Chapter-I

Introduction and Cooperative Movement
CHAPTER - I

INTRODUCTION

1.1. COOPERATIVE MOVEMENT

"Revolts grow from the anger of the people and Movements grow out of their hopes”.

- Jack Bailey

Cooperative movements owes its origin in the forties of the 19th Century in Europe when the poorer section of the population saw in cooperation an effective means to secure salvation from the hardships of the rapid industrial revolution. But this was viewed as conspiracy in restraint of trade and so tended to be suspected by the Government of the day. Moreover, cooperation in the urban areas in those days was often linked with trade unionism which was then regarded as revolutionary doctrine. In the second half of the 19th Century, the movement was accepted as a legitimate effort but it was only tolerated rather than welcomed by Governments. Gradually with the turn of the century, the Governments of Western Europe were not only prepared to accept the movement but also ready to promote it. And “today cooperation is a world-wide movement. It exists in some form in every continent and in nearly every considerable country”.

Cooperative Structure in India

Cooperative banks, Commercial banks and Regional Rural banks form the integral part of the rural credit delivery system in the country. The Indian

cooperative system is the largest in the world. The credit cooperatives have an impressive membership of 11.3 crores. The cooperatives have a share of 45 percent in rural credit, and cater mostly to the needs of the small and marginal farmers and other weaker sections of the rural society. There is a need to have a re-look at the credit requirements in the context of the changes that have place since then. 3

The Cooperative banks are an important part of the institutional credit structure in India, particularly in rural and agricultural credit. The cooperative banks account for about 50 to 60 per cent of the total agricultural credit provided by all financial institutions.

Cooperative banks offer highly personalized services for their members, sometimes the services offered by them goes far beyond the banking. Considering the role of the cooperative banks in the current economic scenario, these banks are also forced to shift their business from traditional banking to innovative banking. Though these banks are operating in limited areas, they have been competing with all the commercial, private, foreign and other cooperative banks.

The primary object of the cooperative banks is to serve for the people without bias, and they don't attach much importance for earning profits. They expect only a nominal profit to run the institution as well as to continue their services to the people of all sections, giving primary importance to service.

3. Address by Balasaheb Vikhe Patil, Hon'ble Union Minister of State for Finance during NABARD's best performance award function in July 12, 2000 at New Delhi.
Cooperative Credit Structure in India

Cooperative banks in India have come a long way since the enactment of the Agricultural Credit Cooperative Societies Act in 1904. The century old cooperative banking structure is viewed as an important instrument of banking access to the rural masses and thus a vehicle for democratization of the Indian financial system. Cooperative banks mobilize deposits and purvey agricultural and rural credit with a wider outreach. They have also been an important instrument for various development schemes, particularly subsidy based programmers for the poor.

The Cooperative banking structure in India comprises urban cooperative banks and rural cooperative credit institutions. Urban Cooperative banks consist of a single tier, viz., primary cooperative banks, commonly referred to as Urban Cooperative Banks (UCBs). The rural Cooperative credit structure has traditionally been bifurcated into two parallel wings, viz., short-term and long-term. Short-term Cooperative credit institutions have a federal three-tier structure consisting of a large number of Primary Agricultural Credit Societies (PACS) at the grass-root level, Central Cooperative Banks (CCBs) at the district level and State Cooperative Banks (StCBs) at the State/apex level. The smaller States and Union Territories (UTs) have a two-tier structure with State Cooperative Banks directly meeting the credit requirements of PACs. The long-term rural cooperative structure has two tiers viz., State Cooperative Agriculture and Rural Development Banks (SCARDBs) at the State level and Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) at the taluka/tehsil level. However, some States have a unitary structure with the State level banks operating through their own branches; three States have a mixed structure incorporating both unitary and federal systems.
Several measures were initiated during 2004-05 to strengthen the cooperative credit structure in the country. Importantly, a vision document was prepared to rationalize the existing supervisory structure for urban cooperative banks. Prudential norms applicable to urban cooperative banks and rural cooperatives were strengthened. The recommendations of the Task Force (Chairman: Prof. A. Vaidyanathan) to strengthen the rural cooperative credit structure are being considered by the Government of India for implementation. Efforts are afoot to work out a targeted approach to revive the cooperative banks.

Structure of Cooperative Credit Institutions

Source: RBI Report on Trend and Progress of Banking in India, 2005-06.
1.2. ORIGIN AND DEVELOPMENT OF URBAN COOPERATIVE BANKS

The origin of the urban credit movement in India can be traced to the close of the nineteenth century. Following the success of the urban credit institutions organized by Hermann Schultze in Germany and Luigi Luzzatti in Italy during the period 1855-1885, some middle class Maharashtrian families settled in the erstwhile Baroda State started a mutual aid society in Baroda on 5 February 1889 under the guidance of Shri Vithal Laxman Kavthekar. When the Cooperative Credit Societies Act of 1904 conferred legal status on credit societies, the first urban cooperative credit society was registered in October 1904 at Conjeevaram in Madras Province. Subsequently, the Betegiri Cooperative Credit Society in Dharwar District in the undivided Bombay Province and the Bangalore City Cooperative Credit Society in the erstwhile Mysore State were registered in October 1905 and December 1905 respectively.

Historical Background

The development of urban cooperative credit societies did not receive much attention until 1915 when the Maclagan Committee referred to the potentialities for the organization of such societies as a means of training the upper and middle urban classes in ordinary banking principles. The failure of local joint stock banks in the country at that time gave an impetus to the growth of urban cooperative credit societies. It was then realized that urban credit societies were eminently suitable institutional agencies for collecting local savings and to provide relief to those who were in the clutches of moneylenders by providing them with financial accommodation. Many urban credit cooperatives came to be organized in Bombay and Madras Provinces during this period (1919-38). The urban credit societies which came into being in Bombay confined their activities mostly to the members of particular communities and their lending operations were also primarily with a view to meeting the consumption needs of
their members. The great depression of the thirties did not have any visible impact on the development of urban cooperative credit movement in country mainly because the fall in urban incomes was not as steep as the fall in rural incomes.

Later, the economic boom created by the Second World War (1939-45) provided a stimulus to the growth of urban banks in India. They grew not only in number but also in size, diversifying their activities considerably. Urban cooperative credit societies which had hitherto largely confined their loaning operations to provision of the consumption credit needs of the members were called upon to take up new avenues such as financing of artisans, small businessmen and small traders for productive purpose, in the context of the hesitancy if commercial banks at that time to meet the credit needs of these classes due to the high cost of servicing of loans.

