CHAPTER – I
RESEARCH DESIGN AND EXECUTION OF THE STUDY

1.1 INTRODUCTION

In India, co-operative movement was introduced by the British in the year 1904 to create an institutional arrangement for providing credit to agriculturalist and artisans. When the country achieved independence in the year 1947, co-operation became the accepted instrument for bringing socio-economic transformation in the country. Urban co-operative credit system has been and still is the strongest segment of the co-operative movement in the country.

Economic co-operation has permeated into nearly all fields and as a form of business organization; it has been adopted in almost all the countries. This confirms the observation of Dr. Favquet, who has stated that “Co-operation is perhaps the most widely distributed system than any other form of organization”. As agencies of technical, economic and social progress, co-operatives have been recognized as an important instrument for ameliorating the economic condition of millions of the downtrodden masses, both in the developed and the developing countries.

Banking facilities are indispensable for economic progress. The modern banking system routes the surplus funds of the community to the most productive channels. It provides facilities for transfer of funds from one sector of the country to another sector and from one part of the country to another.
Moreover, the development of industry and trade in a country will be impossible without the services of banks.

In order to provide banking services to the rural masses and lower and middle income groups, the co-operative banks were introduced particularly in rural and semi-urban areas. Liberalization of credit to common men required the application of co-operative principles in the banking sector.

1.2 CO-OPERATIVE BANKING

The word, ‘Co-operation’ means working together. The co-operative principles are meant for the poor and downtrodden. The co-operative movement in banking aims at the attainment of common goals through the principles of co-operation. A co-operative institution is a voluntary organization of individuals formed for their common betterment. Thus, several co-operative credit societies with the motto “Self-help through mutual help” have been established.

In India, commercial banks and co-operative banks are the two important wings of the organized banking structure. The commercial banks confine its operations mostly to the organized, industrial and commercial sectors of the economy. On the other hand, the co-operative banks are primarily engaged in providing banking facilities to the unorganized sectors of the society. The co-operative banks, being an association of common men, provide credit facilities to the weaker sections of the society namely small craftsmen, small traders, workers, salaried persons etc. in urban and semi-urban areas.
1.3 BANKING SYSTEM REFORMS

Banking sector in India is currently passing through a challenging phase. The reform measures taken in 1991 have brought about sweeping changes in this vital sector in the country's economy. The process of liberalization was set in motion with gradual removal of restrictions on the operation of pricing mechanism, especially interest rates and statutory liquidity and reserve requirements – a process which is still underway. Enhanced competition in the banking sector has been introduced through a dynamic mix of public and private as well as domestic and foreign ownership – along with deregulation. The market driven economy, through deployment of more capital, advanced technology and skilled human resources, is posing stiff and increasing competition to all traditional institutions.

India, being a geographically vast country with its rural population constituting almost 70% of the total, the role of co-operative banks remains important. The urban co-operative banking system, a unique sector blending banking and co-operation, has witnessed a phenomenal growth during the last one and half decades. Increase in deposits by more than 1100 percent\(^1\) reflects tremendous growth witnessed by this sector. Despite the sector has shown spectacular growth, exhibiting substantial potential for sustained growth. In last few years it has gone through a lot of turmoil. Urban co-operative banks operating in a

hostile socio-economic environment and maintaining a coherent direct challenge to the mainstream is not easy.

Market competition and the need to retain good clientele are affecting the Urban Co-operative Banks (UCBs) too. The commercial banks, with their ability to invest more in technology and offer better remuneration to attract skilled persons, are better off in fending competition. Therefore, the UCBs that are competing in the same space, especially in cities and towns, are also being aggressively targeted by these commercial banks and face tough competition.

In this competitive environment UCBs have to be more effective and efficient to survive. As democratic, member-based organizations, co-operative banks are experiencing a range of strains, stresses and tensions in their attempts to ensure their continued viability.

