (1,717)
  - Multi - State (13)
  - Operating in Single State (1,704)

- Operating in Single State (1.704)
  - Tier I (1,529)
    - Unit UCB (874)
  - Tier II (175)
    - Non - Unit UCB (655)

Rural Co-operative Credit Institutions (98,343)

- Short – Term (97,626)
  - State Co-operative Banks (31)
    - District Central Co-operative Banks (371)

- Long – Term (717)
  - Primary Agricultural Credit Societies (97,224)

- SCARDBs (20)
  - PCARDBs (697)
1.3 Review of Literature

Review of literature is an important aspect in the research. A number of studies have been undertaken on the credit co-operatives in general and urban co-operative banks in particular. Some of the studies have exclusively dealt on the performance of urban co-operative banks, while others have explained the management of urban co-operative banks and women urban co-operative banks in India. I have reviewed the Ph.D. Thesis, Various committee reports, papers presented by eminent personalities at National and International conferences, scholarly articles published in National and international Journals, magazines, and papers, etc.

Dr. N S R Shastry (1961) For the first time in India the urban co-operative banks survey was conducted and published by the Reserve Bank of India in 1961 entitled 'Report of the survey of urban co-operative banks under the chairmanship of Dr.N. S. R. Shastry. The main objective of the survey was to study the pattern of financial resources and the factors responsible for the success and failure in the working of urban co-operative banks. The survey also highlights the role played by these banks in the financing of small scale industries.

The survey report made number of valuable suggestions viz.,

1. To assess the scope for the establishment of urban co-operative banks in new centers in different parts of existing cities and towns;

2. To make active efforts by the management of urban co-operative banks to expand their membership;

3. Urban co-operative banks to adopt progressive attitude towards their functions and try to diversify their activities and offer wide range of facilities to their members than were given;

4. Urban co-operative banks in their loan policy to adopt a sufficiently wide and diversified system suiting to the needs of the times and of different categories of members, keeping
in view loans to small industries as an important line of future development;

5. To eliminate non credit activities of the trading type, and to improve the accounting and operational arrangements, and to reduce and avoid over dues;

6. To build up member relations and publicity on a continuous basis.

The report also stress more upon the need for active support of the state governments in the development of urban co-operative banks by ensuring adequate arrangements for their audit, inspection and supervision.

V.P. Varde. (1963) The Government of India, Ministry of community development and co operation, New Delhi, has constituted the study group under the chairman ship of shri V P Varade. Entitled Report of the study group on credit co-operatives in non agricultural sector. The study made a number of suggestions. They are,

1. Urban co-operative banks should have minimum paid up share capital of Rs.50,000/=;

2. The area of operation of an urban co-operative bank should be restricted to a Town or a municipality;

3. There should not be more than one class of members in any urban co-operative bank. In many urban co-operative banks, there are two classes of members known as ‘A’ class (regular) and ‘B’ class (nominal) members. The committee was not in favor of nominal member ship.

4. Elections to the Board of Directors can be held each year or once in three years or each year by rotation for one third of the board. The first two practices have, however, not found favor with the study group;

5. The state may participate in the share capital of new banks or of such urban co-operative banks as require immediate
strengthening of their owned funds position. This should be done in the case of real need and as an exceptional measure;

6. Central financing agencies should recognize the claims of urban co-operative banks as legitimate demands on them and it should be ensured that such banks are given the loans and over drafts required from time to time;

7. The lending policy of urban co-operative banks should be more imaginative and in keeping with the general programmes of economic development;

8. In view of the usefulness of urban co-operative banks to people of small means, these should be organized in all towns. In every town with a population of over one lakh, the possibility of organizing additional urban co-operative banks may be considered.

- **P.N.Damry (1968)** As per the recommendations of Varade committee, the Reserve bank of India set up a committee entitled Working Group on Industrial Financing through co-operative Banks under the chairmanship of shri P.N.Damry, former Deputy Governor, R. B. I. in 1968.

   The working group made many valuable recommendations to the urban co-operative banks to undertake financing of cottage and small scale industries. The details are as follows.

1. Refinance under section 17(2)(bb) read with section 17(4)(c) of the RBI Act 1934 should be made available to urban co-operative banks under taking finance to cottage and small scale industries.

2. RBI should provide loans from its National Agricultural Credit Fund to the state Governments for enabling them to contribute to the share capital to the urban co-operative banks under taking finance to small scale and cottage industries.

3. High priority should be given to the organization of urban co-operative banks in areas where there is sufficient
concentration of cottage and small scale industries carried by individual units. The share capital of these banks should be strengthened by Government contribution.

4. Reserve Bank should frame suitable criteria for including urban co-operative banks in the approved list of institutions which could directly avail themselves of the credit guarantee scheme for small scale industries even though they might not be issued a license by the RBI.

5. Existing urban co-operative banks may be allowed to extend their area operations so as to make it possible for them to have dealings with the individual units which are not too far away from an office of the bank to render supervision both costly and difficult.

6. The banks should be permitted to open a branch office anywhere in the district or the State, where there are good prospects for business with industrial units and these are not being served by local urban co-operative banks.

7. Whenever necessary, the bylaws of urban co-operative banks should be amended to enable these banks to provide loans to a single borrower up to a limit which will be adequate for the purpose of financing small scale industries.

8. The bye laws of urban co-operative banks should contain a clear provision enabling them to provide block capital loans to small scale industrial units.

➢ R.G.Sariya (1972) The performance of urban co-operative banks was commented by the Report of the Banking commission(1972), published by the Government of India, Ministry of Finance, New Delhi. The commission appointed by the Government of India in February 1969 under the chairmanship of shree R. G. Sariaya had made some important recommendations as under:
1. Urban co-operative banks do useful work in mobilizing deposits and financing the sector of small borrowers such as small scale industries, professionals, retailers and so on.

2. Establishment of urban co-operative banks should be encouraged by the authorities, by such means, as
   a) according the status of a scheduled bank to the well managed urban co-operative banks if they so desires;
   b) counting towards liquid assets the deposits which these banks place with the nationalized banks; and
   c) asking the nationalized banks to give such of the urban co-operative banks which remain non scheduled, free remittance facilities and borrowing facilities on reasonable terms.

3. In order to ensure that the productive and distributive activities are adequately financed by such banks, the commission recommended that
   a) There should be a system of ceilings on the borrowings by individual linking it only to the amount of shares held,
   b) Lending for long term purposes, such as house construction should be allowed subject to a ceiling that may be specified by the RBI regarding the proportion of such lending to the total loans given by the banks, and
   c) Similarly, there should be a ceiling on the proportion of total loans for consumption purposes; this ceiling need not apply in the case of employees co-operative credit societies.

4. The commission recommended that steps should be taken to enable the urban co-operative banks to make better use of the financial assistance available from the Reserve Bank of India.
K. Madhava Das. (1977) The committee on urban co-operative banks was constituted by Reserve Bank of India in September 1977 under the chairmanship of shri k. Madhava Das, Executive Director, RBI. The important observations and recommendations of the committee were, the role of urban co-operative banks in the Indian banking system, the committee observes that urban banks have generally registered good progress. These banks have grown not only in number but also in size. However, the growth has not been even and is marked by glaring regional imbalances. The future role of urban co-operative banks, the committee states that, expansion of urban banks should be according to a well conceived and planned programme and should be considered in the light of the overall banking policies and changing structure of the banking system as a whole. In other words, development of urban co-operative banks cannot be taken in isolation. It has to form part of the social banking development of the country. The Reserve Bank of India should co ordinate the development of commercial banks, regional rural banks and urban banks according to the needs of the different areas while granting licenses to these institutions to open branches or while considering the organization and licensing of new banks.

Regarding the viability norms, the committee suggested certain minimum requirements in regard to share capital, reserves, deposits, working capital, and loan business of an urban co-operative bank in the initial stage and with in a period of 5 years of establishment in three different categories of centers i.e; metropolitan, urban and semi urban. The committee says that urban banks, wherever established, are eminently suitable to fill the existing gaps in banking and credit needs in urban and semi urban areas at comparatively less cost of operation and with their simplicity, close contact, local feel and involvement, can also enjoy the confidence of local people. Therefore RBI must be given due preference in
granting licenses to open branches in smaller towns or semi urban centers within their jurisdiction.

The committee also recommends, active involvement of state Government in organization of urban banks, organization of women’s urban co-operative banks, undertaking the responsibility of educating members of urban co-operative banks and organization of training programmes exclusively for staff and executives of urban co-operative banks.