The usefulness of urban banks in financing artisans, small traders, factory workers and urban middle classes was recognized by various committees and Working Groups such as the Central Banking Enquiry Committee (1931), the Cooperative Planning Committee (1946), the study group on Credit Cooperatives in the Non-Agricultural Sector (1963) and the Working Group on Industrial Financing through Cooperative Banks (1968). More particularly, the Working Group on Industrial Financing through Cooperative Banks (1968) set up by the Reserve Bank was of the view that urban banks were eminently suitable institutional agencies in the cooperative sector to cater for the credit needs of small-scale industries run by individuals, firms and joint-stock companies.

In the light of the finding of the studies on viability of urban banks, the committee has come to the conclusion that the definition of a primary
cooperative bank as given in the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949 needs amendment in so far as it relates to minimum share capital and reserves requirements.

**Chronological list of development in Urban Cooperative Banks**

The chronological development of Urban Cooperative Banks in India is listed below:

- Mr. Viththal Laxman Kavathekar established the first cooperative institution in Baroda (1889).

- Passing of separate Cooperative Credit Societies Act to place thrust on organizing new credit cooperatives (1904).

- The first urban bank in India was started at Kancheepuram in Tamil Nadu (1904).

- Passing of comprehensive act covering federal cooperatives as also non-credit cooperatives (1912).

- Maclagan Committee report stressing encouragement to the formation of urban cooperative credit societies (1915).

- Mortague Chelmsford Reforms bringing cooperation into the state subjects list, various states passing the Cooperative Societies Act (1919).

- The Provincial Government of Bombay passed the first, State Cooperative Societies Act, which gave the cooperative movement its size and shape (1925).

- The Central Banking Enquiry Committee felt that urban banks should be held for small traders, merchants and middle class population (1931).
• The Joint Reorganization Committee popularly known as Mehta Bhansali Committee for the first time made an attempt to define Urban Cooperative Banks (1939).

• Report of the survey of urban cooperative banks made by RBI for assessing the financial pattern of urban cooperative banks and their role in financing small scale industries revealed that notwithstanding absence of state support to urban banking sector, the urban cooperative banks sector, as a whole register a fairly good rate of progress (1961).

• Report of the study group on credit cooperatives in non-agricultural sector which reviewed the working of urban cooperative banks along with other non-agricultural credit societies under the chairmanship of Shri. V.P. Varde (1963).

• Banking Regulation Act 1949 made applicable to the Urban Cooperative Banks (1966).

• Cooperative Banks under the Chairmanship of Shri. P.N. Damry, recognized urban cooperative banks as the ideal institutional agency to cater for the credit needs of small scale industries run by individuals, firms and joint-stock companies (1968).

• The deposit insurance scheme was introduced to cooperative banks (1968).

• The report of the banking commission which commented on the performance of urban cooperative banks. The commission appointed Government of India (1972).

• The committee on problems of urban cooperative banks in Maharashtra observed that the performance of the urban cooperative banks in state, taken as a whole, is fairly satisfactory (1976).
• Shri. K. Madhava Das Committee on urban cooperative banks making recommendations regarding re-organization of urban cooperative banks (1977).

• RBI recognized the significant role of urban cooperative banks sector was playing in credit dispensation to the lower and middle income groups of urban and semi-urban areas, has decided to apply the priority sector discipline to urban cooperative banks also. Urban Cooperative Banks required deploying a minimum of 60 percent of their advances to the priority sector (1983).

• Setting up of Urban Banks Department (UBD) by the RBI as recognition of this sector as important part of the banking system (1984).

• RBI had set up a committee headed by Shri. M.N. Goiporia to ensure improvement in the customer service in the banks (1990).

• The committee on financial system under the chairmanship of Shri. M. Narasimhan made recommendation of prudential norms; the RBI has introduced these norms to urban cooperative banks (1991).

• Report of the Marathe Committee addressing to the issues like branch licensing for cooperative banks (1992).

• RBI had constituted a High Level Committee under the Chairmanship of Shri. A. Ghosh to enquire into various relating to frauds and malpractices in banks. Some of the recommendations relevant to the urban cooperative banks commended for adoption by them (1992).

• RBI had appointed a working group under the chairmanship of Shri. Uday M. Chitale to review the existing audit systems of urban cooperative banks (1995).
• Report of High Power Committee on urban cooperative banks under the Chairmanship of Shri. K.Madhava Rao to review the performance of urban cooperative banks and suggest necessary measures to strengthen this sector (1999).

• RBI pacing a variety of restrictions on urban cooperative banks activities through the announcement of monetary and credit policy (April 2001).

• Urban Cooperative banks with a multistage presence are registered under the Multistage Cooperative Societies Act, 2002 and are regulated and supervised jointly by the Central Government through Central Registrar of Cooperative Societies and the Reserve Bank (2002).

• The financially strong scheduled urban cooperative banks having a minimum net worth of Rs.100 crores are permitted by Reserve Bank of India to enter into Insurance Business from 4-8-2003 (2003).

• The Government of India by its notification No.S.O.E. 105(e) dated 28th January 2003 has made applicable the provisions of the Securitization and Reconstruction of Financial Assets and Enforcements of Security Act to urban cooperative banks. The Urban Cooperative banks are advised to make the best of this facility provided to them for recovering their dues and thus reducing their Non-Performing Assets (2003).

• Based on the recommendation of Joint Parliament Committee on scam in cooperative banks, the RBI introduced the system of mandatory concurrent audit in urban cooperative banks. These directives were made applicable on all urban cooperative banks irrespective of deposit as RBI earlier suggested concurrent audit for urban cooperative banks with deposit over Rs.50 crores (2003).

• The system to categorizing urban cooperative banks as good, weak and sick has been dispensed with by RBI and a new system has been
introduced where in urban cooperative banks are categorized in four grades i.e., Grade I, II, III and IV. These grades are being awarded based on the performance of urban cooperative banks in respect of capital to risk asset ratio (CRAR), Level of non-performing assets (NPA), profitability, maintenance of cash reserve ratio and statutory liquidity ratio (2003).

- The guidelines on merger and amalgamations of urban cooperative banks have been issued by RBI vide circular dated 2.2.2005.

- Know your customer (KYC) guidelines were revised in the context of the recommendations made by the Financial Action Task Force (FATF) on Antimoney Laundering standards and combating Financing of Terrorism. Detailed guidelines based on the recommendations of the FATF were issued to urban cooperative banks. Banks were also advised to ensure full compliance with the provisions of these guidelines before December 31, 2005.

- RBI is entering into a regulatory arrangement with the State Government through Memorandum of Understanding (MOU) to facilitate proper and coordinated regulation and supervision of urban cooperative banks. MOU have already been signed between the Reserve Bank and three states that have a large network of urban cooperative banks, viz., Andhra Pradesh, Gujarat and Karnataka (2005).

