Chapter-1

Introduction
CHAPTER - I

INTRODUCTION

In the banking sector of Indian economy, the urban co-operative banks comprising of primary (urban) co-operative banks and non-agricultural co-operative societies include thrift and credit societies. These co-operative institutions primarily cater to the banking needs and credit requirements of the lower and middle income class people comprising of small entrepreneurs, artisans, small traders/businessmen, factory workers, salaried class as well as other self employed persons etc., in urban, semi-urban and rural areas. The main objective of these banks, both quantitatively and qualitatively is to promote the thrift and self-help among the members and at the same time in respect of urban banks, pursue the collection of deposits from the public to augment resources for the continuous supply of credit to their members. More importantly, these urban co-operative banks have confidence of the local people and have an intense local feel, enjoy greater confidence of local people and provide an effective instrument of economic development of the people particularly those riddled with limited means and economically as well as socially weaker sections of the community. Managerially, the urban co-operative banks are not only self-managed, but also self-reliant and shining in extending personalised services to their clients. Additionally, these urban co-operative banks are eminently suitable for filling up the existing credit
inadequacies in urban and semi-urban areas at comparatively lower cost of operations.¹

In India urban co-operative banks occupy strategic position and they have played a vital role not only in meeting the consumption requirements of men of low income group but also in increasing the industrial production and in strengthening the base of infra-structural facilities in urban and semi-urban areas by providing the basic key input viz. credit, in our country, despite the fact that no special provision was made for their development in our five-year plan. In other words, much attention has been paid to the promotion of Primary Agricultural Co-operatives, PACs, industrial co-operatives and other types of co-operative societies like dairy, fisheries etc, and our planners sidetrack the urban banking sector. Such a state of affair is far from being considered as satisfactory.

The urban co-operative banks are basically the institutions of persons of low-income group or the downtrodden, by the persons of low-income group, and for the persons of low-income group. Above 75% of borrowers had borrowed amount up to Rs. 1001 to Rs. 5,000 accounted for 20% of the total borrowers. One of the salient features of the urban banking system is that they are more or less self-reliant. In contrast to central banks, the urban banks depend on their own funds and deposits. The reliance on outside borrowing is very low. Secondly, the urban banks are truly democratic in character. To ensure adequate representation to the members of branches on the board of bank, by and large there is a
provision in the by-laws of banks for representation on the boards of directors to members of branches outside the head office town. Thirdly, commercial banks advance and loan against personal surety on a selective basis, whereas personal loans against surety form the major portion of urban bank’s advances.2

PRESENT SCENARIO AND FUTURE PROSPECTS

Urban cooperative banks were set up with the avowed objective of promoting sustainable banking practices amongst a relatively specific target clientele viz. the middle-income strata of the urban population. They were brought under the regulatory ambit of the Reserve Bank of India, RBI, by extending certain provisions of the banking regulation Act 1949 effective from March 1, 1966.

It might be useful to briefly recount the basic structure of the co-operative banking sector and locate Urban Cooperative Bank, UCB, as a group within that framework. The co-operative banking sector may be viewed as consisting of rural co-operative banks and primary (urban) co-operative banks which are catering to the banking requirements of the lower and middle income group in urban and semi-urban areas.

The urban banking sector has been able to maintain the buoyancy in the growth of deposits and advances during the year 2000-2001. Over a century old urban co-operative credit movement has today a network of 2084 UCBs with 7368 branch outlets spread over the country, their total deposits aggregated to Rs. 71703 crore and
outstanding loans accounted for Rs. 45,857 crore as at the end of June 2000 with working capital of Rs. 91,458 crore. Their priority sector deployment is around 63% and operation efficiency was 84 percent. The Non-Performing Asset, NPA, levels were at 11 percent of their aggregate advances and these were 242 weak banks also. The level of computerization is around 31 percent. UCBs have deposits equivalent to 9 percent of total deposits of commercial banks and extend deposits of commercial banks and extend around 8 percent of the loans and advances of commercial banks. The available data on deposits of old private sector banks shows their deposits at Rs. 66988 crore, new private sector banks have deposits of Rs. 46,681 crore and foreign banks were having deposits of Rs. 49,000 crore. Similarly the loans outstanding with old private sector banks were Rs. 33,588 crore, for new private sector banks these loans were Rs. 22,156 crore and for foreign banks these loans were Rs 35617 crore. From the above figures it is seen that UCBs are as important constituent of banking system, as are the old & new private sector banks or even the foreign banks.

