Chapter I

Design and Execution of the Study
Chapter –I

DESIGN AND EXECUTION OF THE STUDY

INTRODUCTION

The Banking Institutions are the intermediaries between the depositors and the borrowers. They accept deposits and lend money both for productive and consumption purposes. As the capital formation depends on the mobilization of savings, banks have the moral responsibility over the funds that they pool from outsiders. On the other hand, the borrowers have the responsibility for the repayment of loan together with interest for the smooth functioning of banks (IIB: 1998, p.540).

Cooperative banks in India have come a long way since the enactment of the Cooperative Credit Societies Act in 1904. The century old cooperative banking structure is viewed as an important instrument of banking access to various sections of the community and thus a vehicle for democratization of the Indian financial system. Cooperative banks mobilized deposits and purveyed not only agricultural and rural credit but also extended credit to priority sectors of the nation with a wider outreach. They have also been an important instrument for various development schemes, particularly subsidy-based programmes for the poor. At present, there are more than 5.49 lakh cooperative societies functioning with the membership of 22.95 crore (NCUI: 2007, p.15).

Cooperatives Banks comprise Urban Cooperative Banks (UCBs) and Rural Cooperative Credit Institutions. Urban cooperative financial institutions consist of a single tier, viz., Primary (Urban) Cooperative Banks, commonly referred to as UCBs (Chart - 1.1). UCBs are registered under Cooperative Societies Act of the respective State Governments. Prior to 1966, UCBs were exclusively under the purview of State Governments. With effect from 1\textsuperscript{st} March 1966, certain provisions of the Banking Regulation Act 1949
As Applicable to Cooperative Societies' (AACS) has been made applicable to these banks. Consequently, the RBI became the regulatory and supervisory authority of UCBs for their banking related operations. Managerial aspects of such banks continue to remain with the State Governments under their respective Cooperative Societies Act.

UCBs started in India with the main purpose of helping small traders, artisans, factory workers, salaried people having limited fixed income in the urban areas. The purpose of the urban banks was on one side to protect them from the money lenders and on the other to inculcate among them the habit of saving. UCBs sanctioned loans for the purposes of Petty trade, Cottage and Small Scale Industries, Small Business Enterprises, Software industries, Purchase of lorries and buses, Construction purpose, Establishment of clinic/service centers by Doctors/Engineers and Educational loans for pursuing Professional courses.

UCBs are unique in terms of their clientele mix and channels of credit delivery. However, they are classified according to their scheduled status, operational outreach and purpose/clientele. Out of 1853 UCBs in India, 55 enjoyed scheduled status as on 31st March 2007. Since the UCBs brought under the purview of BR.Act three decades ago, they have registered rapid progress both in terms of deposits and loans and advances. The total deposit resources mobilized by the UCBs aggregated to Rs.120983 crore (RBI: 2006-07, p.133). The loans and advances of UCBs in India stood at Rs.19086.42 crore on 31st March 2007 (RBI: 2005-06, p.107).

IMPORTANCE OF THE STUDY

Cooperative banking sector with wider geographical spread and detailed stratification has substantial heterogeneity in both financial position and performance within and across different strata. While many cooperative banks are healthy and conduct their business efficiently within the limit of the
Chart -1.1

Cooperative Credit Institutions

Urban Cooperative Banks (UCBs) (1813)

Scheduled UCBs (53)

Multi State (25) Single State (28)

Rural Cooperative Credit Institutions (107497)

Non Scheduled UCBs (1760)

Multi Stage (13) Single Stage (1747)

Single Districts (1256) Multi District (491)

Unit UCBs (894) Non Unit (UCBs) (362)

Source: RBI, Trend and Progress of Banking in India, 2006-07, p.119
Note: Figures in parentheses indicate the number of institutions at end-March 2007 for UCBs
regulatory norms, but some others are confronted with many constraints. Every Commercial organization has necessarily to have maximization of profits as its objective. In order to achieve this, it taps resources, builds up business and financial assets and generates profit by skillful management of assets and dove-tailed liabilities. Management of finance in any business organization comprises of and aims at procuring of funds at the cheapest rate and the deployment in a profitable manner with due regard to safety and liquidity. UCBs are also not exception to this. UCBs, being financial intermediaries render financial services with the objectives of growth, profit and services.

