CHAPTER ONE
CHAPTER ONE

INTRODUCTION AND RESEARCH DESIGN

INTRODUCTION

The banking system can influence the pace and position of economic growth by institutionalising savings and enhancing resources in well determined directions in consonance with the national objectives and priorities. "Over the last three decades the role of banking in the process of financial intermediation has been undergoing a profound transformation owing to changes in the global financial system. It is now clear that a thriving and vibrant banking system requires a well developed financial structure with multiple intermediaries operating in market with different risk profiles"¹.

The banking system in India has undergone a sea change in its organization, concept and goals. It has witnessed rapid expansion, particularly in branch network, deposit mobilization and credit development. The scale and scope of banking operations have also some substantial changes that have been taking place in the social, political and economic environment. However, competitive pressure in the financial sector is building up both within and from outside the banking system. Other financial intermediaries are increasingly refocusing on core competencies and niche strategies. Banks as well other financial intermediaries are undergoing radical organizational change with an objective of synergising strength shedding activities with comparative disadvantage. Specialization in financial intermediation provides competitive efficiency, depth and resilience to the financial system.

¹. Dr.Bimal Jalan: Excerpts from his speech delivered at the Bank Economists' Conference held in New Delhi - Reproduced from 'The Hindu' Jan-25, 2001, PBS -4
One of the major problems of banking system in India relates to the mismatches between assets and liabilities of the banks which exposes them to various types of risks. The experience of the South East Asian crisis showed the dangers posed by the compromising asset-liability management principles and allowing the disproportionate accumulation of mismatches both on and off the balance sheets leading to illiquidity and even insolvency. Risk management is a continuous process of planning, organising and controlling the assets and liabilities, volumes, maturity rates and yields. With the growing complexity of operations in financial markets, banks would have to rapidly equip themselves with a variety of knowledge, intensive skills and appropriate technology. Taking the Indian banking industry to the heights of international excellence will require a combination of new technologies, better process of credit and risk appraisal, treasury management, product diversification, internal control and external regulations and not the least, human resources.

Dr. Rangarajan\(^2\) has observed that "...What is emerging as important now is the management of risk associated with the portfolio. This is what prudential norms taken together stress: Management of risk is much more important than providing for risk. The major focus of banks in India in the coming years will have to be on how to evaluate and manage risks".

**URBAN CO-OPERATIVE BANKS: SIGNIFICANCE, PROBLEMS AND PROSPECTS**

The functional frame of co-operative banks and joint stock commercial banks does not show any basic difference. Both types of banks act as reservoir of capital whereby savings are mobilized and

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is advanced to those who need for a profitable use. However, urban co-operative banks occupy a strategic position and have played a vital role in meeting the consumption requirements of small man, in providing credit input for industrial production and in strengthening the base of infrastructural facilities in urban and semi-urban areas. The urban co-operative banks are basically the institutions of small persons, by the small persons and for the small persons. The Indian Central Banking Enquiry Committee (1931) has observed:

The duty of these Urban Banks should be to try to do for the small traders, the small merchants and the middleclass population what the commercial banks are doing for the big traders and big merchants. Subsequently the Co-operative Planning Committee observed;

Joint stock banks are not interested in developing business of small loans because the cost of advancing and recovering them is high. Further, as joint stock banks are not likely to have under ordinary circumstances full and intimate knowledge of the standing and resources of persons of moderate means they will not advance on personal security. On the other hand there are in urban areas numerous persons of small means, like traders, merchants, artisans, factory workers, street hawkers, motor and lorry drivers, who resort to money lenders and similar agencies for small loans and obtain them at high rates of interest. The co-operative banks qualify by establishing personal and intimate relationship with people for this class as the most suitable agencies for serving their credit needs.

The Rural Banking Enquiry Committee (1950) also commended the role that urban co-operative banks could play in providing banking facilities. The Committee observed that the urban banks would be able to offer facilities to the urban people and to the individuals in the nearby rural areas and in view of their relatively low cost establishment and operation can go up to places smaller than Taluka towns. The study
group on credit co-operatives in the non-agricultural sector appointed by the Government of India under the Chairmanship of late V.P.Varde in 1963 observed that the urban co-operative banks have an important role to play in several respects.

The Banking Commission appointed by the Government of India in February 1969 under the Chairmanship of Shri.R.G.Saraiya has observed; Urban Co-operative Banks do useful work in mobilizing deposits and financing the sector of small borrowers. Another useful activity is financing for house construction and repairs for members of the banks. Also this type of banking provides a useful avenue for those who have the necessary ability to set up a bank.

The Committee on Urban Co-operative Banks (Madhav Das Committee) appointed by the Reserve Bank of India in 1977 observed that despite various limitations urban banks have mobilized substantial local resources and striven to serve small borrowers. The committee further observed that these banks are eminently suitable for filling up the existing credit inadequacies in urban and semi-urban areas at comparatively lower cost of operations.

