Chapter -9

CONCLUSIONS & SUGGESTIONS
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The urban Co-operative banks of Uttar Pradesh has made commendable progress in some areas. These banks have extended its geographical and financial reach. Banks have contributed significantly to the growth in the volume of financial savings and to their increasing share in aggregate savings. The financial intermediation and the incremental financial interrelations rations have been steadily rising. The banks have provided Credit to the priority sector viz. Small Scale industry and small enterprises. The development of banks have expounded and covered term lending facilities throughout the State & Country. These banks have been successful in meeting their objectives of providing funds for investments and thereby contributed significantly to industrial development in other states like maharashtra, gujarat etc.. Some specialised banks of uttar Pradesh like united commercial Co-operative Bank, Kanpur, Indian Mercantile Co-op. Banks Ltd., Lucknow (Only Scheduled UCB in U.P.), Imperial urban co-operative Bank Ltd., faizabad etc. cater to the rehabilitation of sick industrial units, financial needs of the borrowers and other specialised fields. New activities such as merchant banking, leasing, mutual funds and venture capital have come on the scene. New financial Instruments like convertible debentures have appeared in capital market and commercial paper, certificate of deposits have appeared in money market. The system has evolved promotional policy appropriate to early phases of financial development, achieved
success in mobilising resources and extended credit to small scale industry to achieve the objective of major development.

Though the banks have made fast progress, but in the process, some draw backs like decline in productivity and efficiency of the banks and a serious erosion of its profitability are reflected. The major factors responsible for the drawbacks are directed investments and directed credit programmes. The directed credit programmes have had adverse implications for the profitability of banks also because of stipulation of concessional lending rate on priority sector credit and element of subsidy on such lending. It is both the depression in interest available to banks with their directed investment and directed programmes on the one hand and the deterioration in the quality of the loan portfolio both to the priority sectors and to the traditional sector that have been responsible for erosion of earnings and profitability. The squeeze on profitability has also emanated from the side of expenditure. The credit to small industries also contributed to a faster growth in expenditure, as unit costs of administering the loan tend to be high in proportionate terms. Many of the urban branches of banks have been described as unremunerative as many of them are primarily deposits centres and do not generate adequate credit business.

These banks have also become over and inefficient staff. The trade unions also appear to have contributed to the proliferation of restrictive practices in terms of work norms, resistance to mechanisation and computerisation and obstacles to retional policies in respect of promotions and staff transfers. Some of these practice affected productivity and efficiency. The emoluments of bank staff and their revision are no longer directly related to either productivity or profitability of either individual banks or of the system. If less
productivity is a result of the inefficient staff than in case of of UCBs of Uttar Pradesh-nepotism, Radtapism and political interference are big barrears in the progress. FOR the urban co-operative movement in India, 2001-02 was as significant as 1992 was for the stock market. While in 1992 bank scams hit the stock market, in 2001-02 the stock market crisis knocked banks, particularly urban co-operative banks (UCBs). Madhavapura Cooperative Bank (Gujarat), ignoring basic banking practices, invested around Rs. 830 crore-50 percent of its total advances—in the stock market. The Charminar Bank (Andhra Pradesh) ran into liquidity problems by indiscriminately lending to big borrowers (Rs. 180 crore to 124 of them) against worthless land as surety. As such, the happenings in UCBs reveal weaknesses in leadership. UCB chiefs appear to have forgotten the basic tenets of good leadership. The co-operative credit movement, which was spearheaded by eminent leaders, is slipping into the hands of a new generation of opportunistic and nepotistic leaders.

Of late urban co-operative banks are going through a crisis of confidence. This is mainly because of the black sheep in this sector of the banking industry. On the one hand, by flouting all the rules, regulations and norms, these notorious few have squandered away depositors money. On the other, by violating the basic ethics of banking, they have brought a bad name to the industry as a whole.

