CHAPTER -II

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2.1. Research Methodology

The researcher has collected various secondary data from Imphal Urban Co-operative Bank Ltd. Rules and regulations, memorandum and article of association, audit report, balance sheet, profit and loss account, working capital, bills book, securities and investments book, deposits book etc. have been examined. The data regarding the financial parameters have been collected from the balance sheets and profit and loss accounts of the IUCBL. Over and above this data, some secondary data have been collected from different sources. Comparison has been made between the data of Imphal Urban Co-operation Bank Ltd. and data of other banks in Manipur. Data so collected have been properly tabulated, analysed and interpreted to arrive at a definite conclusion. The analysis has been done through accounting techniques and statistical techniques. Finding and suggestions have been given at the end of the chapter. A number of books, journals, newspaper, and websites are given in the bibliography, which has been studied to complete the thesis.

2.2. Need for the Study

Manipur is one of the most economically and financially backward states of India. Per capita income is too low. To become a rich state, we, the people have to work hard and more and more industries have to be established, such as small-scale industries, cottage industries, medium and large industries etc. are to be set up. For such establishment we require finance at a reasonably low rate of interest. For such units, a good financial management is needed to seek fund from banks and financial institutions and the funds need be allocated to the required cost centre. As such lies
the importance of a good financial institution more or less on the line of co-operative bank which can get fund from Reserve Bank of India at a cheaper cost. Loanee or customer also requires good relationship with the financial institutions.

Financial management is properly viewed, as an integral part of overall management rather than as a staff specially concerned with the fund-raising operations only. Though all the important financial decisions are made by the top management, but financial executive is deeply involved in this process. Main responsibility in respect of such decisions is to provide all the necessary accounting information, analyse and discuss the various alternatives and to suggest suitable solutions. The scope of study covers the following points:

♦ Financial planning: It is a chief responsibility of financial executive to make a sound financial forecast and then to plan for them.
♦ Raising of necessary fund: Financial management is to supply the firm adequate funds for its various operations.
♦ Controlling the use of funds: Financial management is to control the use of funds for assets management, dividend policy, working capital, payment of loanee, office expenses, etc.
♦ Disposition of profit: Financial management is required to see the proper disposition of net profit after payment of tax is made. The interest of shareholders and dividend holders should be protected.

2.3. Objectives of the study

The researcher has made attempt to examine and analyse the development of the bank. Is there any profit or loss? How far progress or expansion has been made by the bank? The following are the main objectives of the study:
To study the working of Imphal Urban Co-operative Bank Ltd.

To examine the growth and development of Imphal Urban Co-operative Bank Ltd.

To analyse the profit or loss of the bank.

To study whether the bank has utilised its resources properly or not.

To study financial statement for analysing the various ratios.

To study the sources of funds i.e. inflow of funds and utilisation of funds i.e. outflows of funds.

To give some suggestion for development of the bank in future.

2.4. Hypothesis of the study

In the present study the following null-hypotheses have been tested:

1. There is no significant impact of deposit on the profit of the bank. In other words, the profit of the bank cannot be influenced by deposits of the bank.

2. There is no significant impact of investment on the profit of the bank. That is to say that the profit earned by the bank cannot be influenced by the investment of the bank.

3. There is no significant impact of advance on the profit of the bank.

4. There is no significant impact of owned fund on the profit of the bank.

2.5. Period of the study

The present study covers the time space of ten years from the urban co-operative bank year 1999-00 to the co-operative year 2008-09. Such a longer duration is considered where the working of urban co-operative banks has been examined in general both - at the national level and also - at state level. But, the evaluation of performance in respect of funds inflow and funds outflow, ratio analysis, etc. has been
attempted at micro-level warranting careful scanning of various details of diverse operations concluding in drawing meaningful methodical conclusions.

2.6. Sample design

The Imphal Urban Co-operative Bank is one of the most popular bank in the state of Manipur. The Head Office of this bank is situated at Mahatma Gandhi (MG) Avenue, Imphal. The bank has 6 branches. They are as below:

1. Head Office, M.G. Avenue Road, Imphal.
2. Singjamei Branch, Singjamei Bazar, Imphal.
3. Paona Branch, Paona Bazar, Imphal.
4. Lamlong Baranch, Lamlong Bazar, Lamlong.
5. Kwakeithel Branch, Kwakeithel Bazar, Kwakeithel.
6. Main Branch, M.G. Avenue, Imphal; and
7. B. T. Road Branch, Bir Tikendrajit Road, Imphal.

