Chapter I

Rational and Research Design

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1.1 Rational

1.2 Introduction

"Co-operative movement in India is one of the largest voluntary movements in the world dedicated to benefit the people of small means and having common economic needs. The primary aim and objectives of these banks are to inculcate habit of thrift, savings and mutual aids leading to better economic conditions of those who joins co-operatives".¹

"In view of satisfying the needs and requirements of all strata of Urban and Semi-Urban population in their social and economic upliftment, particularly the amelioration of weaker sections of the community and also for the development of trade and small industries, the Urban Co-Operative Banks are expected to function far more effectively and efficiently."

1.3 Banking Definition

Section 5 (c) of the Banking Regulation Act 1949, defines Banking as "Accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawal by cheque, draft, order or otherwise."

H. Wolf has defined a "Co-Operative Bank as an agency, which is in a position to deal with small man on his own terms accepting the security he has without drawing on protection of the rich. That agency must not be a channel for pouring charity or subsidising the small man out of the public funds, instead the material help must be backed by moral improvement and strengthening the fible".²

"Mutual or Co-Operative Credit Society, as its name indicates, consists of number of individuals, who join together to pool their surplus savings with the purpose of eliminating the profits of the Bank or Moneylender. A Credit Association is a Co-Operative Institute; the profits of which is more or less equally divided between

¹ Dashabdi Year Book, 1985
² H. Wolf - Co-Operating Banking No.2, Page 3
depositors and the borrowers. The character of the society depends entirely on character of the members."

Co-Operative Banking has three important pre-requisites, which are not found in Commercial Banks:

i) Democratic Management
ii) Responsiveness to felt needs and
iii) Self and Local participation

Co-Operative Banking is a special form of business organisation aiming at the economic upliftment of the members and laying a great emphasis on moral principles and human values.

A statutory definition of the Co-Operative Banks has been laid down for the first time in the Banking Laws (applicable to Co-Operative Societies) Act 1965. This Act seeks to extend certain provision of the Reserve Bank of India Act 1934 and Banking Regulation Act 1949 to the State Co-Operative Banks, Central Co-Operative Banks and primary Non-Agricultural Credit Societies as well as Urban Co-Operative Banks.

The Co-Operative Banks gave a special chance of taking up the responsibility of helping the economically weaker and poor as well as other marginal sector of the society. However, they still involved in the other banking operations with the changing times and demand of the society.

1.4 Changing Role Of Urban Co-Operative Banks

"There has been over the years a sea change in the functioning of the Urban Co-Operative Banks, with an initial leaning towards the low income groups, primarily for consumption type of credit, these banks have gradually diversified their activity in consonance with national objectives and priorities, in providing credit for productive investment with special emphasis on the weaker sections of society." 4

Presently the emphasis of the credit policy of the Urban Co-Operative Banks is as follows:

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3 Sannechoen - Consumers Co-Operation, PP 182 - 183
i) Employment generation,

ii) Self employment and

iii) Financing of small and medium size business and industry

These Banks provide 60 percent of their advances to the priority sector as compared to 40 percent of the Commercial Banks. Along with the banking operation for the allocation of priority sector, these Banks are discharging their social responsibility by allocating 25 percent of the lending to weaker sections of society. Out of total 1400 Urban Banks, 42 are Women Banks, solely owned and managed by women and helping in raising women's socio-economic status.

1.5 Resources Of The Urban Co-Operative Banks

One of the important features of the Urban Co-Operative Banks has been to rely on its internal resources. The source of funds of these banks comprises of the following types:

i) Owned funds,

ii) Deposits and

iii) Borrowing from financial institutions.

The deposits constitute a bulk of loanable funds, while borrowings of the Urban Co-Operative Banks constitute an insignificant proportion of their working capital. The owned funds comprises of:

i) Share capital and

ii) Reserves.