- **Smt, Pushpanjali Koli (1990)**, of Kolhapur has submitted her thesis to the Shivaji University, entitled “Women Urban Co-operative Banks In Western Maharashtra.” The study reveals the origin and development of urban co-operative banks in India and Maharashtra, a critical appraisal of women urban co-operative banks in Maharashtra, the problems and prospectus of women co-operative banks and states that these banks have helped the women for their economic development both in urban, semi urban and rural areas. The researcher suggested that, there is an ample scope and opportunity to start women urban co-operative banks in uncovered districts and towns in Maharashtra, the 30% inclusion of male members was secure to banks, the management of the bank must be enlightened and efficient, need for standardization of the procedure for staff recruitment, etc.

- **M Narasimham (1991&1998)** Government of India constituted a committee on Banking sector Reforms to improve the Banking system in India. The main Recommendations of the Narasimham Committee were, Introduction of capital adequacy norms, income recognition, asset classification, Deregulation of interest rates, De-licensing of banks, Autonomy for banks, Merger of weaker ones, Emphasis on customer services, changes in legal system, Technology, Entry of new players in
private and foreign banks, Reduction of SLR and CRR, Opening of new investment and Opening of new avenues for capital structuring, etc.,

**S.S. Marathe. (1992)** The committee on licensing of new urban co-operative banks published by the Reserve Bank of India, under the chairmanship of shri S.S. Marathe, former director, RBI. The important observations and recommendations of the committee were, regarding the registration and licensing of new urban co-operative banks, the committee observed that adequate scope exists for the organization of new urban co-operative banks in towns and semi urban centers in the country. Scope for organization of new urban co-operative banks in 225 districts devoid of urban banking facilities does not need any elaboration. In the remaining district also scope exist. The thrust of future policy should, therefore, be (i) to actively promote the growth of urban co-operative banking movement in the regions where it has not taken strong roots and (ii) to give further impetus to its growth in the co-operatively advanced states by removing the impediments thereto.

The committee, therefore, recommended as follows:

a) The 'one district one bank' approach may be given up and organization of new urban co-operative banks may be permitted.

b) The existing policy regarding Mahila banks, SC and ST banks and weaker sections may be continued.

c) The urban co-operative banking movement may be started in less developed states like North-Eastern states by conducting survey by NAFCUBs and STFUCBs.

d) The licensing policy pertaining to organization of UCBs should be reviewed periodically say, once in every five year.
Regarding the inclusion of primary credit societies in the list of primary urban co-operative banks the committee recommends that the primary credit societies which attain the revised entry point norms prescribed under standards of viability for urban co-operative banks in this report before 30 June 1993 may be considered for inclusion in the list of primary co-operative banks and issue of license after completing necessary formalities.

Regarding the viability and entry point norms the committee suggests that,

a) The revised viability norms will have to be normally achieved with in a period of three years from the date of issue of instructions by the RBI or from the date of issue of license, as the case may be.

b) In order to overcome the problem of regional imbalances and encourage organization of new urban co-operative banks, in less developed states certain relaxations may be given for achievement of viability may be allowed.

c) Viability and entry point norms should be reviewed periodically once in five years.

Licensing of existing urban co-operative banks, the committee feels that continuance of large number of unlicensed banks on an indefinite basis is against the accepted policy of sound and viable banking system. Reserve Bank of India should start issue of license to existing urban co-operative banks and initiate actions as indicated below for the purpose:-

1. Weak unlicensed banks which have been placed under rehabilitation may be given specified time limit to come out of weakness to be eligible for license failing which they may be taken up for amalgamation/merger/liquidation.
2. Banks whose applications for issue of license have been held up on account of noncompliance with the provisions of section 11(1) (minimum share capital and reserves of Rs 1.00 lakh) of the banking regulation Act, 1949 (As applicable to co-operative societies) may be given specified time limit to comply with the requirements to be eligible for license. In the event of the failure of the bank to attain above norms within the specified time limit, the Reserve Bank of India and the co-operation department of the state concerned may jointly determine the future set up of these banks either by way of merger or liquidation.

3. Banks whose applications for issue of license have been held up only for non compliance with the prescribed standards of viability may be granted license subject to the concerned banks having achieved potential viability i.e. 75 percent of norms prescribed and working on a profit for the last 5 years.

Smt Bruhadamba. (1992) in her study entitled, Working of Urban Co-operative banks in Karnataka explained the origin and development of urban co-operative banks in India and Karnataka covering all the aspects in detail. According to the researcher, the working results of the urban co-operative banks in India has been satisfactory. Majority of the banks were working under profit throughout the period under study. The researcher found that, the percentage of banks with profit has increased while the percentage of loss has declined. The urban co-operative banks in the country have grown not only in number but also in their operational performance.

The study also explains the performance of urban co-operative banks in Karnataka. The study period covers 14 years from 1975-76 to 1988-89 in all the districts of Karnataka. The study reveals that, the majority of urban co-
operative banks in Karnataka are working under profit and loss is very small during the period of study. She says that Karnataka has been one of the front line states in the field of urban co-operative banking. The growth is not only in terms of number but also in volume of operations, financial performance and profitability. There is a unbalanced growth of urban co-operative banks in the state and she suggested to overcome the imbalance, so that the deprived people will get the benefit from the urban co-operative banks.

Mr. Kattimani. (1994) has made an attempt in his research work on "Mobilization and Deployment of Deposits by the Urban Co-operative Banks in Karnataka." The study reveals that being location specific, the urban co-operative banks have a clearly demarcated area of operation which enables them to serve their clientele with greater efficiency and effectiveness. The author feels that these banks have the advantages of having open membership, members participation in management, the local feel and familiarity, mutual knowledge, personalized and courteous services, etc. These features of urban co-operative banks are eminently suitable to cater to the needs of small men and small scale industries. The study also reveals the competitive environment in the wake of liberalization and globalization, which has resulted in the urban co-operative banks struggling to mobilize resources and also to obtain adequate avenues for deployment of available resources. Further, the author has mentioned the relevant fact that the urban co-operative banks do not enjoy the government assistance as the public sector banks do. The urban co-operative banks are suffering from a number of weakness such as poor deposit mobilization, ineffective deployment of resources, inefficient management, poor recovery performance, mounting over dues and regional imbalance in their growth. However, the author has suggested that the existence and
continuity of the urban co-operative banks is absolutely essential in the urban credit delivery system.

- **R.G.Gupta. (1995)** has made an attempt to explain the problems and prospects of the urban co-operative banks. The author has explained the origin and development of UCBs in the world and in India, classification of UCBs, area of operation, management and financial resources, problems of the UCBs. He has made some suggestions like the state governments should open a separate department for UCBs, the RBI should consult NAFCUB and TAFCUB time to time before laying down standards of financial viability and norms of advances, the procedure of opening a new branch should be simplified.

- **Pandurang V Naik.(1999)** has undertaken the research work on “Urban co-operative banks in North Canara District. A study.” The study focused on nature and role of urban co-operative banks, progress and working of urban co-operative banks in North canara District. He emphasized the concept of priority sector lending on income and employment by urban co-operative banks in Karnataka state. The author found that the growth of urban co-operative banks in the district has not been even and they are concentrating in the coastal belt, urban banks in the district exhibit heterogeneous character, and there is a domination of one bank is not a health development for the movement as a whole. Urban co-operative banks in the district have been self sustaining in mobilizing resources and he feels that these banks are becoming more and more commercial and they are loosing their co-operative character. He reveals that, viewed from the banking stand point, that is in terms of deposits, advances, net earnings etc., the urban banks in the district deserve a place of recognition. But seen from the co-operative criteria it is not encouraging.
K. Madhava Rao. (1999) While announcing the monetary policy for the year 1999-2000, the Governor, RBI desired to constitute a High Power Committee to address these issues. Accordingly, the high power committee was constituted by the Governor, RBI, under the chairmanship of shri k. Madhava Rao, in May 1999 to review the performance of urban co-operative banks and suggest necessary measures to strengthen them. The important observations and recommendations of the committee were,

In the introduction part, the committee feels that there are five broad objectives before it. They are,

i) To preserve the co-operative character of urban co-operative banks.

ii) To protect the depositors interest.

iii) To reduce the systematic risks to the financial system.

iv) To put in place strong regulatory norms at the entry level so as to sustain the operational efficiency of urban co-operative banks in a competitive environment and evolve measures to strengthen the existing urban co-operative banks structure particularly in the context of ever increasing number of weak banks.

v) To align urban banking sector with the other segments of banking sector in the context of application of prudential norms in toto and removing the irritants of dual control regime.

