



## ***Growth and Financial Performance of Urban Cooperative Banks in India***

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**ABSTRACT**

Urban cooperative banks play an important role in meeting the growing credit needs of urban and semi-urban areas of the country. They have traditionally concentrated on retail services, providing savings products and credit to consumers, retail traders, professionals, self employed and small and medium sized enterprises. The most significant development related to UCBs was the extension of certain provision provisions of banking Regulations Act, 1949 to the cooperative societies in 1966 after that which the cooperative banks also got the benefit of deposit insurance schemes. The objectives of this paper are to access the growth and structure of cooperative credit societies in India and to study the financial and identify overall performance of UCBs in India. The study is based on Secondary data. Urban cooperative bank are an important role for the governments of inclusive growth and has come to occupy a formidable place in the Indian financial system.

### **KEYWORDS**

#### **Introduction:**

Cooperative movement in India basically aims at bringing about important in the socio-economic states of its members and their families and the community as a whole. The success of cooperatives primarily depends on universal and active membership covering all segment of population. The cooperative credit structure in India can broadly be divided in to two segments viz rural and urban. While the rural areas of the country are served by the rural cooperatives, the urban and semi urban areas are served by urban cooperative banks. Urban cooperative banks are responsible for delivery of non-agricultural credit.

Although joint stock banks operated in urban and semi-urban areas, they were not keen to cater to the banking and credit requirements of the urban middle/lower class comprising small traders/businessmen, artisans, factory workers, salaried and other persons with limited incomes. The inability of these banks to appreciate and fulfill the needs of this class of clientele effectively drove the people to money lenders and similar agencies for loans at exorbitant rates of interest and was the prime reason for the non- agricultural credit cooperatives coming in to existence in India. The main objectives of such cooperatives were to meet the banking and credit requirements of that section of the people who were excluded from banking facilities and to protect them from exploitation. Thus, emergence of urban cooperative banks was a result of local response to an enabling legislative environment, unlike rural cooperative movement that was largely state-driven.

Urban cooperative banks referred as primary cooperative banks in the banking Regulation Act, 1949 play an important role in meeting the growing credit needs of urban and semi-urban areas of the country. They have traditionally concentrated on retail services, providing savings products and credit to consumers, retail traders, professionals, self employed and small and medium sized enterprises. The UCBs are financial cooperatives, akin to credit unions found abroad, but as they hold a banking license they can accept deposits from non members and are a part of the payment system. The most significant development related to UCBs was the extension of certain provision provisions of banking Regulations Act, 1949 to the cooperative societies in 1966 after that which the cooperative banks also got the benefit of deposit insurance schemes.

#### **Objectives of the study:**

The objectives of this paper are to access the growth and structure of cooperative credit societies in India. To study the financial and identify overall performance of UCBs in India. These study efforts are also taken to identify the prospects and constraints of UCBs and also to forward some suggestions in this regard. Specifically, the objectives are as follows:

1. To study the growth and status of o UCBs f India and Karnataka.
2. To study the Investments by UCBs in India.
3. To study the Financial Performance of Scheduled and Non Scheduled UCBs.
4. To study the credit to Priority Sectors by Urban Cooperative Banks.

#### **Materials and Methods:**

The present study is based on the secondary data. The necessary data has been collected from various reference book, published journals, NCUI reports and RBI reports. The required data for the study purpose were collected from the number of reference books, Journals and Internet. The study covers 10 years from 2004 to 2013. It is mainly based on relevant literature available on the subject.

#### **Origin of the Urban Cooperative Bank:**

The origins of the urban cooperative banking movement in India can be traced to the end of nineteenth century when, inspired by the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany such societies were set up in India. Co-operative societies are based on the principles of cooperation. UCBs came to be seen as important players in this context. The Working Group on Industrial Financing through Co-operative Banks, attempted to broaden the scope of activities of urban co-operative banks by recommending that these banks should finance the small and cottage industries.

The first society in India was probably the 'Anyonya Sahakari Mandali' organised in the erstwhile princely State of Baroda in 1889 under the guidance of Vithal Laxman also known as Bhausahab Kavthekar. The enactment of Cooperative Credit Societies Act, 1904, however, gave the real impetus to the movement. The first urban cooperative credit society was registered in Canjeevaram (Kanjivaram) in the erstwhile Madras

province in October, 1904. Amongst the prominent credit societies were the Pioneer Urban in Bombay (November 11, 1905), the No.1 Military Accounts Mutual Help Co-operative Credit Society in Poona (January 9, 1906). Cosmos in Poona (January 18, 1906), Gokak Urban (February 15, 1906) and Belgaum Pioneer (February 23, 1906) in the Belgaum district, the Kanakavli-Math Co-operative Credit Society and the Varavade Weavers' Urban Credit Society (March 13, 1906) in the South Ratnagiri (now Sindhudurg) district. The most prominent amongst the early credit societies was the Bombay Urban Co-operative Credit Society, sponsored by Vithaldas Thackersey and Lallubhai Samaldas established on January 23, 1906.