1.4 STRUCTURE OF CO-OPERATIVE BANKS IN INDIA

Credit co-operatives are the oldest and most numerous of all types of co-operatives in India. The co-operative credit institutions in the country may be broadly classified into urban credit co-operatives and rural credit co-operatives. There are about 2090\(^2\) urban credit co-operatives and these societies together constitute about 10 percent of the aggregate banking business and therefore regarded an important segment of the banking system. The urban credit co-operatives are also popularly known as Urban Co-operative Banks. The rural

\(^2\) Statistical hand book - 2008 No.10 and 11.
credit co-operatives may be further divided into short-term credit co-operatives and long-term credit co-operatives. With regard to short-term credit co-operatives, at the grass-root level there are around 94,942 Primary Agricultural Credit Societies (PACS) dealing directly with the individual borrowers. At the central level (district level) District Central Co-operative Banks (DCCB) function as a link between primary societies and State Co-operative Apex Banks (SCB). It may be mentioned that DCCB and SCB are the federal co-operatives and thus the objective is to serve the member co-operatives.

As against three-tier structure of short-term credit co-operatives, the long-term co-operative credit structure has two tiers in many states with Primary Co-operative Agriculture and Rural Development Banks (PCARDB) at the primary level and State Co-operative Agriculture and Rural Development Bank at the state level. However, some states in the country have unitary structure with state level co-operatives operating through their own branches and in one state an integrated structure prevails.

Interestingly, under the Banking Regulation Act 1949, only State Co-operative Apex Banks, District Central Co-operative Banks and select Urban Credit Co-operatives are qualified to be called banks in the co-operative sector. In other words, only these banks are licensed to conduct full-fledged banking business.

The Co-operative Banks function in India on state levels. Most of the Rural Co-operative banks function on Three-Tier and the Urban banks function on Two-Tier. At the National Level there is NABARD to organize Agricultural Co-

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operatives. There is also National Co-operative Union of India, an apex institution at National Level. The Reserve Bank of India controls the Co-operative Banks that falls under the Banking Regulation Act of 1949. The structure of co-operative banks in India is shown in figure 1.1.

**Figure - 1.1**

Structure of co-operative banks in India

1.5 CO-OPERATIVE CREDIT MOVEMENT OVER THE YEARS - AN OVERVIEW

Rural credit co-operatives in India were originally envisaged as a mechanism for pooling the resources of people with small means and providing them with access to different financial services. Democratic in features, the movement was also an effective instrument for the development of degraded waste lands, increasing productivity, providing food security, generating employment opportunities in rural areas and ensuring social and economic justice to the poor and vulnerable.
The history of the Co-operative Credit Movement in India can be divided into four phases. In the First Phase (1900-30), the Co-operative Societies Act was passed (1904) and “co-operation” became a provincial subject in 1919. The major development during the Second Phase (1930-50) was the pioneering role played by RBI in guiding and supporting the co-operatives. However, even during this phase, signs of sickness in the Indian rural co-operative movement were becoming evident.

The 1945 Co-operative Planning Committee discerned these signs in the movement and found that a large number of co-operatives were “saddled with the problem of frozen assets because of heavy overdues in repayment.” In the third phase (1950-90), also the way forward was seen to lie in co-operative credit societies. The All India Rural Credit Survey was set up which not only recommended state partnership in terms of equity but also partnership in terms of governance and management. NABARD was also created during this phase.

The fourth phase, from 1990’s onwards saw an increasing realization of the disruptive effects of intrusive state patronage and politicization of the co-operatives, especially in financial co-operatives, which resulted in poor governance and management and the consequent impairment of their financial health. A number of Committees were therefore set up to suggest reforms in the sector.
1.6 OUTREACH OF THE CO-OPERATIVE CREDIT SECTOR
At present, the three tier the Short-term Rural Co-operative Credit Structure (STCCS) consists, according to the statistics of the National Federation of State Co-operative Banks (NAFSCOB), of nearly 1.09 lakh Primary Agricultural Credit Societies (PACS), 368 District Central Co-operative Banks (DCCB) with 12,858 branches and 30 State Co-operative Banks (SCB) with 953 branches of a total number of 122,590 service outlets. On an average, there is one PACS for every village; these societies have a total membership of more than 120 million rural people making it one of the largest rural financial systems in the world.

1.7 CO-OPERATIVE CREDIT STRUCTURE IN THE TAMIL NADU
Co-operative credit structure is the single largest institutional credit delivery system in Tamil Nadu. It provides credit to the people particularly in rural areas at a reasonable interest rate, thereby reducing the dependency of the farmers on the informal credit source and usurious rate of interest.

