Towards Financial Inclusion –Reflections on the Role of Urban Cooperative Banks in Urban India

Ravikumar.H T., Lecturer, Dept. of Economics, Govt. First Grade College, Halli Mysore, Holenarasipura Taluk, Hassan district, Karnataka

Abstract

The challenges of financial inclusion in urban areas are multifaceted as a large section of the financially excluded population reside in rural areas & a majority of the financial policies orient towards building strong rural areas. But policy formulators often forget that financial exclusion is widespread in urban areas as well. Generally farmers, small vendors, agricultural and industrial laborers, people engaged in un organized sectors, the unemployed, women, older and physically challenged people are the most commonly excluded segments in this process of financial assistance. These segments are best addressed by the Urban Cooperative banks (UCB s). Urban India needs stringent actions towards initiatives on popularizing UCBs. But these initiatives are not without challenges. UCBs need to have sound processes, professional management equipped with strong leadership initiatives. If these important areas are addressed, there is no doubt that the UCBs can prove to be an effective tool in the mission of financial inclusion

Keywords: financial exclusion, Cooperative banks, financial inclusion

Introduction

There are over 1,650 UCBs with close 7,000 branches in India, yet they form a small constituent of the banking assets and deposits and less than 3.5% of total advances. They follow the 80-20 rule in deposits & assets ratio. The top 20% of UCB s account for almost exactly 80% of its deposits. In spite of being present in 25 states, nearing almost 80% of the action happens in the five states of Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu – with the lion's share going to Maharashtra. Between 2000-2010, nearly 132 banks had their licenses cancelled and 62 merged with other banks. It is imperative to discuss why the UCBs need immediate attention of the policy makers in very important.

The Concept of UCB- co-operative banks are small sized units organized in the co-operative sector which operate both in rural & urban sector they are traditionally concerned about communities localities & work place groups &they lend to small borrowers & business people. These banks provide services such as savings current accounts safe deposits loan mortgages to customers the cooperative banking in India is divided into following categories

1. .Primary Urban Co-op Banks
2. Primary Agricultural Credit Societies
3. District Central Co-op Banks
4. State Co-operative Banks
5. Development Banks

Nature of Working

UCBs function on the basis of no profit no loss they do not pursue profit maximization theory. They do not focus on offering more than the basic services

Economic advantages of UCBS

While a large section of the financially excluded population inhabit rural areas, financial exclusion is widespread in urban areas as well .

Financially excluded segments- The following are the most commonly excluded segments .These sections are best addressed by the UCBs

1. Small farmers of semi urban areas,
2. Small vendors,
3. Agricultural laborers
4. Industrial laborers,
5. Unorganized sectors laborers,
6. Unemployed people
7. Semi employed people,
8. Women,
9. Older people
10. Physically challenged people
11. Miscellaneous laborers
12. Domestic helpers

Key Advantages

1. The key advantage that UCB s enjoy over commercial banks is derived from their cost structure. The labour costs of UCB s are considerably less than that of commercial banks and generally the operating costs are also minimal.
2. Equally important is the local nature and the consequent informational advantages of the UCB s .
3. Being an integral part of the community , UCB s have an advantage over their commercial rivals in terms of having information both about upcoming business opportunities as well as borrower quality, which national level banks have a hard time gathering.
4. Finally, the advantages of the local nature of the UCB s also manifest in the flexibility that these banks can provide to their local clientele. Unlike their commercial counterparts, who need to adhere to national and global policies to change in order to alter their practices, UCB s can be far more responsive to the needs of the local community and the changes there. UCBs that provides a massive competitive advantage . Recently, the UCB s have increasingly started adopting the three – pronged financial inclusion strategies used by commercial banks – Banking correspondents (BC) ,"no –frill" accounts and promoting microfinance activities. Once again, their local nature gives them an

advantage over their national rivals in executing these moves better. UCBs enjoy an undeniable edge in the area of relationship banking.

Specific Challenges –The UCBs have the advantage of community in roads to tap local businesses, they are also burdened with a distinctive set of challenges.

1. Most of the UCBs are structurally single- branch banks and they have the problem of correlated asset risk which, means the entire bank can come down if a local problem of significant scale affects the area. The regulators are also concerned about their systemic risk. To the extent that UCB s often borrow and led among them, the collapse of one UCB can actually destabilize others. this was exemplified in the manner in which the failure of the Madhavpura mercantile co-operative bank (MMCB) in Ahmedabad in 2001, and the temporary suspension of its payments in excess of RS 1000 to depositors by the reserve bank of India (RBI) , led to widespread interbank contagion among cooperative banks in Gujarat that kept funds at MMCB particularly for its remittance facilities .

2. A few notable UCB failures , including that of the MMCB and the financial irregularities at the Pratibhamahila sahakari bank in jalgaon, Maharashtra have contributed significantly in eroding the brand value of UCB s . the impact of the crises can be witnessed by mass with drawals during 2001-03, when deposits worth RS 4100 crores were withdrawn prematurely by the depositors in a short time . given the importance and interconnectedness of these banks, it is understandable that RBI extremely cautious about the health of the banks and requires that they adhere to steep capital adequacy norms . but even here , the UCB s face a unique problem –restricted by their cooperative nature, they cannot issue fresh equity to shore up capital. the only capital growth they have therefore has to be in line with the growth of the business of their clientele. This remains a challenge for UCBs to struggle with. There are major operational hurdles as well.

3. Lack of professionalism is a common contention hurled at UCBs from the mainstream banks. It is often viewed that while on one hand, hiring local people has helped keep the coasts down and has enhanced the connectedness of these banks with the respective communities and groups, at times it has come at the cost of a professional work ethic.

4. In order to improve efficiency, increase transparency and promote fairness, the decision-making processes pertaining to staff administration, granting of credit and new membership should be clearly laid down.

5. qualification of the top management are another issue, Experience can scarcely be a

substitute for domain knowledge in almost any field, particularly in the banking field. Attracting talent, even though not necessarily of the same gloss as that of private and foreign banks , is of critical importance . Training can help matters to some extent.

6. As part of. the commitment made in the memorandum of understanding(MOU) with the state governments, free of cost training courses for directors, chief executive officers(CEOs) and other officials of UCB s is being conducted by the RBI at regional locations and in local languages for the convenience of banks. As of now, over1300 directors, 1000CEOs, 2000 officials and 300 liquidators/administrators/ auditors, including chartered accountants , have received such training. Family control of UCBs remains another problem. There is a perception that most UCBs are family – managed , leading to financial irregularities serious conflict of interest issues and related party transactions that can thearten the entire sector a bad name. UCB management is also frequently very closely connected to local politics in many cases. In some sense, this is not surprising , since elections lay at the heart of both activities and a degree of overlap invariably in perception, this leads to political coloring of credit and financial decisions- clearly an un desirable outcome.

Prospective Strategies- drivers of performance for UCB s, as for any organization, includes indicators such as increased employee satisfaction, increased customer satisfaction, financial stability, lower average time to resolution, and innovations in information and communications technology (ICT). they are also naturally suited to serve the national need to financial inclusion.

Conclusion- In order to accomplish these goals, UCB s need to have sound processes, professional management and a leadership whose incentives and motivation are totally beyond doubt. if these important areas are addressed, there is no doubt that the UCB s can prove to be an effective tool in the mission of financial inclusion

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