CHAPTER - VIII

Summary of Findings and Suggestions

Summary of Findings:

The Urban Co-operative banking sector has made significant progress in India and Karnataka. This sector is to a greater extent self-reliant. The primary objective of this sector is to encourage thrift and savings, leading to mutual aid and improve the economic conditions of members.

The sector is comprised of Urban Co-operative banks and Credit Societies. There are more than 2,100 Urban Co-operative banks and 40,000 credit societies spread over all parts of the country. The Urban Co-operative banks have been recognized as one of the important constituents of banking industry contributing to the economic growth of the country. The share of Urban Co-operative banks in total deposits and loans and advances are 6-7 percent and 7-8 percent respectively, in banking industry. They also hold an impressive 40 percent of total working capital funds of co-operative credit sector. Further, these banking institutions offer personalized and whole range of banking service to their members. They are perceived as small, yet safe neighborhood banks, which can provide all the services that the commercial banks can offer.
The Urban Co-operative banks are small neighborhood banks with decision-making process at the local level, they have a local feel and all the decisions are made by the members themselves in the General Body Meetings. They can also vary the requirement for grant of loans and advances depending upon the realistic situations at the ground level.

A study on the performance of Urban Co-operative banks and factors responsible for the same will help restructure the Urban Co-operative banks working to meet their objectives of local area development. In the present context of changing perception in banking, Urban Co-operative banks are in the process of professionalising their personnel and upgrading the technology to meet the new challenges.

In the light of the above developments, the present study entitled "Performance Evaluation of Urban Co-operative banks" A study of selected Urban Co-operative banks in Dharwad district, is an humble effort to provide comprehensive, historical, structural and quantitative analysis of the activities of Urban Co-operative banks. For this purpose, the study selected two Hubli based Urban Co-operative banks, namely, Gurusiddeshwara and Navakalyan Co-operative Banks are selected based on their high and low volume of business. A useful set of hypothesis was also constructed to have a deeper insight into the working of the units. The following pages present a brief summary of major findings of the study.
1. Composition of Deposits:

The success or efficiency of any credit agency is the extent to which it is able to mobilize the savings of the community in the form of deposits. The study revealed that the Guru Bank has increased its average deposits mobilization from about Rs. 30 crores per year in the 13 year period to almost Rs. 51 crores per year in the last three years with an increase of 70 percent. During the same period, the average total deposit mobilization in Kalyan Bank has increased by more than Rs. 200 crore from Rs. 3.3 crores to Rs. 11.27 crores, thus, recording a very high growth during the last three years.

2. Composition of Loans and Advances:

Advance portfolio of Urban Co-operative Banks differed from commercial banks in many respects. The deployment of credit is aimed to help the members to generate more income and at the same time to inculcate the habit of savings among the borrowers and public in case of Guru bank. The composition of loans of Guru bank reveals that the number of loans has increased by about 18 percent between the two periods. While the total amount of loans per year has increased by 88 percent between the two periods indicating a higher amount of loans per loanee in the second period compared to the first. During 13 years of the study period, housing loans, loans to other, loans to small scale business and education loans have together accounted for about 84 percent of the total loanees with negligible proportion loanees borrowing loans for other purpose such
as vehicle loan, agriculture loans etc. During the last three years, though the percentage of total loanees borrowing loans for the above said purposes has identical at about 85 percent but its composition changed. The number of housing loans increased by about five percent, while number of education loans fall by about 4 percent. The composition of other loans amounts largely remained identical between the two periods. This showed that the bank priorities have remained identical throughout the study period. Except that it has tried to shift in favour of more safe lending such as housing loans, thus, reducing its risk in lending.

The compositions of loans and advances of Kalyan Bank reveals that the number of loanees increased by about 20 percent between the first and second periods. While the total amount of loans per year has increased by 74 percent between the two periods indicating a higher amount of loans per loanee in the second period compared to the first period. During 13 years of study period, housing loans, retail traders, self employment and other loans have together accounted for about 87 per cent of the total loanees with negligible proportions of loanees borrowing loans for other purposes such as small scale business, small industries, agricultural loans and educational loans etc.

During last three years, the percentage of total loanees borrowing loans for above said purpose slightly increased to 90 percent without change in its composition. The number of housing
loans increased by about 4 percent while others fell by 3 percent. The composition of other loans amounts largely remained identical between the two periods. This showed the bank priorities have remained identical throughout the study period, except that it has tried to shift in favour of more safe lending such as housing loans, thus, reducing its risk in lending.

