A STUDY ON THE ROLE OF URBAN COOPERATIVE BANKS IN FINANCIAL INCLUSION

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ABSTRACT
This paper tries to analyse the proactive role played by the Urban Cooperative Banks (UCBs) in imparting financial inclusion and financial education. UCBs being deeply rooted into a broad spectrum of communities and segments of population, possess the entire trust of the people and hence can be an effective channel in imparting financial education. The demographic and geographical variations in the distribution of UCBs, even though discussed as its main challenge, shows a new path by which the extremely denied sections of the population can also be included into the financial network. Indian UCBs are still a long way behind in its efforts to compete with the premier commercial banks of the country. Today, when large commercial banks are working hard to set up branches and employing technology to reach out to hitherto untapped regions of the country, it is time for the UCBs to step into the game that is naturally theirs to win.

The study analyses the efforts taken by the UCBs in improving financial inclusion by examining different parameters like Loans and advances, Deposits, geographical distribution etc.

Key words – UCBs, Financial Inclusion, Priority Sector Lending,

INTRODUCTION
Urban cooperative banks are akin to the Commercial banks in functioning. Initially the UCBs were not defined formally. The formal definition was given by the Mehta Bansali committee which is as follows;

“Urban Credit Societies having paid up share capital of 20,000/- and over, and accepting deposits of money on current account or otherwise subject to withdrawal by cheque, draft or order come within the category of Urban Co-operative Banks”

The financial inclusion has become a crucial concept these days. Traditionally, we have observed that the poor are not welcomed to the banking fold with a misconception that they are not bankable and that there is no business opportunity in offering services to the under-privileged and poor people in the semi-urban rural areas and to slum dwellers in the metropolitan cities.

OBJECTIVES
• To analyse the growth of UCBs over the years
• To analyse the impact of UCBs in financial inclusion
• To suggest possible measures to improve financial inclusion efforts of UCBs
METHODOLOGY

The study is basically using secondary data from various sources like RBI Database, Inclusive finance India report, India stat etc. Fundamental statistical tools like ratio analysis, percentage analysis and graphical tools like bargraphs and pie diagrams are used in this study.

ANALYSIS

An analysis is made using some basic indicators of financial inclusion and assessing the role of UCBs in financial inclusion.

Table 1: UCBs IN THE RECENT YEARS

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NO OF UCBs</th>
<th>DEPOSITS</th>
<th>ADVANCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>1606</td>
<td>2768.30</td>
<td>1810.31</td>
</tr>
<tr>
<td>2014-15</td>
<td>1589</td>
<td>3155.03</td>
<td>1996.51</td>
</tr>
<tr>
<td>2015-16</td>
<td>1579</td>
<td>3551.35</td>
<td>2251.06</td>
</tr>
<tr>
<td>2016-17</td>
<td>1574</td>
<td>3922.00</td>
<td>2450.00</td>
</tr>
<tr>
<td>2017-18</td>
<td>1551</td>
<td>4565.06</td>
<td>2804.59</td>
</tr>
<tr>
<td>2018-19</td>
<td>1544</td>
<td>4843.15</td>
<td>3030.17</td>
</tr>
</tbody>
</table>

Table 1 shows the growth of UCBs in terms of numbers, deposits and advances. It reveals an important fact that the number of UCBs has gone down over the years from 2013-2019. This is mainly because of the amalgamations that occurred during this time period. However, the deposit with the UCBs have gone up immensely. The data reveals that there has been a 75% increase in the deposits from 2013 to 2019. The advances also shows an increasing trend. It has increased by 67% from 2013-2019. Thus we can conclude that the UCBs are reaching out to more people in terms of both deposits and credit. This reflects that the public confidence in the UCBs, which was actually lost after the episode of failure of largest UCB in Maharashtra (Madhavapura Mercantile Cooperative Bank) is being regained these days.
GEOGRAPHICAL ASPECTS

The above graph shows the geographical distribution of UCBs across India. Western region of India shows highest concentration of UCBs. This includes States like Gujarat, Maharashtra, Goa etc. The reliable data sources (Inclusive Finance India Report) itself prove that these states stand top in terms of financial inclusion with within the range of 0.5-1. The southern part of India also has more number of UCBs. The concentration of UCBs is very less in North eastern States.

Another important indicator of financial inclusion is the distribution of Automated Teller Machines (ATMs) across different regions. The graph reveals that the ATMs of UCBs are more in western region since the number of UCBs are more there. The number of ATMs had declined within three years in the west. But in the south, north and in the central as the figure suggests, there is an increasing trend in the number of ATMs. This is a positive sign of increasing reach of UCBs to these areas. In North East and Eastern regions, the number of ATMs is negligible.

Source: Inclusive Finance India Report 2014-2018

Source: Inclusive Finance India Report 2014-2019
LENDING PATTERN

The above graph shows the Priority sector lending (PSL) of UCBs. Prescription of PSL is done by the Reserve Bank of India (RBI) to the banks for directing specified portion of the bank lending to a few specific sectors like agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections, serves a vital role in the upliftment of the less privileged & weaker sections of society. This is essentially meant for an all-round development of the economy as opposed to focusing only on the financial sector. Over a period of three years, the lending to the priority sectors by UCBs has increased. Among all the sectors, the major chunk of the funds are being allotted to the micro and small enterprises (MSMEs).

MSME sector (Micro, Small and Medium enterprises) is the strong pillar of Indian economy and they are the engine of growth. MSME is also known as Town and Village Enterprise. They are mainly skill oriented. Now there are 26 million micro medium enterprises unit in our country. It is the second largest provider of employment. The Second major sector is the Housing loans, which also tries to bring more of the urban population under the financial network.

