CHAPTER - VII

SUMMARY, FINDINGS, SUGGESTIONS AND CONCLUSION

7.1 SUMMARY

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, cooperation became the accepted instrument for bringing socio-economic transformation in the country. Urban co-operative credit system has been and still the strongest segment of the co-operative movement in the country.

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 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 the 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. The liberalization of credit to common men requires the application of co-operative principles in the banking sector.
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 are playing a significant role in
the economy of the nation. They have achieved 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 borrow but also deposit money in Co-operative banks.

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
cooperation 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 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 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. 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 competitions. 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 a 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 became insolvent and others are on the verge
of mergers or acquisition. Various scams have been surfaced in 2001-02 in the 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 depositor’s 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 costed 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 that 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 have suggested for the 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 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 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 creditworthiness and viability. Considering these facts, probing into the financial and operational aspects of these institutions becomes significant. So this study was undertaken to investigate the financial and operational aspects Urban Co-operative Banks in Thanjavur district, Tamilnadu to understand how they are functioning in a highly competitive environment.

The study covers only those UCBs which are functioning in Thanjavur district of Tamilnadu. It does not cover other co-operative banks which are working in the district. This study enables the researcher to improve 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.
The specific objectives of the study are to study the growth and progress of the urban co-operative banks in India and Tamilnadu in particular, to analyze the operational efficiency of the sample Urban Co-operative Banks, to analyze the financial efficiency of the sample Urban Co-operative Banks, to analyze the asset quality in terms of nonperforming asset of sample Urban Co-operative Banks, to offer suitable suggestions in the light of the findings of the study for the development of the Urban Co-operative banks in India.

The following hypothesis are framed and tested in the study.

- All the selected UCBs in the study area maintain the same level of debt equity ratio.
- There is no significant difference among the urban co-operative banks for maintaining liquid assets to total assets ratio.
- There is no correlation between the gross NPA and total advances of selected urban co-operative banks.
- There is no significant correlation the between the profit earned by UCBs and other financial indicators like Borrowings, Reserves, Share Capital, Investment, and Loans and Advances.
- All the selected banks in the study area maintain the same level of profit margin ratio.
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.

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. The functioning of urban co-operative banks in agricultural district needs a special study. As such the district is purposively selected by the researchers. 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.

There are five urban co-operative banks are functioning in Thanjavur district viz., Nicholson Co-operative Town Bank Ltd., Karanthatangudi urban co-operative bank, Papanasam Urban Co-operative Bank Ltd. Pattukottai 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, the remaining four urban co-operative banks operating in the district are taken for the study to analyse operational and financial performance.

Some of the major unavoidable limitations of the present study are:

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, 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. 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 and the various accounting and statistical tools extensively used in the present study have their own limitations and the research was carried out only with a small number of sample banks due to time constraints.

The report of the study consists of seven chapters. The first chapter deals with the introduction and design of the study, statement of the problem, objectives, scope, methodology, tools for analysis, limitations and the chapter scheme. The second chapter presents the state of the existing literature. It reviews literature relating to banking industry. The third chapter examines the growth and progress of urban co-operative banks in India in terms of deposits, asset size, advances, and capital adequacy. The fourth chapter evaluates the operational efficiency of the urban co-operative banks in the study area with the help of ratio analysis. The fifth chapter analyses the financial efficiency of the sample urban co-operative banks. The sixth chapter examines the asset quality of the sample urban co-operative banks in term of Non-Performing Assets. The seventh chapter presents a summary of findings of the present study and offers various suggestions for improving the working performance of the study units.
7.2 FINDINGS

The major findings of the study are summarized here under;

The study revealed that the UCBs are concentrated in five states, namely Andhra Pradesh (6.4%), Gujarat (14.8%), Karnataka (16.9%), Maharashtra (32.8%) and Tamil Nadu (7.8%) which collectively account for 78.7 percent of all UCBs.

The number of UCBs in Grade I and II across all the deposit ranges were significantly high (above 80%), except in the deposit category of less than Rs.10 crore where it was only 64 percent indicating lower viability and greater vulnerability of smaller banks.

The number of UCBs in CAMEL Rating A and Rating B category is higher as compared to the banks in C and D Ratings. However, the A and B Ratings do not strictly correspond to Grade I and II category primarily because rating is done on more granular basis. It also takes into consideration the relative performance of the previous year. Nonetheless, the share of A and B rated banks having deposits below Rs.10 crore is still lower than banks in other deposit categories.

UCBs with a higher deposit base are able to achieve a lower leverage ratio. While this indicates that small banks lack the ability to mobilize more deposits, this does not pose a regulatory concern since they do not have an over-leveraged position.
The study revealed that the four largest UCBs account for 17.4 percent of the total deposits of the UCB sector while 1040 UCBs having a deposit base of up to Rs.50 crore and constituting 63 percent of the total number of UCBs have an aggregate deposit base which constitutes only 9.6 percent of the total deposit base of the UCB sector.

