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**DEVELOPMENT IN CO-OPERATIVE BANKS IN INDIA**

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**ABSTRACT**

Cooperatives represent a new and alternative approach to organization as against proprietary firms, partnership firms, and joint stock companies which represent the most important form of commercial organization. Chiefly relying 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 to or from the apex co-operative bank if they work in big and metro 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. Co operative Banks in India are registered under the Co-operative Societies Act. The cooperative bank is also regulated by the Reserve Bank of India. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

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**ROLE OF CO-OPERATIVE BANKING IN INDIA**

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Co-operative Banks are much more imperative in India than anywhere else in the world. The distinguishing character of this bank is service at a lower cost and service without exploitation. It has gained its magnitude by the responsibility assigned to them, the hopes they are supposed to fulfil, their number and the number of offices they manage. Co-operative banks role in rural financing continues to be essential day by day, and their business in the urban areas has augmented extraordinarily recent years mainly due to the quick increase in the figure of primary co-operative banks. In rural areas, so far as the agricultural and allied activities are concerned the contribution of credit was insufficient and moneylenders would take advantage of the poor people in rural areas providing them loans at higher rates. It was the reason that co-operative banks mobilize deposits, deal in agricultural & rural credit with a wider outreach, and afford institutional credit to the farmers. Co-operative banks have also been vital instruments for various development schemes, particularly subsidy based programmes for the poors. The Co-operative banks in rural areas primarily finance agricultural based performance like; Farming, Cattle, Personal finance, Milk, Hatchery,. The Co-operative banks in urban areas provide money to activities like; Small Scale Units, Social Services-Health, Education Home finance, Consumers finance, Self-employment, Industries, Personal finance, etc. Some of the forward-looking Co-operative banks have developed satisfactory competencies to the extent that they are able to face state and private sector banks. The exponential growth of Co-operative banks were credited mainly to their much better contacts with the local people, personal interaction with customers and their ability to grab the nerve of the local clients. The total deposits and lending contribution of Co-operative banks are much more than the old as well as the New Private Sector Bank.

Co-operatives account for a reasonably minute share in the bank-dominated Indian financial organization; on the other hand, given their geographic and demographic outreach, they hold an important place in the system. In rural areas, so far as agricultural & associated actions were concerned, the corporative banks have provided sufficient short-term and long-term institutional credit at reasonable rates of interest. Co-operative banks were made a fundamental part of the institutional structure of community growth and extension services which were assigned the significant role of delivering the fruits of economic planning at the grass-root level. In this circumstance, the present study attempted to re-evaluate the functioning of Growth of Cooperative banking in India. The particular purpose of the study was to analyse the performance of urban cooperative bank. The study has analysed the performance of the bank with regard to deposit mobilisation, issue of loans and advances, recovery of loans, regarding the overall working output of the Bank. The data required for this study were collected through imitative sources.

A co-operative bank is defined as "a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. The term Urban Cooperative Banks, although not properly and officially defined, refers to the primary cooperative banks located in urban and semi-urban areas. These banks, until 1996, were permitted to lend money only to non-agricultural purposes. This distinction remains today. These banks have conventionally been in the region of communities, localities working out in fundamental nature, loans to small borrowers and businesses. Today their scope of operation has expanded significantly.

### **URBAN CO-OPERATIVE BANKS**

The term co-operative banks although not officially and properly defined, refer to most important co-operative banks located in urban and semi-urban areas.

These banks till 1996, allowed lending money only for non-agricultural purposes. Urban Co-operative Banks are an essential part of the financial system in India. It is, therefore, essential that the Urban Co-operative Banks emerge as a sound and healthy network of jointly owned, democratically controlled, and decently managed banking institutions as long as need based quality banking services, fundamentally to the middle and lower middle classes and marginalized sections of the society. They essentially borrowed to small borrowers and businesses. Today their scope of operations has widened consider. From its origins then today, the power of the Urban Co-operative Banks, traditionally, has been to mobilise savings from the middle, grass -rooted and low income urban groups and supply credit to their members-many of which belonged to weaker sections.

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 the co-operative credit movement in Germany and cooperative movement in Britain, 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.

### **OBJECTIVES OF THE STUDY**

1. To analyses the performance of urban cooperative bank.
2. To review the performance of various tiers of the short term and long-term rural co-operative credit structure.
3. To study the Progress relating to Revival of Rural Co-operatives.
4. To study the impact of ‘size’ on the efficiency of the Urban Cooperative Banks.

