Chapter-6

Problems and Prospects of Urban Co-operative Banks in Rajasthan
CHAPTER-VI

PROBLEMS AND PROSPECTS OF URBAN COOPERATIVE BANK IN RAJASTHAN

In the direction of financial sector reforms the government constituted a committee headed by M. Narasimham that in its report recommended far reaching changes in the financial sector. The Government has accepted the recommendations. The committee identified the major factors responsible for poor productivity and efficiency and erosion of profits of the banking sector as (a) directed investment and (b) directed credit programmes, which had cascading effect on the total functioning of the banks. The fallout of these have been massive branch expansion programmes of public sector banks, a large number of which have been non-remunerative, over staffing, and no updating of technologies, increased political and trade union interference eroding the internal managerial strengths, high degree of centralisation of decision making, and rampant indiscipline and poor customer service. Among the major issues on which the committee gave its recommendations were Cash Reserve Ratio, SLR, Investments, Administered Interest Rates, Capital Adequacy Ratio as per Basle norms, non-performing assets, transparency in balance sheets, abolition of branch licensing, permission for entry of private and foreign banks, formation of recovery tribunals, permission of banks to increase capital by public issue and full functional autonomy to banks.
including public sector banks in respect of administrative matters like wage structure, recruitment, premises, etc.

It is but natural that with the acceptance and implementation of a large number of the above mentioned recommendations, the banking sector in India has undergone fundamental changes. Efficiency and profitability have now become the most important parameters. Within the last three years, all the banks, in the commercial and cooperative sectors have cleaned their balance sheet and adopted the N.P.A. norms. They have become aware of the quality of assets, whether it is advances portfolio or the investments, and R.B.I. has freed the banks from administered interest rate structure, both with respect to deposits and advances. A number of large-sized banks have undertaken restructuring exercises with the help of best management consultants to gear up for the competitions ahead. Computerisation of operations is being taken up at a rapid pace.

The R.B.I. permitted new private sector banks to commence operations. All these banks have initially confined themselves to corporate/whole banking and providing excellent customer service to selected individual customers. All these banks have fully computerised operations. The RBI has also been liberal in giving license to foreign banks to open their branches in India. These banks are concentrating on urban, high value clientele, and also large-scale consumer finance.
The public sector banks are in the process of regrouping themselves and making structural adjustments to suit the changed financial environment. Their vast network of branches and large work force is a source of their strength and at the same time it is a liability - if not harnessed properly. Exercise regarding closing down of loss making branches, merging of two or more, opening of specialised branches, redeployment of staff to increase employee's productivity, identification of thrust branches etc. are some of the steps being taken up by the public sector banks.

In this scenario, it is pertinent for the cooperative banking sector to position themselves to their best advantage. These state cooperative banks and the District Central Co-operative Banks, D.C.C.Bs, which are saddled with NPAs are being given one time support by the NABARD similar to the support given by the Central Government to the public sector banks and the Regional Rural Banks, R.R.Bs. Since, there may not be another bailing out exercise by NABARD, it is for the State Co-operative Banks, S.C.Bs and D.C.C.Bs to put their house in order and face the challenges of liberalisation with new determination.²

As far as urban co-operative banks are concerned, they are in the same league as the private commercial banks in as much that no Government support is available to them to clean their balance sheets. They have to essentially fight their own battle.
The cooperative banking sector has been feeling neglected and rightly so, by the Narasimham Committee, as there is no mention whatsoever of the sector in its report. As the terms of reference of the committee included "to examine the existing structure of financial system and its various components and to make recommendations for improving the efficiency and effectiveness of the system. It could not be possibly construed that the co-operative banking sector was beyond its scope of study since it also forms a part of the financial system". However, notwithstanding the absence of reference to co-operative banks, the recommendations of the committee affect them as much as they do the commercial banks.

Historically, urban co-operative banks have been receiving a raw deal by way of unnecessary and stifling controls from the registrar of co-operative societies, an institution that has very little expertise in the banking field. The situation is compounded by the fact that there is no participation in the funding of the banks from the Government. The regressive provisions in the state cooperative acts have been the root cause for the slow growth of urban co-operative banks all over the country. If the urban co-operative banks have flourished in Maharashtra, Gujarat, and Karnataka it is mainly because of the dedication of the promoter members and also to some extent the positive attitude of the state governments. In all these states and also in the state of Tamil Nadu, Andhra Pradesh, and Kerala, the urban co-operative banks are
assuming position of great significance with the introduction of financial sectors reforms.