The observations made by various Committees and Commissions have fully confirmed the significant role played by urban co-operative banks in promoting adequate credit facilities to the urban and semi-urban areas in the country and the dominant role played by them in the banking sector.

THE PROBLEM AREAS

The Urban Co-operative Banks form an important segment of the banking sector. The sector has a network of more than 5,000 branches with a deposit of about 6 percent of the aggregate deposits of scheduled commercial banks. Not withstanding the impressive
performance the urban banking sector is faced with certain problems of a formidable nature. Important among these problems are:

i. the duality of control,
ii. legislative rigidity flaws,
iii. presence of large number of weak and sick banks,
iv. lack of professionalism and
v. financial unsoundness.

There is a conflict due to overlapping of provisions of the State Act and the Banking Regulation Act. The Urban Banks were governed only by the Co-operative Department prior to 1966 but since 1st March 1966 these banks are governed by the provisions of the Banking Regulation Act 1949. The entire business of urban co-operative banks was brought under the dual control exercised by the two different agencies. Generally the banking activities such as deposits, rate of interest, loan limit, investment of funds, mortgage, duration of loan, loan repayment, maximum limit of credit, cash credit limit, cash reserves and liquidity ratio, and overall inspection is governed by the Reserve Bank of India. However, registration, amendment of bylaws, membership, facilities to members, distribution of profit and settlement of disputes is administered by the Co-operative Department of the States.

The urban co-operative banks with a weak equity base and limited resources stand to face increasingly stiffer competition from bigger and larger number of players in the field. The owned funds (Share Capital + Reserves) constitute a small percent of their total working capital.

The Urban Co-operative Banks are not entitled to enter into capital market and raise their resources. They are unable to attract large depositors because of limited product they can offer.

The urban co-operative banks are treated by the Government like normal societies and create all bureaucratic hurdles in their working and
result in creating operational problems. Urban co-operative banks cannot undertake activities such as brokerage, factoring, etc.

The product base of the urban co-operative banks with a lot of operational restrictions by regulators has been very small. The Urban co-operative banks are not allowed to transact in foreign exchange as authorised dealers. They are prohibited by Reserve Bank of India to enter into credit card business. They are not allowed to participate in consortium lending in infrastructure projects and so on. Thus, the urban co-operative banks with a lot of operational restrictions by regulators have limited products to sell.

The urban co-operative banks lack the necessary professional management skill. This aspect is more important in loan management. Loan management implies a process of activities such as credit investigation, documentation, appraisal, review, follow up, recovery and write offs. Further, the formulation and appraisal of credit schemes of small scale and cottage industries, transport operators, self-employed persons, professionals, housing, etc., require the understanding of the current financial conditions of the borrower. The banker has to ensure that the customer is using the loan for the intended purposes. He has to look to the managerial, commercial and legal aspects. Such information can be obtained by the modern methods of financial analysis for credit appraisal, review and follow up. All this requires professionalisation of lending operations of the urban co-operative banks.

The urban co-operative banks are faced with the problem of overdues and a good number of urban co-operative banks have become sick in many parts of the country and also in Karnataka state. Another problem of the urban co-operative banks relates to the imbalances in their regional development in the country. Though the overall position indicates a satisfactory growth of urban co-operative banks certain regional imbalances seem to have occurred over the
period. Urban co-operative banks have concentrated in the states like Maharashtra, Gujarat, West Bengal, Andhra Pradesh, Karnataka and Tamil Nadu. The sixth Indian Co-operative Congress has made the following observation,

...the development of existing urban banks is uneven, the states like Maharashtra, Gujarat, Madras, Andhra, Mysore and Madhya Pradesh have made progress in the development of urban banks. In certain large regions including states like Uttar Pradesh the progress of urban banks was insignificant.

The Reserve Bank survey on Urban Co-operative Banks in some states appears to be result of the efforts and services of enthusiastic and capable non-officials in these states. The non-official leadership was the main factor which made Maharashtra to stand in the forefront of other states as far as the development of urban banks was concerned. Some studies have indicated that the share of institutional savings and deposits is very meagre in the Urban Co-operative Banks. These banks should try to attract savings of the institutions like Schools, Colleges, Associations, Trusts, etc. Such deposits will remain with the banks relatively for longer period without attracting high level of financial risk associated with other type of deposits.