The study shows that only 2.5 percent in number of UCBs account for 45 percent of the total asset size of UCBs, while 933 UCBs having an asset size of up to Rs.50 crore and constituting 57 percent of the total number of UCBs account for only 7.4 percent of the total asset size of UCBs.

The study indicates that 44 UCBs constituting only 2.6 percent of the total number of UCBs account for 47.4 percent of the total advances of the sector while 1225 UCBs with advance up to Rs.50 crore and constituting 74.4 percent of the total number of UCBs account for only 14.2 percent of the total advances of the sector.

The study revealed that the total expenses of the sample UCBs have increased considerably during the study period. Therefore, the UCBs should take appropriate steps to control their expenditure to enhance profitability.

The operating efficiency ratio of the sample UCBs shows the increasing trend during the study period. Therefore, it is suggested that the banks can reduce the avoidable expenses to increase the operating efficiency.
The banks should launch innovative schemes to provide more ancillary services to increase non-interest income, which leads to the burden bearing capacity of the banks.

The UCBs must develop agency arrangements with co-operative banks of all districts and states to get country wide network. This would facilitate the UCBs to provide effective ancillary services like remittances and collection of bills which are essential for business people. Such ancillary services will provide float funds at a lesser cost for the UCBs.

Online with commercial banks, UCBs should also introduce e-banking services such as establishing more number of ATMs, mobile banking, internet banking to attract more members and to reduce cost. This will definitely pave the way for improving operational and financial performance of the UCBs.

In the competitive environment, it is necessary that the UCBs should publish their progress report and Annual Report through internet so as to facilitate the members to know their performance.

It suggested that the UCBs should maintain an optimum level of debt-equity and capital gearing ratio to utilize low cost outsider’s fund to magnify their earnings.
The investments are made in government securities with low revenue. The UCBs invest considerable amount in these securities which is suggested to reduce the level of investments and increase more profitable investments.

 Majority of the UCBs (91.3%) now comply with the regulatory prescription of minimum CRAR of 9 percent. Some of the UCBs which previously had a negative networth have also reported positive CRAR by raising Tier II capital through innovative instruments like Long Term Deposits permitted by the Reserve Bank of India.

 It can be noticed that there has been a continuous reduction in banks having negative networth mainly due to upgradation, amalgamation and liquidation.

 The progress made by the urban co-operative banks on all India bases during the last 10 years has by and large been satisfactory. Though there has been reduction in the number of UCBs from 2004 onwards, the total banking business (deposits plus advances) of UCBs has shown steady an increase signifying that the banks have been able to garner more business.

 On all India basis, the general health of the UCB sector has improved. This can be seen from the increasing number of banks in Grade I and II especially after the process of signing of MoUs with the Central and State Governments and continuous reduction in the gross and net NPAs of the sector. As on March 31, 2004, the share of Grade I and Grade II banks out of total UCBs was at 61.6 percent, which increased significantly to 81.8
percent as on March 31, 2011. Similar improvement is observed in the quality of assets of the UCBs along with their compliance with the prescribed regulatory capital requirement (CRAR).

The Net Interest Margin (NIM) of the UCB Sector is slightly better than that of the Scheduled Commercial Banks. But the Return on Assets (RoA) is significantly low. The low Return on Assets could be probably due to the restricted earning avenues available to the sector and consequently the less diversified activities undertaken by them. Though the cost of deposits of the UCB sector is generally high, the NIM and RoA of UCBs is not significantly lower than as compared with other groups in the banking industry.

The business growth of UCBs was not, however, commensurate with the overall growth in the banking sector. There has been a gradual fall of the share of UCBs’ business in the overall business of the banking sector. Despite the presence of a large number of UCBs, their share in the total deposit and advances of the banking sector is insignificant and the share is reduced year after year. From the market share of 6.3 percent as on March 31, 2001, it had reduced to 3.5 percent as on March 31, 2010. This reflects to a larger extent the effect of the policy of not permitting UCBs, including the healthy and well managed ones, to open new branches for six years contributing thereby to their inability to garner their share in the growing economy.
It may be observed from the study that despite the fact that the UCB sector has the maximum number of entities as compared to any other group, its market share continues to be meagre. This is to be seen in the light of the fact that almost half of the UCBs are unit banks and the total number of branches of the 1674 UCBs as on March 31, 2010 is around 7900 branches as against over 77000 branches of just 83 scheduled commercial banks. Another reason may be that due to the poor capital base of UCBs, coupled with individual and group credit exposure ceilings they are not in a position to lend high value advances. The other reason could be that the clientele of these banks is mainly confined to the lower and middle strata of the society.