A similar picture emerges, when one looks at the composition of loans and advances in terms of the total amount of loans advanced to different sectors. During 13 year period 87 percent of the total amount advanced per year went to retail traders, housing loans and self-employments and other loans. Similarly, during last 3 years about 93 percent went to these three sections. However, a composition of the proposition of the loans lent to different section between two periods showed no significant shift either in favour of or any sector. This further, showed that the bank's policy in sectoral lending has remained unchanged over the period.

A similar picture emerges, when one looks at the composition of loans and advances of the total amount of loans advanced to different sectors. During the 13 years period about 80 percent of the total amount advanced per year went to small scale business, housing loans and other advances. Similarly, during the last three years about 80 percent of advances went to these three sections. However, the proportion of loans to small scale business increased by 5 percent between the two periods which was compensated by a 5
percent decrease in other loans. It may be seen that the bank has tried to retain the priorities to different sections, during the last three years as it had done for the average of 13 years. However, the 5 percent increase to small scale business can cause some worries in recoveries, since, the risk involved in financing this sector is quite high compared to lending to other safe sector like housing.

Financial Analysis of Sample Banks:

Financial ratio analysis is helpful in finding significance deviations from an average or predetermined standard. The financial ratios relevant to Urban Co-operative Banks are grouped under different categories namely, liquidity ratios, solvency ratio, tests of strength, profitability ratios and efficiency ratios.

I. Test of Liquidity:

1. Current Ratio:

It is revealed from the study that in both the banks in both the periods the current ratio was greater than one indicating that both the banks had more than one rupee of current assets per rupee of current liabilities. This means in the shorter period the banks will be able to meet their obligation of liability without having to depend on the withdrawals from long term assets.

It is noted that the Guru Bank the current ratio, which was 2.25 on an average for the entire study period, increased to almost double at 2.49 in the last three years, whereas, Kalyan Bank current
ratio remained almost stagnant in the two periods. This shows that the Guru Bank has concentrated more on investment in current assets, which can harm the long term financial health of the bank. This is because over emphasis on building current asset will jeopardise the earnings, which will suffer in the long run. However, Kalyan bank has maintained status quo on investments in current assets not forfeiting the long term interest.

2. **Credit Deposit Ratio**

   The Credit Deposit ratio in both the banks has been kept at the safe level in both the periods. In fact, the Credit Deposit ratio has declined in both the banks during the last three years compared to the 13 years averages. Thus, themselves making provisions for any eventuality of big withdrawals from the depositors.

3. **Liquid Assets to Total Assets**

   The study revealed that in both the banks the liquid asset to total assets was about 0.5 indicating that nearly half of the assets were liquid assets. In the Kalyan bank, however, the ratio was higher indicating that above 57 percent of assets were liquid form. Where as the Guru bank has concentrated in current assets, which helps in meeting short term liabilities. The remaining assets (about 55 percent) are in the form of permanent assets, which do not have sufficient liquidity to discharge the long term liabilities of the bank. Kalyan bank on the other hand has only 43 percent of assets in
permanent assets, providing at a higher leverage ratio for discharging long term liabilities also.

Kalyan bank, on the other hand, has maintained the ratio of liquid assets to total assets at a reasonably high figure of 0.50 and above in both the periods. Though the profitability due to the higher ratio is low, the liquidity is higher, thereby, there is no fear of run on the bank deposits.

4. Acid Test Ratio:

It revealed from the study that the quick asset to the current liability is showing an encouraging trend in both the banks. In Guru bank, the average ratio for the 13 years period was 1.16 while it increased to an average of 1.51 in the last years. The respective figures for Kalyan bank were 1.78 and 1.83. Hence, it may be inferred that both the banks have command over their liabilities as well as assets with the value of assets per rupee of liability being greater than one.

They will be able to discharge their liabilities in full form out of their assets, in case such situation like liquidation arise at any point of time.
II. Test of Solvency:

1. Debt Equity Ratio:

   The findings of the two banks have shown the different trends in debt to equity in the two periods under reference.

   In Guru bank, the debt to equity ratios which is the total amount of the debts per rupee of equity was an average of 5.51 for the 13 years period, which decline to an average of 5.32 during the last three years. In Kalyan bank, ratio was 5.53 for 13 years actually increased to 6.45 during the last three years.