While explaining the genesis and architecture of urban co-operative banks the committee states that, these banks have contributed significantly to the well being of lower income groups of the urban and semi urban populace. Perhaps, the urban co-operative credit movement in India, was the first ever attempt at micro credit dispensation in semi urban and urban areas. The deposit resources of urban co-operative banks have gone up from Rs. 153 crores in 1966-67 to Rs.50544 crores as at the end
of 31 March 1999. The number of urban co-operative banks also have gone up from 1106 to 1936 during the corresponding period. The heterogeneity is a striking feature of urban co-operative banks structure. Notwithstanding the phenomenal progress registered by urban co-operative banks, today they are facing five major problems,

i) Dual control,

ii) Inadequate legal frame work to regulate urban co-operative banks compared to the powers RBI has been vested with to regulate commercial banks,

iii) Increasing incidence of weakness,

iv) Low level of professionalism and

v) Apprehensions about the credentials of promoters of some new urban co-operative banks. The committee has attempted to address these issues in the report.

vi) Regarding the licensing policy of new urban co-operative banks, the committee recommends that the existing quantitative criteria for viability standards should be dispensed with and they should be replaced by qualitative norms like CRAR, tolerance limit of NPAs and operational efficiency.

The twin functions of start-up capital are (i) to meet the initial infrastructure cost and (ii) to provide cushion against the erosion of a bank assets. Viewed in this aspect, the existing entry point norm (EPN) are low. The committee also feels that entry point norms for urban co-operative banks should be on par with peer groups like Local Area Banks (LABs) and Regional Rural Banks (RRBs) whose clientele and area of operation are broadly similar to urban co-operative banks. The committee also feels that the existing low entry point norm is one of the major causes of weakness of urban co-operative banks. Accordingly, the committee, recommends the following five grades of increased entry point norms compared to the
existing three grades. The committee also recommends that banks which intend to start only unit banking, should be given 50% relaxation in the entry point norms applicable to the particular centre as shown in the above table-B. If any bank intends to open additional branches, it has to comply with the entry point capital prescribed for the banks.

Good corporate governance is critical to efficient functioning of an entity and more so for a banking entity. The committee feels that irrespective of the size of the operations, banks need to run on professional lines and urban co-operative banks are no exception to this rule. It therefore, suggests that at least two directors with suitable banking experience or relevant banking background should be present on the boards of urban co-operative banks and the promoters should not be defaulters to any financial institution or banks and should not have any association with chit fund/bank in the capacity of the board of directors.

The committee also recommends branch licensing policy and area of operation stating that RBI should extend to the urban co-operative banks the same freedom and discipline as is applicable to commercial banks in opening branches. The committee recommends that every urban co-operative bank must submit to the RBI an annual action plan and the committee also recommends that the non scheduled urban co-operative banks should not open more than 10% of their existing branches subject to a minimum of one branch, in any given year. The committee also recommends on policy on unlicensed and weak banks, application of CRAR to urban co-operative banks and conversion of co-operative credit societies in to urban co-operative banks.
Partho Prathim Roy. (2000) of Rajasthan has conducted a research study on "Management of Urban Co-operative Banks" submitted his thesis to University of Rajasthan, Jaipur for his Ph.D. Degree. There were only two urban co-operative banks operating as on 31st March 1994, in the study area. Among these two banks, one weak urban co-operative bank and other viable urban co-operative bank and thus helped the researcher in taking a comparative analysis of functioning of both the banks in detail and it will be more meaningful and it covers entire urban co-operative banking system. In his study he has focused on organizational pattern, management of funds inflow and outflow, management of human resource and management of customer services. The study reveals the growth and development of Urban Co-operative Bank Ltd Jaipur and The Rajasthan State Industrial co-operative bank Ltd. He explains the management of funds inflow and outflow and reveals that both the banks had shown more dependence on deposits as compared to other sources and he suggested that both the banks should make concerted efforts to augment their owned funds component particularly share capital base at a faster pace by attracting more and more members. The researcher also explains the management of funds outflow and founds that, both the banks are not granted loans and advances up to their optimum level of lendable resources, the credit deposit ratio of one bank (UCB) is much below and another bank is more than 75%, both the banks are not maintain minimum CRR and SLR on many occasions The study also reveals the Human resource management and customer servicing in banks.

Ram Prakash Narayan. (2001) has undertaken research work on "A Study of Effectiveness of Executive Development Programmes in Urban co-operative Banks." Submitted to Pune University, for his Ph.D. Degree. The author has explained in his thesis, the role and significance of human resource development, human resource management, and executive
development programmes in urban co-operative banks. The author reveals efficiency of training and development system, efficiency of performance management of banks, perceptions of training and development by the trained executives, perceptions of training and development by the banks, executives skill test, immediate reaction of trainers as a part of training evaluation, transactional analysis, attitude analysis, spot audit of customers, bonus effect, employees satisfaction scale. The researcher also explains the evaluation of the existing executive training and development programmes by adopting methodology designed for conducting the study. The author suggested the executive training and development programmes should be need based and effective so that it will increase the efficiency of urban co-operative banks in India.

D. Masthan. and Jagga Rao. (2002) have written an article entitled Capital Adequacy Norms: Risks for Urban Co-operative Banks. According to them, the banks failing to maintain 75% of the required CRAR will be classified as weak and those failing to maintain 50% of the required ratio would be classified sick. The weights have not been appreciated by a majority of urban co-operative banks because in assigning weights, there is a danger of the banks being pushed in to weak category. The risk weights have become more risky to urban co-operative banks. The authors says that there is a discrimination among commercial banks and UCBs in selling bonds and generate capital funds. Hence, the discrimination in risk weights, lack of motivation for priority sector lending and limited opportunities to mobilize more capital funds are suffocating the UCBs in the wake of new capital norms. The proposed risk weights could push UCBs in to the weak category. The risk weights have become more risky to UCBs. The RBI must consider suitable modifications to help urban co-operative banks out of a sticky situation.
Subhash. M.K. (2004) In his thesis entitled, “Growth and prospects of Urban co-operative banks in North Karnataka”. The researcher has explained the role of urban Co-operative banks in the Indian banking and Indian co-operative banking system, the origin, growth and prospects of the urban co-operative banks in India and Karnataka State, particularly in North Karnataka area. He has explained that, the most impressive aspect of the progress of urban co-operative banks is the tremendous growth that has taken place both with regard to their deposits and advances and points out that these banks have recorded a higher rate of growth both in deposits and advances during 1991 and 2004 as compared to commercial banks.

The major findings of the study are, dual control, limited area of operation, concentration of these banks in certain areas, competition from large commercial banks weak financial strength etc,. The author suggested that, the resource base of banks must be improved by attracting more savings and deposits, all the banks should computerize their operations and should adopt state of the art technology professional management of manpower and money, maintaining financial viability, innovative schemes should be devised for cottage and small scale industries etc.,

Ravi kadam. (2004) in his research thesis entitled “Performance of Urban Co-operative Banks-A Case Study of North Karnataka Region” presented vast information about the financial position of the fourteen urban co-operative banks of North Karnataka region. The author has explained in detail the evolution and growth of urban co-operative banks in India and Karnataka covering all the information. The researcher has given the detail information about the purpose wise credit, state wise position and district wise position of the urban co-
operative banks. With the application of operational and solvency ratios, the researcher has measured the financial performance of the urban co-operative banks and also traced how the banks were using their assets efficiently.

The major findings of the study are, there is an impressive growth of the urban co-operative banks in India in general and Karnataka in particular during the last few decades. However, the urban banking sector is facing the problems of dual control, increasing incidence of weakness and low level of professionalism. In the study area the researcher found that the performance of some urban co-operative banks are noteworthy but others are not performing well and even the distribution of the branches has been uneven in the study area. The author has given the suggestions, like the resource base of all the urban co-operative banks covered by the study is weak. Therefore these banks should find the means to increase the resources of the banks, the share of institutional savings and deposits of the urban co-operative banks are very meager. These banks should try to attract savings from the institutions. The urban co-operative banks should strive to maintain financial viability, the urban co-operative banks should adopt state of art technology and computerize their operations. There is a need for professional management of money, man power and material resources of urban co-operative banks and these banks also should attempt to reposition themselves against the back drop of banking sector reforms and consequent co-operative environment as also the fast changing regulatory frame work.