- The RBI has issued Draft Vision Document for urban cooperative banks on its website and placed in public domain for eliciting comments (2005).

Survey of Urban Banks

An important development in urban cooperative banking was the survey undertaken by the Reserve Bank in 1958-59 with the object of studying the pattern of financial resources of urban banks, part played by urban banks in
financing small-scale industries, the outlets for their investments and the factors underlying the success or failure in their working. The report on the Survey of urban cooperative banks published by the Reserve Bank in 1961 observed that, while much attention had been paid to the promotion of agricultural Cooperatives, industrial cooperatives and various other types of cooperative societies such as those for fisheries, dairying and housing societies, similar importance had, however, not been accorded to urban banks. The Survey Report made the following suggestions:

(i) An assessment may be made of the scope for the establishment of urban banks in new centers and in different parts of existing cities and towns.

(ii) Active efforts should be made by the management of urban banks to expand their membership.

(iii) Urban banks adopt a progressive attitude towards their functions and should try to diversify their activities and offer a wide range of facilities to their members than are now given.

(iv) In their loan policy, urban banks should adopt a sufficiently wide and diversified system suiting the needs of the times and of different categories of members, keeping in view loans to small industries as an important line of future development.

(v) The working of urban banks should be placed on sound and efficient lines, by elimination of non-credit activities of the trading type, improvement of the accounting and operational arrangements and reduction and avoidance of overdues.

(vi) There should be continuous building up of member relations and publicity.
(vii) The Survey Report also emphasized the need for active support of the state governments in the development of urban cooperative banks by ensuring adequate arrangements for their audit, inspection and supervision.

1.3. EVALUATION OF THE ROLE OF URBAN COOPERATIVE BANKS IN THE BANKING SYSTEM

The India Central Banking Enquiry Committee (1931) observed as follows:

The duty of these urban banks should be to try to do for small trader, the small merchant and the middle class population what the commercial banks are doing for the big trader and big merchant.

Subsequently, the Cooperative Planning Committee (1946) stated as under:

Joint stock banks are not interested in developing the business of small loans, because the cost of advancing and recovering them is high. Further, as joint stock banks are not likely to have under ordinary circumstances full and intimate knowledge of the standing and resources of persons of moderate means they will not advance loans on personal security. On the other hand, there are, in urban area, numerous persons of small means, like traders merchants, artisans factory workers, street hawkers, motor and gharry drivers, who resort to moneylenders and similar agencies for small loans and obtain them at high rates of interest. Ex-servicemen like technicians and skilled workmen like carpenters, blacksmiths, mechanics etc., will also require credit for setting up their own business in small workshops. Cooperative urban banks qualify by establishing personal and intimate relationship with people of this class as the most suitable agencies for serving their credit needs.
The Rural Banking Enquiry Committee (1950) also commented on the role that urban cooperative banks could play in providing banking facilities. The Committee observed that urban banks which were established in many towns in Bombay and Madras would be able to offer facilities both to urban people and to individuals in the nearby rural areas, and in view of their relatively low cost of establishment and operation can go up to places smaller the taluka towns.

According to the Study Group of Credit Cooperatives in the Non-Agricultural Sector appointed by the Government of India under the chairmanship of the late Shri V.P. Varde in 1963, urban cooperative banks have an important role to play in several respects including the following:

(a) First and foremost, they can organize and bring together middle and working classes in urban and semi-urban areas and inculcate in them the habits of thrift and self-help and acquaint them with the elements of ordinary banking principles.

(b) The mobilization of savings by urban cooperative banks and the consequent drawing of urban resources into the apex and central co-op banks, which are in need of funds of finance the rural, industrial and other functional cooperatives, can contribute to general economic development.

(c) By providing credit on reasonable terms to the middle classes, they can rescue them from the exploitation of moneylenders and other unscrupulous agencies, which is particularly important in the context of rising prices and cost of living. This has consequent effects also on non-cooperative lendings.

(d) By financing individual industrialists and artisans working in urban areas, they can make a significant contribution to industrial development.
(e) They can make certain essential banking facilities such as remittance of funds etc., available in areas which may not be considered suitable for commercial banking and to persons who may not be able to get such facilities from commercial banks.

(f) They can provide intelligent, experienced and active leadership to the cooperative movement including the central and apex cooperative banks, which in view of their federal character; draw their directors from member institutions.

The Study Group on Credit Cooperative in the Non-Agricultural Sector (1963) also recommended that the lending policy of urban banks should be more imaginative and in keeping with the general programmes of economic development. In other words, it should be production-oriented and related to the repaying capacity of the borrower rather than the security. The Study Group added that in view of the usefulness of urban banks to people of small means, these should be organized in all towns. In every town with a population of over 1 lakh, the possibility of organizing additional urban banks may be considered.

The Working Group on Industrial Financing through Cooperative Banks (1968) appointed by the Reserve Bank recognized the key role which urban banks could play in providing finance to cottage and small-scale industries and recommended that high priority should be given to the organization of such banks in areas where there was sufficient concentration of cottage and small-scale industries carried on by individuals as well as by firms and joint-stock companies.

Thus, while there is no change in the basic objectives of urban banks, i.e., promotion of thrift among members and non-members, provision of credit on
reasonable terms to persons of limited means, and provision of banking services to customers, a new dimension has been given to the operations of these institutions in recent years with their recognition as appropriate agencies for financing cottage and small-scale industries carried on by individuals as well as firms and joint stock companies.

**Evaluation**

The report on the survey of urban cooperative banks, published by the Reserve Bank of India in 1961, observed that 'the general picture of cooperative urban banking which emerges out of this study (Survey conducted in 1958-59) is one of a fairly widespread, financially sound, expanding and useful framework of banking institutions which have their own place of importance in the banking structure of a large part of the country'.

The Banking Commission appointed by the Government of Indian in February 1969 under the chairmanship of Shri R.G. Saraiya has observed as follows:

Urban cooperative banks do useful work in mobilizing deposits and financing the sector of small borrowers such as small-scale industries, professionals, retailers and so on. Another useful activity is financing of house construction and repairs members of the banks. Also, this type of banking provides a useful avenue for those who have the necessary ability to set up a bank.

The Committee on Co-operation appointed by the Government of Tamil Nadu in February 1968 under the chairmanship of Shri K. Santhanam has observed as follows:
The non-agricultural credit societies have been significantly in attracting deposits and promoting thrift. This sector of the movement has grown voluntarily without special encouragement from the State. The urban banks in the state have recorded a steady progress over the years. As observed by the Cooperative Planning Committee (1946), urban banks have proved to be the best suited agencies for meeting the credit needs of the people of small means in urban areas, in whom joint-stock banks are not generally interested.

