INTRODUCTION
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1.1 INTRODUCTION:

The Indian Co-operative Movement is one of the major Movements for the welfare of common masses. With the time, various forms of co-operative societies have developed the world over. Among these Credit Societies and Urban Co-operative Banks are important.

It is believed that Mr. Hermann Schultz originated the Movement of the Urban Banks in Germany. He started the society for the "benefit and thrift" of artisans. In Italy, nearly around the same time Luigi Luzzatti also established such societies. Inspired by the success of these societies in Italy and Germany, some social workers in India decided to establish similar societies to help the middle-class people in our country\(^1\).

The first of such experiment to establish Urban Co-operative Credit Society was made in the erstwhile Baroda Princely State in February 1889. A veteran Shri V. L. Kawathekar convened a meeting of some Maharashtrians residing in the Baroda State for the purpose of formation of a society. The group happily consented to set-up "Anyonya Sahakari Mandal" with the object of promoting thrift and providing economic relief to the members and others\(^2\). This experiment led to the formation of similar societies in the Bombay Presidency too. Subsequently, a Co-operative Credit Societies Act was enacted in 1904 in India. Under the provisions of this act the first Indian society was registered in the then Madras Province at Canjeevaram. Thereafter, since 1905 and onwards various urban co-

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operative credit societies were set-up in India. Thus, we observe that the spirit of co-operation was imbued in the socio-economic milieu of India in the closing decades of the 19th Century and the state regulations followed it in the opening decades of the 20th Century. In 1915 the Government of India set-up a Committee to study the CO-OPERATION in India, whereafter the Co-operative Movement received proper attention.

1.2 CONCEPT OF URBAN CO-OPERATIVE BANK:

Until the Mehta-Bhansali Committee submitted its report in 1939, the term 'bank' was used for credit co-operative societies also. A general practice in those days was to register a credit co-operative society and latter convert in to an Urban Bank. The Committee for the first time made an attempt to define the term Urban Co-operative Bank in its report. But the first statutory definition of the term "bank" was laid only in the Banking Regulation Act of 1949. This Act was made applicable to the co-operative banks from 1st March 1966. In this Act, the Urban Co-operative Bank is called as a Primary Co-operative Bank and is defined as - "Primary Co-operative Bank is a co-operative society, other than the primary agricultural credit society, whose primary object is the transaction of banking business, the paid up share capital and reserves of which do not permit admission of any other co-operative society as a member."

1.3 INDIAN BANKING SYSTEM & URBAN CO-OPERATIVE BANKS:

The financial system in India, over the years, has undergone sea changes structurally, geographically and financially. The Indian

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3 Banking Regulation Act, 1949, a Reserve Bank of India publication, Page 11.
financial system is broadly classified into organised sector and unorganised sector. The organised sector consists of the commercial banks, co-operative banks, regional rural banks, and development banks, which come under the effective purview of the Reserve Bank of India and the Government of India. The unorganised sector is largely beyond the control of regulatory authorities and the Government. In other words the organised sector is fully controlled while the unorganised sector functions at its will.

With changing times, banking is no longer a monopoly of the Commercial Banks. Urban Banks are also undertaking the banking business in their limited areas. There seems to be no difference between the functioning of the urban and commercial banks. The Urban Banks with the passage of time have occupied pivotal position in the Indian banking system. This strategic position they could reach because they have targeted, since their inception, the middle class of the society. Basically the Urban Banks are the institutions of people of small means.\(^4\) Their chief functions are to inculcate the habit of savings amongst these people, and economic well being of the members.\(^5\)

Over the period of time all committees appointed by the Government to study the role and functioning of co-operative banks in India have rightly emphasized significance of the Urban Banks in the Indian Banking System. The Mclagan Committee, appointed in 1915, recognised the importance of the Urban Banks, as an institution to cater the banking and credit needs of persons of limited means. In 1931 another committee appointed by the

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\(^4\) Madhav Das Committee Report, 1979, published by Reserve Bank of India, Page 8

\(^5\) Bedi R. D., Theory History & Practice of Co-operation International Publishing House, Meerut, Page 5
Government known as The Indian Central Banking Enquiry Committee, opined that Urban Banks provide all those services to the small traders, and merchants, which are supplied by the commercial banks to their big business customers. The Co-operative Planning Committee of 1946 also pointed out that the commercial banks are unable to meet the credit requirements of the small borrowers due to high cost of advancing and also of the recovery. Hence, the Urban Banks are best suited to serve the credit needs of the traders, artisans, workers, carpenters, blacksmiths, mechanics etc. Apart from these Committees other committees like, Survey Committee of Urban Co-operative Banks (1957-58), a Study Group under the Chairmanship of Shri Varde (1963) and Madhavdas Committee in (1977) have also brought about the important role played by the Urban Banks in the Indian Banking System.

