INTRODUCTION

1.1 Research problem:

The main objective of the present study is to assess the efficiency and thereby effectiveness of urban cooperative banks as financial intermediaries in India. Financial intermediaries perform the role of mobilization of saving and allocating these savings to competing productive uses and thereby facilitate economic growth. Historically the urban cooperative banking segment has been playing important role of mobilizing savings from urban low and middle income groups and transferring these savings to micro enterprises in these areas who find it difficult to raise loans from commercial banks. The urban cooperative banking segment has grown in size and the quantum of funds intermediated at an exponential rate since the time it was brought under regulatory framework of the Reserve Bank of India since 1966. The deposits of urban cooperative banks are increased at an annual compound rate of growth of 18.6 per cent while credit increased at 17.6 per cent per annum during the period 1967 to 2008. Majority (above 80 per cent) of urban cooperative banks were fulfilling the target of 60 per cent loans to priority sector highlighted their role in allocating credit to micro enterprises in urban areas as noted by the High Power Committee on Urban Cooperative Banks (RBI, 1999). However it is not the quantum but the efficiency with which the financial intermediaries perform the allocative role that determines their effectiveness in facilitating economic growth. This study is undertaken with the primary objective of assessing the improvement in efficiency of the scheduled urban cooperative banks operating in the competitive environment created by the introduction of fairly deregulated regime since 1993. Though this segment constitutes small proportion of the total banking segment, its efficiency and resulting financial health derives special importance considering its allocative focus on small and micro enterprises and hence financial inclusion.
1.2 Introduction:

Rapid economic growth has been the prime objective of developing countries all over the world including India. The main driver of the growth is capital formation and financial sector (which constitutes financial institutions and instruments) viewed either as facilitator or promoter of capital formation play important role in the process of growth. There have been debates at theoretical and empirical level regarding the direction of causality between economic growth and financial development (RBI, 2005). However irrespective of this direction of causation there will be no disagreement on the point of view that the efficacy of the role of financial sector in facilitating or furthering economic growth depends on the efficiency of the sector. The systemic efficiency of financial sector depends on two factors. First, the financial institutions and the instruments in the sector should accord to the preferences of saving units and mode of financing the investments. Second, the institutions constituting the financial sector work with efficiency. The second is the necessary but not sufficient condition for ensuring systemic efficiency\(^1\). If markets are competitive, complete and well functioning and have perfect information the financial institutions would efficiently allocate resources from savers to investors and the systemic efficiency would be ensured. The emerging structure of financial sector then would match the preferences of the savers and investors and each constituent institution would function at its efficiency level. This structure would essentially be a diversified structure with financial institutions offering assets involving different degrees of risks and assigning them to individuals having different attitude towards risk. Thus the systemic as well as allocative efficiency of financial sector would be attained and the outcome would be Pareto efficient. However in real world there are structural rigidities, segmentations and information asymmetries that result into systemic inefficiencies and market failures.\(^2\) The structural rigidities result in to market segmentation which may lead to emergence of diverse mix of financial institutions and products to accord with the preferences of different segments but these institutions are likely to operate with imperfections. This makes the financial system inefficient leading

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\(^1\) This is termed as 'functional efficiency' (Jadhav Narendra, 1994).

\(^2\) Market failure occurs whenever there is inefficient allocation of resources. Market failure is often associated with market imperfections (market powers), incompleteness of the markets and externalities.
to high interest rates. Financial markets fail to exist for some private institutions in free markets cannot profitably supply financial services to all savers and investors and hence some are likely to be excluded from the market. This can be termed as a case of missing formal financial markets. Moreover some kind of loans cannot be profitably contracted and thus markets become incomplete and fail. During pre-independence period and early decades of planning in India large number of people with limited assets did not have access to private banks and thus formal financial market failed to exist for them. The markets also fail due to information asymmetries. The failure of penetration of banking sector in rural areas till late sixties may exemplify the failure of formal financial market in India (RBI, 2008). This left scope for operations of moneylenders on large scale in rural India and the rural financial markets remained the monopoly of moneylenders as documented by the Rural Credit Survey of the Reserve Bank of India in 1951. The moneylenders met nearly 80 percent (and commercial banks met only 0.9 percent) needs of agriculture in 1951-52 (RBI, 1954). This informal financial market was also a source of financial services (loans) for those who were left out of the scope of formal financial markets due to limited assets and high transaction costs because of small size of loans. Secondly, asymmetric information in financial market leads to credit rationing thereby leaves excess demand for loans. This is another reason why financial markets become incomplete. The presence of imperfections, incompleteness and complete market failures lead to inefficient financial sector.