Similarly, the committee on problems of urban cooperative banks in Maharashtra appointed by the Government of Maharashtra in December 1974 under the chairmanship of the late Shri V.M. Joglekar has commented on the performance of urban banks in Maharashtra in the following words:

The performance of the urban banks in Maharashtra, taken as a whole, is fairly satisfactory. The sustained growth over the years may be traced to the devoted and selfless management by non-officials. Not only the number of urban banks has increased, but membership, which is a measure of people's involvement, has also increased. Deposits have gone up considerably. The deposits from non-members are more than those of the members, which is a positive proof of the fact that the urban banks have secured the confidence of the depositing public of urban and semi-urban areas.

**Provision of Credit**

The report on the survey of urban cooperative banks (1961) had drawn pointed attention, inter-alia, to the need on the part of urban banks to adopt a sufficiently wide and diversified loaning policy suited to the needs of the times and of different categories of members, keeping in view loans to small-scale industries as an important line of development. The report of the study group on
Credit Cooperatives in the Non-Agricultural Sector (1963) had also recommended that the lending policy of urban banks should be more imaginative and should be in keeping with the programmes of economic development. The need for adopting a sufficiently diversified lending system with liberal finance to cottage and small-scale industries was also urged in the Report. The Working Group on Industrial Financing through Cooperative Banks (1968) was of view that urban banks were the ideal institutional agency in the cooperative sector to cater for the credit needs of small-scale industries run by individuals, firm and joint stock companies. The Working Group observed that owing to regional imbalances in the growth of the urban cooperative banking movement in the country, a large number of industrial units not recognized as industrial societies might have perforce to remain outside the cooperative banking system and, therefore, in the absence of an appropriate institutional agency, the industrial units in this sector were compelled to obtain credit from private sources at prohibitive terms. In this context, the working Group made the following suggestions:

(i) High priority should be given to the organization of urban cooperative banks in areas where there is a sufficient concentration of cottage and small-scale industries carried on by individual units. The share capital of these banks should be strengthened by government contribution.

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

(iii) The banks should be permitted to open a branch office anywhere in the district or the state, where there are good prospects for business
with industrial units and these are not being served by local urban cooperative banks.

(iv) Wherever necessary, the by-laws of urban cooperative banks should be amended to enable these banks to provide loans to a single borrower up to a limit, which will be adequate for the purpose of financing small-scale industries. Care will have to be taken, however, to ensure that the facilities are not monopolized by a few affluent individual members. The state government should ensure wherever necessary, that the Cooperative Societies Acts and by-laws of urban cooperative banks are suitably amended to remove such of those provisions, if any, which restrict the financing of small-scale industrial units regardless of whether they are individuals or partnership firms or joint-stock companies.

(v) The by-laws of urban cooperative banks should contain a clear provision enabling them to provide block capital loans to small-scale industrial units. Existing restrictions if any, which inhibit them from advancing, block capital loans should also be removed.

In order to supplement the resources of urban banks to enable them to undertake industrial financing to a significant extent, the Working Group recommended that urban banks should have access to the Reserve Bank for obtaining refinance in respect of the industrial loans provided by them. Furthermore, with a view to reducing the risks involved in this type of financing and to enable lending at reduced margins, it was suggested that the Reserve Bank should frame suitable criteria for including urban banks in the approved list of institutions which could directly avail themselves of the Credit Guarantee Scheme for Small-Scale Industries even though they might not have been issued a licence by the Reserve Bank. The Working Group recommended that urban
The Working Group further recommended that the Reserve Bank should provide loans from its National Agricultural Credit (Long -Term Operations) Fund to the state governments for enabling them to contribute to the share capital of urban banks.

The Reserve Bank, on its part, took prompt measures to implement the recommendations of the Working Group on Industrial Financing through Cooperative Banks (1968).

1.4. PRIMARY CREDIT SOCIETIES AND URBAN COOPERATIVE BANKS DISTINGUISHED

When the societies under (i) and those under (iii) which accepts deposits from non-members attain a level of paid-up share capital and reserves of Rs.1.0 lakh, they have to apply to the Reserve Bank for a licence to carry on banking business within three months of their so attaining that level. Thereafter, they can continue to carry on banking business until the Reserve Bank informs them that a licence cannot be granted. On the other hand, a new cooperative bank which is registered with a paid-up share capital of Rs.1.0 lakhs or more cannot commence banking business unless it first obtains a licence for the purpose from the Reserve Bank.

The existing provisions in the Banking Regulation Act, 1949 have given rise to certain problems which are detrimental to the interest of depositors.

Such primary credit societies as have attained the status of primary cooperative banks by virtue of their paid-up capital and reserves having reached a
level of Rs.1.0 lakh or more, had entered the main stream of urban cooperative banks purely as a result of the operation of the law rather than a realistic assessment of their operation from the point of view of viability and inadequate resources, inefficient managements, eroded capital structures and inability to comply even with the essential provisions of the Banking Regulation Act, 1949 (As applicable to Cooperative Societies) such as Section 11(1) which prescribes that the real of exchangeable value of paid-up capital and reserves should not be less than Rs.1.0 lakhs, sections 18 and 24 regarding the maintenance of prescribed limits of Cash Reserves and Liquid Assets etc.

In order, therefore, to promote the growth of the urban credit movement healthy lines and to prevent the proliferation of weak banks in the system the Committee on Urban Cooperative Banks (1978) recommended:

And

To prevent primary credit societies using the World Bank Banker or banking as part of their names so as to enable the public to distinguish between a banking institutions coming under the purview of tile B.R Act, 1949 (AACS) and a cooperative credit society functioning outside the purview of the above Act.

In order to give effect to its recommendations, the committee proposed appropriate legislative amendments including amendments to the above Act.

Further, the Committee suggested that the existing primary credit societies may be allowed to continue to carry on banking business for a maximum period of 4 (four) years with effect from the date of coming into force of the amendments proposed. It was clarified that during this period such societies.

Either (i) reach the level of viability standards prescribed by the Reserve Bank for primary (Urban) cooperative banks and thus qualify for issue of a licence to carry on banking business:
Or (ii) Take suitable steps for going outside the purview of the Act ibid by converting themselves as non-banking were fully protected as contemplated in tenus of section 36(A) (2) of the B.R. Act, 1949 (AACS). Such steps included effecting amendment of bye-laws, restricting acceptance of deposits from members alone, deletion of the world ‘bank’, banker or banking appearing as part of their names, refunding non-member deposits or making adequate provisions therefore. In other words, such societies can function only as credit societies catering to the needs of their members alone.

