Chapter No. 04:

Organization and management Practices of Urban Cooperative Banks

- Introduction.
- Organization and Management.
- Resources Urban Co-Operative Banks.
- Role of Board of Directors.
- Competence of directors.
- Policy initiatives of Reserve Bank of India.
- Vision document for UCBs.
- MOU With State Governments And Constitution Of TAFCUUBs.
- Corporate Governance And Professionalism.
- Corporate governance issues in UCBs.
- Best Banking Practices And Prudential Norms.
- Technology initiatives.
- Skills Development Initiatives.
- Increasing Competition.
- Recent Development in Banking Practices.
- Models of Customer Services.
- Types of Bank Customers.
- Marketing Information System (MIS) and Urban Co-operative Banks.
- Importance of MIS in Urban Co-operative Bank.
- Customer Relationship Management (CRM).
- Challenges For UCBs.
- Reference.
**Introduction:**

Management of an urban co-operative Bank in known as Board of Directors, they are elected by the share holders. The final authority in all the matters rests with the general body, but the day-to-day working of the Bank are looked after by the board of Directors and trained, efficient staff. The tenure of directors differs with the state.¹ Normal practice is to hold elections every year or after every third year or each year by rotation for one third of the Board. It is observed that in a large number of banks the same persons or group of persons were elected on the Board from term to term. It was suggested that an effective practical method of insuring that new directors are elected would be to insert a clause in the bye-laws to prevent a person from contesting the election for more than one two consecutive terms. There is a fear that loss of the service of such persons for even short terms, particularly, in the initial stages of an institution, may not be compensated immediately by the emergence of the new board.
**Organization and Management:**

The overall management of the Bank vests in a Board of Management elected in accordance with the Act, Rules and Byelaws application to them. The paid staff carries out the day-to-day management. The internal organization of urban Co-operative Banks varies from State to State and from Bank to Bank. The internal organization was reviewed by the CRAFICARD in the light of the tasks assigned to Urban Banks as leader of the co-operative movement at the district level.² The committee felt that there was need for organizational restructuring as well as strengthening of the existing staffing arrangement in many of the Urban Co-operative banks. Though the organizational pattern in each bank may vary in details according to local needs and conditions, the Committee recommended that Urban Co-operative Banks should undertake the re-organization in a phased manner keeping in view the following profile:

1. A whole time professional managing director should head the bank.

2. Under the managing director there should be six main divisions.
**Planning and Development Division:**

This division under the charge of a Development officer should pay special attention to;

a. Development of the capability of primaries to provide short and medium credit in an integrated way,

b. Development of scheme for agricultural and allied activities to be financed by the societies,

c. Development of schemes for village industries and other activities for self employment;

d. Mobilization of deposits and performance budgeting and

e. Arrangement of horizontal co-ordination with other financing agencies, supplying agencies, marketing societies and government department.

**Operation Division:**

This division under an executive officer should give effect to the credit policies prescribed by the proposed NABARD and provide credit assistance to Primary agricultural societies or individual directly according to
approved policies and procedures, and make continuous efforts to simplify forms and procedures.

**Account Division:**

This division under a chief accountant should look after borrowing, management of funds, general banking, loans and advances, accounts, statistical information and investment.

**Technical Division:**

This division under an executive officer should consist of technically qualified staff to assist in scheme formulation, appraisal of different types of schemes for which there is considerable potential in the area of the bank.

**Administrative Division:**

This division under a manager should be in charge of inspections of the branches, Board matters, establishment, executive committee meetings, etc.
As the internal organization varies from bank to bank, the staffing pattern also varies widely. With the increase in the magnitude and complexities of operations, the task to be performed by the Urban co-operative bank staff is becoming more and more complex as compared to earlier days when they were functioning as a mere channel for giving credit and collecting it back through the primaries, like other banking institutions, central co-operative banks also require to fulfill a number of statutory and other obligations to their clientele on the one hand and to their constituents on the other.

**Organizational structure:**

Line organizational structure is found in UCBs of Maharashtra. In its only line authority exists. Line authority refers to the direct authority of a manager over his subordinates. Under this form of organization, departments are created for only basic activities (deposits, loans, inspections) and not for specialized activities (recruitments, selections, legal etc.). The following charts display the organizational structure of UCBs in Maharashtra.
Chart No. 4.01: Organizational Structure Of UCBs.

Regular Members.

Board of Directors.

Chairman.

Vice-Chairman.

Chief Executive Officer.

Managing Director / General Manager / Manager.

Executive Officer

Asst. Gen Manager / Deputy Gen. Manager.

Managerial Officers.

Branch Manager / Jr. Officer / Accountants.

Auditors.

Clerks.