Arvind G. Deshpande. (2004) in his paper, Long Term Profit Planning (LTPP) and its Needs in Urban Co-operative Banks, made an attempt to explain LTPP is a disciplined method
whereby the environmental facts impinging on a bank are analyzed, the resources and internal competence identified, agreed objectives established and plans made to achieve them. It is hard task and hence avoiding hard decisions might bring the system to disrepute. LTPP is a systematic and formalized process for purposefully directing and controlling further operations towards the desired objectives for periods extending beyond one year. Such a planning system is expected to provide discipline, directions and dynamism to decision makers. The author feels that if long term profit planning is done systematically, than urban co-operative banks can easily achieve the prudential norms requirement of the regulators.

➢ **Dr. Katar Singh. (2004)** in his article, survival and growth of co-operatives and co-operative banks, A strategy, made an attempt to explain the growth and development of co-operatives since 100 years. He says that co-operatives in India have travelled a long and arduous path over the last one hundred years since their birth in 1904. The author has mentioned some of the issues and challenges of these banks are lack of corporate governance, the duality of control, lack of freedom and a level playing field, lack of good leadership and lack of appropriate system of financial management and stating that these banks are now at the cross roads. He strongly feels that bad governance, political interference, pliable managements and lax regulation have turned co-operative banks in to sitting targets for scammers and freeloaders. He critically examines certain issues and challenges confronting co-operatives with special reference to co-operative banks and suggesting practicable strategies for coping with challenges. There is urgent need to reform the existing system of governance in co-operative banks. The author says it is high time that the recommendations made by different committees have not yet been adopted are given serious consideration by the authorities
concerned, viz., the RBI, the NABARD and the Ministry of Finance, Government of India and implemented.

- **Dr. Samwel K Lopoyetum. (2004)** in his paper, problems and prospects of co-operative banking, has analyzed the problems and prospects of co-operative banking in India. He says that Globalization has unquestionably opened up new challenges, prospects, opportunities and potentialities in the economic system. The co-operative banking system must approach Globalization of co-operative banking systems phenomenon with courage and determination to ensure good quality of banking products and services, use of the latest knowledge and skills in financial engineering, information and communication technologies, maintenance of the interest of the consumers and users of co-operative banking system. The author says the introduction of new reforms packages through financial sector liberalization paved the way for the introduction of prudential norms, the balance sheet and income statements of banks are made transparent, the deregulation of interest in the banking system, the upgradation of technology in banking system, creation of strong system of supervision and competitive environment. All these factors are affecting co-operative banking system. He has given some suggestions to growth and development co-operative banking system including urban co-operative banks in India.

- **D. Krishna. (2005)** in his article, Urban Co-operative Banking Sector: Achievements and Challenges, says that entailing the philosophy of "working together for mutual benefit, cooperatives, are among the most respected forms of business enterprise due to their paramount concern for community which forms the core of all their activities. Having set some of the best examples of ethical business practices, these human centric institutions have played a commendable role in unshackling the stifling hold of private money lenders over the
weaker sections of our society and continue to stand committed to the people of small and limited means by lending 60% of their loans and advances to the priority sector. He has explained the achievements of UCBs from 1966 to 1993 stating that the aggregate deposits of UCBs grew from Rs.153 crores to 13500 crores and the number of UCBs rose from 1100 to 1400. However, during the immediate preceding three years, urban banking sector has been passing through some very difficult times. Introduction of international norms of the Basel committee to the Indian Banking system was a very commendable exercise by the Reserve bank of India. However, imposition of these norms without any modifications to community based grassroots level institutions like urban co-operative banks is proving to be counterproductive. The author also says that, our urban co-operative banking sector has asked Reserve Bank of India to clearly address the following issues:

a. Need for the Government and RBI to clearly recognize urban co-operative banks as important component of banking industry of the country.

b. Need to prepare plan for growth of urban co-operative banks in all those states where their presence is thin at present.

c. Provide level playing field for UCBs and recognize their difference from commercial banks.

d. Create a mechanism to provide quick support to UCBs that are in temporary liquidity problems.

e. Define appropriate prudential parameters for the UCBs and restore 180 days NPA norms for all loans. Etc.

M. Ramanan Iyer.(2005) has written an article entitled, Urban Co-operative Banks: Marching towards progress. He says that, the technological advancements in combination with Financial sector reforms have revolutionized the banking industry.
making it a highly vibrant social engineering institution. The RBI annual report for 2003-2004 confirms the fact, in the last decade the UCBs have performed much better than the commercial banks in the country with respect to almost all parameters, but Government support to them either by way of debt or equity has been practically absent. The author has explained the UCBs are working as a local area banks (LAB) since this concept was seriously pursued by the Government and RBI. He also says that the application of prudential norms is difficult for small and weak urban co-operative banks rather than the big co-operative banks and he has explained the distinctive features, partisan approach, innovative banking measures, social commitment and future prospects of the urban co-operative banks.

 ➢ G. H. AMIN. (2005) In his, article Mandatory concurrent audit in urban co-operative banks, has explained that, the RBI introduced the system of concurrent audit in urban co-operative banks in the year 1994 for scheduled and other urban banks with deposits over Rs 50 crores and it is made mandatory to all urban co-operative banks irrespective of deposit amount. After the problems faced by Madhavapura mercantile co-operative bank and other banks, the RBI tightening its control through various measures. So that they protect the interest of depositors. The authors says that it is the efforts of Gujarath state co-operative union in familiarizing concurrent audit in these banks and then banks would improve their competitive strength through strong audit system, providing more and more transparency in their accounts and working and saving their members and public at large in most effective manner.

  The Reserve Bank of India placed on its website in march 2005, for comments by the public about UCBs the document
explain the historical background of UCBS in India. The document is having following objectives.

1. To rationalize the existing regulatory and supervisory approach keeping in view the heterogeneous character of entities in the sector.
2. To facilitate a focused and continuous system of supervision through enhanced use of technology.
3. To enhance professionalism and improve the quality of governance in UCBS by providing training for skill upgradation as also by including large depository in the decision making process/management of banks.
4. To put in place a mechanism that address the problems of dual control, given the present legal framework, and the time consuming process in bringing request legislative changes.
5. To put in place a consultative arrangement for identify weak but potentially viable entities in the sector and provide a framework for their being nurtured back to health including, if necessary, through a process of consolidation.
6. To identify the unviable entities in the sector and provide an exit path for such entities.

The vision document includes the operating environment of UCBSs having heterogeneous groups in terms of geographical spread, area of operation, size or even in terms of individual performance. In terms of geographical spread UCBSs are unevenly distributed across the states. Five states viz., Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu account for 1523 banks that presently comprise

The vision document also includes regulatory environment states that the urban co-operative banks are regulated and supervised by state registrar of co-operatives, central registrar of co-operative societies in case of multi state
co-operative banks and by RBI. The vision document also includes the strategy to deal with the UCBs may need to be state specific, one that involves the concerned state Government, RBI and UCBs operating in the state. In the proposed operating framework the entities in the sector display a high degree of heterogeneity in terms of their deposit/asset base, area of operations and nature of business. A system of differentiated regulatory and supervisory regime as opposed to a ‘one size fits all’ approach may be more appropriate, keeping in view the vastly differentiated entities comprising the sector. The document also explains the supervision and developmental role of RBI. In its concluding part the document says every authority concerned with co-operative sector will have to play its part in ensuring that the aspirations of the urban co-operative banking sector are nurtured in a manner that depositor interest and the public interest at large is protected. The role of RBI could, thus, be to frame a regulatory and supervisory regime that is multi layered to capture the heterogeneity of the sector and implement policies that would provide adequate elbowroom for the sector to grow in a non-disruptive manner.

- **Samwel Kakuko Lopoyetum, Markkandayan and K.G. Selvan.** *(2006)* Have written an article entitled, Funds management by urban co-operative banks in Dindigul District a study. The authors have selected the urban co-operative banks in Dindigul District in Tamil Nadu which was carved out of composite Madurai district. About two decades ago the district had four urban co-operative banks functioning along with more than 150 commercial banks. The distinctive feature of the UCBs in the district is that all the four UCBs were established before independence, with the oldest one being
nearly 100 years old. The authors have explained brief profile
of all the UCBs in the district, need for the study, data base
and research methodology. The study was based on data
comprising average monthly outstanding of assets and
liabilities for a period of 10 years (1994-95—2003-2004). For
the purpose of the study the averages of assets and liabilities of
each year were taken in to account. The ratio analysis was
carried out on the basis of averages to arrive at conclusions.
The author also explains the sources of funds which includes
shares and deposits, borrowings and other liabilities. The data
shows that on an average 80.13% of the total funds are
contributed by deposits alone during the study period. The
study also reveals deployment of funds, earnings and expenses,
profitability ratios, solvency ratio, productivity ratios. The
authors found that the solvency as well as recovery position
was sound and they suggest that the banks would therefore be
required to adapt to the changing situation and continue their
search for new markets.