With the above facts and figures the urban co-operative banking sector has come to occupy an important place in the Indian financial system. However, sustenance of its growth is dependent on professionalism of its management inculcating good corporate governance, technology upgradation and strict adherence to regulatory
framework so as to enable UCBs to adjust to new realities of risk banking business.\(^3\)

**Scheduled Urban Cooperative Banks**

Numerically, the 51 scheduled UCBs though constitute negligible portion of total 2084 UCBs (2.5 percent), yet they have around 40 percent (28,128 crore) of total deposits of Rs. 71703 crore of all UCBs and extend around 38 percent (Rs. 17286 crore) of total loans and advances (Rs. 45,995 crore) of all the UCBs of the country as per the figures available as at end of March, 2000. Their owned funds are to the tune of Rs. 9668 crore. This speaks volumes about their operational performance in the urban co-operative banking sector.

A glance at the composition of assets and liabilities of scheduled UCBs as at the end of March 2000 reveals a very little change. Over previous year the deposits at 76.8 percent of the total liabilities of the scheduled UCBs as at end of March 2000 were marginally lower than 77.1 percent as were at the end of March 1999. The capital and reserve constituted 8.4 percent of the liabilities and were marginally lower than that of 8.6 percent for March 1999. Borrowings showed a sharp rise of Rs. 299.73 crore during 1999-2000 and amounted to Rs. 673.93 crore as at the end of March 2000.

An analysis of the asset portfolio of scheduled UCBs indicated that loans and advances, which constituted 47.1 percent of the total assets, were higher than 46.5 percent
recorded at the end of the previous year. Similarly, the share of investment at 26.3 percent as at the end of March 2000 was also higher than 25.9 percent recorded in the preceding year. The growth rate of loans and advances at 25.4 percent during the year was higher than that of 21.4 percent in 1998-99. The total assets of scheduled UCBs grew at a rate of 23.9 percent over the year.

The total income of the schedule UCBs increased by 27.4 percent to Rs. 4163 crore during 1999-2000 as compared with that of 23.7 percent recorded in the previous year. The performance of the co-operative banking sector on the whole has attracted considerable attention in recent years especially in the context of ongoing phase of the financial sector reforms compared to their rural counterparts, the Primary Co-operative Banks, PCBs, which operate in the urban areas, have posted better performance. Not surprisingly however, there is significant heterogeneity in the performance of PCBs which number more than 2000 at present while a large number of these banks have shown creditable performance, a fair number of them on the other hand, have shown discernible signs of weakness.

The failure of Madhavpura Mercantile Co-operative Bank, Ahmedabad and Krushi Urban Co-operative Bank, Hyderabad, toward the end of the year, were the incident which, in particular has not only damaged urban co-operative active banking movement in Gujarat and Andhra Pradesh but
has also affected the other states and economy as well to a certain extent.

Non-schedule urban co-operative banks have also suffered from several constraints. The problems faced by these UCBs are summarised below.

* At present, there are restrictions on local bodies, quasi Government Institutions and trusts in many states against keeping deposits with urban banks. Such restrictions have placed the urban banks in a disadvantageous position in mobilization of deposits vis-a-vis Scheduled commercial banks.

* As compared to commercial banks the Guarantees issued by the urban banks on behalf of their constituents are not accepted by the central and State Governments. Even fixed deposits kept with urban banks are not recognised by the Central and State Governments, towards the earnest money or security deposits payable by the government contractors. This has placed urban banks in a disadvantageous position in deploying a large chunk of credit to Small Scale Industry, SSI.

* The urban banks are still kept out of the purview of bank Guarantee Scheme applicable to schedule commercial banks and schedule state co-operative banks.