There is also the problem of the urban co-operative banks denying a reasonable share in their total loan advances to weaker sections of the society on the grounds that such loanees do not have adequate assets to provide security for their borrowings. There is need for a greater amount of flexibility in this respect on the part of the urban co-operative banks to provide extended loan facility to the weaker sections.
PROSPECTS

The above problems associated with the management of the urban co-operative banks need to be carefully studied and remedial measures should be initiated to make these banks more vibrant and viable in all their operations. The urban co-operative banks should attempt to reposition themselves against the backdrop of banking sector reforms and consequent competitive environment as also the fast changing regulatory framework. The UCBs should drastically change and innovate as far as their approach to various facets of banking is concerned. A careful observation of growth of urban co-operative banks in respect of number of banks, membership, deposits, loans outstanding, etc., should convince us that the future prospects of these banking institutions is quite bright. These banks are poised to play an important and effective role in the economic development of the country. The Madhav Das committee's observations on the Urban Co-operative Banks is quite relevant here;

"Urban Banks wherever established are eminently suitable to fill the existing gaps in banking and credit needs in urban and semi-urban areas at comparatively less cost of operation and with the simplicity, close contacts, local feel and involvement can also enjoy the confidence of local people. Yet their future developments should not be viewed in isolation without taking into account the totality of the banking system".

STATEMENT OF THE PROBLEM AND NEED FOR THE STUDY

Urban Co-operative Banks have been faced with a potential competition from private and public sector banks in respect of efficiency, range of banking and other services provided to the customers. The UCBs have some inadequacies, which are inherent particularly with the larger ones. The small size UCBs have lower overheads and they are
able to bear the additional interest burden for some time. But the large UCBs flush with surplus funds are finding it difficult to manage their funds judiciously. The UCBs in general have their viability of a dubious nature in view of the failure of a good number of them in different parts of the country and the Karnataka state. The major causes of these failures stem from management deficiencies. Hence, the present study aims at examining the various aspects of the functioning of the selected UCBs in North Karnataka region (former Bombay Karnataka) and to diagnose their health and viability. Hence, the statement of the problem of the present study is “Performance of Urban Co-operative Banks: A Case Study of North Karnataka”.

OBJECTIVES OF THE RESEARCH STUDY

The major objectives of the study are:

1. To review the financial performance of the selected Urban Co-operative Banks in North Karnataka region.

2. To study the physical performance of the selected Urban Co-operative Banks in the study area.

3. To examine the pattern and magnitude of investment by the selected Urban Co-operative Banks covered by the study.

4. To analyse the trends in mobilization and growth of deposits of the UCBs.

5. To study the loaning pattern and trends in the credit deployment of the UCBs covered by the study.

6. To assess the extent of overdues of the loans advanced by the UCBs covered by the study.

7. To evaluate the overall profitability of the UCBs during the period covered by the study.

8. To make an overall appraisal of the efficiency and effectiveness of the UCBs in their credit management.
9. To analyse the reserves and working capital of the selected UCBs.

10. To examine any other aspect of the functioning and performance of the UCBs germane to the research study.

HYPOTHESES

1. The growth of UCBs in the study area has been substantial during the post independence period.

2. The financial and physical performance of the UCBs covered by the study has been unsatisfactory in case of some UCBs.

3. The distribution of branches of the UCBs has been uneven in the region.

4. The loan recovery by the selected UCBs has been satisfactory during the period covered by the study.

RESEARCH METHODOLOGY

The present research work is an empirical analysis of the performance of the Urban Co-operative Banks in North Karnataka region.

SELECTION OF THE REGION

The researcher has chosen the North Karnataka region (former Bombay Karantaka) comprising of Belgaum, Bijapur, Bagalkot, Dharwad, Haveri, Gadag and Uttar Kannada districts. The proximity of the area and the homogeneity of socio-economic environment of the districts led to the study of urban co-operative banks in this region.

SELECTION OF THE BANKS

The study covered two Urban Co-operative Banks in each district of the region. The selection of the individual banks from each district is done on random sampling basis.
DATA-BASE

The study is based on secondary data collected from the published annual reports of the individual banks selected for the performance appraisal. In addition to this the secondary data is also gathered from the following sources:

i. Reports of the Karnataka state Co-operative Urban Banks Federation Ltd., Bangalore.

ii. Directories of the urban co-operative banks in Karnataka for related years.


In addition to the above sources data has been collected from the libraries of the following institutions:

i. Karnataka University, Dharwad.

ii. Vaikunth Mehta National Institute of Co-operative Management, Pune.

The researcher had personal discussion with General Managers, Branch Managers and Directors of Urban Co-operative Managements covered by the study.

The following Urban Co-operative Banks from the 7 north Karnataka districts have been selected for the study:

1. Belgaum District:
   (i) Shri Shivayogi Murughendra Swami Urban Co-operative Bank Ltd., Athani.

   (ii) The Katkol Co-operative Bank Ltd., Katkol.
2. Bijapur District:
   (i) Shri Siddheshwar Co-operative Bank Ltd., Bijapur.

3. Bagalkot District:
   (i) Shri. Basaveshwar Co-operative Bank Ltd., Bagalkot.

4. Dharwad District:
   (i) The Alnavar Urban Co-operative Bank Ltd., Alnavar.
   (ii) The Hubli Urban Co-operative Bank Ltd., Hubli.

5. Gadag District:
   (i) The Merchants' Liberal Co-operative Bank Ltd., Gadag – Betageri.
   (ii) The Laxmi Urban Co-operative Bank Ltd., Gajendragad.