Smt. Usha Thorat.(2006) has written an article entitled
“Urban Co-operative Banks: Evolution of the banks, Current
issues in corporate Governance and challenges in their
regulation and supervision.” She has explained almost every
aspect of urban co-operative banks stating that UCBs- a key
sector in the Indian Banking system, which in the recent years
has gone through a lot of turmoil. While the problem was only
for some banks, the sector on the whole is showing signs of
looking up. She has addressed the historical perspective of
UCBs, market share of UCBs stating that market share of
UCBs in total deposits is relatively low. The growth of UCBs is
not uniform. In 1996 the total number of UCBs was 1501 and
it has increased to 1853 in 2006. The spectacular growth of
UCBs in the late nineties and up to 2003, which had resulted
in increasing their penetration, ironically, also led to certain weakness in the sector that adversely affected public perception and thereby, their competitiveness. The main reason was the complete failure of multi state co-operative bank in the States of Gujarat in 2001 and Andhra Pradesh in 2002.

She also explained the salient features of the UCB sector stating that there is significant degree of heterogeneity among the banks in the sector and diversity among the UCBs. She dealt with the problems of competition, corporate Governance issues in UCBs, competence of directors, and policy initiatives of RBI like vision document for UCBs, MOU with State Governments and constitution of TAFUCUBs, strengthening of Regulatory/supervisory framework, dispensing with the one size fits all approach, supervision through enhanced use of technology, emphasis on corporate governance and professionalism, consultative approach to regulation, non disruptive exit route for non viable banks, merger and consolidation, liquidation and settlement of depositors claims and recent initiatives like exploring avenues for raising capital, technology initiatives etc.

➢ **Dr. K. Ramesha.(2006)** in his paper, he says that the urban co-operative banks segment, which was considered as one of the robust and fast expanding segments of the banking system till late 1990s, has become one of the weakest with regular cases of failures. The research clearly establishes the relationship between the extension/ tightening of prudential standards and performance of UCBs. The author found that tightening of prudential standards particularly after 2000-01 has resulted in a significant structural break down in the direction of growth rates of key variables and he felt that, if this trend continued for next 4-5 years would not only further reduces the contribution of UCBs, but also may result in failures on a much larger scale. To overcome the problems of
UCBs, the Government/ RBI must revisit the idea of setting up of a separate regulatory body for UCBs and promote professionalism and governance, so that some extent the impact of size related disadvantages UCBs are minimized.

- **Lalit Gandhi. (2006)** In his article, Challenges before non agricultural co-operative credit societies, says that at no point of time, was the dictum ‘survival of the fittest’ as relevant as it is today. Credit co-operatives, he stress, will have to focus more on qualitative rather than quantitative growth by adopting latest technology and high professional standards while protecting the interests of depositors and also providing insurance on their deposits. To build good client base, the author feels, credit societies will have to offer the same products and services as banks are offering. Citing the example of Thailand, he says that in this country the entire credit business is concentrated in the hands of their credit unions even though their number is far less than that in our country. Urging credit societies to aim at a similar culture in our own country, he says that the historical fact that banks have evolved from credit societies should be their innate strength.

- **Geetha Sharma and Ganesh Kawadia (2006)** have written an article entitled, “Efficiency of Urban Co-operative Banks of Maharashtra: A DEA Analysis.” The authors have explained the efficiency of urban co-operative banks in Maharashtra by using the data envelopment analysis. The DEA approach uses a linear programming model to construct a hypothetical composite unit based on all units in the reference group. In other words, the performance of each DMU is measured relative to the performance of all other DMUs. The authors found that, the country as a whole the spatial distribution of urban co-operative banks is highly skewed, as they are concentrated mainly in a few states. Considering density of UCBs in Maharashtra, the authors have selected UCBs of Maharashtra for selection of the banking output and inputs.
\textbf{N S Vishwanathan. (2006)} The Reserve Bank of India made an announcement in the annual policy statement for the year 2006-07 to constitute a working group under the chairmanship of shri N. S. Vishwanathan, to examine the issue of share capital of UCBs and identify alternate instruments/avenues for augmenting the capital funds of UCBs. The important findings and recommendations of the working group.

The committee observed that a large number of UCBs are short of the prescribed regulatory capital. Out of 217 UCBs with deposits of over Rs. 100 crore, 30 banks, i.e. 15% of the banks in the sample were undercapitalized. Hence the working group states that identification of alternate sources of capital cannot be over emphasized.

There were legal and structural issues affecting enhancement of capital of UCBs, since they are governed by respective co-operative societies Act of the State under which they are registered. The working group also state that in certain countries like Netherlands, France and Finland the financial intermediaries in the co-operative sector are strong and socially effective. In some countries including Netherlands, Trust preferred securities are used to raise long term stable funds. To issue such funds in our country the concerned states may be required to bring suitable amendments in the acts to facilitate formation of trust by UCBs.

The major recommendations of the group are,

- Where UCBs with low capital or negative worth are able to identify potential investors, the monetary ceiling prescribed in the acts on individual share holding comes in the way of shoring up the capital through this route.
- To provide instruments and avenues for raising stable and long term funds having equity and quasi equity characteristics:
a) UCBs may be permitted to issue unsecured, subordinated, nonconvertible, redeemable debentures/bonds, which can be subscribed to by those within their area of operations and outside.

b) UCBs may be allowed to issue special shares on specific terms and conditions. Banks can also be allowed to issue these shares at a premium, which could be approved by the respective RCS, in consultation with RBI.

c) The RBI may make an exception with regard to rating requirement to enable the commercial banks to invest in the special shares and tier II bonds issued by UCBs within the ceiling prescribed for investment in unlisted securities. UCBs may also be permitted to invest in Tier II.

d) UCBs may be allowed to issue redeemable cumulative preference shares on specific terms and conditions with the prior permission of the respective Regional Cooperative Societies (RCS), granted in consultation with RBI.

e) There is a need to amend the Multi State Act to remove the limit prescribed on raising of funds by way of nonconvertible debentures/bonds.

f) UCBs may be permitted to raise deposits of over 15 year maturity.

g) Where banks with negative worth raise Tier II capital by way of bonds, preference shares and long maturity deposits, through conversion of existing deposits, RBI may, as an exception to the general rule, treat these as a part of regulatory capital even though Tier I capital is negative.

- As retained earnings form the only source of owned funds, RBI could suggest to the Government of India to defer the application of income tax on UCBs for a
period of three years by which time the alternate instruments may also take concrete shape.

• Since UCBs are brought under the regime of linking capital adequacy in terms of a ratio to risk assets, prescribing a share to loan ratio on a borrower to borrower basis may not be necessary and hence the extant instructions on share linking to loans may be dispensed with.

• As for international accounting standard boards proposed standard requiring share capital of co-operatives to be treated as outside liabilities, in view of the restrictions placed on withdrawal of capital in co-operative societies Acts and taking into account the empirical evidence of share capital of UCBs being by and large stable, it may continue to be treated as equity and reckoned as Tier I capital for regulatory purposes.

• As creating a federated structure would not only require amendments to the co-operative societies acts but also entails changes to the supervisory and regulatory practices, the entire issue of creating an appropriate legislative and supervisory framework for the purpose be separately examined taking into consideration the international experiences and systems.

➢ **R. Gandhi (2007)** In the mid-term review of the annual policy 2007-08 the RBI Governor announced to constitute a committee to examine the various areas where IT support could be provided by the RBI. Accordingly, the RBI constituted a working group on December 19, 2007, under the chairmanship of Shri R. Gandhi. The Important Recommendations of the working group are,

The working group says that, in today's financial systems, usage of information technology is fundamental to the survival
and growth of the institutions. IT usage not only helps banks hold and reduce their cost of operations, several developments in the information and communication technology enable the institutions to proffer highly profitable products and services to their constituents.

The working group recommends that minimum information technology infrastructure should be provided in UCBs. The minimum IT infrastructure should include,

a) Computerized front end i.e. customer interface.
b) Automatic back end accounting. (Through software)
c) Computerized MIS reporting and
d) Automated regulatory reporting.