Sub Staff.
Resources Urban Co-Operative Banks:

The sources of finance of the urban co-operative banks consist of their own funds and borrowed funds. Own funds consist of paid up share capital and accumulated profit or retained profit in various forms of reserves created out of appropriation from profits. Borrowed funds consist of different types of deposits accepted from members and non-members. Borrowed funds may consist of borrowing from central co-operative Banks. Normally, face value of shares issued by urban banks is Rs. 10.00, so that, poor people can become members of the banks. The bye-laws of urban co-operative banks provide that every borrower must contribute to the share capital in a definite proportion, which is normally 10 per cent of the amount borrowed.³

Loans and Advances:

Loans and Advances of urban Banks grant loans or cash credit loans to their members against mortgage of immovable property or against the surety of one or more persons who are also members or against the pledge of goods, gold, silver, ornaments, government securities or on
the security of fixed deposits and insurance policies. A member in usually eligible for loans against personal security up to 5 to 10 times of the share capital paid-up by him. If a member is a salaried employee, he is eligible for a loan up to four times his monthly salary.

As it was stated that the resources of urban co-operative banks comprise of own-funds, deposits accepted and in certain cases, borrowings. These Sources are now entirely available for loan operation or for advances. Own funds of urban co-operative banks have, as a rule, to be invested outside their business. Then, Banks have to maintain liquid resources to cover deposits to accept by them. This indicates that only a portion of the resources of urban co-operative Banks is actually available for advances.

Generally, the following purposes are considered eligible for grant of loan by urban co-operative banks.

1. Purchase of instrument of material required by artisans.

2. Petty trade and small industry.
3. Payment of prior dues.
4. Purchase of food grains and other necessities of life.
5. Ceremonial expenses.
7. Purchase of national saving certificates and National plan bonds, Marketable securities etc.
8. Payments of insurance premiums.
9. Medical Expenses.
10. Housing.

Deposit:

It has been the general practice to relate the borrowing capacity of the Central and State Co-operative Banks to their owned funds. Since the inception of the Urban Co-operative Banks, there has been a consensus of opinion that deposits must play a vital role in co-operative financing. Gradually the Urban Co-operative Banks which are the backbone of co-operative credit structure must become self reliant and self sufficient. In the context of fast increasing credit requirements for modernization and commercialization of the Indian agriculture and the
dominant role assigned to the co-operative banks in this sphere, mobilization of savings through various kinds of deposits has assumed great significance.

**Table 4.01: State wise No of Urban Co-operative Banks, Deposits and Advances.**

(As on 31st March, 2005)

<table>
<thead>
<tr>
<th>Name of the State</th>
<th>No of banks in operation</th>
<th>% to total no. of banks</th>
<th>Deposits (Rupees in lakhs)</th>
<th>% of deposits to total deposits</th>
<th>Advances (Rupees in lakhs)</th>
<th>% of advances to total advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maharashtra</td>
<td>639</td>
<td>41.96</td>
<td>60,72,498</td>
<td>67.04</td>
<td>37,42,401</td>
<td>66.83</td>
</tr>
<tr>
<td>Gujarat</td>
<td>321</td>
<td>21.08</td>
<td>16,27,946</td>
<td>17.97</td>
<td>9,70,287</td>
<td>17.33</td>
</tr>
<tr>
<td>Karnataka</td>
<td>300</td>
<td>19.70</td>
<td>8,35,274</td>
<td>9.22</td>
<td>5,37,186</td>
<td>9.59</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>132</td>
<td>8.66</td>
<td>3,10,521</td>
<td>3.43</td>
<td>2,12,113</td>
<td>3.79</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>131</td>
<td>8.60</td>
<td>2,11,324</td>
<td>2.34</td>
<td>1,37,888</td>
<td>2.46</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,523</td>
<td>100</td>
<td>90,57,563</td>
<td>100</td>
<td>55,99,875</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Report on Trend and Progress of Banking in India, 2005-06.*

It is revealed from Table No. 4.01 that the State of Maharashtra is top in the list followed by Gujrat, Karnataka, Tamil Nadu and Andhra Pradesh. As far as the progress of Urban co-operative banks are concerned co-operative institutions are engaged in all kinds of activities
namely production, processing, marketing, distribution, servicing, and banking in India and have vast and powerful superstructure. It is also revealed from table that there were 1,523 Urban Co-operative Banks in India up to 31st March 2005. Maharashtra State had the highest number of Urban Co-operative Banks i.e. 41.96 percent. Followed by Gujrat 21.08 percent, Karnataka 19.70 percent, Tamil Nadu 8.66 percent and Andhra Pradesh had the lowest numbers of Urban Co-operative Banks i.e. 8.60 percent.

As far as deposits is concern Maharashtra State ahead with 67.04 percent followed by Gujrat 17.97 percent, Karnataka 9.22 percent, Tamilnadu 3.43 percent and Andhra Pradesh had have lowest deposit ratio i.e.2.34 percent. As far as the Advances is concerned The State Maharashtra is shows leading position in advances i.e.66.83 percent, followed by Gujrat 17.33 percent, Karnataka 9.59 percent, Tamilnadu 3.79 percent and Andhra Pradesh has record lowest figure i.e. 2.46 percent in advance.
Co-operative Institutions are engaged in all kinds of activities namely production, processing, marketing, distribution, servicing, and banking in India and have vast and powerful superstructure. Co-operative Banks are important cogs in this structure. The co-operative banks arrived in India in the beginning of 20th Century as an official effort to create a new type of institution based on the principles of co-operative organization and management, suitable for problems peculiar to Indian conditions. These banks were conceived as substitutes for money lenders, to provide timely and adequate short-term and long-term institutional credit at reasonable rates of interest.