The above graph shows the lending pattern of UCBs in the year 2014-2015. As the figure shows e UCBs lend to both priority and Non priority sectors almost equally. 51% of the funds are lent to the non-priority sectors. The rest is given to the priority sectors. Out of the total lending to the priority sectors, 13% is allotted to the weaker sections.
This pie diagram shows the lending pattern of UCBs in 2018-19. As we can see, the lending to the weaker sections has increased by 1%. With above 1500 urban cooperative banks licensed in India, these organizations can play a pivotal role in the “real last mile financial inclusion” and thereby achieve inclusive growth.

**FINDINGS**

- There are over 1,570 UCBs with close to 10000 branches in the country. Yet they form a tiny part of the banking system accounting for less than 3% of the total banking assets and deposits and less than 3.5% of total advances. They also follow the 80-20 rule to the T. The top 20% of UCBs account for almost exactly 80% of its deposits.
- The problem with the Indian scenario is that the majority of the UCBs are not backed with the available finest technology and they have not incorporated the Core Banking Solution (CBS) system into their day to day activities.
- They have traditionally played an important role in mobilising resources from lower and middle-income groups and in providing direct finance to small entrepreneurs and traders.
- UCBs are still following traditional banking practices and many banks especially UCBs in south lack ATM facilities which are very common these days.
- As in India, the data sources shows that the participation of young adults in the banking transactions especially those who are having accounts in UCBs are very low. This should be noted carefully and adequate efforts must be taken to attract younger generations as they are the future citizens of the country.
- In spite of being present in 25 states, much (almost 80%) of the action happens in the five states of Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu – with the lion’s share going to Maharashtra. As on March 31, 2017, the state accounted for over a third of all UCBs, almost half of all UCB branches, around 60% of total extension counters of UCBs and more than 85% of all its automated teller machines (ATMs). Accordingly, more than 60% of the total banking business of the UCB sector was concentrated there but their numbers have been dwindling in recent years. It is perhaps understandable why this sector does not exactly steal the limelight in banking policy discussions.
- People generally are not happy with the services provided by banks, in particular UCBs, because it seriously lack digital services. Even after two decades of globalization, the digital services of the banks are not
satisfactory. The process of globalization requires banks to move towards global standards of customer service so as to effectively meet the growing demands by their customers. E-banking services offered by many banking institutions can be a strategic weapon against UCBs, threatening their very existence and growth.

• UCBs were prescribed a staggered timeline for the implementation of CBS with December 2014 as the final deadline. However, only 913 UCBs are fully CBS compliant and 330 UCBs are in the process of implementing CBS. Further, 336 UCBs are yet to start the process of implementation. Based on the requests received from UCBs, RBI has also taken up the matter with IDRBT to prescribe some uniform minimum benchmarks for the CBS and some cloud-based solution could be worked out which is cost effective yet reliable to smaller UCBs.

• Ensuring the last mile connectivity will only help these banks to sustain their business. However, for these to happen, co-operative banks need to focus on corporate governance and imbibe the current distributive technology to offer low cost products and turn the tide in their favour against the likely onslaught of competition from small finance and payments banks.

SUGGESTIONS

• The most important aspect of financial inclusion is financial literacy. There is lack of awareness, especially amongst people, both rural and urban about various schemes of FIs. To increase awareness and interest in products offered under various schemes of FIs, increase in advertisement in local language, on radio and television, and in print media, with local icons and artistes as brand ambassadors of the campaign, could help in building public confidence. In this context, role of mobile phones and reach of mobile banking is immensely promising.

• Awareness of mobile banking is significantly low and there is reluctance, especially amongst rural people, probably because of low technological and financial literacy. In addition, there were practically no efforts even among the banking officials in promoting mobile banking services. The mobile phones could be used for targeted advertisement campaigns, devised for mass media and locally effective media. Government agencies could actively participate in these campaigns, communicating mobile banking to be user friendly and safe.

CONCLUSION

Urban cooperative banks being in its path to become the frontrunner in the financial system, faces a lot of challenges. It is very important to take note of these hurdles and to rectify it as soon as possible. In India, at present, we have around 1574 UCBs which provide wide range of services to its customers. 38% of these UCBs are still not having CBS(Core Banking Solution). Majority of the UCBs are still providing NEFT,RTGS services in tie up with the sponsor commercial banks. Even though UCBs are providing its services to many crores of people. ‘Branch Banking’ was the only option available to them so far. Digitalisation is still a distant dream for the UCBs in India. The major problem they face while digitalising is the complex procedure of obtaining license for internet and mobile
transactions. Also there are budget constraints. The in-house IT technology in UCBs are not capable enough to device suitable channels to drive the digital channels safely.

Another major problem in digitalization is that segment of people that UCBs deal with are not proficient in using the digital services. But NPCI (National Payments Corporation of India) has addressed this issue to some extent by introducing ‘#99’ and the price of smartphones are also declining which are definitely improving the hopes of digitalising UCBs.

Another major challenge of UCBs are the economies they lack. The ROI of UCBs are very low as compared to the commercial banks, also they have a very low clientele and number of branches. ‘Customer Education’ is also a prerequisite for massive digitalization of UCBs in India. Integration of digital services with CBS will be a major step that the UCBs can take in the present context. This is a win-win for both the users and the bankers as it can enhance the user experience and can make business sense.

REFERENCES

- Inclusive Finance India Report 2014-2018