1.5. SALARY EARNERS SOCIETIES AND URBAN COOPERATIVE BANKS DISTINGUISHED

The committee on urban cooperative banks (1978) expressed the view that the operations of salary earners’ societies have certain distinct characteristic which make them different from urban banks.

First, They hardly undertake any banking function and yet they are classified as primary cooperative banks merely on account of the provision in their laws for acceptance of deposits from non-members.

Second Their credit operations are restricted to member and are in the nature of surety loans issued mostly for consumption purposes. The regulatory or other credit control measures resorted to by the Reserve Bank with a view to enforcing monetary discipline and to ensure orderly economic activities have, therefore, no direct bearing on the operations of salary earners ‘societies.

Third The salary earners societies do not enjoy any special advantages other than the acceptance of deposits from non-members.
other than the acceptance of deposits from non-members. Unlike urban banks, which ordinarily utilize the resources raised from non-members by way of deposits in loans and advances to members for productive and, to some extent, consumption purpose, the advances of salary earners societies are mostly for consumption purposes.

Fourth, urban cooperative banks have an important role in the economic development of the area where they are functioning which is not the case the salary earners societies as the membership of salary earners societies is restricted to the employees of certain institutions.

The committee is, therefore of the view that there is no valid reason for permitting salary societies to accept deposits from non-members. Further many of the salary earners societies are found to be experiencing difficulties in complying with certain essential provisions of the B.R. Act, 1949 (AACS), particularly sections 8 and 24.

For the Reserve Bank, the continuance of salary earners’ societies within the purview of the B.R Act 1949 (AACS) only entails additional work to watch the compliance with statutory requirements scrutiny of their returns as also to conduct periodical inspections of the societies, involving a great deal of expenditure with no particular purpose or need for controlling their operations from the angle of overall monetary and credit policy.

In view of the foregoing, the Committee recommended that salary earners societies presently classified as primary cooperative banks should go out of the purview of the B.R. Act 1949 (AACS) by effecting suitable amendments to sections 7 and 49 A of the Ibid as also Sections 2 of the Reserve Bank of India act 1934.
1.6. R.B.I INITIATIVES TOWARDS PRIMARY CREDIT SOCIETIES AND SALARY EARNERS’ SOCIETIES

The work relating to promoting necessary amendments to the Banking Regulation Act, 1949 (AACS) as recommended by the Committee on Urban Cooperative Bank was initiated by the Reserve Bank in 1982 together with other amendments which necessitated in light of experience gained/difficulties encountered over the years. In 1983 while communication the policy relating to primary credit societies, Registrars of Cooperative Societies were informed of the fact that the Reserve Bank was taking necessary steps for amendments of the act ibid to prohibit registration of such societies. As regards salary earners societies, such societies are not being included in the list of primary cooperative banks irrespective of the local of operation, capital adequate, achievement of viability norms etc.

1.7. URBAN COOPERATIVE BANK – DEFINITION

From the foregoing discussion it is clear that urban cooperative banks are now completely distinct from either primary credit societies or salary earners’ employees credit societies.

Urban Cooperative banks have been defined as PRIMARY COOPERATIVE BANKS in the Banking Regulation Act, 1949 (As applicable to Cooperative Societies). In terms of Section 5 (CCV) of the said act.

A Primary Cooperative Bank means a cooperative society other than a primary agricultural credit society.

i. the primary object or principal business of which is the transactions of banking business.
ii. the paid-up share capital and reserves of which are not less than one lakh of rupees; and

iii. the bye-laws of which do not permit admission of any other cooperative society as a member provided that this sub-clause shall not apply to the admission of a cooperative bank as a member by reason of such cooperative out of funds provided by the state government for the purpose.

It, therefore, means that the bye-laws of a primary cooperative bank will not debar admission of a cooperative bank as its member when such cooperative bank will contribute to the share capital of the primary cooperative bank the help of funds provided by the state.

Needless to mention that in consonance with the current policy of the Reserve Bank, primary credit societies and salary earners employees credit societies are not included in the list of urban cooperative banks.

1.8. SALIENT FEATURES OF URBAN COOPERATIVE BANKS

The main features of urban cooperative banks are listed below:

Organizational Structure

Most of the primary urban cooperative banks are small in size and unitary (i.e. single-tier) structure and not a federal structure like the agricultural banks. They are affiliated to the concerned district central cooperative banks (DCCBs) and also expected to avail finance from them in case of need. But in actual practice most of urban banks also self-sufficient and even more financially sound, and therefore, do not require any substantial fund from the district central cooperative banks.
Registration

The authority for registering a primary (urban) cooperative bank vests with the Registrar of Cooperative Societies of the state in which the bank is established. Its organization and functioning are, therefore, governed by the Cooperative Societies Act applicable to that State and the rules framed there under. Its constitution, objectives and functions, procedures and methods of working, sources of funds and the manner of their utilization, earnings and their disposal etc. are all laid down in its bye-laws which have to be framed at the time of its registration and approved by the Registrar of Cooperative Societies. In doing so, its promoters usually adopt the model bye-laws formulated by the Registrar for the purpose, with such modifications as they find necessary to meet their own special requirements. Any amendment to the bye-laws, which may be proposed from time to time, have to be passed by its general body and approved by the Registrar of Cooperative Societies.

Licensing

The Reserve Bank of India is entrusted with the authority to grant a licence to primary (Urban) Cooperative banks under section 22 of the B.R. Act 1949 (AACS) in order to commence/carry on banking business. Before granting such a licence, the Reserve Bank weighs the application of the new bank from the point of its attaining viable status within a reasonable period keeping in view other relevant considerations including the public interest that would be served by the establishment of a new bank in the area concerned and the capacity of the proposed bank's management to manage the affairs of the bank to safeguard the interest of the depositors.
Cooperative Character

An urban bank being primarily a cooperative society has to satisfy certain basic cooperative principles. It should conform to the principles of community interest, motto of mutual service rather than maximization of profit, democratic management as signified by the supremacy of the general body in all matters and one man, one vote’ at its meetings as well as those of the board of directors, committees etc., and to promotion of thrift and savings which is one of the fundamental objectives of a cooperative credit institution.

Target – Group

Urban banks mainly cater to the needs of small borrowers comprising small scale industrial units, retail traders, professionals and salaried classes housed at metropolitan, urban and semi-urban areas. Their main focus of finance is thus targeted towards priority sector to which not less than 60% of their total advances is purveyed, of which 25% again in directed towards the poor and weaker sections of the society. The main thrust of such finance is for non-agricultural productive purposes.

