CHAPTER – II

RESEARCH METHODOLOGY

1. Introduction

Banks play an important role in development of Indian economy. After liberalization, the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narasimham committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed. New generation banks with use of technology and professional management have gained a reasonable position in the banking industry. In this research the researcher has studied the performance of the identified urban cooperative banks, their role and functioning, establishment and their performance over a period of 10 years from 2002-03 to 2011-12.

While the co-operative banks in rural areas mainly finance agricultural based activities including farming, cattle, milk, hatchery, personal finance etc. along with some small scale industries and self-employment driven activities, the co-operative banks in urban areas mainly finance various categories of people for self-employment, industries, small scale units, home finance, consumer finance, personal finance, etc.

Some of the co-operative banks are quite forward looking and have developed sufficient core competencies to challenge state and private sector banks.

According to NAFCUB the total deposits & lending of Co-operative Banks is much more than Old Private Sector Banks & also the New Private Sector Banks. This exponential growth of Co-operative Banks is attributed
mainly to their much better local reach, personal interaction with customers, and their ability to catch the nerve of the local clientele.

The Urban Co-operative Banks (UCBs) play an important role in meeting the growing banking needs of the middle and lower income groups, apart from financing small businesses. Also a large number of depositors are drawn to UCBs on account reasons such as proximity, cultural and local affinity, personalized service, convenient business hours and more importantly, relatively high interest rates. The UCBs are registered as societies under the Co-operative Societies Act of the respective State Governments, and UCBs that have a Multi State presence are registered under the Multi State Co-operative Societies Act administered by the Government of India. While registration, administration, amalgamation and liquidation of UCBs are governed by the provisions of the State Co-operative Societies Acts, banking related functions are governed by the provisions of Banking Regulation Act, 1949 (AACS).

2. Reforms of Urban Cooperative Banks

The urban co-operative banking sector being an integral part of financial system, RBI has brought in a series of reforms in it. The recent Mdhava Rao Committee which is also called High Power Committee (HPC) on UCBs, has dwelt extensively on certain regulatory issues related to UCBs’ licensing policy, future set up of weak and unlicensed banks, application of capital adequacy norms, resolution of conflicts arising of dual control over UCBs, etc. RBI has accepted these recommendations and implemented them. However, issues related to dual control necessitate legislative changes to State and Central Acts and there is hardly any progress in this area. In the backdrop of the present scenario, future agenda for reforms in urban co-operative banking sector, as is four fold:

- Aligning urban cooperative banking sector with the rest of the financial system
Deciding the future of weak entities
Improving governance
Resolving the issues emanating from dual control.

Against the backdrop of these social reforms which have been introduced in phased manner since 1991 there are lot many policy changes which have impact on the functioning of these urban cooperative banks. E.g. interest rates deregulation, branch licensing policy, introduction of concept of CAGR, identification of non performing assets and provisioning norms, priority sector lending etc. One can say that the whole banking scenario has undergone a sea change so far as their operations are concerned. Added to this the use of new technology and automation of the banking operations have given a new dimension to the banking services. All these changes have taken place in the first decade of twenty first century. It has therefore been considered by this researcher that study of performance of these urban cooperative banks over the first decade of the twenty first century will be of utmost importance and will throw light on the strong and weak areas of performance of these banks.