   These findings indicate that the Guru bank had debt liability of about Rs. 5.51 per rupee of its equity during the first period. It has managed to reduce its burden to 5.32 per rupee of equity in the last three years. It has been able to reduce its dependence on borrowing the second period. In Kalyan bank, on the other hand, the debt burden which was as the same level as in Guru bank in the first period (Rs.5.53), as actually increased to Rs. 6.45 during the second period. This shows that the Kalyan bank has been depending more on borrowing for its operation though the situation is not alarming; Kalyan bank needs to deliberately reduce its dependence on borrowing for its operation.

2. Indebtedness Ratio:

   The indebtedness ratio presents a similar picture. It may be known from the study that in Guru bank, the indebtedness ratio which
showed an average of 6.51 percent for the 13 years, decreased to an average of 6.62 percent in the last three years, thus, indicating an improvement in the performance. On the other hand, in Kalyan bank also, the ratio actually decreased from average 7.7 percent for the 13 years to an average of 7.38 percent in the last three years. This implied that the both the banks had indicating an improvement in the performance. In fact, lower the indebtedness ratio, better is the performance because bank will have lower liabilities for every rupee of net worth, hence, it may be inferred that the Guru and Kalyan bank had better performance in the last three years compared to earlier period.

III. Test of Strength:

1. Net Worth:

   It is indicated from the study that the incase of Guru bank, there was a 54 percent increase in its net worth from an average of Rs. 550.23 lakhs for 13 years to an average of Rs.1026.60 lakhs during last three years.

   In case of Kalyan bank, there was a 58 percent increase in its net worth from an average of Rs. 105 lakhs for 13 years to an average of Rs. 181 lakhs during the last three years. Positive net worth in both the banks indicates encouraging performance. However, it should be noted that the results of financial analysis do not necessarily indicate the economic performance. The assets may
include some of the assets which have very less or no liquidity. The other reasons for showing positive net worth may be because of the assets may be valued at current rate, while its actual purchase/salvage value may be very less because of depreciation further, high net worth may be due to non provision for bad debts, inadequate provisioning of NPAs increase net worth position of the bank.

2. **Net Capital Ratio:**

The figures of net capital ratio in both banks during both the study periods were higher than one. This showed that the both the banks on paper had sufficient degree of liquidity of the business in the long run through out study period.

IV. **Profitability Ratios:**

1. **Net Profit to Total Assets:**

The study revealed that the net profits to total assets in Guru Bank was an average of 1.50 for the 13 years had drastically declined to a negative average of 0.85 during the last three years. Similarly, in Kalyan Bank, the figures reduced from 0.02 to nil, during the two study periods. This is due to drastic decline in their profits. In fact, the Guru Bank's profits were declined from year to year and sustained heavy losses during 2002-03. In case of Kalyan bank, has not incurred any loss but the profits were declined very drastically.
2. Net Profits to Net Worth:

The net profits per rupee of net worth in Guru bank was an average of 9.36 for 13 years and drastically declined to negative figure of average of 2.97 for the last three years. Similarly, in Kalyan bank, the respective figures were 0.11 to 0.04 for the two periods. It may be revealed that in both the banks, the net worth increased between the two periods while the profits actually declined. Thus, bringing down the ratio during the last three years compared to the over all study periods of 13 years.

V. Efficiency Ratio:

1. Total Expenses Ratio:

It may be seen from the table that the ratio which was 88.65 in the first period actually increased to 107.07 in the second period. This shows that the Guru bank had spent more than it earned during the second period. Similarly, in Kalyan bank the ratio was 86.62 in period one was increased to 96.72 in the period two, showing reduction in efficiency.

2. Operating Ratio:

The operating ratio which indicates the operating expenses per rupee of income, was lower than total expenses ratio in both the banks. The Guru bank has been able to keep its operating expenses at 30 paise for every rupee of income earned for period one. In period
two, it increased to 35 paise. The Kalyan bank has been able to keep
the operating expenses at about 27 per rupee of gross income. The
ratio seems to be on higher side in both the banks.

VI. Return on Investment:

1. Return on Net Assets (RONA):

In Guru bank, RONA was 68.97 during the overall period 13
years of the study and it declined to 50.73 during the last three
years. In Kalyan bank, the RONA improved marginally from average
29.75 during the 13 year to average 32.26 during the last three years.
This showed every rupee of net assets was able to bring in an income
of 32.26 to the bank.