The Reserve Bank of India constituted a Standing Advisory Committee for Urban Co-Operative Banks in 1983. The report of committee is based on the study of ten years data between 1974-75 and 1983-84, which reflects the proportion of own funds to working capital of Urban Co-Operative Banks as under:
Table: 1.01 - Proportion Of Deposits And Own Funds To Working Capital Of Urban Co-Operative Banks In India.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>% Of Deposits To Working Capital</th>
<th>% Of Own Funds To Working Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1974-75</td>
<td>70.68</td>
<td>15.00</td>
</tr>
<tr>
<td>2.</td>
<td>1975-76</td>
<td>71.30</td>
<td>16.00</td>
</tr>
<tr>
<td>3.</td>
<td>1976-77</td>
<td>70.60</td>
<td>16.28</td>
</tr>
<tr>
<td>4.</td>
<td>1977-78</td>
<td>72.90</td>
<td>15.80</td>
</tr>
<tr>
<td>5.</td>
<td>1978-79</td>
<td>72.00</td>
<td>14.90</td>
</tr>
<tr>
<td>6.</td>
<td>1979-80</td>
<td>73.00</td>
<td>13.90</td>
</tr>
<tr>
<td>7.</td>
<td>1980-81</td>
<td>72.80</td>
<td>12.50</td>
</tr>
<tr>
<td>8.</td>
<td>1981-82</td>
<td>72.00</td>
<td>12.20</td>
</tr>
<tr>
<td>9.</td>
<td>1982-83</td>
<td>71.00</td>
<td>12.20</td>
</tr>
<tr>
<td>10.</td>
<td>1983-84</td>
<td>73.56</td>
<td>11.80</td>
</tr>
<tr>
<td>11.</td>
<td>1988-89</td>
<td>76.77</td>
<td>10.15</td>
</tr>
<tr>
<td>12.</td>
<td>1993-94</td>
<td>83.90</td>
<td>13.62</td>
</tr>
<tr>
<td>13.</td>
<td>1994-95</td>
<td>83.79</td>
<td>13.81</td>
</tr>
<tr>
<td>14.</td>
<td>1995-96</td>
<td>83.99</td>
<td>13.37</td>
</tr>
<tr>
<td>15.</td>
<td>1996-97</td>
<td>85.03</td>
<td>13.17</td>
</tr>
</tbody>
</table>


It can be observed from the data that the proportion of owned fund to working capital ranges between 10.15 percent and 16.28 percent, the trend of proportion of the owned funds to working capital is continuously declining from 1976-77 to 1983-84 and also in 1988-89.

For the year 1989, the owned funds of Urban Co-Operative Banks were Rs.905.28 Crores while working capital of Urban Co-Operative Banks was Rs.8916.39 Crores. The proportion of own funds to working capital has further gone down to 10.15 percent.

The banking activity of Urban Co-Operative Banks has shown a promising growth ever since their inception. A look at the data from 1993-94 to 1995-96 has indicated a significant progress in the deposits, working capital and increase in the advances, table no. 1.02. The owned funds have risen from Rs.2723 crores to Rs.3848 crores, the deposits during these years have been increased from Rs.16769 crores to Rs.24165 crores. The deposits have always remained seven times more than the owned funds, indicating attraction for deposits in these banks.
1.5.1 Borrowings

The proportion of borrowings in financial sources of the Urban Co-Operative Banks has remained steady as seen in the data from 1993-1996. The percentage of borrowing towards the working capital has remained between 0.024 and 0.026 during the period of 1993-96, table no. 1.02.

Similarly the data of table no. 1.04 for Gujarat Urban Co-Operative Banks reflects similar growth of these funds. The data shows an increasing trend for all types of sources towards working capital of these banks. Increase in the share capital indicates growth in the membership, whereas growing deposits is an indicator of preference of the investors for their banks i.e. for both, members as well as non-members.

Table 1.02 - Progress Of Urban Co-Operative Banks: (Rs. In Crores.)

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>No. of Banks</td>
<td>1400</td>
<td>1431</td>
<td>1501</td>
<td>1653</td>
</tr>
<tr>
<td>Owned funds</td>
<td>2723</td>
<td>3312</td>
<td>3848</td>
<td>4541</td>
</tr>
<tr>
<td>Deposits</td>
<td>16769</td>
<td>20101</td>
<td>24165</td>
<td>29313</td>
</tr>
<tr>
<td>Borrowing</td>
<td>496</td>
<td>577</td>
<td>758</td>
<td>618</td>
</tr>
<tr>
<td>Advance</td>
<td>12172</td>
<td>14795</td>
<td>17908</td>
<td>20613</td>
</tr>
<tr>
<td>Working capital</td>
<td>19988</td>
<td>23990</td>
<td>28771</td>
<td>34472</td>
</tr>
<tr>
<td>Percent of owned funds to W.C.</td>
<td>13.62</td>
<td>13.80</td>
<td>13.37</td>
<td>13.17</td>
</tr>
<tr>
<td>Percent of deposits towards W.C.</td>
<td>83.89</td>
<td>83.78</td>
<td>83.99</td>
<td>85.03</td>
</tr>
</tbody>
</table>

