Chapter 5

ANALYSIS AND EVALUATION THROUGH WORK ORGANISATION

- Improvement of Customer Service
- Maintenance of books, documentation
- System of Internal Administration and work
- Issues and Suggestions
Establishment of urban co-operative banks was perhaps the first ever attempt at micro-credit dispensation in semi-urban and urban areas. Initially, the State Governments under the provisions of their respective State Co-operative Societies Acts, regulated/monitored these co-operative banks. However, as the operations of the urban co-operative banks and their volume of deposits increased significantly, the need for regulating their activities in order to ensure their customer services improvement as well as to protect the interest of depositors has been receiving increasing focus.

As an institution urban cooperative banks have made a place for themselves and by and large doing well in their respective areas. Their strongest point is their easy accessibility by their clients. However, their number being very large puts a severe strain on the supervising and monitoring system. Most of the banks keep a low profile and go about their job without much fan-fare. RBI inspects them usually once in two years unless there are any supervisory concerns in which case the frequency of inspection is increased. One may, however, question this and say that Madhavpura would not have happened had our inspections been annual like in the case of
commercial banks. My humble submission is that madhavpura episode did not have much to do with frequency of inspections for, it is always possible for managements to indulge in objectionable practices during the gap between two inspections. It needs to be appreciated that it is not possible for RBI to oversee day-to-day transactions of banks.

RBI has recently mooted the idea of supervision of UCBs to be entrusted to a separate apex authority. The reason is that these banks number more than 60 and are spread across the state. The sheer magnitude of their number and geographical spread as also the level of professionalism generally available in these banks perhaps needs a separate agency for focussed supervision. The issues that would need to be addressed in this connection are the status, structure and management of this body, its relationship with RBI, its resources, staffing and location.

It is extremely important that there is a mechanism to ensure that an effective system of internal governance is in place. Chief Executive should be a person of clean image and display a professional attitude. Board should consist of knowledgeable persons who are aware of their responsibilities as board members. There should be a board level committee which should focus attention on the findings of audit and inspection teams and ensure compliance thereof. The Committee should also ensure compliance with various regulatory instructions issued by RBI as also state governments. It is ultimately the board’s responsibility that all prudential norms of governance are observed by the bank.

In order to align with SCBs and to increase the operational autonomy of UCBs, the practice of fixing floor interest rates
chargeable on loans and advances made by UCBs has been discontinued. UCBs now have to internally decide their own lending rates taking into account the cost of funds, transaction cost, etc. with the approval of the managing committee. In order to ensure transparency urban co-operative banks have to publish the minimum and maximum lending rates and display such information in every branch. Furthermore, cooperative banks are encouraged not to pay any additional interest on the savings bank accounts over and above what is payable by commercial banks. In addition, co-operative banks are encouraged not to pay interest on current accounts.

If the urban bank’s performance is not satisfactory than they may come in the line of weak banks and the reason for that may be bad internal administration, poor customer services and old methods of the maintenance of the books and documentation.

In order to have effective monitoring of the PCBs, they are classified as weak banks or strong banks based on certain performance criteria.

From March 31, 2002, an UCB (including non-scheduled, scheduled salary earners’ and newly licensed banks) is classified as “weak” or “sick” as per the norms given below:

<table>
<thead>
<tr>
<th>Norm</th>
<th>Weak Banks</th>
<th>Sick Banks</th>
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<tr>
<td>CRAR</td>
<td>CRAR falls below the level of 75 per cent of the minimum prescription; OR</td>
<td>If CRAR falls below the level of 50 per cent of the minimum prescription; AND</td>
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<tr>
<th>Level of NPAs</th>
<th>Net NPAs 10 per cent or more but less than 15 percent of loans and advances outstanding as on March 31.</th>
<th>Net NPAs 15 per cent or more of loans and advances outstanding as on March 31. (However, if an urban bank is having Net NPAs more than 15 percent of its loans and advances outstanding as on March 31, but not meeting other norms for its classification as a “sick”, such a bank will be classified as a “weak” bank)</th>
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<tr>
<td>OR</td>
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| Profitability | Showing net losses in operation for two years out of the last three years | Showing net losses in operation for the last three consecutive financial years. |

(Source – urban bank’s circular 2002)

**IMPROVEMENT OF CUSTOMER SERVICE**

Urban Cooperative banks are engaged in different activities associated with customer’s service. For improvement of customer service these banks have undertaken various activities. The RBI also advised these banks from time to time and in addition recommendations of various committees also directed steps to improve their working.
For the improvement of customer services UCBs are engaged in following activities:

**Immediate Credit of Outstanding Cheques**

Urban CO-operative Banks give immediate credit of outstation cheques, drawn in their favour, upto Rs. 2500/, to customers and not for collecting third party cheques through the customers account. Banks may stipulate the following conditions for the Purpose.