Though the first experiment of urban cooperative credit society was made in the City of Baroda, it is really noteworthy that it was a Maharashtrian from the old Bombay province who carried it out there. The functioning of the urban co-operative banks from Maharashtra was reasonably good and satisfactory. The Joglekar Committee appointed by the Government of Maharashtra in 1974, for studying the problems of Urban Banks in Maharashtra, had commented that ‘the overall performance of the Urban Banks from Maharashtra was satisfactory’.

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8 Kohli, P. P., Women’s Urban Co-operative Banks, published by NAFCUB, New Delhi, P 33.
At the end of June 1991, the number of Urban Banks in Maharashtra was 381 with 44,64,000 members, and with Rs 18,682 Lakhs paid-up capital, Rs 4,66,298 lakhs deposits, and Rs 3,22,718 lakhs loans. While at the end of June 1993 there were 376 Banks with 57,20,000 members, and Rs 22,099 lakhs share capital. The deposits and loans increased to the level of Rs 6,01,627 and Rs 4,14,240 respectively. This growth was quite impressive as far as the period of two years from the Reform process that started in India is concerned.9

The above statistical profile and comments of the various committees on the functioning and the performance of Urban Banks awakened in me an interest that led me to pursue the Urban Banks as my subject of study. Similarly, the Reforms in the financial sector and the Banking Sector brought in various other new concepts in the management of the Urban Banks from India and naturally the State of Maharashtra could not remain aloof from the repercussions of this changed situation. I, therefore, decided to study the Banks from the Asset Management point of view.

1.4 RELEVANCE OF ASSET MANAGEMENT TO THE BANKS:

Asset Management is the term used to describe the allocation of funds among investment alternatives. Applied to commercial banking, the term refers to the distribution of funds among cash, security investments, loans, and other assets. Specialized areas of asset management include liquidity, portfolio, and loan management.10

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9Co-operative Movement at a Glance in Maharashtra 1994, by Commissioner for Co-operation, Maharashtra State, Pune Table A-18: Primary Co-operative Banks, Page 18

The broader aspects of the Asset Management are the conversion of deposits and capital funds into cash and earning assets. The obvious solution to the funds-allocation problem is to give loans and make investments in those assets that promise the highest rate of return for the level of the risk that a bank's management is prepared to assume. This, in fact, requires consideration of various factors by the Bank Management.

The management of funds in commercial banking, especially in Urban Co-operative Banks, is complicated by several factors, like –

1. As banks are the most regulated of all business enterprises, funds must be managed within the legal and regulatory framework established by statutory and supervisory authorities under the Banking Regulation Act, 1949 and State enacted Co-operative Societies Act.

2. The relationship between a bank and its loan and deposit customers is one of trust as well as accommodation.

3. The members of an Urban Co-operative Bank, like other investors, require a rate of return commensurate with the risk of the investment and competitive with the return available on similar investments.

The greatest portion of the Urban Bank liabilities is payable on demand, or with only short notice. Demand deposits are, of course, payable at request on time and savings deposits, banks generally regard these deposits as payable on demand. The first requirement of a prudent bank management, therefore, is to assure the bank's ability to meet the claims of depositors. The second requirement is to make available sufficient funds to satisfy the legitimate credit needs of the bank's members. The provision of such credit is the
principal profit-making activity of any bank. Failure to consider reasonable loan-requests from members will result into immediate loss of business and, ultimately, the possible failure of the bank as a viable business organization. Urban Co-operative Banks are owned and run by members through the Board of Directors on business principles that seek satisfactory profits subject to the constraints of liquidity and safety. At the same time, the urban banks are required to assume important public responsibilities. The public must never get an opportunity to question the solvency, liquidity, or integrity of the banking system; and depositors must be able to maintain full confidence in the individual bank. The objectives of a bank's depositors and those of its members are incompatible to some extent. This incompatibility is reflected in the unavoidable conflict between necessary liquidity and desired profitability, which is present in virtually every financial transaction of any Urban Bank. This conflict between liquidity and profitability may be regarded as the central problem in the management of bank funds. Management feels pressurised from members for greater profits, which may be earned by investing in longer-term securities, extending credit to borrowers with marginal credit-worthiness, and reducing idle cash balances. On the other hand, management is acutely aware that these actions greatly reduce liquidity, which may be needed to meet deposit-withdrawals and credit-demands of long-standing customers. Moreover, management actions are constrained by many a government - regulations that surround the whole area of bank - asset - management. This aspect of the bank's funds-management has attracted me to study the problem in greater depth.
1.5 STATEMENT OF THE PROBLEM:

At present it can be seen that the Urban Banks have to face competition from rest of the commercial banks having unified control. Urban banks have dual control of the Apex Bank and the State Government acting as the Statutory Authority. Besides the limitations of the area, there are other problems, such as offering facilities to the members only, no financial support from any Government, non-recognition in another States for certain business - are also faced by the Urban Banks all over India.