2.7. Sources of data and material collection

Sources used for collecting data are broadly divided into (i) primary data and (ii) secondary data. All the original data collected by analysis in hand fall in the category of primary data. Secondary data are those, which are available for use from other sources. Secondary data are obtained from:

- Government of Manipur and Central Government Statistics
- Semi Government or local body
- Trade Associations
- Trade journals
- Magazines
- Periodicals
- Newspapers
- Reserve Bank of India, Guwahati
Reserve Bank of India, Central Office, Bombay
National Bank for Agriculture and Rural Development, Manipur Branch
Imphal Urban Co-operative Bank Ltd., Imphal
State Level Bankers Committee Meeting – Lead bank by United Bank of India and State Bank of India
Registrar of Co-operative Societies, Government of Manipur
Institute of Co-operative Management, Imphal
Manipur University, Imphal
Guwahati University, Guwahati
National Institute of Rural Development, North Eastern Regional Centre, Khanapara, Guwahati
Indian Institute of Entrepreneurship Management, Lalmai, Guwahati
Indian Institute of Bank Management, Khanapara, Guwahati
Institute of Co-operative Management, Khanapara, Guwahati
Unpublished records, thesis etc.

2.8. Tools of Analysis

The researcher has made an attempt to analyse the financial management and performance of Imphal Urban Co-operative Bank Ltd. The utilisation and management of funds are also examined. The researcher also wants to identify the financial strength and weakness of Imphal Urban Co-operative Bank Ltd. So some tools are taken up for the research work. They are (a) accounting techniques & (b) statistical techniques.

(a) Accounting techniques comprises the followings:

(i) Ratio Analysis - Current ratio, liquid ratio, credit deposit ratio, deposit per employee ratio, advance per employee ratio, profit per employees, debt equity ratio, funded debt to total capitalisation ratio, equity shareholder to total assets ratio, fixed assets to shareholders’ fund ratio, net profit to total income ratio, staff cost ratio,
interest paid out ratio, interest received ratio, interest income ratio, return to equity, equity multiplier ratio, reserves to equity, etc.

(ii) Trend Value

(a) Statistical methods for analysis

The following methods are adopted in the present analysis.

A. Regression Analysis

"Regression technique refers to the procedure involved in driving an equation for the purpose of estimation or prediction." The regression analysis gives the methods for predicting values of a response variable (i.e. net profit) from one or more predictor variables (i.e. deposit, investment, advance, owned fund etc.). Let us assume $X$ and $Y$ two variables which are approximately related and then the equation is given below:

$$ Y = a + bX, \ldots \quad (1) $$

$Y$ is called the response or dependent variable, and $X$ is called the predictor or independent variable. The bivariate linear regression is the simplest form of regression analysis. It involves a straight-line relationship between one response variable and one predictor variable.

Usually, least squares may estimate the quantities $a$ (constant term or $y$-intercept) and $b$ (slope of the regression line). If we determine the values of $a$ and $b$, the equation of the line offers a means both for summarizing the relationship between the response variable (e.g. net profit of the bank) and predictor variable (e.g. deposit, investment, advance, owned fund etc.).

If we accept the equation,

$$ \hat{Y} = a + bX, \ldots \quad (2) $$
as a causal model \( \hat{Y} \) is the estimated value of \( Y \), the coefficient \( b \) can be interpreted as a measure of the effect of \( X \) on \( Y \). This interpretation can be clarified by considering what happens when \( X \) increases by one unit. That is to say, that \( b \) is the increase in \( Y \) per unit increase in \( X \). In other words, \( b \) is the effect on \( Y \) of a one-unit increase in \( X \).

**B. Multicollinearity**

“All statistical techniques which simultaneously analyse more than two variables on a sample of observations can be categorised as multivariate techniques.”

Two predictor variables are multicollinear if they are highly correlated. Three or more predictor variables are multicollinear if at least one of them can be expressed as a close-fitting linear function of the others. In other words, the problem of multicollinearity is one of the statistical instability of coefficients due to inadequate spread. So, we try to specify multiple regression models so that the predictor variables are not highly multicollinear. However, in most real-life observational research, a certain amount of multicollinearity is inevitable, because most of the predictor variables in which we are interested are correlated to some extent. As a rough rule of thumb, when two predictor variables are correlated but both are relevant to explanation from a theoretical point of view, we should not eliminate one of the variables to reduce multicollinearity, unless the correlations are higher in absolute magnitude than about 0.8. It means that we must live with a certain amount of multicollinearity. But, multiple regression analysis could not be adopted due to the problem of multicollinearity in predicting the net profit according to levels of deposit, investment, advance and owned fund. It is advocated by the levels of zero order correlation coefficients depicted in the correlation matrix. For instance, the simple correlation coefficients between deposit and investment is found to be 0.899 and that
of deposit and advance, 0.933 while they are tried to be predictors of the net profit of the bank under study.