Small /week Urban co-operative banks to be supported by the reserve bank of India to implement IT facilities in the form of providing application service provider (ASP) model, outright purchase model and delivery mechanism. The models for acquiring the IT infrastructure could be any one as shown above. The working group also says that the support could be in the form of interest free loan, repayable in seven years, with one year moratorium. UCBs could be eligible for loan for software as also for purchase of hardware. In case of week/sick banks the moratorium may be for two years. The working groups also estimate financial support to be given to all the 1762 UCBs was 480 cores of rupees for software and 90 cores of rupees for hardware.

➢ **B.M. Todkar (2007)** has written an article on Importance of risk management in urban co-operative banks, in the souvenir of 9th All India conference of urban co-operative banks and credit societies. New Delhi. November 26-27 2007. The author says after the introduction of L P G the Indian industries have become more exposed to various risks and banking industry has no exception to this. The banks have to deal with the risk
management. The EX-President of Federal Reserve Bank of America, Mr Allan Greenspan pointed out that, risk taking is an inherent function of banking. Risk management means identification, assessment, monitoring and managing the various risks. He says that, the liquidity risk arises due to over extension of credit, high level of nonperforming assets, poor asset quality, mismanagement reliance on few whole sale depositors, large undrawn loan commitments, and last but not the least, lack of appropriate liquidity policy and contingent plan. Therefore, the banks must address these issues well ahead in time. The author feels that the UCBs should train and equip their human resource and the management to fight war of risks for their good performance and ultimately for survival.

Dr. Nandesh V Hiremath. (2007) has written an article entitled, The customer relationship management in urban co-operative banks. A modern challenges for banking in 21st century. He has explained the rationale of CRM in urban co-operative banks, who are customers and why customers quit, the author says that, according to the all India survey over 68% of the customers quit the organizations because of attitude of indifference from the employees when compared to other reasons. The CRM is not a theory, not an example and nor even a practice. It is dynamic concept and a way of life, which has to be lived every moment by every employee of the each UCB, from chairman to chaparasi, Manager to Messenger, for it to be successful. In his concluding part he explained that the UCBs must protect customers with all might because they are being constantly poached by other public sector banks and foreign banks. He suggested that, the urban co-operative banks must provide exceptional customer service and effective CRM interventions.

Mr. Soju.S. (2007) has written an article in the southern economist entitled, Relative efficiency of Urban Co-operative banks in kerala. The author has explained the origin and
growth of UCBs in India and Kerala. He says that UCBs in Kerala are in homogeneous in nature and relatively inefficient banks have to minimize its operating costs in order to reach their peer group. The study also reveals that the size of the banks in no way influence its efficiency.

➢ G.S. Satyanarayana. (2007) has written an article on, Urban co-operative banks- A SWOT Analysis. The author says that the UCBs should emerge as a sound and healthy net work of jointly owned, democratically controlled and ethically managed institutions providing need based quality banking services, essentially to the middle and lower class and marginalized sections of the society. He made an attempt to critically examine the various facets of UCBs through SWOT analysis. The inherent strength of the UCBs is its co-operative character, availability of local leadership which influence for the mobilization of resources both in the form of deposits and capital, the directors of the bank should work in the real co-operative spirit, the personalized services to the customer are another strength of the UCBs. The weaknesses of the UCBs are small size, facing different risks is extremely difficult for small banks, the absence of professional management and good corporate governance, absence of training facilities and ICT facilities, etc. The strength of the UCBs should convert in to opportunities like local leadership, co-operative sprit of the local people, cost effective administration, etc. Stiff competition in the banking sector is a major threat to the UCBs, the merger policy of the RBI is also an inevitable threat, etc.

➢ S. Thyagarajan. (2007) in his paper, Performance and problems of Urban co-operative Banks, has explained the historical development of UCBs in India. The author has made an attempt to analyze the operations and financial performance of UCBs, stating that their market share grew steadily from 3.3% in 1990-91 to a high of 6.6% in 1999-2000 but there after gradually declined to 4.8% in 2005-06. Regarding the
distribution of UCBs, the spatial pattern of UCBs remains highly skewed and largely concentrated in few States. The deposit size of the UCBs, barring a few, is small. As at the end of March 31, 2006, 1423 UCBs out of 1853(76.8%) had a deposit base of less than Rs.50 crores and 1633 (88.1%) less than Rs. 100 crores. The credit extended by UCBs to the priority sector and weaker sections increased significantly in recent years. The asset quality of the UCBs was deteriorating for the last five years. The author also explained the problems and initiatives taken by the RBI to overcome the problems of the UCBs.

➢ **Tahera Bagum H. k.(2007)** in her research thesis entitled Performance of Urban co-operative Banks in Karnataka- A case study of Dharwad District. The present study is an empirical research based on the survey method using the primary data and secondary data. The researcher used the questionnaire schedule and interview schedules for bank officials and borrower beneficiaries of the sample urban co-operative banks. The study throws light on performance of urban co-operative banks in Dharwad District. The researcher explains the progress of urban co-operative banks in India and Karnataka before independence and after independence, stating that the progress of urban co-operative banks in India is highly satisfactory after independence. However the progress made by urban co-operative banks is uneven among the states in India and within the districts in Karnataka. The author reveals in her study, performance of urban co-operative banks is highly satisfactory in Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu in respect of total number of banks and financial position, the performance of urban co-operative banks is also satisfactory in some of the districts in Karnataka. The author also says that, after LPG, Urban co-operative banks have also succeeded in mobilizing deposits and in extending loans.
The researcher also explained the physical performance of urban co-operative banks, and found that the branch expansion of urban co-operative banks in the study area is tardy and poor, the membership of urban based urban co-operative banks is satisfactory, the important finding in this respect is that selected urban co-operative banks have not followed the roster and reservation system, there has been a shortage of trained staff and the management aspect of selected banks is quite satisfactory. On the basis of the above findings the first hypothesis of the present research study the performance of UCBs in Dharwad District is remarkable is disproved. The researcher also explained the financial performance of urban co-operative banks and found that the financial indicator of the four selected urban co-operative banks are quite satisfactory. There has been a spectacular increase in share capital, reserves, working capital, deposit mobilization and advances and found that the progress in this respect is uneven. The researcher also explained the impact of urban co-operative banks on sample beneficiaries. The researcher has made some of the suggestions to strengthen the urban co-operative banks like, political parties should not be involved in the urban co-operative banks elections and functioning of banks, extent of financial support to new beneficiaries, local people should be appointed as an employee or officer, providing more financial facilities to small scale industries, training in computer education should be made compulsory to all employees, the RBI should treat UCBs on par with commercial banks, all modern infrastructure facilities should be created and made available in UCBs, stringent measures are to be incorporated for recovery of loans, periodical performance evaluation is to be adopted in all UCBs, etc.

➢ **Smt. Shobha. V Bhimsen (2007)** In her research work entitled Growth, Problems and prospects of Women Urban co-operative
Banks—A study of Beneficiary Assessment in Karnataka, has conducted a study of women urban co-operative banks in Bangalore urban and rural district with the objective to review the impact of women urban co-operative banks on level of income, employment, production, asset creation and entrepreneurial ability of beneficiary members and to examine their problems/challenges and prospects in the era of globalization and liberalization. The author has used both primary and secondary data for analyzing the growth and impact of women urban co-operative banks on level of income and employment generation. For an in-depth study a multistage sampling technique has been employed for selection of the beneficiaries. The author founds that the women urban co-operative banks in Bangalore urban and rural Districts are working with great success.

D. Joel Edwin Raj and W. Raja solomon (2007) have written an article entitled, "A Behavioral Approach: The Assessment of Employees Effectiveness of the Urban co-operative Bank, Nagapattinam District, Tamil Nadu. The authors have explained the historical back ground of urban co-operative banks in India and in Tamil Nadu. In this paper the authors have made an attempt to explain the effectiveness of bank employees and they found that the top level employees are performed better than the middle level and lower level employees and they suggest that middle level and lower level employees must improve their effectiveness to the maximum extent and they should think their negative points and remove their negative points by adopting new approaches in their role.

