

“Origin, Problems and future of Urban Co-operative Banks”

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Abstract

Urban co-operative banking sector is an important constituent of Multi Agency banking system operation in the country. These institutions play an important role in the economic enlistment of lower and middle income group of persons. Urban co-operative banks are one of the vital segments of the banking industry in India. They essentially cater to the credit needs of persons of small means. Co-operative banks are organized and managed on the principles of co-operation, self-help, and mutual help. These have been playing imperative role in Indian financial system with broad network in both urban and rural areas. Co-operative sector plays a very important role in fulfilling the directive principles and the objectives of five year plans. The term urban co-operative banks, though not formally defined, refer to primary co-operative banks located in urban and semi-urban areas

Urban co-operative bank sector is one of the key financing sector in metropolitan urban and semi urban area which accelerating the economic growth and social welfare. The RBI imposes some restrictions on banking sector. The UCBs provides many kinds of facilities to their customers of urban area like opening current saving and fixed deposits accounts, issue draft, bill discounted on low rate, self deposits vault, advances are given to small scale and medium enterprise and cottage industries and advances against properties, jewelry, Government securities, life insurance policy and vehicles. This paper focuses on the origin, problems and future of urban co-operative banks in India.

KEYWORDS: Urban Co-operative banks, High power committee, Reserve Bank of India, Priority Sector, Madhavrao committee, Internet Banking, Tele Banking, Branch Banking, and Political Interference.

Origin of Urban Co-operative Banks:

The urban co-operative banks occupy a significant place in the urban co-operative credit movement. As the name suggests, a bank operating in urban areas on the basis of co-operative principles is known as an Urban Co-operative Bank. Initially UCBs were organized as credit societies in India and later converted into urban banks.

Co-operation emphasizes on the idea of a voluntary association of individuals for the achievement of common goals. The first experiment in urban co-operative credit was made in then Baroda state. The first urban co-operative society was established in India, which is known as ‘Annoyona Sahakari Mandli Co-operative Bank’, located in Baroda (Gujarat State) on 5 Feb. 1989. Under the guidance of Shri. V. L. Kavthekar. Middle class marathi people established this society. It is still functioning. But the co-operative credit societies got legal status only in 1904, when the Government of India passed the first ‘Co-operative Credit Societies Act 1904.’ With a view to encourage thrift, eradicate rural indebtedness and provide credit to the needy and weaker sections of the society in rural areas. This Act has widened the scope of co-operative in India.

The urban co-operative credit movement in India started with chief object of catering to the banking and credit requirements of the urban middle classes. Thus the people found out the modest means to get away from the clutches of the moneylenders. The movement initially was also expecting to inculcate the habit of thrift and saving amongst them. The enactment of co-operative credit societies Act, 1904 conferred legal status on credit societies and the first urban co-operative credit society was registered in 1904, at Congeevaram in Madras province, subsequently, the Betegri Co-operative Credit society in Dharwar district in the undivided Bombay province (now in north Karnataka) and the Bangalore city the co-operative credit societies, in the erstwhile Mysore state were registered in October 1905 and December 1905 respectively.

Objectives of the Study:

The study sets the following objectives.

1. To study the origin of Urban Co-operative Banks.
2. To examine the barriers to the progress of the urban co-operative banks.
3. To study the problems of urban co-operative banks.
4. To study the future of urban co-operative banks.

Research Methodology:

The present study is totally based on the secondary data and literature. The secondary data is playing the major role in the present study. The secondary data collected from various reference books, magazines, recently published journals, newspapers, RBI reports, Souvenir, Internet, etc. the scope of study is also limited to a urban co-operative banks.