C. Statistical inference

We consider the regression coefficient, $b$, from the estimated least square line (2). We can use $b$ to make statements about $\beta$, the coefficient of $X$ in the underlying population from which the sample is drawn. The first step is to consider the sampling distribution of $b$, which is the probability distribution of $b$ over repeated samples from the same underlying population. The sampling distribution of $b$ is derived theoretically, not by actually taking repeated samples. Normally, we have only one real sample available for analysis. Although, statistical theory enables us to estimate the standard deviation of the sampling distribution of $b$. This standard deviation called standard error of $b$, is denoted $s_b$. It can be calculated from the sample data and printed out, along with $b$ itself, by standard computer programme (SPSS at present analysis) for linear regression. If a value of $\beta$ is hypothesised and $s_b$ has been calculated from the sample data, $b$ may be transformed into $t$-statistic say,

$$ t = \frac{b - \beta}{s_b}, \quad (3) $$

where $t$ is the difference between $b$ and $\beta$, measured in standard deviation units. The hypothesis according to which a value is assigned to $\beta$ is called null hypothesis. The reason why $b$ is transformed to $t$ that is $t$ has a known sampling distribution (Student’s-t distribution) with desirable statistical properties.

Precisely, it is to test if a random sample $(x_i, y_i)$, $i$ takes values from 1 to $n$ has been drawn from a bivariate normal population in which regression coefficient of $Y$ on $X$ is $\beta$. The line of regression of $Y$ on $X$ (for the given sample) is
\[ Y - \bar{y} = b(X - \bar{x}) \]

The estimate of \( Y \) for a given value \( x_i \) of \( X \) as given by the above line is

\[ \hat{y}_i = \bar{y} + b(x_i - \bar{x}) \]

Under the null hypothesis that the population regression coefficient is \( \beta \), then the statistic \( t \) is

\[ t = \left( b - \beta \right) \left[ \frac{(n-2) \sum (x_i - \bar{x})^2}{\sum (Y_i - \hat{y}_i)^2} \right]^{\frac{1}{2}} \]

follows \( t \)-distribution with \((n-2)\) d.f. This is equivalent to (3).

**D. P-value**

A disadvantage of choosing in advance a level of significance, say, 5% is that \( t \) may be close or far from the cut-off, but the degree of closeness is not indicated. An alternative is to present the \( p \)-value, also called the probability value or observed level of significance. The \( p \)-value is the test level that would just hereby allow rejection of null hypothesis, \( H_0 \) given the \( t \)-value calculated from the sample. It is the probability of observing a \( t \)-value at least as extreme as the \( t \)-value calculated from the sample, under the assumption that \( H_0 \) is true.

Because \( p \)-values are probability, they range between 0 and 1. A low \( p \)-value is a number near 0, and a high \( p \)-value is a number near 1. A low \( p \)-value indicates a high observed level of statistical significance, and a high \( p \)-value indicates a low observed level of statistical significance.

**E. Mean, growth, trend analysis and percentage.**
2.9. Expected contribution of the study

The bank under study is having a very little working capital at present. The working of the bank, which is handicapped due to the existing law and order situation on the one hand and necessity for incurring huge expenditure for providing security on the other hand has been carefully studied and alternative ways for saving such extra cost are devised. The study aims at finding out ways and means for obtaining fund from the Reserve Bank of India on easier terms. The administrative cost is to be revised to enable the bank to earn more profit at little expense. This will be in the interest of the depositors and the shareholders as well. Steps are suggested for the better fulfilment of the regulatory provisions as prescribed by the Reserve Bank of India and Government. Small savings can be harnessed if the suggestions given in the study are implemented properly.

2.10. Review of literature

Practically no research work has been undertaken so far by any individuals or body in the topic. Moreover, with the exception of certain annual reports of the Board of Directors of the Imphal Urban Co-operative Bank Ltd., in terms of Section 75(4) of the Manipur Co-operative Societies Act, 1976 and bye-law clause no. 22(1) of the bank vis-à-vis: the annual Administrative Report of the Co-operation Department, Government of Manipur, there has been no reliable literature from which the information can be obtained for further analysis and put to test. Many a time the management of the bank have faced administrative problems. The result was that in some years, the audited statement of accounts could not be placed in time to the representative general body and as such, the required information about the financial management could not be obtained in time. For example, the financial reports for the years 2001-02, 2002-03 and 2003-04 were made available only on the 3rd September 2004. The annual reports of 1992-93, 1993-94 and 1994-95 were made available only
on 17\textsuperscript{th} December 1995. Thus, the researcher has faced lot of difficulties in collecting data, annual reports etc. from the bank.

