An Analysis on Current and Future Prospects Of Co-Operative Banks in India

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Abstract – Banking business has done wonders for the world economy. The simple looking method of accepting money deposits from savers and then lending the same money to borrowers, banking activity encourages the flow of money to productive use and investments. This in turn allows the economy to grow. In the absence of banking business, savings would sit idle in our homes, the entrepreneurs would not be in a position to raise the money, ordinary people dreaming for a new car or house would not be able to purchase cars or houses. The government of India started the cooperative movement of India in 1904. Then the government therefore decided to develop the cooperatives as the institutional agency to tackle the problem of usury and rural indebtedness, which has become a curse for population. In such a situation cooperative banks operate as a balancing centre. At present there are several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system. In brief, the cooperative banks have to act as a friend, philosopher and guide to entire cooperative structure. The study is based on some successful co-op banks in Delhi (India). The study of the bank"s performance along with the lending practices provided to the customers is herewith undertaken. The customer has taken more than one type of loan from the banks. Moreover they suggested that the bank should adopt the latest technology of the banking like ATMs, internet / online banking, credit cards etc. so as to bring the bank at par with the private sector banks.

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INTRODUCTION

A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range

of banking and financial services (loans, deposits, banking accounts etc.). Co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance. In most countries, they are supervised and controlled by banking authorities and have to respect prudential banking regulations, which put them at a level playing field with stockholder banks. Depending on countries, this control and supervision can be implemented directly by state entities or delegated to a co-operative federation or central body.

Co-operative banking is retail and commercial banking organized on a co-operative basis. Co-operative banking institutions take deposits and lend money in most parts of the world. Co-operative banking, includes retail banking, as carried out by credit unions, mutual savings and loan associations, building societies and co-operatives, as well as commercial banking services provided by manual organizations (such as co-operative federations) to co-operative businesses.

The structure of commercial banking is of branch-banking type; while the co-operative banking structure is a three tier federal one.

- A State Co-operative Bank works at the apex level (ie. works at state level).
- The Central Co-operative Bank works at the Intermediate Level. (ie. District Co-operative Banks ltd. works at district level)
- Primary co-operative credit societies at base level (At village level) Even if co-operative banks organizational rules can vary according to their

respective national legislations, co-operative banks share common features as follows:

Customer-owned entities: In a co-operative bank, the needs of the customers meet the needs of the owners, as co-operative bank members are both. As a consequence, the first aim of a co-operative bank is not to maximize profit but to provide the best possible products and services to its members. Some co-operative banks only operate with their members but most of them also admit non-member clients to benefit from their banking and financial services.

Democratic member control: Co-operative banks are owned and controlled by their members, who democratically elect the board of directors. Members usually have equal voting rights, according to the co-operative principle of “one person, one vote”.

Profit allocation: In a co-operative bank, a significant part of the yearly profit, benefits or surplus is usually allocated to constitute reserves. A part of this profit can also be distributed to the co-operative members, with legal or statutory limitations in most cases.

Profit is usually allocated to members either through a patronage dividend, which is related to the use of the co-operative’s products and services by each member, or through an interest or a dividend, which is related to the number of shares subscribed by each member.

Co-operative banks are deeply rooted inside local areas and communities. They are involved in local development and contribute to the sustainable development of their communities, as their members and management board usually belong to the communities in which they exercise their activities. By increasing banking access in areas or markets where other banks are less present, farmers in rural areas, middle or low income households in urban areas - co-operative banks reduce banking exclusion and foster the economic ability of millions of people. They play an influential role on the economic growth in the countries in which they work in and increase the efficiency of the international financial system. Their specific form of enterprise, relying on the above mentioned principles of organization, has proven successful both in developed and developing countries.

BACKGROUND

Cooperative Banking Structure, which is now a century old, has a unique position in the rural credit delivery system of India. Having made significant strides in the field of rural credit through its short and the long-term structures, it continues to play a crucial role in dispensation of credit for agriculture and rural development. Though commercial banks after nationalization and later on RRBs have entered the rural areas, but cooperative banks still continue to enjoy an important place in the rural credit scenario.

The cooperative credit societies at the grassroots level are intended not only to cater to the credit requirements of the members but also to provide several credit linked services like input supply, storage and marketing of produce, supply of consumer goods etc. Keeping in view the importance of cooperative banks and credit societies, several committees, from the All India Rural Credit Survey Committee to the latest Vaidya Nathan Committee, have stressed the need for major role of cooperatives in providing credit and allied services in the rural sector.

The process of economic reforms began in India during 90.s and the cooperative banking though being the integral part of the financial system of the country, was kept insulated from the effects of these reforms. Realizing that a healthy financial system being the pre-requisite for the success of globalization process, Govt. of India initiated several steps to reform the financial system by appointing Narsimhan Committee and implementing its recommendations. But the cooperative banking was left out of the gambit of this process. However, the financial discipline such as the recommendation of Basel Committee on Bank Supervision, prudential norms, NPA norms Capital Adequacy norms etc. were expected to be complied with on par with other commercial banks. In case of cooperative banking system also attempts were made for its reform by appointing Kapoor Committee, Vikhe Patil Committee and Vyas Committee but no serious attempts were made to implement the recommendations of these committees. Keeping in view, the distinct nature of cooperative banking, it is the need of the hour to assess the regulatory, structural, operational and financial requirements to restore their growth and development on sound lines in the competitive business environment.

