

PERFORMANCE EVALUATION OF URBAN CO- OPERATIVE BANKS (UCBS) IN INDIA

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ABSTRACT

Over recent years, the financial health of the urban co-operative sector has shown a remarkable improvement. In 2011-12, the sector showed an increased return on assets and a further fall in the ratio of Non-Performing Assets (NPAs). As per the new CAMELS rating model, 61 per cent of the UCBs, accounting for about 78 per cent of the total banking business of the UCB sector, had ratings of 'A' and 'B', indicating the good financial health of this sector. The Co-operative movement in India was started a century ago with the enactment of Co-operative society Act in 1904. The Co-operative structure in India can broadly be divided into two segments. While the urban areas are served by Urban Co-operative Banks (UCBs), rural co-operatives operate in the rural parts of the country. The banking related activities of UCBs are governed by the Reserve Bank of India(RBI),whereas the registration and management related activities are governed by the Registrar of Co-operative Societies(RCS) in case of UCBs

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operation in single state and Central RCS in case of multi-state UCBs. Keeping the above facts the present paper evaluates the performance of UCBs with absolute financial figures.

Key Words: Co-operative Sector Movement, Urban Co-operative Banks, Financial Performance of UCBs, NPAs of UCBs.

1. INTRODUCTION:

Co-operation is a world-wide movement. It was introduced in India in the early years of this century in the wake of famines, which had resulted in economic hardship and an alarming increase in the indebtedness of the farmers to the money lenders. Co-operative credit on easy terms appeared to be the best means of getting the farmers out of the vicious circle of indebtedness and poverty. The idea was to free the farmers from the necessity of having to borrow money on usurious rates of interest from Sahukars or village moneylenders.

The Co-operative Societies Act, which was passed in 1904, envisaged the formation of village credit societies. In 1912, the Act was amended to enable formation of other types of societies for activities relating to sale, purchase, production, housing etc. This Act also provided for the creation of federations of primary societies and for supervision, audit, mutual control and overall development of the co-operative movement.

In 1919, the subject of co-operation was transferred to the provinces and most of the provinces enacted their own laws to regulate the working of co-operative societies. To give a stimulus to the co-operative movement, the Government of India set up an Agricultural Credit Department in the Reserve Bank of India with a view to providing financial assistance and credit to the co-operatives.

UCBs play an important role by providing banking services to the wider sections of the society in semi urban and urban areas. UCBs collect deposits from the middle and lower income groups and give credit to small borrowers, including weaker section of the society.

The Urban Co-operative Bank (UCB) sector has emerged financially stronger since 2005, when the Reserve Bank of India conceived a Vision Document for the revival of this sector. Through the Document, the Reserve Bank laid down a multilayered regulatory and supervisory approach aimed at the merger/amalgamation of viable UCBs and the exit of unviable UCBs. On

account of this process of consolidation, there has been a continued reduction in the number of UCBs. In continuation with this trend, at end-March 2012, the total number of UCBs stood at 1,618 as against 1,645 at end-March 2011. Further, there was a steady rise in the number of financially stronger UCBs (defined as UCBs belonging to Grades I and II) and a decline in the number of financially weaker UCBs (defined as UCBs belonging to Grades III and IV) between 2005 and 2012. In this context the present paper attempts to study financial performance of UCBs in India. The rest of the paper is organised as follows: **Section II** deals with the objective, scope of study. Review of literature has also been done in this section. **Section III** depict historical Profile of Cooperative Movement in India. **Section IV** represents the types of Co-operative banks and background Of UCBs. **Section-V** describes analysis and results of recent financial performance of UCBs. **Section-VI** describes the conclusion of the paper.

2. Objectives of the Study:

The broad objectives of the study are:

1. To observe the historical profile and background of Co-operative movement in India
2. To analyze the financial performance of UCGs through various parameters.

2.1 Research Methodology:

Our study on the topic Performance evaluation of Urban Co-operative Banks in India is based exclusively on secondary data taken from various issues articles, annual reports of UCBs, newspapers and bulletins issued by Reserve Bank of India (RBI).