A Ph.D. thesis submitted by Dr. C.S. Rathod\textsuperscript{3} on Urban Co-operative Bank's role and Development in India with a reference to the state of Gujarat (1982), concentrates on macro-level study of banks in the state of Gujarat only. The book makes a state wise review at all India level on certain parameters including membership, owned funds, deposits, borrowings and loan components. But situations in Manipur are quite different from situation in Gujarat. What is found practicable in Gujarat may not be suitable in Imphal (Manipur). Moreover, some other parameters like financial management are also to be covered.

Dr. (Mrs) Pushpanjali Koli under the name and style of Womens' Urban Co-operative Banks in Western Maharashtra – A Critical Appraisal (1992), a NARCUB publication (November 1992), New Delhi emphasises on the growth and performance of selected womens’ urban co-operative banks in western Maharashtra. She has analysed the impact of womens’ urban co-operative banks on members, in respect of savings, loan utilization, income, employment etc. Since the study centred around the performance of selected womens’ urban co-operative banks, her analysis for the causes of slow growth and her suggestion for remedial measures may not be proper for their application in toto in the condition of Manipur.

On the recommendation of committee on Urban Co-operative Banks (1979), the RBI has started to publish ‘Manual’ exclusively on different aspects of their working. The manual is captioned as ‘Manual for Primary Co-operative Banks’ attempts to provide general guidelines in running a primary co-operative bank i.e. management, resource mobilization, fund management, investments, loans and
advances, customer services etc. While in part I of the Manual, the operational guidelines such as precautions to be observed, the documents to be obtained and the records / registers to be maintained have been indicated in respect of each activity. Part II of the manual contains proforma of documents and registers which could be adopted with necessary modifications by co-operative banks. But a study to find out the extent to which such guidelines contained in the ‘Manual’ are followed by the Imphal Urban Co-operative Bank will have to be made. Moreover, majority of the existing committee reports (1993-1999) and the report of the Committee on Financial Sector Plan for North Eastern Region (R.B.I., July, 2006) cannot impress upon the financial management of IUCBL. Some of the important facts and figures of the recommendations made by selected committees relating to urban co-operative banks are given in the following paragraph.

2.11. Financial Sector Plan for North Eastern Region, (NER) 2006

The various indicators for NER, which are commonly used for looking at banking development, show that despite improvement in the last five years, the level of financial outreach is low. “Credit to Net State Domestic Product ratio of all the seven states ranging from nine in Nagaland to forty-one in Meghalaya is lower than the national average of sixty-two.”\textsuperscript{5} Out of 36 blocks in the state, eighteen blocks are unbanked. In some cases, it has been due to the closure of bank branches or owing to off-site functioning of some branches. The Task Force has recommended for the opening of thirty-four bank branches in the state of Manipur in a phased manner over a period of ten years. It has been suggested that in the first phase one branch, each may be opened at Tuibung (Churachandpur district) and Phungyar (Ukhul district) by Manipur Rural Bank and a branch at Keirao Bitra (Imphal East district), may be opened by Manipur State Co-operative Bank. In the remaining thirty-one unbanked
blocks, a viability study may be conducted by SLBC Convenor Bank i.e. SBI to
decide the feasibility of opening of bank branches within a period of three months.
Community based organisations like Natural Resource Managing Groups and Marup
(forming a group of people who contribute many for mutual help) may be used as
business facilitators to increase financial inclusion of people where bank branches are
not available. Incidentally, the bank opened its 8th branch at Sangakpham Bazar on
the 13th July, 2009.

For streamlining and strengthening micro finance the cost of Self Help Groups
(SHG$s$) should be initially raised to Rs.5,000 each. Marup could be linked to
institutional finance with modification to suit the requirement of law in their
functioning, provided that a legislation or an administrative order could be passed by
the state which would make it obligatory for registration of such Marups that are
desirous of credit linkage.

