Problems Faced By the Urban Cooperative Banks in India

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Abstract

Today, urban cooperative banks (UCBs) compete on an equal footing with commercial banks in a highly competitive market. They accomplish so by effectively implementing the cooperative principles that underpin their company model, which is owned by its members, and whose primary objective is to provide the greatest services to them rather than maximize profit for shareholders. It is not fair to compare UCBs, which serve the poorer sections of the community, to MNC banks, which have no social responsibilities. Since their beginnings, the UCBs have experienced several alterations. The changes that have occurred in UCBs have been more important and dramatic than those that have occurred elsewhere. The performance of UCBs is affected directly and indirectly by the dramatic changes in the policy environment of both the state and federal governments affecting the operations of the urban banking system. The performance of the urban cooperative banking segment, which was once considered one of the most stable and rapidly expanding segments of the banking system, has now devolved into managerial, financial, and operational issues, making it one of the weakest, with periodic failures and irregularities.

Keywords: *Performance; Financial; Problems; Capital; Investment.*

I. INTRODUCTION

Urban and rural financial co-operatives in India have a wide range of structures and operations. Rural co-operative banks lend mostly for agricultural reasons through a network of primary agricultural credit societies (PACS), whereas urban co-operative banks focus on the retail and small business segments. A non-profit financial organisation owned and controlled by its members is known as an Urban Cooperative Bank (UCB). Members of urban banks have a safe and secure place to save and borrow at fair and affordable rates. This bank assists underserved, primarily low-income persons with their financial requirements. Urban cooperative banks now compete on an equal footing with commercial banks in a highly competitive market. They accomplish so by effectively implementing the cooperative principles that underpin their company model, which is owned by its members, and whose primary objective is to provide the greatest services to them rather than maximise profit for shareholders.

During the previous 50 years, the cooperative has received preferential treatment from the Indian government, state governments, the Reserve Bank, and other policy-making entities. But, one by one, the cooperatives' rights, concessions, special treatment, and monopolistic powers are being taken away. In reality, given the current competitive pressures, inherent rigidities in UCBs offer substantial hurdles to improving overall efficiency. Because the UCBs' operating efficiency is so important in guaranteeing an appropriate and timely supply of credit to urban and semi-urban populations for a variety of reasons, close scrutiny of their performance is warranted.

II. URBAN CO-OPERATIVE BANKS: PROBLEMS AND PROSPECTS

In recent years, the financial sector has garnered increasing attention from the macroeconomic community. Banking and financial institutions serve as a conduit for resources from savers to investors, acting as an intermediary between the two. When resources can be easily intermediated, they may be made accessible at cheaper costs, which in turn encourage investment and development. With the goal of fostering sustainable banking practices amongst the middle-class urban population, Urban Cooperative Banks were established in order to achieve this goal On March 1, 1966, some sections of the Banking Regulation Act, 1949 were extended to include them, making them subject to Reserve Bank regulation going forward.

Urban Cooperative Banks may be better understood if the fundamental structure of the cooperative banking industry is briefly recited. Rural Cooperative Banks and Primary (Urban) Cooperative Banks make up the cooperative banking industry. There are 1,936 Primary Cooperative Banks, which serve low- and middle-income people in metropolitan and semi-urban regions via a network of over 6,300 branches 45, independent of Rural Cooperative Banks. As part of the current financial sector changes, the cooperative banking industry has received a lot of attention recently in terms of its overall performance.

Urban Co-operative Banks had a specialized market at one point in time. Most of the traditional banks are now promoting themselves in order to acquire new clients. Comparing UCBs to commercial banks, they have an advantage since lending to borrowers from lower socioeconomic levels has become more lucrative as a result of technological advancements. UCBs have a leg up in their particular market, but they must step up their operational tactics to take advantage of it. In order for Urban Co-operative Banks to remain competitive in today's market, they must use IT-enabled services and put themselves in a position where they can effectively manage the risks associated with such services.

There can be no modern banking without some kind of Information Technology, whether it's for the bank's internal housekeeping and management information system, or for the customer's interaction. Although information technology lowers operating costs and promotes operational efficiency, it also raises operational risk and underscores the need of controlling these risks. For digital banking to be secure, banks must have solid IT systems that are regularly audited and have a comprehensive IT risk management architecture in place to protect their customers. Banks need highly trained employees to handle such delicate and critical matters.

(1) Some confusion was generated in monitoring as well as enforcing regulations on activities by having both RBI and Co-operative Societies simultaneously in charge.

(2) In spite of their self-reliance and cooperative nature, UCBs are unable to obtain cash via the stock market because of their cooperative nature.

(3) The government has been treating UCBs as if they were another kind of cooperative society, which has resulted in practical difficulties.

(4) The effectiveness of these institutions is limited by the inability of banks to hire the appropriate number of employees.

(5) To meet the demands of the digital era, automation and computerization are being developed rapidly in most of Gujarat's Urban Co-operative Banks. It is true that a few Urban Co-operative Banks (UCBs) have installed computers, but the data they provide via a Management Information System (MIS) is not appropriately used as a management tool for improved decision making.

(6) According to the RBI and the Registrar of Cooperative Societies, the UCBs in Gujarat State have a poor track record when it comes to timely reporting and financial data submissions.

(7) On a state-wide level, there is no definite database of Urban Co-operative Banks.

(8) Transparency is lacking in many UCBs' business dealings.

(9) The seamless and open operation of these institutions is jeopardised by political interference.