**Capital of Urban Co-operative Bank:**

The Urban Co-operative Banks raise their working capital from the following sources:

1. Shares;
2. Deposits;
3. Loans;
4. Reserve and other funds.
**Share Capital:**

The Urban Co-operative Banks raise capital by issuing shares to individuals and society members. Since the liability of the members is limited to the share capital subscribed by them, it becomes imperative for the Urban Co-operative Banks to have substantial paid up share capital to attract and serve as a guarantee for depositors and other creditors. The major portion of shares is issued to the society members. Certain restrictions and limits are generally imposed on the issue of shares to individual members, so that they do not acquire dominating influence in the management of the Urban Co-operative Banks. The State Govt. is required to contribute to the share capital with a view to strengthen the financial structure of Urban Co-operative Banks in pursuance of the recommendation of the All India Rural Credit Survey Committee. These measures have considerably helped the Urban Co-operative Banks in raising their funds.
**Borrowings of Urban Co-operative Banks:**

The Co-operative Banks raise their working capital also by direct borrowings from the Central Co-operative Banks. Initially, outside borrowing constituted a very important source for raising funds by the Urban Co-operative Banks.

**Role of Board of Directors:**

The board of directors of urban cooperative bank is primarily concerned with formulation of policies, within the circumference of bye-laws. They give directions to and do overall supervision of the management performance, ensure transparency in overall functioning and financial aspects of the bank. The board should clearly define responsibility at all levels of the organization and ensure adherence there to. The Board members should not involve themselves in day-to-day management or operations of the bank. The codes of conduct prescribing do’s and don’ts by directors should not be merely on paper but they should be practices.\(^5\)

The board of directors should act as trustees to various stakeholders so as to enhance their values and protect the
legitimate interest. The transgression of this fiduciary principle may create hazards to cooperative banks. The recent unfortunate episode of fall out of some Cooperative Banks had caused server damage to cooperative movements. There are regulatory stringent provisions in State Cooperative Societies Act, which spell out various obligations and accountability of directors and the dire consequence for the breach of law. The board of directors of cooperative bank should introduce the management information systems so as to ensure that it receives all key information on various matters, which have bearing on the bank. The board should set up different committees of the board for discharging their duties and functions.

There is need of code of corporate governance in urban cooperative banks. It should be clearly drafted without any scope for ambiguity. It should spell out objectives and policies of the bank, role of board of directors, chief executive officers and senior management to be performed within the frame work of policies, standards of disclosure and transference, accountability of board of directors to
various stakeholders. This code of corporate governance should be published and communicated to all stakeholders and society at large. This code of corporate governance should ultimately take status of constitutions of urban bank. On the basis of code of corporate governance, performance of the urban bank should be assessed. The urban bank is a social entity. Its performance should be subjected to social scrutiny.

The corporate governance as adopted by the bank should be published in annual reports of the bank. There should be specific mention in the chairman’s speech about corporate governance and bank’s achievements in this regard. In the annual report, the standards of corporate governance adopted in the bank should be explicitly disclosed with specific reference in accounting policies followed by the bank and statistical data published therein. This will ensure high degree of transparency, which is vital for effective implementation of corporate governance.
The activists of urban cooperative banks should recognize the principles of corporate or cooperative governance. They should endeavour to pursue them in such a way that it becomes the way of life. The cooperative values should be held in high esteem and kept non-polluted from personal and political motives. They should be their Article of Faith, to be lived and pursued to keep them on the path of cooperation. The spectrum of urban cooperative bank is very wide. Unlike corporate, they are not merely aimed at enriching or protecting interest and values of equity holders. They are expected to function for overall economic development of a common man. The major challenge to urban cooperative banks today is their capacity to integrate themselves with their national and global counterparts without sacrificing their own cultural ethos. Corporate governance plays crucial and vital role in this endeavour.
Competence of directors:

In the context of urban cooperative banks in India, the first issue of importance is whether there is collective expertise on the Board available to meet the competitive challenges before the bank to ensure growth while maintaining soundness? In today’s context, some of the areas where expertise at the Board level is very useful is HR, IT and risk management. This enables the Board to get unbiased advice from such members on the Board on managerial decisions and on matters referred to the Board. Chairman and members of the Board should ensure that the Board has a broad based talent in the Board in the areas of accountancy and audit, IT, HR and other expertise and experience from industry, trade and agriculture. Domain knowledge of the Board members enormously increases the quality of governance and the Chairman should be able to tap this talent to the advantage of the bank.