Functional Jurisdiction

Urban Cooperative banks registered in metropolitan city/town shall have an area of operation continuous with the limit of metropolitan area/town limits including the urban agglomeration thereof and the defined peripheral areas appertaining thereto. Urban banks registered in urban/semi-urban centres may be allowed to operate throughout the district of registration and such banks may be permitted to finance non-agricultural/allied agricultural credit requirements in the peripheral rural areas which are within a distance of 10 (ten) kms from the boundary of the concerned urban/semi-urban centre. The area of operation of scheduled urban cooperative banks would be made co-extensive with the
territorial jurisdiction of the state of registration. In North-Eastern and other hill and tribal areas where population is spread thinly, the area of operation may be taken at three-four districts, extendable on grounds of viability to the whole state. For the purposes of extension of area of operation, prior approval of RBI has to be obtained, as hitherto.

Management Structure

The success or failure of an urban cooperative bank is closely linked with the character and the ability of its management. The term ‘management’ here is used in its wider sense and includes (i) the general body, (ii) the elected board of directors and (iii) the aid professional employees i.e., the chief executive and the other managerial personnel. Some banks have constituted sub-committees for sanctioning loans and for other special purposes. The general body which is, under statutory obligation convened once in a year is the final and supreme authority in any bank. The relative functions and powers of the various bodies, the frequency of their meetings, the procedure to be adopted by them and other relevant matters are laid down in the by-laws. The general management of an urban bank is vested in a board of directors elected at the general body meeting and the day-to-day management of the banks rests with the managerial staff headed by a professionally competent person known as chief executive officer. In view of the nature, volume and responsibility of business conducted, the bank is divided into departments and departments sub-divided into sections each being placed under the charge of an officer with clear-cut job-demarcation and fixation of responsibility.

Sources of Funds

The sources of funds or urban cooperative banks consist of their owned funds as well as borrowed funds. Owned funds represent the paid-up share
capital and the accumulated reserves created out of profits apportioned. Borrowed funds consist mainly of the different types of deposits received from both members and non-members, and also include borrowings from central cooperative financial agencies and apex institutions in case of need.

**Uses of Funds**

Urban cooperative banks grant fixed loans or cash loans to their members against the mortgage of unencumbered immovable property, mercantile or industrial goods, insurance policies, fixed deposit receipts or on the surety of one or more persons who are also members of the bank. Salaried persons are entitled to personal loans up to a stipulated multiple of their monthly salary while, in case of others, the limit is very often expressed as a multiple of their contribution to the share capital. The purposes for which urban cooperative banks lend money include trade and commerce, extension and repairs to dwelling houses, purchase of domestic appliances, vehicles, educational and medical expenses, religious and ceremonial expenses, discharge of prior debts, consumption purposes, starting of small business, working capital-block capital of small scale and cottage industries and allied agricultural purposes, and a number of other emergencies.

**Investments**

The investment policy of a bank depends chiefly on the nature of its resources, the period for which they are available and the objectives for which it has been organized. As regards urban cooperative banks, their deposits are mainly short-term and medium-term. Consequently, their investments have also to be short term and medium term. Besides, utilizing the available resources for granting various types of advances to members, and maintaining minimum CRR and SLR at 3% and 255 of total time and demand liabilities on a day-to-day basis as per sections 18 and 24 respectively of the B.R. Act, 1949 (AACS), urban
banks may also invest a reasonable portion of their liabilities in Government and other trustee securities and fixed deposits with other banks. In time of need, they can easily fall back on the investments to secure financial accommodation by way of overdraft against the government and other trustee securities or against the investments in term deposits.

**Distribution of Profits**

The Urban Cooperative banks earn their incomes from various sources viz. (a) interest on loans and advances, (b) interest on government and other securities, (c) commission from agency services, bill collection, (d) dividend on shares held in other cooperative institutions, (e) entrance fees, (f) interest on deposits with other banks, (g) discount/commission on bills and cheques, and (h) profits from trading activities. The net profits arrived at after meeting all the expenses are distributed in accordance with the rules and bye-laws. A certain percentage is transferred to the Statutory Reserve Fund. A certain percentage is carried to the dividend Equalization Fund to enable the bank to declare dividend uniformly to the shareholders. A certain portion is transferred to the Common Good Fund which is utilized for charitable educational and cultural purposes as decided by the Board from time to time. Some amount is set apart for giving bonus to the employees, a certain percentage is deposited into the Building Fund and the balance may be transferred to the general Reserve fund.

**Special Privileges**

Since Urban Cooperative banks serve a very useful role by uplifting economically weaker sections of the society without any outside aid, it has been the State policy to encourage the growth of such Cooperative banks by providing them some special privileges. For example, Urban Cooperative banks have been permitted to pay higher rate of interest on their savings one per cent per annum
and on all term deposits half a per cent per annum at their discretion as compared with the rates payable by Scheduled commercial banks. Thus it helps them in deposit mobilization efforts. The prescribed rates for Capital Reserve Ratio and Statutory Liquidity Ratio are lower than those for the commercial banks. Further, while the commercial banks have to invest a major portion of their resources in Government and trustee securities, the Urban Cooperative banks keep almost the entire statutory liquid assets either with Central Cooperative bank or the State Cooperative bank which enable them to earn higher interest. Moreover, in order to encourage urban cooperative banks to finance Small Scale Industries units in a greater measure, the RBI / NABARD has been granting concessional refinance to urban cooperative banks at 2.55 below the bank rate. With a view to safeguarding the interest of the smaller units, concessional refinance is made available to small and tiny units enjoying credit limits upto Rs.2.00 lakhs irrespective of the period of their existence. Besides, urban cooperative banks, in their transactions with members, are exempt from stamp duty. Likewise, income of cooperatives out of business of banking as also income arising out of credit facilities to members is exempt from tax under the Income Tax Act.

**Revised Entry Point and Viability Norms**

Following the Marathe Committee recommendations which were accepted by the RBI with certain modifications, the existing entry-point and viability norms have been revised upwards by the RBI in respect of four different categories of centres (A, B, C and D) based on population criteria, as per 1991 census, details of which are given below:
### Classification of Centres

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Type of Centre</th>
<th>Population Strata</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Metropolitan – Large</td>
<td>50 Lakhs and above</td>
</tr>
<tr>
<td>B</td>
<td>Metropolitan - Others</td>
<td>10 Lakhs and above but less than 50 lakhs</td>
</tr>
<tr>
<td>C</td>
<td>Urban</td>
<td>1 Lakhs and above but less than 10 lakhs</td>
</tr>
<tr>
<td>D</td>
<td>Semi-urban</td>
<td>10,000 and above but less than 1 lakhs</td>
</tr>
</tbody>
</table>

