

REVIEW OF GROWTH OF URBAN CO-OPERATIVE BANKING SECTOR

--- Ms. HeenaThakkar & CA (Ms.) Rachel George

Abstract:

Urban Cooperative banking Sector is an important constituent of Multi Agency banking system operation in the country. These institutions play an important role in the economic development of lower and middle-income group of persons. 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. Urban cooperative banks were set up with the objective of promoting sustainable banking practices amongst a relatively specific target clientele viz., the middle income strata of the urban population. Thus, this paper attempts to study the review of growth of urban co-operative banking sector with the help of various reports of RBI.

Key Words:

Banking structure, Urban Cooperative Banks, Economic Growth, deposits, loan

Introduction:

In modern economy, banks play an important role in providing various financial services required for the development of an economy. The strength of an economy of any country basically depends on a sound and solvent banking system. The performance of banks located in particular region determines mobilization and utilization of resources for productive purpose which is necessary for the development of that region. According to the Banking Regulation Act 1949 (As Applicable to Cooperative Societies) “Primary cooperative banks, popularly called Urban Cooperative Banks, are those banks whose net worth is Rs.1 lakh and above; who are recognized as banks, are members of payment system and who enjoy deposit insurance

In the Urban Cooperative Banking, Maharashtra is a leading state in India with 541 Urban Cooperative Banks functioning in the state out of total 1606 Urban Cooperative Banks in India (as on 31st March, 2013). In Maharashtra, Mumbai, Thane, Pune, Kolhapur, Sangli etc. have emerged as large centres of Urban Cooperative Banking activities.

Objective of study:

The present study tries to analyze the review of growth of urban co-operative banking sector with the help of some parameters like profitability indicators, assets quality, geographical distribution, deposits, asset size, and advances given in various reports of RBI.

Research Methodology and Data Collection:

Keeping in mind above objective, present study analyses recent trends in deposit mobilization and loan disbursement by Urban Cooperative Banks functioning in India. For the analysis, data pertaining to the recent year has been collected from various RBI Publications like Report on Trend and Progress of Banking in India, Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, Branch Banking Statistics of Commercial banks, Basic Statistical Returns (BSR) of Commercial Banks etc

Umbrella Organization for Urban Co-operative Banks

There are a large number of Primary (Urban) Co-operative Banks (UCBs) in the country forming a heterogeneous group in terms of size and spread. Many of these banks are very

small in size and reach. They compete with larger participants in the same banking space. Over the years, a number of UCBs have become weak and non-viable thus posing systemic risk to the UCB sector. There is, need for some sort of co-operative bonding and mutual support system, which could make the sector strong and vibrant. A Working Group constituted to examine issues relating to augmenting of capital of primary (urban) co-operative bank (UCBs) had also observed that it may be necessary to facilitate emergence of umbrella organizations for UCBs to enhance public confidence in the sector.

Review of Growth of Urban Co-operative Banking Sector

While reviewing the progress made by the urban co-operative banks during the last 10 years, it was observed that the performance has by and large been satisfactory ([Table- 2.1](#)). Though there has been reduction in the number of UCBs from 2004 onwards, the total banking business (deposits plus advances) of UCBs has shown steady increase signifying that the banks have been able to garner more business.

Table- 2.1: Performance of UCBs – Deposits and Advances			
As on March 31	No. of UCBs	Deposits (` Crore)	Advances (` Crore)
2001	1618	80840	54389
2002	1854	93069	62060
2003	1941	101546	64880
2004	1926	110256	67930
2005	1872	105021	66874
2006	1853	114060	71641
2007	1813	121391	79733
2008	1770	138496	88981
2009	1721	158733	97918

2010	1674	182862	110303
2011	1645	209949	135104
Note: Provisional data as on March 31, 2011 is based on OSS statements.			

Market Share of Urban Co-operative Banks in Total Banking Sector

The business growth of UCBs was not, however, commensurate with the overall growth in the banking sector. There has been a gradual fall of the share of UCBs' business in the overall business of the banking sector ([Table-2.2](#)). Despite the presence of large number of UCBs, their share in the total deposits and advances of the banking sector is insignificant and the share is reduced year after year. From the market share of 6.3 per cent as on March 31, 2001, it had reduced to 3.5 per cent as on March 31, 2010. This reflects to a large extent the effect of the policy of not permitting UCBs, including the healthy and well managed ones, to open new branches for six years contributing thereby to their inability to garner their share in the growing economy.