2. Return on Shareholders Equity (ROSE):

It may be seen from Table 5.6 that the Return on Shareholders
Equity in the banks showed declining trend between the two periods.
Return on Shareholders Equity was positive at 9.23 during 1990-
2003 fell to –2.97 during 2001-03, indicating a loss of Rs. 2.97 per
equity share in Guru bank. In Kalyan bank, the Return on
Shareholders Equity declined from 10.61 in the first period to 3.73 in
the second indicating that the returns from equity share was just
$1/3^{rd}$ of the level it was during the first period. Hence, during the last
three years, both the banks earned less per equity share than they
had for the average of the entire 13 years period.
VII. Management of Spread, Burden and Profitability:

In Guru bank, a comparison of average figures for 13 years and last three years showed that both interest income and interest expenditure increased between the two periods. However, the increase in interest expenditure was higher than the increase in interest income. Consequently, the spread, which is difference between interest income and interest expenditure, increased by about 41 percent between two periods. However, due to increase of other expenses from about Rs. 134.09 lakhs to Rs. 228.5 lakhs, the total non-interest expenses also increased from Rs. 205.19 lakhs to Rs. 347.09 lakhs between the two periods.

Consequently, the burden of the bank in terms of meeting non-interest expenses from interest income increased from Rs. 190.77 lakhs during the second period. Thus, the loss of the bank, which was at Rs. -25.22 lakhs during the first period increased to Rs. -93.94 lakhs during the last three years. The break-even level of business to be achieved at 1.11 during the first period increased subsequently to 1.51 during the second period. This means that for every one rupee deposit, the bank had done a business of Rs. 1.51 during the second to break-even.

In the case of Kalyan bank, the interest income increased by 90 percent between the two periods while the interest expenditure increased by 102 percent during the same period, resulting in increase in non interest expenses during the period was about 100
percent resulting in an increase in the first period. Consequently, the bank’s profits declined to an average of Rs. 15.31 lakhs for the last three years. The break even level which was 0.97 during the first period, consequently, increased to 1.27 during the second.

An over all view of both the banks shows that they had poor business performance in the second period compared to what they had in the first period.

VIII. Spread, Burden and Profitability Ratios:

It may be seen from the table 5.8 that in Guru bank, the spread ratio declined from 5.79 in the first period to 3.80 in the second because of an increase in interest income and interest expenditure ratios.

The manpower expenses ratio marginally reduced from 2.20 to 2.01, because of decease in other expenses from 4.21 to 3.74 the non interest expenses ratio decreased from 6.41 to 5.79 between the two periods. The non interest income ratio also declined. Consequently, the burden ratio decreased from 5.94 in the first period to 5.47 in the second, pushing down the profit ratio 1.46 in the first period to -1.68 in the second.

In Kalyan bank, it may be seen from the table 5.8 that all the ratios except interest expenditure ratio and interest income ratio declined between the two periods. The interest income ratio, which was an average 14.53 for 13 years increased to average 16.19 for the
last three years. The interest expenditure ratio on the other hand, increased from 9.06 to 11.80 between two periods. Consequently, the spread ratio decreased from 5.49 in the first period to 4.30 in the second. The non-interest expenditure ratio showed an increase from 5.61 in the first period to 6.02 in the second. The burden ratio, which indicates the burden of meeting non-interest expenditure per rupee of business translated, increased from 5.12 in the first period to 5.60 in the second period this increasing the burden on the bank. The profit ratio declined from 0.35 to -1.21 between the periods between to a combination of decreased profit and increased business.

**Performance of UCBs: A Principal Component Analysis:**

The Principal Component Analysis was used to derive a fewer groups of factors influencing the performance of UCBs. As many as 29 factors were identified as indicators of the overall performance of the bank. The first 4 principal components together accounted for 94.23 percent of variation in the performance of Guru bank. First principal component captures 17 factors, of which 4 are physical indicators and 13 are financial indicators. The first component may be termed as business component, which revealed that the performance of the bank depended on the efforts made by the bank in terms of deposit mobilization, advances made and recovery of the loans. The second component was termed as efficiency component, which included the factors like branch performance and employee performance. Non Performing Assets (NPA) was the most important
factor in the third component. The ability of the employee to handle deposit accounts was reflected in the fourth component. The portfolio management in terms of deposit mobilization, lending activity, recovery aspects and efficiency of the branch as well as the employee are the most important factors influencing the overall performance of the bank.

