CHAPTER I

INTRODUCTION
Economic activity, by its very nature, precludes isolated individual action, for it implies an organised society, people living in constant and indispensable collaboration, and incessant dependence upon one another. This collaboration may be patently visible or latent and concealed by the social and political organisation, but that is there is beyond doubt. Economic pursuits are impossible without the active association of one's fellow beings in the form of some sort of organisation, and concerted action towards predetermined goals. Co-operation, thus, becomes a concomitant of economic activity.¹


Co-operation is the very basis of human civilisation. Since the dawn of the human civilization, people have co-operated first in foraging and then after in hunting, later on in agriculture, then in manufacture, distribution and banking activities. Practically there is nothing which a man by himself alone can accomplish. "Among the variety of doctrines, which have emerged to deal with social and economic ills, no doctrine has received as much attention, thought and experimentation as the co-operative doctrine".²

In India, Co-operative doctrine has made an encroachment in the field of banking. Co-operative Credit structure forms an integral part of the present banking system in India. The Urban Co-operative banks constitute an important component of co-operative banking in India.

The Urban Co-operative Banks, despite the existence of commercial banks, have a distinct status and wider role to play. Being location-specific banks, they have a clearly demarcated area of operation which enables them to serve their clientele with greater efficiency and effectiveness. Besides, they enjoy certain characteristic features like open membership, members' participation in management, the local feel and familiarity, mutual knowledge, personalised and courteous services, etc., all of which are eminently suitable to cater to the needs of small men and small sectors of industries. The Urban Co-operative Banks, therefore, function on a different plane as compared to commercial banks and play not a supplanting but a supplementary role as a constituent of the Multi-Agency System in fulfilling the national objectives and priorities, as enunciated in the developmental plans.

The UCBs have been occupying a unique place in the Co-operative credit structure and are expected to assume the

leadership in undertaking promotional and developmental programmes for the growth and success of the co-operative movement in urban and semi-urban centres of India.

The Committee on Problems of Urban Co-operative Banks (UCBs) in Maharashtra appointed by the Government of Maharashtra (1976) under the Chairmanship of V.M. Joglekar also has rightly remarked the promising role for the UCBs. As viewed by it, Urban Banks are not just substitute lending-agencies for private money lenders who resort to usurious practices, or for the commercial banks which have been by and large inaccessible. They are better substitutes with a special character and function. They have, from their very objectives, a more positive role to play. This role implies that the UCBs have to inculcate the habit of thrift and savings among persons with small incomes by offering suitable facilities for depositing their savings.

While promoting thrift and savings to rehabilitate the precarious economy of the weaker sections, these Banks can and do make a very valuable contribution to capital formation by such sections of the community. These banks are not to operate as just purveyors of credit but to function as friendly guides to their clients and to help them adopt better production techniques, sound financing and accounting systems. This is very essential because the persons financed by the Urban Banks
constitute very small enterprises and they do not normally have the capacity to secure the services of experts in the field.

The Urban banks can play this role very effectively in view of the fact that unlike commercial banks, they are local institutions with their clients as their members and having intimate contacts with them. They are in a better position to appreciate the needs of the members and to adjust their policies and procedures to such needs with a greater degree of flexibility.

Being local institutions, urban banks are vitally interested in local development and hence, they can play an important role in mobilising local resources and making them available locally for purposeful and productive activities conforming to the priorities as per the State or Central Plans. 4

Need for the Present Study:

In view of fast and vast changes, which have been taking place in the Indian Banking Industry, the Urban Co-operative Banks are now finding it difficult to mobilise resources in a competitive environment. The cost of management

is recording an upward trend. Even the scope for profitable 
deployment of available resources is getting restricted in view 
of the competition from their co-operative counter parts and 
nationalised and scheduled commercial banks operating in the 
same area.

The operating efficiency and effectiveness of the 
management policies of the UCBs will affect not only these co­
operative units but also the co-operative movement in general 
and urban co-operative credit movement in particular. Because, 
the UCBs are the only self-reliant co-operative units which 
have been functioning without Government assistance and are the 
most important agencies in providing banking facilities and 
credit assistance to the urban poor and middle class sections 
of the society. It is difficult to channel the urban credit 
through weak and inefficient Urban Co-operative Banks. The 
weakness of the co-operative movement in a State is synonymous 
with the weakness of the UCBs which are growing in size and 
shape of operations.