The other aspect relating to the composition of the Board relates to ‘fit and proper’ criteria for directors. Internationally, the best principles of banking
regulation require that regulators who give banks licenses ensure banks are owned, controlled and managed by ‘fit and proper’ shareholders, directors and senior managers. In most countries this is done through ensuring that all significant shareholders fulfill the fit and proper tests, all directors adhere to "fit and proper" criteria and appointments by the Board of CEOs of banks and key functionaries like CFO, COO and the auditors are approved by the regulator.

**Policy initiatives of Reserve Bank of India:**

Let us take a look at various initiatives taken by the Reserve Bank for stabilizing and strengthening the Urban Cooperative Banks. Taking a view on the crisis faced by the sector time and again, the Reserve Bank, in the annual policy for the year 2004-05, announced its decision to stop granting fresh licenses for formation of new UCBs.\(^7\) This was followed up with a decision not to grant any fresh branch license as well. It was made clear that this was necessitated pending a comprehensive review of the legislative and regulatory framework governing the sector. It
was in this background that a decision was taken to draft a vision document for the sector to outline a framework that would facilitate the strengthening of the sector and enable it play the assigned role of providing credit to the economically weaker sections.  

Vision document for UCBs:

The Reserve Bank eventually formulated a draft vision document, placed it in the public domain in March 2005 and finalized it thereafter, with the following objectives:

- To rationalize the existing regulatory and supervisory approach keeping in view the heterogeneous character of entities in the sector.

- To facilitate a focused and continuous system of supervision through enhanced use of technology.

- To enhance professionalism and improve the quality of governance in UCBs by providing training for skill upgradation as also by including large depositors in the decision making process / management of banks.
• To put in place a mechanism that addresses the problems of dual control, given the present legal framework, and the time consuming process in bringing requisite legislative changes.

• To put in place a consultative arrangement for identifying weak but potentially viable entities in the sector and provide a framework for their being nurtured back to health including, if necessary, through a process of consolidation.

• To identify the unviable entities in the sector and provide an exit path for such entities.

**MOU With State Governments And Constitution Of TAFCBs:**

In pursuance of the proposals in the draft vision document, state governments having a large number of UCBs were approached for signing memorandum of understanding (MOU). Some of these state governments have since signed MOUs. The memorandum, in fact, provides the basis for the constitution of Task Force for
Urban Co-op. Banks (TAFCUB) in each State, which is the forum for the consultative decision making process. The TAFCUB has, apart from the representatives of the RBI and the State Government, those of the UCBs sector as well. The MOU also provides for professionalizing the audit and the Reserve Bank's role in improving IT and HR levels in the UCBs.10

The combined access to information from local and national level federations of the banks, as also from the regulators and supervisors, has made the TAFCUB effective instruments for consolidating the sector through quick and non-disruptive exit of unviable entities and revival of the viable ones. Recommendations of the TAFCUBs have the consent of all stakeholders including Reserve Bank of India and, therefore, can be implemented speedily by all concerned. In states where TAFCUBs have not yet been constituted, pending signing of MOU, the potentially viable and non-viable banks do not have the benefit of coordinated deliberations on their future set-up, by both regulators/supervisors. In such states, Reserve Bank
directly initiates supervisory action as per a graded supervisory action framework, which suggests specific and objective course of action for the banks that are in different stages of weakness. In keeping with the consultative process initiated with the state governments, the Reserve Bank has sought to extend the arrangement to the UCBs functioning in more than one state, through a MOU with the Central Registrar and enlarging the scope of the TAFCUBs to cover the Scheduled UCBs, which are systemically even more significant. Further, the consultative approach is sought to be extended to the liquidation stage to facilitate early lodging and settlement of insurance claims. Arising out of the comfort of coordinated supervision/regulation of banks in the states that have signed the MOU, certain facilities have been extended to the banks in such states. Requests from eligible banks in such states for additional business opportunities, like setting up currency Chests, selling mutual funds, providing forex services, opening of new ATMs etc. are also considered.
Corporate Governance And Professionalism:

It is being increasingly highlighted that depositors are the most important stakeholders in a bank and therefore inclusion of depositors as shareholders, particularly the large depositors, is an agenda that is being actively pursued independently as also through coordination with state governments. In order to enhance professionalism, Reserve Bank insists on inclusion of at least two professional directors on the board of each bank, which otherwise is essentially an elected body comprising mainly of persons from the field of cooperation rather than banking. In this direction, 'Fit and Proper' criteria for CEOs is also being formulated for implementation through the state governments.¹¹ Market discipline is gradually being increased through rigorous disclosure norms and initiatives like public disclosure of penal action taken against a bank by the RBI. Also in case of gross violation of RBI guidelines / directives where complicity of a director or of the Board is noticed, Reserve Bank of India approaches the Registrar of Cooperatives of the concerned state for removing the director or even for superseding the entire Board,
depending upon the nature of violation. If necessary, RBI also files police complaints for taking criminal action against officials and directors of banks wherever criminal complicity is suspected by the supervisory departments of the RBI. State Governments through the MOU, agree to take immediate action on requisitions of RBI for supersession of the Board of Directors or for winding up a bank.