As measures for strengthening Manipur Rural Bank, serious efforts for
motivation by the Chairman, sponsor bank through visits, discussion and incentives
for increasing business has to be made. The business per employee, which stands at
81.26 lakhs each, should go beyond 100 lakhs each and thereafter 150 lakhs and so
on. Funds at a low cost may be provided by sponsor bank UBI for long term at lower
rate of interest. Additional quantum of funds to the tune of 26.46 crores (accumulated
losses + crosion in the value of assets i.e. 17.34 crores + 9.12 crores) may be provided
as additional capital. Some financial power can be delegated to clerical staff or limited
amount of withdrawal and deposit so that at the time when officers go out of branch
services are provided to the customer properly. The Regional Rural Bank is required
to use their non-functional branch as satellite branch and also open branches in the
district having potential for them. Closure of bank branches should be discouraged.
For strengthening of Manipur State Co-operative Bank, the process of computerization with time bound programme should be implemented within 6 months to 1 year. NABARD / State Government may help in implementing this programme by infusing funds. The Manipur State Co-operative Bank which is centrally located in Imphal and has its own building with the infrastructure for establishment of a currency chest and which has been facing operational difficulties on daily basis can open a currency chest. By doing so, the high and regular local remittances and daily transactions will be freed from security hazard. This will alleviate the problems faced by many other non-chest banks in Imphal. A form of royalty system of land tenure is forced under the Manipur Land Revenue and Land Records Act, 1960. It is found applicable in the valley districts and in some pockets of hill areas. Mortgage can be created where the deeds are clear. As regards loans for hill districts, instead of land collateral, which is not possible for individual, a format may be devised by banks in consultation with the Government of Manipur so that people in the hills are able to get loan while at the same time banks are provided with some sort of comfort. This could be in the form of joint liability certificate issued by Chairman of village councils. The bank has devised a format for availing loan by accepting land collateral in hill districts for the implementation of Self Employment Generation Programme. Apart from the suggestions made by the State Tasks Forces, SIDBI has made the following suggestion:

1. To provide financial assistance to all individuals engaged in handloom, handicrafts and other rural non-farm activities through Regional Rural Banks etc.

2. To arrange for skill training of the artisans/weavers.
3. To establish marketing linkages with specialised marketing agencies and/or areas having large demand for goods.

4. To set up raw material banks, common facility centres in co-ordination with District Commissioner, Handloom and Handicraft, Directorate of Handloom, Government of Manipur, Central Silk Board, etc.

These recommendations are, however, concentrating on the co-operative banks of rural counterpart. While there has been an improvement in the financial performance of the urban co-operative banking sector in recent times the high levels of NPAs of urban co-operative bank continue to pose a threat to the financial soundness of these institutions. Both rural and urban co-operative banks have been traditionally subjected to a multiplicity of control from the RBI and the State Government. In order to issue dual control the RBI has taken up series of steps including the preparations of Vision Document.

The Manipur State Co-operative Bank, which is the most important Agricultural Credit Co-operative, and its counterpart Imphal Urban Co-operative Bank Ltd. could not make satisfactory program during the past few years. As pointed out in the annual ‘Administrative Report for the year 2006-07’ issued by the Co-operative Department, “the banks have been facing problems of inadequate fund, management inefficiency, vested interest, uncongenial environment, lack of co-ordination etc.” The marketing and consumer societies are unable to compete with the private traders. There is no marketable surplus of the produce of the farmers. The agricultural credit societies are working in the most difficult areas for promotion of the socio-economic status of the farmers and rural population. The result is that even the urban co-operative banks located at Chandel, Bishnupur, Thoubal, and Churachandpur (Lamka) and other non-agricultural credit co-operative banks in the
state could not get the benefit of developed agricultural credit societies including the Manipur State Co-operative Bank. However, the position of the co-operatives in the state amongst the north eastern states is rather encouraging in so far as they relate to weaving, transport, fisheries, livestock, thrift and credit, etc. This will give impetus to the channel of financial inclusion for the middle and low-income sections of semi-urban and urban areas and finally to the Imphal Urban Co-operative Bank and its associates in other districts.

The financial health of the Imphal Urban Co-operative Bank has been a cause for concern and has so far proved to be a serious handicap in reaching out to the larger population. Thus, the focus of recent policy measures on revitalising the urban co-operative bank is based on Vision Document, 2005. The task of revitalising the rural co-operative sector, on the other hand, is progressing on the lines of recommendations of the task force i.e. State Level Task Force.