### Entry Point Norms

<table>
<thead>
<tr>
<th>Type of Centre</th>
<th>Initial Capital (Rs. lakhs)</th>
<th>Initial Membership (Nos.)</th>
<th>Membership after two years</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>60</td>
<td>3000</td>
<td>6000</td>
</tr>
<tr>
<td>B</td>
<td>30</td>
<td>2000</td>
<td>4000</td>
</tr>
<tr>
<td>C</td>
<td>15</td>
<td>1500</td>
<td>3000</td>
</tr>
<tr>
<td>D</td>
<td>6</td>
<td>1000</td>
<td>2000</td>
</tr>
</tbody>
</table>

### Viability Norms

<table>
<thead>
<tr>
<th>Type of Centre</th>
<th>Share Capital</th>
<th>Reserves</th>
<th>Deposits</th>
<th>Advances</th>
<th>Working Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>75</td>
<td>30</td>
<td>645</td>
<td>525</td>
<td>750</td>
</tr>
<tr>
<td>B</td>
<td>40</td>
<td>16</td>
<td>344</td>
<td>280</td>
<td>400</td>
</tr>
<tr>
<td>C</td>
<td>25</td>
<td>10</td>
<td>215</td>
<td>175</td>
<td>250</td>
</tr>
<tr>
<td>D</td>
<td>10</td>
<td>4</td>
<td>86</td>
<td>70</td>
<td>100</td>
</tr>
</tbody>
</table>
Only those Urban Cooperative banks which satisfy the revised minimum share capital and membership requirements will be considered for registration. While examining the proposals received from promoters for establishment of new banks, it would be necessary to satisfy that the proposed bank will be able to achieve the viability standards within a reasonable period of three years.

Certain relaxations in entry-point norms have been considered for banks proposed to be organized in least developed/less developed areas and for banks proposed to be set up by Mahilas and scheduled caste/tribe communities, which has to be reduced 50% of normal entry point norms.

1.9. NEED AND IMPORTANCE OF THE STUDY

The research studies on the history, management, growth, functions, principles of the cooperative sector in India but they are all, barring a few, macro-level studies and very much broad based and too much general in nature. Not a single research study at the micro-level and, that too, on urban cooperative banks has hitherto been made dealing with the multi-dimensional problems of urban cooperative banks taking a particular district as a unit of the research study. The present research work, therefore, humbly claims originally for having been a pioneering attempt in this field, hitherto remained untrodden by any researcher in India. The researcher being a resident of the city of Namakkal district, Tamil Nadu state, has chosen the district of Namakkal for conducting an in-depth, micro-level research study on the performance of the urban cooperative banks.

As cooperative banks are essentially a needed financial service to help the poor and needy, the profit factor cannot be ignored at all, and profitability of banking operation is very important if banking sector is not to end up as a millstone round the neck of our growing economy. The banking sector has to
keep the costs low and optimize their earnings and profitability, so that they retain their vitality and innovativeness. Therefore, in the changing economic environment of competitiveness, efficiency and productivity, profits are not a taboo for the banking industry. Thus, maintaining continued viability and profitability could be considered as the greatest challenge before banks during the decade. Urban Cooperative banks were standard aiming the socio-economic condition of needy and poor in the content of service on self management basis. The management of urban cooperative banks is entirely different from commercial banks. The cost of management, share capital, working capital, demarcations for functions, Election impediments have direct influence over the effective performance of urban cooperative banks. The deposit mobilizations, credit operations and income in urban cooperative banks are limited to time and amount. They have certain restricted domains to allow their assets to work hard to show stupendous profitability. The performance of urban cooperative banks not only depend upon serving the public but also been upon the functionaries, RBI directives and rules and regulations of government. Against such a backdrop, the need for a systematic study of the profitability performance of urban cooperative banks in terms of deposit mobilization and credit operation is considered as utmost important.

1.10. SCOPE OF THE STUDY

The performance of urban cooperative banks is entirely depending on two important aspects of successful deposit mobilization and credit operations. The components of reform involved dismantling certain directed credit programmes, lowering cash and liquidity requirements, reducing barriers to entry in the Urban banking sector, improving payments system, adopting international standards for capital adequacy and prudential norms and improving the legal, regulatory and supervisory infrastructure. The impact of financial liberalization can be broadly generalized as under: (i) Improved efficiency in the allocation of
credit, Despite weaker economic conditions, private investment has grown and financial constraints have eased; (ii) financial deepening has increased; (iii) the impact of liberalization on saving and/or consumption is mixed; (iv) the immediate impact on interest rates has been disparate, with rates sometimes rising and in some countries falling; (v) Financial liberalization has generally resulted in more effective monetary control. The changing economic condition of the people in liberalized economy posed serious challenge to all the cooperative movement and urban credit. The direct incidental effects of commercial banks and their secured approach magnetically attract enormous quantum of customers. Strategically the urban cooperative banks induce the people to join as members and share holders. It also encourages the people to save money and deposit their savings in their own bank. The management optimistically functions to create the feeling among the customers that the banking development leads to their development analogously.

So this study has got good scope for the microscopic research in urban cooperative banking and its aspects of performance and deployment of resources.

1.11. OBJECTIVES OF THE STUDY

The primary objective of the study is to automatically analyze the financial performance of urban cooperative banks in Namakkal district. The study also focuses on the factors influencing the financial performance and awareness of customers on the various operational systems in urban cooperative banks of Namakkal district. The main objective of the present study is to analyze the performance of urban cooperative banks in Namakkal district, in terms of deposit mobilization, lending operations and customer’s satisfaction. Based on this the following objectives were framed.
• To analyze the performance of Urban cooperative banks in terms of funds in-flow both in terms of internal as well as external resources.

• To study the extent of their performance in respect of management of funds for economic development in rural as well as urban areas.

• To evaluate their performance towards the management of customer services and customers views on banking services.

• To study the deposit mobilization and credit operation of urban cooperative banks in Namakkal district and its impact on its performance for the span of ten years from 1995-1996 to 2005-2006.

• To identify the population served by urban cooperative banks and the customer’s opinion about the performance in deposit mobilization and credit operation of urban cooperative banks in Namakkal district.

• To suggest feasible ways and means to overcome all related problems, deficiencies so as to improve overall efficiency of those institutions. To offer suggestions and recommendations for the developmental activities and best service to the public by urban cooperative banks in Namakkal district.