In order to ensure that 'arms length distance' is maintained between the Board and the day-to-day operations of the bank, connected lending in terms of loans to directors, and relatives of directors and to firms in which any director may be 'interested', has been banned in India. Further, as the quality of audit is an important aspect of corporate governance, efforts have been made to ensure that statutory audit of banks is conducted by professionals. As per the MOU, the states agree to conduct statutory audit only through Chartered Accountants in respect of banks with deposits over Rs.25 crore, institute special audit by Chartered Accountants at the behest of RBI and enhance the quality of statutory audit by aligning their system of rating banks with that of Reserve Bank.\textsuperscript{12}
Corporate Governance Issues In UCBs:

Most of the problems faced by the UCBs are due to governance issues and connected lending. In UCBs borrowers have a significant say in the managements of the banks. This has the potential of influencing the Boards to take decisions that may not always be in the interest of the depositors who constitute the most important stakeholders of a bank. Also, unlike the case of institutions the shares of which can be listed in a stock exchange and can change hands without affecting the capital base, in case of UCBs, the shareholders can withdraw their contribution to capital and shrink the capital of the bank and thereby limit its ability to increase risk weighted assets and expand business. As best practices guide, the World Council of Credit Unions has enunciated ideal governance principles for credit unions, which are financial cooperatives similar to our urban cooperative banks. These principles address the challenges of organizational power within credit unions at three separate levels viz. External Governance, Internal Governance and Individual Governance.\(^\text{13}\)
Best Banking Practices And Prudential Norms:

Urban cooperative banks have played an important role in the development of nation. Their success can be attributed to a variety of factors such as quick decision making and prompt implementation of ideas and support and confidence of the public. Cooperative banks have a different structure, and they function in a different customer setup and environment. The restriction on dividend payments will spur cooperative banks to strive their best to rake in profits by keeping pace with the market. Most of them have already started adopting new technology and best services akin to other banks. Most of them have already started adopting new technology and best services akin to other banks. The transparency level in cooperative banks will improve. Cooperative banks should be professional and work on sound managerial systems, taking care of future projections so as to retain and improve their market share and identity. It is in this context that professionalism and accountability of boards is critical. The management of every cooperative bank should adopt best banking practices and prudential norms. Professional
management and corporate governance is the key to improving transparency levels.

**Technology initiatives:**

In order to enhance the access to technology for UCBs, Reserve Bank would consider facilitating acquisition of basic hardware and software for conducting routine operations. Further, software has also been developed to enable the UCBs to prepare and submit all returns to Reserve Bank, electronically. The software has been implemented free of cost in the banks and the officials of banks are also being provided adequate training in using the software, which enables banks to maintain a database of returns submitted to the supervisor which in turn acts as a MIS for the UCBs. The stronger UCBs also are members of clearing house and of the Real Time Gross Settlement System.
**Skills Development Initiatives:**

To the extent that it does not lead to any conflict of interest, the Reserve Bank of India, in addition to its regulatory and supervisory functions also seeks to play a developmental role for the urban cooperative banks. In this context, in order to improve the skill level of human resources and the technological infrastructure of UCBs, RBI in addition to subsidized programs also provides free of cost training on all important areas of banking operations to the staff and top managements of UCBs through its own training establishments as also through off-shore training programs at regional centers that have a large network of such banks. As mentioned earlier, a software has been developed for banks to help them prepare and submit all the returns to RBI, electronically and the software has been implemented free of cost by RBI, in the banks.

**Increasing Competition:**

Since 1991, the financial system has seen several reforms. The process of liberalization was set in motion with gradual removal of restrictions on the operation of the
pricing mechanism, especially interest rates and statutory liquidity and reserve requirements – a process which is still underway. Enhanced competition in both banking and non-banking financial sectors has been gradually introduced – through a dynamic mix of public and private as well as domestic and foreign ownership – along with deregulation or adaptive regulations. Simultaneously, regulation and supervision of banks, financial markets and infrastructure were improved to increasingly align them with international standards and best practices. The market driven economy, through deployment of more capital, advanced technology and skilled human resources, is posing stiff and increasing competition to all traditional institutions.¹⁴

Market competition and the need to retain good clientele are affecting the UCBs too leading to squeezing of the margins on many banks, especially the larger ones. The larger private sector commercial banks, with their ability to invest more in technology and offer better remuneration to attract skilled persons, are better off in fending competition.
Understandably, therefore, the UCBs that are competing in the same space, especially in cities and towns, are also being aggressively targeted by the commercial banks and face tough competition. The smaller unit banks on the other hand, by and large, manage to retain their niche role through personalized service and informal approach.