Some of the fundamental problems faced by the urban co-operative banks in general and the problems faced by urban co-operative banks in Rajasthan in particular are discussed in this chapter. These problems can be classified as the problems to be considered by the RBI, Central Government/State Co-operative Banks and by the Management of Urban Banks.

PROBLEMS TO BE CONSIDERED BY THE RBI

1. Restriction on Opening New Banks and Branches

RBI imposes many restrictions on the opening of new banks and the branches. The banks are not allowed to open their offices even though they fulfil all the conditions laid down by the RBI. Recently, the required population of the urban centre and the required share capital for the registration have been increased. Therefore, such conditions are being fulfilled only in big cities and hence the semi-urban towns cannot open the new banks. Whenever the urban banks approach for licence for opening new branches they have to satisfy two authorities, namely, RBI and the registrar of co-operative societies in the state. They do not coordinate and work in union with the result that the urban banks find it extremely difficult to get licenses.
2. Dual Control

Urban co-operative banks are registered under the State Co-operative Societies Act. Their functions and powers are detailed in their byelaws, rules and also legislative enactments. They function on the lines of democratic management with a board of directors elected by the general body, which is the supreme authority.

The urban banks were under the control of the state government, but in March 1966 certain provisions of the Banking Regulation Act of 1949 were extended to them. Accordingly, the urban banks came under the purview of the RBI. Since then the urban banks have been subject to discipline of the Registrar of Co-operative Societies having control in the matters of registration, amalgamation, winding up, byelaws, management, audit etc. The RBI has control over the banking operations. The situation has arisen because of the provisions in the Indian constitution under which the Central Government has powers to legislate only on the banking matters of co-operative banks and other matters come within the purview of the state government. The dual control has often resulted in over lapping and sometimes proves contradictory to each other. It may be mentioned that although there is dual control, the RBI and the co-operative department should consult each other on important matters of policy to avoid conflicts.
3. Problems in Priority-Sector Advances

The RBI stipulates that 60 percent of the credit of urban co-operative banks must flow to priority sectors out of which 25 percent should be for the weaker sections. The urban co-operative banks do not deny their social obligations but the facts remain that for want of sufficient number of eligible borrowers to fulfil the target of weaker section advances, these banks find it difficult to adhere to these stipulations.

Urban co-operative banks are urban-based and in towns and metropolitan cities it is hard to fulfil the criteria of eligibility stipulated for the weaker section advances and other priority sector advances. As a solution, the urban banks have been consistently pleading for reducing the percentage to 40 at par with the commercial banks. The urban co-operative banks are insisting on a realistic allocation for priority sector advances, i.e., 50 percent in the semi-urban areas and 45 percent in urban areas and 40 percent in metropolitan areas. The urban banks are hesitating to finance for small-scale industries, which come under the priority sector due to the sickness of small industries and low rate of profit. It is found that a large number of the new small scale units in the industrial estate of Rajasthan Industrial Corporation were either in loss or in low profit.
4. Rehabilitation of Weak Urban Banks

The democracy among urban banks is mainly found in the state where co-operative movement is under developed. The banks, which are having high over dues and are not self reliant in their resources, or mismanaged are heading towards dormancy and such banks need rehabilitation. According to the RBI norms, the urban co-operative banks whose owned funds have eroded by more than 25 percent of their bad and doubtful debts, and accumulated losses or whose over dues exceeded 50 percent of the demand loans outstanding are identified as weak and brought under the programme of rehabilitation. The state government helps such banks to become viable within three to five years. The banks, which cannot be rehabilitated can be merged or liquidated with the nearest urban bank. Some of the state co-operative banks have not helped the weak banks to become viable and hence many banks have merged due to absence of effective co-ordination between the urban banks and the apex banks, the implementation of rehabilitation is very slow.

