

GROWTH AND DEVELOPMENT OF URBAN COOPERATIVE BANKS IN INDIA – AN OVERVIEW

Prasanna Prakash
Sr. Asst. Professor
Dept.of Commerce & Management
New Horizon College, Marathalli,
Bangalore , India

ABSTRACT

The Indian banking sector is broadly classified into Scheduled banks and Non Scheduled banks. The Scheduled Banks are further classified into Commercial Banks and Cooperative Banks. Co-operatives are created by organised groups of people sharing a common interest. It is mutually managed and democratically controlled. Co operative Credit Societies formed in urban areas are referred to as Urban Cooperative Banks (UCBs). The concept of Co-operation originated from the Indian culture where people share their wealth according to their needs. The Urban cooperative credit movement in India started in the year 1904 with the main objective of catering to the banking and credit requirements of the urban middle classes and has gone through various phases. The main objective of the present study is to highlight the growth and development of the UCBs in India. The study is based on secondary data and it is analytical and descriptive in nature. The research paper concludes that there is tremendous growth and development in the Urban Cooperative Banks.

Key Words: Scheduled Banks, Commercial Banks, Cooperative Banks, Credit Movement Development of UCBs

INTRODUCTION

Co-operatives are created by organised groups of people sharing a common interest. It is mutually managed and democratically controlled. Co operative Credit Societies formed in urban areas are referred to as Urban Cooperative Banks (UCBs). UCBs are also known as Primary Co operative Banks (PCBs). According to Reserve Bank of India PCBs are “small sized cooperatively organised banking units which operate in Metropolitan, Urban and Semi Urban centers to cater to the needs of small borrowers, viz owners of small scale industrial units, retail traders, professionals and salaried classes.” UCBs were set up with the objective of developing sustainable banking practices amongst a relatively specific target clientele viz., the middle income strata of the urban population.

ORIGIN

From the condition of crisis, exploitation and sufferings the Cooperative Movement originated. The idea of cooperative movement was started in England with the idea of self help through mutual help. Cooperatives came as an answer to the problems of rural indebtedness which was widespread throughout the country. The concept of Co-operation originated from the Indian culture where people share their wealth according to their needs. It had taken the organised shape of co-operative banking. The Urban cooperative credit movement in India started in the year 1904 with the main objective of catering to the banking and credit requirements of the urban middle classes. The movement was started with the objective of inculcating the habit of thrift and saving amongst them. It also helped the people to find out the modest means to get away from the control of the money lenders. The first Cooperative credit society was registered in October 1904 in Conjeevaram when the cooperative credit societies Act, conferred legal status on credit societies. Under the Cooperative Credit Societies Act, only primary credit societies were allowed to register and non credit and federal organisations of primary cooperative credit societies were left out. This limitation was removed by the Cooperative Societies Act, 1912 which paved the way for the organisation of central cooperative banks throughout the country. But the provisions of 1912 Act were not sufficient to meet the requirements of those states where cooperative movements had made considerable progress. Bombay the pioneers in this regard passed a new act, Viz. The Bombay Cooperative Societies Act, 1925 for serving the many sided development of the states. The Act not only gave the movement, its size and shape but was a pace setter of

cooperative activities and stressed the basic idea of thrift, self help and mutual aid. Later on Madras, Bihar and Bengal passed their own Acts in 1932, 1935 and 1940 respectively.

GROWTH & DEVELOPMENT OF URBAN COOPERATIVE BANKS IN INDIA

The Urban Cooperative Credit Movement started in India in 1904 and has gone through various phases. Since then several committees have been formed to categorize the role and contribution of cooperative banks in promoting the economic independence of different sectors of the society. However in 1963, Varde Committee suggested that such banks should be organised at all Urban Centers with a population of one lakh or more and not by any single community or caste. The committee introduced the concept of minimum capital requirement and the criteria of population for defining the urban centre where UCBs were incorporated. Until 1996, these banks were not allowed to lend money for agricultural purposes. At present the cooperative banks in India are registered under the Cooperative Societies Act. The real growth and development began after it was brought under the purview of Banking Regulation Act in 1966. The evolution is broadly divided into three phases, Growth, Crisis and Consolidation.