2.2 Literature Review:

RBI has constituted various committees- Madhavdas committee (1978)⁹, Marathe committee, Madhav Rao committee-High power committee (1999)¹⁰ etc. have found significance performance and growth of UCBs in India.

In the India context, several studies have been conducted on aspects of progress of UCBs. Notable among them Munsri (1990)⁶, Kulkarni (1996)⁴, Ramesha (2001)⁷, Godse (2002)³, Sen (2002)¹¹, Lopoyetum (2003)⁵, Shouche (2003)¹². They observed that significant growth of UCBs in only five states of Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamilnadu account for 80% of total UCBs in the country. They have also found that high rate of overdue in UCBs.

3. HISTORICAL PROFILE OF COOPERATIVE MOVEMENT IN INDIA:

For the co-operative banks in India, co-operatives are organized groups of people and jointly managed and democratically controlled enterprises. They exist to serve their members and depositors and produce better benefits and services for them. Professionalism in co-operative banks reflects the co-existence of high level of skills and standards in performing, duties entrusted to an individual. Co-operative bank needs current and future development in information technology. It is indeed necessary for co-operative banks to devote adequate attention for maximizing their returns on every unit of resources through effective services. Co-operative banks have completed 100 years of existence in India. They play a very important role in the financial system. The co-operative banks in India form an integral part of our money market today. Therefore, a brief resume of their development should be taken into account.

Around the world modern cooperatives have developed for over 200 years. Cooperative institutions exist all over the world providing essential services which would otherwise be unattainable. In many Third World countries, cooperatives such as credit unions and agricultural organizations have been very successful in helping people to provide for themselves where private and other corporate capitals do not see high profitability. In 90 countries of the world, over 700 million individuals are members of cooperative institutions. Globally, cooperatives have been able to elevate its position as a powerful economic model. In some countries they are a sizeable force within the national economy. The history of co-operative banks goes back to the year 1904. In 1904, the co-operative credit society act was enacted to encourage co-operative movement in India. But the development of co-operative banks from 1904 to 1951 was the most disappointing one.

The first phase of co-operative bank development was the formation and regulation of co-operative society. The constitutional reforms which led to the passing of the Government of India Act in 1919 transferred the subject of "Cooperation" from Government of India to the Provincial Governments. The Government of Bombay passed the first State Co-operative Societies Act in 1925 "which not only gave the movement, its size and shape but was a pace setter of co-operative activities and stressed the basic concept of thrift, self help and mutual aid." This marked the beginning of the second phase in the history of Co-operative Credit Institutions.

There was the general realization that urban banks have an important role to play in economic construction. This was asserted by a host of committees. The Indian Central Banking

Enquiry Committee (1931) felt that urban banks have a duty to help the small business and middle class people. The Mehta-Bhansali Committee (1939) recommended that those societies which had fulfilled the criteria of banking should be allowed to work as banks and recommended an Association for these banks. The Co-operative Planning Committee (1946) went on record to say that urban banks have been the best agencies for small people in whom Joint stock banks are not generally interested. The Rural Banking Enquiry Committee (1950), impressed by the low cost of establishment and operations recommended the establishment of such banks even in places smaller than taluka towns. The real development of co-operative banks took place only after the recommendations of All India Rural Credit Survey Committee (AIRCSC), which were made with the view to fasten the growth of co-operative banks.

The co-operative banks are expected to perform some duties, namely, extend all types of credit facilities to customers in cash and kind, advance consumption loans, extend banking facilities in rural areas, mobilize deposits, supervise the use of loans etc. The needs of co-operative bank are different. They have faced a lot of problems, which has affected the development of co-operative banks. Therefore it was necessary to study this matter.

The first study of Urban Co-operative Banks was taken up by RBI in the year 1958-59. The Report published in 1961 acknowledged the widespread and financially sound framework of urban co-operative banks; emphasized the need to establish primary urban co-operative banks in new centers and suggested that State Governments lend active support to their development. In 1963, Varde Committee recommended that such banks should be organised at all Urban Centers with a population of 1 lakh or more and not by any single community or caste. The committee introduced the concept of minimum capital requirement and the criteria of population for defining the urban centre where UCBs were incorporated.