The fact that Urban Co-operative Banks have a distinct role to play, can not be disputed. Unlike Rural Credit Co-operative Societies, which bank heavily on the District Central Co-operatives, Urban banks are independent institutions which fend for themselves. The NABARD too borrows heavily from higher financing agencies.
There are over 2000 urban banks in India and they have mobilized deposits to the order of Rs. 750 bn. The amount deployed for credit is an impressive Rs. 400 bn. While the authorities do accept and appreciate the part played by Urban Banks in the economic uplift of society, there persists a tendency to put them on the mat for even a single lapse or shortcoming.

The recent spate of scandals has complicated the situation still further. What is being overlooked in the process is that the plight of Urban Banks is not an exception to the rule. In the prevailing scenario in particular, organizing an Urban Bank and running it at a profit is no small job.

We live in an era of deregulation—of almost everything. The interest rates on deposits and advances in particular are being strictly monitored. To add to that is a sluggish market in which there is no demand for credit. Almost every second unit in the small scale sector is turning sick, one of the causes being their bigger counterparts. The latter, a main source of employment, are either pruning their operations or shifting their bases or have turned financially weak.

The irony is that, even in the face of all these deterrents, there prevails a craze for opening new Urban Co-operative Banks. That is so even though the guidelines prescribed by Reserve Bank of India for starting such banks are very stringent. For a unitary bank in a city like Mumbai, one has to collect a minimum share capital of Rs. 20mn. with 3000 members. In the case of multiple branches, the minimum stipulated is Rs. 40 mn.

The inflated share capital requirement for registering private sector banks as well as the restrictions imposed on non-banking
financial companies bode no good for the co-operative banking sector. It is true that the mushrooming of Co-operative Banks has not been put on hold ever before. But, in the prevailing confused and confusing scenario, the RBI is having second thoughts on its licensing policy, even though for wrong reasons.

It is worth noting that the working of Urban Banks is regulated by the Urban Banks Department of the RBI as also the Registrar of Co-operative Societies. Even though both these authorities have separate roles to play, in practice both have a tendency to encroach upon each other's jurisdiction, thereby creating confusion if not chaos. In other words, both want the lion's share while exercising their powers but when it comes to taking the blame, both tend to shirk their responsibilities.

The time is ripe to seriously consider a solution to this anomaly. More so since, based on the monthly returns Submitted by Urban Banks, the authorities should able to effectively monitor their working. All that is required is to properly demarcate the respective roles of the RBI and the Registrar of Co-operative Societies to root out the prevailing confusion.

In a way, it is easier for the Urban Banks Department rather than the RBI to supervise the working of Urban Banks. This is so since the RBI enjoys penal provisions, which invest it with the powers to impose fines as well as collect them. On the other hand, the Registrar can, at the best, either issue a show – cause notice or supercede the Board of Directors of an Urban Bank.

Supercession of the Board is not an effective solution to the problem. Imposing fines, in its stead, does yield quick results. It is for
this reason that sections 46 and 47 were added to the Banking Regulation Act 1949, enabling the RBI to impose penalties without taking recourse to a court of law.

The fine amount can be as much as Rs. 0.5mn or even twice the amount involved in a contravention or default (where such amount is quantifiable), whichever is more. Where such contravention or default is a continuing one, a further penalty, which may extend to Rs. 25000 for every day after the first default, may be imposed for the entire period during which the contravention/default continues. With such powers at its command, it should be easier for the RBI to control the working of Urban Banks.

It is not just the penal provisions that are within the domain of the RBI to help it discipline errant banks. If a Co-operative Bank or a class of co-operatives is facing genuine difficulties the RBI can issue a notification exempting the party from the provisions of section 18 and 24 of the Banking Regulation Act as applicable to Urban Banks. The RBI also has the authority to issue directives to Co-operative Banks in general and to any Co-operative Bank in particular depending on the working of any aspect of the concerned bank.