Growth Phase (1966-2003)

In the year 1966 the number of UCBs was 1,100 with deposits of 1.67 billion and Advances of 1.53 billion. Since then there was remarkable

growth in terms of numbers, size and scale of operations. In the year 1993 before the liberalization of the bank licensing policy, there were 1311 UCBs having Deposits and Advances amounting to 111.08 billion and 87.13 billion respectively, which increased to 1926 UCBs with Deposits and Advances of 1020.74 billion and 649.74 billion respectively by the end of March 2004 because of the licensing norms in May 1993

Crisis Phase (2003-2008)

It was noticed that nearly one-third of these newly licensed UCBs became financially unsound within a short period. Reserve Bank of India constituted a screening committee in June 2001 to scrutinize the application for licenses. The committee suggested that it should be made obligatory for all newly proposed UCBs to come through a process of graduation from a cooperative credit society on the strength of demonstrated and variable track records. According to the Annual Policy Statement for the year 2004-05 the Reserve Bank of India announced that it would consider issuance of new licenses only after a comprehensive policy on UCBs including an appropriate legal and regulatory framework for the sector is put in place and no fresh license have been issued thereafter for organising new UCBs.

By the end of March 2008 the number of UCBs reduced from 1926 to 1770. The Deposits and Advances increased slightly during the same period from 1102.56 billion and 679.30 billion to 1384.96 billion and 889.81 billion respectively. Reserve Bank of India has taken various measures to strengthen the sector during this period. The RBI entered into Memorandum of Understanding with all State Government in 2005. The MOUs facilitated co-ordination of regulatory policy and action through the mechanism of TAFCUBs, complete set of capacity building initiatives and measures to bring in efficiency through adoption of technology. This phase also ushered in voluntary consolidation in the sector by merger of non-viable UCBs with economically sound and well managed UCBs.

CONSOLIDATION PHASE: (2008 onwards):

As a result of the new initiatives and standard efforts by RBI the number of financially weak bank in the UCB sector declined and accordingly the total number of UCBs declined from 1770 as end March 2008 to 1606 by the end of March 2013. However, the deposits and advances increased from 1398.71 billion and 904.44 billion to 2769.41 billion and 1809.60 billion respectively during the same period. Merger of as many as 116 UCBs have been effected till March 2013. With a view of escalating the coverage of banking services amongst local community, the Malegam Committee was set up in 2010 for studying the advisability of granting new urban cooperative banking licenses. The committee suggested that, UCBs play a constructive role and there is need for a greater presence in unbanked districts and in centre having population of less than 5 laths. The committee also recommended that the existing well managed co-operative credit society meeting certain financial criteria should be preferred for granting licenses.

Over the years the primary cooperative banks have registered a considerable growth in number, size and volume of business handled. As on 31st March 2013 there were 1606 UCBs of which 56 were scheduled banks with 8790 branch outlets spread all over the country. Urban cooperative credit movement in general and the number of UCBs in particular is concentrated in few states. Five states namely – Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu account for 78 percent of the total UCBs in the country and one of them (Maharashtra) accounts for as high as 32 percent of the total UCBs.

OBJECTIVES & FUNCTIONS OF THE URBAN COOPERATIVE BANKS

The main functions of UCBs are to encourage thrift by mobilising deposits from members and non members and to disburse loans to the members. The various objects of UCBs are:

1. To mobilise funds for lending money to its members
2. To attract deposits from members as well as non-members
3. To promote savings, self help and mutual aid among members
4. To draw, make, accept, discount, purchase, sell, collect and deal in bill of exchange, drafts, certificates and other securities
5. To assist the poor and needy of the weaker section of the society in improving their standard of living by generating source of finance.
6. To serve the society and act as a catalyst to achieve a balance socioeconomic growth that is proportionate with the national growth pattern.
7. To provide safe deposit vaults.