Geographically and culturally, it is the most convenient institutional arrangement for availing credit by farmers. The co-operative credit structure in Tamil Nadu comprises the following:

1.7.1 Short Term Credit Structure
The Short Term Co-operative credit structure in Tamil Nadu is a three tier structure with Tamil Nadu State Apex Co-operative Bank at State level with 45
branches, 23 District Central Co-operative Banks at the district level with 717 branches and 4474 Primary Agricultural Co-operative Banks at the grass root level.

1.7.2 Long Term Credit Structure

Long Term Co-operative Credit Structure consists of Apex Banks viz., Tamil Nadu Co-operative State Agriculture and Rural Development Bank, Chennai and 180 Primary Co-operative Agriculture and Rural Development Banks at Taluk/block levels. These credit institutions are providing investment credit to the members for activities like minor irrigation, horticulture, plantation crops and other agriculture and allied sectors.

1.7.3 Urban Credit Structure

Urban Co-operative Banks provide banking and credit facilities to urban and semi urban population. As of now 120 Urban Co-operative Banks are functioning in the State. They mobilize deposits from the public and extend credit facilities for specified purposes. Their lending operations include provision of credit facilities to small traders, artisans and persons belonging to low and middle income group for purposes ranging from housing, business, education, consumer and other non-farm sector activities. During 2007-08, they have issued working capital and term loans to the extent of Rs.2144.29 crores. The deposit position in the Urban Co-operative Banks is Rs.2592.29 crores as on 29.2.2008 compared to Rs.2448.19 crores as on 31.3.2007. The Urban Co-operative Banks are expected to issue not less than 60% of their total lending to
priority sector and to ensure that at least 25% of the priority sector lending is issued to the weaker section of the community. Action will be taken to computerize all the branches of the Urban Co-operative Banks and Credit Societies during 2008-09, so as to improve the operational efficiency and to provide better service to the customers in the lines of commercial banks.

1.8 URBAN CO-OPERATIVE BANKS

Urban co-operative banks are those co-operative banks which do banking business in urban areas. Their functions are similar to those of commercial banks but their organization is akin to those of co-operative societies.

The term 'Urban Co-operative Bank' has not been uniformly defined. The different states have defined these banks differently. An urban co-operative bank normally confirms its operation to the municipal limits of a town. Nowadays, the urban co-operative Banks play a significant role in the national economy. They have achieved a remarkable success in various areas of co-operative Banking.

In the past, poor and backward class people were exploited by petty moneylenders to the extent that they were debt-bound all their lives with the opening of Co-operative Banks branches in rural areas. They have been able to back masses at grassroots level and by providing soft loans to farmers and small traders. Co-operative Banking has become a part of their lives. These
poor and backward people are now not only borrowing but also depositing money in Co-operative banks.

1.9 REFORMS OF UCBs

The urban co-operative banking sector, being an integral part of financial system, RBI has brought in a series of reforms in it.

1.9.1 Narasimham Committee Recommendations (High Powered Committee)

The Committee suggested that RBI should review the entry norms in respect of UCBs and prescribe revised prudent minimum capital norms for them. To achieve an integrated system of supervision over the financial system, the Committee recommended that UCBs should also be brought within the ambit of the Board of Financial Supervision. In response to the recommendations of the Committee, the Reserve Bank set up a High Powered Committee on Urban Co-operative Banks under the Chairmanship of Shri K.Madhava Rao, Former Chief Secretary to Government of Andhra Pradesh, to review the performance of UCBs and suggest measures to strengthen them. The committee gives its views on important areas such as follows:

*Licensing Policy:* In the new liberalized regime, licensing policy for new UCBs is expected to be not only transparent, but also precise and objective, based on established standards and procedures. Moreover, the procedures governing these licensing norms have to be simple and minimal.
**Dual Control:** One of the problem areas in the supervision of UCBs is the duality in control by the State Government and the Reserve Bank. Since UCBs are primarily credit institutions meant to be run on commercial lines, the responsibility for their supervision devolves on the Reserve Bank. Therefore, while banking operations pertaining to branch licensing, expansion of areas of operations, interest fixation on deposits and advances, audit and investments are under the jurisdiction of the RBI, the managerial aspects of these banks relating to registration, constitution of management, administration and recruitment, are controlled by the State Governments under the provisions of the respective State Co-operative Societies Act. The Narasimham Committee (1998) recommended that this duality of control be done away with and the responsibility of regulation of UCBs be placed on the Board for Financial Supervision. This will require amendment of the Multi-State Co-operative Societies Act, 1984, State Co-operative Societies Act, and the Banking Regulation Act.

