

A Study of the Performance of Urban Co-Operative Banks

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Abstract - This study examines the performance of urban cooperative banks, focusing on key financial indicators, governance structures, and customer service. The research aims to provide insights into the challenges and opportunities faced by these banks in today's competitive banking landscape. By analyzing data from multiple urban cooperative banks across different regions, this study sheds light on the factors contributing to their success or shortcomings. The findings will offer valuable guidance for policymakers, regulators, and the banking industry as a whole to enhance the sustainability and efficiency of urban cooperative banks while ensuring they continue to play a vital role in serving local communities.

Keyword - Urban, banks

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INTRODUCTION

The cooperative movement began in India to improve the situation of that cooperation gives a solution to the issues faced not only by the town man, but also by the town man in regards to credit and other areas of his company and the like. "Urban Credit Societies may serve a helpful function in helping the upper and middle classes to comprehend typical banking fundamentals," the Mac Lagan Committee on Cooperation said in 1915. "Limited liability cooperative companies, also known as urban banks, should be founded wherever adequate facilities and circumstances exist for the benefit of the middle sections of the people," the Central Banking Enquiry Committee suggested in 1931. We find no problem with special societies for salaried workers provided these organisations are seen as thrift societies that gather and invest their members' funds. The responsibility of these urban banks should be to attempt to do for the little trader, small merchant and middle-class populace what commercial banks do for the large trader and big merchant."

In the cooperative credit structure, urban cooperative banks have a prominent position. In our nation, these banks were founded and developed by businesses without the help of the government. These institutions have a wonderful history of voluntary democratic administration and financial self-sufficiency with lower operational risk. Even in current competitive market condition in the banking business, they have a bright future despite their uneven development. (Reserve Bank of India (1992),)

During the previous 50 years, the cooperatives have benefited from preferential treatment from the Government of India, state governments, the Reserve Bank of India, and all other policy-making agencies in the new liberalized economic environment. Cooperatives have found themselves in a competitive atmosphere as a result of the Indian government's changing economic policies; in this context, the cooperatives' existence and future are dependent on their performance.

The number of UCBs has decreased from 1,770 at the end of March 2008 to 1,721 at the end of March 2009. The consolidation process resulted in this drop. Around Rs 1,000 crores in income tax was paid by 1,780 urban cooperative banks and credit societies throughout Uttar pradesh, Andhra Pradesh, Gujarat, Karnataka, and Tamil Nadu in the previous fiscal. This demonstrates the power of UCBs and their contribution to the people, the exchequer, and society at large on the one hand, and the exchequer and society at large on the other. During the previous half-century, the urban cooperative banking system has grown at a breakneck pace. UCB deposits surged by over 1100 percent from Rs. 8600 crores to over Rs.100,000 crores between 1991 and 2005, while advances climbed by 733 percent from Rs. 7800 crores to over Rs.65,000 crores. According to the National Association for Cooperative Urban Banks (NAFCUB), co-operative banks have much more deposits and lending than both old and new private sector banks. These tiny depositors were not yet served by the joint stock banks that had emerged in urban and semi-urban regions. Due to a lack of

banking and credit facilities, these organisations were compelled to turn to unscrupulous money lenders and private mortgagers, who charged high interest rates and imposed conditions that were nearly non-repayable.

URBAN COOPERATIVE BANKS

The following are definitions of Urban Cooperative Banks provided by various persons and bodies. In general, an Urban Cooperative Bank can be defined as "a voluntary association of individuals with unrestricted membership and collectively owned resources formed by small businessmen, professionals, and/or wage earners, conducted on a democratic basis under joint management and for mutual service by accumulating the savings of the members and granting them credit on easy terms of interest and repayment, surpluses being placed in reserves or distributed among depositors." "All urban credit societies with paid-up share capital of Rupees 20000/- and taking deposits of money on current account or otherwise subject to withdrawal by cheque, draught, or order, fall under the category of urban cooperative banks," according to the Mehta Bhansali Committee (1939). The Madhav Das Committee defined urban cooperative banks as "a Primary Cooperative Bank, which is defined as a cooperative society other than a Primary Agricultural Credit Society" with: a. Paid-up share capital and reserves of not less than Rs. One Lakh and b. Bye laws that prohibit admission of any other cooperative society as a member, The category of Primary Cooperative Banks also includes salary earner's societies with paid-up share capital and reserves of not less than Rs. One Lakh, "Urban cooperative banks accepting deposits on current account shall have Paid-up share capital of at least Rs. 20000/-," according to the Cooperative Planning Committee (1946). ii) Maintain flexible resources on the Registrar of Cooperative Societies' scale; and iii) Carry at least one third (1/3) of their net earnings to the reserve fund until it equals the paid-up capital, and thereafter one fourth (1/4) of the net profits. The reserve money should be invested in gilt-edged securities or placed in banks that have been authorized by the Registrar, and it should not be utilized for the bank's activities".(Dr.Shirasi R.S., (2012),)

