

Evolution of Urban Co-Operative Banks In India and Their Current Status

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Abstract: Urban Co-operative Banks (UCBs) works on the principles of cooperation, self-help and mutual-help, are playing a very crucial & key role in catering to the credit needs of persons' of small means. These UCBs are striving relentlessly to address the issues of economic inequality and the concentration of wealth that are causing exploitation of weaker sections by the stronger. As such, Indian UCBs performs a significant developmental role by catering the needs of small depositors and borrowers, mainly in the urban informal sector that are deemed non-credit worthy by the commercial banks. But, the sector has gone through a lot of turmoil since 2001 due to various factors like series of scams, rising competition with the onset of liberalisation & globalisation, dual control, low capital base, high level percentage of NPAs, poor professional management, absence of modern technology in UCBs banking business, poor governance and mismanagement etc., This paper brings out the evolution of urban cooperative banks and will present the current status of the sector.

Keywords: UCBs, NPAs, Deposits, Loans.

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I. Introduction

A co-operative bank is a financial entity that belongs to its members and they are in turn the owners as well as customers. It provides banking services like bank accounts, loans & deposits etc., These UCBs are controlled by banking authorities in most of the countries across the world whereas in India, the sector is under dual control i.e. UCBs are regulated and supervised by State Registrars of Co-operative societies of the state concerned, Central Registrar of Co-operative societies in case of multi-state co-operative banks and simultaneously by the Reserve Bank of India (RBI), as well. The Registrars of Cooperative Societies of the state, exercise powers under the respective Co-operative Societies Act of the states concerned, in regard to incorporation, registration, management, amalgamation, reconstruction or liquidation. But, for the UCBs having multi-state presence, the Central Registrar of Co-operative Societies, New Delhi exercises such powers whereas the RBI exercises its power over their financial and banking functions.

History of Urban Cooperative Banks in India:

The Urban Co-operative Banks (UCBs) usually refers to primary co-operative banks operating in urban and semi-urban areas. They started in India close to the end of nineteenth century, inspired & motivated by the successful functioning of co-operative movements in Great Britain & Germany. They were based on the principles of co-operation, democratic decision making, mutual help and open membership. 'Anyonya Sahakari Mandali', the first known mutual aid society in India was started in 1889 in the State of Baroda under the able guidance of Vithal Laxman. But the real push to the sector kicked off only after the Co-operative Credit Societies Act, 1904. The co-operative banks were allowed, till 1996, to lend money for non-agricultural purposes only. These urban banks were from the inception, centred on the lines of communities, localities and work place groups. They mostly lent money to small borrowers and small scale businesses. Presently, with the changing dynamics of banking, their scope of operations also expanded considerably. But, the real impetus and proliferation in the sector began after this sector was brought under the purview of Banking Regulation Act, 1949 w.e.f. 01.03.1966 and after implementation of recommendations of various committees like Varde Committee (1963), Banking Enquiry Committee (1972), Joglekar Committee (1976), Madhavadas Committee (1979), Narasimham Committee (1991), Marathe Committee (1991), Madhava Rao Committee (1999), YH Malegam Committee (2011), High powered Committee on UCBs (2015) etc., The evolution of the sector may be categorised into three phases: Growth phase, Crisis phase and Consolidation phase.

Growth Phase (1966-2000):

In 1966, there were approximately 1100 UCBs with deposits of Rs.1.67 billion deposits and Rs.1.53 billion advances. From there onwards, there was an unprecedented growth in their numbers, size and spread of operations. Pursuant to the RBI liberal licensing policy post-implementation of Marathe Committee recommendations, and dispensing of existing ‘one-district, one-bank’ policy, preparing the sector to follow the policy to ascertain the ‘need and potential’ in terms of collecting deposits and offering of credit for starting a new UCB. In 1993, prior to the liberalisation of bank licensing policy, there were 1311 UCBs with deposits of Rs.111.08 billion and advances of Rs.87.13 billion, that jumped to 1926 UCBs with deposits of Rs.1020.74 billion and advances of Rs.649.74 billion by 31.03.2004. As many as 823 new bank licences were issued after the liberalisation of licensing norms i.e. from May, 1993 to June, 2001.

