



Development of Cooperative Banking in India

KEYWORDS

Bank's Performance, Cooperative Banks, Lending Practices, Loan, Revival of Rural Co-operatives

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ABSTRACT Co-operatives account for a relatively small share in the bank-dominated Indian financial system; however, given their geographic and demographic outreach, they hold a key position in the system. In rural areas, as far as agricultural and related activities were concerned, the cooperative banks have provided adequate short-term and long-term institutional credit at reasonable rates of interest. Co-operative banks were made an integral part of the institutional framework of community development and extension services which were assigned the important role of delivering the fruits of economic planning at the grass-root level. In this context, the present study attempted to review the functioning of Development of Cooperative banking in India. The specific objective of the study was to analyse the performance of urban cooperative bank. The study has analysed the functioning of the bank with regard to deposit mobilisation, issue of loans and advances, recovery of loans, regarding the working performance of the Bank. The data required for this study were collected through secondary sources.

Introduction

Co-operatives account for a relatively small share in the bank-dominated Indian financial system; however, given their geographic and demographic outreach, they hold a key position in the system. Geographically, co-operatives have been instrumental in extending formal financial services to villages and small towns in India. Demographically, these institutions have enabled access to financial services to low and middle-income groups in both rural and urban areas.

Notwithstanding their role in enhancing the inclusiveness of the financial system, these institutions have been marred by weak financial health, partly on account of operational and governance-related concerns. Hence, there has been an ongoing effort to revitalize these institutions by means of various development and regulatory initiatives. In the case of urban co-operatives, the Reserve Bank has moved towards a more unified regulatory framework consequent to its Vision Document of 2005 aimed at creating a consolidated and stronger urban co-operative banking sector. As regards the short-term arm of rural co-operatives, the application of prudential regulations followed by recapitalization has paved the way towards improving the financial health of these institutions. Apart from these ongoing initiatives, several new policy measures have been introduced with regard to the co-operative sector in 2011-12.

Objectives of the study

- 1. To analyse the performance of urban cooperative bank.
- 2. To review the performance of various tiers of the short-term and long-term rural co-operative credit structure.
- 3. To study the Progress relating to Revival of Rural Co-operatives.

Data collections

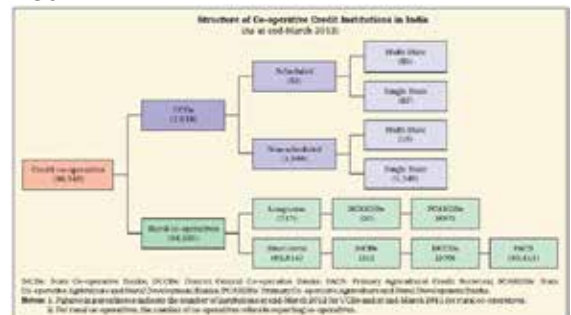
The analysis will be done with the help of secondary data. The data collected mainly websites, annual reports, research reports, Already conducted survey analysis.

Structure of Co-operative credit Institutions in India

In light of these policy initiatives, this analyses the performance of co-operatives in 2011-12, drawing time-series as well as cross-sectional comparisons with other segments of the financial system, where necessary. The analysis covered in this chapter broadly pertains to 1,618 urban co-operative

Banks (UCBs) and 94,531 rural co-operatives, including short-term and long-term co-operatives.

FIGURE - 1



As regards rural co-operatives, State Co-operative Banks and District Central Co-operative Banks showed some signs of improvement in profitability and asset quality in 2010-11, partly attributable to the prudential regulatory reforms and implementation of the revival package for the short-term rural co-operative sector.

1. Urban cooperative bank

The term Urban Co-operative Banks, though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably. From its origins then to today, the thrust of UCBs, historically, has been to mobilise savings from the middle and low income urban groups and purvey credit to their members - many of which belonged to weaker sections.

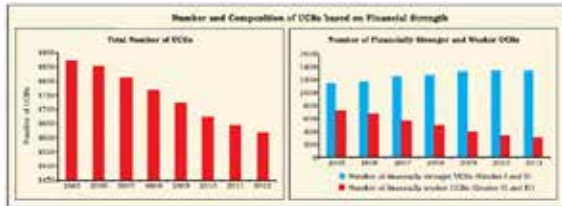
Emergence of a stronger UCB sector through consolidation

The Urban Co-operative Bank sector has emerged financially stronger since 2005, when the Reserve Bank conceived a Vision Document for the revival of this sector. Through the Document, the Reserve Bank laid down a multilayered regulatory and supervisory approach aimed at the merger/amalgamation of viable UCBs and the exit of unviable UCBs. On

account of this process of consolidation, there has been a continued reduction in the number of UCBs.