It is quite clear from the above that, if the RBI wants it, it can easily and effectively exercise its powers for the good of Urban Banks vis-a-vis the powers of the Registrar of Co-operative Societies. It cannot and should not expect the Registrar, whose main concern is the spread of the co-operative movement rather than its curtailment, to do the type of policing that is required at the moment. More so if it comes to a hatchet job.
Urban Cooperative Banking sector has come to occupy a formidable place in the Indian Financial System. However, sustenance of its growth is attendant to professionalisation of its management, inculcating good corporate governance, technology absorption and scrupulous adherence to regulatory framework. I hope the sector will learn from its past experiences and adjust to new realities since banking is risky business.

Researcher's recommendations with regard to urban cooperative Banks of Uttar Pradesh are as under

Reduction in Statutory liquidity Ratio

With the proposed coming of the Government fiscal deficit to 6.5% of GDP this year and in the next few years to a level which could be regarded as consistent with broad macro economic stability, it should be possible for the SLR also over the next five years to revert to 25% or net demand and time liabilities. Such a phased reduction to be effected in the SLR, Starting preferably with a reduction in the current year itself.

Phasing out of concessional Rates of Interest

The concessional rate of interest for priority sector loans of small sizes should be phased out. This would remove a major disincentive for banks to seek clients in the neglected sectors. Lending to preferred sector should be encouraged by permitting commercial sector to lend at concessional rates to the erstwhile constituents of the priority sector and by instituting a preferential refinance scheme without any prescription of the final rate to the ultimate borrower. Subsidies in some of the development programmes e.g., IRDP should also be with drawn as they have distorted the pattern of lending.
Adoption of capital adequacy Norms: -

The capital adequacy standards suggested by basic committee on banking Regulations and supervisory practices should be adopted by banks in U.P. All urban banks of U.P. should reach capital adequacy of 8% of the risk weighted assets in a phased manner.

Banks having consistent record or Profitability be allowed to tap capital market: -

The banks which have had a consistent record of profitability and enjoy a good reputation in the markets, should be allowed to tap the capital market by issue of fresh capital to the public. Mutual funds, insurance companies and profitable public sector companies could subscribe to such equity, besides employees of the banks and the general public. In respect of other banks, it may be necessary for the Government to supplement the capital either by direct subscription to equity or through a loan which could be treated as a subordinate debt.

Interest on Non-performing assets not to be booked: -

Interest on none-performing assets should not be booked as income on accrual basis. The non-performing assets would be defined as an advance, whereas on the balance sheet date.

- In respect of term loans interest remain “out of order” for a period of more than 180 days.
- Over draft and cash credit accounts remain “out of order” for a period of more than 180 days.
- Bills purchased or discounted remain overdue or unpaid for a period of more than 180 Days.
- In respect of other accounts, any amount to be received remains past due for a period of more than 180 days.
An amount is considered "Past due", when it remains outstanding for 30 days beyond the due date. 'Out of order' means outstanding balance remains continuously in excess of sanctioned limit.

Provisioning against Bad debts

The basis of provisioning against bad and doubtful debts should be as under:

- In respect of less assets, either the entire assets should be written off in the books or if the asset is permitted to remain in the books for certain reasons, 100% of the outstandings should be provided for.

- In respect of doubtful debts, it would be necessary for the banks to provide 100% of the security shortfall, that is, the full extent to which the loan and advances are not covered by the realizable value of the security. Over and above this it will be necessary for the banks and institutions to make a further provisions to the extent of a certain percentage of even the secured portion. This percentage could vary from 20 to 50 percent depending on the period for which an asset remains in the doubtful category.

- In respect of Sub-Standard assets, a general provision of 10% of the total outstandings should be created.

The banks should be given a period of 4 years beginning with the current year itself to comply with the above basis of provisioning.