**Corporate Governance:** Good corporate governance is essential for the effective functioning of any financial entity. To this end, the Madhava Rao Committee suggested that at least two directors with suitable professional qualification and experience should be present on the Boards of UCBs and that the promoters should not be defaulters to any financial institutions or banks and should not be associated with chit funds, NBFCs, co-operative banks, commercial banks as Director on the Board of Directors. These
recommendations would need to be examined intensively before formulating policy actions in this regard.

**Capital Adequacy:** The Narasimham Committee (1998) had raised the issue of extending capital adequacy prescription for co-operative banks. Accordingly, the Committee recommended that the co-operative banks should reach a minimum 8 percent CRAR over a period of five years. The findings of the Madhava Rao Committee on UCBs also reiterated that a majority of the UCBs was in favour of extending the CRAR discipline to UCBs. However, the ability of the UCBs to raise additional capital for the purpose has been limited by certain features viz., inability to make public issue of capital and that, they can raise capital only from members, subject to an overall ceiling and restrictions imposed by the various Acts (State Co-operative Societies Act and Multi-State Co-operative Societies Act, 1984) which constrains the number of shares that an individual can hold.

**Legislative Reforms:** The Narasimham Committee in its Report had rightly observed that a legal framework that clearly defines the rights and liabilities of the parties to contract and provide speedy resolution of disputes is the essential bedrock of the process of financial intermediation and UCBs are no exceptions. Accordingly, the Government had appointed an Expert Group under the Chairmanship of Shri T.R. Andhyarujiina, Former Solicitor General of India, to suggest appropriate amendments in the legal framework affecting the banking sector. The Committee would address amendments in the various external Acts
affecting banking sector such as, the Transfer of Property Act, foreclosure laws, Stamp Act, Indian Contract Act, DRT Act, etc. The Committee, in its Report submitted in April, 2000, recommended the inclusion of a new law for granting statutory powers directly to banks (and financial institutions) for possession and sale of securities backing a loan, enabling framework for securitization of receivables and strengthening recovery mechanism.

Unlicensed and Weak banks: The existence of a large number of unlicensed banks has become a serious cause for concern to regulators. The main reason for proliferation of such banks has been a mild screening process in the past. In view of the regulatory discomfiture that such banks impose on the system as a whole, it has been suggested that these banks be licensed, provided they satisfy the quadruple criteria of (a) minimum prescribed CRAR, (b) net NPA ratio not exceeding 10 percent, (c) have made profits continually for the last three years, and (d) have Compiled with the RBI regulatory directions.

One issue of serious concern regarding UCBs is the delay/ non-submission of returns within the stipulated time frame. In particular, PCBs are required to submit two types of returns (statutory returns and control returns) to the Reserve Bank with a view to exercise adequate supervision over them. Unfortunately, there is often a serious delay in the submission of these returns by individual banks. Non-availability of adequate and timely data would no doubt have serious effect on timely policy action. In this context, PCBs have to
improve their statistical reporting system and bridge the wide gap in data availability as compared to that of commercial banks.

1.10 AGENDA OF FUTURE REFORMS

The urban co-operative banking sector being an integral part of financial system, the Reserve Bank has brought in a series of reforms for it. The recent Madhava Rao Committee which is also called High Power Committee (HPC) on UCBs, has dwelt extensively on certain regulatory issues related to UCBs' licensing policy, future set up of weak and unlicensed banks, application of capital adequacy norms, resolution of conflicts arising of dual control over UCBs, etc. The Reserve Bank has accepted these recommendations and implemented them. However, issues related to dual control necessitate legislative changes to State and Central Acts and there is hardly any progress in this area. In the backdrop of the present scenario, future agenda for reforms in urban co-operative banking sector are suggested as follows:

1.10.1 Aligning UCB sector with the rest of financial system

Unlike the other segments of co-operative credit sector, UCBs today undertake multifarious banking activities. Some of them have also been permitted to undertake Forex and merchant banking activities. There is a view emerging in the recent past that UCBs, being members of payment system, beneficiaries of deposit insurance scheme and enjoying unlimited access to public deposits, is in imperative necessity to apply exactly the same regulatory rigors to UCBs as applicable to commercial banks.
1.10.2 Interest rates

Today, main risk exposure of UCBs' is not the credit risk but interest rate risk. Most of the UCBs' interest rates particularly on deposits are out of sync with the rest of the banking sector. In this backdrop, the observance of Risk and Asset Liability Management guidelines assumes importance. The Reserve Bank has recently constituted a Working Group to evolve guidelines keeping in view the specifics of UCB sector. The Group is expected to submit its recommendations very soon.

