CHAPTER 6

FINDINGS AND SUGGESTIONS
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FINDINGS

The findings of the study are:

1. There is an upward trend in the growth of number of Urban Co-operative Banks and their Branches in Karnataka. But their growth has not been uniform. In some areas of Karnataka there are a few UCBs. Even though, there is now a greater awareness among the people of these areas regarding the need for setting up Urban Banks, hardly any bank could be set up due to lack of initiative on the part of the co-operative leadership and proper support of the State Government.

2. Dual accountability has posed many constraints for the UCBs. Notwithstanding the constraints on account of dual control by RBI and Co-operative Department of State Government, the UCBs have been functioning against various odds:
   i. Inadequate working Capital.
   ii. Near-non-availability of remittance or disposal of cash.
   iii. No UCB is allowed to manage a currency chest. The RBI has maintained this stand despite repeated requests by the UCBs.
   iv. Non-availability of qualified and trained officials to head the UCBs or their Branches.
   v. Inadequate training facilities.
   vi. Lack of clear demarcation between RBI and Co-operative Department’s respective areas of control and authority.
3. Liberalised Licensing Policy of RBI has not stimulated more response for establishment of more number of UCBs and their Branches in Mysore and Gulbarga Regions. The share of Mysore Region is about 13 per cent and that of Gulbarga Region is about 7 per cent, without the branch net work.

4. Liberalisation in issuing of licences for new UCBs has seen many banks coming up in Bangalore and Belgaum Regions, there has also been a continuous growth in the number of membership and their share capital has also registered progress.

Maximum number of UCBs and their Branches are concentrated only in Belgaum and Bangalore Regions, about 80 per cent. Belgaum Region alone accounts for 50 per cent of total number of UCBs and their Branches in Karnataka.

5. The reasons for increase in membership and the share capital of UCBs could be due to several factors like efficient leadership, high quality of customer service, new strategies adopted to attract the members and non-members and increased confidence in the public’s mind.

6. It is a healthy sign that nearly 3/4th of members are regular members, because a person joins as a regular member with the intention to achieve the objectives of co-operation rather than to control.
7. UCBs of Belgaum and Bangalore Regions alone share 89 per cent of total number of members, while the share of Gulbarga Region is less than 1 per cent and that of Mysore Region is 10 per cent.

8. The Urban Co-operative Banks in Karnataka have strong financial structure and sound capital base with ever increasing reserves. But the study showed that the concentration of share capital among the existing members leading to monopoly control over the UCBs.

9. The Government has not contributed anything towards the share capital of Urban Co-operative Banks. This shows the financial stability and soundness of UCBs in Karnataka.

10. Substantial contribution of Reserves to Owned Funds:
    Total reserves contribute substantially to the owned funds and in turn to the internal sources of finance. Reserves of UCBs in Karnataka were 70 per cent of the owned capital by the end of 1997-98.

11. Statutory Reserve – A major component:
    Statutory reserve or reserve fund was the major component in total reserves. It formed about 30 per cent of total reserves.
12. **Increased Reserves, Lesser Borrowings and Lesser Cost of Capital:**

The increase in reserves drastically brings down the weighted average cost of capital, which is advantageous to the UCBs. If reserves are properly built up and used in business, outside borrowings could be sizeably reduced and some day the UCBs will achieve self-sufficiency in funds. At this point the cost of capital will be the lowest.

13. **Deposits from the public,** which really speak of the efficiency of the bank, show an encouraging picture. Total deposits of UCBs were growing but the rate of growth was fluctuating. No doubt, the average growth rate of deposits was 27 per cent, really a good sign of prosperity of UCBs. The increase in deposits of UCBs reveals that the people have faith and trust in these banks.

14. The high growth rate of deposits can be attributed to comparatively favourable interest rates, various techniques adopted for mobilisation, the efficient management of non-officials and also the commendable customer services introduced by UCBs.

15. The deposits have shown impressive growth but the majority of these are high-cost time deposits, while the position with respect to low-cost / no-cost deposits has not been so encouraging.

16. **Decline in the growth of savings deposits** indicates that UCBs are not effective in cultivating the habit of thrift and savings among the people with moderate means. This also indicates that UCBs have failed to mobilise the low-cost deposits.
17. Increase in the growth of current deposits, shows the ability of UCBs to attract small traders, artisans, etc. However, the relative share of current deposits was quite insignificant, i.e., 6 per cent, it signifies the interest of business people in UCBs for whom they are formed. The very purpose of UCBs is to help small traders, artisans, small-scale industries, etc. The balance in current account deposits itself suggests that the business through UCBs was very meagre.