- The facility may be extended to individual customers who have maintained S.B./Current accounts for a period of six months or more prior to the credit.
- The facility may be provided to customers whose accounts are properly conducted and where there are no occasions of cheques/withdrawals being returned/refused being in excess of the balance.
- The facility may be restricted to immediate credit of only one cheque at a time and till such time its proceeds are realised the facility need not be extended to fresh cheques lodged by the customers.
- Banks are advised not to stipulate a minimum balance, other than the minimum balance required to be maintained normally in such account, for extending this facility and also to display prominently information about the availability of the facility at its office.

*Note*: The Reserve Bank vide its circular UBD. No. (SUC) DC. 131/-13.05.00/93/94 dated 25th August, 1993 permitted the scheduled primary urban co-operative Banks to allow the facility of immediate credit, against local as well as outstation cheques, upto the value of Rs. 7500/-@ tendered by individual account holders, provided they
are satisfied about the proper conduct of the accounts and the customers desire the facility and subject to the recovery of (a) the usual collection charges in respect of outstation cheques and (b) Rs. 5/- per Cheque in respect of local cheques. If a customer does not wish to receive immediate credit, the cheque will be credited on realisation through clearing, as hitherto. In the event of the cheque returned unpai, the Bank Can recover normal rate of interest for the period it is out of funds. banks may Consider introducing a note to this effect in the pay-in-slips.¹

**Delay in collection of outstation cheques/instruments**

If the delay in collection of outstation cheques/instruments is beyond 10 days (in the case of cheques lodged at and drawn on state head quarters except the state capitals of North Eastern Region and sikkim and beyond 14 days (in all other cases), banks should pay interest @2% p.a. over savings bank rate. Interest payable should be paid/credited to all types of accounts without the customers having to claim it. Such interest may, however, be paid only when the amount is Rs. 5/- or more. Where the proceeds of instruments are to be credited to the cash credit, overdraft or loan accounts, with a view to compensating such customers equitably, since the proceeds of outstation instruments are for credit to borrowal accounts, loss of interest to them for the delayed remittance is at the rate stipulated by the banks for such accounts.

RBI vide its circular UBD No. DS PCB CIR 21/12.05.00 / 1999-2000 dated 17th January 2000 has advised the bank to pay the interest in case of delay in collection of outstation cheques,
whether demanded or not, as a routine or by automatic credit of interest in respect of delayed collection of outstation cheques, so as to avoid room for representation/complaints from public.

- RBI had appointed M/S. Dun and Brastreet marketing research Pvt. Ltd. to conduct the survey regarding delay in collection of outstation instruments. The findings are as under:
  - Most of the branches of the banks surveyed are not affording immediate credit for cheques upto Rs. 5000/-.
  - In the four metropolitan centres having MICR cheque clearing system, majority of the banks branches have not afforded credit for outstation cheques up to Rs. 10000/- within a week.
  - In respect of state capitals and centres with more than 100 bank offices, credit to customer's account was not given within 10 days.
  - Some of the delays are systemic i.e. delays which occur at the branch level whereas other are transit delays. The entire time cycle of collection of instruments comprising four stages viz. Registration, Dispatch, Receipt of Realisation advice and crediting the customers accounts takes 24 days on all India average.

- The RBI has advised the banks to initiate the following additional measures to reduce the time taken for realisation of outstation cheques.
  - Cheques drawn on MICR centres should invariably be presented through National clearing cell.
  - Extensive use should be made of modern telecommunication technology for networking service branches in important centres and between service branches and other branches within a particular centre.
  - The concept of Quick/fast collection service for collection of outstation instruments should be streamlined.
- Separate registers should be maintained for local cheques and outstation cheques to enable the branch managers to exercise better supervision and remedial measures should be initiated to speed up the collection of outstation instruments.

- RBI also suggested to the Banks, that the internal inspection team should give special attention to this during their inspection. The customer also should be made aware of the facilities by displaying suitable information on the notice board.

**Dishonour Of Cheque - Charging Interest**

In case of dishonour of the cheque, the customer pays normal rate of interest for the period the bank, in which immediate credit has been given, was out of funds, based on size of limit.

**Extension of business hours**

The Goiporia committee on customer service in Banks, has observed that there is a need for extension of business hours i.e. upto one hour before the close of working hours for the non-cash transactions. A list of such transactions-

* Non-voucher generating transactions
  issue of pass books/Statements of accounts
  issue of cheque books
  Delivery of term deposit receipts/drafts.
  Acceptance of share application forms.
  Acceptance of clearing cheques.
  Acceptance of bills for collection.

* Voucher generating transactions
  issue of term deposit receipts (TDR)
  Acceptance of cheque for locker rent due
Issue of travellers cheques
Issue of gift cheques

The reserve Bank has advised the urban banks to implement the recommendation of the Goiporia Committee and also periodically evaluate on half yearly basis, as at the end of June and December, with a view to upgrading the quality of services to achieve higher satisfaction among the banks customers. Facilities offered during the extended business hours may be notified to the customer of the bank.