5. Limitations on Refinance Facilities

The refinance facilities to urban co-operative banks are available both from the RBI and the Small Industrial Development Banks of India, SIDBI. The RBI gives the refinance facilities to specified industries under its Act No 17(2) bb section 4(c). Under this scheme RBI meets the requirements of working capital of small industries. The
loan is sanctioned through the state co-operative banks to finance the applicant bank. The SIDBI also refines to small-scale industries to meet their term loan requirements. Under this facility, the borrower gets the loan at concessional rates of interest. But this facility is not available to the urban banks whose funds are in surplus. Therefore, the borrowers of such banks are deprived of the concessional rates of interest. It is found that few banks avail themselves of these facilities though the concerned bank fulfils the conditions of refinance facilities.

6. Limitations on the Duration of Deposit

The RBI has recently ordered all type of banks that they should not accept the deposits for a period of more than 10 years. As a result, there are limitations on the deposits. It is also ordered by the RBI to provide finance for small-scale industries and for housing schemes. The loan requirement for these purposes has to be invested for a period of 10 to 15 years. This restriction is quite contradictory, as the short-term deposits cannot be invested in long-term loans. Hence, this restriction of duration has remained as obstacle in the progress of the UCBs.

PROBLEM TO BE CONSIDERED BY THE CENTRAL GOVERNMENT

1. Problem of Controversy on Open Membership

There seems to be controversy over the principle of open membership in respect of urban banks. Some banks
have already become too large in respect of membership and they feel that any further addition of members would make them unmanageable. The study group discussed this problem on credit co-operatives in agricultural sector and the study groups made the following recommendations: "Generally membership of urban banks should be and residing in the area of operation". But this provision has also caused a problem to many banks as the area of operation of some of these banks is wide and hence a person willing to be member cannot be admitted as a member.

Allowing such new persons to be the nominal members can solve this problem, and they may be provided credit facilities except the voting power.

2. Problem of Housing Finance

Members of urban co-operative banks largely depend on the banks' finances for acquiring their own houses. The urban banks have been doing a lot for housing finance in cities and semi-urban places.

Many of the urban banks except a few, did not have adequate resources for providing long-term loans for housing. The long-term resources for lending were also meagre. Another principal problem is that the banks did not have the experts in this respect. If the normal housing bank implements its refinance facilities through the urban co-operative banks, then only the loans for housing through the urban co-operative banks will be sufficient and effective.
3. **Heavy Stamp Duty**

Instruments to be executed by the urban co-operative banks in favour of their members where the amount or value specified in the instrument is more than Rs. 10,000, the stamp duty is to be paid. But since 1985 the rates of stamp Duty (Rs. 20 per Rs. 10000) on loan documents have been increased. The borrower has to pay the stamp duty and the registration fees at the time of loan disbursement, which results into a burden on the borrower, particularly on those who come from lower and middle class society. Such fees are exempted to commercial banks. Therefore, these fees should be exempted to urban co-operative banks.

4. **Burden of Provisions of Shops and Establishment Act**

Almost all the State Governments had made the provisions of Shop and Establishment Act applicable to the co-operative banking institutions. But the commercial and nationalised banks are excluded from the purview of the provisions of the above Act. The above discrimination should be put to an end and urban co-operative banks should be exempted from this Act.

5. **Burden of Election Expenses**

Conducting elections of representatives to the boards is an expensive exercise in the urban co-operative banks. Generally, the elections for the urban co-operative banks are conducted under the supervision of the District Collector. This increases the cost of election. Added to this, in certain
urban banks, tendencies of groupism in elections are causing damage to the spirit of objectives of co-operation.

There are several court cases, which increase financial burden to the banks. The elections in these banks have to be examined critically to find solutions so as to economise the election expenses.

PROBLEMS TO BE CONSIDERED BY THE STATE GOVERNMENT AND STATE CO-OPERATIVE BANKS

1. Regional Imbalance

One of the major problems of urban co-operative banks is the low coverage of population; the state-wise number of banks during 1999 was the highest (31.79) in Maharashtra, in Gujarat 17.6 percent, in Karnataka 15.44 percent, in Andhra Pradesh 7.08 percent, in Tamil Nadu 7.02, and in Rajasthan 2.07 percent.

As on 30 June 2001 out of the total towns and cities of 218 (as per 2001 census) only 25.23 percent of the towns were covered in the state of Rajasthan by the urban co-operative banks. However, this percentage was the highest in Maharashtra, Gujarat, Kerala, and Tamil Nadu respectively and it was the lowest in the U.P., M.P., and Rajasthan.