The whole banking scene in the country has alarmingly changed due to the adoption of the Open Economic Policy by our Government. There before, the Marathe Committee prescribed some viability-norms for the Urban Banks, which hanged the future of some weak banks in the air. The Narsimham Committee Report brought in the concept of Capital Adequacy, at par with the international standards. These are also made applicable to the Urban Banks. The concept of Local Area Bank, increase in number of private sector banks, and rise in new branches have exposed the Urban Banks to newer risks.

The study is intended to ascertain economic impact of the above and other changes in the Asset Management Practices of the Urban Banks and also on the profitability, progress, and overall working of these banks in general. The study also focuses on the aspect that whether the Urban Banks can survive and thrive in the future as in the past. The Urban Co-operative Banks are doing well in general in the district understudy, but some of the Urban Banks are on the
verge of the economic collapse. The study envisages going to the root-cause of this phenomenon.

1.6 SCOPE OF THE STUDY:

The study shall cover various aspects of the Asset-Management as are applicable to the banks. The Urban Banks are the institutions providing credit to the people of that area and strive to develop the habit of saving among the masses. In the light of this, the present study shall cover the following aspects of the Asset-Management –


The Prime Minister, late Rajiv Gandhi, gave signals of opening up of the Economy, and introduction of Recent Technology in 1985, the study is envisaged to start with the same year. However, the real pace of the Reforms went from 1991 onwards, hence, the first phase ends with 1991, as 1985-1991. The second shall start from 1991 and end on 1998, covering equal number of years in both the study periods.

1.6.2 Examining the Asset-Management Practices of the Urban Co-operative Banks:

Asset-Management covers application of bank fund for creation of banking and non-banking assets, their appropriate-mix and day-to-day administration thereof. Urban Co-operative Banks work on local basis. They follow practices to meet local needs. Therefore, this study aims at examining these practices and comparing the prevalent practices in India and abroad. The impact of reforms is seen
all over in the economy, it is proposed to cover the impact on this area.

1.6.3. Analysing the Asset-portfolio-policies of the Urban Co-operative Banks in the District:
Asset-Portfolio refers to mix of different banking assets with varying degrees of risks and returns. Asset-portfolio of the Urban Co-operative Banks are governed by the policies about balancing of risks and returns. The study proposes to analyse these policies.

1.6.4. Reviewing the Asset-Mix of the Urban Co-operative Banks and its impact on their earnings:
Asset-Mix in relation to Urban Co-operative Banks means holding the Non-Banking and Banking Assets in particular proportion. These proportion changes with the policies and practices followed by the Banks. Due to these, the revenue of the Banks is affected to a great extent. The study, therefore, intends to review the Asset-Mix of Urban Co-operative Banks and its impact on the revenue of the Urban Co-operative Banks. Recommending for a better Asset-Management of the Urban Co-operative Banks.

1.7 OBJECTIVES OF THE STUDY:
The objective of this study is to bring to light the mechanism, effectiveness, efforts, and limitations of the Urban Banks from Jalgaon District with reference to Asset-Management. In addition to the above specific objective following other objectives are also proposed to be pursued in this study-
1.7.1. To provide the general review of the Urban Co-operative Banks in India and Maharashtra.

1.7.2. To study the growth and performance of Urban Co-operative Banks.

1.7.3. To derive the important policies presently followed and assess their future implications for successful Asset-Management of the Urban Co-operative Banks.

1.7.4. To analyse the sources of funds of the Urban Co-operative Banks.

1.7.5. To know and study the Asset-creating-Mechanism and procedure and to evaluate Management of all Banking and non-banking assets.

1.8 THE UTILITY OF THE STUDY:

The Liberalisation, Privatisation and Globalisation, popularly described as LPG, have expanded the horizon of Indian banking industry ushering in an era of competition. The LPG phenomenon has paved the path for starting new banks, and created an environment of competition. Ultimately, the viability of the Urban Banks in this changed situation is seen in danger. Unless the Urban Banks adopt and apply the professional techniques of managing their funds, there is floating danger of erosion of their valuable resources, which may culminate in closure of many Urban Banks over the period of time.11 This study, as deals with the most recent aspect of the professional bank management, Asset-Management, is

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11 Kundu, H. N. 'Nagari Banks: a need to have Professional Management' a paper read in Conference at Pune on 1st May, 1994.
of prime importance to the Urban Banks in changing context. In the changed environment every financial institution needed to be alert about the nature and quantum of useful information, because, in this era of Information Technology, heaps of information shall be required to be processed before arriving at the solution of any problem. The banks may while away their valuable time if loose sight of the need of the time about the Asset-Management. The study shall use all, new and old, techniques in management of the assets for better and higher returns of the funds at the disposal of the bank with proper risk at calculated rates only. It shall provide necessary and suitable guidelines to the management of the banks, Reserve bank of India, Government and also to the regulating agencies. The present study is revitalising the methods of financial appraisal and re-orient the approach of Urban Co-operative Banks towards the economic ends through correct and commensurate Asset Management Practices.