Source: Statistical Tables of RBI

The data under study reveals that the deposits are a key resource for the working capital, the present work is intended to workout the cost management of the deposits. The available information shows poor attention being paid to this important aspect of the banking business, so it is logical to highlight the costs of deposits in order to make Urban Co-Operative Banking a more efficient and professionally managed and viable institution. The previous studies on the aspects of costing are on the costs of loanable funds and total costs of banking operations, etc.; these can be easily grouped as:

i) Cost of loanable fund,
ii) Cost of credit and
iii) Cost of bank's services.

The available information shows the costing works being done in the commercial and public sector banks, whereas the Co-Operative Banks are grossly neglected for such studies.
1.6  **Cost Management**

1.6.1  **Importance**

Cost management in Urban Co-Operative Banking industry is a recent development; the banking industry has widely understood its importance as a tool for cost analysis of banking services. The cost of a product or service is a key factor in price fixation and profit margin determination.

The technique of ascertaining the cost of a product in any industry depends upon the type of industry. Urban Co-Operative Banking industry being a service industry, the product of this industry is considered as the service made available to its members and customers. The cost of a product depends upon the cost of "inputs" i.e. raw material, labour and other overheads but in case of Urban Co-Operative Banks, inputs are in the form of deposits. These depositors are mainly paid interest and by rendering services. Urban Banks are providing various services to its customers and members to attract deposits. In a manufacturing organisation, the cost of product is ascertained by the composition of various cost elements such as:

i)  Cost of material  
ii)  Cost of labour and  
iii) Cost of the overheads

In the service sector, the principles underlying the process of costing are the same but their application differ. The cost of loanable funds for Urban Co-Operative Banks is same as the cost of sales in the manufacturing industry. The cost of sales in Urban Banks i.e. cost of loanable funds per rupee (unit) are not directly related to the amount of advances provided, further it is not related to the rate charged on advances.

The Institute of Cost and Management Accountant of England had given the definition for cost accountancy, "The application of costing and cost accountancy principles, method and practice of cost control and ascertainment of information derived there for the purpose of managerial decision making".

Cost accountancy is a science, owing to the facts that, it is systematic methodology based on certain fundamental principles and empirical observations.
Consequently, looking at the other aspects like application of techniques, methods and requiring skills, the cost accountancy is as an art also.

1.6.2 Objectives

i) Ascertainment of cost: Cost of product or cost of banking services can be ascertained with the help of cost accounting. Various techniques of costing like standard costing, marginal costing, absorption costing, uniform costing, etc. are being used.

ii) Determination of selling price: Profit is a major objective of any business. It is necessary that the revenue is greater than cost. Cost accounting provides desired cost for determining the selling price for banking services. It helps in analysing total cost under variable costs and fixed costs.

iii) Controlling cost: Cost accounting involves the study of different processes of banking services, which will facilitate measuring the efficiency of operation of the department and or division of a bank. Many techniques or methods have been evolved to exercise control over banking service costs.

1.6.3 Advantages

Advantages of cost accounting to the Urban Bank Management are:

i) Usefulness in recession, depression or seasonal variation,

ii) Aids in preparing estimates of project finance,

iii) Elimination of wastage,

iv) Measuring and improving efficiency

v) Provides data for periodic profit and loss accounts,

vi) Aids inventory control like in cash management,

vii) Aids control over staff cost and

viii) Helps in managerial control

Considering above-mentioned advantages of cost accounting, the role of Urban Banking in Indian economy can be better appreciated if Urban Banks are -

i) Financially sound and operationally efficient and

ii) Strengthening and managing its resources professionally.
As mentioned earlier, the objective of this study is to analyse the cost of deposits. Deposits are the inputs of banking industry, whereas advances and other services are the outputs of the banking industry. Pricing of outputs depends on external variables in a manufacturing industry. The price of a product cannot be determined only on the basis of cost of sales but market price for similar products should also to be taken into account. During the period of recession and depression, manufacturing industries may not earn any profit. Even if it may not cover the cost of sales, the industry may continue its production taking into consideration a future revival of the market. They may not close down production even after making losses. Selling price may not cover the fix costs but selling prices which covers only the variable cost would allow the production to continue. Manufacturing industry would like to continue production and sale the product by covering variable cost to survive in the market even though they are incurring losses. Market forces compels the industry to reduce prices due to the competition in the market, therefore output prices are governed by external forces i.e. market forces. These external forces are beyond the control of manufacturing industry and other industries.