18. The other deposits are increasing, so also their share in total deposits. This signifies the success of UCBs in attracting people with new schemes of deposits and also a reliable and regular service in collection of pigmy deposits, recurring deposits and the like.

19. With respect to the account-wise deposits of UCBs, on an average, current deposits account for 6 per cent, savings deposits account for 22 per cent, fixed deposits account for 42 per cent and other deposits account for 30 per cent.

20. Deposits of UCBs in Karnataka are heavily concentrated in Bangalore and Belgaum Regions, i.e., 90 per cent of total deposits. Gulbarga Region shares less than 1 per cent and Mysore Region shares 9 per cent. This indicates the uneven growth of deposits. The uneven growth of deposits is due to poor performance of UCBs, absence of UCBs and their branches, and lack of deposit potentiality in Mysore and Gulbarga Regions.
21. The surplus funds were noticed with the Urban Co-operative Banks. Though the increasing trend of investments was noticed it was in the direction of low yielding bank deposits and government securities.

22. The loans and advances of UCBs increased in absolute terms during the study period by 2.4 times. But the growth rate is declining due to regulatory priority sector advances.

23. Immovable Properties and Vehicles were major components of Secured Loans:

Mortgage of immovable properties and hypothecation of vehicles were the two components accounting for 35 per cent of the total loans.

24. Weaker Sections of Society were deprived of their share:

The Urban Co-operative Banks have violated the main objective of providing credit facility to weaker sections because the weaker sections of society may not possess the wealth in the form of building or gold and silver to keep them as a security and no one comes forward to give guarantee on behalf of them.

25. Small traders and self employed were benefited:

The Urban Co-operative Banks have advanced against vehicles, machinery and goods to help traders and self employed people in urban and semi-urban areas to achieve the objectives of helping small traders and self employed or unemployed urban people.
26. Personal security advances were more in Unsecured Advances:

The major component of unsecured loan was against personal security of the borrower himself. If proper care is taken in appraisal of loan proposals the danger of over dues can be reduced. So, the Urban Co-operative Banks can keep down overdues by proper loan appraisals before lending.

27. Lending against productive and value adding securities:

Basically the loan portfolio management of UCBs was more conservative, secured and safe. More than 80 percent of the loans were secured against value adding and yielding tangible assets. There was no serious threat for recovery of loans and interest due on them.

28. Lending for productive and development purposes:

The Urban Co-operative Banks were lending a major portion to trade and commerce neglecting the main objective of lending to unemployed youths for self employment, to artisans and professionals to set up their units, to small scale industries, etc. The reduction of consumption loans indicate lesser help to people of smaller means to enable them for increasing standard of living. Neglected educational loans also depict the lesser inclination to develop education. UCBs have also reduced lending for repayment of old debts.
29. More advances by UCBs of Bangalore and Belgaum Regions:

UCBs of Bangalore and Belgaum Regions advanced 90 per cent of total advances of UCBs in Karnataka. However, the growth rate of advances was more in Gulbarga Region than that of any other Region.

30. Urban Co-operative Banks have failed to attract depositors as compared to borrowers:

The performance of management was slowly leaning towards ineffectiveness and inefficiency in mobilising deposits as against the advances.

31. Majority of over dues, about 34 per cent, was only one year old. This reveals that management of UCBs has taken steps to recover loans more vigorously after one year from the date of over due loans. In the first year of over dues they give an opportunity and time to pay voluntarily, on failure to pay the over dues in the first year, they launch recovery drive from second and subsequent years. The management has succeeded in recovery of loans to a greater extent in the 5 years period from the date of over dues throughout the study period.

32. High Ratio of Over dues to Owned Capital:

It was very high (about 40 per cent) due to lesser recovery efficiency of UCBs, thus resulting in loss of business, decreased profits and increased expenses of recovery. The management must try to bring down the ratio by taking effective steps to recover loans.
33. Effective implementation of provision of NPA and reduced over dues:

UCBs are aware of consequences of mounting over dues. They have taken steps for recovery of overdues and most of them are effective in managing the recovery of loans. The decrease is also due to application of provision of Non-Performing Assets strictly to Urban Co-operative Banks recently by Reserve Bank of India.

34. The fact that the Non-Performing Assets of most of the UCBs are generally less than that of the commercial banks, indicates prudent approach followed by them and this area should be further strengthened.

