JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

SURVIVAL AND GROWTH OF URBAN CO-OPERATIVE BANKS IN THE DYNAMIC BANKING SYSTEM

Kishan Ashokbhai Arya[1], Dr. Ashav Patel[2]

[1]Research Scholar Rai University Ahmedabad
[2]Professor, Rai University, Ahmedabad

ABSTRACT

Urban co-operative banks (UCBs) are an important segment of India's banking industry. They primarily serve the credit demands of those with little financial resources. Administrators of co-activity, self-improvement, and common aid manage and oversee Co-operative Banks. With widespread organisation in both urban and rural areas, they have become an important element of the Indian financial system. The cooperative sector plays an important role in meeting the order criteria and objectives set forth in the Five Year Plans. The cooperative sector aims to address economic disparities and the wrongs of income and wealth concentration, as well as preventing the more vulnerable areas from being exploited by the more anchored. Co-activity is a noble concept that aims to create a just and developed community. It paves the path for peace and abundance of both monetary and spiritual wealth for all citizens.

Keywords: Urban; Cooperative Bank; deposits; loans; advances

I. INTRODUCTION

Cooperative banks are tiny, local banking institutions that have operated in both urban and nonurban areas during the last 100 years. These banks play a critical role in meeting the financial needs of small and medium-sized businesses and advancing them. It is a noteworthy industry in which banking and collaboration work together. These banks deal with the two-level system's concept as well as the norms of collaboration, self-improvement, and mutual aid. Cooperative banks are playing an increasingly important role in meeting the credit needs of small donors and borrowers, particularly in the urban casual sector, which is considered non-credit worthy by commercial banks. Cooperative banks in India are divided into two types: urban and provincial cooperative banks. Urban cooperative banks, also known as necessary cooperative banks, operate in urban and semi-urban areas. These are tiny cooperative banking units that offer food for small speciality units, retail dealers, experts, compensation courses, and other needs. Regardless its continuous growth, the industry has seen a lot of turmoil in the last several years. These banks are working hard to solve the challenges of economic inequity and abundant concentration that are leading more vulnerable places to be abused by the more grounded. The current research looked at the progress of urban cooperative banks in India, their financial presentation, and the adjustments that are projected to enable the banks' exposition to grow economically.

The number of UCBs decreased from 1,770 at the end of March 2008 to 1,721 at the end of March 2009. The consolidation cycle resulted in this drop. The income charge paid by 1,780 urban cooperative banks and credit social orders in the past financial year was over Rs 1,000 crore, with the majority of them dispersed throughout Maharashtra, Andhra Pradesh, Gujarat, Karnataka, and Tamil Nadu. This demonstrates the power of UCBs and their contribution to people, the exchequer, and the general public everywhere on the one hand, and the exchequer and the general public everywhere on the other.

In the last year and a half, the urban cooperative banking sector has witnessed tremendous growth. UCB stores have grown by more than 1100 percent, from Rs. 8600 crore to over Rs.100,000 crore, while progress has increased by 733 percent, from Rs. 7800 crore to over Rs.65000 crore, for example, between 1991 and 2005. According to the National Association for Cooperative Urban Banks (NAFCUB), Co-operative Banks have much more all-out shops and loaning than Old Private Sector Banks and New Private Sector Banks. These tiny investors were not yet served by the joint-stock banks that had emerged in urban and semi-urban areas. Due to the lack of banking and credit offices, these groups were compelled to turn to shady cash moneylenders and private mortgagers, who used to demand exorbitant interest rates or impose almost non-repayable terms.