1.7 Profit Cost Relationship

To attain the goal of maximisation of profit either the industry has to increase the selling price or reduce the cost of sales. In other words, to increase the profit, either raise the selling price or control the cost of sales. The rise in selling price will adversely affect on total sales and sales will go down. Reduction in sales will reduce the profit. So, it is not advisable to raise the selling price. This is quite in conformity with the law of supply and demand.

Profit maximisation depends upon the external variables, which are highly uncertain, as understood from the market. Unpredictability exists owing to many socio-economic factors. However, the internal factors of cost of a product are very much under control. So, the emphasis should be to work out the costs of inputs in such a way that the product is to be able to sell in the market, ensuring a certain amount of profit at any given point of time. The process of reducing the costs has to be undertaken to meet this goal. Reduction in costs will definitely increase the profit, if the input costs are under check. For such costing, following parameters are to be dealt with:
i) Cost of input,
ii) Cost of labour,
iii) Cost of other overheads,
iv) Cost as administrative expenses and
v) Cost as financial expenses.

"Any objective and rational cost analysis on accounting system of commercial Banks must cope up with these two aspects of the problem of choice of the proper "output" variable - the unit of - "output" of the bank for cost accounting purpose.

A commercial bank conventionally visualised as a financial intermediary or agency - making loans and investments to business and individuals with the help of deposits and capital funds mobilised, again from individuals and business.

The conventional cost analysis or accounting ideas and techniques as relating to commercial banking stem from such a visualisation of the commercial bank - its "output" mainly constituted by the volumes of loans and investment and its 'inputs' or "raw material" constituted by the deposits and capital funds mobilised and employed in loan and investment extension".5

As stated earlier, the major functions performed by Urban Co-Operative Bank are:

i) Accepting deposits and
ii) Making loan and investment

Out of these, accepting deposits becomes 'input' or 'raw material' for Urban Banks, whereas making loan and investment becomes 'output' or "final product". Pricing of 'output' or " final product" extremely depends upon external forces. Cost of "output" i.e., loans and advances are not much under the control of Urban Banks, however the "input" of Urban Banks can be manipulated for the cost of deposits.

Interest payable on deposits has greater share in total cost of deposits of Urban Co-Operative Banks. Earlier Urban Banks were permitted to pay one percent higher rate of interest and later on from 1985 onwards these banks were allowed to pay only half percent more interest compared to the commercial banks. The Reserve Bank of India

allowed this advantage to the Urban Co-Operative Banks to attract more depositors, so that the laid down social objectives of these banks can be fulfilled, without depending upon other funding agencies.

1.8 The Economic Reforms

The ongoing financial sector reforms since 1990, have changed the equations for the financial sector business.

"The financial sector reforms currently underway in India must be seen as a component of the over all scheme of structural reforms. The overall package is aimed at enhancing the productivity and efficiency of the economy as a whole and also increasing international competitiveness. The reforms are comprehensive in scope covering besides financial sector reforms, several other components of economic policy including liberalisation and deregulation of domestic investment. Opening up of key infrastructure areas hitherto reserved for public sector for private sector participation, opening up of economy to foreign competition by reducing protective barriers"6

1.8.1 Deregulation Of Interest Rates

The Reserve Banks of India started simplifying structure of interest rates since September 1990. For the banking sector a gradual approach has been adopted in reforming interest rate structure in India and therefore the advantage of rate of interest was allowed to the Co-Operative Banks which came under review. RBI deregulated the interest rates on term deposits of Urban Co-Operative Banks from 1st October 1995. Interest rate structure on domestic deposits prescribed by RBI for the year 1995-96 was as under:

Table: 1.03 - Rate Of Interest On Domestic Term Deposits Of Urban Co-Operative Banks

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>1st October, 1995</th>
<th>2nd July, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Term Of Deposits</td>
<td>Maximum Rate Of Interest Allowed</td>
</tr>
<tr>
<td>1.</td>
<td>46 day and up to 2 year</td>
<td>12%</td>
</tr>
<tr>
<td>2.</td>
<td>More than 2 year</td>
<td>Free</td>
</tr>
</tbody>
</table>