35. The number of small unitary urban banks at one end and large scheduled urban banks at the other, present a wide spectrum of the sector and its heterogeneous character.
HYPOTHESES TESTING

The hypotheses testing by the present study revealed that:

Out of four hypotheses mentioned in chapter 1, the hypotheses bearing numbers 1 and 3 proved to be valid. The hypotheses are as follows:

1. That the regional imbalances in the growth of Urban Co-operative Banks still persisted.

3. Urban Co-operative Banks in the study area have a strong financial base.

Due to concentration of Urban Co-operative Banks in a few districts of Karnataka, regional imbalance has emerged.

Urban Co-operative Banks in Karnataka have a sound financial structure.

Hypotheses bearing serial numbers 2 and 4 have been proved to be not valid. They are:

2. Urban Co-operative Banks have imbibed the co-operative principles in their working.

4. Urban Co-operative Banks in Karnataka have sound financial management with professional touch.

The co-operative principles are neglected by Urban Co-operative Banks in performing their principal functions.

Financial Management of Urban Co-operative Banks lacks professional touch.
SUGGESTIONS

In the light of findings of this study, the following suggestions are worthwhile in correcting the present prevailing situation:

1. Spirit of co-operative endeavour:
   
   A few enterprising businessmen and industrialists of Gulbarga and Mysore Regions should come together in true spirit of co-operative endeavour and establish these institutions.

2. Growth in less developed regions:
   
   In order to boost the growth of urban co-operative banking movement in the less and least developed regions like Gulbarga and Mysore Regions, to begin with, a few district/select centres may be identified in such regions/areas where organisation of UCBs is feasible in terms of level of economic activity, existence of local leadership and potential for mobilisation of deposits and purveying of credit.

3. Education and Awareness among people:
   
   There is a need for continuing education and awareness among people about the usefulness of Urban Co-operative Banks for generation of employment opportunities and raising income levels of the weaker sections of the society.
4. Formation of Apex Urban Co-operative Bank in Karnataka and All India Urban Co-operative Bank at the National Level:

It is well-known that the State/District Central Co-operative Banks have failed to play their due roles in the promotion and development of urban co-operative banks in the federal co-operative credit structure existing in the country and as envisaged by Madhava Das Committee and the Informal Working Group set up by RBI for this purpose. The main reason for the imbalance in the growth of Urban Banks in Karnataka is due to the present weak linkages between the urban banks on the one side and the State/District Central Co-operative Banks on the other hand as latter are essentially meant for rural short term finance. Therefore, an Apex Urban Co-operative Bank in Karnataka and an All India Bank of these institutions at the national level should be set up early. This will not only provide the much needed organisational and financial collaboration and solidarity amongst the urban co-operative credit institutions but also act as the fund balancing centre of Urban Banks at the national level.

5. Organisation of New Urban Co-operative Banks in Unbanked areas:

The growth of UCBs in Karnataka has not been uniform. For instance, Urban Co-operative Banks in the two co-operatively advanced Regions of Bangalore and Belgaum constituted 80 per cent of the total number UCBs in Karnataka. Thus, there is a vast scope for the organisation of new UCBs and the branches in Gulbarga and Mysore Regions, thereby improve the deposit mobilisation in these Regions.
6. Rehabilitation of Weak Urban Co-operative Banks:

The existence of weak banks is harmful as they project a negative image of the urban credit banking movement. The pace of rehabilitation of weak banks is quite slow. The weak banks should be merged/amalgamated with strong banks.

7. Organisation of Mahila Urban Co-operative Banks:

In view of the accepted national policy to improve the economic status of women, the organisation of Mahila Urban Co-operative Banks is necessary. The formation of new Mahila Banks is necessary for creating the necessary infrastructure so that women entrepreneurs can be assisted in getting necessary finance without harassment and also to reduce the imbalance in the growth of Urban Co-operative Banks in Karnataka.

8. Dual Control:

Since there is a dichotomy of control exercised both by the RBI and the State Co-operative Departments in respect of the Urban Co-operative Banks which results in over-lapping and sometimes contradictory instructions. Hence, the Central Government should devise ways and means of compartmentalising this control by ensuring that the Reserve Bank of India would only regulate the financial operations of the Urban Co-operative Banks and the State Co-operative Departments should primarily be concerned with preserving and protecting the co-operative character of these institutions.
9. Guarantees issued by Urban Co-operative Banks be made Acceptable by Government and Semi-Government Organisations:

The Government and Semi-Government organisations do not accept the guarantees issued by urban banks. Prima-facie, the guarantees issued by the urban banks should be accepted by the concerned authorities as these banks have been authorised by RBI to carry on banking business.

