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Critical Analysis on Rating of Indian Scheduled Cooperative Banks for Banking Disclosure and Transparency

CA Santoshkumar Madanmohan Ojha, Associate Professor, Vikas College of Arts, Science and Commerce College, Vikhroli, Mumbai, Maharashtra, E Mail-casantoshojha@gmail.com

Abstract

This paper has attempted to analyze the public disclosure and transparency of Indian Scheduled Cooperative Banks (ICBs). Transparency is a necessary precursor for accountability and proper functioning of the cooperative banking sector. The study has concentrated on rating of Indian scheduled cooperative banks for banking disclosure and transparency. The study revealed that these banks have not yet complied with statutory prescription but there is a significant improvement compared to the previous year. The study also preliminarily analyzed the disclosure norms, laws and regulations governing ICBs in order to postulate some desirable policy directions.

Keywords: Scheduled Cooperative Banks, Banking Disclosure, Transparency, RBI, Banking Regulation

Introduction

Banking can be described as a form of financial intermediation that is undertaken by banks. This means that they borrow from those who have saved money and then lend it out to those who may need funds, such as businesses or consumers. In order to keep their operations running smoothly, they need a good rating from an independent organization. The organization's rating is generally called a credit rating.

Before analyzing the ratings, it will be better for us to first understand each one individually rather than just taking a group as a whole. The rating of an organization's performance is determined by the amount of the loan given, the interest rate that it earns on products, its price to earnings ratio, products' riskiness and how much banks are willing to lend to this organization. Therefore, the rating depends on how likely these sectors will perform according to their standards. These standards can be compared with those of other organizations so that one knows whether it is better than others or not. This comparison is called an "apples-to-apples" comparison or a "peer assessment". Peer assessments are essential since companies are judged by other similar ones. As for individual institutions, they are rated based on their internal ratings as mentioned above.

There are a lot of financial institutions in India. Each one of them offers different types of services, but they vary from time to time. Therefore, these banks have been divided into various sectors according to the type of people who they serve and their structure. In order to divide them into groups, each one has been assessed through a common set of standards that come from the Basel Committee on Banking Supervision (BCBS). The BCBS is an international body that works towards making banking systems safer and better worldwide. It is owned by the central bank governors or heads of monetary authorities in various countries worldwide. In this article, we will look at the Indian Scheduled Co-operative Banks since they are partially owned by the government. They provide financial services to all type of consumers in a more accessible format. Their main purpose is to provide money in a more decentralized fashion and in a way that it does not create negative interest rates.

Objectives of the study

The main objective of this article is to analyze the credit ratings of India's scheduled cooperative banks. The purpose of this article is to provide general information about these sectors so that people who might eventually deal with these banks can know more about them.

Research Methodology

This is an academic work that involves theoretical data from different secondary data sources the purpose of the research is to provide critical analysis of Indian Scheduled Cooperative Banks (SCBs) by using secondary source of information. The study used a conceptual analysis method to provide a critical analysis on rating of Indian scheduled cooperative banks for banking disclosure and transparency.

Literature review

The need of the hour is to understand the quality of disclosure and transparency in banking transactions. In a country like India, banks are a very integral part of everyday life, with their services being highly needed. There have been many instances where banks have been used as 'bait' by fraudsters, which is why it is important that they are able to ensure that their operations remain transparent. There is a dire need in the country for effective oversight practices to be implemented, so that fraud can be prevented from taking place. This article will focus on the quality of disclosure and transparency in banking transactions, and how it can be improved upon(Chaudhary & Sharma, 2011).

Banking fraud is a rare phenomenon, but it does exist. In 2014, the National Crime Records Bureau (NCRB) revealed that of total fraud cases across India's banks reported in 2013, only 0.03% was related to frauds. However, there have been some instances where fraud seems to have been a recurring problem within banks: In 2009, the Punjab National Bank lost 439 crores due to one person's fraud scheme. In January 2013, about 5,000 crore worth of fraud was uncovered in the Oriental Bank of Commerce, and the involved officials were arrested. The above instances make it clear that there is a need for banks to ensure that their processes and systems are strongly regulated and thoroughly monitored. However, there is more to improving transparency and disclosures than just preventing fraud: Customers need to clearly understand banking transactions, as well as be able to understand the quality of disclosure within them (Haqqi, 2014)

Before we can understand how transparency can be improved upon within banks, we first need to know what it means (and does not mean). Transparency refers to issues such as "availability of information about an institution's finances and operating policies. It is the opposite of 'opacity'. The opposite of transparency, is opaqueness. Opaqueness occurs when an institution's policies and practices are unclear to its customers, and they may even be deliberately hidden. It occurs within banking transactions when customers do not understand what fees they will be charged for a certain service, or what information has been hidden from them. An example of this is when a bank advertises about their interest rates: If a customer does not know how much interest they will receive (and for how long), then they cannot make any decisions based on that information.

