

An Evaluation Of Urban Cooperative Banks In India

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THE real spirit of cooperative movement sprouted in India with the enactment of the 1904 Cooperative Societies Act. The main aim of cooperatives during the pre-independence period was to substitute moneylenders so as to provide financial relief to the farming community. Significantly, during the post-independence period, the aim has been to make the cooperatives a powerful instrument for economic development. Today, the Indian cooperative movement is one of the largest in the world in respect of its area of operation and coverage, with more than 22 per cent of the total world membership of the International Cooperative Alliance (ICA).

Urban cooperative banks which are termed as primary cooperative banks under the Banking Regulation Act, were initially organised as credit societies which in course of time incorporated banking functions and came to be known by their present description. These banks were promoted with an aim to stimulating thrift, self help and cooperation and to cater to the credit and other banking needs of their members in particular and non-members in general in urban and semi-urban areas. Now this sector has 1653 banks with a total branch network of 4953, and a total deposit of Rs. 28000 crore till last March from 812 banks and a deposit of Rs. 17 crore at the time of India's independence.

Notable Role

The economic survey for the year 1995-96 underlined the continuing crucial role of the credit cooperatives in the economic development as they alone accounted for 67 per cent of the total short term bank disbursement followed

by commercial banks with 28 per cent and RRBs providing the balance 5 per cent during 1994-95, for productive purpose. Further, the Reserve Bank of India has recognised the importance of urban cooperative banks by allowing them to extend their operation to rural areas and providing finance to agricultural activities. These banks have recorded a higher growth rate both in deposits and advances as compared to the commercial banks and their role as an ideal institution to meet the timely credit requirements the weaker sections of the society has been recognised by the experts.

Contrary to the above fact, there have been strong feelings expressed at various corners that the performance of cooperatives in general is not satisfactory and they are not financially viable. Over and above, the liberalised economic policies including extensive reforms in banking sector have posed a threat to the survival and growth of cooperatives.

Many studies and statistical statements relating to cooperative movement in India, published by the RBI and NABARD reveal that during the 20 years beginning from 1974-75 to 1993-94 the number of banks grew at the rate of 6.18 banks per annum and recorded a compound growth rate of 0.52 per cent over the years indicating a very poor growth. One of the key reasons for this phenomenon could be a wide regional imbalance in their growth and spread. For instance, more than 73 per cent of the total urban banks are concentrated exclusively in four states viz., Maharashtra, Gujarat, Karnataka and Tamil Nadu. In most of the remaining states and union territories, the urban cooperative credit movement over the

years is not encouraging.

A broad based membership strength is more essential for the survival and success of every cooperative organisation as it is a voluntary organisation. The membership strength has increased annually and has registered 6.99 per cent growth rate over the years which is reasonable. However, the membership growth is not so pleasing. This gradual growth in membership might be because of the common practice followed by some of the urban banks towards admitting the members. For instance, there are two classes of members viz., regular and nominal. The nominal members are generally admitted to enable them to borrow for a short period against readily realizable securities; the moment they pay off their dues, they cease to be members of the bank which in fact affects the membership strength.

A sufficient amount of paid-up share capital as a part of owned funds indicates an internal financial soundness of any organisation and urban banks are no exception to it. The paid-up share capital has swelled at the rate of Rs. 1817.39 lakh per annum and has recorded 11.10 per cent compound growth rate. Among all the financial indicators, the paid-up share capital has registered the lowest growth rate. The low face value of shares, nominal members admitted just on payment of admission fee, cessation from membership and obtaining refund of shares after availing of the facilities and lack of incentives for the members to enhance their existing share holdings in the banks etc., are some of the reasons for the weak capital base. On the other hand, a spectacular rise in the reserve funds indicate a marked inner resource strength and viability of the banks. The reserve funds have gone up by Rs. 5129.56 lakh per annum and has posted a significant growth rate of 20.38 per cent.