3 A missing market is a situation where a complete market allowing the exchange of commodity would be Pareto efficient but no such market exists. This may happen due to high transaction costs and failure of trust and information.

4 Markets become incomplete when certain commodities as well as financial assets, insurance and credit cannot be contracted or contracted only partially.

5 When buyer (seller) has more or better information about the product quality than seller (buyer) then such a situation is termed as asymmetric information. This implicates the problem of adverse selection and moral hazard. In case of loan transaction adverse selection occurs when the potential borrowers who are the most likely to produce an undesirable (adverse) outcome, the bad credit risks, are the ones who most actively seek out a loan and are thus most likely to be selected. If this happens, lenders cannot price discriminate (i.e. vary interest rates) between good and bad borrowers in loan contracts, because the riskiness of projects is unobservable. Thus, when interest rates increase, relatively good borrowers drop out of the market, increasing the probability of default and possibly decreasing lenders' expected profits. In equilibrium, lenders may set an interest rate that leaves an excess demand for loans. Some borrowers receive loans, while other observationally equivalent borrowers are rationed. The problem of adverse selection occurs before the transaction takes place. Moral hazard is the consequence of asymmetric information after the transaction occurs. The lender runs the risk that the borrower will engage in activities that are undesirable from the lender's point of view because they make it less likely that the loan will be paid back.
Stiglitz (1994) has pointed out the fundamental reason for failure of financial markets. In his paper titled ‘The Role of State in Financial Markets’ he has argued that the essential functions of financial markets are production, processing, dissemination, and utilization of information and competitive equilibrium in these markets can never be Pareto efficient. This is because information is ‘in a fundamental sense public good’ (Stiglitz, 1994, p. 21). It possesses two essential features of public good, namely, nonrivalrous consumption and nonexcludability. This is the fundamental reason why financial markets fail. He has discussed other reasons of failure of financial markets which according to him provide rationale for government interventions in these markets to improve not only their efficiency but the efficiency of the economy. The interventions in financial markets like market regulation (for instance, regulating the interest rate) and promotion and regulation of the institutions which help to minimize the problems arising from asymmetric information. Thus he opposes to the policy of financial liberalization.

Historically the failure of financial markets was a common feature in most of the underdeveloped countries. The policy makers in most of these countries including India shared the view of the traditional development theorists that financial institutions mobilize resources to finance investments and thereby facilitate economic growth led by industrialization. The governments in these countries intervened in financial markets which in turn shaped the evolution of financial systems in these countries. As per the categorization of Patrick H. these interventions were of “supply leading, nature that is, creating financial institutions supplying financial assets and liabilities ahead of their demand” (Patrick H., 1966).

The government interventions in financial markets and the consequent evolution of these markets in India are well documented in several publications of the

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6 The “demand-following” the phenomenon is one in which the creation of modern financial institutions, their financial assets and liabilities, and related financial services is in response to the demand for these services by investors and savers in the real economy. In this case, the evolutionary development of the financial system is a continuing consequence of the pervasive, sweeping process of economic development (Patric, 1966, p 174). He has cited financial development in late eighteenth and early nineteenth century as historical example of demand following nature. He however has pointed out that the lack of flexibility and imperfections in the market mechanisms in underdeveloped countries creates obstacles in development of financial services in response to demand and put a restriction on growth of real sector. Supply leading approach then facilitates economic growth.
Reserve Bank of India, particularly the theme based reports on currency and finance since 2000. Historically the Indian financial system has been based on intermediation and dominated by the banking system. The latest report of RBI on currency and finance which is a combined report for 2006-08 gives an excellent account of the policy initiatives, philosophy behind these initiatives and subsequent evolution of Indian banking system since pre independence period. To recapitulate the policy measures in India may be broadly classified into two types - 1) regulation and spread of the major banking segment, that is, commercial banks, and 2) promotion and regulation of rural and urban cooperative banks. While the former may be viewed as a measure to tackle the problem of segmentation and imperfections in financial markets the latter may be seen as a measure to deal with the problem of asymmetric information and missing financial markets due to small size of loans and high transaction costs of the loan requirements of cultivators and small scale non agricultural enterprises.