6. Haveri District:
   (i) The Haveri Urban Co-operative Bank Ltd., Haveri.

7. Uttar Kannada District:
   (i) The Haliyal Urban Co-operative Bank Ltd., Haliyal.

DATA ANALYSIS

The data collected from the secondary sources have been presented in well-planned statistical tables for drawing inferences and conclusions. Simple statistical tools like percentages, averages, growth rates etc., have been used. Ratio analysis has been made for comparison and for drawing conclusions.
METHODOLOGY FOR PERFORMANCE APPRAISAL

Performance appraisal of the selected Urban Co-operative Banks has been made with the help of the following ratios:

i. Operational Ratios,
ii. Solvency Ratios,
iii. Profitability Ratios and

LIMITATIONS OF THE STUDY

Research study is conducted under some restrictive conditions. It is essential to reduce the research problem to a workable size and set boundaries by limiting its scope. The present research study is conducted with the following limitations:

1. The study has covered only Urban Co-operative Banks and other types of co-operative credit institutions have been excluded.
2. The study has confined to only two Urban Co-operative Banks in each district of North Karnataka region.
3. The operations and performance of the selected Urban Co-operative Banks have been appraised for a period of five years only between 1997-98 to 2001-2002.
4. The study has covered the selected Urban Co-operative Banks functioning in North Karnataka region only.
5. Main focus of the study is only on the financial performance of the selected Urban Co-operative Banks.
ORGANISATION OF THE RESEARCH STUDY

The present study is designed into the following chapters:

Chapter – I
The first chapter is the introductory chapter covering the concept and scope of the study objectives, hypothesis, research methodology, sources of data, limitations, the review of literature and the chapter scheme of the study.

Chapter – II
The second chapter deals with the evolution and growth of the Urban Co-operative Banks.

Chapter – III
The third chapter provides profiles of the selected Urban Co-operative Banks in North Karnataka region.

Chapter – IV
The fourth chapter is devoted for a detailed analysis of the deposit mobilization by the selected Urban Co-operative Banks in the study area.

Chapter – V
The fifth chapter deals with the analysis of the loan advances provided to the customers, loan recovery performance, analysis of investment portfolio, analysis of income, expenditure and profit, during the last five years from 1997-98 to 2001-2002 of the selected Urban Co-operative Banks.

Chapter – VI
The sixth chapter is concerned with the appraisal of the financial performance of the Urban Co-operative Banks with the help of the Ratio Analysis.
Chapter - VII

The seventh chapter provides a summary of major findings, conclusions and suggestions.

A REVIEW OF EARLIER STUDIES

Various committees and working groups have recognized the importance and significance of the Urban Co-operative Banks in India. Important among such committees are The Central Banking Enquiry Committee (1931), The Co-operative Planning Committee (1946), The survey of the UCBs by Reserve Bank of India (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), The Committee on Urban Co-operative Banks popularly known as Madhav Das Committee (1978), Marathe Committee (1992) and the Madhav Rao Committee (1999), to review the performance of the UCBs. These committees and study groups have evaluated the performance of the UCBs from time to time and have recommended measures to strengthen them. However, these committees have gone into the issues on macro level and they have not made an indepth assessment of the performance of the banks due to the restricted terms of reference legal and policy framework within which they were supposed to operate and study.

There are few individual studies in appraising the performance of the UCBs. A few of the relevant and useful studies made by researchers, experts and practical bank administrators have been reviewed.
Maheshchandra Garg and Joshi N.N.³

Mr. Garg and Joshi in their book "Co-operative Credit and Banking - Strategies for Development" have criticised the ineffective branch expansion programme of the UCBs in Karnataka State. They have cited the fact that about 66 percent of the UCBs in the state are located only in four districts viz., Bangalore, Belgaum, Dharwad and Bijapur while rest of the districts are lagging behind in the UCBs movement. Further, the authors have observed that inspite of 208 banks operating in the state, average number of branches per bank works out to be less than one. This reflects on the inactive role of the UCBs in inculcating banking habits even among the urban people. Hence, there is need for a deliberate policy for the development of UCBs in the State.

Doke Kiran BabuRao⁴

In his research study on "Analysis and Interpretation of Financial Statements with Reference to the Sangli Urban Co-operative Bank Ltd., Barsi Branch" Mr. D.K. Baburao has made an attempt to evaluate, analyse and appraise the financial performance of the Sangli Urban Co-operative Bank Ltd., Barsi. The author has made the analysis of financial statements by adopting the technique of ratio analysis. The conclusions are considered by the author as useful for management, investors and creditors which would lead to organizational effectiveness and for goal oriented performance. The author aimed at providing answers to the questions relating to the financial position of the bank, the interests of the concerned groups in the financial position, etc. The author has been successful in throwing light on the financial strength of

the bank, its earning capacity, trends and future prospects, the liquidity and solvency position of the bank. The author has been able to develop a theoretical model of financial statements' analysis and to examine the nature, principles, methods and techniques of financial statements and its analysis.