Unfortunately, despite the growth and diversification 
in the size and operations quantitatively, many of the UCBs in 
most of the States in India are suffering from a host of 
weaknesses, such as, poor deposit mobilisation, ineffective 
deployment of deposit resources, inefficient management, poor 
recovery performance and consequent mounting overdues and
regional or locational imbalances in the growth of the UCBs and their branches.

In view of the serious sickness of the UCBs vis-a-vis the present and future role envisaged by the planners in country for them, the need for an in-depth study on 'Mobilisation and deployment of deposits' was felt by the researcher.

Statement of the Problem:

Despite the sickness of the UCBs and inevitably continuing efforts of the R.B.I. and the respective State Federations for the past many years to impart strength for better working of the UCBs in future; it is widely accepted that the Urban Co-operative Banks (UCBs) are most suitable agencies as an ingredient of multi-agency system of routing the credit to, and mobilizing the small savings from, the Urban and Semi-urban poor and middle class masses.

Right from Maclagan Committee (1915) down to the Madhava Das Committee (1978) on Urban Co-operative Banks and the latest Marathe Committee (1992) to review the policy relating to the licencing of new Primary Urban Co-operative Banks, several Committees and Commissions have emphasised the importance of the UCBs and have suggested measures to attain viability norms and improve their operational efficiency.
"Urban Co-operative Banks are the banks doing commercial banking on co-operative principles but the term 'urban co-operative banks' implies banking on co-operative principles in urban area. Any bank, whether commercial or co-operative has to endeavour all the time to increase its volume of deposits as well as advances and the amount of owned funds. This implies earning of profit all the time".  

The existence and continuity of the UCBs is absolutely essential in the urban credit delivery system. The effective credit delivery requires equally efficient and effective mobilization of deposits. Therefore, the analysis and appraisal of efficiency of the vital functions of the UCBs, i.e., mobilization of deposits and deployment of credit, will receive more attention of all; especially in the context of managerial planning and decision-making.

Profitability improves financial strength of any bank in the long run. This augments banks' financial resources and helps in further deployment of funds in credit business. An efficient credit management leads to improvement in profitability again. Thus, the present profitability is the result of current credit management, and in future, it becomes a cause for increased credit deployment. The same holds good

even in case of deposit mobilisation by the banks. If the present volume and the deposit-mix decide the magnitude of credit deployment and profitability, the present profitability imparts strength to the bank in mobilising potential deposits. Thus, deposits, credit deployment, profitability and operational efficiency are inter-dependent and inter-related.

Against this background, a need was felt by the researcher to analyse and appraise deposit mobilisation and credit management of the UCBs in Karnataka. Hence, the statement of the problem:

**MOBILISATION AND DEPLOYMENT OF DEPOSITS BY THE URBAN CO-OPERATIVE BANKS IN KARNATAKA.**

A Review of Earlier Studies:

The importance and usefulness of Urban Co-operative Banks (UCBs) in financing the urban poor and middle class masses was recognised by various Committees and Working Groups such as the Central Banking Enquiry Committee (1931), the Cooperative Planning Committee (1946), Survey of the UCBs by Reserve Bank (1958-59), the study Group on Credit Co-operatives in the Non-Agricultural Sector (1963), the Working Group on Industrial Financing through Co-operative Banks (1968), Committee on Problems of Urban Co-operative Banks in Maharashtra (1976) and the Committee on Urban Co-operative
Banks, popularly called as Madhava Das Committee (1978), and the latest, i.e. Committee to review the policy of R.B.I. relating to licencing of new UCBs which is popularly known as Marathe Committee (1992). These Committees, Working Groups and Study Groups have evaluated the performance of the UCBs from time to time and have recommended measures to strengthen them. However, Governmental Studies on the UCBs, excepting a very few, have given an overall and macro view of the functioning of the UCBs in the Country as a whole. But they have not made an indepth assessment of the performance of the banks due to restricted terms of reference, legal and policy framework within which they were supposed to operate and study.