While pondering on the research study proposal, it is of utmost importance to understand the utility of the study. The present study is of immense importance to the Banks, Government, and the economy as a whole at macro level.

1.8.1 It shall be of great value to the Banks in general and Urban Co-operative Banks in particular, to provide them insight into the changing Economic Scenario. They shall be in position to improve upon their Asset-Management, consequently in improving the fund position and profitability through proper deployment of the funds into earning and risk bearing assets on one hand and liquidity to serve those who provide funds to the banks that is, depositors and surrounding community.
1.8.2 It shall be of use to the Government, in so far as it can formulate and issue improvised directives for better administration of the Bank Funds vis-à-vis Liberalisation, Privatisation and Globalisation.

1.9 HYPOTHESES:

Urban Co-operative Banks from Maharashtra occupy pivotal position in the over all scene at the National level. It is believed that the professional attitude of the Management with democratic set-up is the underlying cause for this. If this is true then the Urban Cooperative Banks from Maharashtra, especially from Jalgaon District shall not lag behind in employing the latest Management Techniques like Asset-Management. Hence, commensurate with the objectives, following HYPOTHESES were framed.

1.9.1 The Urban Co-operative Banks from Jalgaon District have sound policies and practices of Asset-Management.

1.9.2 The Urban Co-operative Banks from the District have strong financial base and are financially viable.

1.10 CHOICE OF THE AREA AND PERIOD OF THE STUDY:

The area selected for the study comprises (at the time of the study) 13 Taluka from the Jalgaon District namely, Amalner, Bhusawal, Bhadgaon, Chopada, Chalisgaon, Erandol, Jamner, Jalgaon, Muktainagar, Pachora, Parola, Raver, and Yawal, which fall under two Lok Sabha Constituencies. This area is selected for study because every Taluka has an urban co-operative bank except Bhadgaon, Jamner and Muktainagar. The Amalner and Bhusawal Taluka have two Urban Co-operative Banks each while there are
five urban co-operatives in the Jalgaon city. Thus the Total number of the Banks in the area of the study is 16. Besides, the life span of all these banks is sufficiently long enough to justify the study-objectives. The District has considerable share of number of Urban Co-operative Banks in Maharashtra to warrant the study. The study encompasses the period of 14 years having the Reform year at the centre. It will facilitate the comparison of the pre-reform and post-reform periods so as to draw proper & just conclusions.

1.11 RESEARCH DESIGN:

Originally the study was based on the sample of 25% of the total number of Banks based on the age-wise distribution of the banks; as, three banks were from the age group of 25 years & above, two were between 15 to 25 years of age, and one from newly established banks from the District. However to make the study more comprehensive and accurate the total population was considered as the sample for the study now. Thus all of the Banks from the area of study are covered irrespective of their size or age. There are in all 16 Banks in the District. Out of these one Bank from Yawal Taluka, though registered as Urban Bank two years past, it has not started functioning as Bank and kept its share capital as deposit with the other Urban Bank as Time deposit. Hence, in all 15 Banks are covered under the study. Another bank, Siddharth Co-operative Bank from Jalgaon city stooped publishing and submitting their Annual Accounts from 1995. Hence, the data of this bank is only covered up to 1995.
1.12 METHODOLOGY:

The present study is based on the secondary data. This data is drawn from the Financial Statements, Annual Reports, and Official Records of all Urban Co-operative Banks from Jalgaon District. Similarly the other published material of relevance collected from various libraries is also used. Thus the secondary data from banks and other published documents constitute the basis for analysis and interpretation. Hence, the Methodology adopted for this study inter-ail includes-

1.12.1 DATA COLLECTION:

Before directly proceeding to collect the data from the banks and other relevant sources, the officials of Urban Banking Division of Reserve Bank of India, General Manager of The Jalgaon People's Co-operative Bank, Faculty of University of Dr. Babasaheb Ambedkar Marathwada University, Aurangabad and Shivaji University, Kolhapur were consulted to know their point of views on the subject. Then the relevant information and data have been collected from published documents. For this purpose in addition to Annual Reports, Financial Statements, and other records of all of Banks under study with other sources, following libraries were consulted:

A. Dr. Babasaheb Ambedkar Marathwada University, Aurangabad.
B. Moolji Jaittha College, Jalgaon.
C. Poona University, Pune.
D. Vaikunth Mehata National Institute of Co-operative Management, Pune.
E. Shivaji University, Kolhapur.
F. Jalgaon People's Co-operative Bank, Jalgaon.
G. Gokhale Institute of Politics and Economics, Pune.
H. Sydenham College of Commerce and Economics, Mumbai.