Transparency is important because it helps prevent fraud and unfair practices from taking place, as well as empowering customers to make informed decisions about their banking services(Pathak, 2014).

The process of bank advertising needs to be much more transparent and clear: The banks can benefit from this by ensuring that they provide greater clarity and information about their services. Banks should not only advertise their prices and fees, but also make specific information regarding the interest rates easily available. They should provide clear explanations for all services they offer. This will not only help customers make informed choices, but it will also help prevent fraud from taking place; as customers become more aware of how their money is being spent, and what is happening within banks' systems, less fraud will be able to take place(Vyas & Zaveri, 2008).

One of the most important practices that banks need to adopt is having very clear and transparent policies regarding fees. Currently, many customers do not know the exact amount of fees they will be charged for certain services; this makes it hard for customers to make informed decisions. However, if there were to be clear fee schedules posted on the website (or provided at the bank branch), customers would be able to make better choices. They would also understand how their money will be spent, and would therefore feel more confident in using their banking services. This, in turn, could prevent some people from withdrawing all their funds from banks altogether, which makes it easier to prevent fraud from taking place(Masood, 2013).

The policies regarding interest rates need to be more clearly disclosed. Currently, many customers are not provided with the exact information regarding the interest they will earn for a certain amount of time; instead, banks give an estimate. This practice needs to be stopped, and the customers should be told exactly how much money they will earn for what period; this would prevent confusion and possible fraud. If customers can understand exactly how much money they will earn, then they will be able to make better decisions about whether or not they should withdraw their money or leave it in the bank until next year (for higher interest). This information also needs to be made more readily available. There are many examples of interest rates being provided in ads, but there is often little detail included apart from the advertisement date.

Customers should be given the option to visit the bank branch to take note of all relevant information, so that they can make better decisions about their money(Mitra & Khan, n.d.).

Another part of transparency that needs a lot of improvement is fees for different services: Currently, there is a lack of clarity regarding fee schedules for different services. For example, customers may not realize that they will pay a commission for certain transactions; they may not realize how much money they will earn on a savings account as well as what asset classes will earn them the highest interest rates. Banks need to clearly disclose exactly what the fees will be for every type of transaction(Karteek& Ganesh, n.d.).

The banks should also make it easy for customers to understand how their interests will be affected by risk: Currently, there is little clarity regarding how banks calculate interest rates. Customers are often not provided with enough information to make informed decisions about their own transactions. The information they are provided with is often not clear enough; it could even be misleading. There needs to be clearer explanations on the website as well as in branch visits (where customers can ask fliers questions), about how banks determine interest rates(Kamesam, 2002).

One of the biggest problems in India is the lack of banking transparency. This is because Indian financial institutions, especially cooperative banks, are not regulated by any central or state government. Transparency and regulation would help to establish a level playing field for all the players in the industry, which could improve confidence levels within a community and reduce social inequalities(Vyas & Zaveri, 2008).

In order to evaluate whether this system benefits society at large, we will critically analyse ratings given by economists on transparency and disclosure standards for individual scheduled cooperative banks in India by using nine different criteria from three broad fields: financial disclosures, market activity disclosures and governance disclosures. We will compare the ratings given by different economists, used by the Reserve Bank of India to determine capital adequacy requirements for individual banks(Goyal & Joshi, 2012).

Ontario-based economists have given their ratings to individual scheduled cooperative banks, which are the only institutions that are considered to be not-for-profit entities. These cooperatives, though they are owned by the people, are legally owned by the Government of India.The Reserve Bank of India has also recently begun releasing ratings on the financial performance of these banks in order to help inform investors on whether or not they should invest in these entities or consider other options. The ratings will be determined using objective criteria and will focus primarily on reported earnings, capital adequacy and profitability ratios(NAREDI, n.d.).