The role played by the UCBs in financing Small Scale Industries (SSIs), small entrepreneurs and self employed persons have been further recognized by the Reserve Bank of India (RBI). While the commercial banks have been asked to lend upto 40 percent of their total loans and advances to priority sector, the Urban Banks have been advised to lend as much as 60 percent. The various committees have been constituted to study the working of UCBs. They have specifically recognized the potentiality of the UCBs in meeting the requirements of the middle class people and small scale industrialists. During the last few years, the UCBs have reoriented their lending policies and shifted from traditional lending based on security to production oriented lending hence the present study is the relevant and important one.

STATEMENT OF THE PROBLEM

A strong, efficient, functionally diverse and geographically widespread financial system is a critical one to the attainment of the objective of creating a market driven, productive and competitive economy (GOI: 1998, p.1). Financial system with financial stability is sine-quo-non-for the sustained and rapid economic progress. The financial stability of banks has a direct bearing to the extent of collection of loans before they become overdues. If the
overdues are not kept under control, they will have a crippling effect of curtailing the ability of the banks to recycle the funds and expand their business (*TN: 2005-06, p.21*). In order to increase the tempo of economic development through financial stability of the banks in general and cooperative banks in particular, steps had been taken to promote the development of various types of economic activities in the sphere of cooperation both in rural and urban areas (*RBI: 1979, p.9*).

UCBs are one of the fairly widespread, financially sound, expanding and useful framework of banking institutions which have their own place of importance in the banking structure of a large part of the country (*RBI: 1961, p.82*). They have witnessed phenomenal growth during the last one and half decades. The number of UCBs has increased to 1813 in March 2007 as against 1307 in 1991 (*RBI: 2006-07, p.132*). Along with this growth, certain constraints have however, manifested in the sector resulting in erosion of public confidence and causing concern to the regulators as also to the well functioning units in the sector.

Though some UCBs have shown credible performance in the recent years, a large number of banks have shown discernible signs of weakness due to mounting NPAs. In 2006-07, gross NPAs position recorded upto Rs.13363 crores with the 17 percent share of total assets (*RBI: 2006-07, p.132*). Major concerns facing by the UCBs include high levels of loan delinquency, erosion of capital base, paucity of funds for fresh deployment, high level of dependence on other agencies for funds, lack of professionalism in conduct and management, inadequate internal controls, governance structure and non-adherence to norms and regulations (*Ravichandran K. & Mayilsamy R: 2008, p.45*). Measures for improving the overall health and conduct of the urban cooperative banking system here become imperative. The operational efficiency is unsatisfactory and characterized by low profitability, ever greening Non Performing Assets (NPAs) and relatively low capital base. Over a long period of time, the performance of UCBs has been deteriorating due to
non recovery of interest and installment of loan portfolio (Uttam Kumar Dutta & Amit Basak, 2008, p.170). Probably the biggest challenge facing by the banking sector especially by the UCBs, is the availability of quality of assets. In case, if the banks are unable to realize the income due to NPAs, it will put the banks into liquidity crunch. At all India level, the position of gross NPAs was upto Rs.13363 crores with the 17 percent share of total loans and advances. Likewise most of the UCBs in Tamilnadu had heavy NPAs upto Rs.191.98 crores with 17 percent of NPAs in 2006-07.