Problems of Urban Co-operative Banks:

In Maharashtra state some scandals have been taken place in co-operative banks particularly, some UCBs have lost the faith of public to a great extent. Some urban co-operative bank closed its business due to fear of sickness. This has affected to other urban co-operative banks adversely and it becomes weak bank because of deposits in those banks which were closed their business. The RBI imposed some restriction on UCBs and made some regulation regarding UCBs. The measures such as imposition of prudential norms, strengthening of finance, liberalization of interest rate and new competition environment has brought about a significant change in bank attitude toward profitability, risk and overall performance. Because of the changing competition environment, the importance of improved efficiency has assumed a critical significance of the survival and sustained viability of UCBs. In this changed global banking scenario, to get the competitive edge, UCBs must have to work hard to improve their efficiency at the all level of banking operations. It plays a dominant role in the financial market in India. It make easy to mobilize the money in Indian money market. But some of the fundamental problems faced by the urban co-operative banks.

Urban co-operative banks are registered under the state co-operative societies Act. Their functions and powers are detailed in their by-laws, rules and also legislative enactments. The function on the lines of democratic management which a Board of Directors elected by the general body, which is the supreme authority. UCBs were set up with the objective of promoting saving habits amongst the middle-

income group of the urban population. Large number of UCBs has shown creditable performance but fair number of UCBs have simultaneously shown discernible signs of weakness too because of the problems they could not overcome some important factors, which are barriers to the progress of the UCBs are given below :

1. Dual Control:

A major problem faced by UCBs is the duality of control by the State Government and the RBI. The UCBs are supervised by RBI and also issued for license while regarding administrations like, registration, administration constitution and administration and selection etc. This had negative impact on the functioning of the UCBs. Duality in command hampers effective supervision. The Narsimhan committee suggests removing dual control system which is affected to UCBs High power Committee also.

2. Restrictions on opening New Banks and Branches:

RBI imposes many restrictions on the opening of new banks and the branches. The banks are not allowed to open their offices, even though they fulfill all the conditions laid down by the RBI. Recently, the required populations of the urban centre and the required share capital for the restriction have been increased. Therefore, such conditions are being fulfilled only in big cities and hence the semi urban towns cannot open the new banks. Whenever the urban banks approach by licenses for opening new branches, they have to satisfy two authorities, namely, RBI and Registrar of co-operative societies in the state. They do not co-ordinate and work in union, with the result that the urban banks find it extremely difficult to get licenses.

Urban co-operative bank which has received license to conduct the banking business can apply for branch license. Any bank which is not weak / sick can apply for allotment of centers under Annual Action Plan. The Annual Action Plan should be for a period of 12 months beginning from 1st April of the year.

3. Limited Area of Operations:

The UCBs have to function within restricted framework in the context of mobilization of deposits. The need for heavy industrial advances and trade finance for industrial units as well as for commercial enterprises is here but the UCBs are not able to meet with it is they have to serve as per the RBI directives. But to survive in the competitive world the UCBs should enhance their area of operation and start providing loans as per local needs.

4. Problems in Priority Sector Advances:

RBI stipulates that 60 per cent of the credit of urban co-operative banks must flow to priority sector out of which 25 per cent should be for weaker sections. The urban co-operative banks do not deny their social obligations but the fact remains that for want of sufficient number of eligible borrowers to fulfill the target of weaker section advances, these banks find it difficult to adhere to these stipulations.

Urban co-operative banks are urban based and in towns and metropolitan cities, it is hard to fulfill the criteria of eligibility stipulated for weaker section advances and other priority sector advances. As a solution the urban co-operative banks have been consistently pleading for reducing the percentage to 40 at per with

commercial banks. The urban co-operative banks are insisting on a realistic allocation for priority sector advances, i.e. 50 per cent in the semi urban area and 45 per cent in urban area and 40 per cent in metropolitan areas. The urban co-operative banks are hesitating to finance for small industries which come under the priority sector; due to the sickness of small industries and low rate of profit.

5. Problems of Controversy on Open Membership:

There seems to be controversy over the principle of 'Open Membership' in respect of urban co-operative banks. Some banks have already become too large in respect of membership and they feel that any further addition of members would make them unmanageable. This problem was discussed by the study group on credit co-operatives in non-agricultural sector and the following recommendations were made by the study group. "Generally, membership of urban co-operative banks should be open to all persons competent to contract and residing in the area of operation." But this provision has also caused a problem to many banks as the area of operation of some banks is wide and hence a person willing to be a member cannot be admitted as a member. This problem can be solved by allowing such new persons to be the nominal members, and they may be provided credit facilities except voting power.