The state government should take effective steps to organise urban co-operative banks in the places where they have not organised. The Reserve Bank of India also gives necessary assistance to form the new banks in such areas.
2. Irregular Statutory Audit

Timely statutory audit in urban co-operative banks is very crucial for their efficient management. But it was found that about 50 percent of the banks statutory audit was not completed in time, as a result of which the banks were failing in complying with the statutory requirements in submission of audited balance sheet and profit and loss accounts to RBI, this is, no doubt, a very serious lapse. The experience in this respect requires to be reviewed and the present audit arrangements modified. The system of statutory audit in commercial banks should be studied and adopted by the urban co-operative banks also. This will help to improve the operational efficiency. The panel of qualified auditors, for all the states should be prepared on the lines of those prepared for commercial banks.

3. Absence of State Urban Co-operative Banks

Presently the cheques and bills of urban co-operative banks are cleared through the State Co-operative Banks, which causes delay. Therefore, the urban banks cannot make the payments of their customers in time. Hence, there is a need for a separate State Urban Co-operative Bank. It is pertinent to mention here that the Madhav Das Committee had also considered the question of organisation of separate apex bank for the urban co-operative banks.
OTHER PROBLEMS

1. Problems of Multiple Borrowing

One of the major problems faced by the urban co-operative banks is multiple borrowing. Since a number of co-operatives have a vested interest in continuing to be a member of more than one bank, may not always be for borrowing from them, but for some other considerations principally speaking, no person should be a member of more than one co-operative society having identical objectives. Multiple membership gives room for doubting his intention. In such circumstances a member can borrow from more than one bank. This would naturally result in his inability to repay the dues in time. There are a number of such examples where people borrow from more than one bank simultaneously without disclosing this fact to other banks. This happens in towns and cities where there are number of banks. There are banks whose membership is so large that it is difficult for the banks to find out the information about the borrowers. This happens because of the human nature of some of the individuals. They go on borrowing without earning for one's repaying capacity or lack of planning of their own economic activities. A remedy on this situation is a co-operation among the various co-operative banks to make the information of borrowers available to one another through a suitable institutional arrangement and media. The association of urban co-operative banks can help the bank in this connection.
2. Other Problems

There are several other problems also faced by the urban banks (except the scheduled urban banks). These banks are not allowed to accept the cheques, drafts and payslips of the government and semi-government bodies. The urban banks are neither allowed to collect the deposits from the trusts nor can they collect insurance premium on behalf of the Life Insurance Corporation of India. Likewise, the state electricity board has also not permitted the urban banks to collect the electricity bills. All these problems need to be considered by the RBI and the State Governments.

PROBLEMS OF UCBS IN RAJASTHAN

The following were the specific problems faced by the UCBS in Rajasthan. These problems can be broadly classified as structural, organisational (managerial), financial, physical, and others.

STRUCTURAL PROBLEMS

1. Limitations on Branch Expansion

Out of 41 banks, 19 banks have branches while 22 of them have no branches. A large number of banks, which have no branches, have applied to the RBI for permission to open new branches in the area of their operation. Generally, the RBI gives permission to open the branches to the banks, if they fulfil the conditions of population, priority sector advances, and satisfactory recovery and having 'A' audit class. But RBI has neglected this demand even though some
UCBs of Rajasthan fulfil the criteria; hence the branch expansion programme of these banks was prolonged.

2. Lack of Proper Borrowers

The UCBs of Rajasthan have tried to provide maximum services to their members. However, in the case of few banks, it was found that there was a lack of proper borrowers. The RBI has laid down the conditions that loans provided must be productive and self-employment oriented. The banks whose membership is spread over the rural areas, it was difficult to find out the borrowers for productive investment purpose.

MANAGERIAL PROBLEMS

1. Competition from Nationalised and other Government Saving Schemes

The commercial banks have been comparatively in a dominating position due to their long-standing, low rate of interest, long term credit, larger amount of loan to single party, etc. again, the commercial banks have no restrictions on the area of operations.