Crisis Phase (2001-2008):

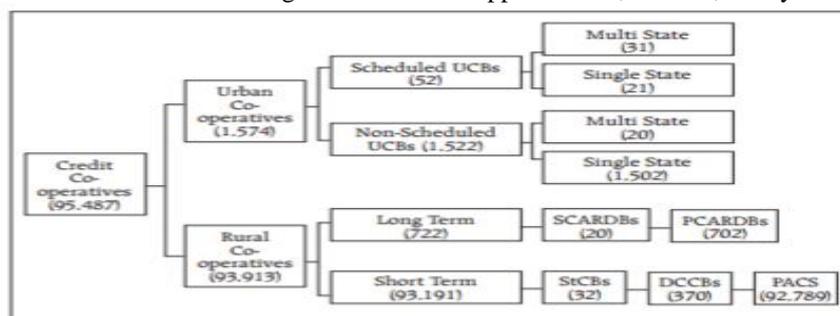
It was noticed that approximately 1/3rd of newly licensed UCBs turned financially weak within a short span of time from starting their functioning. The problem reached to its heights, after the Madhavpura Mercantile Cooperative Bank episode in 2001, and subsequently RBI announced in it’s Annual Policy Statement during the year 2004-05 that only after a comprehensive policy on UCBs, that covers an appropriate legal & regulatory framework for urban banking sector, it would think of issuing fresh licences. As such no fresh licence was issued henceforth for opening the new UCB. Pursuant to stringent regulations and monitoring by RBI, the number of UCBs declined from 1926 in 2004 to 1770 in 2008. The deposits increased slightly from Rs.1020.74 billion to Rs.1398.71 billion and advances from Rs.649.74 billion to Rs.904.44 billion, respectively, registering an average annual growth of 9% and 10% in deposits and advances respectively. RBI took several initiatives to strengthen the urban banking sector in this period. The highly noteworthy among these, is the Memoranda of Understanding (MoU) entered with all the State Governments and the Central Government in 2005. The MOUs provided coordination of regulatory policies and actions through the TAFCUBs, to bring in efficiency through the adoption of information technology. This phase also seen the voluntary consolidation in the urban banking sector by merger of a few non-viable UCBs with well-managed and financially sound UCBs.

Consolidation Phase (2008 onwards):

Pursuant to various new and innovative initiatives and consistent efforts by RBI, there was a drop in the number of financially weak urban cooperative banks from 1770 in 2008 to 1606 in 2013. However, during the same period, the deposits of urban banks increased from Rs.1398.71 to Rs.2769.41 billion and advances from Rs.904.44 billion to Rs.1809.60 billion. Moreover, the financially sound banks also increased in number from 248 in 2010 to 684 in 2013. Moreover, mergers of as many as 116 UCBs have taken place from 2005 to 2014. To give stimulus to the sector, with an intention to increase the coverage of banking services in local communities, RBI has set up the Malegam Committee in 2010 for studying the scope for granting new licences to start urban co-operative banks. After prolonged deliberations, the Committee recommended that UCBs play an immensely helpful role and there is need for the big presence of UCBs in unbanked districts and in areas with the population below 5 lakhs. The report further mentioned that it is required to support new entrants to open such banks and branches in States and Districts that are still unbanked or inadequately banked. Moreover, the Committee has given it’s suggestion that the pre-existing well-managed co-operative credit societies that fulfil the prescribed financial criteria, be given top priority for granting of licenses.

II. Current Status Of Urban Cooperative Banks In India

By 31st Mar, 2016, Urban Cooperative banks in India are of 1,574, in number and the number of rural co-operative credit institutions is 93,913. For the year 2015- 16, there was a control in growth of balance sheets of UCBs’. The profitability indicators and along with it, asset quality projected deteriorating signs. The total number of UCBs dropped from 1,579 in 2015 to 1,574 in 2016. The number of scheduled multi-state UCBs rose from 29 to 31, whereas non-scheduled single-state UCBs dropped from 1,507 to 1,502 by 31.03.2016.

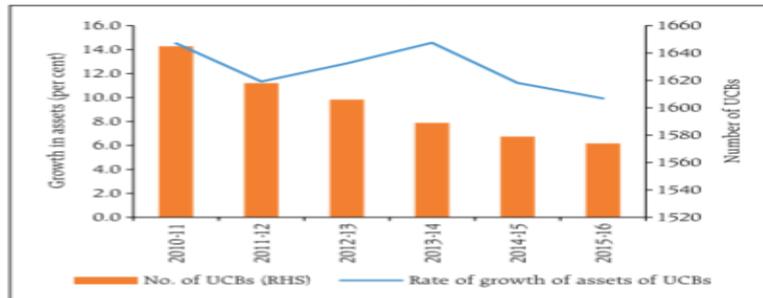


StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

Balance sheet operations:

The rise in assets pertaining to UCBs decreased in 2015-16 registered 9.9% in 2015-16 in comparison to 11.2% registered in 2014-15, Loans & advances pertaining to asset side rose by a lower rate of 9.2% in contrast to 11.9% in 2014-15. On liability side, deposits & reserves along with the surplus accumulated at a relatively slower rate.