6. Violation of Prudential Financial Norms:

It is found that many UCBs Violate norms governing advances. Top officials of the banks receive loans without documents. The failure of Pratibha Mahila Sahakari Bank, Jalgaon, Indira Sahakari Bank, Dhule, Visangar Co-operative Bank (Mehsana) and Madhavpura Mercantile Co-operative Bank (Ahmadabad) are the example of violation of prudential norms. The UCBs must adopt a system of internal audit and inspection of branches and department, the RBI should follow strict supervision and to stop such malpractices.

7. Problems of Housing Finance:

Members of urban co-operative banks largely depend on the banks finances for acquiring their own houses. The urban co-operative banks have been doing a lot for housing finance in cities and semi urban places. However the present limit of finance per individual for lower and middle income groups is held up to Rs. 100000. This amount is inadequate in view of the high value of accommodation and cost of material. Another practical problem is that the banks did not have the experts in this respect. If the National Housing Bank implements its refinance facilities through the urban co-operative banks, then only the loans for housing through urban co-operative banks will be sufficient and effective.

8. Poor Management:

The necessity of the financial institution has a good corporate financial management and articles. The Madhavrav committee insisted to appoint two directors who are professional or experience persons. But in UCBs directors are politician or illiterate. Due to this reasons management of the UCBs are poor. The RBI advice to directors about it by letter dated 05-04-2002

9. Poor Quality Services:

The services of the UCBs are not significant enough in terms of quality and have failed to attract deposits from individuals and institutions other than the co-operative sectors. Hence they should try to improve the quality of services by providing required facilities like waiting space; customer information counter, complain box, banking information chart, easy accessibility to higher officials at the banking premises etc. At the same time they should maintain good customer relations and keep positive attitude towards customer. Besides this; they should start providing door to door services.

10. Lack of Modernization:

In today's world of technological advancement, still manual form of work followed in some of the UCBs which cause delay and increase operational cost. Most of the UCBs failed to provide service through use of modern technology except some UCBs. It has become inevitable now on part of the UCBs to have computerized system of banking and adopt latest banking technique like ATM, Credit Card, Internet Banking, Branch Banking, Tele Banking etc.

11. Increasing Overdues:

The UCBs suffer from dangerously. Low or weak quality of loans assets and highly unsatisfactory recovery of loans, which enhance the proportion of overdue. Due to this situation, UCBs must have to develop a separate recovery department for quick recoveries.

12. Political Interference:

Political interference in affairs of the UCBs leads to faulty lending and poor recovery. It compels, to pressure on the banks to provide loan to parties whose repaying capacity is doubtful. Visanagar co-operative bank is an example of this situation. Though banks take to legal action against the defaulter it often interferes by putting an end or postponing such an action. Hence political interferes is damage to UCBs administration.

13. Staff Problems and Prospects:

The UCBs have not trained and professional staff. The UCBs do not select staff on professional basis. External pressures are a cause of untrained and low standard staff which directly affect on quality work. At least appointment of chief executive officer (like Manager or Managing director) should be made on professional lines and provide training to untrained or fresh staff members or employees.

14. Burden of Election Expenses:

Conducting elections of representatives to the boards is an expensive exercise in the urban co-operative banks. For example, in Maharashtra, the elections for urban co-operative banks need to be conducted through the District Collector, which increases the cost of election. Added to this, in certain urban co-operative banks, tendencies of groupism in elections are causing damage to the spirit of objectives of co-operation. There are several court cases which increases financial burden to the

banks. The elections in these banks have to be examined critically to find solutions so as to economize the election expenses.

15. Irregular Statutory Audit:

Timely statutory audit in urban co-operative banks is very crucial for their efficient management. But it was found that about 50 per cent of the banks statutory audit was not completed in time, as a result of which the banks were failing in complying with the statutory requirements in submission of audited balance sheet and profit and loss accounts to RBI; this is a serious lapse. The experience in this respect requires to be reviewed and the present audit arrangements modified. The system of statutory audit in commercial banks should be studied and adopted by the urban co-operative banks also. This will help to improve the operational efficiency.