FEATURES OF COOPERATIVE BANKING:

1. In a Cooperative bank the needs of the customers meet the needs of the owners, as cooperative bank members are both owners and customers. The main aim of a cooperative bank is not to maximise profit but to provide the best possible products and services to its members.
2. Cooperative banks are owned and controlled by their members, who democratically elect its Board of directors. They are organised and managed on the principle of cooperation, self help and mutual help. They function on the principle of “one member one vote”.
3. Cooperative bank performs all the main banking functions of deposit mobilisation, supply of credit and provision of remittance facilities, it accepts current, savings and fixed deposits from individuals and institutions.
4. Co operative banks include scheduled as well as non scheduled banks. They are subject to CRR and liquidity requirements as other banks.
6. The interest rate varies depending upon the type of the bank, type of loans and it varies from state to state.
7. Significant part of yearly profit, benefit or surplus is usually allocated to constitute reserve.

Types of Co-operative Banks

The Cooperative banking structure in India is divided into five categories

- Primary Co-operative Credit Society

It is an association of people residing in a particular locality which mobilise the fund by issuing shares, accepting deposits from the members as well as non members and loan from the Central Cooperative Banks and extend short term and long term loans to the members

- Central Co-operative Banks

It is the federation of primary credit societies in a district which mobilises the fund from share capital, deposits, loans and overdrafts from state cooperative banks and Joint stocks. It is generally located in the District Headquarters and some prominent towns of the district.

- State Co-operative Banks

Every state has a state cooperative bank at the top of the cooperative structure known as Apex bank. It is the federation of central co-operative banks and act as a watchdog of the co-operative banking structure in the state. It coordinates the working of all cooperative credit institutions in the state. Major source of revenue includes share capital, deposits, loans & overdrafts from the Reserve Bank of India.

- Land Development Banks

It is organised in three tiers namely state, central and primary level and meet the long term credit requirements of farmers for developmental purpose. It is governed by the State Government & the Reserve Bank of India and supervised by NABARD. Sources of funds are the Debentures subscribed by the central and state government.

- Urban Co-operative Banks

It is the primary cooperative bank located in urban and semi urban areas. It mobilises deposits from the members as well as non members and get finance from District Central Cooperative Bank or from the Apex Cooperative Bank.

STRUCTURE OF COOPERATIVE CREDIT INSTITUTIONS

The cooperative credit structure occupies a formidable and almost indispensable place in the rural credit scenario of the country. The structure of cooperative network in India comprises Urban Cooperative Banks and Rural Cooperatives. Urban Cooperative Banks can be further divided into scheduled and non scheduled. Both scheduled and non scheduled further divided into multi state and single state. Rural cooperatives structured into separate arms for short term credit structure and long term credit structure. Short term cooperative credit institutions consists of Primary agricultural credit societies at the grass root level, District central cooperative banks at the district level and State cooperative banks at the state level. Likewise, the long term cooperative credit structure is further divided into State cooperative agriculture and rural development banks (SCARDS) at the state level and Primary cooperative agriculture and rural development banks (PCARDBS) at the district/ block level. Short term cooperative includes State cooperative banks, District central cooperative banks and primary agricultural credit societies.

REVIEW OF LITERATURE

Raikar Avinash .V, (2005) in his article “ Urban Cooperative Banks: An Assessment” made an attempt to evaluate the impact of reforms on the growth, functioning and performance of Urban Cooperative Banks (UCBs) in India. The performance of UCBs was compared with other cooperative and commercial banks and it was found that performance of UCBs is better as compared to other banks. Their performance started deteriorating since 2001 due to application of prudential norms. But now the performance is improving and it was found that the imposition of norms by Reserve Bank of India (RBI) has improved the confidence among people.

NABARD (2005) conducted a study “Development in Co-operative Banking”, to evaluate the financial performance of 1872 urban co-operative banks and 1,06,919 rural co-operative credit institutions. The findings of the study revealed that in all financial institutions in the rural sector (SCBs, DCCBs, SCARDBS, and PCARDBS), percentage of NPAs in the substandard category declined, while it had increased in doubtful category. NABARD was worried about deterioration in asset quality of these banks. However, all the institutions were able to meet the necessary provisioning requirements. It further highlighted that NPAs ratio in DCCBs varied significantly across the states from 5% to 68% at the end March 2004. Only in four states (Haryana, Himachal Pradesh, Punjab and Uttranchal), the NPA ratio was less than 10%. NABARD suggested that co-operative banks should implement One Time Settlement system (OTS) and refer small value advances to Lok Adalats and high value advances to Debt Recovery Tribunals (DRTS). Further, State Governments were requested to help co-operative banks in reducing NPAs by taking special recovery derives.