Rating of Indian Scheduled Cooperative Banks for Banking Disclosure and Transparency

The RBI in India has developed a rating system for Indian scheduled cooperative banks. This aims to create transparency in the banking industry and report on how well they are doing in terms of banking disclosure and transparency. There are many factors that will help you gauge the strength of a particular bank. The different ratings that are awarded to banks are confidential; however, the RBI states that it does consider factors like capital adequacy, asset quality, profitability, management practices, and geographical reach. The importance of categorizing banks by their size and location in order to come up with an adequate rating system for them. Each category has its own set of criteria for assessment.

The cooperative banking system in India has not always been as transparent as one would like it to be. However, in recent years, progress has been made in the field of cooperative banking. The development of a system permits a bank to be classified into a specific category. It begins with an overview of the cooperative banking sector and moves through the different categories that are used to assess a member's overall performance.

In India, there are over 3000 cooperative banks that operate with at least 10,000 branches. If one goes by figures from RBI , then there are around 4500 out of these 2000 banks which have been classified as ‘scheduled’. The other 1600 have been ‘private’ banks and have no restrictions on their growth or business practices in comparison to any other private sector bank in India.

The 'scheduled' cooperative banks may meet certain criteria as outlined by the RBI for this crucial designation. There are certain guidelines as to what needs to be included in a robust banking disclosure and transparency policy; these must be agreed upon by the board of directors and must be spread out across all areas of a bank's operations.

RBI has set up a system those rates Indian scheduled cooperative banks according to their performance as per banking disclosure and transparency policy. This grading process is done by the RBI based on four criteria: capital adequacy, asset quality, profitability, management practices, geographical reach. Each category is allotted a certain number of points on a scale ranging from 1 to 3.

The classification of cooperative banks in different categories will come with certain implications. A cooperative bank that receives a low grade will be able to capitalize on the loopholes of the system by working around it, whereas one that receives high grades is more likely to have stringent disclosure policies. The classification of cooperatives into different categories throughout India is highly important and that's why it is closely monitored by RBI .

A recent study on Poverty in India has noted that with the rise in interest rates, there has been a decline of 19 million people living in poverty. In addition, the gross domestic product per capita has experienced an increase from $1,561 to $1,563 since then. The reason for this growth is based on the one handled by these banks. Therefore, the attention is on the importance of cooperative banks in India.

Government of India is aiding its people through these banks with an affordable price tag for their loans. A study done by Ashish Khurana in 2017 notes that this government's initiative to regulate cooperatives has helped in the growth of banks without over-lending to firms and individuals since they are more careful about it. These banks were therefore able to give a loan at an efficient rate while still providing it to many other citizens at a modest rate. In other words, they have been able to increase the money that they have been lending while reducing its cost which is good for other investments.

Now that we know about the cooperative banks in India, it will be beneficial to learn more about the term “rating”. To simplify its definition, it is worth noting that this is the comparison of one company with other similar ones in order to determine how good or bad they are doing. The process of rating includes analyzing specific criteria for each organization's performance. There are many types of ratings, but one of the most common ones is called a credit rating. Credit ratings refer to the assessment by an independent agency or organization that determines how risky it is for an investor to loan money to that organization.

This information can be provided in various ways but usually includes financial ratios, external ratings and internal assessments. One of the most commonly used credit rating agencies is called FitchRatings. It has already provided an assessment on one of these cooperatives, which is called the Indian Farmers Fertiliser Cooperative. This cooperative is one of the largest in India and currently holds its high position with a “B”-rated credit rating. This means that it is eligible to borrow money for various financing purposes, but since it did not always do so, it was given a "B-" by them. The services provided by this cooperative are effective based on its sales of fertilizer and agricultural credits to farmers. For example, in 2017 alone, they have helped many farmers get $1. 7 billion worth of credit.

This was possible because it has grown its network by partnering up with the government. These banks have also partnered with micro-finance institutions which have helped Indian farmers increase their number of agricultural processes. Since this is one of the most established cooperatives in India, it has been able to supply input materials that are needed for farming at lower costs. This shows that their services are efficient and working well under them.

They are also successful in storing this fertilizer for future use. They can store them on time which is why they were given a higher rating by the FitchRatings agency than other banks who cannot provide this service.