In fact the meetings with the higher officials of nearly all of the banks under study were attended to properly appreciate the point of view of the bank management on the Asset-Management. However, nearly in all the cases the perception of the Policy makers about the Asset-Management and the actual practice as apparent from the Financial Statements and Published Reports differs drastically. It is noted that they talked one thing and practiced the other. But no record of such meetings was maintained because the study was perceived initially as based on secondary data only and supposed to be supported by this discussion meets. These meets were arranged to get the co-operation in getting the secondary data with ease as a practical solution. This churned to the idea that further study about the perception of the Management of the Asset-Management and the practices followed can be undertaken. But this being not the area of present study it is not covered herein.

1.12.2 DATA PROCESSING AND STATISTICAL TOOLS USED:

The financial data so collected was tabulated first manually, while further processing was completed on Personal Computer to bring about uniformity. Then the financial ratios and common size statements were derived from the available data. The data so rearranged and tabulated were analysed by using statistical and quantitative techniques given below -
A. Mean  
B. Percentages  
C. Range  
D. Compound Growth Rate  
E. Correlation  
F. Ratios  
G. Trend Analysis  
H. Average Dispersions  
I. Graphic Presentation and interpretations.

Other tools popularly used in the field of financial evaluation of performance were also employed, like Common Size Statements, Fund Flow Statements, Break Even Analysis, etc.

1.13 REVIEW OF THE RESEARCH WORK:

Urban Co-operative Banks have seldom been a subject matter of study as compared to the Agricultural Co-operative Societies. There is very limited research work carried out in this area, because of following reasons:

1.13.1 The data in comparable form were not available for a considerably longer period.

1.13.2 Urban Co-operative Banks have grown independently and secluded themselves from the general Co-operative Movement. Hence, researchers have not taken fancy towards them, so far.

1.13.3 The heterogeneity, dual control, unit banking, etc. could not affect the financial market. Resultantly, the researchers interested in the macro level financial structure do not get much attracted to the study of these banks.
The important research works are reviewed below:

1. In 1974, Dr. (Miss) Dave G. A. submitted the Thesis on "Urban Co-operative Banks of Gujarat" to the Sardar Patel University for the Ph.D. degree. She has examined the balance sheet items of 100 sampled Urban Co-operative Banks in Gujarat. She has studied the analysis of funds and profitability of them based on the analysis of growth trends in a tabular form. Her study is more of a narrative type though logical in presentation. The analysis is found with the help of less sophisticated numerical statistical techniques. It, therefore, has less predictive values. One remarkable thing about the study is its initial efforts to take up a search through the shadowed area.

2. In 1977, Dr. C. S. Rathod has undertaken a research on "Urban Co-operative Banks - Role and Development in India with a special reference to Gujarat". This Thesis he submitted to the M. S. University of Baroda for Ph.D. degree. In general he has analysed the role, progress and workings of the Urban Co-operative Banks in India with special reference to Gujarat. In his sample survey of 71 Urban Co-operative Banks in Gujarat, he has focused his study on financing of Small Scale Industries in 1971-72. He has given the details of achievements and inadequacies of the Urban Co-operative Banks of Gujarat in general and for financing Small Scale Industries, in particular. His study suffers from inadequate coverage as far as the area of operation and the number of Small Sector Industrial Units under study is considered.

3. Dr. S. Nakkiran of Tamilnadu has conducted a research study on "Financial Policies and Procedures of the Urban Co-operative
Banks in Tamilnadu" and submitted his Thesis to the Poona University, Pune for Ph.D. degree in 1977. This work is of a unique kind as it deals with the broader aspects of the Urban Co-operative Banks from Tamilnadu. It deals with the organisation and management of the Urban Co-operative Banks in resource mobilisation and their loan practices. The study has also covered the financing of weaker sections and the role of Urban Co-operative Banks in Tamilnadu. The study lacks as it applied very little diagnostic and prescriptive approaches.

4. Report of the committee on the Urban Co-operative Banks in 1978, popularly known as Madhav Das Committee report. The committee conducted a research work in 36 selected Urban Co-operative Banks in five States and made valuable suggestions and evolved norms of viability and of staffing pattern of the Urban Co-operative Banks. The study conducted by Madhav Das Committee has occupied a base for R. B. I. policy issues regarding Urban Co-operative Banks.