It has been very encouraging to know that the Imphal Urban Co-operative Bank Ltd. happens to be the most successfully working society in Manipur. It has been pointed out in the annual report, 2006-07 as issued by the Co-operative Department, Government of Manipur. It has been advancing different kinds of loan to the members for small-scale industries, trade and Commerce, agro-industries, contract works, livestock, education, marriage and other ceremonies, etc. by opening counter even on Sundays. The quantum of loan granted (both medium term and short-term loan) has been increased during the past 5 years or so. As per annual reports (36th, 37th and 38th), in spite of the chequered history of management somersaults, the financial trend of the bank registered a phenomenal progress and stability. Increasing trend of deposits has been maintained in favourable /considerable positions. It has been the maximum effort of the management to maintain NPA below 10% on or before 2005.
The bank introduced one time settlement scheme and during the years 2001 to 2004 alone, the bank could close 83 chronic loan accounts under this scheme. The available report shows that:

a) The bank never reported to borrowings for its operation.
b) The bank complied with the requirement of investment in Government and other approved securities.
c) The cash deposit ratios has increased on the average during the past years.
d) The bank is having the system of internal inspection as well as concurrent audit.
e) The bank has taken up necessary action for the computerization of all its branches in phased manner; and
f) The bank has complied with the prescribed norms on priority sector lending as also lending to weaker section.

As against these achievements, the bank suffers from the lack of board of administrators with professionals as per RBI guidelines. No amendment has been made in the bye-law for this purpose. Prudential norms on asset classification have not been strictly followed. Performance in the areas of post credit supervision and recovery of bad loans is not found satisfactory. Loan policy is found silent about recovery of bad loans and fixing of responsibility and accountability in the case of slip-back of advances from standard to NPA. Thus, as in the case of Imphal Urban Co-operative Bank Ltd., the high level of NPAs continues to pose threat to the financial soundness of the institution.

As envisaged in the Imphal Urban Co-operative Bank Ltd.’s annual reports for the past 5-6 years and the RBI’s Financial Performance of Urban Co-operative Banks
in the year 2008-09 and that of rural credit co-operatives for the year 2007-08 the high levels of NPAs for UCB and rural credit co-operative societies / intuitions continue to be the major areas of concern. During the Years 2007-08 and 2008-09 there has been a continuous progress towards the consolidation of the urban co-operative banking sector with a growth in financially stronger entities and exit of weaker ones. The committee further observes that during the year under review the UCB have posted high growth both in credit and in deposit as compared to their counterparts in the rural areas. This was true in the case of IUCBL also. Credit to small enterprises as part of priority sector lending of UCBs too has increased significantly. This is contrary to the expectations of a decline following the global crisis. Both urban and rural co-operatives remain geographically concentrated on having a dominant presence in the western region and least presence in the North Eastern Region including Manipur. Further, there has been an increase in the concentration of banking business in few large entities.

As a matter of fact, the process of liquidating the non-agricultural credit co-operatives like Manipur Industrial Co-operative Bank Ltd. and Lamka Urban Co-operative Bank Ltd. is in the offing. At the same time, the process of consolidation of (a) Imphal Urban Co-operative Bank Ltd. (b) Manipur Women’s Co-operative Bank Ltd. and (c) Moirang Primary Co-operative Bank Ltd. is also underway. It is in view of the recommendation made by the Committee on Financial Sector Assessment (CPSA) 2009, RBI for revitalising UCBs and bringing changes in the Indian financial landscape.

As pointed out by a number of committees, regulation and supervision of urban co-operative banks by RBI and state Registrars of Co-operative Banks societies lead to vexations problems in the working of UCBs, which is a blow in the urban co-
operative bank movement. The MSUCB is also not an exception. The multiplicity of
command centres causes difficulty in the process of implementing regulatory
measures, which generally requires prompt and timely action. Signing of MOU\textsuperscript{11}
(memorandum of understanding) between RBI and State Government on the lines of
commercial banks for addressing the evil effects of dual command has been envisaged
in RBI’s Draft Vision Document for urban co-operative banks (March 2005). The
State Government may through such MOU, contemplate action on requisition of RBI
for supersession of the Board of Directors, appointment of liquidators, initiating
action for the removal of Chairman of a bank enhancing quality of Human Resource
and Information Technology (IT). Attempt should be made to raise the resources in
the bank on the lines required by RBI, work should be taken to raise the standard of
corporate governance by putting in place certain minimum fit and proper criteria for
members to be eligible for election for the post of director, institute special audit by
chartered accountants, the cost of which may be borne by the RBI and furnish reports
of the findings within a given time frame, introduce long form audit report for
conducting statutory audit, modify its audit rating models to bring it at par with the
gradation system of RBI and conduct statutory audit only through external chartered
accountants in respect of banks with deposits over a specified minimum level. The
vision document went to the extents of providing a draft MOU up to the year 2007-08.
Twenty-three State Governments and Central Government (in the case of Multi-State
UCBs) have signed the MOU with the RBI covering 98.6 p.c. of the total number of
the UCBs representing 99.2 p.c. of deposits in the sector. The State Level Task Force
for Co-operative Urban Banks (TAFCUBS) has been set up to identify the potentially
viable and non-viable UCBs in the State to chalk out the revival path and non-
disruptive exit route for the two sets of banks respectively. During 2007-08, the RBI
continued with its policy of encouraging states to sing MOUs to establish a co-
ordinated supervisory / regulatory structure by further incentivising the scheme in the form of additional business opportunities, opening of new ATMs and conversion of exchange counters into branches. During this period, the recovering performance of MSUCB along with 10 other states slightly improved. But the degree of instilling public confidence in the functioning of the bank, as a result of such measures, is still doubtful. The recent happening with MSUCB whereby the State Government nominated Chairman of the bank as against the duly elected Chairman by the shareholders is an example of unclear line of demarcation and multiplicity of command much to the disappointment of the public.

