

Urban Cooperative Banks in India Status, Issues and Prospects

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Abstract: Banks assume important role in any economic development by mobilizing capital and investment for sectors such as industry, agriculture, trade, etc. Indian banking system consists commercial banks, cooperatives besides post offices and development banks, where commercial banks are major players and cooperatives and others are also providing banking services to people. Cooperative banks have been playing a significant role in meeting financial needs in both urban and rural areas. These cooperative banks help in gathering large number of depositors and borrowers to the banking system. In this background the present paper attempts to examine the status, problems and prospects of urban cooperative banks in India.

Keywords: Urban Cooperative banks, Banking System, Credit.

INTRODUCTION

Banks play a significant role in an economy as they assume major part in financial system, which provide impetus for economic development mobilizing capital and investment. Development of financial system increases income levels and augments production activities. In the financial system banks are important functionaries collecting deposits and lending credits providing way for economic prosperity. We know that land, labor, capital and entrepreneurs are necessary economic resources required for business.

In order to use these resources, a business needs finance to purchase and pay for factors of production. Banks provide capital for development of trade, agriculture, industries, foreign trade and other economic activities. In this respect banks assume significance in economic development. In India banking system consists of commercial banks (including foreign banks) and cooperatives; besides post offices and development banks. While commercial banks dominate the system, cooperatives and others are also catering to the financial services of people.

Co-operative banks are playing an important role in meeting the credit requirements of both the urban and rural areas. These institutions account for a small share in the total credit, but they hold a significant position in credit delivery as they cater to the needs of different geographic locations and population groups. These co-operative banks supplement the commercial banking network for deepening financial intermediation by bringing a large number of depositors/borrowers under the formal banking network in both rural and urban areas. In this background, the present paper examines the status, problems and prospects of urban cooperative banks (UCBs) in India.

Before examining the status of UCBs let us briefly look in to the cooperative movement in India. Cooperative movement in India is the product of distress of people for financial sources to meet their

financial needs. Recommendations of Sir Frederick Nicholson and Sir Edward Law paved the way for the Cooperative Credit Societies Act (1904) and establishment of cooperative credit societies in rural and urban areas. Further, the Cooperative Societies Act of 1912 recognized the formation of non-credit societies and the central cooperative organizations/federations. The government continued its support to cooperative movement after independence also assigning important role in economic development. Since then cooperatives have made remarkable progress in the economy by catering to the needs of sectors like credit, banking, production, processing, distribution/marketing, housing, warehousing, irrigation, transport, textiles and even industries. As a result India is having the largest network of cooperatives.

Urban Cooperative Banks in India

Urban Co-operative Banks (UCBs) usually refers to primary cooperative banks situated in urban and semi-urban areas. UCBs till 1996 were allowed to lend money for non-agricultural purposes only, but now they lend for all activities, increasing their scope of activities. In India the first mutual aid society in urban area was established in Baroda in 1889 in the name 'Anyonya Sahakari Mandali'. The first urban cooperative credit society was registered in Canjeevaram (Kanjivaram) in Madras province in 1904. Urban co-operative credit societies in the beginning were organized on community basis to meet the

consumption related credit requirements. The enactment of Cooperative Credit Societies Act, 1904 gave impetus to cooperative movement. Further, the Maclagan Committee, appointed in 1915, reviewed the performance of UCBs and observed that such institutions were eminently suited to cater to the needs of the lower and middle income groups and would inculcate banking habits amongst middle classes. It was also opined that the urban cooperative credit movement was more viable than agricultural credit societies.

Structure of UCBs

Urban cooperative banks consist of scheduled and non-scheduled banks, which have activities spread in single and multi states. At the end of March 2013, there were 1606 UCBs in India, out of which 51 were

scheduled UCBs and 1555 were non-scheduled UCBs. Within scheduled UCBs 25 had activities in multi-states and 26 in single state; where as in non-scheduled UCBs 21 had financial activities in multi-states and 1534 UCBs in single state. This indicates that the UCBs have extended their financial activities in various states. It is to be noted that the number of UCBs was 1872 in 2005, which gradually declined to 1606 in 2013 (Table 1). This is because of the RBI policy of merger/amalgamation of viable UCBs and exit of unviable ones. UCBs in India are mostly concentrated in five states - Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu. They account for almost 80% of the total number of banks, 89% of the deposits resources and 89.8% of the credit deployment by all cooperative banks in the country.

Table-1: Number of UCBs in India (March 2013)

Year	No. of UCBs
2005	1872
2006	1853
2007	1813
2008	1770
2009	1721
2010	1674
2011	1645
2012	1618
2013	1606

Source: Reserve Bank of India [1]

The financial strength of UCBs has increased considerably over the years. According to the new classification of UCBs by RBI i. e., CAMELS (capital adequacy, asset quality, management, earnings, liquidity and systems and control) rating model a composite rating of A/B/C/D (in decreasing order of performance) is given to a bank. As per this rating at end- March 2013 around 67 per cent of the UCBs had composite ratings of A and B, accounting for about 85 per cent of the total banking business (deposits plus advances) of the UCBs. Around 27 per cent of the UCBs had a composite rating of C accounting for 13 per cent of the banking business of the UCB sector. The profitability of UCBs has increased over the years. There was a sharp increase in both their interest and non-interest income. However, UCBs' total expenditure also rose during the year primarily due to a pick-up in the interest component of expenditure. Major indicators of profitability of UCBs, the return on assets (RoA), defined as net profits as per cent of average assets, as well as return on equity (RoE), defined as net profits as per cent of average equity, remained stable between 2012 and 2013.

UCBs credit pattern indicates that small enterprises and housing sectors have been getting major share, which is over 1/3rd of the total credit in 2012-13. This shows that these institutions primarily meet the requirements of urban consumers revealing the predominance of small enterprises and housing sectors

in credit portfolio. Similarly, UCBs are also catering to the needs of the weaker sections in urban areas.

Issues and prospects

The issue of governance of UCBs is in the purview of the State Governments and the Reserve Bank of India takes care of the prudential aspects of these banks. But, in practice, because of different factors like personal vested interests, political interference, financial irregularities and dual control, several UCBs have turned into breeding grounds for financial indiscipline and mismanagement resulting into huge losses. In general, UCBs are suffering from issues such as sharp increase in number of banks and branches, steep increase in interest expenses on deposits, high rate of interest on deposits and advances, adverse selection of borrowers, low capital base, dual control, high exposure to real estate and other sensitive sectors, lack of professionalism, political interference, faulty recruitment system / excess staff / poor skill up gradation, low level of operational efficiency, high operating costs etc. These problems have to be addressed immediately and promote UCBs to cater to the needs of urban people. The Government and RBI should consider primarily the Co-operative banks as essential factor in the overall banking and the credit environment of the society. These banks are the most competent tool for financial inclusion & over the time has proven their ability to provide credit at the grass root level effectively.

REFERENCE

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