6 C. Rangarajan, Banking Sector reforms rational and relevance, Page 18 and 19, published by AF, Delhi.
The rate mentioned above are applicable to all the banks. Ceiling of interest rates on term deposit was kept at 10 percent per annum for duration up to 1 year from July 1996 onwards. But there is no maximum rate prescribed by RBI for the term deposits for more than one year. This clearly indicates that commercial and other banks can offer attractive interest rates to get more deposits. Thus the Co-Operative Banks will no longer enjoy the advantage of offering higher rates of interest on the deposits. Commercial banks, being more wide spread will also take the advantage of these returns and will be in position to attract more deposits.

These reforms will have far reaching repercussions for the growth of Co-Operative Banks. Since not only Indian commercial banks but also foreign banks will have the opportunity to enter in the Indian monetary market. Thus there is a real threat to the Co-Operative Banks, which works with a social objective in attracting the deposits.

1.9 Deposits To GDP - Comparison

"The extension of banking stands out a significant achievement. As a ratio of GDP at current prices, bank deposits increased from 18 percent in 1969-70 to 45.3 percent by end March 1995. All the indicators of financial development such as finance ratio, financial inter relation ratio and intermediation ratio have significantly increased implying the growing importance of financial institutions in the economy and growth of financial flows in relation to economic activity". 7

As stated above, the financial sector is gaining importance in the growth of any economy. With liberalisation and reforms under way, the deposits worth 45.3 percent of GDP till 1995, will have more partner to share i.e. Foreign Banks and Indian Banks. The Co-Operative Banks are going to be in a great disadvantage, since the public sector commercial banks as well as foreign banks are in a better position to attract the saving compared to the Urban Co-Operative Banks owing to the deregulation.

Under this complex scenario, the Urban Co-Operative Banks, called as the bank of "small man" operating normally in local areas having democratic local and largely untrained management, finds itself faced with the total take off professional management compared with other banks.

7 C. Rangarajan, Banking Sector Reforms Rational and Relevance, Page 19, published by AF, Delhi.
Urban Banks are not operating for maximisation of profit. Till 1995, these banks were allowed to pay more interest on deposits and to charge less interest on loans and advances. Urban Banks were protected under Reserve Bank of India's regulated structure of interest rates. With the change of rules of financial market, these banks have to workout a strategy for their survival to fulfill their social commitments.

Under the changed market scenario, to attract the deposits, these Co-Operative Banks also have to adopt a similar interest payment strategy as compared with the other banks. In other words, in order to survive in the market, these banks would have to become like other commercial banks. There are many odd comings in the way of Co-Operative Banks in achieving these market goals.

"Indian Banking is now on the threshold of a major transformation and much of its success in meeting the challenges of change would depend on how the individual banking institution gear and brace themselves up organisationally, operationally and functionally with desired degree of operational and competitive efficiencies".  

Banking is a very different type of business. A high measure of conservatism is involved and bears very high risks and can not be considered to earn high profit. That is why, at no time in the history of our country or even elsewhere, have banks become high profit earners?

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</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>5.67</td>
<td>9.02</td>
<td>13.27</td>
<td>15.61</td>
<td>17.45</td>
<td>20.72</td>
<td>23.42</td>
<td>25.93</td>
<td>31.60</td>
<td>99.48</td>
</tr>
<tr>
<td>Own funds</td>
<td>1.1</td>
<td>15.3</td>
<td>25.1</td>
<td>27.3</td>
<td>32.2</td>
<td>38.5</td>
<td>45.1</td>
<td>54.1</td>
<td>65.9</td>
<td>17.36</td>
</tr>
<tr>
<td>Borrowings</td>
<td>0.76</td>
<td>16.22</td>
<td>24.1</td>
<td>29.7</td>
<td>35.1</td>
<td>40.1</td>
<td>46.7</td>
<td>52.3</td>
<td>52.7</td>
<td>14.94</td>
</tr>
<tr>
<td>W.C.</td>
<td>7.53</td>
<td>122.24</td>
<td>181.9</td>
<td>213.1</td>
<td>241.9</td>
<td>285.8</td>
<td>326.0</td>
<td>365.7</td>
<td>434.6</td>
<td>131.78</td>
</tr>
<tr>
<td>% of Own funds to WC</td>
<td>14.6</td>
<td>12.48</td>
<td>13.8</td>
<td>12.8</td>
<td>13.3</td>
<td>13.5</td>
<td>13.8</td>
<td>14.8</td>
<td>15.16</td>
<td>13.17</td>
</tr>
<tr>
<td>% of Deposits to W.C.</td>
<td>72.3</td>
<td>74.28</td>
<td>72.95</td>
<td>73.25</td>
<td>72.16</td>
<td>72.5</td>
<td>71.84</td>
<td>70.9</td>
<td>72.71</td>
<td>75.49</td>
</tr>
<tr>
<td>% Of Borrowings to W.C.</td>
<td>10</td>
<td>13.24</td>
<td>13.25</td>
<td>13.9</td>
<td>14.5</td>
<td>14</td>
<td>14.3</td>
<td>14.3</td>
<td>12.12</td>
<td>11.33</td>
</tr>
</tbody>
</table>