1.12. RESEARCH METHODOLOGY

This study is based on both primary data and secondary data. The primary data is obtained in the form of responses of customers of urban cooperative banks through properly framed questionnaire and discussion with officials in the Urban Cooperative Banks in Namakkal district and Tamil Nadu State Federation of Urban Cooperative Banks, Chennai, RBI, the Registrar of Cooperative Societies, Chennai. The questionnaire consists of personal and occupational details of customers, their awareness on deposit mobilization and credit operations of urban
cooperative banks. The questionnaire is divided into two major categories. Part one consists of optional type questions regarding personal details of the customers of urban cooperative banks in Namakkal district and their banking habits. Part two is given in the form of statements to ascertain the opinion of urban cooperative banks customers in Likert's five point scale ranging from strongly agree to "strongly disagree". The statements are self-explanatory to express the customers' opinion regarding, deposit mobilizations credit-operations and customer-satisfaction. The secondary data is obtained from the audit reports of the urban cooperative banks, brochures published by Reserve Bank of India, The Registrar Cooperative Societies, Natesan Institute of Cooperative Management, Chennai, The National Federation of Urban Cooperative Banks and Credit Societies Limited, New Delhi, Magazines, Journals and Bulletins. The collected data is subject to statistical treatment to obtain torrent of results.

1.13. SAMPLE DESIGN

A sample of 350 customers of urban cooperative banks in rural, semi-urban and urban areas in Namakkal district are interviewed in a rational and random sampling method. This random sampling method enables to reveal the characteristic features of population perfectly. Since the Namakkal district comprises five urban cooperative banks at different places of district, a sample of 70 respondents were obtained from the customers of each bank. The primary data is obtained through a well-framed questionnaire. But the reliability and validity of the questionnaire is indispensable for profound results of the research. The Cronbach Alpha Method is used to verify the reliability and validity of the study. It is found that the Cronbach Alpha value is 0.897, which implies that the statements included in the questionnaire are easily inclined by the customers at 89.7 percent level. The validity is clearly revealed by this significant approach and implies the suitable method to develop the present research.
1.14. STATISTICAL TOOLS USED

The primary data and secondary data of this project are analyzed with the help of higher order statistical tools. The use of statistical tools pave the way for better understanding of concepts and quantified interpretations of the data exploited in this study.

1. The measures of central tendency arithmetic mean

\[ \overline{x} = \frac{\sum x}{n} \]

is used to find the means of the scores of different aspects of questionnaire.

2. The measures of dispersion, standard deviation

\[ \sigma = \sqrt{\frac{\sum x^2}{n} - \left( \frac{\sum x}{n} \right)^2} \]

is used to find the deviation of scores from the measures of central tendency.

3. To study the difference of means, the parametric t-test is prepared. The value of the t-statistic obtained by the formula

\[ t = \frac{\overline{x}_1 - \overline{x}_2}{s} \sqrt{\frac{n_1 n_2}{n_1 + n_2}} \]

where

- \( \overline{x}_1 \) = Mean of the first sample
- \( \overline{x}_2 \) = Mean of the Second sample
- \( n_1 \) = Number of observations in the first sample
- \( n_2 \) = Number of observations in the second sample
- \( s \) = combined standard deviation.

The value of the \( s \) is calculated as under
coefficients of correlation were computed to ascertain the degree of relationship between the two variables.

\[ r = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} \]

where

\[ X = x - \bar{x} \]
\[ Y = y - \bar{y} \]

In order to find out whether such relationships differ significantly, the z-test was used

\[ z_1 = \frac{z_1 - z_2}{\sqrt{\frac{1}{n_1 - 3} + \frac{1}{n_2 - 3}}} \]

where

\[ z_1 = 1.1513 \log \left( \frac{1 + r_1}{1 - r_1} \right) \] to the base 10

\[ z_2 = 1.1513 \log \left( \frac{1 + r_2}{1 - r_2} \right) \] to the base 10

Multiple regression analysis was exploring to know how much of the total variables in the customer satisfaction.

The general linear regression model with k-explanatory variables is of the form

\[ Y = b_0 + b_1x_1 + b_2x_2 + \ldots + b_nx_n + u \]

where
$x_1, x_2, x_3, \ldots, x_n$

are called explanatory variables (or) independent variables $y$ is called the dependent variables

$b_1, b_2, b_3, \ldots, b_n$

are called regression coefficients can be calculated by the normal equations ‘u’ is the error term.

The analysis of variance (ANOVA) is used to find the best significant fit of regression using the F – value. The F value is given by the formula

$$F = \frac{R^2 / (K-1)}{\sqrt{(1-R^2)(N-K)}}$$

where $K =$ Total number of variables in the model

and $N =$ Total number of observations.

(1) Factor analysis with varimax rotation is used to reduce the number of variables into major factors in primary data.

(2) K-means cluster analysis is exploited to classify the samples into heterogeneous groups.

(3) Karl Pearson's Coefficient of correlation is used to find the relationship between the variables.

(4) Linear multiple regression analysis is brought to bear upon the problem of identifying the impact of independent variables on dependent variable.

(5) Parametric paired sample t-test, analysis of variance (ANOVA) are used to find the significance difference among means of the variables.

(6) Non-parametric chi-square test is used to find the association between the variables.
1.15. LIMITATIONS OF THE STUDY

The study of urban cooperative banks in Namakkal district has some limitations. They are given below:

(1) This study is limited to urban cooperative banks in Namakkal District of Tamil Nadu.

(2) The core of the study concentrates only on financial performance aspects like customer service, flow of funds, deposit mobilization and credit operations of urban cooperative banks in Namakkal district.

(3) This study is restricted to the time limit of 10 years from 1996-97 to 2005-06.

(4) A sample of 350 customers of urban cooperative bank in Namakkal district is considered for the study.

(5) Any generalization of this study for all types of banks in India may lead to misleading results.

(6) This result may not be considered profoundly for all the years in past and future period. Analyzing various aspects of urban banking industry may also give various results different from this study.

(7) The collection of more samples from different districts and regions may also give various results.

1.16. CHAPTER ARRANGEMENT

The study is divided into six chapters.
Chapter-I Introduction and Cooperative Movement
This chapter gives a brief introduction about the cooperative movement, the origin and development of urban cooperative banks in India, need scope and importance of the study, objectives of the study, research methodology, sampling, statistical tools used, limitation of the study and chapter arrangement.

Chapter-II Review of Literature
This chapter deals elaborately with review of related literature about urban cooperative banks, and its impact of Indian economy.

Chapter-III Growth, Progress and Development of Urban Cooperative Banks in India
This chapter presents an overview of growth, progress and development of urban cooperative banks in India, Tamil Nadu and Namakkal district.

Chapter-IV Performance of Urban Cooperative Banks in Namakkal District
This chapter deals with an elaborate account on different types of financial activities of urban cooperative banks in Namakkal district and the analysis of secondary data.

Chapter-V Customer Awareness on Urban Cooperative Banks in Namakkal District
This chapter explains about customer awareness and their level of satisfaction on the service of urban cooperative banks and the analysis of primary data.

Chapter-VI Summary of Findings, Suggestions and Conclusion
This chapter gives the detail of summary of findings, suggestions and conclusion.