The financial performance varied across bank branches. Before entering into the studies focusing on overdues and NPAs only, it is very important to analyze thoroughly the overall performance and the financial performance of the banks. It gives a concrete idea to augment the deposits and improve the performance of lending. It ultimately tends the bank to reach the smooth credit creation, which is the essence of banking. Further, it paves the way to streamline the operations of UCBs and to set right the mismatches between the growth of UCBs throughout the country. At the same time, it is very crucial to fulfill the expectations of the members for whom bank renders services. The satisfaction of members leads to the survival, prosperity and the sustainability of these banks. With this background, the present study aims to build a knowledge base on the financial performance of UCBs followed by the perception of the members of UCBs so that it is pertinent to explore: What are the measures to be taken for attaining the profitability, productivity, solvency and operational efficiency of UCBs? What are the various causes and effects of mounting NPAs? How is the perception of members towards the services of UCBs? These issues have to be properly addressed in detail to improve the financial performance of UCBs.
REVIEW OF LITERATURE

Research attention has been drawn from time to time by many scholars, cooperators and experts in order to strengthen the Cooperative Banks particularly UCBs through number of micro level studies at different parts of the country. Some important drops from their findings which are relevant to the study are presented below.

The All India Rural Credit Survey Committee (1954, p.62) found that defective lending policies were the causes for the poor repayment and consequent overdue at institutional level.

The All India Rural Credit Review Committee (RBI: 1969,p.553) which studied the progress of the cooperative movement after 1954, stated that overdue were a common problem both in developed and underdeveloped areas and found that the bulk of the overdue were caused by willful defaulters.

The first official and comprehensive study on overdue was conducted by RBI’s Study Team on Overdues (1974, p.14) which found that faulty lending policies, failure to link credit with marketing, lack of will on the part of management to take strong action against recalcitrant and willful defaulters, lack of financial discipline, apathetic attitude of some of the State Governments towards creating an environment conducive and congenial to the repayment of dues were the causes for overdue.

The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) (1980, p.67) while endorsing the findings of the Study Team on Overdues, indicated that failure to tie up lending with development programmes and want of a sense of a discipline and responsibility among the loanees with regard to prompt repayment of debts were the important causes among others for overdue.
RBI (1989, p.917) stated that higher proportion of overdue in priority sector advances was attributed due to the directed and pre approved nature of loans sanctioned under sponsored programmes, absence of any security, lack of effective follow up due to large number of accounts, legal recovery measures being considered not cost effective, vitiation of repayment culture consequent to loan waiver scheme etc.

Anandateerth Kittur and Basanna H. (1991, p.59) found that anticipation or hope of write off loans, political patronage, mass exemption of loans, excessive political interference in day-to-day functioning of cooperative banks had polluted loan repayment climate resulting in mounting overdue.

Ramachandran, R.S. and Kaveri V.S. (1993, p.221) in their study observed the deficiencies in bank systems and practices to deal with NPAs in detail:

(a) Appraisal of a credit proposal from an industrial unit was done without looking into the industry’s problem and prospects,

(b) Managerial competence of the borrower was given less consideration while examining the credit proposals,

(c) Documents were found to be not in order, hence recovery of advances through the court of law creates problems,

(d) For the purpose of follow up, the required data such as performance, conduct of the cash credit facility, position of securities, current ratio were not available at one place, consequently follow up was not effective, and

(e) Compromise proposals were not handled on objective basis and delays were also observed in dealing with the court matters.

Goyal S.K. et al. (1993, p.296) observed that the defaulter borrowers utilized a relatively large proportion of their total earnings on consumption purposes thereby leaving less for investment in production process. This
Chapter I  

resulted in low repaying capacity of the loan on the part of the defaulter borrowers.

Bhaskar G. et al. (1994, p.142) indicated that lack of prompt action against willful defaulters and general slackness in the efforts to recover the loans were the reasons for the mounting of overdue.

Kaveri V.S. (1994, p.77) explained the inter-relationship of assets and liabilities of banking sector. While the ratio of investments to total assets witnessed a rise, the ratio of advances to the assets showed a marginal fall due to the fear of non-performing advances.

Ramachandra Reddy D and Ramakrishna Reddy M (1995, p.47) found that overdue to loan outstanding was higher than overdues to demand in the sample societies in Andhra Pradesh.