Sources of fund of Urban Co-Operative Banks in Gujarat are increasing continuously during past four decades. Owned funds which comprise of share capital and

reserves were Rs.1.1 crores on 30th June 1960 which has grown up to Rs.1736 Crores in the year 1998. Deposits of Urban Banks in Gujarat stood at Rs.5.67 crores in 1960, which increased to Rs.9948 Crores on 31st March 1998. Working capital which was just Rs.7.53 crores in 1960 increased to Rs.13, 178 Crores in the year 1998.

Composition of deposits, owned funds & borrowings as the sources of funds of Urban Co-Operative Banks as observed at all India level found similar at Gujarat. Capital of Urban Co-Operative Banks during last four decades is ranging from 12.48 percent to 15.16 percent to working capital. Deposits to working capital, minimum 70.09 percent on 31 March 1992 and maximum 75.49 percent on 31 March 1998. The share of Borrowings in working capital of Urban Co-Op. Banks is between 10 percent in 1960 and 14.5 percent in 1989.

Contribution of deposits to sources of funds to Urban Co-Operative Banks at All India level as well as at Gujarat level is ranging between 70 percent to 80 percent. In other words borrowings and owned funds taken together are just between 20 percent to 30 percent of working capital of Urban Co-Operative Banks at Gujarat & all India level.

Though the scene is not yet clear but one can foresee alarm bells for these banks. These Co-Operative Banks have been caught in the contradiction of social responsibility and global market economy. Profit making is not the ultimate goal of these Co-Operative Banks. However in the present scenario of free market the issue is debatable.

1.10 Research Design

1.10.1 Scope Of The Study

This study aims to deal with complex situation in which Urban Co-Operative Banks have been dragged into. To sustain in the competitive banking industry, Urban Banks will have to be viable. To uplift the small man, a member of Urban Banks, these banks will have to make profit, even when urban bank does not aim to maximise the profit. Make profit and survive in the banking industry, Urban Banks can not increase its lending interest rate but it can only consider lowering down it's cost of deposits.

For the scope of the study as stated above, a ten years data from 1987-88 to 1996-97 has been taken for ascertaining the impact of deregulation in the financial sector. The
For studying the Urban Co-operative Banks' cost management of deposits, these ten years are divided into two:

i) Regulated interest rates era i.e. protected atmosphere from 1986-87 to 1995-96.

ii) Deregulated interest rate era i.e. free economy from 1995-96 to 1996-97.

1.10.2 Objectives Of The Study

i) To examine the performance of deposits and deposits mobilisation of Urban Co-Operative Banks.

ii) To analyse the fixed cost components of Urban Co-Operative Banks and to identify main determinants of fixed cost components of Urban Co-Operative Banks.

iii) To ascertain the variable cost of deposits of Urban Co-Operative Banks.

iv) To analyse the nature and components of other costs of banking activities of Urban Co-Operative Banks.

v) To evaluate the impact of financial sector reforms on costs of Urban Co-Operative Banks.

vi) To compare inter bank cost ratios and to suggest model for cost efficiency in Urban Co-Operative Banks.

vii) To compare the costs with earnings and review the major determinants of profit and profitability of Urban Co-Operative Banks.

