1.1 INTRODUCTION

Urban Co-operative Credit Societies were organized, initially on a community basis to meet the credit needs of their members. Salary Earners’ Societies played a significant role in popularizing the Co-operative movement, especially amongst the middle class as well as organized workers. So, from the beginning the thrust of the urban co-operative banks have been mobilization of savings from middle and low income urban groups and giving credit to their members, of them most of them belonged to weaker sections. The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks were traditionally centred around communities, localities and work place groups, but today, their scope of operations has widened, considerably. There is a general realization that urban banks have an important role to play in the economy.

Indian banking system is one of the most important pillars of the Indian economy. It moves our economy towards greater stability and efficiency. There has been a remarkable expansion in geographical coverage, effective credit delivery, and accelerated savings and investments of the individuals. The introduction of innovative and diversified products and services, tied with mechanization and computerization, have made banking a vital part of the individual’s life. Needless to say, every person is a beneficiary of banking services provided by banks. But, the system is not free from weaknesses. Greater transparency, inflexible conditions for disclosure of assets and liabilities, suitable capitalization and tight prudential norms are needed to rid
the system of its imperfections. Strong prudential norms are necessary not only to align the Indian banking system with universal best practices, but also for macroeconomic stability and efficient conduct of financial policy\textsuperscript{1}. The Government of India, therefore, set up a high level Committee under the chairmanship of M. Narasimham to inspect all aspects relating to structure, organization, functions and procedure of the financial system in India. The Committee submitted its Report in November, 1991. The prudential norms for income recognition, asset classification and provisioning for the advances’ portfolio of banks, were introduced by the Reserve Bank of India (RBI) in a phased manner, as per the recommendations of the committee and in line with the international best practices spearheaded the financial sector reforms, geared at strengthening the entire banking sector including the co-operative banks. In order to achieve greater financial stability and operational efficiency prudential norms were implemented in co-operative banks.

Co-operative banks in India have become an integral part of the success of Indian financial inclusion story. They have achieved many landmarks since their creation and have helped a normal rural Indian to feel empowered and secure.

1.1.1 Meaning of Co-operation

The word ‘co-operation’ originated from the Latin word ‘co-operate’ which means working together for a common cause. In other words, it means co-operating with each other for mutual benefit. Co-operation aims at economic and social betterment of persons who have common aims to undertake certain common activities beneficial to everyone. It also aims to promote peace and unity among members and fellow co-operators. Co-operative Society attempts to satisfy the needs of its every member through self-help and mutual aid. Co-operators and Economists consider co-operation as better means for the development of a nation as a whole.

1.1.2 Definition of Co-operation

According to Calvert ‘Co-operation is a form of organization wherein persons voluntarily associate together as human beings on the basis of equality, for the promotion of the economic interest of themselves”.

According to C.R Fay, “Co-operation is an association for the purpose of joint trading among the weak and conducted always in an un-selfish spirit on such terms that all who are prepared to assume the duties of members may share its rewards in proportion to the degree in which they make use of their association”.

1.2 ORIGIN OF CO-OPERATIVE BANKING SYSTEM

The historical roots of the Co-operative Movement in the world dates back to days of misery and distress in Europe faced by common people who had little or no access to credit to fund their basic needs in uncertain times. The idea spread when the continent was faced with economic turmoil which led large populations to live at subsistence level without any economic security. People were forced to poverty and deprivation, It was the idea of Hermann Schulze (1808-83) and Friedrich Wilhelm Raiffeisen (1818-88) which took shape as co-operative banks of today across the world. They started to promote the idea of easy availability credit to small businesses and for the poor segment of society. It was similar to the many microfinance institutions which have become highly popular in developing economies of today. Although this helped spread co-operative movement in many parts of Europe, in British Isles it came from the revivalist Christian movement and found high acceptance with working class and lower middle class segments of society. However, UK and Irish credit unions in 20th century were inspired by US credit unions which in-turn owe their emergence to Canadian adaptations of the German co-operative banking concept. These movements were supported by governments of the respective countries. This success was achieved due to the failure of the commercial banks to fund and support the needs of small business owners and ordinary people who were outside the formal banking net. Co-operative banks helped overcome the vital market imperfections and serviced the poorer layers of society.
Indian Co-operative Banks was also born out of distress prevalent in Indian society in the early 20th century.

The Co-operative Credit Societies Act, 1904 led to the formation of Co-operative Credit Societies in both rural and urban areas which were based on recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901). Their ideas in turn were based on the pattern of Raiffeisen and Schulze respectively. The Co-operative Societies Act of 1912, further gave recognition for the formation of non-credit societies and the central co-operative organizations.

In independent India, with the onset of planning, the co-operative organizations gained more leverage and progressed with continued governmental support. Machlagan Committee in 1915, highlighted the deficiencies of co-operative societies which were due to lack of proper education to the masses. He also laid down the importance of Central Assistance to support the movement.

The Royal Commission on Agriculture 1928, enumerated the importance of education of members/staff for effective implementation of co-operative movement. Saraiya Committee, in 1945, further recommended the setting up of Co-operative Training College in every state and a Co-operative Training Institute for Advanced Study and Research at the Central level. Central Committee for Co-operative Training in 1953, constituted RBI for establishing Regional Training Centers. Rural Credit Survey Committee, 1954
was the first committee formed till then to first delve into the problems of rural credit and other financial issues of rural society.

The co-operative movement and banking structures soon spread and resonated with the unexpressed needs of the rural Indian and small scale businesses. Since, 1950s, they have come a long way to support and provide assistance in activities like credit, banking, production, processing, distribution/marketing, housing, warehousing, irrigation, transport, textiles, dairy, sugar etc. to households. Some of the recent committee.

Indian co-operative structure is one of the largest such networks in the world with more than 200 million members. It has about 67% penetration in villages and fund 46% of the total rural credit. It also stands for 36% of the total distribution of rural fertilizers and 28% rural fair price shops.

1.3 THE ORGANIZATIONAL STRUCTURE OF CO–OPERATIVE CREDIT INSTITUTIONS IN INDIA

The co-operative banks enable a whole gamut of activities such as production, processing, marketing, distribution and servicing through the entire length and breadth of the country. These co-operative banks perform all the main banking functions of deposit mobilization, supply of credit and provision of remittance facilities. Urban co-operative banks operate in semi urban, urban and metropolitan areas also. The UCBs as a group performed better even in comparison with the scheduled commercial banks during 1998-99. However, there is sufficient heterogeneity in the performance of UCBs now. While a
large number of these banks have shown creditable performance, a fair number of them have shown signs of persistent weakness.

1.4 HISTORY OF URBAN CO-OPERATIVE BANKS IN INDIA

The origin of the urban co-operative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the co-operative movement in Britain and the co-operative credit movement in Germany such societies were set up in India. Co-operative societies are based on the principles of co-operation, mutual help, democratic decision making and open membership. Co-operatives represented a new and alternative approach to organisation as against proprietary firms, partnership firms and joint stock companies which represent the dominant form of commercial organisation.

The National Federation of Urban Co-operative Banks and Credit Societies Ltd. (NAFCUB) is an Apex Level Promotional body of Urban Co-operative banks and Credit Societies in the Country. The main objective is to promote the Urban Co-operative Credit Movement and protect the interests of the Sector.

The major objectives and functions of Urban Co-operative Banks in India are:

i. Primarily, to raise funds for lending money to its members

ii. To attract deposits from members as well as non-members

iii. To encourage thrift, self-help ad mutual aid among members
iv. To draw, make, accept, discount, sell, collect and deal in bills of exchange, draft, certificates and other securities
v. To provide safe deposit vaults
vi. To issue letters of credit and traveler’s cheques
vii. To arrange for the safe custody of valuables
viii. To act as an agent of its customers
ix. To borrow funds and utilize them for giving loans to needy persons

1.4.1 Recent Developments in UCBs

Over the years, primary (urban) Co-operative banks have registered a significant growth in number, size and volume of business. There were 2,104 UCBs of which 56 were scheduled banks. About 79 percent of these are located in five states, - Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu. Recently the problems faced by a few large UCBs have highlighted some of the difficulties these banks face and policy endeavours are geared to consolidating and strengthening this sector and improving governance.

UCBs are unique in terms of their clientele mix and channels of credit delivery. UCBs are organised with the objective of promoting thrift and self-help among the middle class/lower middle class population and providing credit facilities to the people with small means in the urban/semi-urban centres. On account of their local feel and familiarity, UCBs are important for achieving greater financial inclusion.
Urban co-operative banks are regulated and supervised by State Registrars of Co-operative Societies (RCS) in case of single-state co-operative banks and Central Registrar of Co-operative Societies (CRCS) in case of multi-state co-operative banks and by the Reserve Bank of India.

1.4.2 Role of Urban Co-Operative Banks

Urban Co-operative Banks have an important role to play in several respects and some of them are listed below:

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.

Secondly, mobilization of savings by urban co-operative banks and the consequent drawing of urban resources into the apex and central co-operative banks which are in need of funds to finance the rural, industrial and other functional co-operatives to contribute to general economic development. By providing credit on reasonable terms to the middle classes they can rescue them from the exploitation of money lenders and others unscrupulous agencies, which is particularly important in the context of rising prices and further by financing individual industrialists and artisans, at low cost, they can make a significant contribution to industrial development.

Thirdly, they can provide essential banking facilities such as remittance of funds and so on, 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 and they can provide intelligent, experienced and active leadership to the co-operative movement including the central and apex Co-operative banks, which in view of their federal character draw their directors from member institutions.

Lastly UCBs are required to channelize 60 per cent of total loans and advances towards priority sector. Furthermore, within the priority sector lending, lending to weaker sections should constitute 15 per cent of the total loans and advances of UCBs. Fulfillment of priority sector lending targets by individual UCBs are taken into consideration by the RBI while granting permission for branch expansion, expansion of areas of operation, scheduled status, etc.

1.5 URBAN CO-OPERATIVE BANKS IN TAMILNADU

The state of Tamil Nadu, which was formerly called Madras Province, takes pride in initiating the Co-operative movement in this country. The first Urban Co-operative Bank in Tamil Nadu was registered in Kanchipuram in the Chengalpattu District of Madras Presidency on October, 1904, with an initial share capital of Rs.2005. The Madras Committee on Co-operation laid a strong emphasis on the organisation of non-agricultural credit societies. The Committee said that “The emphasis laid on rural credit did not prevent recognition of the fact that the interest of the small artisans, traders, shopkeepers, industrial employees and others in towns should be protected and facilities provided for reasonable credit to them as well. The money-lender
A Non-Performing Asset (NPA) is defined as a credit facility in respect of which the interest and/or installment has remained ‘past due’ for a specified period of time. NPA of by financial institutions refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing assets. Non-performing assets are problematic for financial institutions since they depend on interest payments for income. Troublesome pressure from the economy can lead to a sharp increase in non-performing loans and often results in massive write-downs. With a view to moving towards international best practices and to ensure greater transparency, it had been decided to adopt the
‘90days’ overdue’ norm for identification of NPAs, from the year ending March 31, 2004.

Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the reliability of the dues:

1. Sub-standard assets: a sub standard asset is one which has been classified as NPAs for a period not exceeding 12 months.

2. Doubtful Assets: a doubtful asset is one which has remained NPAs for a period exceeding 12 months.

3. Loss assets: where loss has been identified by the bank, internal or external auditor or central bank inspectors. But the amount has not been written off, wholly or partly.

On Sub-standard asset the banks have to maintain 15% reserves. All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets. All those assets which cannot be recovered are called as Loss Assets.

1.6.1 PROBLEMS CAUSED BY NPAs

NPAs do not just reflect badly in a bank’s account books, they adversely impact the national economy. Following are some of the repercussions of NPAs:
1. Depositors do not get rightful returns and many times may lose uninsured deposits. Banks may begin charging higher interest rates on some products to compensate Non-performing loan losses.

2. Bank shareholders are adversely affected.

3. Bad loans imply redirecting of funds from good projects to bad ones. Hence, the economy suffers due to loss of good projects and failure of bad investments.

4. When banks do not get loan repayment or interest payments, liquidity problems may ensue.

1.7 STATEMENT OF THE PROBLEM

Non-performing Assets (NPAs) are not a new development in Urban Co-operative Banks, today. Urban Co-operative banks have been facing the problem of loans and investments becoming difficult in recovery and turning out to be bad assets, where not only interest could not be recovered from the borrowers but on numerous occasions even the principal had to be compromised or written-off. The level of NPAs in the loan portfolio of banks is an evidence of their exposure to credit risk.

Among various other aspects of performance of the Urban Co-operative Banks, the recovery performance is the major eligibility criterion for cooperatives to obtain refinance from the apex bank. However, NPAs impair their capacity to obtain refinance. Recoveries also serve as an indicator of the quality of lending since repayments are expected from out of incremental
income generated by productive use of loans. The increase in the quantum of NPAs would outdo the actual expansion of credit in real money terms.

The loan portfolio with NPAs reduces the liquidity position of the Urban Co-operative Banks. The presence of NPAs leads to increase in real interest rates. Specially, NPAs affect profitability, liquidity, and solvency of the bank. Continuous decline in profitability due to increase in NPAs would ultimately, affect the profitability and liquidity and impair the solvency position of the co-operative banks. Hence, this study was undertaken to understand, the extent and level of NPAs and their impact on the liquidity and profitability of UCBs.

1.8 NEED FOR THE STUDY

UCBs are the most competent tool for financial inclusion and over time has proven their ability to provide credit at the grass root level effectively. But, they need proper guidance, advice and support. Urban Co-operative banks have become an indispensable part of our economic system. UCBs today form an important part of the financial structure of the country. In the changing scenario of the banking, Non-Performing Assets (NPAs/NPA) have been the most vexing problem faced by the Urban Co-operative banks. The study has greater relevance and significance in the present context of financial sector reforms as earlier studies were not focused on micro perspective of the macro level problem of NPAs in Urban Co-operative banks.
1.9 SCOPE OF RESEARCH

The scope of the study is restricted to a bank and the area specified in methodology. The study concentrates on areas like Total Advances, Net Profit, Gross NPA, Net NPA and causes for NPAs and impact of NPAs on the credit capacity and profitability of Sirkali Urban Co-operative Bank. The study is based on the secondary data collected from the banks.

1.10 OBJECTIVES OF THE STUDY

1. To study the growth and development of Urban Co-operative banks in India.

2. To study the mobilization and deployment of resources by Sirkali Urban Co-operative Bank.

3. To assess the status of Non-Performing Assets and to examine the factors influencing increase of Non-Performing Assets in Sirkali Urban Co-operative Bank.

4. To analyse the Non-Performing Asset’s impact on overall financial capacity of the study unit.

5. To study the impact of Non-Performing Assets on Net Profit of Sirkali Urban Co-operative Bank.
1.11 METHODOLOGY

Methodology is the systematic, theoretical analysis of the methods applied to a field of study, or the theoretical analysis of the body of methods and principles associated with a branch of knowledge. The study used secondary data to analyse Total Advances, Net Profit, Gross NPA and Net NPA of UCBs to arrive at a complete understanding of performance of UCBs. The study used the annual reports of Sirkali Co-operative urban bank for a period of ten years from 2005-06 to 2014-15. The data has been reduced to tables to analyse total advances, gross NPA, Net NPA and Profit of UCBs.

1.11.1 Period of the study

The study covered a period of ten years from 2005-06 to 2014-15 in Sirkali Urban Co-operative Bank in Nagappattinam district of Tamil Nadu.

1.11.2 Analytical Tools

1.11.2.1 Descriptive statistics

Descriptive statistics is the term given to analyse data that helps to describe, show or summarize data in a meaningful way. Typically, there are two general types of statistic that are used to describe the data.

1.11.2.2 Measures of central tendency

These are ways of describing the central position of a frequency distribution for a group of data. We can describe this central position using a number of statistics, including the mean, median and mode.
1.11.2.3 Measures of Spread

These are ways of summarizing a group of data by describing how spread out the scores. Measures of spread help us to summarize how spread out these scores.

1.11.3 Inferential Statistics

1.11.3.1 One sample t-test

One sample t-test used for compare one group or sample to hypothesized population mean. This test is useful to see if the sample is significantly different or not.

1.11.3.2 Pearson’s coefficient of correlation

Karl Pearson, a great biometrician and statistician, suggested a mathematical method for measuring the magnitude of linear relationship between the two variables. It is most widely used method in practice and it is known as Pearson coefficient of correlation.

1.11.3.3 Regression analysis

Regression is the measure of the average relationship between two or more variables in terms of the original units of the data.

Regression analysis is the next step up after correlation; it is used when we want to predict the value of a variable based on the value of another variable. In this case, the variable we are using to predict the other variable's value is called the independent variable or sometimes the predictor variable.
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The variable we are wishing to predict is called the dependent variable or sometimes the outcome variable.

Formula:

\[ Y = a + bX \]

Were,

- \( Y \) is the value of the Dependent variable (Y),
- \( a \) (Alpha) is the Constant,
- \( b \) is the Slope (Beta coefficient) for X,

1.11.4 Hypotheses of the study

The following null hypothesis are framed in the study

1. **Null Hypothesis (H0):** There is no significant difference in the amount of short term loans provided by the bank for the period 2005-06 to 2014-15.
   **Alternative Hypothesis (H1):** There is significant difference in amount of short term loan provided by the bank for the period 2005-06 to 2014-15.

2. **Null Hypothesis (H0):** There is no significant difference in the amount of total advances provided by the bank for the period 2005-06 to 2014-15.
   **Alternative Hypothesis (H1):** There is significant difference in amount of total advances provided by the bank for the period 2005-06 to 2014-15.

3. **Null Hypothesis (H0):** There is no significant difference in the amount of NPAs for the period 2005-06 to 2014-15.
   **Alternative Hypothesis (H1):** There is significant difference in the amount of NPAs for the period 2005-06 to 2014-15.

4. **Null Hypothesis (H0):** There is no significant difference in the profit earned by the bank for the period 2005-06 to 2014-15.
   **Alternative Hypothesis (H1):** There is significant difference in the profit earned by the bank for the period 2005-06 to 2014-15.
5. **Null Hypothesis (H0):** There is no relationship between profit earned by the bank and their NPAs from term loans advances and overall NPAs during the period.
   **Alternative Hypothesis (H1):** There is relationship between profit earned by the bank and their NPAs from Term Loans Advances and Overall NPAs during the period.

6. **Null Hypothesis (H0):** There is no significant difference in the deposits amount of the bank for the period 2005-06 to 2014-15.
   **Alternative Hypothesis (H1):** There is significant difference in the deposits amount of bank for the period 2005-06 to 2014-15.

7. **Null Hypothesis (H0):** There is no significant difference in the Reserve Fund of the bank for the period 2005-06 to 2014-15.
   **Alternative Hypothesis (H1):** There is significant difference in the Reserve Fund of bank for the period 2005-06 to 2014-15.

8. **Null Hypothesis (H0):** There is no relationship between reserve fund and total amount of NPAs of the bank during the period.
   **Alternative Hypothesis (H1):** There is relationship between reserve fund and total amount of NPAs of the bank during the period.

9. **Null Hypothesis (H0):** There is no significant difference in the other investment of the bank for the period 2005-06 to 2014-15.
   **Alternative Hypothesis (H1):** There is significant difference in the other investment of bank for the period 2005-06 to 2014-15.

10. **Null Hypothesis (H0):** There is no relationship between total investment amount and total amount of NPAs of the bank during the study period.
    **Alternative Hypothesis (H1):** There is relationship between total investment amount and total amount of NPAs of the bank study during the period.
1.12 LIMITATION OF THE STUDY

The study covers Sirkali Urban Co-operative Bank Ltd only. The study covers the period of ten years. i.e., from 2005-06 to 2014-15. Figures taken in this report is being obtained from previous annual report copies and audited statements, alone. A comparative study of the non-performing assets with other co-operative bank has not been made.

1.13 CHAPTER SCHEME

First Chapter deals with design and Execution of Study

Second Chapter presents a review of literature relating to the study.

Third Chapter presents the Growth and Development of Urban Co-operative Banks in India.

Fourth Chapter analyses the Mobilization and Deployment of Resources by Sirkali Urban Co-operative Bank.

Fifth Chapter analysis of NPAs and their relationship to Total Advances, Net Profit and Overall Credit Capacity of the Study unit.

Sixth and Final Chapter Summary of Findings, Conclusion and Suggestions.