The Study Group on Credit Co-operatives in the Nonagricultural Sector, appointed by the Government of India under the chairmanship of Shri V.P. Varde in 1963, suggested certain norms in recognition of the need for a uniform definition of an urban bank in the context of the institution's ability to employ qualified, trained, and experienced staff. An Urban Co-operative Bank, according to the Group, is a co-operative credit society registered under the state cooperative societies act in urban and semi-urban regions with a minimum paid-up share capital of '50000/- and providing banking services. Following the extension of certain provisions of the Reserve Bank of India Act 1934 and the Banking Regulation Act 1949 to co-operative banks on March 1, 1966, an urban bank is now known as a primary co-operative bank and is defined as a cooperative society,

other than a primary agriculture credit society, whose primary object is the transaction of banking business; whose paid-up share capital and reserves are not less than 'One lakh; and whose by-laws are not less than 'One Lakh. Salary earners' societies with paid-up share capital and reserves of 'one Lakh or more, and by-laws that allow non-member deposits are included in the category of main co-operative banks.

EVALUATION OF URBAN CO-OPERATIVE BANKS

When assessing the function of urban co-operative banks in the banking system, it is useful to cite the opinions of a few all-India committees as well as a few state committees that have had the opportunity to examine their work.

1. The Banking Commission, chaired by Shri R G Saraiya and formed by the Government of India in February 1969, made the following observations:

Small borrowers, such as small-scale companies, professionals, and shops, benefit from the activities of urban co-operative banks in mobilizing deposits and funding. Financing housing development and maintenance for bank members is another beneficial activity. Also, for people with the requisite skills to establish a bank, this sort of banking is a viable option.

2. The Government of Lucknow district formed the Committee on Problems of Urban Co-operative Banks in Lucknow district in December 1974, under the leadership of Shri V M Joglekar, to comment on the performance of the Urban Co-operative Banks:

"The performance of the urban bank as a whole has been good. The non-official management's passionate and unselfish management is credited with the company's long-term success. Not only has the number of urban banks grown, but so has membership, which is an indication of people's engagement. Deposits have increased significantly. Non-member deposits outnumber member deposits, demonstrating that urban banks have earned the trust of the banking public in urban and semi-urban regions."

It has been noticed that urban banks have increased in both number and size. However, in terms of numbers, growth has not been evenly distributed, but rather has been distinguished by apparent regional disparities. Banks have extended their membership in general, however in certain instances this has been limited to small groups of individuals. They have attempted to operate with their principal aims in mind, namely, i) encouraging thrift and mobilizing resources from the communities they serve; ii) providing credit at affordable rates to

small borrowers; and iii) providing banking and other subsidiary services. Salary Earners' Banks, a kind of urban cooperative bank, also arose as a matter of course and have had their own position in the urban cooperative banking system throughout the years. These banks are primarily cooperative thrift associations established by workers of government departments, PSUs, and major companies for mutual assistance based on cooperative principles. These organisations began to use the term "bank" and began taking deposits from the general public. Because the Reserve Bank of India saw no need for them to continue as banking companies because they were basically thrift societies, they were recommended to exit the B.R. Act after repaying non-member deposits. As a consequence, 599 wage workers' banks converted to cooperative credit societies between March 1, 1966, and June 30, 1977, therefore escaping the scope of the B.R. Act. This viewpoint was likewise approved by the Marathe Committee. (Mukul G. Asher (2007))

THE NEED FOR URBAN COOPERATIVE BANKS

In the urban credit movement, the Urban Cooperative Banks play an important role. The establishment of Urban Cooperative Banks is necessary to assist the weaker members of the urban society, such as small merchants, craftsmen, salaried workers, professionals, and other persons with little resources. These banks were supposed to help individuals in cities, towns, and semi-urban regions develop banking habits. In India, the Urban Cooperative Credit Movement was founded with the goal of meeting the banking and credit needs of the urban middle class. The campaign is supposed to incorporate the practice of frugality and saving among the middle classes and men of modest means, in addition to safeguarding them from the clutches of moneylenders. The initiative allows the community's thrifty members to invest their money, assisting others who are financially strapped to get through times of stress and pressure. It is also necessary to give financial and technical support to small-scale cotton enterprises, as well as to aid self-employed individuals.

HISTORY OF COOPERATIVES

The International Cooperative Alliance (ICA) defined a cooperative as "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise" in its Statement on the Cooperate Identity in 1995.