UCBs are unique in terms of their clientele mix and channels of credit delivery. UCBs are organized with the objective of promoting thrift and self help among the middle class lower middle class population and providing credit facilities to the people with small means in the urban centers. On account of their local feel and familiarity, UCBs are important for achieving greater financial inclusion. In recent times, however, UCBs have shown several weaknesses, particularly related to their financial health. Recognizing their important role in the financial system, it has been the endeavor of the Reserve bank to promote their healthy growth. However, the heterogeneous nature of the sector has called for a differentiated regime of regulation. In recent years, therefore, the Reserve Bank has provided regulatory support to small and weak UCBs, while at the same time strengthening their supervision.
The Narsinham Committee report (1991) published has created some doubts about the future of urban co-operative banks in India. There is talk about the creation or private sector banks so as to provide competition to the nationalize commercial banks. This step is advised with a view to improve the performance and efficiency of the nationalized banks in India. But it is interesting to note that the government of India had nationalized 20 private banks mainly because they were not working according to the socio economic objectives of the country. They had number of draw back like concentration of economic power, regional imbalance in the growth of banking etc. Hence it is not really advisable to go back on this policy of privatization of the banking industry. On the other hand the Urban Banks are working efficiently since the last 100 years on the basis ideology of co-operation. We feel that under the new situation these banks should be given full support and co-operative by the central state as well as the Reserve Bank of India. So long as there is hard working honest and dedicated local leadership with natural aid and co-operation principles, the working of the urban co-op. bank will have bright future keeping in view the special attributes and useful role that these banks can play in filling the credit gaps in the economy.

3. **Statement of Research Problem**

Sound and efficient financial practices are a strategic tool for organization effectiveness. Liberation, Privatization and Globalization (LPG) in Indian business environment through modification in the banking sector. In the new liberalized scenario, where multinational and other global players, the management of the banks are expected to the more productive and efficient survival.

Indian corporate banking has been making attempts to change themselves continually. Thus financial practices must be sound so that it can improve organizational effectiveness.
Despite rapid growth the overall progress of cooperative movement during 100 years of its existence is not very impressive. It is therefore, necessary to know the causes of poor performance of the movement and on that basis take such steps as would promote faster growth of cooperative movement in India.

As stated in the earlier paragraph the Urban Cooperative Banks also faced some difficulties in the initial stage of adoption of the Basel Committee norms as well as provisioning norms and the prescription of Capital Adequacy Ratio. These banks also faced difficulty in deciding the rates of interest on deposits as well as advances. The managements of these cooperative banks were lacking professionalism in tackling the issues arisen out of deregulation. Number of urban cooperative banks was fallen sick for various reasons. The last decade witnessed fall of number of urban cooperative banks and either these banks went into liquidation or there were forced mergers. In the wake of this situation the Reserve Bank of India has also tighten its control and adopted a series of measures including the reconstitution of the Board of Directors. The Reserve Bank of India changed the earlier system of rating of these urban cooperative banks and introduced a scientific approach in the rating system by introducing CAMEL rating which is more comprehensive.

This prompted the researcher to study how these urban cooperative banks have faced the changes in the policy and what it was its impact on the financial performance of these banks. In this background the problems before the Urban Cooperative Banks offered a statement of problem.

Thus the research problem of this study is to assess the impact of the banking sector reforms on the financial performance of urban cooperative banks.
4. **Relevance of the Study**

Urban Cooperative Banking is a key sector in the Indian Banking scene, which in the recent years has gone through a lot of turmoil. UCBs are operating in a hostile socio-economic environment and maintaining a coherent direct challenge to the mainstream is not easy. Market competition and the need to retain good clientele are affecting the urban Cooperative Banks (UCBs) too. The commercial banks, with their ability to invest more in technology and offer better remuneration to attract skilled persons, are better off in fending competition.

The basic study done in this research that how cooperative banks are responding to current financial challenges and changes for better survival and save cooperative identity.

5. **Significance of the Study**

India adopted economic reforms by middle of 1991. India adopted the policy of globalization, liberalization and privatization. As a part of this process there was introduction of banking sector reforms. Basel Committee (First) recommendation regarding accounting, booking of profit and provisioning norms and capital adequacy norms have been gradually introduced in the first place in phase manner for the commercial banks and also to the cooperative banks. These norms have changed the entire face of the bank and greater degree of transparency in the working of the banks was reflected in their annual reports. In the early stages of introduction of the provisioning norms good number of commercial banks both from public and private sector showed negative results and gradually urban cooperative banks were also not the exception to it. However, because of the positive approach of the banks this turned out to be a transition stage and in the short run the banks started showing good results. On the basis of the recommendations of the Marathe committee in the case of Urban Cooperative Banks the Reserve Bank of India also revised its policy for issuing licenses to
the new urban cooperative banks as per the norms prescribed by the Marathe Committee. There was interest rate deregulation both for deposits as well as advances. Lots of changes in regard to the management, audit classification also made applicable to the Urban Cooperative Banks. It is on this back drop study of the performance of the Urban Cooperative Banks has assumed great significance.