In Tamilnadu, the number of Co-operative Banks has declined from 131 in 1991-92 to 114 in 2010-11. Membership has been reduced from 17.87 lakhs in 1992 to 15.87 lakhs in 2011. Deposits have been increased from Rs. 441.00 Crores in 1992 to Rs. 886.74 Crores in 2011. Similarly, advances have been increased from Rs. 324.82 Crores in 1992 to Rs. 854.54 Crores in 2011.

The average number of members in Thanjavur, Kumbakonam, Pattukkottai and Papanasam Urban Co-operative is 28034, 16041, 6641 and 9482 respectively. The number of members in Thanjavur and Kumbakonam urban co-operative banks has increased by nearly 26 percent during the period of ten years of the study. There is no significant growth in the
number of members in Pattukkottai and Papanasam urban co-operative banks during the study period.

The highest average share capital of Rs.93.55 lakhs is registered in the Thanjavur urban co-operative banks followed by Kumbakonam urban co-operative bank with a mean share capital of Rs.92.56 lakhs. The mean value of share capital of Papanasam and Pattukkottai urban co-operative bank is Rs. 38.79 lakhs and Rs. 36.59 lakhs. The trend indicates that the Thanjavur and Papanasam urban co-operative banks have registered a high growth rate of share capital as compared to Kumbakonam and Pattukkottai urban co-operative banks. The share capital of Pattukkottai urban co-operative banks has declined to nearly 87 percent in 2011 as compared to 2002. The operational performance of Kumbakonam and Pattukkottai urban co-operative banks in terms of growth of share capital is not satisfactory during the study period.

It is understood from the study that the reserve funds of selected banks have increased about less than three times during the period of 10 years of the study. Therefore, operational performance of the selected banks in terms of growth of reserve funds is moderately satisfied during the study period.

Among the selected banks the advances made by Papanasam urban co-operative bank has the highest compound annual growth rate of 15.18 percent followed by Thanjavur urban co-operative bank with the compound
annual growth rate of 12.60 percent. The Kumbakonam and Pattukkottai urban bank have secured minimum growth rate of advances during the study period.

The deposits mobilized by Papanasam urban co-operative bank has registered the highest growth rate of 9.95 percent followed by Thanjavur urban co-operative bank with the growth rate of 7.77 percent. Kumbakonam and Pattukkottai urban co-operative banks have registered a very low growth rate of deposit during the study period.

The investments of the Pattukkottai urban co-operative bank have increased from Rs. 421.95 lakhs in 2002 to Rs. 559.73 lakhs in 2011, recording a growth rate of approximately 133 percent. The size of investment of the Papanasam urban co-operative bank has increased from Rs. 700.32 lakhs million in 2002 to Rs. 783.73 lakhs in 2011, registering the growth rate of 112 percent. The growth of investment of the Thanjavur and Kumbakonam urban co-operative banks has declined to a considerable extent during the study period.

Among the selected banks, the expenditure of Papanasam urban co-operative bank has grown nearly 198 percent, which is the highest when compared with other three banks. Next to Papanasam, the expenditure of Thanjavur and Pattukkottai urban co-operative banks has grown nearly 188 percent and 146 percent during the study period. The Kumbakonam urban
The co-operative bank has the lowest growth rate of expenditure as compared to the other three banks.

The operating profit of all the selected banks has shown a fluctuating trend during the study period. Thanjavur, Pattukkottai and Papanasam urban co-operative banks have registered positive CAGR of 12.64 percent, 13.31 percent and 5.26 percent respectively whereas Kumbakonam urban co-operative bank have recorded a negative growth rate of 2.68 percent during the study period.

In terms of growth rate of net profit, the Pattukkottai urban co-operative bank has been the best performer with the highest trend percentage and CAGR of 352 percent and 13.32 percent followed by Thanjavur and Papanasam urban co-operative banks with CAGR of 7.9 percent and 5.36 percent respectively. Kumbakonam urban co-operative bank has been the worst performer with a negative CAGR of 2.96 percent. Among the selected urban co-operative the net profit of Thanjavur urban co-operative bank has a consistent trend during the study period.

It is evident from the study that the average advances to deposit ratio of Thanjavur, Pattukkottai and Papanasam urban co-operative banks is more than 50 percent whereas Kumbakonam urban co-operative bank is less than 50 percent during the study period.
It is found that Papanasam and Thanjavur urban co-operative banks are the best performers than Kumbakonam and Pattukkottai urban co-operative banks in terms of productivity of the employee.

The earnings per employee of the Pattukkottai urban co-operative bank has registered the highest growth rate of 13.47 percent followed Papanasam and Thanjavur urban co-operative banks with the growth rate of 6.37 percent and 6.30 percent during the study period. The negative growth rate of 2.32 percent was recorded in Kumbakonam urban co-operative bank.