Table- 2.2: Market Share of Urban Co-operative Banks in Banking Business in Banking Sector				
(In Percentage)				
As on March 31	UCBs	DCCBs & State CBs	RRBs	Commercial Banks
2001	6.3	7.2	2.9	83.6
2002	6.4	7.2	3.0	83.4
2003	6.3	7.0	3.0	83.7
2004	5.8	6.6	3.1	84.5
2005	5.3	6.3	3.1	85.3
2006	4.6	5.4	2.9	87.2

2007	4.0	4.7	2.7	88.6
2008	3.7	4.1	2.7	89.5
2009	3.4	3.9	2.6	90.1
2010	3.5	3.7	2.7	90.1

It may be observed from the [Table-2.3](#) that despite the fact that the UCB sector has the maximum number of entities as compared to any other group, its market share continues to be meagre. This is to be seen in the light of the fact that almost half of the UCBs are unit banks and the total number of branches of the 1674 UCBs as at March 31, 2010 is around 7900 branches as against over 77000 branches of just 83 scheduled commercial banks. Another reason may be that due to the poor capital base of UCBs, coupled with individual and group credit exposure ceilings they are not in a position to lend high value advances. The other reason could be that the clientele of these banks is mainly confined to the lower and middle strata of the society.

Table- 2.3: Market share of Urban Co-operative Banks in Banking Sector as on March 31, 2010			
Urban Co-operative Banks	Rural Co-operative Banks	Regional Rural Banks	Scheduled Commercial Banks
1674 Banks	401 Banks	82 Banks	83 Banks
Share in Total Deposits (In %)			
3.5	3.7	2.7	90.1
Share in Total Loans and Advances (In %)			
2.9	3.8	2.1	91.2

Profitability Indicators

The performance of the UCB sector other than in the area of market share is comparable with the performance of the Scheduled Commercial Banks ([Table- 2.4](#)). The Net Interest Margin (NIM) of the UCB Sector is slightly better than that of the Scheduled Commercial Banks. But the Return on Assets (RoA) is significantly low. The low Return on Assets could be probably due to the restricted earning avenues available to the sector and consequently the less diversified activities undertaken by them. Though the cost of deposits of the UCB sector is generally high, the NIM and RoA of UCBs is not significantly lower than as compared with other groups in the banking industry.

Table- 2.4: Return on Assets and Net Interest Margin –Scheduled Commercial Banks (SCBs) vis-à-vis Urban Co-operative Banks (UCBs)						
(In Percentage)						
Year ended 31st March	All SCBs(Excluding Regional Rural Banks)		All Scheduled UCBs		All UCBs	
	Return on Assets	Net Interest Margin	Return on Assets	Net Interest Margin	Return on Assets	Net Interest Margin
2005	0.97	3.08	0.47	2.03	NA	NA
2006	0.96	3.04	0.85	2.31	NA	NA
2007	1.05	2.86	0.74	2.30	0.75	2.89
2008	1.12	2.58	1.24	2.76	0.89	2.86
2009	1.13	2.62	1.07	2.92	0.82	3.13
2010	1.05	2.55	0.68	2.48	0.68	2.85

NA – Data Not Available

Source: Report on Trend and Progress of Banking in India

Return on Assets = Net Profits/ Average Assets

Net Interest Margin = Net Interest Income (i.e. Interest Income - Interest Expenses) /

Average
Assets

Asset Quality

Along with profitability, the general health of the UCB sector has also improved. This can be seen from the increasing number of banks in Grade I and II ([Table-2.5](#)) especially after the process of signing of MoUs with the Central and State Governments and continuous reduction in the gross and net NPAs of the sector. As on March 31, 2004, the share of Grade I and Grade II banks out of total UCBs was at 61.6 per cent, which increased significantly to 81.8 per cent as on March 31, 2011. Similar improvement is observed in the quality of assets of the UCBs along with their compliance with the prescribed regulatory capital requirement (CRAR).