Deposits are the part and parcel of borrowed funds. Mobilized from both the members and non-members, it is

one of the important components of working funds of the banks. And, the lending activities of the banks depend upon the quantum of their working funds. The deposits increased yearly at the rate of Rs. 52503.93 lakh and registered a remarkable compound growth rate i.e. 19.19 per cent. It is worth mentioning that notwithstanding a stiff competition from their counterparts viz., public sector and private sector banks, RRBs and non-banking finance companies (NBFC), the urban cooperative banks made an excellent achievement in the area of deposit mobilisation.

For every banking institution, borrowings from other apex financing agencies is a must in order to augment its resource strength whereby the credit requirements of the people can be met. However, the percentage of borrowings to total working funds should not be too high. The urban banks are mostly understood as self reliant institutions depending upon their own funds and deposits for their operations. The borrowing status of urban banks can be discerned from the fact that these went up by Rs. 3100.52 lakh annually and registered 20.91 per cent growth rate. This proves that the borrowings of the banks have increased sharply over the years. It means, the urban banks borrowed intensely from their apex agencies viz., District and State Cooperative Banks as well as from other financial institutions.

With regard to working capital, an adequate amount of working capital is of paramount importance for every economic activity as the growth and expansion of any business organisation is largely dependent upon the degree of working funds. For the urban banks, the working funds include both the owned and borrowed funds. But, thick equity based working capital structure is felt more desirable. The total working capital increased significantly at the pace of Rs. 70859.29 lakh annually and recorded 19.53 per cent growth rate. Similarly,

it is notable that the urban banks witnessed a satisfactory growth in credit disbursement though there is a continuous declining trend in credit growth experienced by commercial banks which may be attributed to slow down in industrial growth. The total outstanding loans rose by Rs. 41566.01 lakh annually and posted a 19.65 per cent growth rate.

On the other hand, the 'overdues' represent the amount of interest, instalment and other dues outstanding for thirty days or more after the due date. The overdues moved up sharply by Rs. 4599.75 lakh annually and recorded 21.75 per cent, the highest compound growth rate indicating a rising trend of default on the part of the borrowers on the one hand and lack of strict supervision towards recovery of loans on the other. This increasing trend of overdues is not good for the banks since it ceases to generate income for the banks. So far as the credit-deposit ratio is concerned, no significant growth is noticed, and the overdue percentage to total outstanding registered 0.16 per cent and 1.74 per cent respectively.

The overall discussion brings out clearly the following observations:

1. The overall working growth performance of urban cooperative banks is found to be fully satisfactory during the study period, and they have made a remarkable achievement in respect of some variables viz., paid-up share capital, reserves, deposits, working capital and credit disbursement.

2. The physical growth in terms of number of banks over the years is very low which is even less than one per cent. This calls for an immediate attention of the apex cooperative bodies, national as well as state level federations to initiate necessary steps to promote and develop urban cooperative banks in the states and the union territories where the growth is still poor whereby the regional imbalance in their distribution and growth can be minimised. Besides, instead of promoting Local Area Banks (LAB) as an innovative banking

institution, it would be better to develop and strengthen the existing urban cooperative banks.

3. The membership growth is observed to be reasonably good. However, steps are to be initiated to broaden the membership strength so as to have a strong equity base. This may be achieved by creating an awareness among the people about the exclusive benefits of urban banks as compared to other banking institutions.

4. There is a sharp increase in borrowings during the study period. This shows more and more dependency upon the apex financing agencies for their financial needs. Thus, it is very essential for the banks to introduce some measures like raising the face value of shares, discouraging refund of share money, linking borrowing with share holdings motivating the existing members to increase their share holdings etc., to increase their own funds to become self reliant.

5. The 'overdues' which is the most important indicator needs to be taken care of as it has gone up during the study period. This mounting overdues has resulted in an acute problem of recycling of funds which in turn limits the income for the banks. Keeping this in view, the banks must have to find out some suitable ways and means to speed up the recovery of overdues.

6. Though there is no significant growth noticed with regard to credit-deposit ratio, they have registered an impressive C-D ratio on an average, around 80 per cent over the years. On the other hand, the banks showed better performance in collection of credit as the overdue percentage to total outstanding credit is very low, even below two per cent. In this context, the banks' sincere efforts in keeping the overdue percentage well within the reasonable limit is praiseworthy. □

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