The Pattukkottai urban co-operative bank has recorded the lowest expenditure to income ratio of 88.43 percent followed by Kumbakonam urban co-operative bank with a mean value of 88.74 percent. Thanjavur and Papanasam urban co-operative banks have recorded the highest expenditure to income ratio of 94.65 percent and 91.92 percent during the study period.

Pattukkottai urban co-operative has recorded the lowest value of Rs.8.92 lakhs expenditure per employee followed by Kumbakonam urban co-operative bank with a mean value of 11.91. The highest value of Rs.21.35 lakhs and Rs.17.65 lakhs expenditure per employee was recorded in Thanjavur and Papanasam urban co-operative banks during the study period. Similarly, Kumbakonam and Pattukkottai urban co-operative have a low CAGR when compared to Thanjavur and Papanasam urban co-operative banks during the study period.
The operating efficiency of selected urban co-operative banks has not been efficient as the average value of operating efficiency ratio has been very high in Kumbakonam (8.94 percent), Thanjavur (8.55 percent), Pattukkottai (7.98 percent) and Papanasam (6.46 percent) during the study period.

It is found that all the selected banks have registered the burden ratio as less than three percent; therefore, the burden bearing capacity of the banks needs to be improved.

It is observed that all the selected variables individually correlated positively and associated significantly except investment with the profit earned by Thanjavur urban co-operative bank during the years of study.

In Kumbakonam urban co-operative bank, the share capital and investment are positively correlated, but not statistically significant. There is negative correlation between reserve funds and profits, advances and profits and deposits and profits during the study period.

In Pattukkottai urban co-operative bank, the reserve funds, advances, deposits and investments are positively correlated with profits, of which deposits alone significantly correlated with profits.

In Papanasam urban co-operative bank, the share capital, reserve funds, advances, deposits correlated with profits, of which deposits alone are statistically significant during the study period.
All the selected urban co-operative banks have maintained an adequate CAR as stipulated by the Reserve Bank of India during the study period. The Kumbakonam Urban Co-operative bank and Pattukkottai urban Co-operative bank have maintained an excess CAR as compared to Thanjavur and Papanasam Urban Co-operative banks.

It is understood from the study that the debt equity ratio of all the selected urban co-operative banks has declined considerably except in Papanasam Urban Co-operative bank during the study period. In these three banks, the long term creditors get larger margin against banks asset, but at the same time the banks have failed to utilize the low cost outsider’s fund to magnify their earnings.

Among the four selected urban co-operative banks, Thanjavur and Papanasam urban co-operative banks have a low average capital gearing ratio compared to Kumbakonam and Pattukkottai urban co-operative banks. Thanjavur and Kumbakonam Urban co-operative banks have a high coefficient of variation when compared to Pattukkottai and Papanasam urban co-operative banks. The study further revealed that all the banks have a capital gearing ratio less than 1 time, which implies that all the banks have a low gearing ratio.

The analysis of the net worth to fixed asset ratio of the selected banks revealed that the Kumbakonam and Pattukkottai urban co-operative banks have maintained a high net worth to fixed asset ratio as compared to
Thanjavur and Papanasam urban co-operative banks during the study period.

The investment to deposit ratio of the selected banks show that Pattukkottai Urban Co-operative bank has maintained the highest average value of investment to deposit ratio followed by Papanasam Urban Co-operative bank. In the end of the study period, all the banks except Kumbakonam Urban Co-operative Bank have reduced their investment against deposit. The study further revealed that among the selected banks, the Thanjavur Urban Co-operative banks has a low investment to deposit ratio during the study period.

The analysis of solvency position of the selected urban co-operatives revealed that Thanjavur, Kumbakonam and Pattukkottai urban co-operative banks have a good solvency position from the point view of long term creditors as debt equity ratio of these banks declined considerably. In the case of Papanasam urban co-operative bank, the growth of debt equity ratio remains more or less unchanged during the study period.

The solvency position in terms of capital adequacy ratio is satisfactory during the study period in all the selected urban co-operative banks. The solvency position with regard to net worth to fixed asset ratio of Kumbakonam and Pattukkottai urban co-operative is quite satisfactory as these two banks have a high mean value when compared to Thanjavur and Papanasam urban co-operative banks during the study period.
The solvency position in relation to investment to deposit ratio of the Pattukkottai and Papanasam urban co-operative banks is reasonably sound as these banks have a high mean value of the ratio compared to Thanjavur and Kumbakonam urban co-operative banks.