10. Fair Representation to Urban Co-operative Banks on the Board of Management of District Central Co-operative Banks and State Co-operative Banks:

Urban Co-operative Banks have not been given their due representation on the Board of Management of District Central / State Co-operative Banks, though they are a part of the three tier Federal Co-operative Credit Structure and are keeping large funds with their respective District Central Co-operative Banks.

11. Audit of Urban Co-operative Banks by Chartered Accountants:

UCB regards audit as one of the management tools to regulate the working of an organisation. Hence professional Chartered Accountant Firms should conduct concurrent audit of UCBs. The statutory audit is conducted by the Co-operative Department.

12. Staff Training and Leadership Development Programme for Urban Co-operative Banks:

Marathe Committee report has laid great stress on three aspects viz. Profitability, Efficiency and Competitiveness of the urban banks. The latter will have to innovate and
provide better service and this will be possible only if the staff of urban banks is fully trained, equipped with suitable skills and the management become professional.

13. Educational qualification for Board of Directors:

Today, UCB is an important segment of the Banking Sector and is required to compete with other commercial banks. In the present liberalised environment characterised by competition, some basic minimum qualifications should be fixed for the members of the Board of Directors because they are required to take financial decisions and formulate policies with financial implications. In more of the cases, it has been found that majority of the Directors of the Board are illiterate and not well-versed with the banking system. It is also suggested that there should be a provision of co-opt at least one member from the banking sector, one professional and one economist for the smooth functioning of the banks.

14. To delink Membership from Lending:

The Urban Co-operative Banks are lending only to members and also the minimum share capital to be contributed by the borrower should be 1 to 5 per cent of the amount of his borrowing. This has led to the excess capital.

15. Mobilisation of the Potential Deposits:

To intensify deposit mobilisation, creation of special deposit mobilisation cell should be given top priority. A rational strategy mix in the form of branch expansion and publicity should be selected in keeping with the need, objective of Urban Co-operative
Banks along with the socio-economic policy of the government. The Urban Co-operative Banks have succeeded more in getting capital from people rather than in mobilising deposits. Therefore, there is a need to increase deposits through massive deposit mobilisation programme. Sufficient awareness shall be created among the public about facilities and benefits which are associated with various deposit schemes.

16. Formulation of innovative deposit schemes:

Formulation of innovative deposit schemes which are need-based and attractive may contribute significantly towards the bank's efforts in mobilising deposits from the public.

17. Special campaigns:

Special campaigns such as deposit mobilisation week shall be convened at least once in a year by providing attractive terms and conditions.

18. Create a Development Fund:

UCBs are advised to create a development fund, which can be used to modernise the existing places of business and to open up new branches in future.

19. Capitalisation of Statutory Reserves:

The banks must be allowed to capitalise the statutory reserves above the 10% of paid-up capital, so as to make effective use of such surplus reserves.
20. Separate Provisions from Reserves:

Reserves are created to face the unforeseen contingencies but provisions are created to cover the known liabilities in future. Therefore, provisions must be separated from the reserves in the balance sheet so that an effective and selective control can be exercised on the provisions.

21. Urban Co-operative Banks must borrow funds during financial crisis:

The managerial decision not to borrow under such circumstances is incorrect because instead of reducing granting advances and selling securities they would have borrowed and come out of crisis without creating panicky. Therefore, it is suggested to the Urban Co-operative Banks to borrow funds whenever necessary to tackle financial difficulties instead of creating suspicion in the minds of employees and depositors in particular and public in general by selling assets, sacking employees and reducing advances.

22. Avoid Mounting Overdues:

The Urban Co-operative Banks must employ efficient machinery for lending and its timely recovery. Supervision must start before granting of loans to assess the need, purpose and gravity of borrowing. Besides, it requires a follow up action over the use and recovery of funds. Personal contact between the borrower and the supervisor is required from the beginning till the money is recovered. Thus, it is necessary that these banks should concentrate on recovery front and see that the over dues are at minimum.
In their efforts to speed up recovery they should concentrate on willful defaulters and exogenous factors affecting recovery.

23. Simplification of Legal Proceedings for Recovery of Dues of Urban Co-operative Banks:

   Alike Lok Adalat, similar body my be set up in the co-operative sector to dispose off the pending cases quickly. To expedite the disposal of legal cases the procedure should be simplified, because delay in disposal of legal cases has a negative impact not only on present defaulters but also on the prospective borrowers.