4. TYPES OF CO-OPERATIVE BANKS

The co-operative banks are small-sized units which operate both in urban and non-urban centers. They finance small borrowers in industrial and trade sectors besides professional and salary classes. Regulated by the Reserve Bank of India, they are governed by the Banking Regulations Act 1949 and banking laws (co-operative societies) act, 1965. The co-operative banking structure in India is divided into following 5 components:

Primary Co-operative Credit Society:

The primary co-operative credit society is an association of borrowers and non-borrowers residing in a particular locality. The funds of the society are derived from the share capital and deposits of members and loans from central co-operative banks. The borrowing powers of the members as well as of the society are fixed. The loans are given to members for the purchase of cattle, fodder, fertilizers, pesticides, etc.

Central co-operative banks:

These are the federations of primary credit societies in a district and are of two types those having a membership of primary societies only and those having a membership of societies as well as individuals. The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank.

State co-operative banks:

The state co-operative bank is a federation of central co-operative bank and acts as a watchdog of the co-operative banking structure in the state. Its funds are obtained from share capital, deposits, loans and overdrafts from the Reserve Bank of India. The state cooperative banks lend money to central co-operative banks and primary societies and not directly to the farmers.

Land development banks:

The Land development banks are organized in 3 tiers namely; state, central, and primary level and they meet the long term credit requirements of the farmers for developmental purposes. The state land development banks oversee, the primary land development banks situated in the districts and tehsil areas in the state. They are governed both by the state government and Reserve Bank of India. Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural development (NABARD). The sources of funds for these banks are the debentures subscribed by both central and state government. These banks do not accept deposits from the general public.

Urban Co-operative Banks

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were

allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered on communities, localities, work place groups. They essentially lend to small borrowers and businesses. Today, their scope of operations has widened considerably.

4.1. Background of UCBs:

The origins of the urban co-operative banking movement in India can be traced to the close of nineteenth century. Inspired by the success of the experiments related to the cooperative movement in Britain and the co-operative credit movement in Germany, such societies were set up in India. Co-operative societies are based on the principles of cooperation, mutual help, democratic decision making, and open membership. Cooperatives represented a new and alternative approach to organization as against proprietary firms, partnership firms, and joint stock companies which represent the dominant form of commercial organization. They mainly rely upon deposits from members and non-members and in case of need, they get finance from either the district central co-operative bank to which they are affiliated or from the apex co-operative bank if they work in big cities where the apex bank has its Head Office. They provide credit to small scale industrialists, salaried employees, and other urban and semi-urban residents.

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today. These banks have traditionally been around communities, localities working out in essence, loans to small borrowers and businesses. Today their scope of operation has expanded considerably.

5. ANALYSIS AND RESULTS:

The recent development of UCBs can be measured on many parameters. The key financial indicators of UCBs were analyzed and it is presented in Table No.1

Table-1
Key Financial Indicators of UCBs

Year	No. of Banks	Deposits (Rs. In Crores)	Advances (Rs. In crores)
2000-01	1762	71703	45856
2001-02	2090	93069	62060
2002-03	2104	100757	64022
2003-04	2105	110256	67930
2004-05	1872	105017	66905
2005-06	1853	114060	71641
2006-07	1813	121391	79733
2007-08	1770	138496	88981
2008-09	1721	157041	96234
2009-10	1674	182862	110303
2010-11	1645	212031	136341
2011-12	1618	238521	158026

Sources: RBI, "Report on Trend and Progress of banking in India" various issues.

No. of Banks:

In June 1967, there were 1106 UCBs in India and by the year 1993, the number increased to 1399. In 2002-03, there were 2104 UCBs and by the year 2011-12, the number decreased to 1618. The number of UCBs for the period 1967-1993 increased by 293 banks (26.49%) and it increased by 705 banks (50.39%) during 1993-2003. However, unfortunately the number of UCBs for the period 2002-03 to 2011-12 decreased by 396 banks (19.66%).