1.10.3 Timely disclosure of returns

As market discipline is an important supervisory tool in approach to new capital adequacy framework, prescription of disclosure standards for UCBs, perhaps is of imminent necessity. UCBs, therefore, should be able to disclose their level of owned funds, unimpaired net worth, CRAR, Gross/Net NPAs, operating results, ROA, compliance with reserve requirements, per employee productivity, etc. with balance sheet figures. This issue is engaging the attention of the Reserve Bank.

1.10.4 Audit System

Strengthening the audit systems is of paramount concern for the Reserve Bank as it is an important tool in its supervisory kit. It had taken a lead in appointing an expert panel in 1995 for reforming the audit systems in vogue in UCBs. The panel suggested Professionalization of audit, mandatory concurrent audit for larger banks, redesigning audit format, etc. The Reserve Bank had accepted
these recommendations and advised States to initiate measures. Unfortunately, many State Governments have yet responded positively despite five years of persistent persuasion by the Reserve Bank.

1.10.5 Future set-up of weak Banks

The sheer number of weak banks which is well over 200 is the cause of concern. In a large number of cases, licenses have already been cancelled and the banks have been closed down. This process is taken up very cautiously so as not to create panic in the society. Closure is decided only after all other options are exhausted. Level of capital, history of losses and size of NPAs are some of the factors which weigh with the bank in taking a decision on closure. The possibilities of rehabilitation are invariably explored before such a decision is arrived at. Rehabilitation may involve the following strategies:

- Registrars should direct the co-operative courts for speedy recovery process and execution of decrees.
- Unviable branches should either be relocated or closed down.
- Avenues should be explored for the bank getting additional capital, and
- Merger with a well-managed bank, however, a forcible merger should be strictly avoided.

1.10.6 Improving Governance

It is extremely important that there is a mechanism to ensure that an effective system of internal governance is in place. The 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 the Reserve Bank as also State Governments. It is ultimately the Board's responsibility that all prudential norms of governance are observed by the bank.

1.10.7 Dual control dilemma

Duality of command over UCBs perhaps has become an intense issue of debate in co-operative circles. Academics, co-operators and bankers made vociferous representations to the Madhava Rao Committee that dual control over UCBs must end as that was instrumental in stifling their growth.

Narasimham Committee II had also unequivocally recommended for ending dual control regime over UCBs. Most of the issues emanating out of dual control regime are due to overlapping jurisdiction of the Reserve Bank and State Governments. Duality in command does come in the way of effective supervision. In the case of commercial banks, the Reserve Bank has the wherewithal under the Banking Regulation Act for dealing with the crucial aspects of the functioning of commercial banks. In the case of co-operative banks, however, many areas which directly relate to supervision over them
have been kept beyond the Reserve Bank's authority. Situation gets somewhat messy as may be indicated by a few illustrations as follows:

(i) The Reserve Bank has no authority to deal with delinquent management in a co-operative bank.

(ii) This requires intervention of the Registrar of Co-operative Societies.

(iii) Making investments out of surplus resources being clearly a banking function should be entirely within the decision making powers of co-operative banks subject to the Reserve Bank guidelines but this needs approval of the Registrar.

(iv) Similarly, writing off an unrealizable debt also requires permission of the Registrar.

(v) There was an instance where on request made by the Reserve Bank, the Registrar superseded the board of a co-operative bank. But subsequently the State Government in its wisdom annulled Registrar's orders and restored the Board. It is strange but true.