Handling of Complaints / Fraud Cases etc.

In view of the increasing incidence of frauds and malpractices coming to light and also complaints of harrassment of customers RBI in its circular No. I & L 55 dated 4th June, 1997, has advised the Banks to review the Complaints and fraud cases at the level of Board and take appropriate remedial action to expendite the complaints and follow-up of fraud cases.

Issue of cheque books

It has been observed that the quality of cheques issued by some banks to customers is not upto the mark in as much as the perforation in the cheque leaves as also binding of cheque books are not satisfactory. managers always advise to Branch Employees to ensure that their cheque books are printed with due care, so as to avoid any inconvenience to the customers.

Computerisation in Banks

While drawing attention to the observations made by the committee of licensing of new urban co-op. Banks and other related matters (Marathe Committee) in the matter of computerization in the urban banks, the reserve Bank has advised that all banks having
working cap. of Rs 5 crores and above, may take appropriate measures for computerisation of their operations, taking into consideration the volume and nature of transactions, number of members, depositors and borrowers, other operational activities, customer services and need for improving the operational and administrative efficiency and maintaining a competitive edge. Incidentally, U.P. Urban banks federation has also drawn attention to the recommendations made by the committee of computerization in Banks setup by reserve Bank in September 1998. The main purpose of computerization for banking operation is customer service.

**E- Banking**

Urban banks of U.P. is not providing the facilities of ATMs, EFI and BTMs and it may be the main reason of their low productivity and as the information collected from R.B.I., Lucknow that the work has been started in this regard by some banks.

**Interior Works**

The present era of globlisation and fast changing modes and needs of the customers, it is imperative for banks to have proper interior of its office which register its image in the eyes of customers with this in view, the Indian Banks association has brought out a book Guidelines on interior works for the Banks."

**ISO 9000**

ISO 9000 is an innovative approach in the urban banking industry to function effectively in the competitive, quality-sensitive, customer-driven environment. ISO 9000 is a series of five international standards on quality management, consisting of ISO 9000, ISO 9001, and ISO 9004, ISO 19011, ISO 1012. These five standards are generic in nature and are not specific to product or services.
While ISO 9000 would contain all the fundamentals, vocabulary and definitions pertaining to the quality management system, ISO 9001 would contain all that is required for good quality management practices. ISO 9004 provides guidance for performance improvement. "ISO 9001 is a standard for ensuring customer satisfaction. Whereas ISO 9004 has been designed to attain satisfaction of the parties, having direct or indirect contact with a company. Common standards for both quality and environmental auditing have been incorporated in ISO 19001 standards. ISO 1012 Systems would have standards for controlling measurement systems.

Citizen's Charter for better bank Services

In a bid to improve the standards of banking services in the banks, the Indian Banks Association (IBA) is putting together a citizens' charter. The charter, which will spell out the rights and obligations of bank customers, is expected to become operational soon.

IBA, along with nodal officers from all banks, has drafted basic service guidelines in this charter for banks to follow in order to facilitate greater governance among banks. The guidelines refer to the basic minimum standards of service banks must follow. However, banks have the option to incorporate their own additional features to the charter if they want.

Complaint Book

Urban Co-operative Banks Keep a complaint Book at Branches for the use of its customers and follow the instructions of RBI as given in the next page.
This complaint book will be used only when the customer calls personally at the branch to lodge a complaint.

Each set of complaint forms is triplicate. The original will be the record at the branch/bank (bank/branch copy), the duplicate (Perforated copy) will serve as an acknowledgement (Complainant’s copy) the triplicate (Perforated copy) will be sent to the head office of the bank.

The copy of complaint will be given to the complaint immediately after the lodgement of the complaint as an acknowledgement.

The Triplicate copy will be sent to the head office within four days with remarks of the branch indicating the position of disposal of complaint.

If it is envisaged that the complaint redressal would require some time the expected date of redressal of complaint and the justification for the time required will be recorded in the triplicate copy.

Specimen

Serial No. 001 Date........
Sri/Smt./Kum..........................................................................................
Address:............................................................................................
Nature of Account if applicable/maintained.................................
Complaint in brief ..............................................................................

Signature of Complainant

Sent to controlling office on ..........................................

Remarks

Date of final Disposal

Signature of Bank

Branch

Manager
Stapling of Bank Note Packets

The Practice of stapling of fresh note packets as well as multiple stapling of re-issuable note packets has come with serious criticism for all quarters. This practice not only damage, Notes and reduce their life but also make it extremely difficult for customers to handle stapled note packets. Government of India and the reserve Bank of India have now taken decision to do away with stapling of fresh bank note packets. Non stapling of notes also prevents the damage to the watermark on the notes and increase the life of the notes. The practice of writing the number of pieces etc. on the water mark window also needs to be stopped within. RBI has been advised to urban banks to instruct their branches to stop stapling/multiple stapling/Stitching of note packets and instead issue to the public the fresh and re-issuable note packet banded with paper band. Urban Banks are also advised to instruct the cashiers at the receiving/paying counters not to write either number or any other matter on the bank notes. Keeping in the view the large volume of cash transactions of scheduled primary co-operative Bank, they should arrange to install dual display note counting machines at the payment counters of their branches in sufficient number for the use of customers.

