CHAPTER - 1
CHAPTER-I

INTRODUCTION

The co-operatives play an important role in the Indian Financial System, especially at the rural level. In rural finance, as a means of reaching the least man in the last village, co-operative credit has no rival except the traditional money-lenders; it offers the only possible method of proved merit for reaching the people as a while; it is the only practical alternative to usury.¹

Urban Co-operative Banks are confined to the municipal area of a town. They are two types:

- Unit Banking type and
- Branch Banking type

The Urban Co-operative Banks have shown an excellent performance. The fast increasing resources and magnitude of the business reveal their success study. However, the pressure on banks for providing a new and better services are mounting. Internally, the resources of banks are becoming increasingly scarce and their profit margins are affecting the management and activities of the banks.

Hence, time has come that these institutions must stop a while and broad over their achievements and failures to be more significant to the present and relevant to the future. They must look deeper into their strengths, weaknesses, opportunities and threats (SWOT) so as to play as effective role. 2

Co-operative movement in our country was started to eradicate, the misery and poverty primarily of the rural masses. So the Government to the organization of agricultural credit societies gave importance. 2

While explaining the provisions of the co-operative societies Act of 1904, Government of India said that "the present legislation is especially designed to assist agricultural credit which presents a fairly more important and difficult problem than that of industrial credit. Thought, it is recognized that societies may be started in towns also by non-agriculturalists and it is even possible in some places, the establishment of town banks may usually proceed and even assist the starting of purely agricultural societies". 3

In those days all the urban credit societies including the urban banks were described as non-agricultural credit societies. The Government for the organization of Non-agricultural credit societies did not give social encouragement. They were expected to grow themselves without assistance from the state. This had undermined the seriousness of urban poverty and misery. The Maclagan Committee had pointed out that, "the interest on loans paid by the industrial classes in towns is not lower than that charged to agriculturists. With rising prices, insufficient and insanitary housing accommodation, wages often held in arrears, and

a desire for higher standard of living consequent on the spread of education, industrial difficulties are bound to increase, and we are of the opinion that any form of organization such as co-operative societies that has a tendency to alleviate these difficulties are worthy of support. We would also point out that the excessive development of agricultural societies to the exclusion of other classes means that the demand for money and repayment of loans are not distributed evenly throughout the year, but occur at particular seasons, with the result that Central Bank during certain months of the year find it difficult to employ their capital profitably. These are the advantages in bringing the urban classes and especially the lower industrial classes who at present see little of government offices expect in their judicial or punitive aspects, into close contact with a branch of Government, which they cannot but regard as beneficent. For these reasons the non-agricultural classes provided always that it is carefully supervised and controlled.”

4. Ibid, P-17
Urban Co-operative Banks are as old as the agricultural credit co-operatives. While the agricultural credit co-operatives have been organized with an aim of releasing the farmers from the hold of the moneylenders, the urban banks have been organized to help the middle class and weaker sections of the urban community. The Government gave importance to the assistance and managerial helps were provided to the agricultural banks. The urban banks were expected to grow on their own accord. Such circumstance posed both a challenge and an opportunity for the urban banks. They have to grow and stand as voluntary and self-reliant institutions. Less interference of the Government made the urban banks to develop their own leadership and this managerial competence. In the case of resource mobilization also, to this date, they depend on their own resources dependence on government or other financing agencies, has been kept to the lowest minimum.

The importance of urban banks in helping the urban community has been pointed out by the Report of the Study Group on credit co-operatives in the Non-agricultural sector (Varde Committee) as follows: “Non-Agricultural Credit Societies cater to the banking and credit requirements of the urban middle class, e.g., the small trader or
businessman, the artisan or factory worker, the salaried person with a united fixed income in urban or semi-urban areas. While as a class, they may be in a position to collect and invest a certain amount of savings over a period of years; they may also from time to time have demands on them, which require them to take small loans. Such loans may be needed for what could be described as productive purpose, such as the acquiring or building or repairing of a house, the education of children of the setting up of advancing of business or a trade. Loans may be also be required for the redemptions of the debts”. As a result recommendation number of urban credit societies began to grow. During their period the committee numbered the Agricultural Credit Societies as 13882 as 602 non Agricultural credit societies.