Further, there was a steady rise in the number of financially stronger UCBs and a decline in the number of financially weaker UCBs between 2005 and 2011. In the total number of mergers that took place until end-March 2012 since 2005, Maharashtra had a share of about 61 per cent, followed by Gujarat with a share of 19 per cent and Andhra Pradesh with a share of 8 per cent.

CHART-1



A new CAMELS rating method for judging the financial strength of UCBs

UCBs were earlier classified into various grades based on their financial health for regulatory and supervisory purposes. However, with the introduction of the CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and systems & control) rating model, this classification was discontinued and a newer dimension was introduced to judge the financial strength of UCBs, namely, the credit rating of these institutions.

As per this new classification, at end-March 2012 about 61 per cent of the UCBs had composite ratings of A and B, accounting for about 78 per cent of the total banking business (represented by deposits plus credit) of the UCB sector. Further, 32 per cent of the UCBs had a composite rating of C; these UCBs accounted for about 18 per cent of the banking business of the UCB sector. Only about 7 per cent of the UCBs had the lowest rating of D, representing the weakest financial health.

TABLE-1
(Amount in ` billion)

Rating	Number of UCBs	Percentage to total number	Deposits	Percentage to total deposits	Advances	Percentage to total advances
1	2	3	4	5	6	7
A+	5	0.3	36	1.5	27	1.7
A	46	2.8	366	15.3	251	15.9

TABLE-3

Deposits (billion)	Number of UCBs		Amount of Deposits		Advances (billion)	Number of UCBs		Amount of Advances	
	No.	% share	Amt	% share		No.	% share	Amt.	% share
1	2	3	4	5	6	7	8	9	10
0 - 0.10	258	15.9	17	0.7	0 - 0.10	459	28.4	29	1.8
0.10 - 0.25	392	24.2	72	3.0	0.10 - 0.25	450	27.8	75	4.8
0.25 - 0.50	324	20.0	122	5.1	0.25 - 0.50	256	15.8	93	5.9
0.50 - 1.0	300	18.5	321	13.5	0.50 - 1.0	199	12.3	146	9.2
1.0 - 2.5	205	12.7	314	13.2	1.0 - 2.5	149	9.2	256	16.2
2.5 - 5.0	60	3.7	194	8.1	2.5 - 5.0	50	3.1	177	11.2
5.0 - 10.0	40	2.5	264	11.1	5.0 - 10.0	34	2.1	227	14.4
10.0 and above	39	2.4	1,081	45.3	10.0 and above	20	1.2	577	36.5
Total	1,618	100.0	2,385	100.0	Total	1,618	100.0	1,580	100.0

A-	140	8.7	388	16.3	263	16.6
B+	296	18.3	491	20.6	332	21.0
B	353	21.8	432	18.1	284	18.0
B-	141	8.7	148	6.2	93	5.9
C+	318	19.7	303	12.7	193	12.2
C	145	9.0	79	3.3	49	3.1
C-	59	3.6	52	2.2	32	2.0
D	115	7.1	91	3.8	56	3.6
Total	1,618	100.0	2,385	100.0	1,580	100.0

Note: Data are provisional.

Rapid growth of Tier II UCBs in 2011-12 indicates an expansion of the UCB sector

Following the Vision Document of 2005, UCBs were classified into Tier I and Tier II categories based on their deposit base, and a differentiated regulatory treatment was laid down for these two categories. In recent years, Tier II banks, which have a larger deposit base and wider geographical presence, have grown in terms of both number and asset size.

TABLE-2
(Amount in ` billion)

Tier Type	No. of banks		Deposits		Advances		Assets	
	Number	% to Total	Amount	% to Total	Amount	% to Total	Amount	% to Total
1	2	3	4	5	6	7	8	9
Tier I UCBs	1,234	76.3	410	17.2	260	16.5	527	17.4
Tier II UCBs	384	23.7	1,975	82.8	1,320	83.5	2,506	82.6
All UCBs	1,618	100.0	2,385	100.0	1,580	100.0	3,033	100.0

Note: Data are provisional.

Asset concentration within the UCB sector rose in 2011-12

Over the years, partly as a fall-out of consolidation, there has been an increase in asset concentration within the UCB sector. The number of UCBs with an asset size of more than 10 billion quadrupled between 2008 and 2012. Notably, the percentage share of such UCBs in the total assets of the UCB sector increased from about 37 per cent to 48 per cent during this period.

At end-March 2012, UCBs with a deposit base of over 10 billion accounted for 45 per cent of total deposits. Further, UCBs with a credit size of over 10 billion accounted for about 37 per cent of total advances of the UCB sector.