MAINTENANCE OF BOOKS, DOCUMENTATION

Urban Co-operative Banks maintains there books and documentation for the help of customers, Employees and Auditors also. The purpose of the systematic keeping of Books and documents is to make the working process easy. These Banks maintains the following sections and documentation :-

Books, Section

Cash Book : The main Business of Bank is to accept cash and lend cash. Two cash book are kept- (i) Rough Cash Book, and (ii) fair cash
Book, Rough Cash Book is written by the cashier. There are normally two cashiers - One for receiving cash and the other for paying cash. Thus, there are two rough cash Books: one maintained by the receiving cashier and the other by the paying cashier.

A rough cash book of the receiver cashier records (i) Serial Number (ii) Name of the depositor and (iii) the amount received. When a client deposits money, he pays it with the duly filled in paying-in-slip. The cashier receives money and returns the counterfoil of the paying-in-slip to the client after signing and stamping it.

While making the payment, the bank receives a token from the client given to him by an assistant to whom the client gives a cheque for withdrawing the amount. The paying cashier records in his rough book the following facts: (i) Serial number (ii) Name of Payee (iii) Amount Paid (iv) number of taken.

All paying-in-slips received by the receiving cashier and cheques and withdrawal forms received by the paying cashier are passed on to a different person. This person, with the help of these documents, writes the transactions in a separate book called "fair cash book." The transactions in the fair cash book must tally with those in the rough cash book. Thus this procedure provides a very good control on the recording of cash transactions of the urban banks.

_Cash Balance Book_ - In this book, Cash Balance at the close of the day is written under the signature of the cashier and the manager.

_Cash Reserve Book_ - This records the cash, which remains in the safe for emergency purposes.
Day Book - This records daily transactions of the bank pertaining to cash transfer, clearing etc.

Ledger Section

Urban banks transactions are first recorded in the books and the posted to ledger. (Posting is done with the help of slip system which will be explained later). There are various types of ledgers for meeting out different purposes.

Current accounts ledger :- This ledger contains the account of such customers who open current Account in the bank. The bank, normally, does not pay interest on the bank balance, if any, maintained by the client. A charge is made in respect of unremunerative accounts. If over draft is sanctioned the limit is mentioned on the top of the account. Since there are many current accounts, one for each customer, therefore, a normal branch has ten to fifteen current account ledgers. These ledgers are serially numbered.

Saving Bank Ledger :- This ledger contains accounts of such customers who open saving bank accounts with the bank. Like current account ledgers, there are many savings bank account ledgers which are serially numbered. The account in the ledger mentions clearly the name of the customer, full address, account number.

Fixed deposit ledger :- This contains the accounts of customers who have deposited money for a fixed period. At the top of the account depositor's name, his full address, the amount of deposit, rate of interest, period of the deposit, any other instructions are mentioned. There can be more than one ledger depending upon the number of fixed deposit accounts.
Overdue fixed deposit ledger: - When the fixed deposit is overdue, it is transferred to overdue fixed deposit ledger.

Fixed deposit interest ledger: - In this ledger the interest of every fixed deposit is entered against each depositor's name.

Loan ledger: - It contains a separate account of each customer to whom a loan is granted. The amount of loan, the rate of interest the terms of payment, nature and amount of securities are mentioned in each account.

Investment ledger: - This contains account of each type of investment the bank holds. The account contains details regarding the face value of investment, amount paid on investment, rate of interest etc.

General ledger: - This is the most important ledger. It contains the total account of each ledger, i.e., total current account, total saving bank A/c, total revenue account. Each ledger is kept on self-balancing system. This ledger contains full material for the preparation of trial balance from which profit and loss account and balance sheet can be prepared.

Registers Section

Urban banks maintain certain registers which do not form part of double entry system.

Bills for collection register: This records the bills deposited by Customers for collection. It contains information about bills name of drawer, name of the drawee, whether payable on demand or at right and other instructions. Bills for collection register may be divided
according to the requirements of the bank-inward Bill for collection (IBC), out-ward bill for collection (OBC), Government bill for collection (GBC), inward Bill lodged (IBL), outward bill lodged (OBL) and Government bill lodged (GBL).

Securities register :- This contains a detailed record of all securities held by the bank against loans granted.

Jewellery register :- This contains full details of Jewellery pledged by customers against loans taken by them.

Document register :- This records the details of documents taken by the bank from customers against loans / advances granted to them.

Standing Order register :- This records the standing instructions received from customers to periodical and other payments and collections.

Cheques dishonoured register :- This contains the details of cheques returned by the bank unpaid and the reasons for dishonour.

Drafts payable register :- It contains the details of drafts issued by other branches for payment at this branch.