Furthermore, they have adequate staff, skilled personnel, and provision for all types of banking facilities and wide publicity to attract the clients. Due to this UCBs have reduced to the subsidiary position in the field of credit. Also the government saving schemes, viz., Indira Vikas Patra, Kisan Vikas Patra, National Savings Certificate, UTI, Mutual Fund Scheme of nationalised banks etc. were
competing the UCBs. Most of the UCBs, especially Ajmer UCB Ltd. Ajmer have faced this problem due to a number of nationalised and private banks in Ajmer city.

2. **Problem of Staff Turnover**

One of the internal problems faced by the UCBs of Rajasthan was the problem of staff turnover. It was due to the following reasons:

i) Better prospects in the other organisations

ii) Low salary scales

iii) Lack of job security

In the case of maximum UCBs the staff turnover was due to better prospects, low salary scales and lack of job security in the urban co-operative banks in Rajasthan.

3. **Lack of Trained Personnel**

By and large manpower planning is being neglected in all the UCBs in Rajasthan; there was no plan indicating the manpower requirements, made in advance and no systematic training and development programmes formulated for their staff. Due to the financial burden and lack of interest shown by the management, the percentage of trained personnel in UCBs of the state was very poor. The bank should recognise that human research is the most productive and versatile resources.
4. Lack of Managerial Staff

Due to the limited earnings and low salary there was lack of well-experienced managerial staff. Many UCBs could not obtain competent staff due to the above reasons. The experts were not available in the banks to study the borrowers financial position and help in their project reports.

5. Complicated Loan Procedure

The UCBs undertake two guarantors who are compelled to remain present at the execution of loan bond. Due to this condition the guarantors are not ready to stand as surety.

FINANCIAL PROBLEMS

1. Problem of Over Dues

The UCBs in Rajasthan, especially the Lok Vikas UCB Ltd. has been facing the problem of overdue since the last few years, as a result of which the bank has been declared as a weak bank and later it had gone in to liquidation. In the initial period the bank was not having a permanent manager as well as recovery officers.

2. Lack of Sufficient Loan Amount

There was a gap between the credit demands and the credit sanctioned by the banks. It was observed in the survey that on an average 20 percent of the borrowers were getting insufficient loan amount from their banks. Because of this situation, the members used to avail themselves of loans
from other sources such as moneylenders and private agencies.

PHYSICAL AND OTHER PROBLEM

1. Lack of Adequate Office Premises

   Every urban bank should be suitably located, keeping in view the demands of banking business. The Varde Committee has given stress on the location of the bank. A good building with modern arrangement for business activities, e.g., well ventilated banking hall, safe deposit vault, etc., will go a long way to enhance the prestige of the institution and promote confidence in its depositors.

   Out of the 41, only 13 banks were having their own building, while the remaining 28 UCBs were functioning in rented premises, which were not suitable for the working of the banks. The adequate building and the location also affect the working of the banks.

2. Lack of Value Addition and Technology Absorption

   The UCBs have paid very limited attention to value addition through technological means. The level of computerisation in UCBs is around 31 percent in India. This is why, on account of lack of technology, modernisation and upgradation, urban co-operative banks have not been in a position to take advantage of competitive market.
3. Weak Information & Planning Mechanism within the Urban Co-operative Banks

There is a lack of planning, monitoring and evaluation mechanism within the UCBs. There is an absence of institutional planning at unit level. Similarly, the data and information base of the UCBs is poor. This creates difficulties in the proper visualisation of development needs.

OTHER PROBLEMS

The governance of the UCBs of Rajasthan is influenced and constrained by the vested interest of its board members who influenced the decision of loans and advances distribution and investment decisions. There is an excessive interference of the state Government in the day-to-day functioning of the banks. This also jeopardise the banking services of the UCBs.

PROSPECTS

In spite of the above difficulties, the urban cooperative banks have certain strength that the public and private sector commercial banks lack. They are small-sized banks many of them have one or two branches. They have a thorough knowledge of their area of operation as well as of members whom they sanction loans. Their overheads and cost of operations are much less than that of the commercial banks. On account of local feel their quality of lending and consequently recovery percentage is much better. With these strengths, if the small urban co-operative banks can address
themselves to the task of removing their weaknesses and position themselves to take maximum advantage of the opportunities that are being presented before them, there is no reason why they cannot ward off all the threats that they may face and have an impressive growth.

REFERENCES


2. Ibid.