These policies were implemented during the early decades of planning on the background of underdeveloped economy and the shared view of the policy makers that credit provided by financial institutions for productive purpose is an important input in the process of economic growth through industrialization. The mandate of the policies was thus to align the banking system to meet the financing requirements of the targeted plan investments. In order to fulfill this mandate the policy of social control over the banking sector began in 1967 and major private banks were nationalized in 1969. The main objectives were to widen the branch network to rural and semi urban areas, mobilize the deposits and to direct the credit flows to agriculture, small scale industries and small borrowers. Thus the policy mix was of setting sectoral targets of investments and mobilizing savings and diverting these saving for financing these investments at repressed rates.

In addition the measures were taken to promote the rural and urban cooperative credit banking system that existed since pre independence period. This was

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7 During pre independence period the term bank was loosely defined and thus the banking system comprised of joint stock banks, cooperative banks, indigenous banks, and nildies and loan companies. In large number of villages and towns indigenous bank was the main source of credit (RBI, 2008, p 32).

8 A contemporary example of the mechanism to deal with the problem of asymmetric information is promotion of self help group movement in emerging market economies including India.
done with a view to tackle the problem of market failure arising out of asymmetric information and missing markets due to high transaction costs of small size loans both in rural as well as urban areas. The cooperative credit society’s act was passed in 1904 to facilitate the cooperative movement. The Maclagan Committee’s recommendations brought out amendments in this act contributed to the evolution of urban cooperative movement. Urban cooperative banks were concentrated around communities, localities and work place groups and their lending operations were confined to essentially to small borrowers and businesses in semi urban and urban areas.

The development of major component of Indian banking system till late eighties, that is, public sector banks, under the policy initiatives from time to time can be described as of supply leading nature while the development of private sector commercial banks and cooperative banks by and large shared demand following nature. But the interest rates and quantum of loans to priority sector was regulated. Till 1990s the banking system expanded in terms of increasing the quantum of intermediation. The extent of intermediation measured by the deposit NDP ratio increased from 19 per cent in 1972 to 44 per cent by 1990 (chapter II, Table 2.5). Nearly seventy three per cent of the mobilized deposits were transferred to investors by way of credit (RBI, Basic Statistical Returns, 2008). The deposits of urban cooperative banks increased at the rate of 18 per cent per annum from Rs. 153 crores in 1967 to Rs. 8660 crores in 1990. Nearly 90 per cent of these were given as loans (Chapter III, Table 3.1). The flow of credit to neglected sectors was sought through the mandate of certain proportion (40 per cent for commercial banks and 60 per cent for urban cooperative banks) of loans earmarking for priority sector. This helped the economy to come out of low level equilibrium trap (RBI, 2008, Chapter III). However the directed spread of institutional credit at administered interest rate (financial repression) resulted in to distortions and constrained the banking sector considerably. It also constrained the competitive level playing fields for banks.

These inefficiencies surfaced as a cause of concern at policy level and the banking sector saw the transformation from beginning of 1990s as a result of financial sector reforms implemented along with the structural adjustment programmes in 1991. Series of measures recommended by Narasimham Committee to create efficient,
productive and profitable operating within the framework of operational flexibility and functional autonomy were grounded in the McKinnon-Shaw paradigm and the endogenous growth theories that highlighted the causal role of financial development in economic growth. During the period of these reforms the world economy was moving towards global integration of financial services hence the second phase of reforms that started after mid 90s focused on strengthening the financial system. The measures suggested for improving the financial health of commercial banks were implemented for urban cooperative banks as well. Thus the main thrust of the financial sector reforms was on enhancing efficiency and bringing in stability in the financial system. At present the financial system has a free level playing ground. However the importance of imperfections and the consequent role of government in the area of prudential norms are recognized by Indian planners so the financial system is liberalized with the application of prudential norms which are to be fulfilled by the banks to ensure the stability of the system.

The impact of these reforms on the improvement in productivity, efficiency and stability has been analyzed for the banking sector in India excluding rural and urban cooperative banks which is reflected in the latest available report on currency and finance for the years 2006-08 of the Reserve Bank of India (RBI, 2008). The earlier report on currency and finance 2003 has reviewed the indicators of efficiency (productivity) of scheduled urban cooperative banks for the period from 1997-98 to 2001-02. This review highlighted that “there has been very little perceptible improvement in either stability or efficiency of co-operative banks. In particular, the asset quality and profitability of scheduled urban cooperative banks showed some deterioration in the reform period. Positive impact of reforms, as has been witnessed in the case of commercial banking sector, may take longer to get manifested for co-operative banks given the late start of the reform process in this sector. Unless such a positive scenario

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9 The McKinnon-Shaw paradigm highlighted the negative impact of financial repression that is characterized by directed credit and administered interest rates at below equilibrium level in economic growth. The prescription of the paradigm was liberalization of financial markets so that the rate of interest determined by the free interplay of market forces would result in to optimum savings and also a more efficient use of investible resources and would in turn foster growth.
evolves for the co-operative banking sector in the near future, the financial health of many of these banks would continue to remain a cause of concern" (RBI, 2003, p. 192).