2. Rural Co-operatives

Revival in profitability of short-term co-operatives as against long-term co-operatives

The profitability of short-term credit co-operatives, at the aggregate level, has shown a distinct revival since 2008-09. This is in contrast with the earlier years, when there was a continued increase in the losses reported by these co-operatives. The improvement in the profitability of short-term credit co-operatives could be partly attributed to the reforms implemented across several States as part of the revival package for these institutions. On the other hand, long-term credit co-operatives showed a continued deterioration in profitability with absolutely no signs of revival.

TABLE 4
(Amount in ` billion)

Table 4: A Profile of Rural Co-operatives						
(As at end-March 2011)						
Item	Short-term			Long-term		
	StCBs	DCCBs	PACS	SCARDBs	PCARDBs	
1	2	3	4	5	6	
A. Number of Co-operatives	31	370	93,413	20	697	
B. Balance Sheet Indicators						
i. Owned Funds (Capital + Reserves)	112	242	145	45	49	
ii. Deposits	783	1,651	372	10	5	
iii. Borrowings	319	424	540	162	128	
iv. Loans and Advances	640	1,308	878	178	116	
v. Total Liabilities/Assets	1,302	2,541	1,442+	285	252	
C. Financial Performance						
i. Institutions in Profit						
a. Number	30	318	44,554	9	329	
b. Amount of Profit	5.2	14	18	1	2	
ii. Institutions in Loss						
a. Number	1	52	38,065	10	368	
b. Amount of Loss	0.6	5	20	4	4	
iii. Overall Profit (+)/Loss (-)	4.6	9	-2	-3	-2	
D. Non-performing Assets						
i. Amount	57	153	227++	61	48	
ii. As percentage of Loans Outstanding	8.9	11.6	25.2	34.3	41.7	
E. Recovery of Loans to Demand Ratio (Per cent)	91.8	78.8	-	40.0	39.4	

StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.
-: Not available. +: Working capital. ++: Total overdues.
Note: Manipur SCARDB is defunct.
Source: NABARD and NAFSCOB.

Short-term co-operatives dominate rural co-operative credit structure

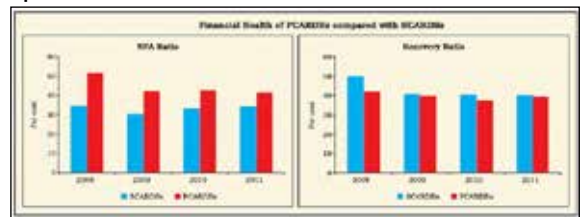
Over the years, there has been a growing dominance of short-term credit co-operatives in the rural co-operative credit structure. Concomitantly, the share of long-term credit co-operatives has been on a steady decline.

3. Progress relating to Revival of Rural Co-operatives

Considerable progress has been made in reviving the short-term co-operative credit structure

A major development in the area of rural co-operatives has been their revival through a practical plan of action that follows the recommendations of the Task Force on Revival of Co-operative Credit Institutions in 2004. The plan of action was finalised by the Government of India in consultation with the State Governments. The package broadly aimed at providing financial assistance to co-operatives and introducing legal and institutional reforms in these institutions.

Chart-2: Reforms for the Revival of Short-term Rural Co-operatives



The major components of the plan of action include providing recapitalisation assistance to rural co-operatives to bring them to an acceptable level of health. Further, it aims to introduce certain legal and institutional reforms in these institutions to ensure the democratic, self-reliant and efficient functioning of these institutions.

Recapitalisation assistance

An amount of `98.5 billion (including `90 billion as the Central Government's share and `8.5 billion as the State Government's share) was released up to March 31, 2012 to recapitalise 54,728 short-term co-operatives (54,715 PACS and 13 DCCBs) in 17 States to wipe out the accumulated losses prevailing as at end-March 2004 and to enable them to reach a minimum CRAR of 7 per cent by end-March 2004.

Legislative reforms

At end-March 2012, 21 States had amended their respective State co-operative societies' acts. The legislative reforms aimed at providing full functional autonomy to co-operatives including: (a) ensuring full voting membership rights to all users of financial services, including depositors; (b) removing state intervention in administrative and financial matters in co-operatives; (c) ensuring timely elections before the expiry of the term of the existing Boards; and (d) limiting the powers of the State Government to supersede elected boards.

Training reforms

NABARD has designed nine training modules for capacity building of functionaries of co-operatives besides Board of Directors and Chief Executive Officers. The programmes are being conducted by the training establishments of NABARD, along with the training partners of the States and the National Council of Co-operative Training (NCCT).