Table- 2.5: Grade-wise Distribution of Urban Co-operative Banks

Year Ended 31st March	Total No. of UCBs	UCBs in Grade I	UCBs in Grade II	UCBs in Grade III	UCBs in Grade IV	Gross NPAs (%)	Net NPAs (%)	UCBs with CRAR < 9%	UCBs with CRAR > 9%
2003	1941	997	944			19.0	NA	NA	NA
2004	1926	880	307	529	210	20.7	12.1	NA	NA
2005	1872	807	340	497	228	23.4	12.3	NA	NA
2006	1853	716	460	407	270	19.4	8.8	NA	NA
2007	1813	652	598	295	268	17.3	8.8	317	1496
2008	1770	747	527	258	238	16.0	7.7	313	1457
2009	1721	845	484	219	173	13.3	6.1	237	1484
2010	1674	879	465	179	151	11.8	4.7	230	1444
2011	1645	845	502	172	126	NA	NA	141	1504

Notes: (1) CRAR was made applicable to UCBs from 2002 onwards in a phased manner.

(2) Gradation system was made applicable from 2003 onwards. Prior to 2003, UCBs were classified as weak and sick instead of Grade III and IV.
 (3) NA = Data Not Available

Geographic Distribution

[Table 2.6](#) shows the geographic distribution of UCBs. It indicates that UCBs are concentrated in five states, namely Andhra Pradesh (6.4%), Gujarat (14.8%), Karnataka (16.9%), Maharashtra (32.8%) and Tamil Nadu (7.8%) which collectively account for 78.7 per cent of all UCBs.

Table- 2.6: State -wise and Grade-wise Distribution of Urban Co-operative Banks as on March 31, 2011						
Sl. No.	State	Grade I	Grade II	Grade III	Grade IV	Total UCBs
1	Andhra Pradesh	52	45	5	4	106
2	Assam	4	3	1	0	8
3	Bihar	2	1	0	0	3
4	Chhattisgarh	7	3	2	0	12
5	Gujarat	60	155	11	17	243
6	Goa	3	2	0	1	6
7	Haryana	1	4	0	2	7
8	Himachal Pradesh	3	1	0	1	5
9	Jammu & Kashmir	3	0	0	1	4
10	Jharkhand	2	0	0	0	2
11	Karnataka	112	108	35	13	268
12	Kerala	41	12	5	2	60

13	Madhya Pradesh	16	17	13	6	52
14	Maharashtra	301	105	78	55	539
15	Manipur	1	1	1	0	3
16	Meghalaya	3	0	0	0	3
17	Mizoram	0	1	0	0	1
18	New Delhi	12	1	2	0	15
19	Orissa	2	3	5	2	12
20	Puducherry	1	0	0	0	1
21	Punjab	1	3	0	0	4
22	Rajasthan	32	4	1	2	39
23	Sikkim	1	0	0	0	1
24	Tamil Nadu	107	18	1	3	129
25	Tripura	0	1	0	0	1
26	Uttarakhand	3	2	0	0	5
27	Uttar Pradesh	46	9	7	8	70
28	West Bengal	30	2	5	9	46
Total		845	502	172	126	1645

Deposits

[Table 2.7](#) gives the deposit-wise and grade-wise distribution of UCBs. It indicates that though the number of UCBs in Grade I and II across all the deposit ranges were significantly high (above 80%), except in the deposit category of less than ` 10 crores where it was only 64 per cent indicating the lower viability and greater vulnerability of smaller banks.

Table- 2.7: Deposit-wise and Grade-wise distribution of Urban Co-operative Banks as on March 31, 2011

Deposit Size (in crores)	Grade I	Grade II	Grade III	Grade IV	Total No. Of UCBs
<10	84	108	63	44	299
10 to 25	213	141	39	28	421
25 to 50	179	87	32	21	319
50 to 100	138	69	19	16	242
100 to 250	130	55	15	4	204
250 to 500	57	25	1	7	90
500 to 1000	26	9	2	4	41
1000 to 5000	15	7	1	2	25
>= 5000	3	1	0	0	4
Total	845	502	172	126	1645
Note: The data is furnished on the basis of information available in the OSS system					

[Table 2.8](#) indicates a similar distribution based on CAMELS ratings. The number of UCBs in Rating A and Rating B category is higher as compared to the banks in C and D Ratings. However, the A and B Ratings do not strictly correspond to Grades I and II category primarily because rating is done on more granular basis. It also takes into consideration the relative performance in the previous year. Nonetheless, the share of A and B rated banks having deposits below ` 10 crores is still lower than banks in other deposit categories.