N. RAMU(2008) in his article entitled "Urban co-operative Banks at cross roads," has explained the genesis of UCBs, the role and significance of UCBs and stating that UCBs are enjoyed some of the privileges like higher interest rate on deposits, concession like maintenance of lower percentage of
statutory liquidity ratio and cash reserve ratio, special
treatment from RBI and tax exemption and monopoly power
enjoyed by the UCBs are being taken away one by one. The
author feels that Liberalization, privatization, and Globalization
have given functional autonomy and operational freedom to
commercial banks but even in this era UCBs don’t enjoy the
fruits of directed policies of RBI and state Government. Huge
nonperforming assets (NPAs) are the major problem
contributing to the failure of UCBs in India.

Smt. Usha Thorat.(2008) The text of the speech which
appeared in Urban Credit. The title of her speech was Urban
coop-erative banks-Issues and challenges. She says that, RBI
is deeply interested in the UCBs sector. It is interested because
they are a very heterogeneous sector. It is like our country.
There is so much of diversity and yet we all function together.
Most of them are small, meeting the needs of the local
communities. They deal with the common people, speak the
local language, they have flexible processes, they have
accessibility, they have a friendliness and therefore they are
best suited for the objectives of financial inclusion. The author
says the market share of UCBs in 1996 it was 4.5% and it has
increased to 6.6% in 2000 and 6.3 in 2003. But 2004 it was
5.8% and it decreases to 4.1% in 2007. It was due to the
competition from commercial banks other banks in the
banking sector. The total deposits of UCBs in 1996 was Rs
24,165 crores, and it has increased to 93069 crores in 2002.
But in 2005 onwards the deposits of these banks was declined
and afterwards it was negative and in 2006-07 these banks
have shown a restoration of confidence in the system after
experiencing the negative growth in the year 2005. The same
trend was continued in case of urban co-operative banks
advances.
The size wise distribution of UCBs, the author says the UCBs is basically a heterogeneous sector. The banks below Rs 25000 crores, deposits, we will find that the total is around 10% and bank below Rs 100 crores deposits it comes to around 31.6%, so 1/3 of the banks are below Rs 100 crores, so the UCBs sector still largely composed of smaller sized banks and quite a lot of banks are below Rs 25 crores in deposits. The region wise most of the UCBs are in west it accounts 78.1%. In the North it has only 225 banks and it accounts only for 6.1% and in the East 87 banks account for 2.4%. In the grade wise distribution of UCBs today in grade III and IV account 31% of banks absorbing about 23% of the deposits. The grade I and II constitute together 1250 banks i.e., 69%.

Dr. V. Mariappan. (2008) In his paper on Consolidation in co-operative banking. Necessary to strengthen co-operative sector, made an attempt to explain the importance and significance of consolidation in urban co-operative banking sector. According to him, the consolidation is the buzz word in industries and now in banking sector also. The size of these banks will increasingly become critical factor in meeting competitive challenges. The consolidation through merger and amalgamation is one of the best ways to gain strength and achieve the market fitness. The size helps the banks in terms of cost advantage, technological advancement, competitive pricing, better resistance against market attacks, portfolio expansion and so on.

The author also explained the significance of various regulators like RBI and Registrar of co-operative societies and central registrar of co-operative societies etc. In the concluding part, he says that the main objective of consolidation in the co-operative banking sector is strengthening the sector as a whole.

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by providing a safe exit for weak and sick co-operative banks and strengthening the individual banks.

- **Dr. C. Lakshmanan and C. Gowthaman (2008)** have written an article entitled, Performance of urban co-operative bank in Nammakal. The authors have made an attempt to analyze the performance of the bank in terms of the growth of membership, share capital, deposits, loans and advances and net profit. The statistical tools such as mean, standard deviation, correlation, co-efficient of variation and trend analysis have been used to find out the performance of each variable for seven year period. The authors found that, there has been continuous increase in the number of membership and share capital of the bank during the entire study period. With regard to loans and advances and deposits, there has been fluctuating trend in the loans and advances and deposits of the bank. The study also found that there has been continuous increase in the net profit during the entire study period.

**1.4 Importance of the Study**

Co-operation has been recognized as a part of the pattern of Indian socialism. In India, Co-operation is a tool towards the decentralization of economic power. In our country co-operation has been recognized as most potential instrument for development particularly after the advent of planning in the country, along with public and private sectors.

By co-operation, we mean association of likeminded people on the basis of equality for achieving a common objective. The concept of co-operation refers to the working together in any kind of human activity and thereby raising people's standard of living. The main objective behind the co-operative movement is in protecting the people who are relatively poor and promoting their economic interest.
Since the inception of the planning era in the country thrust of Government policy has been the development of agricultural and allied activities and village co-operative have been utilized as an agency for rural development under various plans. Though, the state governments neglected the urban co-operative banks they were already catering to needs for the people of small means in urban & semi urban areas. Urban co-operative societies had started functioning even before the official launching of the co-operative movement in the country in 1904. However, co-operative only in 1912, when the second co-operative societies act was passed.

The banking crisis of 1913 to 1917 was the failure of many commercial banks. The varde committee has also pointed out that the failure of swadeshi joint stock banks created an opportunity for co-operative banking to develop as medium for mobilizing savings of persons of modest means and helping those, whose financial distress caused of money lenders.

Today, urban co-operative banks constitute a key financial institution. It has a distinct role to play in the multi agency banks system of the country. At present, these banks are working par with the other nationalized banks in our country. A few urban co-operative banks given the status of scheduled banks. Some urban banks are authorized to deal in foreign exchange.

Today more and more small industrialists are looking forward to urban co-operative banks for finance. They are one of the main sources of finance to transport operators. They play a vital role by providing credit to small business, self employed; retail trade etc., urban co-operative banks with their simple work, close contact with the local customer local feel & involvement can also enjoy the confidence of the local people.
Urban co-operative banks have grown to such an extent that the history of Indian banking could not be completed without taking note of the valuable work done by urban banks in providing banks facilities to the people in general and in particularly to the people in Davanagere district.

1.5 Need for the Study

Davanagere is the newly created District and one of the important cities in Karnataka. It is located in the central Karnataka. It is situated at 14°28’ North latitude and 75°38’ in the East longitude. The city is located 602.6 meters above the sea level and located at a distance of 265kms from the capital city of Bangalore. The national high way NO.4 and a main railway line connecting Bangalore to Poona and Bombay pass through the city. The total population of the city is about 5 lakh as per the recent data.

There are good number of factors responsible for growth of Davanagere city for the last 3 decades some of the factors like, establishment of cotton mills, oil mills, rice mills, establishment of educational institutions, development of trade and commerce, transport and communication, cinema theaters, small scale industries, poha & rice mills etc.,

In addition to the above a good number of banks and financial institutions have come in the city. But due to the increasing population of the city and growth of small scale industries, trade and commerce naturally, there is increasing demand for finance. Nationalized banks alone cannot fulfill the increasing demand for investment by the needy customers so there is a need for the service of urban co-operative banks to finance for the small scale industries. Small trades, employees, petty business people, self employed youth, to finance for their business from urban co-operative banks.
1.6 Statement of the Problem

Several problems faced by the urban co-operative banks in general and urban co-operative banks in particularly Davanagere District, are deposit mobilization, allocation of resources, industrial financing like providing financial facilities to small and cottage industries in urban areas, terms and conditions of the lending policies of the banks and most important problem faced by the these banks are the problem of over dues and non performing assets.

The problem of over dues seems to be burning problem for banks, and due to the large over dues, it affects on the bank's growth & development. Hence, no studies have been undertaken on the problem of these banks in the Davanagere district.

1.7 Objectives of the Study

The main objectives of the study are
1. To evaluate the growth and development of the urban co-operative banks.
2. To analyze the problems of non-performing assets of the urban co-operative banks.
3. To evaluate the deposits mobilization and lending policies of the urban co-operative banks.
4. To analyze the reserves and working capital of urban co-operative banks.
5. To examine the governance and professional competence of the urban co-operative banks.
6. To examine the investment pattern by urban co-operative banks.
7. To study the priority sector lending by urban co-operative banks.
8. To evaluate the profitability of urban co-operative banks during the study period.
1.8 Hypothesis

The study aims to test the following hypothesis;
1. The mounting administrative expenditure, inefficient administration and professional incompetency of the urban co-operative banks will affect the banks financial position.
2. Application of prudential norms will improve the performance of urban co-operative banks in the Davanagere district.
3. The priority sector lending by urban co-operative banks in the study region is significant.
4. The non performing assets of urban co-operative banks in the study region is low.