In the case of Kalyan bank, the principal components extracted four major components, which together explain a little over 13 variables and was termed as business component. Most of the physical indicators appeared in the second dimension reflecting the role of efficiency issue in enhancing the performance of the bank. The NPAs and overdues appeared in third dimension thus, indicating that the bank has less problems with respect to NPAs and overdues. It was interesting to note that the performance of sample banks was influenced by a similar set of performance of Guru bank, while for Kalyan bank deposit mobilization, lending activities and recovery appeared to be significant factors.

However, both the banks should concentrate on improving the performance at the branch level and improving efficiency at the workers. Thus, it may be concluded that financial variables contribute significantly to the performance of the banks.
The history of Co-operative Movement in India goes back to 100 years. During this period, the movement has experienced many ups and downs. The UCBs have been an integral part of the entire movement. Basically, the UCBs face dual control from both the RCS at the State and RBI at the center. Many UCBs have exploited this situation resulting in the collapse of important UCBs. A summary of such failure is given below.

The leading case is that of Madhavapura Bank in Ahmedabad, in which the Chairman/members of the committee indulged in imprudent lending to persons of questionable integrity, thereby, putting the bank into huge losses and finally its closure. Other commercial and co-operative banks also lost money since, they had honoured the instruments of Madhavapura Bank.

In Maharashtra, about 25 UCBs lost a total Rs. 400 crore since, they lent to an agency called “Home Trade” which was dealing in brokerage for government securities.

In Andhra Pradesh, four banks namely, Krushi Bank, Charminar Bank, Vasavi Bank and Prudential Bank all went into red because in each case either the banks had lent to risky trade proposals such as real estate, film production, resorts etc., or because the Directors of the bank had forced them to lend to their own close relatives and friends. There have been similar reports of
UCB failures in different parts of the country. The RBI has been compelled to invoke its authority to incorporate corrective measures such as directing the UCBs to compulsorily have two professionals on the boards of UCBs.

**Suggestions:**

UCBs in general and sample UCBs in particular are facing the problem of low depositors confidence. This is because of their poor financial performance and questionable practices of incumbent management.

The moot question that arises is what should be done to improve the performance of UCBs? Should they be closed down or merged with the other banks or to be restructured? UCBs were created to meet the demands of local or specific community. They are considered to be the innovative way of answering insatiable demands of local community for highly user-friendly banks. They flourished as long as management or the board functioned well. The erosion in efficiency levels of management of these banks has brought them to the brink of collapse.

With liberalization, the problem of UCBs had increased by manifold times. The ivory-tower policies of Public Sector Banks (PSBs) were pruned to meet the demands of changing economy. The thrust on retail banking by PSBs has added to the woes of UCBs. There was a shift in clientele base of UCBs as a result of gap in quality of services provided. UCBs had to run beyond time to match
the expectations of depositors and keep pace with the PSBs. In the process, they adopted aggressive policies of lending to all dubious borrowers with low ability to repay. This aggressive approach and ignoring the basic principles of sound banking has landed the UCBs in the present quagmire.

Therefore, it can be said that the closure of UCBs is not a solution to their problem. The solution lies in their merger or takeover or restructure or consolidation. Merger or takeover may not be a feasible solution as their area of operation is too small to be economically worthwhile for PSBs to think of acquiring them. Consolidation could be given a long rope as UCBs are formed on community lines like Muslims, Marathas, Saraswathas, Brahmins, Goudas, etc. Bringing together such heterogeneous communities is well nigh possible.

Restructuring seems to be the most potent way of controlling and preventing sickness among UCBs. Further, RBI and other concerned authorities should put more stringent conditions on opening-up of new UCBs or branches of existing UCBs and in extreme case should stop giving permission for establishment of UCBs in future.

The restructuring measures suggested here are for both sample banks as well as for other UCBs in India. They are both corrective and preventive in nature. In other words, they work both in
sick/weak UCBs as well as well managed UCBs. The following are few such restructure measures outlined in the present study:

1) Management Restructuring:

It is said in human body, the source of all problems is mind. If the 'head' is kept calm, composed and healthy, the individual is able to work efficiently and behave properly.

The same analogy applies to UCBs. The root cause for all their problems is management that is devoid of professionalism. Paracholic and shortsighted managements are responsible for the present mess. Therefore, UCBs need to adopt professional approach in management.