However, they should ensure that the unsecured portion of the doubtful debts are fully provided for as soon as possible. Loss assets should either be written off or fully provided for immediately.
Deduction of provisions under Income Tax act :-

The specific provisions made in respect of doubtful assets should be allowed as a deduction under section 36 (1) (vii) of the income Tax act. Also the deduction available for general provisions under section 36 (1) (vii) (a) of the Income Tax act, 1961 should be modified to provide for a ceiling of 5% of the aggregate average non-agricultural advances in India instead of a ceiling of 5% of the net income.

Greater Transparency in the financial statement of Banks :-

The standard in disclosures in the financial statement of banks and similar financial institutions issued by urban, the international accounting standards committee should be adopted by Indian Banks in a phased manner, commencing with the current year. At the same time, the Reserve Bank may defer implementation of such parts of standards as it considers appropriate during the transition period.

Constitution of Special Tribunals for recovery of dues of Banks and financial Institutions:

It is recommending that the Government should introduce special legislation on the lines recommended by Tiwari committee forthwith. Unless proper Judicial framework is established which could help banks in enforcing the claims against their clients speedily, the functioning of the financial system could continue to be best with problems.

Setting up of Assets Reconstruction fund :-

A separate institution may be set up, if necessary by special reserve to be known as “Assets Reconstruction fund” with the express purpose of taking over such assets from banks and financial institutions and subsequently follow up the recovery of the dues owed
to them from the primary borrowers. The Share capital of the fund could be subscribed by the Govt.- U.P./ India, The Reserve Bank of India, public sector banks. The fund would acquire from banks and DFIs the bad and doubtful debt assets which are in the process of recovery, at a discount. The quantum of discount itself would be determined by independent auditors i.e. auditors other than those of either the banks/DFIs or borrowers concerned and on the basis of guidelines clearly set down for this purpose by an expert body of chartered accountants. The transfer of assets to the ARF by the banks would be accompanied by the primary lenders renouncing in favour of the ARF claims on collateral pledged in respect of the loans inclusive of any guarantees by central or state Governments or any other bodies. The fund would pay for the acquisition of these assets from banks at a discounted price in the form of five year bonds, which would bear interest at market related rates. The bonds would be guaranteed by the central Govt and thus would qualify for inclusion as SLR assets.

**Rehabilitation programmes of Sick units:**

In respect of all consortium accounts, which are classified or sick accounts and in respect of which nursing programmes have already been formulated or/are in the process of implementation the concerned lead financial institution and/or lead co-operative bank should take over the term loan and working capital dues respectively from the participating banks. Such acquisition **should** be at a discount based on the realizable value of the assets assessed by a panel of at least two independent auditors as in the case of transfers of assets to the ARF.

**Banks should be free to Recruit their officers:**

Instead of having a common recruitment system, individual banks should be free to make their own recruitment of officers. There
is no need for setting up a banking service commission for centralised recruitment of officers nor of their recruitment as at present through the Banking service Recruitment Boards. This would give individual banks scope for scouting for talent, and a the same time training systems should be so designed that new skills are imparted to bank personnel.

Abolition of Branch Licensing:

Branch licensing should be abolished and U.P. urban banks should be given full freedom to open or close branches.

Computerization of Banking activity:

The banks should introduce modern work technology. Many committees has recommended computerization of banking activity, for which the bank managements should discuss with organised labour the issues involved. The system of industrywise negotiations may have something to do with the slow progress in this regard. The bank management may explore the possibility of negotiations with organized labour on an individual bank basis.

Bankers Cheques:

Urban Banks should not issue Bankers cheques/Pay orders/ Demand Drafts against instruments presented for clearing unless the proceeds there of are collected and credited to the account of the parties concerned. Further, Banker's cheques/pay orders/ Demand Drafts should not be issued by debit to cash credit/over draft accounts which are already overdrawn beyond the limit sanctioned or likely to be overdrawn with the issue of such/instruments as applied for by the parties.
Currency Chests:

The RBI may soon empower UCBs to maintain currency chests which store new currency notes and surplus cash from banks in designated areas. The proposal was expected to augment the number of currency chests and their storage capacities.