(vi) It is open for a bank whose license has been cancelled to appeal to the Government. The Reserve Bank is required to appear before the Appellate Authority. Often, the Reserve Bank is advised to review its decision. It is a matter of satisfaction; however, that the Reserve Bank's decisions have been supported by Government and in no case the Reserve Bank's decision has been struck down. Nevertheless, the exercise has to be gone through.
1.11 PROBLEMS AND FINDINGS OF HIGH POWER COMMITTEE ON URBAN CO-OPERATIVE BANKS

The second phase of financial sector reforms has brought about vast changes in the structure and operation of the Indian financial sector. However, the reform measures are yet to fully have an impact on the system. Financial and managerial weaknesses of a good number of co-operatives have been a matter of concern for quite some time. State Governments and co-operatives have been demanding capital infusion for wiping out past losses. Unless the inherent weaknesses are adequately addressed, funds infusion alone may not solve the problem. In this respect, the areas that need careful examination include: (i) the pattern of resources of co-operatives (owned funds, deposits, and borrowings), (ii) the deployment of resources, (iii) the management and supervision, (iv) the role of co-operative banks in the financial system and (v) the regulatory framework for co-operatives.

The essential spirit of the regulatory and reform measures adopted for the commercial banks need to be extended to the co-operatives with necessary adaptations to suit the circumstances in which co-operative banks operate. This would imply that areas such as (i) the strengthening of regulatory and supervisory framework, (ii) enhancing capital adequacy standards (iii) introducing stringent licensing norms for new entrants into the sector (iv) enabling legal amendments and (v) corporate governance measures need to be given very close attention.
1.12 FUTURE ROLE OF URBAN CO-OPERATIVE BANK

The Narasimham Committee report (1991) published has created some doubts about the future of urban co-operative banks in India. There is a talk about the creation of more private sector banks so as to provide competition to the nationalized commercial banks. This step is advised with a view to improve the performance and efficiency of the nationalized banks in India. But it is interesting to note that the Government of India had nationalized 20 private banks mainly because they were not working according to the socio economic objectives of the country. They had number of drawbacks like concentration of economic power, regional imbalance in the growth of banking etc. Hence it is not really advisable to go back on this policy of privatization of the banking industry.

On the other hand the Urban Banks are working efficiently since the last 100 years on the basis of ideology of co-operation. People of India feel that under the new situation these banks should be given full support and co-operative by the Central and State Government as well as the Reserve Bank of India. So long as there is hard working, honest and dedicated local leadership with natural aid and co-operation principles, the working of the urban co-operative bank will be bright in future keeping in view the special attributes and useful role that these banks can play in filling the credit gaps in the economy.
1.13 STATEMENT OF THE PROBLEM

Banking sector in India is currently passing through a challenging phase. The reform measures undertaken in 1991 have brought about sweeping changes in this vital sector of the country's economy. The process of liberalization was set in motion with gradual removal of restrictions on the operation of pricing mechanism, especially interest rates and statutory liquidity and reserve requirements – a process which is still underway.

Enhanced competition in the banking sector has been introduced through a dynamic mix of public and private as well as domestic and foreign ownership – along with deregulation. The market driven economy, through deployment of more capital, advanced technology and skilled human resources, is posing stiff and increasing competition to all traditional institutions.

The success of any financial system lies in the effective operations of all its components, viz. markets, services, instruments and institutions. Co-operative banks play an important role in Indian financial system as co-operation has been inherent in Indian cultural ethos to work as a socio-economic organization for the well-being of the people. The principles and practices of co-operative system have been guiding the people for community based management of means of production and economic resources. The expectations from co-operatives have been to facilitate self-sufficiency in food grain production, creation of better employment opportunities for rural people, workers and artisans and to provide organizational strength to the persons of the limited
means for their sustenance. In three tier structure of working, urban co-operative banks operate in the urban area by accepting deposits, granting loans/advances, fixed deposit receipts, gold/bullion, goods and documents of title of goods, collection of bills, cheques, safe custody of valuables and agency services.

Urban Co-operative Banking is a key sector in the Indian Banking scene, which in the recent years has gone through a lot of turmoil. UCBs are operating in a hostile socio-economic environment and mounting a coherent direct challenge to the mainstream banking is not easy. Market competition and the need to retain good clientele are affecting Urban Co-operative Banks (UCBs) too. The commercial banks, with their ability to invest more in technology and offer better remuneration to attract skilled persons, are better off in fending competition. Therefore, the UCBs that are competing in the same space, especially in cities and towns, are also being aggressively targeted by these commercial banks and face tough competition. In this competitive environment UCBs have to be more effective and efficient to survive.