Table- 2.8: Deposit-wise and CAMELS Rating-wise Distribution of Urban Co-operative Banks as on March 31, 2011					
Deposit size (crores)	Rating A	Rating B	Rating C	Rating D	Total No. of

					UCBs
<10	26	88	124	61	299
10 to 25	68	184	136	33	421
25 to 50	56	138	100	25	319
50 to 100	39	106	75	22	242
100 to 250	40	91	68	5	204
250 to 500	22	40	22	6	90
500 to 1000	12	16	9	4	41
1000 to 5000	10	9	5	1	25
> = 5000	2	1	1	0	4
Total	275	673	540	157	1645

[Table 2.9](#) gives the leverage ratio of UCBs according to deposit size. This also indicates that UCBs with a higher deposit base are able to achieve a lower leverage ratio. While this indicates that small banks lack the ability to mobilize more deposits, this does not pose a regulatory concern since they do not have an over-leveraged position.

Table- 2.9: Deposit-wise and Leverage Ratio-wise Distribution of Urban Co-operative Banks as on March 31, 2011		
Deposit size (` crores)	No. of Banks	Leverage Ratio (%)
<10	299	13.6
10 to 25	421	8.9
25 to 50	319	9.9
50 to 100	242	6.5

100 to 250	204	5.2
250 to 500	90	4.3
500 to 1000	41	3.3
1000 to 5000	25	1.1
>=5000	4	0.4
Total	1645	4.4
Notes: (1) The data is furnished on the basis of information available in the OSS system (Special Form IX).		
(2) Leverage Ratio is calculated as percentage of “capital and reserves” to “total assets”.		

[Table 2.10](#) gives the deposit size-wise distribution of UCBs. This also shows that the four largest UCBs account for 17.4 per cent of the total deposits of the UCB sector while 1040 UCBs having a deposit base of up to ` 50 crores and constituting 63 per cent of the total number of UCBs have an aggregate deposit base which constitutes only 9.6 per cent of the total deposit base of the UCB sector.

Table- 2.10: Deposit Size-wise Distribution of Urban Co-operative Banks as on March 31, 2011				
Deposit Size (` Crore)	No. of UCBs	No of banks (% to total)	Deposits (` Crore)	Deposits (% to total)
> 5000	4	0.2	36514	17.4
1000 < 5000	25	1.5	46340	22.1
500 < 1000	41	2.5	28889	13.7

250 < 500	90	5.5	29561	14.1
100 < 250	204	12.4	31518	15.0
50 < 100	242	14.7	17110	8.1
25 < 50	319	19.4	11289	5.4
10 < 25	421	25.6	7093	3.4
< 10	299	18.2	1635	0.8
Total	1645	100.0	209949	100.0

Asset Size

[Table 2.11](#) gives the distribution of UCBs by assets size. This shows that only 2.5 per cent in number of UCBs account for 45 per cent of the total asset size of UCBs, while 933 UCBs having an asset size of up to ` 50 crores and constituting 57 per cent of the total number of UCBs account for only 7.4 per cent of the total asset size of UCBs.

Table- 2.11 : Deposit-wise and Asset-wise Distribution of Urban Co-operative Banks as on March 31, 2011				
Assets Size (` crores)	No. of Banks	No. of banks (% to total)	Assets (` crores)	Assets (% to total)
A > 2000	15	0.9	81681	31.1
1000 < 2000	26	1.6	36411	13.9
500 < 1000	50	3.1	35397	13.5
250 < 500	102	6.1	33677	12.8
100 < 250	233	14.4	36021	13.7
50 < 100	287	17.4	19991	7.6
25 < 50	326	19.8	11528	4.4
15 < 25	223	13.7	4837	1.9

< 15	383	23.0	2990	1.1
Total	1645	100.0	262533	100.0

Advances

[Table 2.12](#) gives the distribution of UCBs by size of advances. This indicates that 44 UCBs constituting only 2.6 per cent of the total number of UCBs account for 47.4 per cent of the total advances of the sector while 1225 UCBs with advance up to ` 50 crores and constituting 74.4 per cent of the total number of UCBs account for only 14.2 per cent of the total advances of the sector.