The urban cooperative banking segment forms a small proportion of the banking segment in India. However, its important role in providing credit to micro enterprises whom commercial banks are cautious of lending has been recognized by many committees, for instance the Central Banking Enquiry Committee (1931), the Cooperative Planning Committee (1946) popularly known as Saraiya Committee, Varde Committee (1963), the Study Group on Credit Cooperatives in Non-Agricultural sector (1963) and Working Group on Industrial Financing through Cooperative banks (1968) and the High Power Committee on Urban Cooperative Banks (1999). Their market share in deposits and credit in urban and metropolitan areas increased to 9 and 10 per cent by 2001. Nearly 60 per cent of the advances went to the priority sector. This market share however declined around four per cent by 2008 due to slowing down the growth of deposits and credit during the high growth phase of the economy. Apart from this, the asset quality of urban cooperative banks further deteriorated that reflected in to the increased ratio of gross nonperforming assets to gross advances from 11 per cent in 1998 to 23 per cent in 2005. Unless the efficiency of the urban cooperative banks improves it may not be possible for them increase the market share. On this background, an attempt is made in this study to analyse the trends in efficiency and productivity of scheduled urban cooperative banks up to 2008. Considering the heterogeneity of the urban cooperative banking segment a disaggregate level analysis would bring out the disparate financial strengths of various urban cooperative banks and highlight the variables determining efficiency. Hence, an attempt is made to investigate the productivity and efficiency of the scheduled urban cooperative banks.

1.3. Objectives of the Study:

The specific objectives of the study are as follow.

1. To assess the evolution of urban cooperative banking segment in terms of size, the quantum of intermediation (deposits and credit) vis-a-vis the
development of the commercial banking segment from 1967, that is the time since this segment was brought under RBI control.

2. To examine the trends in productivity/efficiency and soundness of the scheduled urban cooperative banking segment from 1998 to 2008. This segment accounts for 40 per cent of deposits and credit of the total urban cooperative banking segment.

3. To investigate the bankwise financial performance of scheduled urban cooperative banks for 2004 to 2008.

4. To inquire into the impact of qualitative aspects like professionalism, governance and quality of loans on efficiency.

These issues are put in the perspective of the theoretical arguments pertaining to the causal relationship between financial development and economic growth.

1.4 Research Methodology:

1.4.1 Concepts:

Let us at the outset clarify the concepts of efficiency and productivity of a financial institution and its measurement in the present study. There are number of empirical studies measuring productivity and efficiency of banks in different countries including India. A brief review of these studies is available in the report on currency and finance (RBI, 2008, chapter IX). This review highlights the conceptual issues pertaining to productivity and efficiency of a bank. The Efficiency is a function of input and output. When for the same quantity of inputs, a greater quantity of output is generated or when same output is achieved with a lesser quantity of inputs, efficiency is said to be higher. Standard productivity measures change in output per unit input when other inputs and technology remain unchanged. The productivity measures are standard accounting ratios such as business per employee, profits per employee, operating cost to asset ratio and the like. In the framework of these standard measures of productivity change the distinction between productivity and efficiency becomes obscure. In the present study the standard measures of accounting like business per employee, ratio of net profits to assets, and ratio
of operating costs to assets are used to measure productivity and hence changes in productivity are the indicators of changes in efficiency.

1.4.2 Literature:

As mentioned earlier many studies analyzing changes in productivity and efficiency for commercial banks are available but the similar studies for cooperative banking segment are conspicuously lacking. The report of currency and finance for the year 2001-02 contains a small section on the efficiency and stability of scheduled urban cooperative banks covering the period from 1997-98 to 2001-02. Among various committees on urban cooperative banks appointed by the Reserve Bank of India the High Power Committee while commenting on policy on weak urban cooperative banks suggested the norms to evaluate financial performance of urban cooperative banks in section 5 of the report. The norms suggested by this committee are professionalism and quality of management, compliance of prudential norms, profitability and quality of assets. However no attempt has been made to measure the efficiency of urban cooperative banks. There is a plethora of degree research studies but they are not published. There are some research studies attempting to review the trends in growth of urban cooperative banks. This lacuna gives space to this study.