The financial situation of co-operative banks in India cannot be claimed sound at present. Many banks have become insolvent and others are on the verge of mergers or acquisition. Various scams have been surfaced in 2001-02 in co-operative sector which had given a big jolt to the banking sector. In 2005-06, the RBI cancelled licenses of 14 Urban Co-operative Banks and DICGC made a payment of Rs. 565 Crore towards the settlement of depositors’ claims.
During 2006-07, as many as 25 UCBs closed operations resulting in a payout of Rs. 438 Crore by the insurer towards the settlement of depositors’ claims.

In the year 2007-08, failing co-operative banks have cost Reserve Bank’s credit insurance arm dearly as it had to shell out over Rs. 123.37 Crore towards the payment to the depositors of 17 insolvent banks. The Reserve Bank’s credit insurance arm has paid over Rs. 142 Crore to depositors of 19 co-operative banks have gone bankrupt till March 2009. As 32 Co-operative Banks failed between January and December 2009, Rs. 482 Crore has been paid by DICGC to settle the dues of the depositors.

Keeping in mind, the vulnerable situation of the co-operative banks, many committees suggested for revitalization of co-operative banks and the Government announced the financial package of Rs. 14,839 Crore as suggested by A.Vaidyanathan panel. NABARD has been the implementing agency for the revival package for the Short Term Co-operative Credit Structure. As indicated in the annual policy statement of April 2008, the Government has approved a package and an aggregate amount of Rs 4,740 crore has been released by the NABARD. However, co-operative banks have made a commendable progress in extending its geographical spread and functional reach, yet huge decline in productivity and efficiency, erosion of profitability, unrealizable debts and increase in unviable branches has been seen in spite of Government’s help.
Today, the co-operative credit institutions are facing a tough challenge to deliver on high expectations in a fiercely competitive credit environment. Concern and skepticism are expressed on their credit worthiness and viability. Considering these facts, probing into the financial and operational aspects of these institutions become significant. Hence this study was undertaken to investigate into the financial and operational aspects of Urban Co-operative Banks in Thanjavur district, Tamilnadu to understand their function in a highly competitive environment.

1.14 SCOPE OF THE STUDY
The study covers only those UCBs, functioning in Thanjavur district of Tamilnadu. It does not cover other co-operative banks in other districts. This study enables the researcher to improve the knowledge about the banking sector, specifically on account of operational and financial performance. This study also enables the banks to know its actual financial position in the last ten years. This study will also be helpful to draw up future policies on related fields and also be used as a secondary data for further research.

1.15 OBJECTIVES OF THE STUDY
The specific objectives of the study are;

1. To study the growth and progress of the urban co-operative banks in India and Tamilnadu in particular.
2. To analyse the operational efficiency of the sample Urban Co-operative Banks.
3. To analyze financial efficiency of the sample Urban Co-operative Banks.

4. To analyze the asset quality in terms of nonperforming asset of sample Urban Co-operative Banks.

5. To offer suitable suggestions in the light of the findings of the study for the development of the Urban Co-operative banks in India

1.16 HYPOTHESIS

The following hypotheses are framed and tested in the study.

1. All the selected UCBs in the study area maintain the same level of debt equity ratio

2. There is no significant difference among the urban co-operative banks in maintaining liquid assets to total assets ratio.

3. There is no correlation between gross NPA and the total advances of selected urban co-operative banks.

4. There is no significant correlation between profit earned by UCBs and other financial indicators like Borrowings, Reserves, Share Capital, Investment, and Loans and Advances.

5. All the selected banks in the study area maintain the same level of profit margin ratio.
1.17 PERIOD OF STUDY
The study covers a period of 10 years as from 2001-02 to 2010-11. The accounting year of the bank commences on 1st April of every year and ends on 31st March of next year.