It is understood from the study that Kumbakonam and Pattukkottai urban co-operative banks have a higher liquid asset to total asset ratio as compared to Thanjavur and Papanasam co-operative banks. It is found that there is a significant difference among urban co-operative banks in the study area for maintaining liquid assets to total assets ratio.

The study shows that the Pattukkottai Urban Co-operative Bank has the lowest ratio of government securities to total assets as compared to Thanjavur, Kumbakonam and Papanasam urban co-operative banks.

The analysis of liquid asset to demand deposit of the selected urban co-operative bank has revealed that Pattukkottai Urban Co-operative has the highest mean value followed by Kumbakonam and Thanjavur Urban co-operative banks. The Papanasam Urban Co-operative Bank has the lowest value liquid asset to demand deposits ratio during the entire study period.

The liquidity analysis of the urban co-operative banks in the study area indicates that the liquidity position in terms of liquid asset to total assets of the Kumbakonam and Pattukkottai urban co-operative banks is satisfactory as compared to Thanjavur and Papanasam co-operative banks as it has a
higher liquid asset to total assets ratio. The liquidity position with regard to government securities to total assets of Kumbakonam, Thanjavur and Papanasam Urban co-operative banks is quite satisfactory when compared to Pattukkottai Urban co-operative bank as they have a higher value of government securities to total assets ratio during the study period.

Similarly, the Pattukkottai, Kumbakonam and Thanjavur Urban co-operative banks have a strong liquidity position with regard to liquid assets to demand deposit and liquid assets to total deposits ratio as compared to Papanasam Urban Co-operative Bank during the study period.

The mean return on capital employed has been very low in all the selected urban co-operative banks, which signifies that all the banks are deficient in utilizing the total investments made in fixed and current assets and leading to generation of lesser returns.

The average net interest margin has been the highest in Pattukkottai urban co-operative bank (4.24 percent) followed by Kumbakonam urban co-operative bank (3.58 percent), the lowest in Thanjavur and Papanasam urban co-operative banks (3.03 and 3.18 percent) which reflects that the ratio of core income (income from lending operations) to income producing assets has been very less throughout the study period.

The mean value of operating profit to average working fund ratio has been very less in Thanjavur urban co-operative banks (0.77 percent) due to
lower returns during the study period. It has been the highest in Pattukkottai urban co-operative bank (1.43 percent). The mean value of the ratio in Kumbakonam and Papanasam urban co-operative banks was 1.40 and 1.16 percent respectively. The trend indicates that the ratio has been increased to 158 percent and 192 percent during the year 2011 as compared to 2002 in Thanjavur and Pattukkottai urban co-operative banks whereas during the same period the ratio has been declined considerably in Kumbakonam and Papanasam urban co-operative banks.

All the selected banks have maintained more or less the same interest income to total income ratio during the study period. The ratio has been declined in 2011 as compared to 2002 in all the selected banks except Papanasam urban co-operative bank.

The mean value of non-interest income to total income has been very less in Thanjavur urban co-operative bank (3.46 percent) due to lower noninterest income during the study period followed by Kumbakonam urban co-operative banks with a mean value of 3.94 percent. It has been the highest in Papanasam urban co-operative bank (9.46 percent) and Pattukkottai urban bank (7.24 percent).

It is observed from the study that the rate of profit margin has been very less in Thanjavur urban co-operative bank (5.35 percent) due to lower returns from 2008 to 2011. It has been the highest in Pattukkottai (11.38 percent) followed by Kumbakonam urban co-operative bank (11.26 percent).
percent). The mean value of profit margin of Papanasam urban co-operative bank was 8.19 percent during the study period. It discloses that very less part of the total income is available to the banks in the form of profits and the rest of the amount has been incurred in expenditure.

The study revealed that the profit margin of selected urban co-operative banks significantly differs during the study period.

The analysis of non-performing assets of the selected urban co-operative bank revealed that the Papanasam urban co-operative bank has the highest percentage of 24.50 percent of mean gross NPA to gross advance, growing at 6.64 percent per annum. Similarly, the bank has the highest percentage of 15.86 percent mean net NPA to net advances, whereas the bank has a low (41.35 percent) mean gross NPA coverage ratio compared to the other three banks.

Next to Papanasam, Pattukkottai urban co-operative bank has 18.79 percent and 10.53 percent of mean gross NPA to gross advances and mean net NPA to net advances. The mean gross NPA coverage ratio was 50.88 percent. The mean gross NPA to gross advances and net NPA to net advances of Kumbakonam urban co-operative bank was 14.49 percent and 7.66 percent, the mean gross NPA coverage ratio of the bank was 52.97 percent.
The Thanjavur urban co-operative bank lowest mean gross NPA to gross advances (9.39 percent), net NPA to net advances (5.53 percent) and gross NPA coverage ratio of 49.34 percent during the study period. Therefore, it can be inferred from the Table that the Thanjavur urban co-operative bank is the better performer as compared to other three banks in terms of asset quality.