Development of Cooperative Banking in India (2013) is a study conducted by Dr. R. Renuka and C.Elamathi. In this study the Researcher attempted to review the functioning of Development of cooperative banking in India. The main objective of the study was to analyse the performance of Urban Cooperative Banks. The Researcher has found out that there has been a growing dominance of short term credit cooperatives in the rural cooperative credit structure. The major development in the area of cooperatives has been their revival through a practical plan of action that follows the recommendation of the Task Force or revival of cooperative credit institutions in 2004. The Fit and Proper Criteria for the appointment of Chief Executive Officer and Professional Director of State Cooperative Banks and District Central cooperative Banks prescribed by the Reserve Bank of India have been implementing by the Banks. The overall assessment according to them is a more profitable, sound and growing Urban Cooperative Banking Sector, but with concern relating to capital adequacy. They have concluded that it is imperative to pave the way for a revival of long term rural cooperative sector given the vital role played by these institutions in stepping up capital formation in Indian agriculture.

OBJECTIVES OF THE STUDY

- Highlight the growth and development of Urban Cooperative Banks
- To understand the Progress of UCBs in India

RESEARCH METHODOLOGY

The study is descriptive and analytical in nature and is based on secondary data. The research is mainly conducted based on secondary data collected from Reserve Bank of India website, Journals, Books, and Newspapers etc. The study was conducted on the basis of last 10 years data.

Table :1.1

Structure of Urban Cooperative Banks in India (As at end March

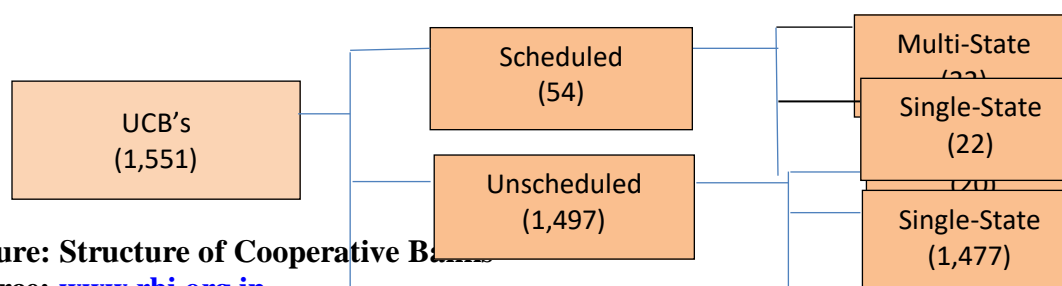


Figure: Structure of Cooperative Banks

Source: www.rbi.org.in

Table 1.1 shows the structure of the cooperative banks as on 31st March 2018. Of the total 1,551 UCBs 54 are scheduled and 1,497 are unscheduled. Out of 54 scheduled UCBs 32 banks are multi-state and 22 banks are single state. Majority of the Unscheduled UCBs are single state and few of them are multi- state.

Progress of Urban Cooperative Banks in India

Urban Cooperative Banks show tremendous growth in terms of the volume of business. Though the number of Banks has reduced due to the merger and amalgamation of the banks during the year 2005 the performance of the bank is remarkable. The table shows the progress of UCBs during the study period in terms of number of banks, Shareholders Fund, Deposits and Borrowings.