II. URBAN COOPERATIVE BANKS

Cooperative banks that operate only in urban areas and are founded on cooperative principles are known as utilitarian cooperative banks. The concept of an Urban Co-operative Bank did not emerge until 1939. UCBs started out as credit organisations in Gujarat, but as their name implies, they grew into Urban Co-operative Banks over time. The Mehta Bhansali Committee defined the Urban Co-operative Bank for the first time in 1939. Under Section 5 (CCV) of the Banking Regulation Act, 1949, which was made applicable to Urban Co-operative Banks in 1966, an Urban Co-operative Bank was categorised as a significant Non-Agricultural Credit Society. Clause (B) of the RBI's Banking Regulation Act of 1949 outlines and defines Urban Co-operative Bank (as a society registered under this Act and doing the main business of banking). The UCB is defined as an entity engaged in the banking sector having a paid-up share capital and reserves of at least one lakh rupees, according to this definition. The UCB's bylaws further provide that no other cooperative society may be admitted as a member.

The principal cooperative banks in urban and semi-urban regions are known as Urban Co-operative Banks (UCBs). Communities, locales, work places, and groups were typically the focus of these banks. These banks were only authorised to lend money for non-agricultural reasons until 1996. However, this difference no longer holds true, since their sphere of activity has significantly expanded. The success of trials associated to the cooperative moment in Britain and the cooperative credit moment in Germany encouraged the urban cooperative banking movement in India in the nineteenth century.

There were 1,515 UCBs functioning in the nation by the end of March 2018, with the majority being non-scheduled UCBs. Co-operatives are administered for the benefit of a group of co-operative members and only share a tiny fraction of their profits as dividends, keeping the majority in the firm. Since 2001, the sector has been in turmoil due to a slew of scams, increased competition with the advent of liberalisation, globalisation, twofold control, low capital, a high percentage of nonperforming assets (NPAs), poor professional management, a lack of modern technology in UCB's banking business, poor governance and mismanagement, and so on. Commercial scheduled banks include both nationalised and private sector banks. At the district level, there are State Co-operative Banks and District Central Co-operative Banks. Co-operative Societies are part of the District Central Co-operative Bank. In India, banks are divided into two types: public sector banks and nationalised banks, which are both commercial and scheduled banks. State Bank of India, Bank of India, and others are examples of these banks. State-owned co-operative and non-scheduled public sector banks include Maharashtra State Co-operative Bank, Junnar Co-operative Society, and others. Foreign and Indian banks might be part of the private sector, which is commercial and scheduled. Foreign banks, for example, CITI Bank, Standard Chartered Bank, and others. Urban co-operative banks primarily lend to various types of people for self-employment, industries, small-scale businesses, and house financing. Rural co-operative banks, on the other hand, mostly fund agricultural businesses such as farming, livestock, milk, hatcheries, personal financing, and certain small scale enterprises and self-employment driven activities.

III. STRATEGIES TO BE ADOPTED IN THE ERA OF GLOBALISATION AND DIGITALISATION

Economic liberalisation in India, which began in 1991, resulted in the repeal of the Licenceraj and the opening of key sectors to private sector and foreign investors. Multinational corporations posed stiff competition for Urban Co-operative Banks, and these UCBs were forced to scale up their infrastructure and management practises in order to compete with the capital-rich private sector and foreign banks. Despite their structural shortcomings, Urban Co-operative Banks may survive and grow in today's globalised and digitalized world if they focus on the following aspects:

3.1. Effective implementation of latest corporate governance practices

The ability of Urban Co-operative Banks to function effectively is largely dependent on their adherence to the most up-to-date corporate governance procedures, which are commonly used by fundamentally sound banks across the world. Previously, the banking industry was primarily focused on profit maximisation, ignoring critical factors that may potentially accelerate development to levels comparable to industry leaders. However, many promising banks have recently adopted these principles after learning about global practises and the importance of corporate governance principles. As a result, they are gaining much-needed customers as well as large business, thereby increasing their market share in terms of major ratios. These banks' transparent methods, along with accountability, have helped them to stand out in the industry, with management concentrating on sensible steps to ensure that banking operations are carried out with the utmost accuracy. Corporate governance standards supported the appropriate distribution of duties and responsibilities among senior management in order to meet the bank's aims as well as shareholders' expectations. In light of the changing dynamics of the banking sector in the era of globalisation and digitisation, it also focuses on actions to be done to preserve the interests of shareholders and stakeholders. Despite their low capital base and inherent limitations, adhering to these procedures assures the safe and healthy operation of Urban Co-operative Banks. Following solid corporate governance will allow the Board of Directors and management to concentrate on trimming internal processes in order to achieve year-over-year increase in main ratios.