Veeresh D. (1996, p.438) pointed out that the anticipation of the loan wavier scheme had been the prime reason for default. This trend was found due to false statements made by the politicians in their election campaign with the intention to take an election advantage from the rural poor. So this sort of misguidance of politicians encouraged the beneficiaries to become willful defaulters.

Shirish R Kulkarni (1996, p.47) while studying the performance of UCBs in Vadodora, Gujarat found that women and people from weaker sections were less attracted by the urban banks for membership, borrowings and deposits.

Dash D.K (1997, p.48) found that continuous and regular personnel contact with the borrower and the guarantors have proved effective in closing of bad loans.
Kalia S.K. (1997, p.31) identified that apart from the defective loan policies and procedures, other factors such as ineffective investments, non realization of anticipated level of return, willful defaulters, defective legal framework, government interferences etc, had also contributed for the mounting overdues.

The Committee on Banking Sector Reforms (1998, p.59) observed that the poor implementation of subsidy linked Government programmes, vitiated credit culture coupled with organizational inadequacies in the Rural Financial Institutions (RFIs) and priority sector lending had resulted in higher NPAs.

Puhazhendhi and Jayaraman (1999, p.18) identified that non-repayment of rural loans and accumulation of overdue were realized to be associated with the high transaction costs for funds coupled with lower financial margins.

Mozeindar (1999, p.29) revealed through his study that the problem of repayment arises due to the misutilisation of credit pertaining to the productive and unproductive purposes and inadequate repaying capacity.

Rajaraman and others (1999, p.768) attempted to examine NPAs variations across Indian Commercial Banks. Their findings showed that the bank specific characteristics such as ownership or adherence to prudential norms do not sufficient to explain the bank variations in NPAs.

Siddqi A.Q., et.al., (1999, p.914) analyzed about 800 top NPAs loans in 17 commercial banks and reported that the diversion of funds, expansion, diversification, modernization or promoting sister concerns etc., were the single most prominent reasons for the growth of NPAs.

Bhaskaran R. & Praful Josh (2000, p.26) revealed that the priority sector advances of public sector commercial banks had constituted only 43.5 per cent of the net bank credit during the year 1999, whereas the loan
Chapter I Design and Execution of the Study

portfolio of Rural Financial Institutions consisted predominantly of priority sector advances. Thus, cooperatives unlike the commercial banks lack the balancing factor in their loan portfolio, which can possibly take care of the pressure on viability of operations emanating from the high level of NPAs in priority sector advances.

Kumar (2000, p.856) analyzed the trends of NPAs in RRB at all India level through the classification of loan assets and the size of NPAs. This study pointed out that the percentage of gross NPAs at all India level, though declined over the periods, remained at a very high level (28 percentage) at the end of March 1999.

Tiruttani Munivelu (2000, p.15) expressed that high levels of NPAs were an indication of poor credit management. Consequently, the volume of NPAs affects the yield on advances.

Yashwant V.Dabir (2000, p.17) stated that resorting to legal action for recovery was a long time consuming procedure.

Gurumoorthy (2000, p.47) revealed that the loan recovery would contribute to fresh loans that create new business and employment and interest income would meet establishment expenditure and profit requirement of the financial institutions.

Selvam K.G and others (2000, p.50) opined that instead of organizing a recovery drive based on overdue, the bankers must short list those accounts and speed up recovery drive.

Rohilla B.S (2000,p.29) found that the investments made in other banks were not only out of deposits but also from owned funds but much concentration on the issue of loan has to be provided.
Masthan D. and Narayanasamy R (2000, p.93) pointed out that cost of management to working capital ranges from 2.50 to 3.57 percent due to the cost reduction strategies of the management and also due to increase in the employee productivity.

Deepak Shah (2001, p.5) revealed that declining share of net worth had caused an increase in debt assets ratio whereas the return on assets had shown a drastic fall of Buldana DCCB during the study period.