5. Dr. K. G. Munshi has undertaken the research as titled, "Financial Management Techniques - A study of Urban Co-operative Banks in the Gujarat State", which he has submitted for his Ph.D. degree to the Gujarat University. He has analysed the financial structural aspects of the Urban Co-operative Banks. The concept of viability, Co-operatives, incremental flow of funds and analysis of other structural variable in finance are some of the other salient features of his work. He has adopted quantitative approach to import objectivity, precision and predictive utility. He has compared the Urban Co-operative Banks with the Primary Agricultural Co-operative Banks. His
study lacks in giving the real picture of the Urban Co-operative Banks, as they are not comparable with each other in many respects. The Primary Agricultural Co-operative Bank working, aims and objectives, the purpose of loans and financial structure differ from that of the Urban Co-operative Banks in many respects.

6. In 1990 Dr. (Mrs.) P. P. Koli of Kolhapur, has conducted a research study on "Women's Urban Co-operative Banks in the Western Maharashtra - A Critical Appraisal" and submitted her thesis to the 'Shivaji University' Kolhapur. Her study is the first of its kind dealing with a critical appraisal of the women's Co-operative banks in the western Maharashtra. She has emphasised the impact of the women Co-operative banks on the life of women due to the small size of the banks, lesser working capital and mounting over dues. To study the growth she has taken up financial performance of banks. The study is voluminous, and an eye opener for the Women Co-operative banks in the Western Maharashtra. It's a general study conducted recommending some of the operational research for diagnostic purpose for further research studies.

7. Dr. H. N. Kundan has submitted his Thesis for Ph.D. to the Poona University, Pune in 1990, and titled "Study of the Professional Management and Development of Urban Co-operative Banks in Pune city". The study covers various aspects of the urban banks from Maharashtra. The application of the Banking Regulation Act, 1949 and its impact on the working is studied in detail. The study has considered in-depth the possibility of the application of the Professional Management to
the urban banks in general. It has taken the general account of the Reserve Bank of India guidelines and circulars applicable to urban banks. However, the shoddy typing and illogical arrangements are some shortcomings of the study.

8. Dr. Zade has selected the area of the Pune city for the Study of the Urban Banks, under the title "A Study of Urban Co-operative Banks in Maharashtra with special reference to Pune City" which he submitted to Poona University, Pune. He attempted to focus on the overall functioning of the Urban Co-operative Banks from Maharashtra, in details. He has tried to cover all-important aspects of the Banks. However, the coverage of the study being very vast it has lost the depth.

9. In 1993 Dr. M. V. Gogate of Kolhapur, has undertaken a research on "A Study of Urban Co-operative Banks with reference to a Sangli District" under the guidance of Dr. S. S. Sahsrabuddhe. The researcher has discussed the financial aspects of these Urban Co-operative Banks in detail by giving more impetus to absolute sets and figures provided in the financial statements. The study is more of a narrative type, although presented in a logical way. The more sophisticated financial tools are not used properly.

10. In 1994 Dr. N. L. Jadhav, of Sangli, conducted research and submitted the thesis to the Shivaji University, Kolhapur for the Ph.D. degree under the guidance of Dr. C. S. Shresthi. Its title was "A study of selected Urban Co-operative Banks in Sangli with special reference to Customer Service." He has studied in detail the customer services provided by Urban Co-operative
Banks and its impact on the growth of Urban Co-operative Banks in the Sangli District.

11. Dr. H. D. Shalgaonkar of Kolhapur has submitted his thesis to the Shivaji University, Kolhapur in 1995. The title of his study was "Working of Urban Co-operative Banks in Satara District". He analysed the working very systematically and with proper perspectives. The core area of his study was finance and loaning. The liability side of the balance sheet seems overlooked by this study. Overall it is a good attempt.

12. Financial Analysis of Urban Co-operative Banks - A Study of Belgaum District is the title of the thesis of Dr. R. V. Diwan, He submitted it to the Shivaji University, Kolhapur in 1997 for his Ph.D. Degree. His area of coverage was financial analysis of the Urban Banks with the modern tools and techniques from Statistics and Financial Analysis. The study is based on secondary data. However, the work suffers from limitations of study of one area of finance.

13. Dr. (Mrs) V N Laturkar has submitted her thesis to SRTM University, Nanded in 1997. The title of her work is “Working and Financial Management of Nanded Merchant Co-operative Bank Ltd., Nanded". She analysed the working of the bank with Financial Management, as per her opinion this bank is viable and working primarily for traders. However, the study suffers limitation of being a case study of a bank only.

14. Dr. S.S.Dandwate has worked on "Women’s Banks in Maharashtra - A study with reference to Bhagyalakshmi Mahila Sahakari Bank, Nanded. He submitted his thesis to SRTM
University Nanded in 1997. Women are managing the bank successfully is the conclusion of the study. However, the study also has similar limitations like that of the Dr. Laturkar's work.