6. **Objectives of the Study**

Keeping in view the various financial sector reforms, the researcher is of the view that the changes brought out by the reforms in banking sector in general and urban cooperative banks in particular will be a meaningful study. The objectives of the study have been set out as detailed herein below:

- To study the profile of selected urban cooperative banks in Pune city.
- To study the factors which are having a direct impact on the financial performance of urban cooperative banks.
- To analyze the effectiveness of existing financial practices of urban cooperative banks.
- To understand functional weaknesses of urban cooperative banks and to suggest suitable measures if any to improve upon.

7. **Scope of the Study**

Although the urban cooperative banking is in existence over the last century the banking in general has undergone a sea change after the Indian government adopted the policy of liberalization of the Indian economy and globalization in the year 1991. The entire face of the banking industry has undergone a drastic change. There is a heavy dose of adoption of modern technology in which automation and computerization has been resorted to by the Indian banking sector. Urban cooperative banking sector is not an exception to this change. Almost all the urban cooperative banks have computerized their bank network and some of them are also offering core banking services, anywhere banking, tele banking, mobile banking etc.
Because of the fast development of economy over the last two decades the scope of banking services has also been enlarged to a greater extent. Now apart from banking these banks are also extending various insurance products, consultancies related to banking etc.

Pune city has a large number of urban cooperative banks encompassing all types such as small, and large and extra large in size of their deposits, number of branches etc. The canvas also includes Scheduled Cooperative Banks as well as non scheduled cooperative banks. It has good number of new generation urban cooperative banks which have been established subsequent to 1991 when the banking sector reforms have been introduced. The area is quite vast and therefore taking into account the volume of banks, time and money required for it, the researcher has chosen 11 urban cooperative banks of various sizes. Care has been taken to ensure that the sample chosen by the researcher is truly representative.

8. Research Methodology

This research is mainly based on the secondary data. However, as the title of the research suggests that the study is in respect of urban cooperative banks in Pune city the researcher has considered it appropriate to study the secondary data and thereafter have a detailed interaction on his observations with the concerned bank’s Chairman / Chief Executive Officer. This will be rather meaningful.

Primary Data

As stated above the researcher has interacted with the Chairman / Chief Executive Officers of the banks identified for this research and their interactions are recorded on the pre decided well developed questionnaire.
Secondary Data Collection

The secondary data is mainly available from the Annual Reports published by the identified banks for the study. At Pune there is an Association of Pune District Urban Cooperative Banks and the said association was good enough to provide the required annual reports.

Research Universe & Sample Size

In Pune district there are 57 urban cooperative banks as on 31.3.2010. Of this total number there are 55 banks having their offices in Pune city. Here the researcher has to clarify that when he refers to Pune city it is Pune City.

Thus the study area has 57 urban cooperative banks. These banks were classified on the basis of their deposits as on 31.3.2010. (Here it should be noted that even at the national level whenever banks are required to be classified those are classified on the basis of their total deposits). The classification revealed the following position:

Table 2.1 : Deposit Category wise number of urban coop. banks in Pune city as on 31.3.2010