3.2. Technology up gradation and adopting smart-banking practices

The banking sector's scope and scale of services have extended further as a result of technological advancements and automation, and it has become extremely competitive. In today's extremely competitive industry, banks are required to implement these cutting-edge technology in order to survive and develop. E-cheques, app-based user interfaces on smartphones, EFTs via NEFT and RTGS, Core Banking Solutions, PoS terminals at retail locations, online banking, and mobile banking are some of the most recent banking developments. In today's globalised and digitalised world, banks are providing online banking services with a user-friendly interface to enable consumers to perform a wide range of services with a single click of the mouse while maintaining strong security standards. Furthermore, smart phones have enabled e-banking practises among the public in recent years through app-based banking services as well as phone-banking services. These low-cost e-banking services have made it incredibly simple for not just tech-savvy consumers, but also the average person. Furthermore, these e-banking practises have resulted in a reduction in work burden for bank workers. These measures resulted in a reduction in the banks' per-transaction expenses and a more efficient use of labour. After the advent of technological advancements in the banking sector, which have made it more user-friendly, traditional banking practises have taken a backseat, and banks are competing on adaptation of the latest technological breakthroughs and customer service practises to register year-on-year growth in major statistics, thereby aiming to capture market share and maximise shareholder wealth.

3.3. Adhering to Regulatory guidelines for effective functioning of UCBs

Before the Banking Regulation Act of 1949, the expansion of the UCB sector was chaotic. After the application of the Banking Regulation Act, 1949 on 01.06.1949, the UCB sector was brought under the purview and control of the Reserve Bank of India, and various committees such as the Varde Committee (1963), the Study Group on Credit Cooperatives in the Non-Agricultural Sector (1963), the Cooperative Planning Committee (1946), the Working Group on Industrial Financing through Co-operative Banks (1968), the Banking Enquiry Committee (1972), the

Joglekar Committee (1976), and the Madhav To promote growth, all Urban Co-operative Banks must strictly adhere to the regulations and guidelines issued by the RBI and the Registrar of Co-operative Societies from time to time, so that the benefits of these regulations are passed on to the UCBs, and these measures can drive the growth engines of the UCB sector and benefit customers' interests on a large scale by winning customer loyalty."

3.4. Adopting state-of-the-art Customer Services

Customer service is critical to the banking industry's success since banking is essentially a service-based organisation that sells both financial and banking products. As a result, the quality of human capital is a critical aspect in determining a bank's development and stability. Regular workforce training to trim skill sets as well as familiarise people with the newest advances in the banking business and methods to be used to maintain existing clients as well as acquire new ones. The banking industry has evolved into a fiercely competitive financial entity, with almost all of the top notch banks offering products that are essentially the same, and the deciding factor in driving growth by doing massive business on these existing as well as newly crafted businesses is by implementing the best customer service practises. Recently, banks have begun to recognise the significance of a large potential for growth in terms of various major ratios, financial dimensions, and branch network expansion by bolstering their more efficient customer service strategies and rewarding and awarding personnel who make a significant contribution to the banks' objectives. The importance of human capital quality, which is the single most essential aspect in determining a bank's success narrative, should be understood by urban cooperative banks.

In addition to traditional banking services, today's banks are relying on a wide range of financial services such as investment options, mutual funds, insurance policies, wealth management, asset management, foreign exchange transactions, securities transactions with demat and trading accounts, door-step services, privileged account services, brokerage services, and financial advisory services to expand their customer base. Typically, most banks rely on high-net-worth individuals to provide individualised financial counselling services. Banks must concentrate on the upper middle class, which represents a substantial portion of the population with excess wealth to invest and a lack of adequate financial advice.