1.14 SOME IMPORTANT TERMS AND CONCEPTS USED:

1.14.1 Adverse Selection: This term is used to refer to situations, typically in credit market, in which at higher rates of interest, the relatively safer borrowers drop out of the credit market and borrowers with higher risks undertake investment activity leading to deterioration of the quality of the bank's portfolios.

1.14.2 CAMEL: Refers to a system of bank rating initially introduced in the US as an effective supplement to bank supervision. It refers to five key criteria, viz., capital adequacy (C), asset quality (A), management (M), earnings (E) and liquidity (L) against each of which a bank's financial health is evaluated on a scale of '1' to '5' with '1' as the highest rating and '5' as the lowest. Banks with composite CAMEL ratings of '1' or '2' are deemed to be sound and are generally permitted to operate without any restrictions. Banks that receive CAMEL ratings of '4' or '5' are designated as problem banks typically gets a '3' rating and is given specific instructions to address its deficiencies. The Padmanabhan Working Group (1995) on on-site supervision over banks operating in India has

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recommended adoption of six rating factors for Indian banks viz., CAMEL and systems (CAMELS), and four rating factors for foreign banks viz., capital adequacy, asset quality, compliance, and systems (CACS).

1.14.3 CREDIT CRUNCH:
Originally coined to describe the abrupt slowdown of credit in 1966, in the United States, it now refers to a situation where supply of credit falls even though there is sufficient demand for credit. In a deregulated environment, default rather than disinter-mediation is seen to be more prominent as crunch trigger.

1.14.4 CYCLES IN LENDING STANDARDS:
The questions such as - whether swings (from tight to lax) in credit standards is part of credit cycle and what is the role of regulator (i.e. the R B I) in minimizing such things have come to the forefront in recent times. One school of thought argues that such cycles are caused by imperfection in bank credit markets, while another school attributes such cycles to the tendency on the part of banks to overextend themselves during general expansions. The aim of the regulatory body is to eliminate or reduce the cyclical swings in credit standards and smoothen out lending cycles. The introductions of norms relating to capital adequacy, income recognition and accounting standards are measures towards this end.

1.14.5 FUTURES:
Futures are agreements to buy or sell a fixed quantity of a particular commodity, currency, or security for delivery on a fixed date in the future at a fixed price. Unlike an 'option', a
futures contract involves a definite purchase or sale and not an option to buy or sell. It, therefore, may entail a potentially unlimited loss. However, futures provide an opportunity for those who must purchase goods regularly to hedge against changes in prices. In contrast to a forward contract, which is tailor-made to the specific needs of individual buyer and seller, a futures contract is a standardized agreement under the prescribed rules of futures exchange, which insures each buyer or seller against default. Futures trading are allowed in India for six commodities, viz., castor seed, Hessian, gur, potatoes, turmeric and pepper.

1.14.6 MORAL HAZARD:
Moral hazard problem arises when borrowers undertake riskier projects at higher rates of interest with potentially higher returns but lower probabilities of success. The incentive to undertake risky investments at higher rates of interest are known in the literature as adverse incentive effect and a moral hazard problem arises there from.

1.14.7 OPTIONS:
Options are of two types: Call and Put. The call option is the right to buy an asset at a specified price and time, while put option is in the right to sell an asset at a specified price and time. European options can be exercised only at the expiry date while American options can be exercised at any time before and including the expiry date. An option contract can never have a negative value, as the purchaser of an option is not obliged to buy or sell at the 'exercise price' and will only do so if it is profitable. In the case of lapse of the option, only the initial purchase of the option, 'option money'/'premium'
is lost. Options allow the economic agents to hedge against the risk of wide fluctuations in prices; they also allow dealers and speculators to gamble for large profits with limited liability.

1.14.8 RESILIENCE OF THE BANKING SYSTEM:
Resilience of the banking system implies the capacity of the system to bounce back after a shock.

1.14.9 ROBUSTNESS OF THE BANKING SYSTEM:
Robustness of the banking system implies the ability of the system to absorb shocks without much difficulty.

1.14.10 SECURITISATION:
A process of pooling and repackaging similar loans into marketable securities and thereby imparting liquidity to the bank's loan portfolio are called as securitisation. It also refers to the shift in the pattern of mobilisation of funds by firms from bank borrowing to securities sold in financial markets.

1.14.11 SWAP:
Swap is a series of forward contracts in which two counterparties agree to exchange (swap) future streams of payments according to a predetermined rule. It provides the borrower with a means to exchange the type of funds most easily realised for the type of funds required, usually through the intermediation of a bank. The common types of swap are 'interest-rate swap' (borrowers exchange fixed - for floating interest rates), 'currency swap', etc. The intermediary bears the credit risk, should one party to a swap default on its payments.
1.14.12 SYSTEMIC RISK:
Systemic risk or market risk refers to the extent to which the value of a particular asset (say share price of script A) is correlated with the market as a whole. It is measured by beta. This concept is basis of capital asset pricing (CAP) model.