Deposits:

From 1966-93, the recoveries mobilized by way of deposits by the UCBs have registered a phenomenal growth. In June 1967 the total deposits with these banks were be around Rs 153 crores and by the year 1992-93 deposits increased to Rs. 13531 crores. In 2002-03, the total deposits were Rs.100757 crores and by the year 2011-12 deposits increased to Rs. 238521 crores. The deposits of these banks increased by Rs. 10004 crores (6538.56%) in the period 1967-1993. The deposits of these banks increased by Rs. 87226 crores (645%) in the period 1993-2003 and deposits of these banks increased by Rs. 137764 crores (136.72%) in the 2011-12 in comparison of 2002- 03.

Advances:

In June 1967 the total advances of these banks were amounted to Rs.167 crores and by the year 1992-93 advances increased to Rs. 10132 crores. In 2002-03, the total advances were amounted to Rs. 64022 crores and by the year 2011-12 advances increased to Rs. 158026 crores. The advances of these banks increased by Rs. 9965 crores (5967.07%) in the period 1967-1993. The advances of these banks increased by Rs. 53890 crores (531.88%) in the period 1993-2003 and advances of these banks increased by Rs. 94004 crores (146.83%) in 2011-12 in comparison of 2002-03.

5.1 Financial Performance of UCBs

The key financial performance indicators of UCBs were analyzed and it is presented in Table No. 2.

Operating Profit:

Operating profit of UCBs was Rs. 2483 crores in 2006-07 which increased to Rs. 5100 crores in 2011-12. Operating profit increased by Rs. 2617 crores (105.39%) during the period 2006-07 to 2011-12. Operating profit to Total Assets ratios was 1.54% in 2006-07 and by the year 2010-11 it increased to 1.68%. Operating profit increased by Rs. 2229 crores (77.63%) in 2011-12 compared to 2009-10.

Table 2

Financial Performance of UCBs

Year	Operating Profit (Rs. In Crores)	Net Profit (Rs. In Crores)	Operating Profit to Assets Ratio	Net Profit to Assets Ratio
2006-07	2483	1173	1.54	0.73

2007-08	2985	1520	1.66	0.85
2008-09	3549	1746	1.81	0.89
2009-10	2871	1257	1.21	0.53
2010-11	3865	2203	1.41	0.81
2011-12	5100	2800	1.68	0.92

Sources: RBI, "Report on Trend and Progress of banking in India" various issues.

Net Profit:

Net profit of UCBs was Rs. 1173 crores in 2006-07 which increased to Rs. 2800 crores in 2011-12. Net profit increased by Rs. 1030 crores (138.7%) during the period 2006-07 to 2010-12. Net profit to Total Assets ratios was 0.73% in 2006-07 and by the year 2011-12 it increased to 0.92%. Net profit increased by Rs 597 crores (27.09%) in 2011-12 compared to 2010-11.

5.2 Non-Performing Assets of UCBs:

Non-performing Assets of UCBs were analyzed and it is presented in Table-3. The highest Non-Performing Assets in terms of absolute and percentage was in the year 2004-05 and the lowest in terms of absolute was in the year 2011-12 and the lowest in the terms of percentage was in the year 2011-12 during the study period. Gross NPAs of these banks were amounted to Rs. 9245 crores in 2000-01 and by the year 2004-05 Gross NPAs increased to Rs. 15486 crores but it decreased to Rs. 11142 crores in 2011-12. In 2000-01, Gross NPAs to Gross Advances Ratio of these banks was 16.1% and by the year 2004-05 it increased to 23.4%. However, this ratio sharply decreased to 7.0% in 2011-12. In 2002-03, Net NPAs to Total Advances Ratio of these banks was 13.0% and by the year 2004-05 it increased to 12.5%. However, this ratio sharply decreased to 2.0% in 2011-12. In 2006-07, Net NPA to Net Advances Ratio was 8.8% and by the year 2011-12 it decreased to 2.1%.

Table-3

Non-Performing Assets of Urban Co-operative Banks

Year	No. of Reporting Banks	Gross NPAs (Rs. In Crores)	Gross NPAs to Total Advances Ratio	Net NPAs to Total Advances Ratio	Net NPAs to Net Advances Ratio
2000-01	1942	9245	16.1	NA	NA
2001-02	1937	13706	21.9	NA	NA

2002-03	1941	12509	19.0	13.0	NA
2003-04	1926	15406	22.7	12.1	NA
2004-05	1872	15486	23.4	12.5	NA
2005-06	1853	13506	18.9	12.3	NA
2006-07	1813	14541	18.3	7.82	8.8
2007-08	1770	14037	15.5	6.83	7.7
2008-09	1721	12862	13.0	5.36	5.9
2009-10	1674	11399	10.1	3.39	3.9
2010-11	1645	11529	8.5	2.30	2.5
2011-12	1618	11142	7.0	2.0	2.1

Sources: RBI, "Report on Trend and Progress of banking in India" various issues.