Table 1.2: Progress of UCBs in India from 2009-2018

Year	Number of UCBs	Owned Funds (Rs. In Billion)	Deposits (Rs. In Billion)	Borrowings (Rs. In Billion)	Loans & Advances (Rs. In Billion)
2008-09	1,721	209	1,587	26	979
2009-10	1,674	301	1,829	23	1,124
2010-11	1,645	325	2,099	43	1,363
2011-12	1,618	343	2,386	36	1,578
2012-13	1,606	380	2,679	31	1,810
2013-14	1,589	333	3,178	26	2,004
2014-15	1,579	373	3,551	22	2,243
2015-16	1,574	406	3,922	26	2,449
2016-17	1,562	457	4,435	34	2,612
2017-18	1,551	483	4,565	49	2,805
Average CGR	(9.88%)	131.10%	187.65%	88.46%	186.52%

Source: Annual Reports of RBI (various years)

The progress of UCBs on the basis of number has shown volatility over the study period. There were 1721 UCBs by the end of March 2009 and the number of banks shows a decreasing trend due to the merger/amalgamation of viable UCBs and the exit of unviable ones. By the end of March 2018 the total number of UCBs were 1551 and it shows a negative growth rate of 9.88%. While reviewing the progress made by the UCBs during the last 10 years, it was observed that the growth in terms of Owned Fund, mobilisation of Deposits and the disbursement of Loans has by and large been satisfactory. Owned fund was 209 billion on 31st March 2009 has increased to 483 billion by the end of March 2018 shows an average growth rate of 131.10%. The amount of Deposits mobilised by the banks shows an average growth rate of **187.65%** during the study period. The total amount of Advances disbursed by the UCBs increased from 979 billion to 2,805 billion having an average growth rate of 186.52%.

Ratings of Urban Cooperative Banks by RBI

Reserve Bank of India introduced the CAMELS (capital adequacy, asset quality, management, earnings, liquidity and system control) rating model to determine the financial soundness of UCBs. Under the CAMEL model, a composite rating of A/B/C/D (in decreasing order of performance) is given to a bank based on the weighted average rating of individual components of CAMEL's rating model. With the introduction of CAMELS rating model a newer dimension was introduced to judge the financial strength or the credit rating of their institution.

Table: 1.3 Rating of Urban Cooperative Banks by RBI in India end March 2018

Rating	Number of Banks	Deposits (Rs.in Billion)	% share in total	Advances (Rs. In Billion)	% share in total
A	328 (21.2)	1,415	31.0	893	31.8
B	878 (56.6)	2,520	55.2	1,562	55.7
C	278 (17.9)	518	11.4	303	10.8
D	67 (4.3)	111	2.4	47	1.7
Total	1,551	4,565	100	2,805	100

Note: Figures in perantha reports

Source: Annual Report of RBI 2017-18 www.rbi.org.in

According to Table 1.3 by end March 2018 around 78 percent of the UCBs had composite ratings of A and B (21.2 +56.6) accounting for about 86 percent of the total banking business of the UCBs. The financial strength of UCBs shows improvement during the year. Around 18 percent of the UCBs had a composite rating of C accounting for 11.4 percent of the banking business of the UCB sector. 4 percent of the UCBs represent the lowest rating of D, the weakest financial health accounting for 2 percent of the banking business of the UCB sector. The share of UCBs with rating B has increased steadily since 2014-15 and the share of UCBs with the lowest rating of D has declined over the years.

Table 1.4: Distribution of Deposits of UCBs 2017-18

Deposits (Rs. Billion)	Number of UCBs		Amount of Deposits (Rs. Billion)	
	No.	% share	Amount	% share
0-0.10	111	7.2	7	0.1
0.10-0.25	226	14.6	38	0.8
0.25-0.50	304	19.6	110	2.4
0.50-1.00	272	17.5	191	4.2
1.0-2.5	332	21.4	516	11.3
2.5-5.0	138	8.9	482	10.6
5.0-10.0	88	5.7	590	12.9
10.0 & above	80	5.2	2630	57.6
Total	1551	100	4,565	100