Out of the four banks selected for the study Papanasam urban co-operative is the worst performer in terms of change in net NPA during the study period as it has positive figures during all the study period. The deviation of the ratio is the highest in Thanjavur, Pattukkottai and Papanasam urban co-operative banks.

The Papanasam Urban Co-operative bank has a high mean value of total investment to total asset ratio followed by Thanjavur and Kumbakonam urban co-operative banks. The Pattukkottai urban co-operative banks have a low mean value when compared to the other three banks. Pattukkottai, Thanjavur and Kumbakonam Urban co-operative banks have a high value of coefficient of variation as compared to Papanasam Urban co-operative bank, which indicates inconsistency of the ratio of these three banks.

It is found that there is a significant correlation between gross NPA and total advances in Thanjavur and Papanasam urban co-operative banks. There is a positive correlation between gross NPA and total advances in
Kumbakonam urban co-operative bank, but it is not statistically significant. There is no correlation between gross NPA and total advances in Pattukkottai urban co-operative bank.

**7.3 SUGGESTIONS**

On the basis of the above observation the following measures are suggested to improve the performance of the selected UCBs.

The present study reveals that these entire sample UCBs have shown more dependence on deposits as compared to other sources. Since deposits involve interest cost, it is therefore, suggested that all these sample UCBs should make concerted efforts to augment their owned funds component, particularly share capital base at a faster pace by enrolling more and more members in their folds.

Paid up share capital and reserve funds constitute owned funds of the UCBs. Though sample UCBs had satisfactory capital adequacy ratio as stipulated by Reserve bank of India, these funds ought to be increased further to maintain CRAR. In order to increase the owned funds, these UCBs must increase their share capital by increasing the value of shares and by attracting more members.

The mobilization of deposits assumes a special importance in the context of increasing and diversifying the loan operations of the bank and from the point of view of embarking on new activities such as financing small scale
industries. The bank should also introduce attractive schemes for mobilizing deposits, which can suit the needs and meet the tasks of the different categories of clientele. The rate of interest on deposits should be periodically reviewed to ensure that they are competitive with the banks.

The bank should also diversify its activities and widen the range of banking facilities to its customers. The bank should constantly strive to improve the quality of services provided to its customers since the promptness, efficiency and courtesy are the important features that contribute to the success of a bank in mobilizing deposits.

The UCBs should try to increase their deposits by opening branches in business areas, improve the services to their clients, introduce different types of deposit schemes and offer competitive rates of interest.

The shares of UCBs should be treated on par with the shares of the joint stock companies and their shares should be allowed to be traded to attract more number of members and increase share capital.

The UCBs have been collecting and accumulating more deposits than the deployment and dispensation of the funds which have led to the increase of idle resources. Hence, it is suggested that Credit Deposit ratio of these sample UCBs should be increased to a desired level of 70 percent.

In an era of competition, the UCBs are unable to expand the volume of the business. To improve the productivity of employees the UCBs should
increase the volume of deposits and advances on the one hand and curtail the number of employees at the optimum level on the other hand.

The study reveals that the UCBs are unable to expand the business as they expanded their branches. Hence, the productivity of branches of the UCBs is much lower as compared to other commercial banks. To improve the productivity of branches the UCBs have to raise the volume of deposits and loans and advances.

Under the new economic policy and also for the deregulation of interest rates, there is an urgent need for the UCBs to have a review and examination of the resources and uses of funds to optimize returns. Hence, a faster rotation of funds, modified lending policies and procedures and selection of proper clientele are the needs of the day for efficient fund management to make the UCBs more and more successful.

The UCBs must maintain adequate liquid resources, margin, proper scrutiny of loans and should try to qualitatively improve to the staff. The staff should be augmented and training facilities should be given in the new field.

It is necessary for under taking serious steps to rationalize the capital structure of these UCBs to strengthen and increase their own capital and working capital to prescribed economic level.
A detailed investigation should be made with a view to locating the factors that may be responsible for the high level of overdues. The overdues may be high on account of defective loan policies and procedures of the bank such as predominance of loans for unproductive purposes which do not generate the necessary repaying capacity; sanctioning of loans in excess of the repaying capacity of the borrowers; lack of proper verification of the genuineness of purposes for which loans are advanced; mis-utilisation of loans, financing defaulters; inadequate security etc. The overdues may also be high on account of lack of timely action and adequate efforts for recovery. Case by case analysis of overdue loan accounts particularly in respect of accounts in overdue for more than one year should be made and suitable actions for early recovery have to taken.