Table- 2.12: Advance size-wise distribution of Urban Co-operative Banks as on March 31, 2011				
Advances Size (` Crore)	No. of UCBs	No of banks (% to total)	Advances (` Crore)	Advances (% to total)
≥ 1000	17	1.0	45499	33.7
$500 \leq 1000$	27	1.6	18525	13.7
$250 < 500$	50	3.1	17075	12.6
$100 < 250$	141	8.6	21925	16.2
$50 < 100$	186	11.3	12954	9.6
$25 < 50$	254	15.4	9097	6.7
$10 < 25$	452	27.5	7347	5.5
< 10	518	31.5	2682	2.0
Total	1645	100.0	135104	100.0

Capital Adequacy

[Table 2.13](#) gives the state-wise distribution of UCBs in terms of capital adequacy. It will be seen that a majority of the UCBs (91.3%) now comply with the regulatory prescription of minimum CRAR of 9 per cent. Some of the UCBs which previously had a negative net worth have also reported positive CRAR by raising Tier II capital through innovative instruments like Long Term Deposits permitted by the Reserve Bank of India.

Table- 2.13 : State-wise and CRAR-wise distribution of Urban Co-operative Banks as on March 31, 2011						
State/ Region	No. of UCBs with CRAR Below 3%	No. of UCBs with CRAR 3% and above but < 6%	No. of UCBs with CRAR 6% and above but < 9%	No. of UCBs with CRAR 9% and above but < 12%	No. of UCBs with CRAR >= 12%	Total No. of UCBs
Andhra Pradesh	4	1	4	5	92	106
Assam	0	0	0	3	5	8
Bihar	0	0	0	0	3	3
Chhattisgarh	0	0	0	0	12	12
Gujarat	10	5	0	4	224	243
Goa	1	0	0	2	3	6
Haryana	0	0	0	0	7	7
Himachal Pradesh	0	0	0	3	2	5
Jharkhand	0	0	0	0	2	2
Jammu & Kashmir	1	0	0	2	1	4
Karnataka	7	1	5	17	238	268
Kerala	2	1	4	32	21	60

Madhya Pradesh	2	1	1	3	45	52
Maharashtra	37	13	11	80	398	539
Manipur	0	0	0	1	2	3
Meghalaya	0	0	0	0	3	3
Mizoram	0	0	0	0	1	1
New Delhi	0	0	1	1	13	15
Orissa	2	0	1	3	6	12
Pondicherry	0	0	0	1	0	1
Punjab	0	0	0	0	4	4
Rajasthan	2	0	0	5	32	39
Sikkim	0	0	0	0	1	1
Tamilnadu	3	1	3	22	100	129
Tripura	0	0	0	0	1	1
Uttar Pradesh	4	0	1	8	57	70
Uttarakhand	0	0	0	1	4	5
West Bengal	9	1	2	3	31	46
Grand Total	84	24	33	195	1309	1645
Per cent Share	5.2	1.5	2.0	11.9	79.4	100.0

Conclusion

- After the remarkable expansion of Urban Cooperative Banking in India, it is experiencing consolidation in the recent decade, which is further expected to be continued with more number of mergers and acquisitions. The segment requires strong supervision and effective policies on the part of RBI and Government especially, state government because as stated earlier, cooperation is the subject included under state-list.
- The consolidation phase is responsible for bringing about decrease in the membership as there has been decrease in the numbers of Urban Cooperative Banks. This decline also

indicates increasing competitiveness by the other Urban Cooperative Banks within the segment as well as from the commercial banks having technological superiority over the Urban Cooperative Banks. Thus, the Urban Cooperative Banks require to upgrade themselves on the technology front as the demand for technology based- rapid- financial services in the form of ATMs, Internet Banking, Credit-Debit Cards, RTGS-NEFT services are becoming need of the time and people especially, urban population who are not having enough time to visit banks frequently, demand more and more of such services.

- The draft norms issued by RBI in August 2014 for forming small and payment banks have failed to enthuse urban cooperative banks (UCBs), as they find the scope of operation for niche banks too restrictive. In fact, they are seeking a road map for converting healthy urban banks into full-fledged commercial ones. In fact, they are awaiting a word from the banking regulator about the framework for conversion and the road ahead.

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Bio:

The two authors are currently working as Assistant Professors in Jai Hind College, Churchgate, Maharashtra, India.