16. Problems in Multiple borrowings:

One of the major problems faced by the urban co-operative banks is multiple borrowings. Since a number of co-operatives have a vested interest in counting to be a member of more than one bank, may not always be for borrowing from them, but for some other considerations. Principally speaking, no person should be a member of more than one co-operative society, having identical objectives. Multiple membership gives room for doubting his bonafied intention. In such circumstances a member can borrow from more than one bank. This would naturally result in his inability to repay the dues in time. There are a number of such examples where people borrow from more than one bank simultaneously without disclosing this fact to other banks. This happens in towns and cities, where there are a number of banks whose membership is so large that it is difficult for the banks to find out the information of the borrowers. This happens because of the human nature to go on borrowing without caring for one's repaying capacity or lack of planning of their own economic activities. A remedy on this situation is a co-operation among the various co-operative banks to make the information of borrowers available to one another through a suitable institutional arrangement and media. The Association of urban co-operative banks can help the banks in this connection.

17. Other Problems:

There are several other problems also. Some Other Problems of UCBs are as under:

- I) Low capital adequacy ratio etc.
- II) Lack of transparency in financial statement.
- III) The Balance sheets of most of UCBs are not finalized in time due to non-completion of audit purpose.
- IV) Lack of planning and co-operation.
- V) Lack of standardization in data reported by ratio etc.

Future of the Urban Co-operative Banks :

Looking at the progress of the urban co-operative banks it can be said that they have expended by leaps and bounds and increased their business over the last few decades. The future of urban co-operative banks is much better due to their numerous distinctive such as-

- 1) Close familiarity with the members.
- 2) Local feel.
- 3) Democratic management.
- 4) Personalized service.
- 5) Compactness in the area of operation.
- 6) Close supervision over the end use of credit.
- 7) Prompt recovery of dues from member borrowers.

But both the RBI and the UCBs should try to maintain this distinctive identify of the UCBs and take care to waive scandals or scams. In order to achieve this goal, the RBI should take measures to strengthen the regulatory frame work for the co-operative sector, lay down clear cut guidelines for their management structure and should enforce further prudential standards in respect of access to uncottateralized funds and lending against volatile assets. Simultaneously, the UCBs should try to complete with private financial institutions, and commercial banks within their limits.

During the last five decades, not only the growth of the UCBs has been phenomenal, but performances of some UCBs have also been remarkable. Though the progress achieved in some fields of the economy by the UCBs is appreciable, whole picture of the progress presented by them is not as per our expectations. Now-a-days question in respect of relevance of UCBs is raised often. Answer of this question can be given by removing defects, difficulties and problems from the UCBs. What are these? These are as under:

- 1) Lack of implementation of one important program of 'Co-operative Education' and training properly.
- 2) Absence of good management, good control, good leadership and sufficient dedicated officers in the UCBs.
- 3) Undue interference of politicians and Governments officers in the working of UCBs.
- 4) Entrance of selfish and corrupt elements in the some UCBs.
- 5) No timely action against corrupt persons working in the co-operative sector.

In fact proper attention, leaving exceptions is not being paid to solve the problems and difficulties of the UCBs, and remove defects came in them resulting constraints in their progress and question mark on its relevancy. Co-operation is not only a way for prosperity but philosophy also. If a UCBs secure success, is not only fulfills its objects for which it was organized but at the same time it creates some qualities such as mutual co-operation, activeness, honesty etc. in its members. Their main inclination should be towards customer's satisfaction.

Conclusion:

In short, the UCBs must come in to their own to take the future head on. Its time for them to think strategically and focus on the opportunities in terms of market, products and customers. It requires a vision about which their future customers are going to be what they will need, who their competitors will be and what their disadvantages mean for the UCBs etc. They should be ready to make changes in their policy as per the demands and competition. They should consider diversification of business product and must upgrade their skills and technology to provide efficient and affordable services. At evolve a systematic approach towards human resource development in many areas like manpower planning, recruitment, placement and

leadership development for motivating staff and increasing productivity. They should focus on the opportunities in terms of market, products and customers.

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