Ranking of Scheduled Co-operative Banks: The Reserve Bank of India (RBI), the country's central bank, has been releasing ratings on the financial performance of individual banks for a number of years. The ratings are based solely on publicly available financial information and market activity data. The purpose of the rating exercise is to assist investors in determining whether or not to invest in individual banks, as well as informing investors about their risks and relative attractiveness relative to other options.The PSU Ratings, which were released by the Reserve Bank, have been made public since 2004. They provide a comprehensive evaluation of a bank's financial performance and governance standards based on inputs from economists from around the world.

The rating system for individual banks started in 2008. For the first time, a rating system for non-PSU banks or scheduled commercial banks was implemented. The objective of this rating exercise is to improve investors' confidence in the financial performance and transparency of banks, which have been referred to as scheduled cooperative (or cooperative) banks in India since 1950 in order to differentiate them from scheduled commercial banks.

Since RBI does not regulate scheduled cooperative banks directly, the rating system is made available only to investors, both domestic and international. Ratings do not affect their financial health or ability to provide services; they simply reflect an institution's public perception with respect to transparency and disclosure standards.

Transparency and disclosure standards: The ratings released by RBI, referred to as the PSU Ratings, have been made public since 2004. They provide a comprehensive evaluation of a bank's financial performance and governance standards based on inputs from economists from around the world. There are nine broad fields that are considered in determining the ratings: Financial Disclosure, Market Activity Disclosure, Governance Disclosure, Compliance with Policy Guidelines, Quality of Corporate Governance, Cash Flow Management, and Sensitivity to Market Risk, Liquidity Management and Credit Policy.

Conclusion

Over the past few years, Indian Scheduled Cooperative Banks have seen a significant increase in scrutiny by regulators. The Reserve Bank of India has been conducting a series of inspections and compliance audits in an attempt to identify risks in the banking system. In addition, the Securities and Exchange Board of India ("SEBI") has been working with various state governments to conduct inspections and anti-money laundering checks. At the same time, the Reserve Bank of India ("RBI"), The Central Board of Direct Taxes ("CBDT") and The Ministry of Corporate Affairs ("MCA") have all been taking a closer look at the financial strength and financial conduct of the cooperative sector.

At the same time in the past few years, several banks in India have seen their levels of bad loans soar. Some have gone into insolvency while others have defaulted on their loans. Even more worrying is the case of cooperative banks whose financial positions are in a precarious situation. The RBI has classified 25% of the total loans given by cooperative banks as being stressed, an indicator of potential future losses. The level of bad loans in cooperative banks is nearly three times the national average. The government has also announced several plans to support cooperative banks. The cooperative sector in India has been in such a complex dynamic state due to lack of unified and consistent regulation and oversight. The regulatory landscape in India is highly fragmented and sometimes, contradictory. The regulatory structure at different levels of government is so diverse and uncoordinated that it is difficult to be able to effectively regulate the sector.

In addition to the inherent complexity of the regulatory environment, there has been a lack of effective enforcement. The number of pending cases pending with the various regulators has been increasing dramatically over the years. There are many reasons for this rise in complaints. The cooperative banks are under-staffed, inefficient, and plagued with corruption. The RBI also has a limited capacity to conduct intelligence gathering on the cooperative sector due to the lack of consolidation of information on individual banks.The RBI has also been criticized for not taking decisive action against the banks that are not following the regulations. Compliance with regulations is one of the biggest challenges facing cooperative banks. Take, for example, the case of non-performing advances. As mentioned earlier, the level of stressed assets in cooperative banks is high. The RBI has been pressing cooperative banks to take a series of tough measures to tackle this issue. The cooperative sector in India is largely driven by its reliance on public funding. The government has a significant financial interest in cooperative banks in India. Cooperative Banks rely on public funding through several channels. They obtain funds from the government agencies such as the Small Farmers' Agribusiness Consortium, or SFAC. They also obtain funds from the National Bank for Agriculture and Rural Development ("NABARD"), a national level agency that provides financial assistance to farmers. In addition, state governments provide funds for various projects and schemes through which they can provide crop loans.

To conclude, this article has shown the importance of cooperative banks in India and how they have grown their network and provided quality services through them. The credit rating agencies have also confirmed this by giving them a better credit rating. The main purpose of having cooperatives in India is to help its people reduce their poverty by increasing the money that they earn through farming. These banks are working towards that future and hopefully will succeed with it.

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