The detailed investigation of overdues suggested above will enable the banks to know the prospects of realisability of the overdue debts and, on that basis, make an estimate of its likely bad and doubtful debts. The banks should also examine the realisability of their other assets and thereafter prepare an estimate of total erosion in the value of their assets. A comparison of the estimated erosion in the value of assets with the corresponding reserves will enable the banks to find out the shortfall in reserves. The shortfall in reserve is indicative of the weakness of the bank and the more the shortfall the greater is the weakness. This shortfall should, therefore, be made up by strengthening the bad and doubtful debt reserve of the bank by making allocations out of distributable profits in
future years. If the erosion is on account of accumulated losses, the bank has to change the business mix and go in for quantum jump of business. The bank should not declare any dividend to its members till it becomes financially stronger.

Default may be either due to borrower's inability to repay or unwillingness to repay. It is necessary for the bank to initiate suitable action promptly to guard its interests by proceeding against the borrower as well as the security offered by him. The investigation of overdues will enable the bank to determine the course of action to be taken for the recovery of overdues. Generally, the period of default and the nature and extent of security available will be the guiding factors for determining the course of action. Whereas persuasive measures may yield the desired results in cases where overdues are comparatively recent and are fully secured, more positive steps, such as filing of arbitration cases, may be necessary in cases where the overdues have been continuing for more than 6 months and the loans are either unsecured or the security is inadequate. While investigating each overdue loan account, it would be desirable for the bank to make a period wise and security-wise classification of overdues and on that basis draw up a definite programme of action for recovery in respect of each overdue loan. Legal action may also have to be initiated for the recovery of amounts involved in misappropriations.
Many of the evils that weaken the financial soundness of banking institutions are due to its defective loaning policies and procedures. A thorough review of the loan policies and procedures will, therefore, be necessary with a view to streamlining them.

An analysis of overdue loan accounts would throw light on the defective features in the loan policies and procedures of the bank. There may be preponderance of loans for unproductive purposes such as for meeting consumption needs, repairs to houses, ceremonial expenses, etc. While grant of loans for consumption purposes and meeting the family needs, is one of the legitimate functions of a UCB, such advances do not generate any repaying capacity and, therefore, should have to be kept within reasonable limits.

It would be desirable for the bank to encourage loans for productive purposes such as trade and commerce, small scale industries, technical training, purchase of implements and other materials required by artisans, setting up of legal/medical practice, etc. which enhance the income earning capacity of the borrowers and thereby make the loans self-liquidating. It should be ensured that loans for unproductive purposes do not exceed 15 to 25 percent of the total loans and advances.

Loans may have been sanctioned without regard to the repaying capacity of the borrowers rendering the recovery of such loans difficult. It is necessary that the repaying capacity of the borrowers is worked out on a realistic
basis taking into account the total income, expenditure, existing indebtedness, etc. and the loans are restricted to be well within the repaying capacity.

Security also constitutes an important consideration for determining the realisability of loans. It would be desirable for the bank to diversify its lending risks by obtaining from the borrowers easily relisable securities such as government and other trustee securities, quoted shares, gold ornaments, merchandise, etc. and restrict its unsecured advances.

The UCBs should have to ensure that its loans and advances are not concentrated among a few borrowers, but are spread over a large number of members of different categories. For this purpose, a definite ceiling may be prescribed in the bylaws of the bank on the borrowings of a member against any/all types of security.

The banks should also have to ensure that in each case the type of loan sanctioned has relevance to the nature of accommodation required. For example, financial accommodation for meeting the working capital requirements of merchants, traders, artisans and industries should be sanctioned in the form of cash credit and not in the form of fixed loans and loans to members with fixed incomes and to salaried class should be made repayable in monthly installments.
The bylaws of a urban co-operative bank generally lay down broad lending policies such as the purposes for which loans can be advanced, maximum amounts that can be sanctioned against different types of securities, etc. Further details in this regard should be incorporated in the subsidiary rules framed for different types of loans and advances. The application forms prescribed for different types of loans and advances should provide for all essential details such as purpose of loan, period of loan, income and expenditure of the borrower, etc. so as to realistically assess the needs and the repaying capacity of the borrower.

It should be ensured that loans are sanctioned by the competent authority only after through scrutiny and verification of details given in the application and with reference to the past performance of the borrower. A defaulter should not be financed under any circumstances. The bank should also evolve arrangements for supervision over and verification of the hypothecated/pledged securities.

The State and Central Governments could recognize that the UCBs are not just co-operative societies but they are essentially banking entities whose management structure is based on co-operative principles. They should support, facilitate and empower the RBI to put in place mechanisms and systems that enable these UCBs to perform their banking functions.