1.10.3 Selection Of Sample Banks

Ten Urban Co-Operative Banks have been selected throughout Gujarat out of which three Urban Banks namely (1) Kalupur Commercial Bank (2) Surat People's Co-Operative Bank and (3) Rajkot Nagarik Bank are scheduled Banks. The Surat People's Co-Operative Bank and The Sardar Bhiladwala Bank are from South Zone of the Gujarat State. The Anyonya Sahayakari Bank, The Baroda People's Bank and The Anand Mercantile Bank are from the Central Zone of Gujarat State. Whereas The Dahod Urban Bank is entirely covering the tribal area. The Kalupur Commercial Bank and The Natpur
Co-Op. Bank are from the North Zone of Gujarat. The Rajkot Nagrik Bank covers the entire Saurashtra Zone of Gujarat State. The banks for study are selected at random.

Following Urban Co-Operative Banks from Gujarat have been selected for the study:

i) Sardar Bhiladwala Co-Operative Bank, Valsad district.
ii) The Surat People's Co-Operative Bank, Surat City, Surat district.
iii) Anyonya Sahayakari Mandali Co-Operative Bank Ltd., Vadodara city.
iv) Baroda People's Co-Operative Banks, Vadodara city.
vi) Dahod Urban Co-Operative Bank, Dahod city, Dahod district.
viii) The Kalupur Commercial Bank, Ahemadabad city.
ix) Sarvodaya Nagrik Bank, Visnagar, Sabarkatha district North Gujarat.
x) The Rajkot Nagrik Bank, Rajkot city, Rajkot district.

These banks are well spread throughout Gujarat State. The study, which involves cost of deposits, used the data of these banks having three cost components namely:

i) Fixed costs
ii) Variable costs and
iii) Social and other costs

The study reflects how these ten banks have managed their cost of deposits, what is the difference between regulated interest rates period and deregulated interest rates period. Keeping the goal of co-operative movement in practice and matching the deposits and total cost of operating the banks.

In the following chapters, we would deal with these components of costs and finally a synthesis of the data interpretation on the objectives will be presented in order to understand the impact of post deregulation era and subsequently the importance of costs of deposits will be highlighted. Since this is the only parameter, which can help Co-Operative Banks to become viable, keeping their social objective intact.
1.10.4 Source Of Data

This is a compilation of primary data collected from various sources like annual reports of selected Urban Co-Operative Banks, Gujarat Urban Co-Operative Banks' Federation, National Federation for Urban Co-Operative Banks. This is supported by reports of certain committees, study groups, workshops appointed by The Reserve Bank of India. Primary data is collected by personal visit to the selected Urban Co-Operative Banks and the discussion with the branch managers. Annual Reports of Gujarat Urban Co-Operative Banks' Federation were available only for the years 1986-87 to 1993-94 and 1997-98.

1.10.5 Methodology

It was decided to construct average balances of various items of assets and liabilities. The data for this purpose was taken for two consecutive years from the annual reports of the selected banks. The data regarding fixed costs variable costs and other costs is taken from the profit and loss accounts of the banks and were arranged according to the requirements to get the better framework for computation and analysis.

Statistical tools like mean, standard deviation, co-efficient of determination are used to analyse the data. Multivariate Analysis of Variance (MANOVA) is used to test the hypothesis. Maps, Graphs, Pie charts are used for some supportive and meaningful interpretations. The trend analysis and ratio analysis are used to derive growth and also the determinants of costs.

1.10.6 Organisation Of Study

The study is divided into nine chapters:

Chapter 1
Defines the problem and spells out the objectives and focuses on relevance of the study. It also describes the research methodology including the choice of sample.

Chapter 2
Discusses the past studies in the field of cost analysis of banking activities. Also reviews the related literature.
Chapter 3
Deals with overall progress of Urban Co-Operative Banks in India as well as in Gujarat.

Chapter 4
Covers discussion of deposits mobilised by Urban Co-Operative Banks in India and in Gujarat.

Chapter 5
Analysis the various components of fixed costs and the total fixed cost of selected Urban Co-Operative Banks. Also reviews the relevance of fixed costs with deposits.

Chapter 6
Examines in detail the interest paid on deposits as variable cost of deposits.

Chapter 7
Brings out the impact of fluctuations in CRR and SLR on the banks' earnings. This chapter also deals with the social banking, social cost and the influence of non-performing assets on banks' profits.

Chapter 8
Presents cost management of deposits by way of preparing the formats of cost sheet of selected Urban Co-Operative Banks and proposes the standard cost.

Chapter 9
Covers the summary of earlier chapters in the form of conclusions and offers the suggestions for reducing the cost and improving banks' profitability and recommends the areas for further research.