The individual studies and efforts in appraising the performance of the UCBs are very few. There is a dearth of literature in the form of research work. The study undertaken by Miss Dave on "Urban Co-operative Banks of Gujarath" (1974) has focussed its attention on the role of the UCBs in financing the capital formation and in accelerating economic growth. The special feature of this study is the management profile of the UCBs. It is more of a narrative type than analytical and critical one.

The research work undertaken by Dr.S.Nakkiran, on "Financial Policies and Procedures of Urban Co-operative Banks in Tamil Nadu" in 1977, has focussed on organisation and
management of the UCBs and discussed the financial aspects of the UCBs in Tamil Nadu. Based on data from sample banks, he has examined the lending practices in general and financing of weaker sections in particular by the UCBs. In the ultimate analysis, he has assessed the role of Tamil Nadu Government and the R.B.I. in promotion and development of the UCBs in the State of Tamil Nadu.

The thesis was submitted by Dr.G.S. Rathod to M.S. University of Bardoa in 1977 on "Urban Co-operative Banks-Role and Development in India with a special reference to Gujarath". It also gives general account of the working of the UCBs in India with more emphasis on UCBs in Gujarath.

Dr.K.G. Munshi, in his research work on "Financial Management Techniques - A study of Urban Co-operative Banks", has examined viability norms for the UCBs and financial structure of the UCBs in Gujarath. The study is based on sample banks. This study has also focussed its attention on overall financial variables and application of financial management techniques in the functioning of the UCBs.

The present study is different from the others in the sense that it focusses on structural aspects of deposits mobilisation and deployment pattern of the UCBs in Karnataka. It is a regional study. It has focussed on core facets of bank management, viz., Deposit Management & Credit Management, the
effective linkage of which is quite essential for ensuring a fair rate of return on working funds.

Objectives of the Study:

1. To study the role of the Urban Co-operative banks in Indian banking system.
2. To study the origin, growth and progress of the Urban Co-operative Banks both in India in general and in Karnataka State in particular.
3. To analyse deposits pattern of the UCBs in Karnataka.
4. To appraise the efforts of the UCBs in Karnataka in the sphere of deposit mobilisation.
5. To study the deployment pattern of the funds by the UCBs in Karnataka.
6. To appraise the efficiency and effectiveness of the UCBs in Karnataka in the sphere of credit management.
7. To evaluate overall profitability and to analyse the structure of management cost.
8. To suggest corrective measures in the light of findings for improving the performance of the UCBs in Karnataka in future.

Scope of the Study:

The present study covers the study of 208 Urban Co-operative banks and their branches (192) all of which come
under the purview of the Banking Regulation Act, 1949 and scattered in 18 districts of the Karnataka State. Only one district i.e., Chickmagalur is left out of the study as it is not served by a single urban co-operative bank. Deposit mobilisation and credit management are selected for the purpose of shedding light on different operational dimensions of the UCBs in Karnataka.

Sources of Data and Research Methodology:

The present study is based on the secondary data. The data used in the analysis are mainly collected from the following sources:

a. Karnataka State Urban Co-operative Banks News, - House magazines (Quarterly Hand-outs) for the related years published by the Karnataka State Urban Co-operative Banks Federation (KSUCBF) Ltd., Bangalore.

b. Directories of the Urban Co-operative Banks in Karnataka for the related years.


d. Published records of Research and Evaluation Cell, Co-operative Department, Government of Karnataka Bangalore.
e. Report of the Committee on Urban Co-operative Banks (1978) and published records of the meetings of the Standing Advisory Committee for Urban Co-operative Banks (First to Ninth Meeting) published by the RBI.

f. Statistical profile relating to the Urban Co-operative Banks published by the National Federation of Urban Co-operative Banks and Credit Societies Ltd., New Delhi.

g. Statistical statements relating to Co-operative Movement in India for the related years, published by the NABARD/RBI.

h. Records of the State Level Bankers' Committee, published by the Syndicate Bank.

In addition to the above sources, the existing literature on the subject was also used in the study. Further, the present study is also based on the researcher's personal observations made on the basis of interviews with some managers and Directors of the Urban Co-operative Banks.