The number of currency chests was 4242 at the end of March 2000, up from 4181 a year ago. Although RBI itself maintains a few currency chests, nearly 70% of the chests are with the state Bank of India and its associates. Some large branches of state run banks and a few private banks have also been entrusted with this task.

Maturity Date of term Deposits:

The Reserve Bank has re-iterated that banks should ensure of intimation of impending due date of deposit well in advance to their depositors as a rule in order to extend better customer service.

Exchange of Soiled notes:

It is advised that the co-op. Banks have not been delegated powers to accept and exchange defective notes under RBI (Note Refund) rules. However they may, if they desire to render service in this regard to their customers, accept such notes at their own risk on collection basis, and approach the concerned issuing office of the reserve Bank for obtaining the exchange value thereof, as admissible under RBI (Note Refund) Rules.

Frauds, misappropriations, embezzlements and defalcation of funds:

It is being suggested to urban banks of U.P. that they should observe the following safeguards to plug the loopholes in the internal check system and tone up the control of the working of the branches.
Internal Check

- Balancing of books of accounts with general ledger balances should be done every month and checked by responsible official. An element of surprise balancing should be introduced by getting the books of accounts balanced on a date selected by the manager specifically for the purpose. Action should be taken to get differences in balancing reconciled promptly.

- Reconciliation of inter branch transactions/ bank accounts should be done every month.

- All debit and credit vouchers, pertaining to the day’s transactions, should be serially numbered and the totals of the same recorded in the main cash book. The voucher should be in the custody of the passing officials who should hand them over to another official for independent checking.

- The number of accounts, as per monthly books, should be tallied with accounts opened/ closed register and account opening forms.

- Prompt action should be taken for transferring inoperative accounts to separate register and all precautions should be taken while allowing operation in such accounts.

- The banks passbook, cheque books, deposit receipts, Specimen signature cards and other important documents should be in the custody of a responsible official.

- Specimen signature cards should be kept under lock in the custody of passing officials only.

- Withdrawal slips should be serially numbered and the stocks accounted. A slip should be issued to account holders over the counter.

- Balance confirmation certificate should be obtained from current account holders regularly.
- In the case of withdrawal by means of withdrawal slips, pass books should invariably accompany the withdrawal slips.
- For remittance by borrowers, supervisory official should issue serially numbered challans after noting the number of the loan accounts. At the end of the day it should be ensured that all the challans have been tendered to the bank.
- Pledged gold ornaments and other valuables should be in joint custody and verified independently by officials not connected with the custody.
- Duties of staff should be rotated periodically.

**Cash Custody.**
- There should be joint custody of cash and surprise verification of cash by officials unconnected with the custody thereof.
- There should be separate set of cash scroll in the accounts and cash departments which should serve as a counter check in balancing.
- The cash book together with the coin register, should be written and checked daily by a supervisory official.
- The cashier could not be allowed to write books/ personal ledgers.

**Daily Deposit Scheme**
- The days collection should invariably be deposited by the collection agent on the same or the next day and strict action should be taken when delay is observed.

- The D.D.S. Agents should be issued with identity cards.

- Balance confirmation certificates should be obtained from the account holders regularly.
Loans and Advance

- The power delegated to the managers should be exercised judiciously and should not be exceeded.
- Before granting any advances to borrowers, banks should obtain No objection certificate from their existing bankers.
- Drawals against clearing cheques should be sanctioned only in respect of first customers and even in such cases the extent of limit and the need therefore should be subjected to thorough scripting and periodical review.
- Drawals against clearing instruments should normally be confined to bank drafts and government cheques only.
- Cheques against which drawals are allowed should represent genuine trade transaction and strict vigilance may be observed against assisting kite flying operations.