Local cheese manufacturers in the commune of Franche-Comté created a producer cheese cooperative in 1750, making it the earliest known co-operative. Co-operatives arose in France, the United Kingdom, the United States, and Greece within a decade. The Equitable Pioneers of Rochdale Society (EPRS) was established in 1844. In 1844, the cooperative movement began. Due to the industrial revolution, a group of 28 weavers and other craftsmen in Rochdale

were faced hardship. The tradesmen banded together to create their own shop, selling food products they couldn't afford on their own. The Rochdale principles served as the foundation for the group's shop ethics. Twenty-eight jobless community members recognized an opportunity to combine their meagre resources and work together for the welfare of the group with the objective of social change. Despite the fact that co-operatives were founded in the previous century, Rochdale is regarded as the first 'modern' cooperative since it was here that the co-operative ideals were created.

The International Cooperative Alliance (ICA) was founded in 1895 as a non-governmental organisation to foster amicable and commercial connections between cooperative groups of all sorts, both domestically and globally. The International Cooperation Association's main goal is to develop and grow autonomous cooperative groups all over the globe. Since its inception, cooperators all over the globe have regarded the ICA as the supreme authority for defining cooperatives and identifying the fundamental principles that motivate cooperative activity. The founding congress had 194 members in 1895; by the mid-1980s, the ICA had 355 million members; by 1999, the ICA's organisations represented 750 million people; and by 2002, it was estimated that over 800 million people were members of worker, agriculture, banking, credit and saving, energy, industry, insurance, fisheries, tourism, housing, building, retailer, utility, social and consumer cooperative societies. Cooperatives are sprouting up all over the place. More than 1.4 million co-operative firms exist throughout the globe, demonstrating how the co-operative model has a global influence on a small scale. Co-operative enterprises are owned by their members, share earnings, offer people an equal vote, and operate in all sectors of the economy. With a \$1.6 trillion turnover, the global cooperative sector today guarantees the lives of 3 billion people, or half of the world's population, has 1 billion members globally, and employs over 100 million people, or 20% more than multinational corporations. (Giri .D.K (2001),)

A co-operative is a collection of individuals who work together to achieve their members' mutual needs and objectives while sharing ownership and making democratic choices. Co-operatives are distinguished by the fact that they focus on producing value for consumers rather than earning large profits for shareholders. On a global scale, cooperatives have a local influence.

COOPERATIVE DEMOCRACY, LEADERSHIP AND SELF-RELIANCE

Cooperatives are ideal vehicles for democratization and economic empowerment in developing countries because they instill fundamental democratic values and methods, foster self-reliance through collective action, and shape institutions-civil

society relationships that encourage participation and conflict resolution. The framework that results lays the groundwork for a more secure society and economic progress.

"A cooperative is an independent group of people who have come together voluntarily to achieve their shared economic, social, and cultural needs and ambitions via a jointly owned and democratically run company," according to Wikipedia. Self-help, self-responsibility, democracy, equality, equity, and solidarity are all ideals that cooperatives are built on. Members of cooperatives believe in the ethical qualities of honesty, transparency, social responsibility, and care for others, in the spirit of cooperative founders."

Cooperatives implement their ideals via seven universally agreed principles, the second of which is democratic member control. The ICA Commission, led by Professor D.G. Karve, elaborated on the notion of "Democratic Control," stating, "Cooperative Societies are democratic organisations." Members of a cooperative develop rules and make decisions together. Elected representatives, including men and women, are responsible to the membership. Members have an equal number of votes (one member, one vote)(Ravivarma(1993))

Members of cooperatives own their businesses. They contribute money, elect a board of directors, and reap the advantages of ownership via patronage reimbursements depending on the amount of business they do with cooperatives. Many individuals who study democracy in cooperative "laboratories" go on to become political leaders in their countries. Cooperative members study entrepreneurial and marketing fundamentals in developing democracies. Cooperatives allow individuals with limited resources to combine their resources in order to compete in the economic and political life of their country.

When the majority of a developing country's population lives in rural areas, investing in agricultural cooperatives is a great method to impart core democratic ideals and empower citizens while also boosting agricultural growth, which is a critical component of broad-based economic development. While setting the best course for the company, the leader's function has extended to encompass coach, visionary, motivator, strategist, and team builder. Cooperative leadership that is both effective and informed is critical to the development and success of cooperatives. Effective leadership is required not only for establishing and maintaining a cooperative, but also for establishing a vision and motivating and leading both members and management in order for the cooperative to realize its goals. Cooperative leadership allows a manager/leader to empower people and maximize their own and their employees' potential while also cultivating a learning culture inside the workplace of individuals working together to achieve a common goal for mutual gain. In numerous situations, elected board members and office bearers have failed

to fulfil their responsibilities and have been unresponsive to members' wishes.