The data, thus collected, were properly classified and analysed in order to study and appraise the deposit mobilisation, deployment pattern, recovery performance of the UCBs in Karnataka, etc. For the purpose of making the appraisal more meaningful, the tools and techniques, such as, inter-bank-inter-period analysis and intra-bank-inter-period analysis, etc., have been used.
The detailed procedure followed for the purpose of analysis and appraisal relating to deposit mobilisation and credit deployment has been presented at the appropriate places in the respective chapters of the study.

Research Design:

The present study is designed to cover eight chapters:

The first chapter, being the introductory chapter, covers a brief historical background of the UCBs and institutional credit for urban and semi-urban masses with special reference to the role of the UCBs in urban credit. Further, it gives a bird's eye view of earlier studies, need for the present study, statement of the problems, objectives of the study, scope of the study, sources of data, research methodology and design of the study.

The second chapter deals with the origin and growth of the UCBs with reference to important financial indicators in India as well as in Karnataka State. It also highlights locational or spatial or districtwise disparities in the growth of the UCBs.

The third chapter focusses on the study of 'deposit mobilization' and the various factors influencing the deposit mobilization by the UCBs. It also deals with deposit-mix by nature and source, and its implications and impact.
In the fourth chapter, an appraisal of the efficiency and effectiveness of deposit mobilization is made.

The fifth chapter is concerned with the analysis of the nature and importance of credit management of the UCBs. It also gives an insight into the credit pattern, loaning operations of the UCBs, etc.

Appraisal of efficiency and effectiveness of the credit management by the UCBs forms the subject matter of the sixth chapter.

Analysis of management cost and overall profitability is presented in the seventh chapter.

The eighth chapter gives important findings and suggestions for improvement in the performance of the UCBs in Karnataka, in particular; and of the UCBs in India, in general.

Concepts Used in the Present Study:

1. Credit: The term 'credit' refers to the financial assistance provided by the UCBs for different purposes and against different securities.

2. Co-operative Year: It is a time segment commencing from 1st July and concluding on 30th June of every calendar year.

3. Deposit-Mix: It refers to the composition of different types of deposits in
the total deposits mobilised by the UCBs from different sources.

4. Credit-Mix
   It refers to the pattern or composition of the total credit provided by the UCBs such as, credit for different purposes, secured and unsecured credit, priority sector credit and non-priority sector credit etc.

5. Secured Credit
   It is that portion of total credit which is provided against some kind of tangible security.

6. Unsecured Credit
   It is that portion of total credit provided by the UCBs without taking any tangible security.

7. Priority Sector Credit
   It is that portion of total credit provided by the UCBs for certain purposes and to certain sections of the society as prescribed by the guidelines of the RBI from time to time.

8. Non-priority Sector Credit
   It is that portion of total credit provided by the UCBs for the purposes and to the sections of the society other than those prescribed by the RBI in respect of priority sector credit.

9. Short-Term Credit
   The credit, the repayment period of which shall not exceed 18 months. (section 21(1) of the NABARD Act., 1981)

10. Long-Term Credit
    The credit provided by UCBs for a period more than five years.

11. High Cost funds
    The funds which carried higher interest rate are high cost funds.

12. Low Cost funds
    The funds which carry a lower rate of interest are low cost funds.
13. Working funds : These are the aggregate of share capital, reserves and surplus, deposits and borrowed funds. It is also called as working capital at UCBs' level in India.

14. High Return Credit : The financial assistance provided by the UCBs to sectors other than priority sector at higher interest rate.

15. Low-Return Credit : The financial assistance provided to the priority sectors at lower interest rate.

16. Owned Funds : These are the aggregate of share capital, reserves and surplus.

17. Return on Working Funds (ROWF) : It is the percentage of net Profit to total working funds of the UCBs.

18. Overdues : Overdues refer to the amount of credit provided by the UCBs which has become due for repayment along with accrued interest but which has not paid by the borrowers.

19. Chronic Overdues : The overdues of three years old are referred to as chronic overdues.

20. Cost of Management : It is the aggregate of Manpower cost and other expenses incurred by the UCBs during a particular co-operative year.

21. C.D.ratio : It is the ratio of credit provided to the deposits mobilised during the co-operative year.