### **EMERGENCE OF A STRONGER URBAN COOPERATIVE BANK SECTOR THROUGH CONSOLIDATION**

The Urban Co-operative Bank sector has emerged economically stronger since 2005, when the reserve bank conceived a vision document for the restoration of this sector. Through the document, the reserve bank laid down a multi layered regulatory and administrative approach aimed to the combination and blend of viable Urban Co-operative Banks and the exit of unviable Urban Co-operative Banks. On account of this process of consolidation, there has been a continued reduction in the number of Urban Co-operative Banks. In continuation with this trend, at end-March 2012, the total number of Urban Co-operative Banks stood at 1,618 as against 1,645 at end-March 2011. Further, there was a steady rise in the number of economically stronger Urban Co-operative Banks (defined as Urban Co-operative Banks belonging to Grades I and II) and a decline in the number of financially weaker s (defined as Urban Co-operative Banks belonging to Grades III and IV) between 2005 and 2011.

#### **STATUS OF URBAN CO-OPERATIVE BANKS IN INDIA**

Indian Banking system is on its sound footing UCBs in India are playing major role in servicing rural economy and there is no need to worry as evident from following data regarding UCBs in India.

- Total Number of Banks in India 1770.
- Total Deposits Rs.1, 12,000 crs
- Total Advances Rs. 78,000 crs.
- Total No. of scheduled banks in India 53.
- Total No.of Mahila Banks 139.
- Total No.of 1 Unit Banks 900.
- Salary Earner Banks 24.
- Total deposits of scheduled banks Rs. 51,173 crs (42% of total deposits of UCBs)
- Total advances scheduled banks Rs. 32,884 crs.

### Net profit of Urban Co-operative Bank in india

Net profits of Urban Co-operative Banks enhanced in 2010-11 as compared to the previous year owing to elevated growth of their total income. But the gross as well as net NPA ratio of Urban Co-operative Bank sector declined.

**The following are the areas which are required to take certain measures to be strengthened**

- The pattern of resources of Urban cooperative banks(owned funds, deposits, and borrowings).
- The deployment of resources.
- The management and supervision.
- The role of UCBs in the financial system.
- The regulatory framework for cooperatives.

**The following measures**

- Strengthening of regulatory and supervisory framework.
- Enhancing capital adequacy standards.
- Introducing stringent licensing norms for new entrants into the sector.
- Enabling legal amendments.
- Corporate governance measures need to be given very close attending.

### Report on Trend and Progress of Banking in India 2011-12

#### Tier-wise Distribution of Urban Co-operative Banks

(As at end-March 2012)

Tier type	No .of banks		Deposits		Advances		Assests	
	Number	% to total	Amount	% to total	Amount	% to total	Amount	% to total
<b>Tier I UCBs</b>	1234	76.3	410	17.2	260	16.5	527	17.4

<b>Tier I UCBs</b>	384	23.7	1975	82.8	1320	83.5	2506	82.6
<b>All UCBs</b>	1618	100.0	2385	100.0	1580	100.0	3033	100.0

### **A NEW CAMELS RATING METHOD FOR JUDGING THE ECONOMIC POTENTIAL OF UCBS**

Urban Co-operative Banks were earlier classified into various grades based on their economic health for regulatory and administrative purposes. However, with the introduction of the CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and systems & control) rating model, this classification was discontinued and a newer dimension was introduced to judge the financial strength of Urban Co-operative Banks, namely, the credit rating of these institutions.

Under the new CAMELS rating model, a complex rating of A/B/C/D (in declining order of presentation) is being given to a bank, based on the weighted average rating of the individual components of CAMELS. The rating of A/B/C is suffixed with a '+' or '-' sign, wherever essential, to reflect granularity in the components and composite rating of the bank. The rating of D represents the lowest rating. As per this new classification, at end-March 2012 about 61 per cent of the Urban Co-operative Banks had composite ratings of A and B, accounting for about 78 per cent of the total banking trade (represented by deposits plus credit) of the Urban Co-operative Bank sector. Further, 32 per cent of the Urban Co-operative Banks had a composite rating of C; these Urban Co-operative Banks accounted for about 18 per cent of the banking business of the Urban Co-operative Bank sector. Only about 7 per cent of the Urban Co-

operative Bank s had the lowest rating of D, indicating the weakest economic health.