The major findings of the study indicated that the liquid position of the bank was deteriorating over the years as found out on the basis of the current ratio. The quick ratio analysis also revealed that the liquidity position of the bank was not satisfactory during the period from 1985-86 to 1987-88 and 1990-91 and 1993. Further the analysis also had revealed that the cash position of the bank was not satisfactory because there was negligible amount of cash balances as compared to current liabilities. The study had also revealed that the financial structure policy of the bank was not good as revealed by the Debt-Equity Ratio. However, the proprietary ratio worked out by the author has proved that the financial position of the bank is stronger. Similarly, fixed assets to networth ratio also has indicated a long-term soundness of the bank. However, debt service ratio has indicated a weaker financial position of the bank.

The research findings of Mr.D.K.BabuRao have a direct relevance and usefulness for applying the ratio analysis for the present research work.

Mr.B Ramesh and M.R.Patil

The authors in their paper "An Evaluation of Urban Co-operative Banks in India" have made an elaborate study of the growth trends in different dimensions of urban co-operative banks in India. The authors have identified the following major trends in the functioning and performance of these banks.
i. The performance of the Urban Co-operative Banks has been largely satisfactory. They have made remarkable achievement in respect of some variables viz., paid up share capital, reserves, deposits, working capital and credit disbursement.

ii. The physical growth in terms of number of banks over the years is very low which is less than one percent.

iii. The membership growth is observed to be reasonably good. There is need for broadening the membership strength so as to have a strong equity base.

iv. There is a sharp increase in borrowings during the study period.

v. The overdues of the urban co-operative banks have been mounting up. This has resulted in an acute problem of recycling of funds, which in turn limits the income for the banks.

vi. There is no significant growth noticed with regard to credit – deposit ratio.

The authors have made some useful suggestions for improvement of the performance of the urban co-operative banks. The study has direct bearing on the analysis of the performance of the urban co-operative banks in the study area.

Mr. Jagdish Kapoor⁸

The paper on "Urban Co-operative Banks: Problems and Prospects" by Jagdish Kapoor has made a good study on the growth, problems and prospects of these banking institutions in India. The author has appreciated the performance of the co-operative banking

sector in the country. However, Mr.Kapoor has pointed out that not surprisingly however, there is significant heterogeneity in the performance of primary co-operative banks which numbered more than 1,900. He opined that while a large number of these banks have shown creditable performance a fair number of them on the other hand have shown discernible signs of weakness.

The author has appreciated the recovery management of PCBs. He has cited the facts that the percentage of gross NPAs to total advances of Primary Co-operative Banks (PCBs) remained 13.00 percent during 1995-96 and 1996-97, declined to 11.7 percent at the end of March 1998 and further to 10.8 percent at the end of March 1999. The author has attributed the maintenance of close proximity by these banks with their borrowers as the contributory factor for better recovery performance.

The author has mentioned some useful suggestion for improvement of the urban co-operative banks. He has suggested for

i. a proper pattern of resources for the co-operative banks in relation to owned funds, deposits, borrowings, etc.,
ii. proper development of resources,
iii. proper management and supervision and
iv. a regulatory framework for co-operative banks.

Mr.Kapoor has suggested measures to be evolved for strengthening a regulatory and supervisory framework and enhancement of capital adequacy standard. He has stressed the need for introducing stringent licensing norms for new entrants into the sector and enabling legal amendments and corporate governance measures.

Mr. Shamim Kazim

Mr. Kazim has provided a very comprehensive account of the role and problems of urban co-operative banks in India in the wake of the recommendations on Financial Reforms by the Narsimhan Committee. In his article on "Challenges for Urban Co-operative Banks in the Emerging Financial Environment"). Mr. Kazim has observed that urban banks occupy a special position in the financial system with their unique structure and character. The author has observed that in view of their unique character and functions certain concessions were given to them viz., permission to pay higher interest on deposits, lower CRR and SLR, provision for special recovery officers and co-operative courts, exemption from payment of income tax on their banking business, etc. Inspite of these concessions these banks could not make their presence felt except in states of Maharashtra, Gujarat and Karnataka.

Mr. Shamim Khaizim has referred to the new environment created by financial reforms and globalization and how it affects the co-operative banking sector. He has suggested that it is vital for co-operative banks to reassess their position, streamline their operations and find out innovative ways and means to perform their functions.

Mr. N. R. Warerkar

Mr. Warerkar in his article "Privatization of Urban Co-operative Banks" has pleaded for a cautious approach to the privatization of urban co-operative banks. He has observed that in the new liberalized environment every urban co-operative bank will have to decide for itself, once the legal position is clear whether it should be privatized and

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whether it will be able to serve the members, constituents and the society better. He has asserted that after privatization there will be more scope for earning larger profit. But he doubts whether earning larger profit is the primary aim of urban co-operative banks. The author has the apprehension that the management of the erstwhile urban co-operative bank may pass into the hands of a wealthy group of shareholders. Mr. Warekar has further questioned the desirability of handing over the management of the urban co-operative banks into the hands of mercenary group, which were nurtured over a long time by personal efforts, and sacrifices of devoted co-operators. Mr. Warekar has expressed his views against the privatization of co-operative banks by indicating the various factors against it.