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Category</th>
<th>2009-10</th>
<th>Of which banks randomly selected for this study purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Over Rs.1000 crores</td>
<td>03</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Between Rs.500 to 1000 crores</td>
<td>03</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Rs.250 crores to Rs.500 crores.</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Rs.100 crores to Rs.250 crores.</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>Rs.50 crores to Rs.100 crores.</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>Rs.25 crores to Rs.50 Crores</td>
<td>09</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>Less than Rs.25 crores</td>
<td>09</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>57</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Records at Pune Dist. Urban Coop. Banks Association Ltd. Pune
The total deposits of all the 57 Urban Coop. Banks in Pune District as on the 31st March 2010 were to the tune of Rs.20313.98 crores. The total deposits of the randomly identified 11 urban cooperative banks covering each of the category mentioned above account for Rs.9862.30 crores. That means the identified banks for this study purpose account for 48.54% of the total deposits. Therefore, the sample can well be said to be representative. The list of the identified banks for this study together with their deposits as on 31.3.2010 is given here below:

**Table 2.2 : Deposit Category wise number of urban coop. banks selected for the study.**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Category</th>
<th>2009-10 Of which banks randomly selected for this study purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Over Rs.1000 crores</td>
<td>Cosmos Cooperative Bank Ltd. Pune</td>
</tr>
<tr>
<td>2</td>
<td>Between Rs.500 to 1000 crores</td>
<td>Janseva Sahakari Bank Ltd. Pune Vishweshwar Sahakari Bank Ltd. Pune</td>
</tr>
<tr>
<td>3</td>
<td>Rs.250 crores to Rs.500 crores.</td>
<td>Bhagini Nivedita Sahakari Bank Ltd. Pune Shivajirao Bhosale Sahakari Bank Ltd. Pune</td>
</tr>
<tr>
<td>4</td>
<td>Rs.100 crores to Rs.250 crores.</td>
<td>Rajashrshi Shahu Sahakari Bank Ltd. Pune Sant Sopankaka Sahakari bank Ltd. Pune.</td>
</tr>
<tr>
<td>5</td>
<td>Rs.50 crores to Rs.100 crores.</td>
<td>Sampada Sahakari Bank Ltd. Pune Lokseva Sahakari Bank Ltd. Pune</td>
</tr>
<tr>
<td>6</td>
<td>Rs.25 crores to Rs.50 crores</td>
<td>Udyam Vikas Sahakari Bank Ltd. Pune</td>
</tr>
<tr>
<td>7</td>
<td>Less than Rs.25 crores</td>
<td>Jai Bhavani Sahakari Bank Ltd. Pune</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Records at Pune Dist. Urban Coop. Banks Association Ltd. Pune
### Table 2.3: Banks identified for this research (Position as on 31st March 2010)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Bank</th>
<th>Date of Registration</th>
<th>No. of Branches</th>
<th>Total Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cosmos Coop. Bank Ltd. Pune</td>
<td>18.01.1906</td>
<td>96</td>
<td>7212.96</td>
</tr>
<tr>
<td>2</td>
<td>Shivajirao Bhosale Sahakari Bank Ltd.</td>
<td>2.03.1972</td>
<td>11</td>
<td>292.27</td>
</tr>
<tr>
<td>3</td>
<td>Jaybhavani Sahakari Bank Ltd.</td>
<td>22.08.1972</td>
<td>2</td>
<td>19.59</td>
</tr>
<tr>
<td>4</td>
<td>Vishweshwar Sahakari Bank Ltd.</td>
<td>18.09.1972</td>
<td>15</td>
<td>696.89</td>
</tr>
<tr>
<td>5</td>
<td>Janseva Sahakari Bank Ltd.</td>
<td>24.10.1972</td>
<td>21</td>
<td>773.98</td>
</tr>
<tr>
<td>6</td>
<td>Bhagini Nivedita Sahakari Bank Ltd.</td>
<td>19.02.1974</td>
<td>10</td>
<td>391.59</td>
</tr>
<tr>
<td>7</td>
<td>Sampada Sahakari Bank Ltd.</td>
<td>31.05.1974</td>
<td>4</td>
<td>75.93</td>
</tr>
<tr>
<td>8</td>
<td>Rajarshi Shahu Sahakari Bank Ltd.</td>
<td>13.09.1984</td>
<td>6</td>
<td>156.36</td>
</tr>
<tr>
<td>9</td>
<td>Udyam Vikas Sahakari Bank Ltd.</td>
<td>6.06.1988</td>
<td>4</td>
<td>42.93</td>
</tr>
<tr>
<td>10</td>
<td>Sant Sopankaka Sahakari Bank Ltd.</td>
<td>9.04.1997</td>
<td>4</td>
<td>136.21</td>
</tr>
<tr>
<td>11</td>
<td>Lokseva Sahakari Bank Ltd.</td>
<td>28.07.1997</td>
<td>2</td>
<td>63.59</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>175</strong></td>
<td><strong>9862.3</strong></td>
</tr>
</tbody>
</table>