Source: Annual Report of RBI 2017-18 www.rbi.org.in

For clear understanding of Deposits in their size distribution of deposits table is prepared. It shows that end March 2018, 7.2% of the total number of UCBs Deposits is in the range of 0.0-.10 billion and of the total deposits Rs.7 billion (0.1%) was mobilised by these banks. 14.6% of UCBs Deposits is in the range of 0.10-0.25 billion and the total amount of deposits with them is Rs.38 billion (0.8%). 304 UCBs (19.6%) Deposits is in the range of 0.25-0.50 billion with total amount of deposits of 110 billion (2.4%). 17.5% of the total number of UCBs (272) deposits is 0.50-1.00 billion and the total amount of deposits mobilised by these banks is 191 billion (4.2%). Deposits base is 1.0-2.5 billion for 332 UCBs (21.4%) having a total deposits of 516 billion (11.3%) of the total amount of deposits mobilised by UCBs. 8.9% (138) of the total number of UCBs deposits is in the range of 2.5-5.0 billion and the total deposits Rs.482 billion (10.6%) was mobilised by these banks. 88 UCBs (5.7%) having deposit base in the range of Rs. 5.0 -10.0 billion and of the total deposits Rs.590 billion (12.9%) was mobilised by these banks. 80 UCBs (5.2%) having deposit base in the range of Rs. 10 billion and above with total deposits of Rs.2,630 billion (57.6%)

Table: 1.5 Distributions of Advances of UCBs 2017-18

Advances (Rs Billion)	Number of UCBs		Amount of Advances	
	No.	% Share	Amount	% Share
0-0.10	258	16.6	14	0.5
0.10-0.25	345	22.2	57	2.0
0.25-0.50	289	18.6	100	3.6
0.50-1.00	238	15.3	167	6.0
1.0-2.5	224	14.4	340	12.1
2.5-5.0	99	6.4	343	12.2
5.0-10.0	55	3.5	373	13.3
10.0 & above	43	2.8	1,410	50.3
Total	1,551	100	1810	100

Source: Annual Report of RBI 2017-18 www.rbi.org.in

The table shows that out of the total 1,551 UCBs, 258(16.6%) urban cooperative banks Advances is in the range of Rs. 0-0.10 billion with total advance of Rs. 14 billion (0.5%). 345 UCBs (22.2%) advances is in the range of Rs. 0.10-0.25 having a total advance of Rs.57 billion (2.0%). 18.6% of the total UCBs (289) advances is Rs.0.25-0.50 billion with total advance of Rs. 100 billion (3.6%).Advances base is Rs. 0.50-1.0 billion for 238 UCBs (15.3%) having a total advance of Rs. 167 billion (6.0%). 224 (14.4%) UCBs advances is in the range of Rs. 1.0-2.5 billion and these banks have disbursed a total advance of Rs. 340 billion (12.1%). 6.4% (99) of the total number of UCBs have the advance base of Rs.2.5-5.0 billion with a total advance of Rs.343 billion (12.2%). 55 (3.5%) UCBs having advance base of Rs. 5.0-10.0 billion disbursed Rs.373 billion (13.3%). Advance base is Rs10 billion and above for 43 UCBs (2.8%) with total advance of Rs.1,410 billion (50.3%).

CONCLUSION

Banking sector plays a significant role in the growth of Indian economy. The study indicates that there is significant growth in the UCBs. During the period of study, there were 1721 UCBs by the end of March 2009 and the number of banks shows a decreasing trend due to the merger/amalgamation of viable UCBs and the exit of unviable ones. The number of UCBs by the end of March 2018 is 1,551 which show a negative growth rate of 9.88%. While reviewing the progress made by UCBs during the last 10 years (Table 2) the progress is remarkable. Another indicator of the progress of the UCBs is the Deposits mobilised by them. It indicates the trust and faith of the customers in the bank. The total amount mobilised by UCBs during the year end March 2018 is Rs. 4,565 Billion which shows a compound growth rate of 187.65%. The

Loans and Advances are the major source of revenue to the banks. It is an important input for agriculture, industry, commerce and other productive activities for the socio economic development of the country. Loans and Advances were Rs. 979 Billion in 2009 and in 2018 they rose to Rs. 2,805 Billion indicating rise in Advances. The compound growth rate is 186.52%. The financial strength of UCBs is assessed through CAMELS (capital adequacy, asset quality, management, earnings, liquidity and system control). At end March 2018 UCBs with ratings A and B which indicate robust financial performance accounted for 78% of the total UCBs. The share of UCBs with rating B has increased steadily since 2014-15 and the share of UCBs with the lowest rating of D has declined over the years. It can be concluded that there is tremendous growth in the UCBs.

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