P. Payalvannan 9

The paper on "Structural Reforms – Implications on Urban Co-operative Banks" by Dr. Payalvannan is an attempt to highlight the impact of structural reforms on the Urban Co-operative Banks. The author has stressed on the need for diversification in the banking activities and calls upon the UCBs to utilise the recent capital adequacy norms and credit policy measures initiated by the RBI to their advantage in order to compete in the new economic environment. As against the other banks, co-operative banks have the advantage of dealing with small borrowers at low cost which should be tapped to their advantage.

9. Dr. P. Payalvannan; Structural Reforms – Implications on Urban Co-operative Banks: Co-operative Perspective – Special Issue: Jan-June – 1997, p.34. and customer-friendly
Mr. Manoj Shah

The author has rightly observed in his article "Urban Co-operative Banks: Some Issues" that Urban Co-operative Banks should make a strategic move to broad base their activities refocusing on eco-friendly schemes to ensure sustained growth. The author has maintained that as of now the co-operative banks in India offer the entire gambit of services to meet the varied requirements of all classes of customers ranging from agriculturists, retail traders, entrepreneurs and corporate clients on the one hand to housewives and professionals on the other and all this is a customer friendly environment coupled with operational efficiency and financial flexibility.

The author has pleaded for operational and financial freedom in view of the dual and restrictive control over the UCBs by the Co-operative Department and Reserve Bank of India. He has asserted that the co-operative banks are integral part of our financial sector and hence they need autonomy. Mr. Shah has rightly suggested some measures for better performance of the UCBs. He has observed "The co-operative banks in India should take cognizance of important inputs like technical up-gradation, human resource mobilization and motivation, structural organization, decentralization, diversified liability base and innovative banking with inbuilt resilience and resource richness to vitalize the economy".

Mr. M.B. Patil

Mr. Patil in his article "Urban Co-operative Banks and their Economic Environment" has rightly observed that the fast changing business environment has placed the co-operative banks in a

competitive setup and this has necessitated to achieve efficiency and strategic management. He has further stressed that the present traditional management practices in co-operative banks need to be replaced by strategic management approach. Listing the various growth parameters like population, income, the services sector, savings potentials, etc., the author has tried to highlight the growth potentials of banks in general and urban banks in particular. He has pointed out the favourable factors like growth of banks' deposits and the emergence of marketing concepts. He has also mentioned the alarming increase in bad debts and non-performing assets. In view of these various favourable and challenging factors the author has rightly observed that the future of co-operative banks depends upon their capacity to manage the environmental changes.

Mr. Yeshwant V. Dabir

Mr. Dabir has focused on vexatious issues concerning the urban co-operative banks in his article "Some Vexatious Issues Concerning Urban Co-operative Banks". He has referred to the issue of autonomy and minimizing the role of government. The other issues referred to by the author relate to the existence of uneven development and regional imbalance in the urban banks' growth, lack of professionalism in the management of the UCBs, ineffective internal control and audit system, etc. The author has pleaded for giving status of Central Co-operative to the UCBs. He has suggested that all Non-agricultural Credit Societies, Salary Earners Credit Societies, Consumer Co-operative Stores should be affiliated to these banks. The UCBs should be allowed to function as

higher financing agency for these societies. The author has suggested that the UCBs should employ professional experts for managing the affairs of their banks and should also introduce automation adopting latest technologies.

Mr. P. S. Tewari

Mr. Tewari has opined in his article "Capital Adequacy for Urban Co-operative Banks" that one of the most critical problems faced by the banks relates to raising and maintaining adequate capital comprising of members stock, free reserves and retained earnings. Capital performs several functions—supplying resources to get a new bank started, providing a base for growth, defending against various risks and maintaining public confidence in bank's management. In a competitive environment capital also regulates how much risk exposure a bank can accept.

The author has rightly emphasized that in the context of urban co-operative banks the continued financial stability cannot be ensured unless they are subjected to discipline of maintenance of prescribed "Minimum Capital to Risk Asset Ratio (CRAR)" as already applicable in case of the commercial banks. Urban banks will therefore have to critically assess their present capital base vis-a-vis their overall risk exposure and devise suitable strategy for mobilizing required capital in a given time frame. The author opines that outflow of credit for the sake of members' welfare without adequate coverage of risk with capital and responsible management for protecting depositors' interest can prove to be too simplistic a strategy which could erode a bank's credibility and financial stability beyond repair.