*Source: Records at Pune Dist. Urban Coop. Banks Association Ltd. Pune*

### Table 2.4: The age wise classification of the identified banks for this study purpose is as under:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Age Criteria</th>
<th>No. of Banks Identified</th>
<th>Total Deposit of the Identified Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Banks over 75 years of age</td>
<td>1</td>
<td>7212.96</td>
</tr>
<tr>
<td>2</td>
<td>Above 50 years but less than 75 years of age</td>
<td>6</td>
<td>2250.25</td>
</tr>
<tr>
<td>3</td>
<td>Above 25 years but less than 50 years</td>
<td>2</td>
<td>199.29</td>
</tr>
<tr>
<td>4</td>
<td>Banks having age less than 25 years</td>
<td>2</td>
<td>199.80</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>11</strong></td>
<td><strong>9862.3</strong></td>
</tr>
</tbody>
</table>

*Source: Records at Pune Dist. Urban Coop. Banks Association Ltd. Pune*
Thus it can be seen from the above that the researcher has identified banks of varied ages which can be well considered as a representative sample. It can also be seen that banks which are having less than 25 years of age are the banks which have been opened after India adopted liberalization and globalization of the Indian economy.

**Analytical Tools Used**

The data collected has been analyzed by the researcher using the following analytical tools:

**Tabulation of the Data**: The primary and secondary data collected from the banks under study has been tabulated covering the study period and has been compared and trend analysis has been carried out.

**Percentage Tool**: Wherever comparison and trend analysis is to be carried out the percentage increase / decrease of the data collected has been carried out and which indicates the trend of the data under reference.

**Ratio Analysis**: Financial statements analysis is the process of examining relationships among elements of the company's "accounting statements" or financial statements (balance sheet, income statement, statement of cash flow and the statement of retained earnings) and making comparisons with relevant information.

Ratio Analysis as a tool possesses several important features. The data, which are provided by financial statements, are readily available. The computation of ratios facilitates the comparison of firms which differ in size. Ratios can be used to compare a firm's financial performance with industry averages. In addition, ratios can be used in a form of trend analysis to identify areas where performance has improved or deteriorated over time.
Because Ratio Analysis is based upon accounting information, its effectiveness is limited by the distortions which arise in financial statements due to such things as Historical Cost Accounting and inflation. Therefore, Ratio Analysis should only be used as a first step in financial analysis, to obtain a quick indication of a firm's performance and to identify areas which need to be investigated further.

Ratio Analysis compares items on a single financial statement or examine the relationships between items on two financial statements.

Financial ratios analysis is the most common form of financial statements analysis. Financial ratios illustrate relationships between different aspects of a company’s operations and provide relative measures of the firm's conditions and performance. Financial ratios may provide clues and symptoms of the financial condition and indications of potential problem areas.

Financial ratios generally hold no meaning unless they are compared against something else, like past performance, another company/competitor or industry average. Thus, the ratios of firms in different industries, which face different conditions, are usually hard to compare.

Financial ratios can be an important tool for small business owners and managers to measure their progress toward reaching company goals, as well as toward competing with larger companies within an industry. In addition, tracking various ratios over time is a powerful way to identify trends. Ratio analysis, when performed regularly over time, can also give help small businesses recognize and adapt to trends affecting their operations.