Corporate Governance reforms

The Reserve Bank has prescribed 'Fit and Proper' criteria for the appointment of Chief Executive Officers and professional Directors in StCBs and DCCBs. Following these prescriptions, all co-operative banks have been implementing these criteria.

Revival package for long-term co-operative credit struc-

ture is awaited

As in the case of short-term co-operative structure, the Task Force on Revival of Rural co-operative Credit Institutions was constituted by the Government of India in 2005 (Chairman: Prof. A. Vaidyanathan) to suggest an implementable action plan for reforming long-term co-operatives. The Central Government discussed the recommendations of the Task Force with the State Governments in October 2007, January 2008 and February 2008 in three specially convened meetings.

Subsequent to the implementation of the Agricultural Debt Waiver and Debt Relief Scheme and feedback received from the State Governments, the Central Government revised the reform package for long-term co-operatives. However, before announcing the package, the Central Government decided to relook at the viability and relevance of a separate package for long-term co-operatives in the backdrop of: (i) the implementation of a package for short-term co-operatives and (ii) the aggressive branch and business expansion by commercial banks and Regional Rural Banks in rural areas in recent years, as a consequence of the policy of financial inclusion.

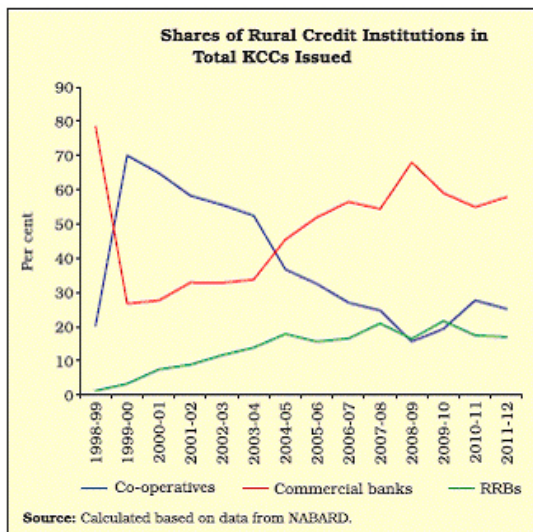
4. Progress relating to Rural Credit Measures that have Specific Implications for Co-operatives Kisan Credit Card

The Kisan Credit Card (KCC) scheme is being implemented through co-operatives, SCBs and RRBs to provide easy access to adequate, timely and cost-effective credit for farmers.

Commercial banks leading in KCC distribution

Commercial banks were leading in the distribution of KCCs, accounting for 58 per cent of the total cards issued at end-March 2012. Co-operatives had a share of about 25 per cent in the total cards issued, with RRBs accounting for the remaining 17 per cent.

Chart - 3



Since the inception of the KCC scheme in 1998-99, the shares of commercial banks and RRBs have witnessed a sharp increase in the total number of cards issued, while the share of co-operatives has slowed. Although there has been a turnaround in the share of co-operatives since 2008-09, commercial banks have continued to be the most important means of KCC distribution in the country.

5. Overall Assessment

A more profitable, sound and growing UCB sector, but with concerns relating to capital adequacy

The sector, as a whole, has posted double-digit growth in assets along with an improvement in profitability and asset quality in 2011-12, as in the recent past. As a fall-out of consolidation, there has been growth in stronger entities and the exit of weaker entities from this sector.

Financially weak short-term rural co-operative sector, with some signs of revival at the apex levels

Within rural co-operatives, short-term rural co-operatives at the apex levels showed some signs of revival in terms of profitability and asset quality in 2010-11, as in the recent past, which could be partly attributed to ongoing reforms in this sector.

Financial health of long-term rural co-operative sector continues to be fragile

Contrast to short-term rural co-operatives, long-term rural co-operatives continued to post losses and also exhibited weak asset quality in 2010-11, as in the past. The growth in the asset size of both State and Primary co-operative Agriculture and Rural Development Banks remained much lower than their short-term counterparts in 2010-11, as in the recent past. This led to a gradual decline in the share of long-term co-operatives in the total assets of the rural co-operative sector.

CONCLUSION

In sum, reforms pertaining to the urban co-operative and short-term rural co-operative sectors seem to have set in motion a process of revival in these sectors. As regards the urban co-operative sector, the improvement in financial performance and health is better established by now; for the short-term rural co-operative sector, the revival is more fragile and yet to spread across all regions in the country and all tiers of the sector. In the coming years, it needs to be seen whether the revival is sustained and broad-based. Further, it is imperative to pave the way for a revival of the long-term rural co-operative sector given the vital role played by these institutions in stepping up capital formation in Indian agriculture.

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