The banking crisis, which existed during 1913-1917, saw the failure of many commercial banks. “During this period (1913-17) 87 banks failed with a total paid-up capital of over Rs. 1.75 crores which was slightly more than half of the paid-up capital of all the joint-stock banks that survived in 1917”. These failures paved the way for the organizations of new urban credit societies and a loan in their activities. The Varde Committee rightly pointed out that, “the failure of Swadeshi joint-stock banks created an opportunity for co-operative banking of
modest means and helping those whom financial distress caused by high living costs and unemployment which drive them into the clutches of money lenders”.

STATEMENT OF THE PROBLEM

Co-operative movement was started India in 1904 as a credit movement. Its development presents a unique phenomenon. From the beginning it has been nursed by the state and the non-officials provide voluntary services in its process of development.

The people dropped in illiteracy, poverty and suffering from extremeness of material and social deprivation tend to lose impulses of awareness and motivation.

The co-operative play a significant role in influencing these people towards social and economic changes and offers unlimited possibilities of participation in economic resurgence, the problem depends on the financial performance of Urban Co-operative Bank. The urban co-operative banks play a vital role in fulfilling credit needs of the urban people and managing the financial performance.
They cater to the credit requirements of small business and other industrial activities situated in and around the catchments area of the bank they launch specific deposit promotion programmes. For mobilizing deposits urban co-operative banks are cost effective and customer friendly banks.

Many farmers and businessman people of Paramathi velur area quite often utilize financial services of the urban co-operative bank. This initiated the researcher to take up a topic for project study. Velur Urban Co-operative Bank, which comprises of individuals as well as banks.

OBJECTIVE OF THE STUDY

1. To evaluate the financial performance of co-operative urban Bank.
2. To evaluate rising membership and share capital position.
3. To study on the position of the banks pattern of loan and advances.
4. To know the present working style of Co-operative urban bank.
5. To analyse the deposit mobilization performance of the bank.
6. To know investment conditions of the bank.
7. To analysis the assets and liabilities conditions of the bank.
8. To know the profit (or) loss condition of the bank.
9. To make suggestion and recommendation on the basis of the study.
REVIEW OF LITERATURE

Dr. G. Vasanthi in her article “Members Awareness and their Role and Contribution in co-operatives” analyzed that the active involvement function effectively. She also pointed out that the members have to be made aware of their role and responsibilities. Her analysis made an attempt to evaluate the awareness about co-operation. The study with primary data has analysed the awareness about the fundamental concept of co-operation. It was found that 16 per cent of the members are at the high level of awareness about co-operation whereas 20 per cent of the members had awareness of medium level and 44 per cent of the members had only low level of awareness about co-operation. She insisted that the identification of members and their knowledge about each other is essential for the success of co-operation.

Crisis in urban co-operative banks in the form of ongoing scams could be avoided by consolidation of urban co-operative banks.  

Sarthak Choudhury and Prabuddha Ray\(^7\) in their article, "Co-operative credit in Rural Sector – A case Study" have analysed the structure and dimensions of co-operative credit in rural sector in the Katwat-I Block of Burdwan District. They studied the distribution pattern of the loans both sectors wise and gender wise. They also made an attempt to analysis the reasons for defaulting. The reason for found out by them defaulting. The reason for found out by them defaulting was due to flood prevailing in the area.

Tripathy\(^8\). While pointing out the success story of co-operative movement listed various dimensions of co-operative movement and highlighted the importance of credit co-operative and its influence on agricultural and allied activities.


Dharmarajan\textsuperscript{9} in his study emphasized the importance of cooperative principle, which is an organization support to create and to fulfill the needs of various elements belonging to rural development.

After reviewing these literatures the present study is designed to study the financial urban Co-operative Bank, Limited, at Velur. The objectives of the study are framed to analyse various dimensions of working of the bank in at Velur.

**CONCEPTS AND TERM USED IN THE STUDY**

The terms and concepts used in the present study related to the Financial performance of co-operative bank are Membership, Share Capital Reserve Funds, Deposits, Loans, Advances, Over dues, Borrowing, Investment, Total Income, Total Expenditure and Assets and Liabilities etc., defined.

**Membership**

The membership of Urban Co-operative banks is composed of persons living in urban areas, such as traders merchants, salaried and professional classes, etc., The conditions relating to the membership of these members of these banks are laid in their bye-law. By membership we meant the total members on year by year.