24. Surplus Funds should be used for Lending:

   Instead of being investing larger share of funds in the form of bank deposits, the Urban Co-operative Banks can think of lending more from the surplus funds available over and above the statutory reserve requirements to earn a higher yield.

25. Develop Professionalised Investment Portfolio:

   The Urban Co-operative Banks have to develop professionalised investment portfolio to increase profitability along with liquidity. Some of the investments are to be diverted to more ventured investments for increasing the profitability.

26. Corrective measure to increase dwindling operational profits:

   The trend in operational profit is declining. It must be stopped by adopting more realistic approach to the whole working of Urban Co-operative Banks. The operational
profits are declining due to thinning of spread, uncontrollable deposit mix, lower yielding investment, surplus funds, excessive liquidity, requirement to make provisioning for their impaired assets on application of prudential norms and meagre non-interest income from ancillary services. The future of Urban Co-operative banks depends on the type of modern banking amenities and services to the customers and professionalism in fund management. The following suggestions may be adopted to increase the operational profits:

i. Need for augmenting ancillary business:

As the spread is getting narrower and profitability is getting eroded, there is an imperative need to explore more avenues through ancillary business, which does not involve funds. The ancillary business helps the UCBs to project better image and also serve the society besides increasing earning by creating the following need-based services to customers:

a) Traditional ancillary services such as collection of negotiable instruments, remittance of funds, safe deposit lockers, standing instructions, etc.

b) Non-traditional ancillary services in collaboration with commercial banks like issuing credit cards, issuing pay orders, demand draft and travellers’ cheques, executor and trusteeship services etc.

b) 24 hour banking services with door to door services can be started by UCBs as it has local standing.
ii. Increase the Interest Income:

The Urban Co-operative Banks also have to take steps to increase interest income along with the steps to increase non-interest income by developing professionalised investment portfolio and by investing the excess or surplus money in high yielding assets.

iii. Control Interest Payments on Deposits by having ideal Deposit Mix:

To control the interest expenses it is suggested to have the ideal deposit mix. The savings deposits, current deposits and other demand deposits must be minimum 50 percent of total deposits, where interest rate is nil or very less. No doubt, fixed deposits bring stability to financial sources and lead to a planned lending but it also increases the cost of funds very high. So to maintain a balance, the UCBs have to have a proper mix of different classes of deposits, so that the average cost of deposits is maintained at a lower level and stability is ensured. To increase the interest spread the bank has to decrease interest payments on deposits and borrowings and increase interest receipts by proper deployment of funds in high yielding assets.

iv. Balance Inflow and Outflow of Funds:

Efficient management of inflow and outflow of funds by avoiding surplus fund on any day will increase the efficiency in deployment of funds resulting in higher operational profits. UCBs should try to minimise the quantum of surplus money on hand by planned programme of diverting the deposits in various types of advances with due attention to safety, liquidity and profitability.
27. Use of Computers:

UCBs should be computerised to provide quick and efficient service to customers, to manage funds, to calculate interest on deposits, to make payment, to write accounts, to keep financial and personnel records, etc. A computer with speed and accuracy enables UCBs to multiply their efficiency by substantial reduction in the man power requirements and operating cost.

28. Management Information System:

In spite of growing recognition for Management Information System, UCBs have not yet developed such a system. In the management information system, data are collected, processed and transferred to the decision-making centres. To make decisions, managers need information concerning internal activities of the bank and its external environment. Therefore, necessary arrangement may be made by the UCBs to have a separate cell to compile, process and analyse the data so that timely supply of information can be ensured.

29. Cost Accounting and Cost Audit:

UCBs should devote attention towards cost reduction and cost control. UCBs should have costing department not only to ascertain costs but to suggest ways and means to control as well as save costs to increase profitability and efficiency of them. The cost audit ensures that every rupee invested in capital or lent gives the optimum return, and that balancing of investment between safety, liquidity and profitability of Urban Co-operative Banks is designed to give optimum results.
30. Professionalism in the attitude and approach at the decision making / Board Level, delegation of powers at the Administrative Level and a dedicated workforce with high morale to deliver the desired goods will certainly enable the UCBs to scale pinnacles of progress in future.

In brief, it may be concluded that the Urban Co-operative Banks should not feel content with the present quantitative achievements but should aim at qualitative performance in terms of their financial structural parameters and operations along with co-operative principles. They should achieve their goals of economic development with financial, monetary and co-operative discipline and prudence. The findings and suggestions of the study are expected to be of use for the balanced growth of Urban Co-operative Banks in Karnataka.