There was the general realization that urban banks have an important role to play in economic construction. This was asserted by a host of committees. The Indian Central Banking Enquiry Committee (1931) felt that urban banks have a duty to help the small business and middle class people. The Mehta-Bhansali Committee (1939) recommended that those societies which had fulfilled the criteria of banking should be allowed to work as banks and recommended an Association for these banks. The Co-operative Planning Committee (1946) went on record to say that urban banks have been the best agencies for small people in whom Joint stock banks are not generally interested. The Rural Banking Enquiry Committee (1950), impressed by the low cost of establishment and operations recommended the establishment of such banks even in places smaller than taluk & town.

The first study of Urban Co-operative Banks was taken up by RBI in the year 1958-59. The Report published in 1961 acknowledged the widespread and financially sound framework of urban co-operative banks; emphasized the need to establish primary urban cooperative banks in new centers and suggested that State Governments lend active support to their development. In 1963, Varda Committee recommended that such banks should be organized at all Urban Centre's with a population of one lakhs 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. While the Marathe Committee (1992) redefined the viability norms and ushered in the era of liberalization, the Madhava Rao Committee (1999) focused on consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks. While most banks are unit banks without any branch network, some of the large banks have established their presence in many states when at their behest multi-state banking was allowed in 1985. Some of these banks are also Authorized Dealers in Foreign Exchange.

**Table – 1: Growth of UCBs in India (Amount in Crore)**

Years	No of UCBs	Deposits	Advance
2004	1926	110256	67930
2005	1872	105021	66874
2006	1853	114060	71641
2007	1813	121391	79733
2008	1770	138496	88981
2009	1721	158733	97918
2010	1674	182862	110303
2011	1645	209949	135104
2012	1618	238600	158000
2013	1606	276900	181000
Total	17498	1656268	1057484
AVG	1749.80	165626.80	105748.40
SD	113.84	59727.95	39999.38
CV	6.51	36.06	37.83
CGR	-2.11	11.83	12.26

Source: Report on Trend and Progress of Banking in India, 2012-13.

The table -1 clearly shows that the number of UCBs during this period While reviewing the progress made by the urban

co operative banks during the last 10 years, it was observed that the performance has by large been satisfactory. Though there has been reduction in the number of UCBs from 2004 on words, the total business of UCBS has shown steady increase signifying that the banks have been able to garner more business. There are average 1749 numbers of society's registers during 2004-2013. The compound growth rate is -2.11 which indicates in the housing cooperatives numbers has decreased during the overall period. Further, the compound rate is 11.83 in deposits and 12.66 in Advances which indicates is deposits and advance has increased during 2004 to 2013.

### Investment

The following table depicts the investments by Urban Cooperative Banks in India.

**Table: 2. Investments by UCBs in India. (Amount in billions)**

Items	As at end march		Percentage variation	
	2012	2013	2012	2013
A. SLR Investment	815	971	3.8	19.1
A.	(92.6)	(90.0)		
Central government securities	565	628	10.1	11.2
1.	(64.2)	58.2)		
State government securities	108	138	16.1	27.8
	(12.3)	(12.8)		
Other approved securities	3	6	-40.0	100.0
	(0.3)	(0.6)		
Term deposit with StCBs	42	45	-20.8	07.1
	(4.8)	(4.2)		
Term deposits with DCCBs	76	89	-29.8	174
	(8.6)	(8.2)		
Other of any	20	64	42.9	220.0
	(2.3)	(5.9)		
B. Non-SLR Invests	66.0	109	00	65.2
	(7.2)	(10.1)		
Total Investment (A+B)	880	1079	35	22.6
	(100)	(100)		

Source: Report on Trend and Progress of Banking in India, 2012-13.

Table 3 shows that UCBs investment considered by SLR investment and Non-SLR Investment considered by the state and central government securities. Their funds in government securities, other approved securities, term Deposits in state cooperative banks and DCCBs. The central government securities are highest contribution in the year of 2012 64.2percent and 58.2percent in 2013. The state government securities is 12.3percent in 2012 and 12.6 in 2013. Other approved securities are very low in 2012 0.3percent to 0.6percent in year 2013 respectively the term deposit with STCBs contribute in investment was 4.8percent in 2012 and 4.2 percent in year 2013 and the term deposit with DCCBs contribution in investment was 8.6.percent in 2012 and 8.2 percent in 2013 respectively. Any other contribution is 2.3 to 5.9 percent in the year 2012and 2013.the non SLR investments 7.2 percent to 10.1 percent in 2012 and 2013.

### Financial Performance

The following table depicts the Financial Performance of Scheduled and Non Scheduled Urban Cooperative Banks in India.

**Table – 3: Financial Performance of Scheduled and Non Scheduled Urban Cooperative Bank (Amount in Billion)**

Item	Scheduled UCBs		Non-Scheduled UCBs		All UCBs		Percentage variation	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
<b>A. Total Income</b>	124	150	156	200	282	350	25.7	24.1
	(100)	(100)	(100)	(100)	(100)	(100)		
<b>Interest Income</b>	113	135	148	189	261	324	25.0	24.1
	(91.7)	(90.3)	(93.6)	(94.9)	(92.2)	(92.6)		
<b>Non-Interest Income</b>	10	15	10	11	20	26	35.7	30.0
	(8.3)	(9.7)	(6.4)	(5.6)	(7.2)	(7.4)		
<b>B. Total expenditure</b>	100	122	129	167	229	289	23.9	26.2
	(100)	(100)	(100)	(100)	(100)	(100)		
<b>Interest expenditure</b>	74	93	92	134	166	217	26.8	30.7
	(74.3)	(76.4)	(71.1)	(74.4)	(72.5)	(75.3)		
<b>Non-Interest expenditure of which Staff expenditure</b>	26	29	37	43	63	72	16.7	14.3
	(25.7)	(23.6)	(28.9)	(25.6)	(27.5)	(24.7)		
<b>C. Profits</b>	13	15	18	22	32	37	12.8	15.6
<b>Amount of operating profits</b>	24	28	29	33	52	62	34.3	19.2
<b>Provisions contingences takes</b>	9	15	11	12	20	27	17.2	35.0
<b>Amount of net profits</b>	15	13	18	22	32	35	47.6	9.4

Source: Report on Trend and Progress of Banking in India, 2012-13.

Table -3 shows that the total income, total expenditure and total profit of UCBs in the year of 2011-12 and 2012-13. The interest income of all the UCBs 92.2 percent in 2011-12, which is increased 92.6 percent in the 2012-13. Non-interest income is 7.2 percent to 7.4 percent in the study period the interest expenditure is increased 72.5 percent to 75.3 percent the non-interest expenditure has decreased 27.5 percent to 24.7 percent. Staff expenditure is increased. The amount of profit of all UCBs was increased 2011-12 to 2012-13.

### Priority Sectors

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections. In this context, the following table depicts the Credit to Priority Sectors by Urban Cooperative Banks

**Table: 4. Credit to Priority Sectors by Urban Cooperative Banks**

(As at March 2013) (Amount in Billion)

Sector	Priority sector credit		Weaker sector credit	
	Amount	percentage	Amount	percentage
Agriculture credit	68	7.96	23	10.0
Small enterprises	425	49.76	77	33.33
Micro credit	138	16.15	49	21.00
State sponsored for SC/ST	1	0.11	05	2.2
Educational loan	17	1.99	7	3.0
Housing loans	195	22.8	68	30.00
Loans to SHGs/JLR	10	1.17	2	1.0
All priority sectors / Weaker sector credit	854	100	231	100

Source: Report on Trend and Progress of Banking in India, 2012-13.

Table – 4 shows that UCBs have credit to Priority sector and weaker sector. The priority sector credit was Rs 854 billion and the weaker sector credit was Rs. 231 billion at the end of March 2013. The priority sector credit to large amount Rs. 425 billion (49.76%) to small enterpriser sector second priority to Housing sector it is of Rs. 195 billion (22.8%) for micro-finance it is Rs. 138 billion (16.15%) for the agriculture sector Rs. 68 billion (7.96%) for the education sector it is Rs. 17 billion (1.99%) for the SHGs it is Rs. 10 billion (1.17%) for the finance for SC/ST only Rs. 1 billion (0.11%).

### Conclusion:

Urban cooperative bank are an important role for the governments of inclusive growth and has come to occupy a formidable place in the Indian financial system. Despite six decades of independence about 480000 villages are yet to be provided with banking service. For their are 271 districts in the country where UCBs have no presence. The scope for financial inclusion and growth of UCBs largely depend on professionalization of management, adoption of good corporate governance practices, extent to which it is able to leverage technology, provide high quality customer service and reorient strategies wherever and wherever required in their efforts to attain a larger share in the growth of the banking system. It has been the endeavor of the Reserve Bank of India (RBI) to promote their healthy growth. However, the heterogeneous nature of the sector has called for a differentiated regime of regulation. In recent years therefore, the RBI has provided regulation support to small and weak UCBs, while at the same time strengthening their supervision.

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