1.4.3 Data Sources and Statistical Methods:

The major source of data is various publications of the Reserve Bank of India. The growth of number, deposits and credit of urban cooperative banks have been analysed using the data from RBI’s Report on Trend and Progress of Banking in India which is an annual publication. The data on deposits and credit of scheduled commercial banks in semi urban, urban and metropolitan areas are taken from the population groupwise deposits and credit available in RBI’s Basic Statistical Returns. The annual compound growth rates are computed using log linear models. The structural shift in the growth of deposits and credit is tested using Chow test.

The productivity of urban cooperative banks is assessed using the ratio of operating cost to assets, ratio of interest spread to assets, ratio of net profits to assets and business per employee. The ratio of operating cost (non interest cost) per unit of assets
reflects the efforts of the banks to rationalize the labour cost and other office expenses. The spread or net interest margin measures the difference between the interest earned (including interest on investments) and interest spent normalized by the assets. This gives an indication of ability of banks to generate income from credit and investment operations from their funds (deposits and borrowings) effectively. Business per employee measures total business, deposits plus credit per employee and as such is a direct measure of labour productivity. The net profit to asset ratio approximates the return on assets and is a measure of overall profitability of the bank. The data for the scheduled urban cooperative banking segment is obtained from Trend and Progress Report on Banking For various years. Analysis of productivity of 41 urban cooperative banks for which the data are available for all the years from 2004 to 2008 is done using the above ratios except operating profits to asset ratio. Though it is not specified it appears that the operating profits to asset ratio reported for the individual urban cooperative banks pertains to the interest and non interest costs. This poses the problem in using this ratio as indicator of productivity reflected in rationalization of the cost. The productivity is analysed using measures of central tendency and dispersion and correlation coefficients. The variation in the productivity is measured by the statistic coefficient of variation computed for all indicators of productivity. The relationship between interest spread and net profitability and labour productivity and net profitability is assessed by computing the correlation coefficients.

For the qualitative analysis of productivity two scheduled urban cooperative banks, namely, Janata Sahakari Bank and Cosmos Bank which fall at the two extremes of the range of profitability are selected. Both these banks are from Pune district located in the state of Maharashtra. The urban cooperative banking sector in the state of Maharashtra occupies major share of the urban cooperative banking sector in India. As on March 31, 2006 there were 1853 urban cooperative banks in India, out of which 624 banks were operating in the State of Maharashtra. These banks had deposits of Rs.70279 crores which almost constitute 50% of overall deposits of urban cooperative banks in
India. The researcher being a resident of Pune city has chosen two banks from Pune district.

The comparative analysis of the two banks is attempted using CAMEL approach. In this modern approach “CAMEL” parameters are used to evaluate the efficiency of banks. CAMEL approach is more comprehensive and superior than other approaches. For instance, in operating approach only total revenue and total expenses are considered as parameters to measure bank’s efficiency. In intermediary approach only total expenses and total assets are considered as parameters to measure bank’s efficiency. However in the modern approach (CAMEL: Capital Adequacy, Asset Quality, Management, Earning, and Liquidity) in addition to these parameters also considers parameters like percentage of nonperforming assets, capital to risk weighted assets ratio (CRAR), corporate governance, profitability and liquidity management of the bank. Hence the present study has used the CAMEL norms to examine the efficiency of the two selected urban cooperative banks.

It is primary responsibility of bank management to maintain capital to risk asset ratio as per prescription of the RBI. Bank requires capital for financing its operations, acquisition of fixed assets and upgradation of technology. As Urban Cooperative Banks perform the same banking functions as commercial banks, RBI introduced CRAR norms for Urban Cooperative Banks. The present study has analysed efficiency of capital adequacy of both banks on basis of their ability to maintain prescribed CRAR.

Business like banking is more prone to various risks. The prominent among the various risks is the credit risk as lending is the primary function of a bank. Credit risk denotes the probability that the borrower may fail to repay the loan in time. It is the default risk where default occurs on loans, bank is required to classify those assets as non-performing. It is essential to make provisions for these NPAs which reduce the profit of a bank. High percentage of NPAs reduces interest income and limits recycling of funds. The present study has evaluated impact of NPAs on top line and bottom line of

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10 "Urban Cooperative Banks at a glance" a publication of Maharashtra Urban Cooperative Bank Federation, 2006.
both banks. The present study has also tried to assess the impact of priority sector lending on NPAs of both the banks.