Rajendra Singh (2001, p.29) revealed that the most crucial reason for the increase in the NPAs was the dilapidated and defaulter friendly legal system.

Asthon A.K (2001, p. 8) observed that the credit deposits ratio of UCBs had declined and the management was forced to lend. Lending without proper security, documentation, screening and lending to relatives of the board of directors resulted in bad recovery position of the bank.

Veerakumaran G and Subash B (2001, p. 27) stated that the huge overdue breaks the recycling of funds and thus adversely affects the profitability of the banks.

Jain B.K. (2002, p.13.1) indicated that the low recovery of loans and advances had forced the bank to make provision for NPAs and overdue interest, which adversely affected banks profitability.

Mathur K.B.L (2002, p.2252) pointed out that weak and lengthy legal process was the main reason for mounting NPAs among the public sector banks in India.

Abhiman Das (2002, p.444) pointed out that credit risk management involved controlling adverse selection problem by screening loan applicants as well as tackling moral hazard problems through closer and continuous loan
monitoring. The cost of controlling credit risk might increase with the level of risk exposure due to monitoring and hedging costs, implying a positive relation between net non performing assets and productivity.

Ashok Gulati and Seema Bathla (2002, p.9) found that deterioration in the recovery of loan resulted in the increase in default rate. On the other hand, a continuous increase in the overdue, thus, inhibited the capacity of the lending institutions to raise resources, impinge upon recycling of funds and shake the confidence of the depositors. The study also pointed out that natural calamities, inadequate income generation, Government policy of lending at subsidized rate of interest and waiving of loans of many occasions, high transactions cost, complicate lending and provisioning of NPAs were some of the major factors behind a high growth of overdue / NPAs of Rural Financial Institutions.

Muniappan G.P. (2002) stated that one of the most important causes for NPAs was the slackness on the part of the credit management staff in their follow up to detect and prevent diversion of funds in the post disbursement stage.

Ranjit Kumar Das (2002, p.9) indicated that every additional advances of Re.1 would cause an overdue of Rs.0.49 per branch and Rs.0.58 per account of the bank.

Sarkar A.N and Hanamashetty (2002, p.11) revealed that the profit of UCBs depend on the magnitude of volume of business, deposits and lending interest rates, cost of funds, management of loans and advances and investment portfolio.

Subburaj B and Karunakaran R (2002, p.29) indicated that major drain on the profitability of UCBs was due to the higher level of NPAs.
Akula Rajagopal Rao (2002, p.63) found that 94.34 percent of the respondents fully satisfied with the services rendered by the UCBs in Bangalore City.

Lopoyetum S.K (2004,p.49) revealed that some of the liquid assets, cash in hand, and balance with other banks in current accounts were idle in the reserve that the bank did not derive any income from them. On some other liquid assets e.g. money at call and short notices and investment, the return was lower as compared to other profitable uses of the bank funds.

Teli R.B ( 2004, p.90) study identified that the problems faced by the UCBs were dual control, untrained human capital, limited area of operation, lack of marketing view, limited resources, lack of support from the government, problem of recovery, low computerization, lack of transparency, incomplete corporate governance, lack of conceptual awareness etc.,

Raikar A.V, (2004, p. 86) observed that the operating profit of the UCBs was also showing a downward trend. This may be due to an increase in the cost of funds and non profitable avenues for deployment.

Ravi Prasad S. (2004, p. 412) pointed out that the most of the board of management of the UCBs had failed to observe basic principles of banking organization while sanctioning the loans and advances. Most of the UCBs had sanctioned unproductive loans which ultimately resulted in NPAs.

Teli R.B. (2005, p. 459) pointed out that the percentage of net profit to working capital had shown fluctuating trend during the study period. It was due to the slackness in trade and Commerce.