Total number & rise in assets of the UCBs

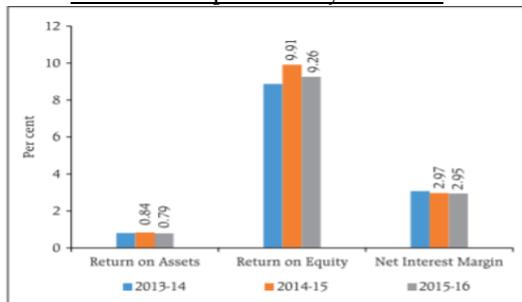


Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations

Profitability:

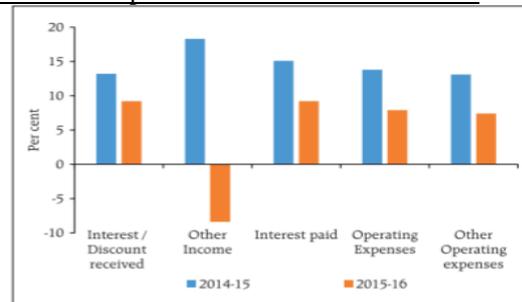
UCBs have shown a reduction in their returns on the equity and the assets in 2015-16. The net interest margin also dropped over the period. The pace in their total expenses grew like it happened in 2014-15, at 8.8% than total income at 7.9%. Moreover, provisions that were earmarked during 2015-16 against risks as well as contingencies were hiked by 4.6% to the previous year's provision. Net profits of UCBs also registered deceleration. Growth rate in interest income registered shrink and was marked at 9.2% in 2015-16 when compared to 13.2% in 2014-15. In addition, other income that increased by 7% for the year 2014-15 registered a decline of 8.4% during the year 2015-16.

Indicators of profitability of UCBs



Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations

Income & expenses of UCBs—variations in %

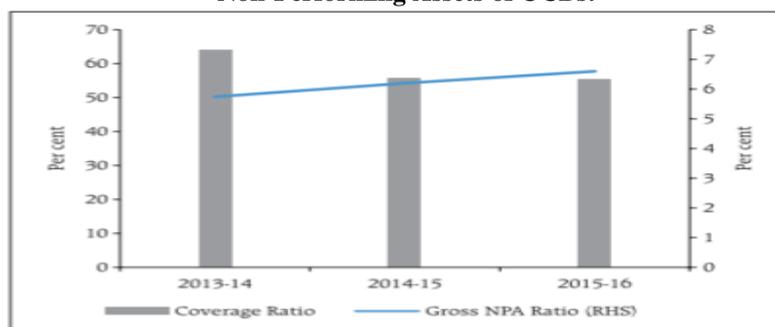


Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations

Asset quality:

UCBs' Gross NPAs consistently increased at a higher rate than the Assets. The gross NPA is at 6.6% as on 31.03.2016 against 6.2% as on 31.03.2015.

Non-Performing Assets of UCBs:



Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations

Distribution of UCBs on the basis of deposits and advances:

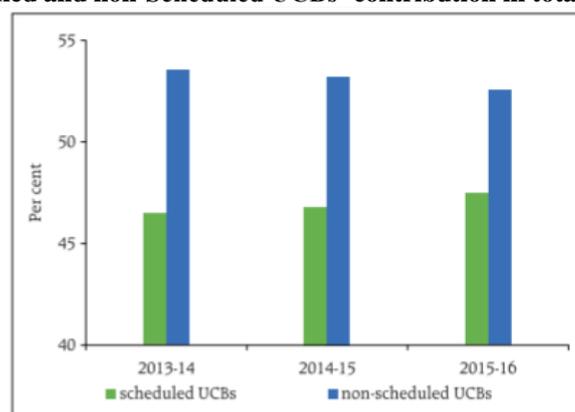


Note: 1. Position as on March 31, 2016.
2. Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations.

Pattern of trend in scheduled UCBs:

The number of scheduled UCBs was increased to 52 by 31.03.2016 from 50 as on 31.03.2015. Simultaneously, the share of assets of UCBs in total assets also increased in 2015-16. The Growth in deposits and loans & advances was continuous, thereby contributing to the growth of UCBs’ balance sheets for the year.

Scheduled and non-Scheduled UCBs’ contribution in total assets :



Note: 1. Position as on March 31, 2016.
2. Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations.

III. Conclusion

Urban Co-operative banking sector occupies a formidable place in Indian banking system. Though UCBs started in India on the principles of co-operation, more than 100 years ago with a mission to reach the persons of small means and unbanked territories, it has gone through a lot of turmoil over the years and with a series of regulatory measures undertaken by RBI and after implementation of recommendations of various committees, the sector is looking forward with a positive note in respect of various parameters to regain the confidence of common man and to fulfil the objectives of it’s Origin.

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