* At present, neither urban banks are recognised, unlike the scheduled commercial banks, for collection of Life Insurance Corporation, LIC, premium nor are they included in the list of approved banks for payment of excise by cheques
wherever cheque facility is extended to the assessee for the payment of central excise duty.

* Similarly, facilities of collection of pension bills and sales-tax bills—enjoyed—by—schedule—commercial—banks—are—denied to the urban co-operative banks.

* Since urban banks are not eligible for the free remittance facility, the urban banks fail to develop their business of bill collection and issue of drafts at the commercial centre and thereby find it difficult to attract big depositors and customers. Urban banks are also not eligible for the free remittance facilities under the SBI Remittance Facilities Scheme.

* Even when urban banks are financing agriculture or allied agricultural activities, like dairy, poultry, and fishery; still they are not eligible for refinance from the National Bank for Agriculture and Rural Development, NABARD.

* Urban banks are not recognised as eligible for availing of the facilities, refinance and bills’ rediscounting scheme of Industrial Development Bank of India, IDBI5.

Basically, the UCBs were established with the mission that they would improve the standard of living of poor masses and provide welfare to them. Their objective and functions were also framed as per requirement. The co-operative banking movement has grown in the last 112 years in the following three stages:
The first stage, which is the establishment stage, started from 1889 to 1980 in which most of the urban existed in urban cities of the country.

The second stage, which is the developing stage, started from 1980. During this period, urban cooperative banks developed their banking business. Many new branches were opened and their deposits and advances were also increased rapidly.

The third stage which happens to be a competitive stage, started just after the introduction of a new economic policy in 1991. The urban banks had faced stiff competition from the nationalised banks, foreign banks, private banks, private financing agencies, government financing agencies and moneylenders' platform where urban banks were operating their business.

In the case of urban co-operative banks, the financial sector reforms have thrown up a lot of challenges besides giving them excellent opportunities for growth. Accent on transparency, both in accounting and in operations, capital adequacy and provisioning norms, freeing of interest rates etc. have forced all the public sector banks to shift their priorities and lay more emphasis on profitability, efficiency, customer service, organisational restructuring, employee productivity, etc.6

The second phase financial sector reforms have brought about vast changes in the structure and operation of the Indian financial sector. However, the reform measures are yet to fully
impact 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 the past
losses. Unless the inherent weaknesses are adequately
addressed, funds infusion alone may not solve the problem at
all. In this respect, the areas that need careful examination
include (1) the pattern of resources of co-operatives (owned
funds, deposits, borrowings), (2) the deployment of resources,
(3) the management and supervision, (4) the role of co-
operative banks in the financial system, and (5) the regulatory
framework for cooperatives.

The essential spirit of the regulatory and reform
measures adopted for the commercial banks need to be
extended to the co-operatives as well with the necessary
adaptations to suit the circumstances in which co-operative
banks operate. This would imply that the (1) strengthening of
the regulatory and supervisory framework, (2) enhancing the
capital adequacy standards, (3) introducing the stringent
licensing norms for the new entrants into the sector, (4)
enabling the legal amendments, and finally (5) the corporate
governance measures need to be given a very close attention.

As a starting point it would be useful to look at the
Narsimham Committee recommendations. The Committee
suggested that the 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 the UCBs should also be brought within the ambit of the Board of Financial Supervision. In response to these recommendations of the committee, the Reserve Bank had set up a High Powered Committee on the urban co-operative banks under the chairmanship of Shri K. Madhava Rao, the former Chief Secretary to the Government of Andhra Pradesh, to review the performance of UCBs and suggest measures to strengthen them. Some important issues related to UCBs are as follows.

**LICENSING POLICY**

In the new liberalised regime, the licensing policy for the new UCBs is expected to be not only transparent, but also precise and that objective based on the established standards and procedures. Moreover, the procedures governing these licensing norms have to be simple and minimal. Furthermore, in the market driven system, as the role of the regulator moves away from the micro management of individual entities towards the macro or prudential management, it is desirable that appropriate entry point norms be laid down by the regulator to serve as an effective screening device and the subsequent potential and viability of a bank be left to the promoters judgement. In connection with the above the Madhava Rao Committee enunciated a two-fold licensing criteria, depending on the capital base of the bank. This would need to be examined for developing a viable structure of cooperative banks.
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, which run on commercial lines, the responsibility for their supervision devolves on the Reserve Bank. Therefore, while the 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, and the Banking Regulation Act.