**Recent Development in Banking Practices:**

In recent times, the definition and scope of bank marketing have further elaborated. The commercial bank when nationalized assumed new responsibilities of marketing their services which are different from the banks working for only profit.\(^{15}\) It is told by social reformers that bank should gear itself more too well being of society. The weaker section should be benefited in the process of economic development and banks have to play an important role. In view of the new policy towards the larger interest of the people, the “Social Marketing” has been encouraged. The same, since very long has been practiced by the co-operative banking.
On 24th June, 1967 the AICC (All India Congress Committee) adopted resolution that required social control over bank loans. On 19th July, 1969 the fourteen large commercial banks were nationalized by Presidential Ordinance in accordance with Article 124 of the Constitution. Late Smt. Indira Gandhi, described the purpose of Nationalization Banks to be an increase in Government control over the Commercial Sector of economy, in order to serve the better needs of the economy in relation to national priorities and aims. Loans to agriculture and small business should be increased and the over strong influence of individual large industrialists on the credit policies of the bank reduced. As with the nationalization, the entire banking industry has poised for change.

Co-operative banking unlike commercial banking since its inception has devoted to the cause of weaker section development and financing the priority sector. In fact Co-operative Banking has initiated a new era in Banking. The co-operative banks have proved that though
the commercial banks in the country have with longer stick to their age old practice of offering the umbrella to those who already well protected from the ill-elements, they (co-operative banks) have an aim to practice opposite of the above i.e. they have started to take care of those who are already exposed to ill elements and in need of financial assistance. The co-operative banks very well have concentrated their attention to cover the large mass of people in its umbrella.

**Banking Customer Services:**

The banking sector, one of the major service sector components is not an exception to this. The customer is the prime mover of banking activities. In the global competition, one of the biggest challenges for banks is to meet the rising customer needs and expectation. The needs and requirements of customers are varied, complicated and dynamic in nature and are very hard to satisfy. What is deemed good today may become obsolete in days to come. The task of attracting, winning and retaining profitable customers is a complicated and tiresome affair to achieve.
However, banks should exercise vigilance to identify the changing needs of the customer and monitor his moves and reactions towards the actions taken by the banks for pleasing him.

The customer today is very hard to please, because they have some peculiarities and uniqueness. Their likes and dislikes are not alike. They are smart in nature. They are price and time conscious. They demand more and never tolerate lapses. They want all the services under one roof. They hate to deal with complicated procedures. The list of their requirements is never ending and the yardsticks for their satisfaction are changing day by day. Thus, today performing banking business is becoming a challenging affair. To register a win in this situation banks should possess a mind and a broad mechanism to gauge the changing needs and aspirations of the customers. Moreover they should be more liberal in incorporating changes and novelties in the service portfolio offered by them to please and retain the customers. Once good service is extended to
Caring of customer and providing of better quality of services to them are indispensable for the banks to gain a niche in the marked and to thrive, sustain and increase profitability. For ensuring quality in providing services to customers, while designing the marketing mix for the banks the focus of attention should be given to customers. The bank should identify customer needs, develop products and services to satisfy their aspirations, price them properly, deliver them at the appropriate time and place, collect feedback to gauge the satisfaction as well as dissatisfaction level and to incorporate changes and redesign them if required. Banks should adopt this procedure as an integral part of their operational agenda to make the customers more attentive and loyal. Innovations and introduction of customer friendly schemes at appropriate times make the banks to come and stay with the customers very closely and to enrich their relationship. The uniqueness and pace in the inauguration of novel schemes and provision of varied
services to uniqueness the minute requirements of the customers attract the attention of existing as well as prospective customers and enable the banks to build a strong and heavy customer base.

**Models of Customer Services:**

Commercial banking is essentially a service oriented industry and co-operative banking too. Whether co-operative or commercial set up of bank, the customers wants personalized service and attention, no matter which bank it is or of what size? The banks are expected to give top-most priority in providing satisfactory and efficient services to their customers in medium cost. Their success and goodwill depends largely on the range and quality of service offered to their customers. The misled customer at the outset has a contact with counter man who sells the services. Hence it is duty of all the banking staff to assist the counter man through whom the services to customers are extended. The men behind the counter man have immense potentialities to maintain and promote customer satisfaction.
The customer must be able to transact his business at just one point. He must be able to do so in a matter of minute. We get common scene in any busy bank that some customers loitering around the bank counter in an anticipation of their settlement of transactions. Some customers move from one counter to other enquiring about something. Some are in long queues. This type of situation is hardly indicative of building favorable image of cooperative banking. This is a major deterrent to the growth of UCBs in Maharashtra. Recently, someone has made a cynical suggestion that in order to entertain the people loitering or sitting around the bank counter, the TV – VCR may be kept on. The people will forget the business for which they came and bank staff may discharge the work slowly.

The customer service charges should be kept reasonable. There should be uniformity in the service charges levied by different UCBs on various services. Similarly these charges should be less than the charges of commercial banks. One of the main objectives of co-
operative bank like UCB is the spread of banking habit among the rural people. This will not be achieved by mere branch expansion. A simultaneous improvement in the variety of auxiliary services provided, followed by a service tariff which is economic both to the banker and the customer, is essential. The bank charges seem to be certainly exorbitant for collection of outstation cheques of small value. This, which the bank to do is due to high postal charges. The Registered Post services are costlier. Its better if all the bank correspondence is moved from one place to another by the post free of charges. There is logic in such facility, since the Government is keen on developing the co-operative banking sector which is indirectly owned by it. Being an extremely dynamic concept, customer service needs to be assessed and re-assessed so that existing schemes and procedures are suitably altered and new one can be devised to cater the emerging needs. The PCBs Ltd. Hingoli should establish customer service department which should conduct surveys, studies, research etc. and direct the management for improving these services.
Types of Bank Customers:

Like product marketing, Co-operative Bank marketing has a wider connotation than only providing services to depositors. The customers of Bank can be divided into three categories:

1. Those who maintain their accounts with the Bank,
2. Those who borrow from the Banks,
3. Those who do not maintain their accounts with the Banks.