Mr. O. R. Krishnaswamy\(^\text{14}\)

Mr. Krishnaswamy in his article "Challenges Before UCBs" has observed that in view of the fact changing life style of urban families and the fast expanding urban areas there are growing opportunities for urban co-operative banks for expanding their banking operations. The banks should introduce the latest marketing tools and techniques to cater to the needs of the customers in the market.

Mr. H. N. Kundan\(^\text{15}\)

Mr. Kundan has observed that financial sector reforms require that UCBs operate on the basis of operational flexibility and functional autonomy with a view to enhancing efficiency, productivity, profitability and sustainability. In his article "UCBs and Customer Service in New Economic Policy" has commended the UCBs which have introduced new dimensions of activities and have been charging concessional service rates in their routine work. This has resulted in increasing the confidence of general public thereby promoting the growth of deposits, advances, profitability as well as productivity.

Mr. Sisodia\(^\text{16}\)

In his address at the 8th All India Conference of UCBs and Credit Societies, Mr. Sisodia has observed that "Co-operative banking would constitute formidable force in the co-operative movement and emerge as a stronger segment of the banking sector in the 21st century. He has observed that the most significant contribution of the UCBs towards the welfare of the societies is the opportunities that they are providing for self-employment by disbursing credit to people from the

\(^{14}\) Mr. O. R. Krishnaswamy: 'The Co-operator' 1\textsuperscript{st} August 1990, pp.10-12.

\(^{15}\) Mr. H. N. Kundan: UCBs and Customer Services in New Economy Policy- Maharashtra Co-operatives, Jan-March 1999, pp.19-22.
lower and middle classes. He has expressed optimism about the UCBs when he said "If the management of all the urban banks were aware of the concept of enlightened management and adopt prudent lending practices and good customer services, there is no reason why they should not become most popular banks in their area of operation and reap the benefits of buoyant economy by way of increased inflow of deposits and business.

Mr. N.C. Pise

Mr. Pise's study on "Performance Appraisal and Services Marketing of Chikodi Urban Co-operative Bank Ltd. – A Case Study" is a research work based on an empirical survey of the UCB at Chikodi covering the different operational dimensions of the bank. Mr. Pise has emphasized the importance of UCBs in meeting the credit needs of expanding urban population and also the needs of semi-urban people of small means. He has rightly referred to the Madhavadas Committee report and other relevant expert committees and commissions in this context. He has cited the commendable work of UCBs and also their performance in achieving better results in terms of number of banks, deposits and advances and their overall financial performance.

The author has made a case study of Chikodi Urban Co-operative Bank in his appraisal of its financial and physical performance. Detailing the various physical achievements and financial performance he has highlighted some of the major achievements of the bank. Mr. Pise has revealed that the Chikodi UCB is operationally efficient on the basis of his analysis of the operational ratios and profitability ratios.

However, Mr. Pise has identified some grey areas in the performance of the Chikodi UCB. He has opined that the non-interest income position of the bank is not satisfactory though its interest income is the major source of income. The researcher has pointed out that interest payment on fixed deposit is heavy hence the bank should try to promote more deposits in savings bank account and current account to lessen the burden of interest payment. Further, he has found out that the total expenditure of the bank is heavy at 80 to 89 percent of the total income. He has suggested for reducing the total expenditure and keep it at minimum level.

A significant finding of the researcher is that the bank has shown good results in terms of efficiency relating to profit to deposits, profit to total assets, and profit to working capital. However, it is significant to note that the performance of the bank is not good in relation to profit to total income, profit to spread, and profit to networth. Mr. Pise has suggested to avail the services of the professionals to improve the bank's performance.

The other findings of Mr. Pise are the good performance of volume of business of the bank, dedicated services of the employees, faster services to the customers, etc.

It is significant to note that the bank employees of the Chikodi UCB have pointed out that the information system is not so strong in their bank. Further, there is no effective network system between head office and branches. The staff felt that management is not initiating any steps for providing training to them so as to suit the needs in various areas. Majority of the staff of the bank maintained that their organization is not structured to include marketing plans as a major instrument in developing the business. The author has suggested that the management should adopt marketing strategy as a competitive

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edge over its competitions where there should be proper combination of various ingredients in the background of business environment and organizational objective. This research study has much relevance for the present research work in the appraisal of the UCBs in North Karnataka area.

Mr. Kattimani

Mr. Kattimani has made a comprehensive study of "Mobilisation and Deployment of Deposits by the Urban Co-operative Banks in Karnataka". The author has rightly observed that being location-specific, the UCBs have a clearly demarcated area of operation which enables them to serve their clientele with greater efficiency and effectiveness. These banks have the advantages of having open membership, members participation in management, the local feel and familiarity, mutual knowledge, personalised and courteous services, etc. These features of UCBs are eminently suitable to cater to the needs of small men and small sectors of industries.