1.9 Methodology

1. Study Region

Karnataka is one of the emerging States in our country where Co-operate movement has achieved significant progress in various sectors. Karnataka is the pioneer State to enact its own independent co-operative societies Act viz, Mysore co-operative regulation in 1905. Ours is the first state in India which organize different types of prominent co-operatives. The first society was registered is Kanaginahal in Gadag district under the chairmanship of Sanannarayanagowda patil of Kanaginahal. He was considered as the Raiffeinsen (Germany) of India and also the father of Indian co-operative movement. Karnataka is not only a pioneer state in the country to develop co-operative sector but it also achieved a tremendous progress in recent years.

Urban co-operative banking sector in the State has recorded impressive growth since its inception in 1905. At present there are 277 UCBs in the state. As on 31st March 2008, there are 277 UCBs with 666 branches and their total membership increased to 21.85 lakhs. The total share capital was Rs 549.35 crores, working capital
was Rs 11126 crores, deposits increased to the level of Rs. 9702.42 crores and loans and advances of the UCBs was Rs. 6304.69 cores.

In Davanagere district there are 12 UCBs functioning as on 31st March 2008. The researcher made an intensive study about the working of UCBs in Davanagere district and analyzing the performance of the UCBs during the study period.

2. Source of Data

The Source of Data may be broadly classified in to primary data and secondary data. The present study is based on the primary data and secondary data and the study follows both analytical and empirical methods. The primary data have been collected by using structured questionnaire, by way of discussions with the executives, managers, chairman's of the UCBs and other Government officials who are connected with UCBs departments in State and Central Government, Reserve Bank of India etc.,

The main source of secondary data is the records available in the offices of,

1. R.B.I - Bombay and Bangalore.
3. R.C.I – Bangalore
4. N.A.F.C.U.B – New Delhi
7. College of Agricultural Banking. Pune
8. Yearly Reports – Balance sheets of all the UCBs in Davanagere District.
9. Journals, Magazines, Bulletins, seminars and conference volumes, News papers and various websites connected to my study etc.
3. **Statistical Techniques:**

Several statistical techniques have been used to analyze the financial data. They are

1) Percentages  
2) Ratio analysis  
3) Averages  
4) Mean variations  
5) Annual compound growth rate (ACGR)  
6) F – Test  
7) CAMEL model using various ratios.

The performance of sample banks have been analyzed by examining their physical and financial performance like membership. Share capital, reserves working capital, deposits, loans and advances and profit over a period of 10 years i.e., from 1998 – 99 to 2007 – 08 on the basis of percentages, averages, mean variation, annual compound growth rate, F test and CAMEL model using various ratios.

The annual compound growth rate (ACGR) is a measure of how much something grew on an average per year over a multiple year period after considering effects of compounding.

The annual compound growth rate (ACGR) is calculated by using SPSS software and statistically defined as

\[ Y = ab^t \]

Where, \( y \) = Dependent variables (deposits, advances, etc)  
\( a \) = constant,  
\( b \) = slope of trend lines (growth rate)  
\( t \) = time.

Estimate of \( b \) (slope of trend line or rate of change) has been arrived as follows.

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\( b^\wedge = \log (1+g) \). In this \( g \) (growth rate) has been obtained by taking antilogarithm of \( \log (1+g) \) subtracting 1 from the same. The resultant values would be multiplied by 100 to express growth rate in percentage terms.

The F test has been calculated to study the significance of the difference between the performances of banks under study. The F ratio is calculated as

\[
F = \frac{(CESS - MESS)/2(q-1)}{MESS/(N-2q)}
\]

Where \( q = \) Number of banks

\( N = \) total no of observations

(No of banks \times \) number of time series observations fraction ratio

CESS = Combined sum of squared errors when all the banks and their observations are used to estimate the regression equation.

MESS = Sum of the 12 banks sums of squared errors for each banks estimated from the regression applied to each bank (each ratio separately)

\( 2(q-1) \) = Numerator degrees of freedom

\( N - 2q \) = Denominator degrees of freedom

4. **Camel Model**

Camel model is basically a ratio based model for evaluating the performance of banks. The RBI supervisory rating model that is in vogue for urban co-operative banks based in CAMELS (acronym for Capital adequacy, Assets quality, Management, Earnings, Liquidity, Systems and Control With an additional component C (for co operation). The CAMELS rating system had originally come in to effect from the financial year 2004-05 distinguishes these banks on a scale of A to D based on the weighted average of the ratings obtained under the above parameters. Now the R B I has introduced the revised rating model will be made applicable to UCBs from the inspection cycle beginning April 2008. As against the present system of rating of UCBs in four scales under A to D, these banks would be rated in scale of 1 to 10 (A+, A, A-, B+ B, B-,...
C+, C-, & D) using both positive and negative connotations to the principal rating. Various ratios forming this model is shown in the below chart.

**Chart-1.2**

| CAMEL - MODEL |  
|---|---|---|---|---|  
| **M. Management Efficiency** | 1. Total Advance to Total Deposits Ratio | 2. Business per Employee Ratio | 3. Profit per Employee Ratio |  
| **E - Earning capital** | 1. Operating Profits to Average Working funds ratio | 2. Spread to Total Assets Ratio | 3. Net Profit to Average Assets Ratio | 4. Interest Income to Total Income Ratio | 5. Non Interest Income to Total Income Ratio |  
| **L - Liquidity** | 1. Liquid Assets to Total assets Ratio | 2. G Secs to Total Assets Ratio | 3. Liquid Assets to Demand Deposits Ratio | 4. Liquid Assets to Total Deposits Ratio |  

1.10 Limitations of the Study

It is essential to mention the limitations to which a study like this is subjected to. The following are the limitations of the study.

1. The study covers only the urban co-operative banks in Davanagere district.

2. Whenever we approach the bank authorities, they may not respond properly. They may not provide material required for the researcher.
3. For secondary data, the researcher has to depend upon the balance sheet published by the urban co-operative banks. But balance sheet cannot be accepted as the real picture of the banks positions.

4. Whenever we visit some research centers, University libraries, etc., we may not get required information pertaining to our studies.

5. The study will be completed on the basis of information available for the last 10 years.

1.11 Period of the Study

The present study covers a time period of ten years from 1998-99 to 2007-08.

1.12 Presentation of the Study

The study has been presented in eight chapters which are as follows.

Chapter-I: Introduction

The introduction, historical back ground of co-operative banks, the co-operative credit structure, review of literature, importance of the study, statement of the problem, objectives of the study, hypothesis, methodology and limitations of the study.

Chapter-II: An Analysis of Urban Co-operative Banks In India and Karnataka:

This chapter describes the evolution of urban co-operative credit movement in the world, origin of urban co-operative in India, meaning and definition of urban co-operative banks, need for the urban co-operative banks, objectives and functions of urban co-operative banks, features of urban co-operative banks, growth and development of urban co-operative banks, State wise distribution of urban co-operative banks, origin of credit co-operative movement in
Karnataka, progress of urban co-operative banks in Karnataka, financial position of urban co-operative banks in Karnataka.

**Chapter-III: An Evaluation of Urban Co-operative Banks in Davangere District.**

This chapter has been divided into Three sections. Section one analyzes the profile of the Davangere district. Section two discusses the profiles of the Urban co-operative Banks in Davangere district. The third section explains the physical performance of Urban co-operative Banks in Davangere district.

**Chapter-IV: Deposit Mobilization and Credit Disbursement Policies of Urban Co-operative Banks in Davangere District**

This chapter analyzes the financial resources of urban co-operative banks which includes share capital, reserves, working capital, and deposits of the urban co-operative banks in the Davanagere district and this chapter also explains the credit disbursement policies and profits of urban co-operative banks in Davanagere district.

**Chapter-V: Performance of Urban Co-operative Banks in Davangere District**

This chapter is devoted to study the performance of urban co-operative banks in Davangere district. An attempt has been made to explain the performance of urban co-operative banks by using Ratio analysis, CAMEL model.

**Chapter-VI: Priority Sector Lending By Urban Co-operative Banks.**

This chapter assesses the priority sector lending by urban co-operative banks in India. Priority sector lending by urban co-operative banks in Davangere district from 1998-99 to 2007-08.

**Chapter-VII: Problems of Urban Co-operative Banks.**
The seventh chapter explains the problems of urban co-operative banks. Nonperforming assets, criteria for treating a credit facility as NPA. Asset classification, provisioning norms, classification of assets. Management of over dues and recovery of loans by urban co-operative banks in Davanagere district.

**Chapter-VIII: Findings Suggestions and Conclusion**

This chapter presents the findings of the study and suggestions for improving the performance of urban co-operative banks in Davangere district. The conclusion of the study.

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