The consumers who maintain accounts with Bank have the privilege of availing of some special services such as collection of negotiable instruments, loan facilities, and information for credit worthiness and overdraft facilities especially in the case of current account holders. The consumers without account are provided only those services which are, in fact, not the main business of the bankers in pursuance of the definition of the banker under the banking regulation Act. These services include issue of demand draft, gift or traveling cheques and permission to use locker
etc. The borrowers to expect services from the Bank like timely advancing of loans, informing about the utilization of loans, supervision over loan utilization etc.

**Marketing Information System (MIS) and Urban Co-operative Banks:**

A marketing information system may be defined as set of procedures and methods for the regular planned, collection, analysis and presentation of information for use in making marketing decisions. It is a system giving information to marketing managers that will help them making better decision about interest rate on deposits, interest rate on borrowed capital, commission, discount and so forth.

Alternately market is an organized set of procedures, information handling routines and reporting techniques designed to provide the information required for making marketing decision. The information is relevant as well as useable both from internal and external sources. It also provides a mechanism for reducing the often overwhelming
flood of available marketing information to pertinent, useable amounts.¹⁸

Philip Kotler has defined MIS as “A structured interacting complex of persons, machines and procedures designed to generate an orderly flow of pertinent information collected from both intra and extra firm sources, for use as the basis for decisions making in specified responsibility of marketing management”. Thus, MIS consists of four sub-systems:-internal accounting system, marketing intelligence system, marketing research system and management science system².

**Importance of MIS in Urban Co-operative Bank:**

1. MIS is best suited for urban co-operative bank having vast operation and activities.

2. Acceptance of the marketing concept requires a thorough knowledge of the consumers’ preferences attitudes and motivations. Marketing information system may provide help to management to remain
consumer-oriented in its operations by furnishing the real need of the target market.

3. MIS urban co-operative bank focused on managing the flow of information to marketing decision makers.

4. MIS design and implementation of data collection on regular basis.

5. MIS is a future oriented activity it anticipates prospective problems and the activities of MIS are designed in such a manner as to prevent problem from arising.

6. Due to MIS urban co-operative bank get knowledge about marketing environment. This leads to effective managerial decisions

**Customer Relationship Management (CRM):**

Customer relationship management is the process of targeting, acquiring transacting, servicing, retaining and building long-term relationships with customers. It includes all the tenets of relationship marketing, grounded in customer data, and facilitated by technology. Increasingly, firms recognize that if they don’t keep their customers
happy, someone else will. Many e-marketers, especially those focusing on CRM software capabilities suggest that CRM has three facets: sales force automation, marketing automation, and customer service. The first occurs primarily in the B2B market, while the second and third are important in all markets. Word-of-mouth communication among customer has been called the heart of CRM positive word-of-mouth can attract many new customers but negative word-of-mouth can drive them away. Due to CRM urban co-operative banks retaining customers for longer periods of time.

**Challenges For UCBs:**

Banking has always been the major vehicle for any nation`s economic development. With the liberation economy, a paradigm shift has taken place in Indian banking to help the country`s liberalized economy perform as per global standards. In the process, banking sector-be it commercial, development of co-operative has been witnessing a whirlwind of changes and challenges. These challenges are manifold, multi-faced and multi-dimensional.
Urban Co-operative banks which are functionally more akin to commercial banks than to their co-operative counterparts, have considerably been affected by the supercyclonic winds of change. The main challenges for UCBs are, inter-alia:\textsuperscript{20}

- To retain and enhance their market share,
- To develop skills and expertise to combat diverse banking operations, To professionalize and depoliticize management,
- To profitably manage funds in-flow and out-flow as also recovery of NPAs,
- To retain and develop human resources for qualitative productivity, To cope with increased customer-expectations by developing better and newer products and services,
- To recognize, accept and translate latest information and communication technology into useful applications for their business development.

A combination of financial restructuring and institutional reforms can only help urban cooperative
banks to improve the efficiency. Moreover the objective of financial restructuring must be to induce regulatory, legal and administrative changes considering cooperatives member-centric, democratic, autonomous and self-reliant institutions. Politisation and bureaucratization is running through the warp and woof of the UCBs. Their combined effect led to governance and managerial failure leading in turn to severe financial impairment. The very concept of banking is undergoing change in the present competitive environment and the conventional framework for management with which UCBs are comfortable is not sufficient. Good corporate governance is critical to efficient functioning of an entity and more so for a banking entity. The framework for good governance and professional management in urban cooperative banks should essentially emanate from the guiding principles and the given legal framework in different countries. As per the prevailing act any individual member can get himself elected to the management committee of a cooperative bank. It is this management committee which is entrusted with the responsibilities like risk management strategy, credit and
NPA management, investment management, marketing plan, Asset-Liability management and so on. This elected management is unable to take on the emerging challenges. Perhaps, the need of the hour is to ensure that in urban cooperative banks, the system of governance including the size and composition of the board of directors is driven by the purpose and objectives of the business.