Samwel K.L and others (2005, p.41) revealed that the rate of interest earned on loans and advances (62.29 percent) was higher than the rate of interest earned on investment to average working funds (89.43 percent). This clearly indicated that the major usage of working funds was deployed in investment which was high in earning assets.
Sudipta Ghosh (2006, p.157) found that the doubtful assets had steadily increased during the study period which indicated the inefficiency of the banks to collect the loans and advances at the initial stage of NPAs.

Ramu.N (2007, p.75) stated that the deposits (86.26 percent) was the major source of resource of the UCBs. The members had more willing to invest in fixed deposits than other types of deposits.

Sujatha V. (2007, p.18) revealed that the manpower ratio had come down mainly because of significant reduction in the number of employees and non-filling up of the vacancies that arose due to retirement and other factors.

Jain B.K (2008, p.20) identified that the unique services had offered by the Amreli Nagrik Sahakari Bank such as centrally air conditioned hall with comfortable seating arrangement, free tea / coffee, note counting machines for customers, extended banking hours, interest discount on loans and advances, gift to regular loan repayers and free accident insurance.

Mohan S.and Raju S. (2008, p.22) found that the highest percentage of fixed deposits (83.97 percent) had led to earn higher rate of interest expenditure.

Uttam Kumar Dutta (2008, p.171) indicated that the Credit Deposit Ratio (CD Ratio) of the bank was unsatisfactory which ranged between 22.19 and 17.94 percent (Desired CD Ratio level 60 -70 percent).

The above studies conducted in various parts of the country have thrown light on the various problems in the banking sector. They focused on various causes for the growth of overdue and NPAs in various banks. However, these studies were unable to identify the magnitude of the problem and the factors that led to the weak financial health of the banks in general and UCBs in particular.
As the UCBs has been playing a strategic role in the Cooperative Banking System in India, the financial performance and increasing trend in NPAs at UCBs level should be studied periodically in various parts of the country so as to address the problem with new strategies. Further, in the pursuit of maintaining consistency and continuity, there has been a dire need for regular surveys so that it would be possible to outline the existing gaps and future studies pursued accordingly (Goel G.B: 1997, p.89).

Very limited studies were conducted on the problem of NPAs in UCBs, especially after the introduction of prudential norms. At the same time, before focusing on the studies with regard to overdues and NPAs only, it would be very important to analyze thoroughly the financial performance of the banks in order to understand the liquidity, profitability and solvency position of them. By bearing this in mind, the researcher intended to fill the above said gaps in this study which analysed the financial performance of the UCBs, the trend and causes of NPAs and the perception of members towards the services of the sample banks.

OBJECTIVES OF THE STUDY

The prime objectives of the study are:

1. To study the profile of UCBs in Chennai District
2. To analyze the financial performance of UCBs in Chennai District
3. To examine the status of Non Performing Assets in UCBs in Chennai District
4. To analyze members’ perception on the services offered by UCBs in Chennai District
5. To suggest suitable measures to improve the financial performance of sample UCBs and to reduce the level of mounting NPAs.
HYPOTHESES OF THE STUDY

The following hypotheses have been framed for the present study based on the findings of the research studies reviewed as well as the researcher's own grasp of the field situation.

HO-1: The growth share of capital, deposits, borrowings, loans and advances did not affect significantly the growth of net profit.
HO-2: Changes in the working capital have no significant effect on the changes in loans and advances.
HO-3: Changes in working capital have no significant effect on the changes in total assets
HO-4: Changes in the NPAs have no significant effect on the changes in loans and advances
HO-5: There was no association between clusters of members’ perception and demographic profile of the UCB members.

DEFINITION OF THE CONCEPTS USED

Credit

Credit or loan is defined as a temporary transfer of funds, which forms a contract for the future delivery of money by the borrower to the lender.

Cash Reserve Ratio (CRR)

According to the Banking Regulation Act 1949 (As Applicable to Cooperative Societies (AACS)) every Primary Cooperative Bank is required to maintain on daily basis a cash reserve, an account not less than 3 percent of its demand and time liabilities as obtaining on the last friday of the second preceding fortnight (Section 18).