Frauds in urban banks – Preventive measures:

Because of frauds, urban bank of U.P. are suffering from many problems. While opening deposit accounts, banks are required to obtain from customers their photograph and an introduction form on existing customer. It has been observed that in several cases banks have accepted very old photographs—

—and introductions from bank's staff/ Customers in a casual manner. It is also observed that banks do not insist on customer furnishing details of their accounts (Past or Present) with other banks. In quite a few cases, the customer does not even visit the bank. Banks are requested to take the following steps, in addition to existing guidelines, as a measure to curb frauds in the area of deposit accounts:

- The customers photograph should be recent
- The account should not be normally opened without a meeting the bank official and the customer.
- The bank should send a letter by post both to the customer and the introducer and seek their confirmation for opening the account/giving introduction. Cheque book may be issued after receipt of confirmation from both.

- The purpose of maintaining account, the party’s PAN/GIR, if available, previous bank account detail and the likely amount/kind of transaction intended, may be incorporated in the account opening form.

- Fund and non fund based facilities may be allowed after watching the operation in the account for a short period, say three month.

Urban Banks are advised to observed safeguards while issuing letters of credit to their customers enjoying credit facilities, i.e. ensuring customers genuine needs, reliability, and source of funds to retire the bills on due dates in respect of guarantees, banks have been similarly advised to refrain from issuing guarantees on behalf of customers enjoying credit facilities with other banks. Banks are also required to judge the customers ability, experience, capacity and financial means before issuance of performance/financial guarantees. This is in addition to several other pre-issuance safeguards suggested in the matter. The importance of close monitoring of borrowers enjoying non-fund based facilities can not be overemphasized.

It is suggested that banks must lay out clear instructions for their branch staff in respect of loan accounts where such non funded of facilities have become funded on account of development of bills covered under the bank’s LCs or due to invocation of guarantees issued by the bank. Sometimes, this aspect is not given due attention and banks often end up paying for goods that never existed in the first place. Bank must hence evolve proper guidelines to ensure that
accounts where non-funded limits have become “funded” are closely monitored and goods covered under devolved bills remain under bank’s control/hypothecation, particularly where malafied is suspected. In cases of goods covered under import LCs, banks must also ensure. Immediate submission of customer’s Copy of the bill of Entry and take measures as suggested in guidelines issued by exchange control Department.

**Need for a Multilateral action programme:**

Multilateral action programme should aim at removing the regional imbalances and to ensure even growth of urban credit co-operative movement throughout the state/country, so that it acts as an effective instruments of economic development in the country/state. As majority of population belong to the category of persons of limited means, whether they are consumers of small scale industrialists, without improving their productivity the developmental process will not be effective and result oriented. Urban Co-operative banking sector can facilitate in a big way the participation of women in the mainstream of national growth and production:

- It may be a multilateral action plan meaning thereby that all the organisational levels of urban co-operative banking and credit sector are to be involved in the formulation and implementation of the action programme;
- The national federation of urban co-operative banks and credit societies may act as a nodal agency to monitor and implement the action programme through active involvement and collaboration with its counterparts in the state and the member organisations; and efforts may be made to establish at least one urban co-operative Bank in each Revenue Division where the co-operative
credit movement has not gained any ground so far, and later the target may be at least one bank for each district;

- The area, in which growth of urban co-op. Credit sector has not been satisfactory, will be identified after proper survey.

- The survey will also identify weak urban co-op. Banks, credit societies and for such institutions a comprehensive rehabilitation programme at micro level may be prepared;

- The existing urban co-op banks will be impressed upon to provide the resources and services to the weaker sections of the community to a larger extent. In this connection, broad policy norms would have to be evolved by the national federation;

- As recommended by the national federation on involvement of women in co-operative movement, a specific programme of developing women urban co-op. Banks may be formulated and implemented, involving more and more women in the movement, providing them training facilities and organising women's co-operative banks and credit societies in greater number zonewise;

- Compaining for all round membership drive for the national federation and the state level federation will have to be systematically organised;

- Efforts will have to be made to educate public opinion by organizing publicity and propaganda comparing through newspapers, periodicals, news bulletins, Journals and audio-visual media.