Drafts issue register :- This contains the detail of drafts issued by the branch payable by other branch.

D.D. register :- This register is used for recording the detail of cheques received at the counter. In other words, this records the names of drawer, drawee and payee, date and amount.
Foreign letters of credit register: This contains the record of foreign letters of credit issued by bank to its clients together with full particulars regarding license and conditions under which it is issued by the Government.

Slip system of ledger posting

Slip system of ledger posting is a method adopted by urban coop. Banks for said posting of Books of account kept on double entry system. Slips are nothing but loose leaves of Journals or cash book on which transactions are recorded as they occur. These slips (Original records) are passed on to the ledger Keeper concerned for immediate posting to the debit or credit of accounts mentioned thereon.

The branch requires to know at any time its position in relation to each individual customer and hence it is necessary that transactions must be recorded immediately after they have taken place. This would be impossible if the transactions were recorded in bound books. Thus, original cheques, paying-in-slips are used as vouchers. The cashier receiving cheques credit cash account and then passes on these cheques to the ledger-keeper for debiting the customers' accounts. Similarly, the receiving cashier debits the cash account on the basis of original paying-in-slips and then passes on these slips to the ledger-keeper for crediting the customer's accounts. In case there are no original vouchers then urban-banks make slips called "dockets" for such transactions. They are used for posting purpose.

Documents

Urban Banks maintains some documents. It may be a piece of written, or electronic matter that provides information or evidence about banks.
The principal function of Bank accept deposits and lend money. Thus in the ordinary course of business, it deals with two sets of customers, i.e. depositors and borrowers and the relationship of any bank with those customers is that of a debtor and creditor, the position of the bank altering depending upon whether the customer is a depositor of a borrower. The relationship arises out of contractual obligations and are governed by provisions contained in Indian contract act 1872, section 10 of the Indian contract Act, 1872 defines a valid contract in the following terms:

"All Agreements are contracts, if they are made by the free consent of parties competent to contract for a lawful consideration and with a lawful object, and are not hereby expressly declared to be void. Nothing herein contained shall affect any law in force in India, and not hereby expressly repeated, by which any contract is required to be made in writing or in the presence of witness, or any law relating to the registration of documents".

In this chapter, our discussion is confined to the contract of a banker with its borrower. The process of creating a written contact for moneys lent, helps the banker in a number of ways, such as: -

- Identification of Borrower
- Identification of security, if any.
- To have a written evidence of the transaction of lending made by the bank,
- To ensure due repayment of the loan by the borrower and/or guarantor.
- To entitle the bank to take legal steps for recovery of the loan, in the event of non repayment by the borrower and/or guarantor.
All these aspects can be effectively achieved by the urban bank in case the written contract is legally valid and enforceable in court of law. This necessitates that the written contract must confirm to a valid "document".

**SYSTEMS OF INTERNAL ADMINISTRATION AND WORK**

For management of Banks, what is known as "Performance Budgeting" is a tool of planning as well as control. It relates to a process. Where by the Banks workout a blueprint of the Programme of business, which it would like to perform during a given period of time and ensure that such programmes are implemented. It could mean setting up of goals to different activities, for a given period, taking into account past performance, local conditions and the role it is expected to play. It is not an annual financing Budget, which is a forecast of income and expenditure for the coming year.

It would be desirable for the banks to have performance budget in two components-

**Perspective Plan**
- It would be the responsibility of the management of a Bank, to formulate such a plan with the expert assistance of the chief executive of Bank.
- The perspective plan, as already indicated, should preferably be prepared for five year plan of the Government.
- The main object of the perspective Plan is to provide on a continuos basis a direction for the growth of the bank along important dimensions, Such as
  - Opening of new branches and extension of branches.
- Growth of total deposits.
- Growth of total Advances (Type wise and purpose wise)
- Introduction of new Auxiliary services.
- Manpower demand.
- Training.
- Financial Results.

Before preparing a perspective plan, it would be necessary to have an analysis of the economic environment in which the Bank and its branches function, the present and likely policies of regulatory Agencies and competition from other Banks.

**Annual Operational Plan and Budget**

Annual operational plan and Budget for individual branch to guide/control their usual activities and as means of achieving perspective plan.

Once the perspective plan is adopted by the Bank, it is for the chief executive to prepare the annual operational plan and Budget which should cover one year. While preparing this, care should be taken to assess the performance and future prospects of each branch in consultation with the field staff. To enable the branch managers to prepare their annual operational plan and budget, it should be finalised by the chief executive at the Head Office, after personal discussion with the managers, if necessary. the approved branch operational plan and budget will provide a basis for estimating the performance of the Bank as a whole. After Branch Operational budgets are prepared an annual consolidated budget for the Bank can be prepared.
It would be necessary to lay down a schedule for preparation and settlement of the budgets. The preparation of annual operational plan and budget of a branch should normally be completed by about 15th March and the final budgets should be communicated to the branches before 31st March, so that branches can take preparatory steps to implement them in time.