\textsuperscript{9} Dharmarajan, S. "Role of co-operative in aricultural Promotion and Rural Development", Kissan World Vloume 28, Number 9 September 2001, Desh publication, Chennai, PP 60 to 62.
**Share capital**

The owned funds of the co-operative banks comprise of share capital mobilized from the members and the funds provided by the state government and the reserves created out of profits. Since the owned funds are interest free resources. The banks should endeavour to augment these funds to achieve a reasonable share in the total working funds.

**Total expenditure**

The term expenditure is used to accounting from interest paid, salaries and allowance and other expenditure, all are the expenditure of the bank.

**Assets and Liabilities**

The correlation between “floating liabilities” and “Floating assets” is an important characteristic of fund management.

**Over Dues on Loans**

A highly distressing fact of co-operative credit is the heavy over dues of co-operative institution. The Reserve bank of India appointed a “Study team on over dues of co-operative credit institutions” in 1972 which submitted its report in 1974. According to the study team “Lack
of will and discipline among the cultivators to repay loans was the principal factor responsible for prevalence of over dues in co-operative and defective in lending policy pursued by co-operatives then apathy of management in taking quick action against reluctant members and absence of favorable climate were other contributory factors" 10

**Reserve Fund**

Every co-operative generating net profit has to set aside some percentage of profit as reserve fund. The percentage vary from different states act. The creating reserve fund is to make use of the same during unforeseen or unexpected losses of the society and not for making use as the working funds of the society.

**Deposit**

The major source of funds raised by the bank is through mobilization of deposits. The deposit mobilization has become a challenging task co-operative bank due to stiff competition not only from financial industries, but also from financial industries. Accepting money for a period which interest is paid know as deposits. Deposits are of various types differentiated with the time period.

**Loans and Advances**

The credit management is a vital function of co-operative banks as a major part of the income is derived from the return on advances. A Major portion of resources should go into advances portfolio as its return would be better than yield on investment and again the banks have to comply with the credit requirement of various sections, especially agricultural and weaker section of the society as per government and in accordance with Reserve Bank of India norms.

**Borrowings**

Borrowings are the second important source of funds next to deposits. The bank borrows from urban banks i.e., borrowing by way of refinance from District central co-operative Bank.
Investment

The urban bank generally invest their surplus money in government and other trustee securities and fixed and other deposits with co-operative and other financial agencies.

INCOME OF URBAN CO-OPERATIVE BANKS

"Under the provision of section 80 p (2) (a) (i) of Income Tax Act, Co-operative societies carrying on the business of banking of providing credit facilities to its members are eligible to the deduction of the whole of the amount of profit and gains of business attributable to such activity from income tax. The primary object of urban co-operative banks is to do banking business. Therefore, they are eligible to the deduction of the while of the amount of profit and gains of business from income tax." 11. Total income of the banks is accounted from interest earning on loans and interest earning on investment and other incomes.

METHODOLOGY

This study is about the financial performance of a financial institution. The study used case study method to analyse the performance of the bank. The Materials required for the study are collected from Secondary sources published Materials like Annual Reports, profit and Loss Account and Balance sheet. The data thus collected have been tabulated codified and interpreted with the help of tables.

PERIOD OF THE STUDY

The study cover a period of Six years that is form 1999-2000 to 2004-05.

LIMITATIONS OF THE STUDY

This present study used only six-year period say 1999-2000 to 2004-05. As the time at the disposal is too short does not review all the literature available in this area. The study infers conditions on the basis of data available with the bank.
TOOLS FOR ANALYSIS

This present study used some statistical tools data analysis like Total, Average, Percentage, Table, Schedules and Diagrammatic representations like Bar Diagrams and Pie Diagrams.

CHAPTER ARRANGEMENTS

The entire study has been divided into five chapters. The first chapter with introduction gives basis of the study. It covers methodology area and time of study. It provides the specified objectives of the study with appropriate hypotheses.

The second chapter presents the elaborate basis of co-operation and co-operative movement in India and Tamil Nadu with main focus on co-operative financial institutions.

The third chapter presents the profile of the study area and the information related to the bank under study.

The fourth chapter attempts to analyze the data collected and interpretation of data has also presented in this chapter with supportive tools.

The fifth chapter summarizes the finding and concludes the study with appropriate suggestions.