1.14.13 CAPITAL:
Until the Basle Accord is accepted, the concept of capital for banks was the sum of the paid-up capital and disclosed free reserves. However, in India after the Narsimham Committee Report, the new definition of the Capital is now accepted for all purposes. According to the new definition the whole capital is divided as - A. Core Capital also known as Tier I Capital. B. Supplementary Capital or Tier II Capital.

1.14.14 VOLUME OF BUSINESS:
It can be understood as scale of output of operation of any business, on the basis of which size of the business is determined. Therefore, the term volume of business in banking industry assumes importance. It refers to the sum total of deposits and advances in monetary terms.

1.14.15 THE COST:
The cost refers to the total cost generally comprising interest cost and non-interest cost, because interest payments form large part of the total cost.

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13 Dr. Nagarjan, N., 15th Bank Economists' Conference held at Baroda, 1992, the published by the conference, 1992
1.14.16 SPREAD:
The spread is the special term used in banking industry, which means difference between the interest earned and interest paid by the bank.

1.14.17 BURDEN:
The burden is another term having banking-specific meaning. It refers to the difference between the non-interest costs and non-interest income of the banks. The difference between the spread and the burden is important in determination and understanding the profit or loss of the banks.

1.14.18 EFFICIENCY:
Banks are labour intensive service oriented organisations. Hence, the efficiency of banks is measured along the labour productivity, which is measured by taking volume of business per employee, and percentage of salary cost to total cost.

1.14.19 CASH AT BANK:
Cash at Bank consists of deposits with Reserve Bank of India, Jalgaon District Central Co-operative Bank, Other Co-operative Banks and Commercial Banks in current, savings and deposit accounts.

1.14.20 LIQUID ASSETS:
Liquid Assets for banks means those assets, which are so determined and declared by the Reserve Bank of India for computation of Statutory Liquidity Ratio. Thus at present Liquid Assets of a bank comprise cash on hand, gold, approved securities at market price, specified portion of
balance in current account with Reserve Bank of India and other notified banks, State Co-operative Banks, District Central Co-operative Bank.

1.14.21 EQUITY:

Equity consists of Paid up Capital + Reserves + Surplus - Fictitious Assets. It is also referred to as Owned Capital.

1.14.22 VIABILITY:

Viability of Urban Co-operative Bank is defined by the Marathe Committee as - " A Viable Urban Co-operative Bank is one which able to adequately tap the potential investment, to mobilise surplus resource in the hands of community which it serves, and to provide banking and credit needs of the small people of urban and semi-urban area, by setting-up an efficient organisation with sufficient staff not only quantitative but from qualitative point of view, to manage efficiently and effectively through their own people and to earn profit with intention to retain some part of it in business".\textsuperscript{15}

1.14.23 OVERDUE:

Overdue loan means the loan past due as per the Reserve Bank of India guidelines. The loan becomes past due after two quarters from the date the loan or instalment falls due.

1.14.24 ASSETS:

Asset means and includes all assets shown on the asset side of the balance sheet of banks. The assets for the purpose of calculation of Capital adequacy ratio are classified into three

\textsuperscript{15} Nagari Bank, 'Marathe Committee Report', Volume V, No.4, September, 92, published by NUCB Federation Ltd, Bombay.

1.14.25 MEAN:

It is one of the measures of Central Tendency. Mean is the most popular and widely used measure for representing the entire data by one value. In layman language it is called as an 'average'. Its value is obtained by adding together all the items and by dividing this total by the number of items. In statistical terms it is described as 'Arithmetic Mean', classified into simple and weighted arithmetic mean.16

1.14.26 RANGE:

Range is the simplest method of measuring dispersion. It is defined as the difference between the value of smallest item and the value of the largest item included in the distribution.17

1.14.27 CORRELATION:

The correlation is the statistical device, which helps us in analysing the co-variation of two or more variables. Thus Correlation Analysis deals with the association between two or more variables.18 Besides," when the relationship is of a quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it in brief formula is known as correlation".19

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17 Ibidem P 137
18 Ibidem P 182
1.15 CONCLUSION:

The Study encompassed the Asset-Liability Management of Urban Co-operative Banks of Jalgaon District. It shall be of immense use to the banks, Government and Society at large. The sample size is considered as total population. Therefore, all Urban Co-operative Banks of the District are covered for study and Fourteen years period is taken temporal scope. Thus, an exhaustive study of Asset-Liability Management practices of Urban Co-operative Banks is taken with a hypothesis that the banks are effectively practising Asset-Liability Management practices.