**RATING-WISE DISTRIBUTION OF UCBS**

(As at end-March 2012)

Rating	No. of UCBS	% to total number	Deposits	% to total deposits	Advances	% to total advances
A+	5	0.3	36	1.5	27	1.7
A	46	2.8	366	15.3	251	15.9
A-	140	8.7	388	16.3	263	16.6
B+	296	18.3	491	20.6	332	21.0
B	353	21.8	432	18.1	284	18.0
B-	141	8.7	148	6.2	93	5.9
C+	318	19.7	303	12.7	193	12.2
C	145	9.0	79	3.3	49	3.1
C-	59	3.6	52	2.2	32	2.0
D	115	7.1	91	3.8	56	3.6
Total	1618	100.0	2385	100.0	1580	100.0

**Distribution of UCBS by deposits**

Deposits in billion	Number of UCBS		Advances of deposits	
	Number	% share	Number	% share
0-0.10	258	15.9	17	0.7
0.10-0.25	392	24.2	72	3.0
0.25-0.50	324	20.0	122	5.1
0.50-1.0	300	18.5	321	13.5
1.0-2.5	205	12.7	314	13.2
2.5-5.0	60	3.7	194	8.1

5.0-10.0	40	25	264	11.1
10.0 and above	39	2.4	1081	45.3
<b>Total</b>	<b>1618</b>	<b>100.0</b>	<b>2385</b>	<b>100.0</b>

### Distribution of UCBS by advances

Advances in billion	Number of UCBS		Advances of deposits	
	Number	% share	Number	% share
0-0.10	459	28.4	29	1.8
0.10-0.25	450	27.8	75	4.8
0.25-0.50	256	15.8	93	5.9
0.50-1.0	199	12.3	146	9.2
1.0-2.5	149	9.2	256	16.2
2.5-5.0	50	3.1	177	11.2
5.0-10.0	34	2.1	227	14.4
10.0 and above	20	1.2	577	36.5
<b>Total</b>	<b>1618</b>	<b>100.0</b>	<b>2385</b>	<b>100.0</b>

### Rural Co-operatives

Revival in profitability of short-term co-operatives as against long-term cooperatives. The output of short-term credit co-operatives, at the collective level, has shown a distinct revival since 2008-09. This is in contrast with the earlier years, when there was a constant boosting in the losses reported by these co-operatives. The increase in the output of short-term credit cooperatives could be partly accredited to the reforms implemented across several States as part of the revival package for these institutions. On the other hand, long-term credit cooperatives showed a continued decrease in productivity with absolutely no signs of revival.

## A profile of rural co-operatives as on 31 march 2011

Items	Short-term			Long-term	
	StCBs	DCCBs	PACs	SCAR DBs	PCAR DBs
<b>1. Number of co-operatives</b>	31	370	93413	20	697
<b>2. Balance sheet indicators</b>					
A. Owned Funds (Capital +Reserves)	112	242	145	45	49
B. Deposits	783	1651	372	10	5
C. Borrowings	319	424	540	162	128
D. Loans and advances	640	1308	878	178	116
E. Total liabilities/Assests	1302	2541	1442	285	252
<b>3. Financial performance</b>					
<b>i. Institutions in profit</b>					
A. Number	30	318	44554	9	329
B. Amount in profit	5.2	14	18	1	2
<b>ii. Institutions in loss</b>					

A. Number	1	52	38065	10	368
B. Amount in loss	0.6	5	20	4	4
<b>iii. Overall profit/Loss</b>	4.6	9	-2	-3	-2
<b>4. Non-Performing assests</b>					
A. Amount	57	153	227	61	48
B. As percentage of Loans Outstanding	8.9	11.6	25.2	34.3	41.7
<b>5. Recovery of Loans to Demand ratio (percent)</b>	91.8	78.8	-	40.0	39.4

**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.

### **Short-term co-operatives dominate rural co-operative credit structure**

Over the years, there has been a growing supremacy of short-term credit co-operatives in the rural co-operative credit structure. Concurrently, the share of long-term credit co-operatives has been on a balanced turning down.

### **Progress relating to Revival of Rural Co-operatives**

Substantial advancement has been made in revitalizing the short term co-operative credit structure. A major improvement in the area of rural co-operatives has been their restoration through a practical action plan that follows the recommendations of the Task Force on Rejuvenating of Co-operative Credit Institutions in 2004. The action plan was finalised by the Government of India in consultation with the State Governments. The package largely aimed at providing financial support to co-operatives and introducing legal and institutional reforms in these institutions.