**More autonomy should be given to urban cooperative Banks of Uttar Pradesh:**

The concept of dual control where in urban banks have to approach both the Reserve Bank of India and the State authority is harming these banks. Role of the State Government should be restricted to only registering the urban cooperative Banks.
UCBs may be allowed to enter the capital market at an appropriate time. In respect of Economic reforms there is a need to provide more opportunities to the sector for it to grow and get exposed to the international Scenario. There is a need for professionalism and services of experts in the field of finance and information Technology & should be available of wherever necessary.

We should start with scheduled urban bank and gradually move to other banks.

**Borrowers should not be sponsored :**

The leader of co-operatives are elected by members to serve the latter’s credit needs. But the way the chiefs function is often very objectionable. For instance, in some banks, the directors do the credit appraisal, estimate the value of securities, assess the finance requirement and even recommend the loan amount. In the process, the role of the CEO/MD gets sidelined and his views are not taken seriously. Further, loan are oftens given to kin at the expense of genuine borrowers.

Thus, like in commercial banks, credit appraisals must be first routed through the CEO/MD for an objective evaluation, before sending to the board for approval.

**The board must developexpertise in banking:**

Co-op banks must be run by directors having a thorough knowledge of banking. But in a number of UCBs, the need for training and development is ignored. All that the directors know about banking is lending money by taking security – akin to pawnbrokers. In this context, the IRDA’s norm- 100 hours training for all the staff and directors of banks before taking up insurance business – seems
appropriate. The NAFCUB, likewise, should also come out with such a norm for UCB directors. In this regard, the RBI has also advised UCBs that their boards should have at least two professionals, say, chartered accountants or bankers

**Depositor education:**

Banks are basically intermediaries, borrowing money from the public and lending to the needy. Banks such as Krushi, Sitara and Sravya (Hyderabad) experimented with high deposit rates only to leave the depositor in the lurch. Thus, to regain the confidence of depositors, UCBs have to mend their ways and move towards better governance. UCBs would do well to conduct depositor meets' to educate them on the investment climate and inform about where the funds have been deployed, the gains/losses, the profits earned, the ratings obtained from the co-operative department, the defects pointed out by the RBI and the measures taken to rectify the same, the business plans, and so on. Unless the depositors are taken into confidence, banks cannot avert depletion of deposits.

**Borrowers meet to redress problems:**

Banks have to lend to earn profits. Today, almost all banks try to attract borrowers through hassle-free loans, less documentation, no guarantees, less processing fee, low interest rates, and so on. And to avoid NPAs, there is a need to retain and attract good borrowers, for which, UCBs should meet their expectations. Organising borrower meets could be a way out.

**Practicing an HRD-oriented culture:**

The one important characteristic of successful banks is that they update their human resource. Mahesh Cooperative Bank (Hyderabad) is a case in point. Small and medium banks can organise
training programmes either at their own premises with the help of institutes of co-operative management or send the staff to training colleges. This has been a much-neglected aspect in the UCB sector and, hence, requires serious attention of the board.

**Imbibing co-operative values:**

UCBs are societies first and banks next. Co-operative values, such as self and mutual help, honesty and integrity are largely ignored these days.

Apart from these behavioural aspects, certain important changes have to be brought in the financial management of UCBs.

**Spread Management:**

UCBs are generally young and small in size for quick growth. Some UCBs offer high interest rates – 13-17 percent- even when the current trend is one of falling rates. When public sector banks offer less than 9 percent on long-term deposits, how can UCBs pay such higher interest? Further, there is the bad practice of offering a 2 percent commission (unaccounted) to those who get high volumes of deposits. This escalates the cost of funds and such UCBs charge the borrowers heavily, resulting in more NPAs. Experts feel that the UCBs should not offer high deposit rates and land themselves in trouble – a classic case is that of the Vasavi Scheduled cooperative Bank. Co-operative banking chiefs have to draw lessons from such failure. Maintaining a high interest spreads (difference between deposit rate and interest rate) will strengthen their bottom line.