Demand

Demand means the loan installment with interest falling due for recovery on particular date.

Doubtful Assets

An asset, which has remained overdue for a period exceeding 3 years.
Chapter I

Long-term Loan

Long-term credit is generally granted for periods longer than 5 years and extending up to 15 years.

Loss Assets

A loss asset is a credit facility where loss has been identified by the bank/ auditors / RBI/ Inspectors but the amount has not been write-off wholly or partly.

Medium Term Loan

Loans provided for a period from 3 to 5 years.

Non-Performing Assets

A credit facility in respect of which interest and / or installment of principal has remained overdue for a period of more than 90 days.

Loan Outstanding

The amounts (Principal + Interest), which remains to be recovered on a particular date by the financing bank.

Overdue

The amount which was due to be paid on a particular date, but has not been repaid by the borrowers.

Paid up Share Capital

It is a part of the issued capital, which is subscribed by the Shareholders.

Performing Loans

A loan which is not overdue for more than 90 days, i.e., a loan which is not classified as Non Performing.

Provisioning

The amount set aside from the profit and loss account for specific purposes to take care of certain future eventuality.
Statutory Liquidity Ratio (SLR)

Banking Regulation Act 1949 (AACS) says that every Bank (Scheduled and non Scheduled) is required to maintain, on daily basis liquid assets, the amount of which shall not be less than 25 percent or such other percentage not exceeding 40 percent, as many as notified by RBI, of its demand and time liabilities in India as on the 1st Friday of the second preceding fortnight [Section 24 (2A) (a)].

Short Term Credit

Short-term credit is granted for a period ranging from 6 to 18 months.

Scheduled Bank

Scheduled Bank means a bank included in the Second Scheduled of the Reserve Bank of India Act, 1934.

Standard Assets

Assets, in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any signs of impairment nor carry more than normal risk attached to the business.

Sub Standard Assets

Assets, which have remained overdue for a period not exceeding 3 years, should be treated as Substandard Assets.

Working Capital

Working capital refers to the funds required for enabling a bank to carry on its operations, without break at the expected level.

METHODOLOGY

As there were 5 UCBs functioning in Chennai District, all UCBs have been taken as study units based on the Census Method. Both primary and secondary sources of data have been used for the study. Secondary data were collected from various annual reports, audit reports, journals and other library sources. Field survey method and interview techniques were employed for the collection of primary data.
Chapter 1 Design and Execution of the Study

Sampling Procedure for the Selection of Respondents

The main focus of the study was on the Financial Performance of UCBs in the study area. Yet, it was felt that any study on the performance of the cooperative banks would not be completed without studying the members. Therefore, the members’ perception or opinion about the services offered by the sample Banks was included as another dimension which would help to vouch the result of the study. Hence, it was decided to select 70 members at random from each of five UCBs giving representation to each bank. Totally 350 members were selected with the help of Quota sampling procedure.

Pilot Study

A pilot study was conducted among 50 members of UCBs to check the feasibility and reliability of the schedule. In the light of the experience gained in the pilot study the schedule has been modified to suit the sample groups and finalized to conduct the survey. The perception of the respondents had been tested for its reliability using Cronbach’s Alpha. The value obtained was 0.9199 which showed that instrument is highly reliable. The distribution curve was normal.

Interview Schedule

Two detailed interview schedules were constructed and pre tested for collecting necessary information from UCBs and members. Interview schedule for UCBs covers data regarding membership, share capital, reserve fund, deposits, borrowings, loans and advances, NPAs and Profit and loss etc. Interview and discussions were also conducted with the officials of cooperatives.

The primary data were collected through well-structured interview schedule. It comprised optional type and Likert’s five point scale type of questions. Likert’s five point scaling technique was ranging from highly satisfied to highly dissatisfied. Specifically, it was coded as shown below:
The schedule was classified into three segments. The first segment covered demographic profile of the UCB members. The second segment consisted of the perception of members towards the various services offered by UCBs. The third segment comprised of problems faced by the members and services expected by the members of UCBs.