IV. ISSUES OF URBAN COOPERATIVE BANKS

Despite the growth in various sectors, India's urban cooperative banks are grappling with serious issues such as limited liability to mobilise resources, low recovery, high transaction costs, and a long-term administered rate of interest, all of which limit their ability to ensure a smooth flow of credit. These banks are now working tirelessly to solve issues of economic inequality and wealth concentration, which are resulting in the exploitation of the weaker sectors by the stronger. Some of the common Issues of UCBs are summarized as under:

1. 1. The purposeful control of cooperatives by the government, the government's nomination of board of directors, and the delegation of government personnel to cooperative institutions are some of the issues that arise as a result of the cooperatives legislation's application.

2. 2. Urban Co-operative Banks (UCBs), which were formerly considered one of the fastest growing divisions of India's banking system until the late 1990s, have now become one of the weakest, with frequent collapses. These banks have grown more vulnerable as a result of their size, location, and compulsions to lend to a certain sector, and hence have lost scale economies.

3. 3. A series of share market scandals in Gujarat and Andhra Pradesh in 2001 shattered public faith in these institutions. Non-Performing Assets (NPAs) do not generate any income as a consequence of utter mismanagement and fraud, causing these institutions to become very weak/sick.

4. 4. In addition, despite their capabilities, the Urban Cooperative Banks struggle to raise share capital. As a result, this sector is finding it more difficult to preserve their cooperative nature in the face of the RBI's tight regulatory framework and conservative banking regulations.

5. 5. The existence of over 80% of urban cooperative banks and 75% of their total deposits is concentrated in a few states such as Maharashtra, Gujarat, Karnataka, Andhra Pradesh, and Tamil Nadu, indicating an uneven geographical distribution of UCBs.

6. 6. The majority of UCBs have no investment. They make investments based on their own experience as well as RBI circulars and instructions provided from time to time. However, there have been instances in the past where certain banks have disobeyed RBI directions by acquiring securities from sham brokers, resulting in massive asset losses.

7. 7. The NPA levels in UCBs are excessively high, according to a high-powered committee formed by the RBI, and this is a big concern that has to be addressed. UCBs should have an Investment Policy, which should be revised every year and authorised by the board of directors, much as their Loans and Advances policy.

8. The Reserve Bank of India and the Registrar of Cooperative Societies are both in charge of UCBs. The banks' smooth and effective operation is hampered by the numerous regulations and controls imposed by central and state entities. On the other side, the lack of administrative supervision by government authorities leads to arbitrary money utilisation, jeopardising the interests of stakeholders.

9. The borrowers of UCBs have a considerable influence in the bank's administration. This has the ability to influence Boards to make choices that are not necessarily in the best interests of the bank's most essential stakeholders, the depositors.

10. There are no defined loan policies in the majority of UCBs. Many banks lack a pre-credit evaluation, which is considered the most crucial aspect of the lending policy. The end effect of this form of credit risk mismanagement and non-appraisal is non-recovery of loans and assets, which leads to non-recoverable loss.

V. CONCLUSION

The activities of the multi-organization banking system in the nation is dominated by the Urban Co-operative Banks. Individuals and non-individuals from urban and semi-urban areas can receive financial assistance. In the thousand years, the fundamental concern has been to realign the working structure and executives of cooperative groups. There should be an effective activity programme in place to provide specific guiding focuses to the cooperative in the areas of polished skill and successful engagement in the areas of entangling cooperative relationships, asset assembly, and enhancing individual investment in the dynamic cycle.

The Urban Co-operative Banks are an essential component of the country's multi-agency banking system. It assists members and non-members in urban and semi-urban regions financially. The primary issue for the millennium is to reposition the cooperative institutions' structure, operation, and management. A detailed action programme should be developed to offer specific guide points to the cooperative in the areas of professionalism, successful interaction of inter cooperative relationships, resource mobilisation, and increasing member engagement in the decision-making process.

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