**Credit policy**

One of the weaknesses of UCBs is the lack of a good credit policy. As a result, they lend indiscriminately – Krushi Bank, for
example, diverted funds to forbidden areas such as stocks, real estate, cinema, and so on. Any bank, per se, should make available to the members information on the types of loans available, those eligible to apply, the loan limits, the method by which interest is charged, and so on. If banks have a good credit policy, it will take care of many of the ills and make them vibrant institutions.

**Inter-bank deposits**

For the past three years, a new culture has emerged in UCBs: Resort to large-scale inter-bank operations – depositing in other UCBs and private sector banks. There is widespread criticism that commissions change hands. A danger here is when a UCB lands in problems – like a run on it- it will not die alone, but will also pull other banks to their death trap.

**ALM systems and manuals**

Like the organised and unorganised sectors in industry, UCBs are considered the unorganised lot in the banking sector, particularly with respect to the development of common systems and controls. Many UCBs lack the knowledge and training in this aspect. Hence, the banking federations (IBA and NAFCUB) and training institutes (ICMs) must help them develop effective banking systems and controls. This will avert possible cash thefts, frauds, and so on, a large extent.

UCBs do not follow the latest approaches in their growth plans. Most of them are unaware that the best banks have taken the help of international consultancies such as KPMG, Ernst & Young, and so on. UCBs too, need to emulate this practice. Also, the services of retired bank/RBI officials and officers in co-operatives as consultants will help small UCBs. These and a change in the functioning of the current
leadership, it is hoped, would help UCBs regain their lost image and turn them into professional institutions.

**Suggestions for Directors for efficient & Smooth Working of Bank**

- Always keep in mind that you are trustee of the Bank. Safeguarding interest of the Bank and its members is your prime duty.

- As a member of Board, you should ensure that Bank in abiding permissions and limitations of Cooperative Act and Banking Regulations Act.

- While sanctioning/disbursing loan always minutely examine members credit, his repayment capacity, his nature of business and administrative scrutiny and recommendations before disbursement always.

- Ensure compliance of

  - Valuation and insurance of hypothication / mortgaged goods / property.

  - Eligibility of guarantor.

  - Sufficient Margin.

- Keep proper follow-up on use of disbursed loan.

- Follow/Comply guidelines strictly before sanctioning loans to directors and their relatives.

- Always insist on personal relations for recovery of loans and increase the deposits. Take immediate action against defaulters as per section 91/101of M.C.S. Act 1960.

- Avoid renewal of loan/Extensions/rescheduling for avoiding NPA provisions.

- Calamity outstanding loans/defaulters as per RBI guidelines and make sufficient permission for NPA.

- For social obligation and commitments, make sufficient loan premium for weaker section and priority sector.
- Always differentiate between Management and Administration and do not interface in day to day administration.
- Don't accept Benamii deposit/transactions.
- Administer pigmy/daily agents as day to day basis and reconcile accounts as periodic basis.
- Take prior permission of Registrar before accepting/giving donations.
- Always ensure SLR/CLR.
- Carefully read Statutory Audit Report and RBI inspection report in committee meeting send compliance report in time.
- Ensure proper and strict internal central.
- Don't discuss policy and financial matter in the proper notice and material.
- Ensure proper training to employees for proper HRA.
- Make separate and safe investment of employees provident fund.

It is clear that the urban co-operative banks of U.P. have not been able to play as effective a role in the sound development of the co-operative movement in Uttar Pradesh and also in other states, as was expected of them. The UCB is truly speaking the care-taker of the cooperative credit movement in each state. It has to inspire confidence among the people by adopting a sound banking policy. It will have to pay increased attention towards improving the operational efficiency of the urban banks and will also have to exercise an effective control over them. The urban co-operative banks will have to implement the accepted policies under the guidance of the R.B.I., if the co-operative credit movement in the country is to succeed.