STATISTICAL TOOLS USED

The statistical tools such as Standard Deviation (SD), Average Growth Rate (AGR), Compound Average Growth Rate (CAGR), Linear Average Growth Rate (LAGR), Correlation, Regression, Co-efficient of Variation have been used to analyze the secondary data.

The primary data collected from the respondents were coded and tabulated to suit the requirements of the study. Statistical Package for Social Sciences (SPSS) was used for data analyzing. The following statistical tools have been employed to analyze and interpret the primary data.

- Percentage analysis has been employed to analyze the demographic factors of the UCB members.
- Factor analysis by principal component method has been used to identify predominant factors on performance of UCBs.
- One way Analysis of Variance (ANOVA) was used to find out the influence of demographic factors on predominant factors on the performance of UCBs
• Cluster analysis was exploited for grouping the members of UCB with various heterogeneous groups which were homogeneous within them.

• Non-parametric Chi-square test was used to identify the association between various clusters of UCB members’ perception with respect to the services of bank and demographic factors.

• Ranking analysis was performed to rank the problems faced by the members of UCB and their expectations.

PERIOD COVERED
The study confined to collect for a period ten years (i.e.) 1997-98 to 2006-07.

DELIMITATIONS OF THE STUDY
As the main focus of the study was to assess the financial performance only, it did not intend to cover other aspects like management / administration etc. The scope of the study was confined to Chennai District only. Therefore, the findings of the study might not hold good for larger generalization.

LIMITATIONS OF THE STUDY
The sample size for the study of members’ perception was limited to a small segment i.e., 70 members from each bank. As the present study had focused mainly on financial performance, the study of members was only to elicit overall opinion about the services of the sample banks.
CHAPTER SCHEME

This study was organized into six chapters:

* First chapter dealt with the Design and Execution of the Study

* Second chapter picturized the Urban Cooperative Banks in India – An Overview

* Third chapter discussed the Profile of Urban Cooperative Banks in Chennai District

* Fourth chapter analyzed the Financial Performance of Urban Cooperative Banks in Chennai District

* Fifth chapter examined Members’ Perception towards the Services offered by Urban Cooperative Banks in Chennai District.

* Sixth chapter presented the Findings, Conclusion and Suggestions of the Study.
Notes:

1. The Short term and Long-term Cooperative Banking Structure met the demand for agriculture and allied agriculture credit needs of the farmers in India.

   - The short-term Cooperative Banking Structure consisted of 30 State Cooperative Banks (SCBs) at the State level, 367 District Central Cooperative Banks (DCCBs) at the District level, and 93816 Primary Agriculture Cooperative Societies / Banks (PACBs) at the village level.

   - The Long-term Cooperative Credit Structure consists of 20 State Cooperative Agriculture and Rural Development Banks (SCARDBs) and 1475 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) as on 31st March 2006. This structure is not uniform across the country.

2. As per the Government of India notification F.No.14-13/2003 –AC dt. 30th October 2003 that the Primary Cooperative Banks which are licensed and whose demand and time liabilities are not less than 250 crore, qualify to be treated a financial institutions for the purpose of sub classes (iii) of Clause (a) of sub section (60 of section 42 of the RBI Act, 1934, i.e., for the purpose of inclusion of Primary Cooperative Banks in the second Schedule of RBI Act 1934.

3. The Banking Regulation Act 1949 (as Applicable to Cooperative Societies) which had come into force from the 1st March 1966, has vested the RBI with various statuary powers of control and supervision over the Cooperative Banks. Powers in regard to incorporation, management etc., of this banks, however, continue to vest in the Registrar of Cooperative Societies of the States concerned.
Chapter I
Reference:


Chapter I Design and Execution of the Study


41. RBI (1969), *The All India Rural Credit Review Committee*, Bombay, p.553.