It will be interesting to know that the memorandum of understanding was signed in between the State Government and the RBI on 21st May, 2008 in pursuance of the Vision Document drafted by the RBI in the Year 2005. In terms of the MOU, the RBI has undertaken to constitute a task force for Urban Co-operative Banks in Manipur for the implementations and drawing up a time bound action plan of the revival of potentially viable UCBs and non-disruptive exit for non-viable UCBs. The Manipur State Task Force comprises of (a) one person as a Chairman (from RBI), (b) one person as a Deputy Chairman (from Registrar Co-operative Society, Government of Manipur (c) one person as an ex-officio member (from Director, Institutional Finance, Government of Manipur) (f) one person from National Federation of UCB (from the Central Government) and (e) one person from the Federation of MSUB.

Reports on (a) Survey of Urban Co-operative Bank (1957-58) by Dr. G.R. Shastry (b) Study Group on Credit Co-operatives in Non-agricultural Sector (1963), published by the Government of India, Ministry of Community Development and Co-operative, New Delhi, (c) Working Group on Industrial Financing through Co-
operative Banks (1968) under the chairmanship of Shri P.N. Damry, former Deputy Governor, RBI, (d) the Committee on Problems of Urban Co-operative Banks in Maharashtra (1976) published by the Maharashtra State Co-operative Bank Ltd., Mumbai, (e) Committee on UCBs (1979) under the chairmanship of Shri K. Madhava Das, Executive Director RBI, Agricultural Credit Department, Mumbai (f) Committee on Licensing of New Urban Co-operative Banks (1992) published by the RBI, Urban Banks Department, Central Office, Mumbai, (g) the Banking Commission (1972), published by the Govt. of India Ministry of Finance, New Delhi, (h) Manual for Urban Co-operative Bank (1984), published by the RBI, and (i) Urban Co-operatives in India (1986) published by the National Federation of Urban Co-operative Banks and Credit Societies Ltd., New Delhi have certain provisions / recommendations which have outlived by now. Their practicability in the context of IUCBL has been considered least effective. Acting on the recommendation of some of the committees, the IUCBL\textsuperscript{13} was put into operation for 7 days a week, 365 days a year except on bank holidays. The banking hours were extended up to 3.30 p.m. on week days; 12.30 p.m. on Saturday and 2.30 p.m. on Sunday. To attract more deposit and to suit the workers and businessmen the bank (M.G. Avenue, Main Branch) transacted business during the evening hours on experimental basis. Along with the computerisation of its main branches, the bank has tied up with ICICI Bank and through its facility of electronic fund transfer one can transfer money from his / her bank to different destinations throughout India where ICICI Bank is located. In spite of these facts the bank has to go a long way in implementing the recent committee reports for revitalising the working of UCB.

\quad Mention may be made of:
a) expanding the inclusion of middle and low income sections of the semi-urban and urban areas.

b) avoidance / reduction of the evil effects of dual control by implementing the terms of MOU and the setting of state task force in proper spirit.

c) reduction of the level of NPA to the minimum.

d) grant of relaxation in entry point norms, and

e) empowerment of weaker sections and dispossessed segments and so on.

According to Mr. Rana Kapoor, founder and Managing Director and C.E.O. of Yes Bank who expresses his opinion as “Financial Inclusion: Game Changer for Urban Renewal overcoming high costs, financial illiteracy and self exclusion by the poor is needed to bring banking in the urban underprivileged.” According to him and as per available data, the urban population is increasing at a faster rate than the total population. According to an estimate, about 40% of the Indians will be living in the cities and towns compared to current population of 30% (study by McKinsey Global Institute). At the same time, this will lead to an increase in the number of urban currently pegged at 80 million by NSSO. It is this large section of the population who are denied of even the most basic banking services, savings accounts, credit, remittances payment services, financial advisory services and so on.