Financial ratios are also used by bankers, investors, and business analysts to assess various attributes of a company's financial strength or
operating results. This is another reason why business owners need to understand financial ratios because, very often, a business's ability to obtain financing or equity financing will depend on the company's financial ratios.

It is a form of Financial Statement Analysis that is used to obtain a quick indication of a firm's financial performance in several key areas. The ratios are categorized as Short-term Solvency Ratios, Debt Management Ratios, Asset Management Ratios, Profitability Ratios, and Market Value Ratios.

9. Hypotheses

The researcher has formulated the following hypotheses:

H₁  The existing financial practices of urban cooperative banks are effective for better management, funds and services.

H₂  The urban cooperative banks are trying to achieve increase in productivity keeping in tune with other commercial banks.

H₃  The Managements of urban cooperative banks are under close supervision of the Reserve bank of India.

10. Limitations of the Study

In banking sector there are several aspects which are not revealed through the Annual Reports. The banks do not prefer to share certain vital information with an outsider even for academic study purpose. E.g. whether a particular bank has undertaken window dressing/beauty parlour exercise on the balance sheet date cannot be commented upon as the average deposit figures are also not known. Same is the case with Health of borrowal accounts. Of course with the introduction of the prudential norms on identification of NPAs and its certification by the statutory auditors has improved the transparency, there are still certain areas of which no information is divulged by the banks. To that extent this research has
limitation. Otherwise the observation and findings can well be regarded as representative.

Besides this, obtaining of data from these identified banks for the past 10 years also posed problem and the researcher had to pursue with these bank to obtain it.

11. Chapter Scheme
Chapter I Introduction
This chapter covers the introduction to banking in general and more particularly urban cooperative banks. How these banks have developed, and what is their current status and what is their future.

Chapter II Research Methodology
This chapter brings out the significance of the research topic, the objectives and hypotheses of the research, data collection, methods used for data collection, scope and limitations of the study, analysis and interpretation of the data collected.

Chapter III Review of Literature
This chapter is devoted to give in brief the reviews of various books, journals, reports, news in press which is related to the topic of this research.

Chapter IV Profile of the Pune City and Banks Identified for the research
Since the research universe of this research is restricted to Pune city a brief profile of Pune city and the profile of banks which have been identified for the current study has been given in this chapter.

Chapter V Data Analysis and Interpretation
In this chapter the data collected has been presented in tabular as well as descriptive form and the same has been analyzed using the statistical tool
of ratios and percentages and has been presented using graphical presentation.

Chapter VI  Observations, Suggestions and Conclusion

This chapter covers the observations and findings made out by the researcher on the basis of his research study and have offered a few suggestions in he areas wherever necessary

Annexure

It covers bibliography, list of abbreviations used and questionnaire used for interaction with the bank’s senior executives.

SUMMARY

The chapter begins with the brief introduction of urban cooperative banks, their current status, various reforms in urban cooperative banks and gives significance of the present research. It has also spell out the research objectives which focuses on the study of the profile of selected urban cooperative banks, factors which have direct impact on the performance of these banks, analyze the effectiveness of their present practices and also to study their functional weaknesses and to suggest appropriate measures.

The researcher has in his hypotheses of this research assumed that the existing financial practices of urban cooperative banks are effective for better management, funds and services, these banks are trying to improve their per employee productivity and that the urban banks are under close supervision of the Reserve Bank of India.

While elaborating on the research methodology it has been stated that for the purpose of this study the urban cooperative banks functioning in Pune have been divided into 6 groups depending on their deposits as on 31st March 2010. This study is based mainly on the secondary data available through the
published annual reports of the identified banks and for certain descriptive aspects primary data has also been collected using a pre-designed questionnaire. The data collected has been analyzed using statistical techniques like tables, ratios, percentages etc and presented graphically. The study has some limitation as certain things are not disclosed in the annual reports, although the prudential norms which are made applicable to the urban cooperatives banks make it compulsory for large sized UCBs.