CORPORATE GOVERNANCE

Good corporate governance is essential for the effective functioning of any financial entity. It is all the more important in the current liberalised environment when UCBs are expected to function as commercial entities in the face of increasing competition. 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
defaulter to any financial institutions or banks and should not be associated with chit funds/ Non-Banking Financial Companies, 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 of 8 percent Capital to Risk-weighted Asset Ratio, 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 contains the number of shares that an individual can hold. In view of the above, it is suggested that the scheduled UCBs be brought under the ambit of the CRAR discipline in a phased manner with an immediate target of 8 percent by March 31, 2001 and 9 percent by March 31, 2002 and thereafter, the same as those for the commercial banks; the norms for non-
scheduled Co-operative Banks in this regard being slightly less stringent than the former.

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 provides for speedy resolution of disputes is 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. Andhyarujina, 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 sectors 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 the statutory powers directly to banks (and financial institutions) for the possession and sale of securities backing a loan, and enabling framework for the securitisation of receivables and strengthening the recovery mechanism. While these recommendations will need to be scrutinised to glean their implications for the UCBs at the micro-level, certain related issues deserve attention. As mentioned earlier the removal of duality of controls over the UCBs necessitates the amendment of the various Acts in the Central and State statutes including the Banking Regulation Act, BRA.
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) need NPA ratio not exceeding 10 per cent, (c) have made profits continually for the last three years, and (d) have complied with the RBI regulatory directions.

Incidence of sickness of UCBs has become a source of serious concern for the regulators. It has been felt that an inadequate entry point capital, lack of professionalism, absence of compliance with prudential norms and the absence of timely identification of sickness have been the major contributory factors behind persistent weaknesses of certain UCBs. As a need to flash early warning signals of incipient weakness, the Madhava Rao Committee enunciated certain criteria relating to CRAR, NPA, and history of losses for the identification of sick and weak banks separately. Post identification, these banks may be placed under moratorium under the provisions of section 45 of the BR Act and reconstruction/ rehabilitation carried out. At the extreme case of reconstruction being impossible, the banks' license to carry on business may be withdrawn. These remedial measures are being examined and their implications for the policy
formulation carefully studied before arriving at definitive conclusions.

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 exercising adequate supervision over them. Unfortunately, there is often a serious delay in the submission of these returns by the 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.'

With the new liberal economic policy of central government and reserve bank of India, the urban co-operative banks have entered into a competitive set up. They have already lost many privileges and concessions that they enjoyed in the past. Hence, in future they have to complete on their own strength. Their future depends upon their capability to provide better services in terms of variety, quality, and cost.

However, urban co-operative banks enjoy certain peculiar organisational advantages. They are democratic organisations. They are user-managed and user-controlled organisations. Besides, they are localised institutions having close contact with the people in the area. Hence with the committed leadership professional management and adoption
of new technology, these members’ driven organisations have a very bright future.

**OBJECTIVES OF THE STUDY**

The present study has been undertaken to examine and evaluate the marketing of urban co-operative banks’ deposits in Rajasthan. Precisely the study aims at the following objectives:

1. To assess the progress of UCBs.
2. To analysis the various services provided by the urban co-operative banks.
3. To study the marketing strategy of urban co-operative banks.
4. To examine the progress of Deposit mobilisation of UCBs in Rajasthan.
5. To study the role of urban co-operative banks in mobilising deposits in the State of Rajasthan.
6. To study the problems and prospects of UCBs in the State.
7. To suggest and recommend measures to increase the deposit mobilisation of urban cooperative banks in Rajasthan.
NEED FOR RESEARCH

Bank services play a great role in attracting the customers to that particular bank. The services provided by the banks are very-much important to a common man. With the changing time the bank services play a crucial role in the economic development of the country. A banker is supposed to sale its services very rapidly. The concept of marketing of bank services has been developed recently.