CO-OPERATIVE MOVEMENT IN INDIA

Twentieth century was a century of revolutions. Capitalism was spreading its wings over feudal economies; and on the other hand, socialists had established their rule in U.S.S.R. China and some other countries. After Second World War most of the colonies got liberated and determination of their economic and political life was a question on the forefront. Socio- economic needs of newly liberated countries were totally different from developed countries. Mass production on all economic fronts was required in these countries for overall development of the state.

However, to achieve this, a huge capital was required which was possible in only capitalistic mode of production. On the other hand, satisfaction of the aspirations of poor millions was

possible only in a socialistic mode of economic development. Therefore, to ensure mass production and mass participation in economic activity, most of the countries adopted mixed economy model.

India also adopted the path of planned economy to provide a new environment for socio- economic development of the country. To put the economy on optimum path of growth and re-orient the social structure for maximum social welfare have been the main objective of our planners. Therefore, they adopted mixed economy model in which co-operatives have been given important role.

FUTURE SCENARIO

The Govt. and RBI should consider primarily the Co-operative banks as essential factor in the overall banking and the credit environment of the society. These banks are the most competent tool for financial inclusion & over the time has proven their ability to provide credit at the grass root level effectively. Only thing is that they need proper cushioning, guidance, advice and support.

With the growing networking of UCBs and their utility in financial upliftment and financial inclusion, which is need of the hour, it is felt necessary that a separate umbrella organization exclusively for urban co-op. banks may be design on the similar lines of NABARD. UCBs with their unique and exclusive organizational set up will be the most effective tool for the financial inclusion of urban poor and hence this sector need special attention in the years to come.

The RBI has appointed a committee on licensing of new UCBs under the chairmanship of Shri Y H Malegam which recommended that:

UCBs play a useful role and there is need for a greater presence of UCBs in unbanked districts and in centres having population less than 5 lakh. It is necessary to encourage new entrants to open banks and branches in States and Districts which are unbanked or inadequately banked. It is equally necessary to discourage new entrants from opening branches in Districts and population centres which are already adequately banked.

The existing well managed co-operative credit societies meeting certain financial criteria like profits, capital adequacy, NPAs' proportion etc. should be given priority for granting licenses as urban co-operative banks particularly in unbanked or inadequately banked centres.

The committee also recommended an umbrella Organisation that will provide temporary liquidity to the member UCBs. The funds required for providing temporary liquidity shall be mobilized from member UCBs who shall be permitted to keep their CRRs with this Umbrella Organisation bank. All the non-scheduled urban co-operative banks in India shall be the compulsory members of this Umbrella Organisation.

REVIEW OF THE LITERATURE

Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of financial institutions. Narsimham Committee (1991) emphasized on capital adequacy and liquidity, Padamanabhan Committee (1995) suggested CAMEL rating (in the form of ratios) to evaluate financial and operational efficiency, Tarapore Committee (1997) talked about Non-performing assets and asset quality, Kannan Committee (1998) opined about working capital and lending methods, Basel committee (1998 and revised in 2001) recommended capital adequacy norms and risk management measures. Kapoor Committee (1998) recommended for credit delivery system and credit guarantee and Verma Committee (1999) recommended seven parameters (ratios) to judge financial performance and several other committees constituted by Reserve Bank of India to bring reforms in the banking sector by emphasizing on the improvement in the financial health of the banks. Experts suggested various tools and techniques for effective analysis and interpretation of the financial and operational aspects of the financial institutions specifically banks. These have focus on the analysis of financial viability and credit worthiness of money lending institutions with a view to predict corporate failures and incipient incidence of bankruptcy among these institutions.

Bhaskaran and Josh (2000) concluded that the recovery performance of co-operative credit institutions continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable organization in tune with competitive commercial banking. Jain (2001) has done a comparative performance analysis of District Central Co-operative Banks (DCCBs) of Western India, namely Maharashtra, Gujarat and Rajasthan and found that DCCBs of Rajasthan have performed better in profitability and liquidity as compared to Gujarat and Maharashtra. Singh and Singh (2006) studied the funds management in the District Central Co-operative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin. It noted that a higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Co-operative Banks and thus had a larger provision for non-performing assets. Mavaluri, Boppana and Nagarjuna (2006) suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India. Pal and Malik (2007) investigated the differences in the financial characteristics of 74 (public, private and foreign) banks in India based on factors, such as profitability, liquidity, risk and efficiency. It is suggested that foreign banks were better performers, as compared to other two categories of banks, in general and in terms of utilization of resources in particular. Campbell (2007) focused on the relationship between nonperforming loans (NPLs) and bank failure and argued for an effective bank insolvency law for the prevention and control of NPLs for developing and transitional economies as these have been suffering severe problems due to NPLs. Singla(2008) emphasized on financial management and examined the financial position of sixteen banks by considering profitability, capital adequacy, debt-equity and NPA. Dutta and Basak (2008) suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment. Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters.

CONCLUSION

Co-operation is a better choice as compared to the Corporate Sector if run on trust, honesty and confidence. The Government and Reserve Bank should sponsor this field in the interest of the common man.

Technology has made tremendous impact on entire banking sector, which has thrown new challenges, due to which cooperative banks are constantly exposed to competition and risk management. Therefore, they need a combination of new technologies and better processes of credit and risk appraisal, treasury management, product diversification, internal control and external regulation along with infusion of professionalism.

In the present business environment, the cooperative banks should be backed by democratization, depoliticisation & decentralization so as to make them competitive. Thus, there is urgent need for transformation in the mindset, identity, business operations, governance and systems & procedures, which will definitely boost the morale of cooperative banks to face environmental challenges.

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