1.18 METHODOLOGY
The study is confined to the urban co-operative banks functioning in Thanjavur district. The economy of the district is basically agrarian and about 75 percent of the work force is depending on agriculture. To facilitate agricultural and industrial development, a large number of co-operative and commercial banks are functioning in the district. The primary objectives of urban co-operative banks are to promote economic interests of urban classes particularly, the technicians, artisans, business people, small industrialists and people engaged in activities other than agriculture. Thanjavur district, known for agricultural and allied activities, is said to be industrially backward. The credit requirements of the people for agricultural activities in the district are met by Agricultural co-operative credit societies and commercial banks. For economic activities other than agriculture, people approach the urban co-operative banks located in the nearest towns. Hence, the functioning of urban co-operative banks in agricultural district needs a special study. As such the district is purposively selected by the researcher. The present study seeks to evaluate the operational and financial performance of the urban co-operative banks in Thanjavur district and makes use of secondary data.
The relevant secondary data has been collected mainly through the data bases of Reserve Bank of India (RBI), various reports, annual reports of the sample banks and other studies. Journals such as the Banker and the Journal of Indian Institute of Bankers have also been referred to.

1.18.1 Sample Size

There are five Urban Co-operative Banks functioning in Thanjavur district viz., Nicholson Co-operative Town Bank Ltd., Karanthatangudi Urban Co-operative Bank, Papanasam Urban Co-operative Bank Ltd. Pattukkottai Co-operative Urban Bank Ltd. and Kumbakonam Co-operative Urban bank. Two banks namely Nicholson co-operative Town Bank Ltd., Karanthatangudi Urban Co-operative Bank are functioning in Thanjavur town, Therefore, one bank from Thanjavur town namely Karanthatangudi urban co-operative bank is eliminated from the sample, because Nicholson Co-operative Town Bank Ltd., is older than Karanthatangudi Urban Co-operative Bank. Hence, remaining four urban Co-operative Banks operating in the district are taken for the study to analyze operational and financial performance.

1.18.2 Variables Selected for the Study

The study is confined only to the specific areas of operational and financial performance of the banks for the ten year period starting from 2002 to 2011. The parameters such as Capital Adequacy, Solvency, Liquidity, Asset Quality, Management efficiency and Profitability have been used to determine the operational and financial performance of the Urban Co-operative Banks in the
Thanjavur district. Further to analyse the data and draw conclusions in a scientific manner, in this study, statistical tools viz. Mean, standard deviation, coefficient of variation, correlation coefficient, CAGR and t-test have been used.

1.19 LIMITATIONS OF THE STUDY

Taking into consideration the objectives of the study and its coverage both in terms of time span and the number of banks, the study is prone to many limitations. Some of the major unavoidable limitations of the present study are summarized below:

1. Financial information collected for the present study is entirely secondary in nature. In such a case, the study carries all the limitations inherent with the secondary data and financial information.

2. While computing the data for the purpose of analysis, the approximation of decimal places leads to minor variations in ratios and percentage analysis, which are bound to exist in the present study.

3. The study has been undertaken only through the analysis of quantitative financial data. The qualitative aspects of the banking sector having a bearing on the profitability could not be incorporated.

4. Various accounting and statistical tools extensively used for the present study have their own limitations.

5. The research was carried with a small number of sample banks because of time constraints.
1.20 ORGANISATION OF THESIS

The study consists of seven chapters.

**Chapter – I:** This chapter deals with the introduction and design of the study, Banking system reforms, structure of co-operative banks in India, statement of the problem, objectives of the study, outreach of the co-operative credit sector, scope of the study, hypothesis, methodology, tools for analysis, Period of the study, limitations and the organisation of thesis.

**Chapter – II:** This chapter presents the state of the existing literature. This literature includes the empirical studies on world banking industry, Indian Banking industry, operational and financial performance of commercial banks in India, operational and financial performance of urban and rural banks in India, operational and financial performance of rural banks in India, operational and financial performance of urban banks in India, operational and financial performance of urban banks in Tamilnadu.

**Chapter – III:** This chapter examines the growth and progress of urban co-operative banks in India.

**Chapter – IV:** This chapter evaluates operational efficiency of the urban co-operative banks in the study area with the help of ratio analysis.

**Chapter – V:** This chapter analyzes the financial efficiency of the sample urban co-operative banks.
Chapter – VI: This chapter examines the asset quality of the sample urban co-operative banks in term of Non-Performing Assets.

Chapter – VII: This chapter presents a summary of findings of the present study and offers various suggestions for improving the working performance of the study units.

1.21 CONCLUSION

This chapter examined the introduction of urban co-operative banks. The background for the research is discussed. Research problem is discussed with the objectives for the study and the variables associated with hypothesis, significance of the study are defined and the following chapter will review the literature of previous studies.