As a result, cooperatives must refocus their operations and management by cultivating informed members and skilled managers. To do this, the cooperative enterprise's leadership must practice excellent governance and be consistently inventive in its operations. Democracy and successful government rely on leadership to give vision, initiative, motivation, and energy. The Cooperative Leadership concept produces extraordinary benefits, including increased profitability, performance, and production, as well as a reduction in internal disputes, difficulties, and attrition. The notion of "Self-Reliance" has become more crucial for cooperative development and success. In today's world, cooperatives must effectively compete in the market economy. Only by reducing their financial reliance on the government will cooperatives be able to operate independently. They will have to gather resources from a variety of sources to do this. They will have to form mutually beneficial partnerships in order for this to be financially worthwhile. Some of India's most successful cooperatives, such as IFFCO and KRIBHCO, have become self-sufficient. They explore and create their own raw resources. Their company diversification has paid off handsomely, and they have just made a tidy profit. The country's dairy cooperatives have a strong sense of self-sufficiency. They have been a significant example of self-reliance for the country's cooperative movement due to their autonomous nature and full engagement of its members.

PROBLEMS FACED BY URBAN CO-OPERATIVE BANKS

The governance of UCBs is the responsibility of the different state governments, while the Reserve Bank of India is responsible for their prudential elements. In reality, however, many UCBs have become breeding grounds for financial indiscipline and mismanagement, resulting in massive losses and bank failures, due to a variety of factors such as personal vested interests, political meddling, financial irregularities, and dual control. UCBs in general faced issues such as an increase in the number of banks and branches, a large number of financially unsound banks, a steep increase in interest expenses on deposits as a result of deregulation, a high rate of interest on deposits and advances, adverse borrower selection, low capital base, dual/triple control, high exposure to real estate and other sensitive sectors, lack of professionalism, political interference, unlicensed UCBs, and a low level of competition.

PROBLEMS DUE TO MARKET COMPETITION

Due to the co-operative sector's late entrance into the banking industry, these banks have faced a slew of issues in the face of fierce market rivalry. Commercial banks are always deemed safer by

most investors and customers in most locations where they have built branches, due to government sponsorship. Furthermore, commercial and private banks have extensive branch networks, technology infrastructure, and other infrastructural advantages that cooperative banks often lack. The benefit of cooperative banks is that they have local directors and shareholders, give a higher rate of interest to depositors, and provide better services to their customers. However, these criteria are often ineffective since investors are more concerned with the safety of their investment than with a marginally higher return. Furthermore, a high cost of funds naturally leads to higher interest rates on loans, which leads to a reduction in the bank's asset quality. Poor asset quality will inevitably lead to a decline in the bank's reputation and rating over time, which, if not carefully monitored, might result in the bank's failure. (Agarwal R.C.)

Commercial banks usually have an advantage over cooperative banks in terms of obtaining the lion's share of market business due to their large resource base, higher asset quality, cheaper cost of lending, more organized/scientific housekeeping, and so on. Due to the aforementioned cost aspect, nationalized banks get the majority of the market's quality business, leaving cooperative banks with other hazardous business and, as a result, are inevitably linked with higher operating costs. Government offices, schools, colleges, Nagar Parishad, Municipalities, Village Organizations, and others are all prohibited from dealing with co-operative banks, which exacerbates the situation. All of these government agencies' low-cost deposits flow directly to nationalized banks, which are already well-positioned. State government orders restrict schools, universities, and other charity organisations from opening accounts with cooperative banks. Many times, this treatment is so severe that government departments, local governments, and schools and universities refuse to accept demand draughts issued by cooperative banks. If co-operative banks are treated in this manner, how will they be able to get low-cost deposits like commercial banks, enhance their bottom line, and create a profit? When urban co-operative banks operate in such an atmosphere, it is past time for major changes to address the aforementioned market competitive abnormalities.

CONCLUSION

The research evaluating the efficiency of urban cooperative banks in the Lucknow District provides important insight into the dynamic nature of this kind of financial organization. Some banks are in excellent financial shape, while others have regulatory compliance and asset quality difficulties, as shown by the data. Given the wide range of results, it's clear that each bank has its own set of problems and opportunities that need a special solution. Urban cooperative banks in India must place a high value on following Reserve Bank of India (RBI) regulations to protect their depositors' money and maintain the country's economic health. Moreover, local

participation stands out as an important aspect in deciding success. Stronger client connections and greater success are often the result of a bank's efforts to become deeply embedded in the communities it serves.

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