At present in India, urban cooperative banks are subjected to duality of control and this has understandably resulted in overlapping jurisdiction of the State Government and the central bank of the country. Moreover, a clear-cut demarcation of the financial and administrative areas for regulation is almost impossible and even if it is possible it surely acts as an impediment in effective supervision. While the central bank of the country has the wherewithal under the Banking Regulation Act for dealing with crucial aspects of functioning of commercial banks, in the case of cooperative banks it requires the intervention of the Registrar of Cooperative Societies. Thus, the duality of control not only affects the quality of supervision and
regulations, but also the functioning of the urban cooperative banking sector. Needless to mention, under this regime of duality of control the urban cooperative banks may turn out to be neither efficient cooperative nor commercial banks. It appears that ‘duality’ is not an unresolved concurrent jurisdiction issue. The real problem is that under the existing framework, the Central Bank is required to enforce its regulatory prescriptions through the Registrar of Cooperative Societies. The situation is gradually changing and it is extremely gratifying that the position is evolving for the better with several State Governments executing specific MoUs with RBI in regard to resolving problems arising out of dual control regime. So a convergent approach needs to be adopted for the development of the sector, which is an important part of the financial system.

Despite impressive economic growth, powerful wave of consumerism, computerization and corruption coexist in social life of India.\textsuperscript{23} Urban cooperative banks, among all the formal banking entities, historically have had the
biggest retail reach and an intimate relationship with clients. That nexus is eroding with the growth of personal banking services and new technology, especially by private banks. Also urban cooperative banks have not been able to service the growing credit requirements of clients or the newer demands for loans in the field of personal finance. In the interest of healthy competition the urban cooperative banks should be encouraged to grow. Thus a few bad eggs should not curb the growth of a key banking entity.

The success of cooperatives ultimately depends upon their ability to perform their duties and fulfill the expectations of their members. The loyalties of the members can be retained not on the basis of monopoly, agreements or under duress but on the strength of the goodwill secured by rendering service. Banking Cooperatives are sometimes organized and administered by those who lack both the qualifications and the experience necessary for the job. This factor alone accounts for a large number of cooperatives’ failures and the uneven development of the movement, in the country. The
importance of efficient management cannot, therefore, be
over emphasized.

Functioning in a highly technologically advanced
country is in itself a challenge and an opportunity for the UCBs to upgrade to a
computerized environment so as to focus on more business
opportunities and render better customer service. These
technological platforms provide an impetus for growth. The
role of training and educating not only the staff but also the
customers about the various technology based banking and
financial services also plays an important part here.
Being a movement essentially dependent on the ability of
persons in humble walks of life, who are often amateurs in
the handling of business operations, the need for training
and education, is greater to optimally utilize the
technological platform. RBI is also trying to facilitate the
imparting of training to the key players responsible for the
growth of UCBs. To improve the professional skills and as
part of the commitment made in the MoUs with the State
Govts., free of cost training courses for Directors, CEOs and
other officials of UCBs are being conducted by the Reserve Bank at regional locations and in local languages for the convenience of banks. As of now, 1307 directors have been given training apart from 1004 CEOs, 2078 officials and 341 liquidators/administrators/auditors including Chartered Accountants.25

UCBs normally confine their area of operation to localized geographical regions, but over a period of time, their area of operation has crossed the frontiers of districts and in some cases the states of their registration. Continuing the ideals and beliefs of cooperative pioneers, UCBs seek to bring about an alignment of human and social development with their business objectives. At present, the bigger question is can we extend or diversify the development of strong, vibrant and financially sound UCBs to the other regions of the country as well to cater to the requirements of the people at the base level and bring them under the banking fold. In few states such as Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu account for over 80 per cent of urban cooperative banks
presence and 75 per cent of their total deposits. Predominant concentration of Urban Cooperative Banks in these 5 states is mainly on account of emergence of strong cooperative leadership.\textsuperscript{26} There is a clear indication as per the available data as mentioned earlier that a huge potential exists for the UCBs to play a more proactive role in the banking sector in the coming years.

**Reference:**


7. RBI (Various Issues, 2000-2006), Trend And Progress In Banking In India, Reserve Bank Of India, Website: Http://www.rbi.org.in.


9. RBI (Various Issues, 2000-2006), Trend And Progress In Banking In India, Reserve Bank Of India, Website: Http://www.rbi.org.in.

Memorial Lecture, Deputy Governor of the Reserve Bank of India, at Shivaji University, Kolhapur.