(10) Due to the state government's lack of cooperation, overdue collections became a concern.

(11) Uneven distribution of UCBs among states, with most of the growth concentrated in only a handful, including Maharashtra, Gujarat, Karnataka, Tamil Nadu, the state of Gujarat, and the state of Andhra Pradesh.

III. PROBLEMS AND FINDINGS OF HIGH-POWER COMMITTEE ON URBAN COOPERATIVE BANKS

The Gujarat Staten financial industry has undergone major structural and operational changes as a result of the second phase of financial sector reforms. Reform initiatives have not yet had a significant influence on the system, despite this. A number of cooperatives have been plagued by financial and management issues for some time now. In order to make up for previous losses, state governments and cooperatives have requested a cash injection. Money alone may not be enough to get the job done without addressing the root causes. It is important to look at the following:

(i) The distribution of resources (owned funds, deposits, and borrowings);

(ii) The management and supervision of cooperatives

(iii) The role of cooperative banks in financial markets (and their regulatory framework); and

(iv) The role of cooperative banks in the financial system.

Regulators and reformers who have focused on commercial banks must apply the same principles to cooperative banks, while making adjustments to account for the unique characteristics of cooperative banks. As a result, attention should be paid to areas such as:

i. strengthening the regulatory and supervisory framework,

ii. enhancing capital adequacy standards,

iii. introducing strict licensing rules for new entrants in the sector,

iv. enabling legal amendments, and

v. Corporate governance measures.

IV. HINDRANCES TO THE PERFORMANCE OF UCBS

- **Rising Competition**

The Urban Co-operative Banks (UCBs) section, which was formerly seen to be one of the most stable and rapidly growing portions of the banking system until the late 1990s, has now become one of the most vulnerable, with frequent collapses. It must be acknowledged that a UCB's core organisation is driven by a cooperative ideology, and in an increasingly competitive market, an urban bank becomes more vulnerable due to variables such as size, location, and compulsions to lend to a sector, and therefore loses scale economies.

- **Scams**

The involvement of several UCBs in the share market scandal in Gujarat and Andhra Pradesh in 2001 significantly damaged public trust in these banks. Even though the Deposit Insurance and Credit Guarantee Corporation (DICGC) exists, the maximum insurance coverage is limited to Rs 1 lakh.

- **Low Capital base**

In addition, despite their strengths, the Urban Cooperative Banks have a deficiency in terms of share capital creation. As a result, the UCB sector is at a fork in the road, with these banks increasingly finding it difficult to reconcile their heterogeneous and unique cooperative character with the demands of a strict regulatory regime and prudent banking norms, as the RBI has insisted in the aftermath of the Gujarat and Andhra Pradesh experiences. In the case of UCBs, shareholders might withdraw their capital contributions, reducing the bank's capital and limiting its capacity to develop risk-weighted assets and expand business.

- **No clear-cut Loan and Investment Policy**

There isn't much of a Loan Policy in most of the state's UCBs, let alone a complete, well-thought-out Loan Policy. The most crucial component of a loan policy is the pre-credit assessment section, which is missing from many banks' so-called loan policies. The end outcome of this form of credit risk mismanagement and non-appraisal is non-recovery of loans and assets, with standard assets becoming substandard, questionable, and non-recoverable.

- **Piling- up of NPAs**

The NPA levels in UCBs are disproportionately high, according to a high-powered committee formed by the RBI, which is a key concern to be addressed. UCBs should have an Investment Policy, similar to their Loans and Advances policies, which should be revised every year and authorized at the BODs meeting.

- **Dual Control**

On the one hand, the multiplicity of regulation and control from central and state organisations impedes the smooth and effective operation of UCBs, while on the other, the lack of administrative supervision by government authorities leads to arbitrary fund utilisation, putting stakeholders' interests at risk.

- **Poor governance**

Borrowers of UCBs have a considerable influence in bank management. This has the ability to influence Boards of Directors to make choices that are not necessarily in the best interests of depositors, who are the bank's most significant stakeholders.

- **Uneven geographical dispersal**

The existence of over 80% of urban cooperative banks and 75% of their total deposits are concentrated in a few states such as Maharashtra, Gujarat, Karnataka, Andhra Pradesh, and Tamil Nadu, indicating an uneven geographical distribution of UCBs. The potential of cooperative banks in our nation, as well as the sort of specialized services they may provide on a local level, is enormous. But, more importantly, have we realized our full potential? To some extent, the answer to the question is negative.

V. CONCLUSION

Urban cooperative banking is a crucial sector of India's banking system, which has seen a lot of instability in recent years. While several UCBs have had solid results in recent years, a considerable number of institutions have showed symptoms of vulnerability. Low profitability, ever-growing non-performing assets (NPA), and a relatively low capital base describe the operating efficiency. In addition, urban cooperative banks have been unable to meet clients' expanding credit needs as well as fresh demands for personal finance loans. Urban cooperative banks should be encouraged to expand in the interest of healthy competition. As a result, a few poor apples should not stifle the expansion of a major banking institution.

The fact that UCBs have been in India for 100 years demonstrates that the bank's resource base is so robust that it can conduct the company with its own finances and is really financially independent. UCBs, on the other hand, are dealing with a variety of issues. These concerns include organizational, managerial, financial, and operational issues, and until these issues are addressed urgently, the expansion of the urban banking industry and economic integration will remain a distant dream and a wild goose chase. It is not fair to compare UCBs, which cater to the poorer sectors of the community, to MNC Banks, which have no social responsibilities.

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