Professionalism in management we mean scientific approach in management, i.e. management which plan its activities and controls what it plans. Professional management need not and should not necessarily mean inducting MBAs or highly read individuals. Professionalism can be inducted even among existing management. That calls for change or reorientation in the team of existing management. To a little extent, professionalism does mean using the services of professionally qualified outside managers.

When one says that professionalism is the answer, how to accomplish this objective? Can a bank with one / two branches afford the cost of services of professionals? Do professionals find it challenging to work in such a small unit? If all UCBs go for professionals, do you find enough of qualified managers? Do
management schools teach ABCD of managing UCBs? Therefore, there are hurdles in using this measure. Mere inducting MBA graduates, does not work wonders.

The existing management should be taught and trained extensively. For this purpose, the services of retired or existing officials of public sector banks may be used to impart knowledge among managers of UCBs. A training Centre for UCBs may be created at the national/state level. The Co-operative training colleges may also be used.

One or two professionals need to employed by existing UCBs either as managers or as board members. The composition of board that is insisted upon PSBs should also be made applicable to UCBs.

2) HRD Policies:

Why do UCBs encounter higher failure rates? One reason for this is their HRD practices. Though the manager plans in his four-walls of office chambers, the actual execution is done by the lower level staff in banks. Therefore, there is a need for highly efficient, confident and vibrant workforce to implement plans and policies of managers.

UCBs tend to be dictated by their directors. The directors induct their own relatives or Kith and Kin as employees or employ such people who are willing to pay bribe to them or bring higher initial deposits. Such employees tend to be more obedient to directors than to managers and are considered to be “informers” by management class.
Further, UCBs adopt no training policy or adequate remuneration policy. Training and development policies are conspicuous by their absence. Job rotation, job enrichment and job evaluation are seldom practiced. Manpower planning is also rarely used. Such practices have led UCB employees to become “Palmgeasers”. They indulge in small acts of thefts, book manipulation, etc.

Therefore, the turnaround of UCBs is possible with the adoption of scientific HRD policies. Individuals of merit should be selected, trained and rewarded adequately. There should be continuous evaluation of the performance and less than satisfactory performance should be viewed seriously. Such employees should be retrained to make them more useful and in extreme cases should be retrenched.

Such scientific HRM policies may in the long run improve the performance of UCBs in general and their employees in particular.

3) Accounting Norms and Disclosure practices:

It can be said that the UCBs follow the most primitive and non-transparent accounting practices. The accounting policies are management determined and are oriented at hiding faults than their disclosure.

The audit of accounts of UCBs is done by Cooperative Audit Department of the State. How far this department is competent is questionable. There is inordinate delay in finalizing audit work and sometimes auditors are a party to wrong-doing.
The capital adequacy norms of Basle Committee are seldom applied to UCBs. The prudential norms relating to asset classification and provisioning are practiced in contempt.

Disclosure policies are less said better. It can be said that UCBs follow no disclosure policies. They disclose the year-end balance sheet and profit and loss account. The mere two pages disclosure is not a disclosure at all. The accounting assumption, policies and methods followed in their preparation should also be disclosed.

Therefore, the following suggestions can be made:

* Capital adequacy norm should be strictly enforced on UCBs.
* Prudential norms applicable to PSBs should also be made applicable to UCBs.
* Audit by a Chartered Accountant be made mandatory rather than Cooperative audit.
* Disclosure norms as applicable to PSBs should also be made applicable to UCBs. All the assumptions and policies relating to income recognition, provisions, asset classification, inter-branch transaction, related party transaction etc., must be disclosed sufficiently as “notes to account”.
* Copies of audited financial statements and the auditors’ report must be filed with the RBI and Cooperative department of the concerned state.
* There has to be a continuous monitoring of accounting practices of UCBs by RBI and State Government Authorities.
4) Communication Channels:

The CEO or MD of UCBs should do continuous monitoring of the operation of the bank. Lack of information or wrong information may be a big handicap. Sound Communication channels with the use of modern inter-locked networking system can solve this problem.

5) Extension of Securitisation Act:

Securitisation Act, 2002 of Central Government has been a blessing in disguise to commercial banks. The law provides stringent measures to bankers to recover all overdues. The enactment has brought down NPA level in PSBs.