To develop a bank in healthy manner and self sustaining basis in highly competitive environments, professional management is crucial. As banks provide a payment and settlement system to the economy and has important linkages with the real sector, quality of management becomes more crucial. Managerial efficiency of both banks has been evaluated in the present study on basis of parameters such as net NPAs, net profit, CRAR, priority sector advances etc. as prescribed by the RBI.

Since profitability is an index of efficiency of banking enterprise, a profit making bank can infuse confidence in public at large which is necessary for its survival and growth. Profit provides cushion to the bank to support its credit risks. A profitable bank has sufficient resources to finance its growth and diversification programs in future.

Liquidity management in bank focuses on its ability to meet its financial obligations as they become due. Liquidity management is more challenging owing to the fact that lending activities invests in relatively illiquid assets whereas it funds its lending activities through short term liabilities. The researcher has evaluated efficiency of liquidity management of both banks by using liquid asset ratio and credit deposit ratio.

In addition to CAMEL norms the researcher has analysed efficiency of cost management of both banks by using burden ratio and cost income ratio. Impact of information technology on efficiency of both banks has also been evaluated in the present study.

The data are taken from the annual reports of these two banks. The CAMEL norms also have limitation. It focuses only on figures. Any figure is end result of various processes. In the present study an attempt has been made to read the qualitative aspects behind these figures using the insights gained from discussion with key informants in the sector.
1.5 Structure of the Thesis:

The thesis contains six chapters including introduction and conclusions.

The present chapter titled introduces the problem and sets out the methodology of the study and is titled as ‘Introduction’.

The second chapter, ‘Interaction between Financial System and Economic Growth’ deals with the different theoretical perspectives on the relationship between financial development and economic growth that prevailed from time to time. These perspectives and the empirical experiences on them were behind the policies for the financial system which have shaped the financial systems in developing countries like India since fifties. Development of Indian financial system is described on this background and the financial deepening of the economy is measured with the help of various indicators.

Third chapter, ‘Growth and Development of Urban Cooperative Banks in India’ is devoted to the analysis of growth of urban cooperative banking segment in terms of number, deposits and credit. The growth experience of the urban cooperative banking segment is compared with the growth of commercial banks. The features of urban cooperative banks like size and grade wise composition, priority sector lendings and the operational framework are also discussed in this chapter. The recommendations of various committees appointed by the Reserve Bank of India have shaped the growth of urban cooperative banking segment. A brief review of these committees is presented in the appendix of chapter III.

Fourth chapter titled “Financial Performance of Scheduled Urban Cooperative Banks in India’ attempts to assess efficiency and productivity of scheduled urban cooperative banks in India and comparing performance of scheduled urban cooperative banks with other bank groups including public sector, private sector and foreign banks. The issues in this chapter pertain to explanation of growth and development of scheduled urban cooperative banks in India, conceptual issues relating to measurement of efficiency and productivity and the analysis of productivity of scheduled
urban cooperative banks based on net profit per unit of assets, business per employee to assets and interest spread per unit of assets for aggregate level and at disaggregate level for 41 scheduled urban cooperative banks.

Fifth chapter is titled as 'Study of Comparative Analysis of Efficiency of Two Selected Scheduled Urban Cooperative Banks'. This chapter pertains to the analysis of efficiency of the two banks selected for the case study, namely, Cosmos Cooperative Bank and Janata Sahakari Bank on basis of Capital Adequacy, Asset Quality, Managerial Efficiency, Profitability and Liquidity. These banks come in the top spectrum of deposit size distribution of urban cooperative banks. While Janata Bank has posted negative profit during the period 2004-2008 and Cosmos Bank has earned profit in the same period. Cosmos Bank has maintained CRAR according to the prescribed norms of RBI during the study period, i.e. 2004-2008. The Janata Bank has negative CRAR in the same period. The performance of these two banks is assessed in terms of capital to risk weighted assets ratio (CRAR), asset quality on basis of the ratio of nonperforming assets to total advances, impact of NPAs on top line and bottom line of both banks, impact of priority sector lending on NPAs, the quality of corporate governance of selected two banks on the basis of prescribed norms by the Reserve Bank of India, the diversification of their operations based on the share of their non interest income in total income, efficiency in cost management assessed in terms of cost income ratio and burden ratio, efficiency in liquidity management of both banks by comparing liquidity assets ratio and credit deposit ratio, and impact of information technology on efficiency of both banks in terms of improvement in quality of assets and increase in business of banks.

Last chapter is concluding chapter and presents the summery of significant findings of the present study. Modest effort is made to suggest policy implications to improve efficiency of both banks.