The mere preparation of a budget would not yield the desired result. It would be necessary to have periodical reviews of the performance of each branch and the Bank. For this purpose the Bank may obtain progress report from branches on quarterly basis, and review their performance. It would be better if such reviews are made at periodical conferences of managers of the branches.

**Asset Liability Management (ALM)**

The scheduled urban banks have been advised to operationlise asset liability management system with effect from April 1999.

If is found that many urban co-operative Banks of U.P. borrow short term funds but lend for longer tenure which leads to asset liability mismatch. [The reserve Bank of India is planning to put in place the asset liability management (ALM) norms for the co-operative Banking sector].

The co-operative banking sector is not quite tuned to the sophistications regarding ALM mechanism and thus there are instances of mismatches. Typically, co-operative banks have average deposit tenure of one to three years. While their lending tenure varies from 1 to 15 years.
An ALM norm will equip the bank to guard against any interest rate or liquidity stocks. Moreover, it will also improve their funds management. The central bank is likely to appoint a committee which will suggest ALM norms for co-operative banks.

The central bank has already framed ALM norms for the commercial banks, which are being observed for the last two years. However, the ALM norms for co-operative banks are expected to be different from that of the commercial banks.

Since the characteristics of co-operative banks differ sharply from commercial banks, it would not be possible to transplant the same norms. As per the existing norms for the commercial banks, the mismatch in short term between asset and liability should not be more than 20%, moreover, each bank should have in place an asset-liability committee that would review liquidity position regularly and an interest rate movement and recommend change in rates to the board. However, to implement this, a strong management information system (MIS) is required.

Security Arrangements in urban Banks

These banks (urban-co-operative banks of U.P.) furnish half yearly reports, on losses suffered by banks on account of robberies, dacoities and other crimes if any. The information shall include.
- Number of persons arrested,
- Amount recovered,
- Whether the police have filed the case in the court, and if so at what stage the case is,
- Details of punishments awarded to the persons where investigation of the case have been completed, and
- Any other developments.
Board for banking financial frauds

The board for banking commercial and financial frauds, which was setup in 1997, has been reconstituted with 4 members viz. S.P. Talwar, Ex.deputy Governor, R.B.I., Justic (Retired) A. Siddique of Delhi High Court; R.K. Raghavan, former director, CBI and A.V. Gokhak, retired secretary, Government of India. The Board is essentially advisory in nature and has no executive or investigative powers. It was setup to provide Pre-investigation advice as frauds in which the role of officers of Banks and financial institution is likely to come under scrutiny.

Acquisition of Accommodation on lease/rental basis by urban co-operative Banks for their use (i.e. for office and residence of staff)
- The Bank's Boards determine the rate of interest on quarterly rests on premises loans. For this purpose the Boards lay down a separate policy in respect of loans granted to landlords who provide to them premises on lease / rental basis.
- As regard the rate of interest to be charged on loans given to the landlords, banks have been given freedom.
- In order to ensure that the genuine grievances of the landlords are dealt with expeditiously, keeping in view all the relevant factors, Banks evolve a suitable machinery for dealing with such grievances.

Adequate representation to urban co-operative Banks

Urban Banks at its seminars and conferences have been representing to the Government and the reserve Bank of India that they are not given adequate representation on the Boards of Management of state Co-operative Banks/District Central Co-operative Banks. The urban co-operative Banks are one of the
important Constituents of the SCBs/ DCCBs. with a view to get the involvement of urban co-operative Banks in the decision Making, Reserve Bank of India has advised that proper representation be given to the urban co-operative Banks on the Board of SCBs/DCCBs.

Supervision and Audit

The Co-operative Department exercises supervision on the urban co-operative Banks. In some states these Banks are affiliated to supervising unions. But these unions can hardly exercise the type of supervision required by urban co-operative banks. Audit is the responsibility of the Registrar and is done through the audit Staff of the Co-operative Department. Some of the big urban co-operative banks have appointed their own auditors for the expeditious audit of their accounts after the close of the year. Since the enactment of the Banking regulation act the urban co-operative banks have been brought under the statutory control of the Reserve Bank of India.

Certain sectors of the trade have setup their co-operative banks. With a view to preventing such unhealthy development in the field of Co-operative banking, the R.B.I. has now imposed that membership in any bank must be open to all eligible persons irrespective of the community, caste, creed or language. In March 1976 The reserve bank laid down stiff conditions for opening of branches by urban co-operative banks. If the overdues of any bank exceed 20% for the year ending June preceding the date of application for new branch, It will not quality unless the total amount of overdues is less than bank's own funds. This step has been taken to prevent the indiscriminate expansion of urban co-operative banks. Without attaining certain standard of loan business an urban co-operative Bank is not eligible for operating new branches.
**Vigilance arrangements in UCBs**

The urban Co-operative Banks follow some measures to ensure that their vigilance Departments function effectively.