The main grouse of UCBs is higher level of NPAs. The higher level is due to improper lending and collection policies. Lending is resorted to the person enjoying close connection with directors of UCBs rather than to the needy or lendable persons. Recovery is deliberately slowed down at the behest of directors.

The professional management, one of the recommendations of the study, should use the Draconian rules of Securitisation Act to mop up all irrecoverable loans. The amount so recovered could be used to pay-off all monies due to deposit-holders and regain their confidence. The Center and State Governments should amend the Securitisation Act provisions and make it applicable to UCBs. This one measure will go a long way in resurrecting UCBs all over India besides improving the conditions of UCBs.
6) At present, the state cooperative urban banks are controlled by state cooperative laws and multi state cooperative banks by a central legislation regarding the management and administration while at the same time the banking regulation act 1949 has been extended to them in the matters of deposits and business transaction. This type of dual control over urban Co-operative banks, have eroded the professional functioning and has created several bottlenecks. To overcome this problem, the Central Government should make RBI as a sole regulator of UCB's. Though this could increase the work of RBI, additional manpower could be employed and trained to handle issues relating only to UCBs.

The directors of the UCB's are elected by members to serve the latter's credit needs. But the way the directors function is often very questionable. For instance, in some banks the directors do the credit appraisal, estimate the value of securities, assess the finance requirement and even recommend the loan amount. In the process, the role of the CEO/MD gets sidelined and his views are not taken seriously. Further, loans are given to kin at the expense of genuine borrowers. Thus, like in commercial banks, credit appraisals must be first routed through the CEO/MD for an objective evaluation, before sending to the board for approval.

The UCBs must be run by directors having a thorough knowledge of banking. But in a number of UCB's the need for training and development is ignored. All that the directors know
9) The one important characteristic of successful banks is that they update their human resources. Mahesh Co-operative Bank (Hyderabad) is a case in point. Small and medium banks can organise training programmes either at their own premises with the help of Institute of Co-operative Management or send the staff to training colleges. This has been much neglected aspect in the UCB sector and hence, requires serious attention of the board.

10) UCBs are generally small in size. For quick growth, some UCBs offer high interest rates, 13-17 percent even when the current trend is one of falling rates. When public sector banks offer less than nine percent on long term deposits, now can UCBs pay such higher interest? Further, there is the bad practice of offering a two percent commission (unaccounted) to those who get high volumes of deposits. This escalates the cost of funds and such UCBs charge the borrowers heavily, resulting in more NPAs. Experts feel that the UCBs should not offer high deposit rates and land themselves in trouble—a classic example is that of the Vasavi Scheduled Co-operative Bank. Cooperative banking chiefs have to draw lessons from such failures. Maintaining a high interest spreads (difference between deposit rate and interest rate) will strengthen their bottom line.

11) One of the weaknesses of UCB is the lack of a good credit policy. As a result, they lend indiscriminately—Krushi bank, for example, diverted funds to forbidden areas such as stocks, real estate, cinema and so on, A UCB, should make available to the
about, banking is ‘Lending money by taking security’-akin to pawnbroker. In this context, the IRDA’s norm-100 hours training for all the staff and directors of banks before taking up insurance business-seems appropriate. The NACCUB, likewise should also come out with such a norm for UCB directors. In this regard, the RBI has also advised UCBs that their board should have at least two professionals, say, chartered accountants or MBA.

7) Banks are basically intermediaries borrowing money from the public and lending to the needy. Banks such as Krushi, Sitara and Sravya (Hyderabad) experimented with high deposit interest rates only to leave the depositors in lurch. Thus, to regain the confidence of depositors, UCBs have to mend their ways and move towards better governance. UCBs would do well to conduct periodical depositor’s meets to educate them on the investment climate and inform about where the funds have been deployed, the gains/losses, the profits earned, the rating obtained from the co-operative department, the defects pointed out by the RBI and the measures taken to rectify the same, the business plans, and so on. Unless the depositors are taken into confidence, banks cannot avert depletion of deposits.

8) Banks have to lend to earn profits. Today, almost all banks try to attract borrowers through hassle free loans, less documentation, no guarantees, less processing fees, less interest rates, and so on. And to avoid NPAs, there is a need to retain and attract good borrowers, for which, UCBs should meet their expectations.
members information on the types of loans available, those eligible to apply, the loan limits, the method by which interest is charged and so on. If UCBs have a good credit policy, it will take care of money of all the ills and make them vibrant institutions.
References:
