ORIGINAL RESEARCH PAPER

CHALLENGES BEFORE URBAN COOPERATIVE BANKS IN INDIA

Economics

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ABSTRACT

The present study is an attempt to evaluate the current status of Urban Cooperative Banks in the Indian banking system. For this, secondary data is used. This study revealed that the UCBs are facing a number challenges. Over the years, urban cooperative banks have registered a significant growth in term of branches, district covered, ATMs installed and extension counters but profitability indicators of UCBs have deteriorated. All return on equity, return on assets and net interest margin have fallen. They have very less total market share. NPAs of the UCBs are increasing. The study suggests that in order to face the challenges, the urban cooperative banks may follow some of the suggestions like a good corporate governance, professional board of directors, regular meetings, trained and motivates staff, upgraded infrastructure, latest technology, better customer services in term of cost, quality and variety, fee based services, suitable risk and liquidity management skills, responsibilities and accountability, transparency, self regulation and self discipline etc.

INTRODUCTION

Banking system occupies an important place in a nation's economy. A banking institution is crucial in a modern society. It plays an essential role in the economic development of a country and form the core of the money market **(Sumathi and Thyagarajan, 2013)**. According to Section 5 (b) of RBI Act, 1949 "Banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise" **(Maheswari, 2004)**. Banking in India has its origin as early as Vedic period but modern banking system started by the east India Company **(Pathak, 2014)**. At present, the Indian banking system consists of 21 public sector banks, 21 private sector banks, 49 foreign banks, 56 regional rural banks, 1562 urban cooperative banks and 94384 rural cooperative banks in addition to cooperative credit institutions **(IBEF, 2018)**. Thus in the present paper an attempt has been made to study the current status of urban cooperative banks in the banking system.

OBJECTIVES OF THE STUDY

1. To study the current status of urban cooperative banks in the Indian banking system.
2. To know the challenges faced by the urban cooperative banks in the Indian economy.
3. To suggest the appropriate measures for the improvement of the UCBs.

METHODOLOGY

The present study is descriptive in nature; therefore, the data used for the study is secondary in nature. The data and information for the study has been collected from annual reports of RBI (websites of RBI), published articles, journals, newspapers, books etc.

RESULTS

The urban cooperative bank sector emerged financially stronger ever since RBI conceived a vision document for the sector in 2005. This sector witnessed a process of rehabilitation and consolidation with the signing of memorandum of understanding by RBI and central government and state governments and setting up of task force for urban cooperative banks. But despite all these initiative, these UCBs are facing some challenges **(RBI annual report, 2016-17)**.

Table-1, Progress in term of Number, Branches, Districts, ATMs and Extension Counters as on 2017

Information	2015	2016	2017
Number of Urban Cooperative Banks	1579	1574	1562
Number of Branches	9722	10091	10221
Districts covered	382	385	397
Total ATMs	2741	2961	3683
Number of Extension Counters	237	238	251

Source: RBI report on trend and progress of banking in India 2016-17

Table shows that there has been a continued reduction in the number of UCBs from 1579 in 2015 to 1562 as at the end of March, 2017 due to amalgamation and merger of UCBs. Out of 1562 UCBs, as many as 1502 have their area of operation within a single state. Only 60 UBs had presence in more than one state. Simultaneously, it also reveals that over the years, urban cooperative banks have registered a significant growth in term of branches, district covered, ATMs installed and extension counters.

Table-2, Market share of UCBs in banking Sector as on 2017

Urban Cooperative banks	Rural Cooperative Banks	Regional Rural Banks	Scheduled Commercial Banks
1562	403	56	103
Share in Total Deposits in percentage (%)			
4.0	3.4	2.6	90
Share in Total Advances in percentage (%)			
3.0	3.8	2.2	91.0

Source: RBI report on trend and progress of banking in India 2016-17

Urban cooperative banks are organised based on the principles of cooperation. They are perceived as banks for people of small means. They cater to the financial needs of local communities and serve the lower and middle strata of population in urban and semi-urban areas, within a limited geographical boundary. Because of this the market share of urban cooperative banks in term of total deposits and advances remained weak as compared to commercial banks. This reflects their financial performance and efficiency.

Table-3, Balance sheet of urban cooperative banks as on 2017

Financial Information	2015	2016	2017
Deposits	Rs. 355133 crores	Rs. 392200 Crores	Rs. 443470 Crores
Advances	Rs. 225000 Crores	Rs. 245000 Crores	Rs. 261230 Crores
Total Assest	Rs. 436000 Crores	Rs. 478400 Crores	Rs. 539910 Crores

Source: RBI report on trend and progress of banking in India 2016-17

The Balance sheet of urban cooperative banks expanded every year in term of total assets, deposits and advances but advances of UCBs witnessed less growth.

Table-4, Indicators of profitability of UCBs in percentage (%) as on March 2017

Indicator	Scheduled UCBs		Non-Scheduled UCBs		All UCBs	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17

Return on Assets	0.64	0.65	0.95	0.88	0.80	0.77
Return on Equity	8.13	8.29	10.43	9.70	9.42	9.09
Net Interest Margin	2.57	2.43	3.33	3.11	2.97	2.79

Source: RBI report on trend and progress of banking in India 2016-17

Profitability indicators of UCBs deteriorated in 2016-17. All return on equity, return on assets and net interest margin have fallen. No doubt, the balance sheet of UCBs had noted expansion in 2017 but expenditure growth remained higher than the growth in income in term of return on assets and equity **(RBI annual report, 2016-17)**.

Table-5, CAMELS-Rating-wise Distribution of UCBs as on March 2017 (Amount in Rs, Billion)

Rating	No. Of Banks	% share in Total	Deposits	% share in Total	Advances	% share in Total
A	397	25.4	1443	32.5	824	31.6
B	828	53.0	2356	53.1	1411	54.0
C	274	17.6	528	12.0	319	12.1
D	63	4.0	108	2.4	59	2.3
Total	1562	100	4435	100.0	2613	100

Source: RBI report on trend and progress of banking in India 2016-17

Camels rating model for assessing performance of UCBs was introduced in 2012 with some parameters like Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and System & Controls. Rating 'A' means bank is sound and no cause for supervisory concern. 397 UCBs are in this category. Rating 'B' states that functioning of the bank is sound with minimal supervisory concerns in the short term. Maximum UCBs (828) are in this rating noticed. Rating 'C' indicates that bank exhibits moderate to high degree of sickness warranting strong supervisory response for preventing the weakness from transferring into terminal sickness. Weak banks (274 UCBs) slot into this category. Lastly, 'D' rating depicts that bank with very high erosion beyond the tolerable limit, negative net worth with erosion sweeping into deposits etc, warranting regulatory intervention for closure if necessary. Chronically sick banks fall under this category. Only 63 UCBs are in this category **(RBI annual report, 2016-17)**.

Table-6, Distribution of UCBs by CRAR as on March 2017

CRAR in percentage (%)	Scheduled UCBs	Non-Scheduled UCBs	All UCBs
CRAR < 3	4	110	114
3 ≤ CRAR < 6	0	9	9
6 ≤ CRAR < 9	1	8	9
9 ≤ CRAR < 12	4	150	154
12 ≤ CRAR	45	1231	1276
Total	54	1508	1562

Source: RBI report on trend and progress of banking in India 2016-17

Capital is a critical criterion for determining the business model of the UCBs given their permissible activities. It is also an important parameter in the CAMELS rating. Against the statutory minimum requirement of CRAR for UCBs at 9 per cent, 82 per cent of the non-scheduled UCBs maintained CRAR above 12 per cent in 2016-17 (RBI annual report, 2016-17).

Table-7, Non-Performing Assets of UCBs as on March 2017 (Amount in Rs. Billion)

Item	2015	2016	2017
Gross NPA	138.02	150	186
Net NPA	61.05	51	68
Gross NPA Ratio (%)	6.15	6.10	7.1
Net NPA Ration (%)	2.84	2.2	2.7
Provisioning	76.97	99	118
Provisioning coverage Ratio (%)	55.77	65.9	63.5

Source: RBI report on trend and progress of banking in India 2016-17

The Non-performing assets show the quality of assets. Here, NPAs of the UCBs are increasing. This suggests that the increase in the GNPA and NPA ratios may require higher provisioning in the future. Higher provisioning means the worsening of the solvency position of UCBs in future **(RBI annual report, 2016-17)**.

Challenges before UBCs
There are many issues and challenges that the cooperative banking sector has been facing which have impacted their performance and profitability. The key issues are-

The Mounting NPAs- Low recovery levels of outstanding credit by urban cooperative banks make them unviable. They have also to follow proper norms of lending so that there are no bad loans. Poor credit appraisal skills normally led to increased levels of NPAs. The gross NPAs of UCBs are 7.1% and net NPAs are 2.7%.

Low Level of Technology- due to lack of funds and trained staff, urban cooperative banks have a very slow rate of computerization and development in information and communication technology.

Low Level of Professionalism- there is a lack of professionalism in the UCBs. To ensure professionalism in the board, the banks should have at least two directors with suitable banking experience or with relevant professional qualification in the fields of law, accountancy or finance. Secondly, the human resource in UCBs is not up to the marks.

Poor Governance- Due to poor management information system, low contribution of members and depositors into the working of bank, the management of UCBs is in the hands of group or individual personalities. In some cases, the directors are running the banks as owners. The incorrect decisions resulted in weakening of banks and interest of the members is jeopardised.

Challenges of Dual Control- The regulation of banking related activities of the UCBs are under the purview of the RBI, while the registration and management related activities are regulated by the Registrar of cooperative societies or the central registrar of cooperative.

Low Market share-They have 4 percent of the total market share. The UCBs have limited area of operation and they are not allowed to enter into capital market like commercial banks. Nearly 2/3rd of UCBs have a small deposit base i.e less than Rs. 50 crores. Secondly, the collapse of few UCBs and presence of weak and sick banks have posed a problem of public confidence about the financial soundness of the UCB. This has to be regained.

Challenges of uneven growth and financial inclusion - Out of total urban cooperative banks in India, nearly 80% are located in five states of Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu. 50 out of 54 scheduled urban cooperative banks are located in these states which control about 45% of total business of the sector. Secondly, UCBs have around 3000 branches in metros, 2500 branches in urban centres and around 2500 branches in small centres in semi-urban/rural areas. All branches of UCBs have potential to expand financial inclusion activities significantly. They can reach out to financially excluded in metros and urban areas, particularly the slums, and also in semi-rural areas, if they are technologically upgraded.

CONCLUSION AND SUGGESTIONS
In order to face the challenges, the urban cooperative banks may follow some of the suggestions like a good corporate governance, professional board of directors, regular meetings, trained and motivates staff, upgraded infrastructure, latest technology, better customer services in term of cost, quality and variety, fee based services, suitable risk and liquidity management skills, responsibilities and accountability, transparency, self regulation

and self discipline etc. To compete with commercial banks, allow UCBs to do any business like investment in equity shares, mutual funds, derivative transactions, insurance broking business, credit card issuance business, merchant banking, trading in commodities such as gold, bullion etc.

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