5.3 Grade-Wise Profile of Urban Cooperative Banks:

UCBs are graded into four categories based on their financial performance. This financial performance is determined by various parameters including capital adequacy, level of NPA, history of profit/loss. While UCBs from Grades I and II can be consider as relatively stronger banks, the banks belonging to Grades III and IV can be classified as sick or weak banks. Grade-Wise distribution of UCBs analyzed and it is presented in Table No. 4.

Table - 4 shows that number of sound banks increased and number of weak banks declined over the last four years. However, total number of banks decreased. The percentage of banks in Grade-I and II together constituted 76.26% of total UCBs as at the end -March 2012 compared to 61.86% at end March-2004. On account of consolidation process going on in the Urban Co-operative Banking sector, percentage of Grade III and IV banks witnessed a declining trend in recent years.

Table-4

Grade-Wise Distribution of UCBs

Year	Grade I	Grade II	Grade III	Grade IV	Sound Bank (Grade I + II)	Weak Bank (Grade III + IV)	Total No. of Reporting Banks

2003-04	880 (45.86)	307 (16.00)	529 (27.57)	203 (10.57)	1187 (61.86)	732 (38.14)	1919 (100)
2004-05	807 (43.11)	340 (18.16)	497 (26.55)	228 (12.18)	1147 (61.27)	725 (38.73)	1872 (100)
2005-06	716 (38.64)	460 (24.82)	407 (21.96)	270 (14.57)	1176 (63.46)	677 (36.54)	1853 (100)
2006-07	652 (35.96)	598 (32.98)	295 (16.27)	268 (14.78)	1250 (68.95)	563 (31.05)	1813 (100)
2007-08	748 (42.26)	526 (29.72)	258 (14.58)	238 (13.45)	1274 (71.98)	496 (28.02)	1770 (100)
2008-09	845 (49.10)	484 (28.12)	219 (12.73)	173 (10.05)	1329 (77.22)	392 (22.78)	1721 (100)
2009-10	879 (52.51)	405 (24.19)	179 (10.69)	151 (9.02)	1344 (80.29)	330 (19.71)	1674 (100)
2010-11	845 (51.37)	497 (30.21)	172 (10.46)	131 (7.96)	1342 (81.58)	303 (18.42)	1645 (100)
2011-12	734 (45.36)	544 (33.62)	200 (12.37)	140 (8.65)	1234 (76.26)	384 (23.74)	1618 (100)

Note: Figures in parentheses are percentages to total UCBs.

Sources: RBI, "Report on Trend and Progress of banking in India" various issues.

6. CONCLUSION

The study has shown that during the period 1991-2004 the urban co-operative banking sector witnessed substantial growth, possibly encouraged by the liberalized policy environment in post reform period. During the past six years, the number of UCBs decreased due to ongoing consolidation process of the UCB sector in the form of merger/acquisition among financial viable bank and exit of the non-viable ones, there was a concentration of number of UCBs in grade-I and II (76%). Deposits, advances, operating profit, net profit of UCBs have increased during the study period. In 2011-12 deposits, advances, operating profit and net profit increased by 12.49%, 15.90%, 24.22% and 27.10% respectively compared to 2010-11. Gross NPAs as well as Net NPAs ratios declined during the same period implying improvement in asset quality for the UCB sector. The study also shows that overall financial performance of UCBs improved during the study period. UCBs should proactively adopt Corporate Governance and should not wait for its imposition by statute for the development of UCB sector. For the implementation of

Corporate Governance Board of Directors play a very crucial and vital role. Therefore, The Board of Directors of UCBs should implement professional management approach. Reserve Bank of India and government should co-operate with UCBs for their development.

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