### **Progress relating to Rural Credit Measures that have Specific Implications for Co-operatives Kisan Credit Card**

The Kisan Credit Card (KCC) scheme is being implemented through co-operatives, SCBs and RRBs to provide easy access to adequate, timely and cost-effective credit for farmers.

### **Overall Assessment**

A more advantageous, sound and growing is the Urban Co-operative Banks sector, but with concerns relating to capital competence. The sector, as a whole, has posted double-digit growth in assets along with an enhancement in prosperity and asset quality in 2011-12, as in the recent past. As a fall-out of consolidation, there has been expansion in stronger entities and the exit of weaker entities from this sector.

### **Financially weak short-term rural co-operative sector, with some signs of revival at the apex levels**

Within rural co-operatives, short-term rural co-operatives at the apex levels showed some signs of revitalization in terms of abundance and asset quality in 2010-11, as in the recent past, which could be partly attributed to ongoing reforms in this sector.

### **Financial health of long-term rural co-operative sector continues to be fragile**

In contrast to short-term rural co-operatives, long-term rural co-operatives continued to post losses and also exhibited weak asset quality in 2010-11, as in the past. The growth in the asset size of both State & Primary co-operative Agriculture & Rural Development Banks remained much lower than their short-term counterparts in 2010-11, as in the recent past. This led to a continuing turning down in the share of long-term co-operatives in the total assets of the rural cooperative sector.

### **The Efficiency of a Banking Institution**

Effectiveness or efficiency is measured by the ratio of outputs to inputs, where larger value of this ratio indicates better presentation. The concept of effectiveness is meaningful in the case of banking operations. In the literature pertaining to productive evaluation of banks, various measures of efficiency have been proposed, like scale efficiency, scope efficiency, allocative efficiency, productive efficiency, technical efficiency etc. (1993). Economically, efficiency refers to the relationship between limited factor inputs and outputs of goods and services. This association can be seen & evaluated in terms of either physical output or cost. Technological or technical efficiency identifies and determines the best possible (optimal) blend of inputs to generate a given level of output in physical term. With regard to technical inefficiency it is caused by the failure to achieve the best possible output levels and/or usage of an excessive amount of input. On the other hand, financial efficiency or cost efficiency determines the optimal combination of inputs that will gradually decrease the cost of producing a given level of output to a minimum. This kind of efficiency requires the availability of input prices like price of labour and capital. Due to the absence of accurate data on the input prices, in the present work mainly deal with technical efficiency for analysing the efficiency of banks.

### **CONCLUSION**

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Conclusively the reforms pertaining to the urban co-operative and short-term rural co-operative sectors seem to have set in motion a process of rejuvenation in these sectors. As regards the urban co-operative sector, the improvement in financial performance and health is better established by now; for the short-term rural co-operative sector, the rejuvenation is more fragile and yet to spread across all regions in the country and all tiers of the sector. In the forth-coming years, it needs to be seen whether the revival or rejuvenation is sustained and broad-based. Further, it is very important to pave the way for a rejuvenation of the long-term rural co-operative sector given the vital role played by these institutions in stepping up capital formation in Indian agriculture. At present in India, urban cooperative banks are subjected to duality of control and this has justifiably resulted in overlapping jurisdiction of the state Government and the central bank of the country. Moreover, a clear-cut demarcation of the financial and administrative areas for regulation is almost impossible and even if it is possible it surely acts as an impediment in effective supervision. While the central bank of the country has the resources under the Banking Regulation Act for dealing with fundamental aspects of functioning of commercial banks, in the case of cooperative banks it requires the involvement of the Registrar of Cooperative Societies (state Government). Thus, the duality of control not only affects the quality of supervision and regulations, but also the functioning of the urban cooperative banking sector. Needless to mention herein, under this regime of duality of control, the urban cooperative banks may turn out to be neither efficient cooperative nor commercial banks. It appears that ‘duality’ is not an unresolved concurrent jurisdiction issue. The real problem is that under the existing framework, the Central Bank is required to enforce its regulatory prescriptions through the Registrar of Cooperative Societies. The situation is gradually changing and it is extremely satisfying that the position is evolving for the better with several State Governments (including Madhya Pradesh)

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executing specific MoUs with RBI in regard to resolving problems arising out of dual control regime. So a convergent approach needs to be adopted for the development of the sector, which is an important part of the financial system.

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