- Examine on an on-going basis the vigilance and internal inspection / audit setup from the point of view of their capability to effectively discharge their responsibilities and take steps to strengthen the machinery to the extent necessary. The officials of sufficient experience and exposure are posted to these departments which is headed by officials of sufficient seniority and proven integrity.

- Sensitive functional spots are identified and there is regular and surprise inspections of such spots. (The internal inspection / Audit officials may be impressed upon with the need for making indepth study of corruption / fraud prone areas during the course of inspections so that there is no scope for such malpractices / irregularities remaining undetected). A proper scrutiny of personnel is conducting while posting them in such sensitive posts which involve dealing with members of the public on a considerable scale. Rotation of officer and non-officer staff in operational areas is done strictly as prescribed intervals.

- Head office departments and Zonal / Regional office are being inspected / Audited regularly at specified periodical intervals, as in the case of branches by every senior officials.

- There is a regular system of conducting exclusive scrutiny of credit portfolio with focus on larger advances and group exposures at various branches.

(5) The internal inspection team during the course of inspection of the branches, controlling offices and Head office scrutinise the deals connected with purchase of
stationery, hiring /de-hiring and purchase of premises, costly furnishing of office / residential premises.

**Note** - Staff accountability should be examined as soon as there is a shift in the asset classification of an advance, e.g. from standard to sub-standard and so on instead of waiting till filing of suits or write offs.

- Sufficient care is being taken to record confidential reports/performance appraisals from the vigilance angle. More extensive use of the available powers has been made while reviewing the cases relating to persons who are past useful service or were vigilance suspects. The banks ensure that evidence / records are properly built up in such cases to stand up in any Judicial scrutiny.
- Banks are introducing a return for staff members to ensure strict submission of the information of assets and liabilities and proper scrutiny thereof.

**Best practices followed by the Banks in inter branch reconciliation**

- Considering the large network of branches of the co-operative sector banks and speed-up the process of reconciliation. Extensive use of computers/electronic communication system and its operations by suitable personnel has been considered essential for adjustment of outstanding entries in inter-branch account within six months, on an ongoing basis.
- Development of suitable software application package.
- Large scale computerisation of branches so as to achieve branch connectivity and direct extraction of the data and report to reduce delay.
- Decentralised setup for faster data collection and effective follow up.
- Streamlined accounting procedure for those items classified as inter-branch transactions.
- Accuracy in compilation of the daily statements of inter-branch reconciliation and timely submission there of as also error free floppies have been enforced for completing the process of reconciliation within a time bound programme.
- Separate system for reconciliation of entries on account of demand draft issued and paid.
- High value entries monitored at weekly / monthly interval.

- Restriction of originating debit entries to :-
  * Cash Remittances / fund transfer.
  * Payment of "Payable at par instruments.
  * Purchase of Securities / capital assets.
  * Assets withdrawals from staff provident fund account.
  * Advances drawn by inspectors.
  * Clearing Transactions by service / main branch.
  * Forex transactions by Designated Branches.

- Development of the required skill and knowledge through workshops class training etc.
- The Banks attach IBR reconciliation the same importance as business development.
- Support from the top management in the area of infrastructure, allocation of the right personnel, introduction of incentive scheme for achieving the targets fixed etc.
- Age-wise / amount-wise reports on the outstanding entries put up at regular periodical intervals to top management / Board of
Directors as also to audit committee of Board (ACB) for information and necessary guidance.

ISSUES & SUGGESTIONS

Directors of the urban co-operative Banks are the main controlling body and their every step effects on the system of the Bank. They should follow these suggestions for the improvement of customer services, maintenance of Books & documentations and for controlling the system of internal Administration.

Here we are dividing these suggestions in two parts (I) Do's (II) Don't’s

(I) DO's :-

- Attend Board meeting regularly and effectively work in a spirit of co-operation.
- Study the Board papers throughly and use the good offices of the chief Executive officer for eliciting any information at the Board meeting
- Involve your self as director on the board throughly in the matter of formulation of general policy and also ensure that performance of the bank is monitored adequately at Board level.
- Be familiar with broad objectives of the bank and the policy laid down by the govt. and the Reserve Bank.
- All constructive ideas for better management of bank and for making valuable contribution would be welcome.
- Work as a team and not sponsor or be prejudiced against individual proposals. Management on its part is supposed to furnish full facts and complete papers in advances.
- Try to give as much of your wisdom, guidance and knowledge as possible to the management.
- Try to analyze the trends of the economy, assist in the discharge of managements responsibility to public and formulation of measures to improve customer service and be generally of constructive assistance to the bank management.

- Bestow attention on the following aspects of the bank's working :-
  * Customer service
  * Review of action taken on RBI inspection report, statutory audit report.
  * Development of a good management information system.
  * Reviews on several items as prescribed by RBI / Govt.
  * Vigilance, frauds and misappropriation.
  * Strengthening of internal control system and house keeping viz proper maintenance of books of accounts and periodical reconciliation.
  * Computerisation of operations, and
  * Achievement of viability norms prescribed by RBI.