It is in this background that the proposed study has taken up to enable us to examine and evaluate the Marketing of Urban Co-operative banks' Deposits in Rajasthan.

It would help us to know (1) the gaps and deficiencies in the working of banks, (2) various strategies followed by the banks in regards to the deposit mobilisation, (3) the progress achieved so far, (4) the areas in which Rajasthan lacks as compared to the other states in mobilising and channelising deposits, and (5) the possible line of action for attracting deposits.

HYPOTHESIS

Keeping in view the objectives of the study the following hypothesis has been developed for the verification and confirmation:

a) In spite of the fast development of urban co-operative banking system in the country, the progress of urban co-operative banking facilities has not been adequate and uniform in the state.
b) The role of the urban co-operative banks in attracting the deposits has been insignificant as compared to other developed states.

c) In spite of the fast progress of deposit mobilisation of urban co-operative banks in India, the progress of urban co-operative banks in deposit mobilisation was not adequate in Rajasthan.

METHODOLOGY ADOPTED

Study of methodology includes primary and secondary sources. The primary informations are gathered through the personal visits and questionnaire and discussion with banks' authorities from time to time in order to understand the business operation and philosophy of the banks. Material for the present study was collected from the published as well as unpublished records of the UCBs, National Federation of Urban Co-operative Banks and Credit Societies Ltd., NAFCUB, RBI, Central Government, Apex State Co-operative Bank, Jaipur, Directorate of Economics & Statistics, Jaipur, Rajasthan, and the office of the Registrar Co-operative Societies, Jaipur. The information provided by the banks was verified by other sources for its authenticity. Data and information so collected were analysed in the light of the recent trends in the banking industry.

DESIGN OF THE STUDY

Keeping in view the research methodology, hypothesis and objectives of the study, the whole study has been divided
into seven Chapters. The first chapter deals with the introduction of the study. The second chapter deals with the brief study of socio-economic profile of the state of Rajasthan. The third chapter deals with the growth and development of the UCBs in Rajasthan as well as in other parts of India till the year 2000. The development of UCBs in the state of Rajasthan as compared to other states of India has been studied. It has been observed that the state of Rajasthan was much backward irrespective of growth and banking facilities while the UCBs are mostly confined only to some big towns of the state. In fourth chapter, different types of customer services provided by the UCBs, various types of accounts customers can have and the marketing strategies of UCBs are analysed. The fifth chapter deals with the mobilisation of deposits in the state of Rajasthan. In this chapter an attempt has been made to analyse as to how far the UCBs could mobilise the state-wise and district-wise deposits in the state. In the sixth chapter, problems and prospects of UCBs in general and Rajasthan in particular have been discussed. Finally, in the last chapter the main findings of the study have been summed up and suggestions for further improvements have been provided so as to make these institutions as still more useful organ of the economy.

LIMITATIONS

Such an investigation requires an extensive study of the available literature but the paucity of literature provides hindrance in this respect. In addition, the non-availability of
Statistical data and other relevant information pertaining to the banks of the State have been major hindrances for a researcher. The data available are many times inaccurate, ambiguous, and scattered and thus one has to face innumerable difficulties in compiling/collecting, and comprehending the desired/relevant information for the comparison of data. In spite of the necessary care and caution, it cannot be denied that the study does have the limitations that restrict analysing the incomplete and unscientific data. The paucity of data has been an important factor in the coverage of the time period, which has been limited to 10 years only for the state of Rajasthan, i.e., from 1991 to 2001.

Apart from the difficulties in obtaining the relevant information, problems were also faced in analysing the data. This is because of discrepancies in data as contained in different documents of the banks. The Directorate of Economic and Statistics Department also does not compile full and adequate data in this respect.

Even though the present study has been carried out under several limitations, genuine effort has been made to draw fruitful conclusions. This, in turn, may provide a useful base for bringing about improvement in the working and growth of these banks as well as for accelerating the pace of economic development of the state.
REFERENCES


4. Ibid.