The bank should have to ensure strict compliance with the statutory provisions regarding maintenance of cash reserve and liquid assets.
Deficits in cash reserve and liquid assets would be indicative of inefficient management of resources. At the same time, the bank should have to avoid heavy surpluses in cash reserve and liquid assets. In deciding the form in which liquid assets should be maintained, liquidity as well as profitability should be the governing factors. The bank should not keep unnecessarily heavy cash balances or balances in current accounts with the notified banks/central co-operative bank of the area which do not earn any income to the bank. The liquid assets can be kept in the form of investments in Government and trustee securities, fixed deposits with the concerned central co-operative bank, etc. which would earn income to the bank.

In order to take advantages of new opportunities created by liberalization and globalization, the UCBs should work towards improving their position. For this purpose, the UCBs have to formulate a strategy. The following would be the main elements in the strategic plan:-

- Introduction of professionalization in the management.
- Introduction of modern technology.
- A continuous process of human resource development.
- Toning up the customer service
- Review of the income and expenditure pattern.

The most remunerative investment to the bank is in loans and advances which carry interest higher than any other form of investment. At the same time care should be taken to ensure that is no overextended position of
loans and advances. Such a situation arises if the total investments of a bank in loans and advances exceed 75 percent of its owned funds (including the statutory reserve fund), 70 percent of its deposits and 100 percent of its borrowings. The proportion of loans granted for short term and medium-term purposes should also depend on the pattern of resources mobilized by the bank for the purpose. The yield on advances should be worked out and should be compared with industry average. It is very low vis a vis the industry, then it could be due to preponderance of loans with lower interest rates, high overdues and non-performing assets.

The efficient management of a bank depends on the competence of its staff. In a weak bank the staff morale would be at the lowest ebb. The management and the CEO should exhort them with a view to produce better results. Training plays an important role. It may be necessary to take up with the Federation to arrange suitable training programme for the staff and workshop for the management. The bank should specifically lay down the duties and the responsibilities of the various categories of the staff and ensure that the staff discharges them efficiently. The staff should be motivated to improve their performance.

A review committee may have to be constituted for the bank to periodically assess the progress in the implementation steps to be taken for improving the performance. The committee may consist of the Chairman and Secretary of the concerned primary co-operative bank and a representative each of the central co-operative bank of the area, Federation and the
Cooperation Department. The Review Committee should meet at least once in a quarter. The concerned Regional Office of the Reserve Bank of India will be providing necessary guidance in the implementation of the rehabilitation programme from time to time. The Committee is expected to fix realistic targets in respect of deposits, share capital, advances and recovery. An important requirement of the Committee is to take the moral responsibility in turning around.

The UCB restricts its area of operation only to the people of the towns, in Urban areas. The limited area of operation does not permit the bank to carry on its works on a very large scale. Hence, the area of operation may be extended according to the progress achieved by the bank and the strength and financial stability of the Institution.

It is suggested that the UCBs can be given freedom to fix its own area of operation. Such a wider area of operation will enable the bank to cater to the needs of a large number of salary earners, artisans, small businessmen and other weaker sections of the society.

This bank has to compete with the commercial banks and other financing institutions to attract customers. Hence, the productivity and efficiency of the bank depend upon the motivation of the staff. The employees of the bank must be given proper incentives and in addition must be given suitable training so that quality of the staff will move along with the current banking development.
7.4 CONCLUSION

The study revealed that urban co-operative banks in the study area have not performed well on all the parameters of operational and financial performance. One bank performed best on one parameter but worst on other which prove that the overall financial performance of the banks has not been quite well and all the banks have to make improvements on different fronts.

The future of urban co-operative banks is challenging because of the competition from public sector banks and private sector banks. Public sector banks and private sector banks are concentrating on vertical and horizontal integration and expansion. The growth of urban co-operative banks depends on transparency in control and operation, governance, customer-centric policies, technology upgradation and operational and financial performance.

Urban co-operative banking sector has come to occupy a formidable place in the Indian financial system. The Urban Co-operative Banks catering to the needs of the people of the weaker sections in the urban areas are a powerful means of financial empowerment and financial inclusion. Therefore, financial health of the urban co-operative banks is of paramount importance to Indian economy.
In spite of immense heterogeneity in assets, operation area, nature of operation; UCBs have immense potential to tackle externalities that inhibit a smooth credit flow at a local level. Therefore, the UCBs should learn from its past experience and adjust to new realities to improve their operational and financial performance.

7.5 SCOPE FOR FUTURE RESEARCH

It is recommended that similar future research could be conducted taking in all the states in India and with more sample sizes; also to differentiate between urban co-operative banks and commercial banks in terms of operational and financial performance with more sample banks. Further research is required to identify the influence of socio-economic factors of Borrowers in NPAs, Provisioning for NPAs in Co-operative Banks, Credit Risk Management in SCBs, NPAs in Sector-wise and Term - wise classification of SCBs. and Asset-Liability Management in Co-operative Banks.