(II) DON'T's

- Do not send any instruction or give direction to any individual officer / employee of the bank in any manner.

- Do not involve yourself in any matter relating to personnel administration - Whether it is appointment, transfer, posting or a Promotion or a redressal of individual grievances of any employee.

- Do not interfere in the day-to-day functioning of the Bank.

- Do not involve yourself in the routing or every day business and in the management functions.
- Do not participate in the Board discussion, if a proposal in which you are directly or indirectly interested comes up for discussion. Disclose your interest well in advance to the chief executive officer and the board.

- Do not reveal any information relating to any constituent of the bank to anyone as you are under oath of secrecy and fidelity.

- Directors are expected to ensure confidentiality of the Bank's agenda / Papers / notes. Ordinarily it is suggested that by way of abundant precaution, the board papers may be returned to the bank after the meeting.

Suggestions on "Know your customer" norms and "Cash Transactions"

There is suggestions relating to identification of depositors and advised the banks to put in place systems and procedures to help control financial frauds, identify money laundering and suspicious activities, and for scrutiny / monitoring of large value cash transactions. Urban co-operative banks of U.P. are advised to be vigilant while opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds.

- "Know your customer" (KYC) procedure should be the key principle for identification of an individual / Corporate opening an account. The customer identification should entail verification through an introductory reference from an existing account holder / a person know to the Bank or on the basis of documents provided by the customer.

- The Board of directors of the banks should have in place adequate policies that establish procedures to varify the bonafide
identification of individual / corporates opening an account. The Board should also have in place policies that establish processes and procedures to monitor transactions of suspicious nature in accounts and have system of conducting due diligence and reporting of such transactions.

**Customer Identification**
- The objectives of the KYC framework should be two fold (I) to ensure appropriate customer identification and (II) to maintain transactions of a suspicious nature. Banks should obtain all information necessary to establish the identity / legal existence of each new customer, based preferably on disclosures by customers themselves. Typically easy means of establishing identity would be documents such as passport, driving license etc. However, where such documents are not available, verification by existing account holders or introduction by a person known to the bank may suffice. It should be ensured that the procedure adopted does not lead to denial of access to the general public for the banking services.

**Internal Control System**
Duties and responsibilities should be explicitly allocated for ensuring that policies and procedure are managed effectively and that there is full commitment and compliance to an effective KYC programme in respect of both existing and prospective deposit accounts. Controlling officers of Banks should periodically monitor strict adherence to the laid down policies and procedures by the officials at the branch level.

**Internal Audit / Inspection** :-
- An independent evaluation of the controls for identifying high value transactions should be carried out on a regular basis by the internal audit function in the banks.
Concurrent / internal auditors must specifically scrutinize and comment on the effectiveness of the measures taken by branches in adoption of KYC norms and steps towards prevention of money laundering. Such compliance report should be placed before the audit committee of the Board of banks at quarterly intervals.

Record Keeping

Financial intermediaries should prepare and maintain documentation on their customer relationships and transactions to meet the requirements of relevant laws and regulations, to enable any transaction effected through them to be reconstructed. In the case of wire transfer transactions, the records of electronic payments and messages must be treated in the same way as other records in support of entries in the account. All financial transactions records should be retained for at least five years after the transaction has taken place and should be available for persual and scrutiny of audit functionaries as well as regulators as and when required.

Effective measures should be initiated by banks to remove areas of ambiguity and overlapping as also reduce multiplicity of different types of inspection/audit. However, concurrent audit and regular inspection / Audit should not be constructed as overlapping as the perspective and focus of concurrent audit are qualitatively different from that of regular inspection / audit.

The inspection department in most of the banks has become a place for posting officers who are not found suitable in other areas. This situation has to be changed and profession should be made to acquire the creditable status it deserves. Right persons with aptitude for investigation and scrutiny should be posted in the inspection and Audit department.
- Inspection officer should have constructive and helpful approach while on inspection duty. To the extent possible he should endeavour to get defects rectified on the spot.

- Efforts should be made to make inspection / Audit work more attractive giving financial incentives to inspection / Audit staff. The group does not recommend giving any weightage for promotion to inspection / Audit staff for their experience since such a practice might create many other administrative problems.

- There should be a system of preparing summary of inspection report of unsatisfactorily rated branches for submission to the competent authority.

- With a view to keeping incidence of corruption and malpractices under check, there is a need for fixing staff accountability aspect of irregularities, malpractices etc. at all levels, at the appropriate time.

- Co-ordination between inspection and operational wings should be ensured to bring about synergic effort effecting overall positive changes in the functioning of the bank.

- All poorly rated branches should be inspected within twelve months and others between 12-18 months from the date of previous inspection.

Urban cooperative banks of uttar pradesh have to make a proper balance between their customers and their services & All members of the staff should make themselves more active for that.