The situation is almost similar in Manipur as in the case of other towns and urban areas of India. In the final analysis, this research is necessary in view of the need for expansion of financial inclusion of the urban population and semi-urban population in the state of Manipur. Urban financial exclusion, among other things, results from inability to access necessary financial services at an appropriate form and also from problems relating to pricing, marketing or self exclusion in response to negative experience etc. Pricing, here, not only includes the cost of service by the
service provider but also the cost incurred by the client in availing service e.g. loss of wages due to the involvement of the client in availing the financial service. It has been found that the urban consumer is more comfortable in paying electricity bill with late payment in once a quarter than paying on a monthly basis as the loss of wages is more than the penalty in case of non-regular payment extension counters and mobile banking services along with appropriate technologies-biometrics and handheld collection devices can be lower cost solutions now. But how far the authority of Imphal Urban Co-operative Bank Ltd. has exercised this option or how effective it is to be studied carefully. Coming to establishing identity, absence of relevant know your customer is perceived as a key reason for financial exclusion of the urban and semi-urban population in Manipur. This situation prevails because of:

1. migrants from the state of Manipur or from other states like Bihar, Assam, West Bengal, etc.
2. living in ghettos and groups (4-5 individuals living in one room) with no independent references, and
3. employment in unorganised sector, frequent job changes and inability and cost implications for the bank to verify addresses in distant villages.

Further, self-exclusion by the urban poor is considered to be a critical issue. Given the low-income levels and absence of meaningful surplus along with uncertainties of income, interest rates on small periodical savings cannot compensate the cost and effort in frequent withdrawals needed for daily or weekly consumption. Hence, door step banking on a periodical basis may be a key requirement for this segment and anything involving more time from their side may have very low marginal utility. Accordingly, building peer pressure is a difficult task for institutions as well as individuals. Hence, institutions following only the group methodology fail to deliver the services. While there are several challenges in achieving urban financial
inclusion, two macro-enablers, the Unique Identification Authority of India and National Payment Corporation of India will take the financial inclusion to the next level. This transformation will be further accelerated in urban areas covered by Jawaharlal Nehru National Renewal Mission as its submission for providing basic facilities for urban poor is creating complementary infrastructure to facilitate financial inclusion of urban population of the state of Manipur.

However, the efficiency of these measures and workings of the Imphal Urban Co-operative Bank Ltd. in the light of these developments have to be tested and corrective measures, if necessary, are to be taken up in time. Hence, this research has become the need of the hour.

2.12. Chapterisation of the thesis

The present work has been divided into six chapters:

Chapter-1 Introduction

This chapter briefly highlights about the financial management in general. Co-operative bank needs financial management for sources of finance, utilisation of finance, services of the customer and also profit of the concerned organisation. The present position of Imphal Urban Co-operative Bank Ltd. is also studied regarding objectives, deposits and their rate of interest, advances and their interest rate, management of organisation and their staff etc. A brief socio-economic profile of Manipur is also discussed.

Chapter-2 Research methodology

Research methodology covering objectives of study, hypothesis of the study, sources of data, period study, tools of research, etc. are examined in this chapter. It also covers the review of literature.
Chapter-3 Management of Funds Inflow

This chapter traces the sources of the bank, i.e. from internal sources and external sources. It also mentioned the need of relationship between banker and customer, know your customer guidelines, anti money laundering and various types of deposits schemes. An attempt has been made to analyse the data in tabular form in connection with different sources of funds like growth of capital and deposit mobilization, trend value of deposits, etc.

Chapter-4 Management of Funds Outflow

This chapter deals with utilisation of fund in the forms of investment and loan and advances. The bank invest their money by purchase of securities in three forms (1) held to maturity (2) held for trading and (3) available for sale. Another form of lending of money by the bank is loans and advances. The progress of loans and advances, trend value of investment as well as loans and advances, matrix correlation, t-test, p-test, etc. are also discussed.

Chapter-5 Statement of Financial Analysis and Interpretation: Ratio Analysis

In this chapter, financial analysis is discussed through income statement and balance sheet. Trend analysis of some selected items is included. Various financial ratios are also studied to check the financial position of the bank to know whether it is sound or not.

Chapter-6 Findings, Problems and Suggestions

The fifth chapter presents the major findings, problems and suggestions of the entire study.
References:

12. RBI (21st May 2008): Memorandum of Understanding between the State Government and the RBI.