Mr. Kattimani has referred to the competitive environment in the wake of liberalization and globalization, which has resulted in the UCBs struggling to mobilize resources and also to obtain adequate avenues for deployment of available resources. Further, the author has mentioned the relevant fact that the UCBs do not enjoy the government assistance as the public sector banks do. The UCBs are suffering from a host of weakness such as poor deposit mobilization, ineffective deployment of deposit resources, inefficient management, poor recovery performance and consequent mounting overdues and regional or locational imbalances in their growth. However, the author has maintained that the existence and continuity of the UCBs is absolutely

essential in the urban credit delivery system. The study is very comprehensive and useful to the present work in probing the performance of the UCBs in North Karnataka region.

Mr. Panduranga V. Naik

In his research study "Urban Co-operative Banks in North Kanara District- A Study", Mr. Naik has made a detailed analysis of the progress and working of Urban Co-operative Banks in North Kanara. The author has traced the progress of UCBs in the district and has proudly referred to the Sirsi Urban Co-operative Bank which was started as early as in 1905 as a co-operative credit society and later on converted into UCB in 1913. The district saw the emergence of some more UCBs in Karwar and Kumta in 1912, in Ankola in 1913 and in Honnawar in 1919. The author has traced the growth of UCBs in the district in terms of number of banks, amount of deposits, credit deployment, membership, share capital, reserves and other funds, working capital and profit, etc.

The researcher has pointed out the regional imbalances in the growth of UCBs in the district, coastal talukas of the district, which have better picture of growth of UCBs than in other areas. Individual UCBs in the district have shown wide differences in terms of membership and the growth of the membership is very slow. The researcher has assessed the impact of the UCBs on the employees and the customers relating to the functioning of these organizations. The customers are found largely satisfied with the services provided by these banks in the district while the staff of these UCBs have expressed some reservations about their job, service conditions, etc.

The researcher has found that the growth in share capital is slower compared to the growth in deposits. Further, the number of small size share holders is more compared to the large size share holders. Hence, the author has suggested to increase the number of large share holders so that the higher share holding will lead to greater sense of belonging. Another finding of the researcher is that the annual growth in deposits of the UCBs in the district is encouraging. A significant finding of the study is that the borrowings constitute an insignificant proportion of the working capital. However, the study has revealed that aggregate loans and advances by the UCBs are less than the optimum level. The researcher has noted that there are instances when a member is granted multiple loans on different types of securities he presented.

Mr. R.P. Gupta

Mr. Gupta in his article "An Appraisal of the Working of Scheduled Urban Co-operative Banking in India – Problems and Prospects" has brought out the significant role of these organizations which are very small in number compared to the other urban co-operative banks. The author has observed that scheduled urban co-operative banks while retaining the basic character of other UCBs are working with broader parameters and on professional lines thus serving the members in a better way besides paying the share holders good dividend and at the same time building the image of the sector. The author's study has revealed that the total deposits of 29 scheduled UCBs rose from Rs.12,743.36 crores in 1998 to Rs.17,464.64 crores in 1999 showing an impressive growth of 37 percent. The total loans of these scheduled UCBs were 30 percent of the total loans and advances of all UCBs of the country. The NPA levels of these scheduled UCBs were in tune with the NPA levels of all UCBs. The number of scheduled banks had gone up to 51 by 31-3-2000.
The major advantage of the scheduled UCBs according to the author is that these banks would be ranked at par with other scheduled commercial banks and a relationship with RBI is established and these banks are entitled to avail the facilities of refinance and accommodation from RBI.

The author has identified some of the problems faced by the scheduled UCBs viz., dual control by the state department of co-operation and the RBI, frequent changes in the top management and Board of Directors, less qualified staff, small areas of operation, limited product base, limited resources, lack of adequate resources, lack of proper support from the government, adverse publicity from the media in case of observation, problem of recoveries of overdues, because of the non co-operative attitude of the state government and restriction on undertaking certain activities.

The author has suggested that the scheduled UCBs should be allowed to accept income tax, sales tax, custom duties, etc. Membership criteria should be simplified, greater autonomy should be given in deciding lending policy. Professional management should be encouraged. Overdrafts limits should be enhanced. The limits of loans to priority sector prescribed for the scheduled UCBs should be lowered. Restriction of holding shares of joint stock companies on scheduled UCBs should be removed. These banks should be allowed to work as brokers for recognized stock exchanges. The author has also advocated for removal of dual control and including co-operation in the central list. He has suggested for some basic qualification norms for board of directors and involve professionals in the Board of Directors. The study is quite comprehensive and useful to the present research work.

Narasihman Committee Report

The Committee on Banking Sector Reforms has rightly recognized that the UCBs are an important link in the credit delivery system. The Committee has recommended that the UCBs should be brought under the ambit of the board of the financial supervision. The Narasihman Committee has noted the problem of duality of control in the supervision of UCBs. Hence, the Committee has suggested for dispensing with this duality of control since the UCBs are primarily credit institutions meant to be on commercial lines. It should be primarily the task of board of financial supervision to set up regulatory standards for UCBs and ensure compliance with these standards through the instrumentality of supervision.