

Cooperative Sector Banks In India: Problems & Prospects

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ABSTRACT

Banking business has done wonders for the world economy. The simple looking method of accepting money deposits from savers and then lending the same money to borrowers, banking activity encourages the flow of money to productive use and investments. This in turn allows the economy to grow. In the absence of banking business, savings would sit idle in our homes, the entrepreneurs would not be in a position to raise the money, ordinary people dreaming for a new car or house would not be able to purchase cars or houses. The government of India started the cooperative movement of India in 1904. Then the government therefore decided to develop the cooperatives as the institutional agency to tackle the problem of usury and rural indebtedness, which has become a curse for population. In such a situation cooperative banks operate as a balancing centre. At present there are several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system.

This paper intends to analyze the problems & prospects of Indian cooperative sector banks & its relevance for Indian economy. The co-operative sector over the years has made significant contribution to various sectors of national economy and has achieved voluminous growth. This paper is an attempt to address some of the problems being faced by the Cooperative sector banks in India.

Keywords: cooperative, agriculture, government, societies, economy

INTRODUCTION

Indian banking is the lifeline of the nation and its people. Banking has helped in developing the vital sectors of the economy and user in a new dawn of progress on the Indian horizon. The sector has translated the hopes and aspirations of millions of people into reality. A cooperative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Cooperative banks are often created by person belonging to the small local or professional community or sharing a common interest. Cooperative Banking Institutions take deposit and lead money in most part of the words. It provides financial assistance to the people with small means to protect them from the debt trap of the money lender. Cooperative banks are organized and managed on the principal of cooperative, self- help & mutual help.

These banks provide most services such as savings and current accounts, safe deposit lockers, loan or mortgages to private and business customers. For middle class users, for whom a bank is where they can save their money, facilities like Internet banking or phone banking is not very important. Although they are not better than private banks in terms of facilities provided, their interest rates are definitely competitive. However, unlike private banks, the documentation process is lengthy if not stringent and getting a loan approved quickly is rather difficult. The criteria for getting a loan from a UCB are less stringent than for a loan from a commercial bank. Co-operative movement is basically an activity with a common goal, co-operation refers to the formation of non-profit economic enterprises for the benefit of their members. Indian government launched the movement with the enactment of the co-operative society's act 1904. According to the act of 1904, the co-operative societies were to be established in every district and were required to be managed by members on democratic lines. The supreme authority was vested in the general meeting, which consisted of all the members. All decisions as to liabilities, loans, investments, interests, etc. were to be adopted at the general meeting.

REVIEW OF THE LITERATURE

Sachin R. Agrawal Etal (2012)¹said that the self reliance is the main theme of progress of cooperatives deposit mobilization cooperative banks should work as a total system and develop self reliance. The higher authorities of the banking should help the lower authorities in the way of mother institutions. They should provide authority, leadership, guidance, supervision and control. There should be mutual support, help, accountability and responsibility in the system so

that there should be a good and effective relationship between these tiers.

Vepa Kamesam (2002)² success of economic decisions depends after all on the human resources at the disposal of any organization. A change is needed today in the co-operative banks which is built on confidence in human capital- the most important of all resources- in commitment, creativity and innovation brought about by proactive management, membership and employees. Strong corporate governance that takes its obligations seriously can truly be a source of strength to the management. The ability to capture knowledge & wisdom gives co-operative banks their competitive advantage. Organizations know & understand its purpose, core values and visions.

Banishree Das Etal (2006)³ said that in comparison to the step motherly treatment of the past, cooperatives should be considered an important plank of development. The cooperatives have inherent advantages in tackling the problems of poverty alleviation, food security and employment generation. Cooperatives have immense potential to deliver goods and services in areas where both the state and the private sector have failed.

A Vaidyanathan (2012)⁴ discussed about what are the factors and forces that account for this unhealthy state of affairs? What is the experience of efforts to improve the performance of cooperatives? And what are the reasons that they have not been effective? That these efforts have been ineffective does not mean that cooperatives are foredoomed to failure. On the contrary, it is important to recognize that efficient and vibrant cooperatives, organized & managed as democratic, self-reliant and self-managed institutions offer the best means for the vast resource-poor and resource-less segments of the country's population to improve their living conditions.

Misal Sm (2011)⁵ said that there are many institutional, economical, social political, educational, organizational and managerial factors that affect the performance of cooperatives. Performance of co-operatives in relation to realization of the objectives of rural development presents a mixed picture. They have contributed significantly to the growth of institutional infrastructure in rural areas.

Hassan Danaee Fard Etal (2010)⁶ said that Iranian cooperative sectors which want to be globalized should note the concept of co-operation emphasizes on the principles of cooperation define the basic characteristics of any co-operative organization in the world. These principles form the common thread that runs through all the co-operative societies which marginal

variations & iranian cooperatives can cooperate with other countries cooperative sectors for example turkey, azerbaijan and some arabian countries because of having a common religion.

S.Siva Shankar Etal (2014)⁷ said that in a developing state like chhattisgarh with huge deficits in terms of quality & quantity, the state has to shoulder the primary responsibility of providing cooperative credit considering the low living standards of common man, incomplete and imperfect markets, and other socio political considerations it is the primary duty of the government to ensure that its citizens have easy access to cooperative credit, particularly at gross root level.

OBJECTIVES OF THE STUDY

1. To know the lending practices of cooperative banks in India.
2. To measure and compare the efficiency of Cooperative Banks of India.
3. To study the impact of „size“ on the efficiency of the Cooperative Banks.
4. To suggest the appropriate measures to improve the efficiency of the Cooperative banks.
5. To know different type of loans preferred by different sets of customers.
6. To know the satisfaction level of the customers from Bank's lending policies.
7. To study the problems being faced by the cooperative sector banks in India.

RESEARCH METHODOLOGY

Type of Research

Descriptive research is used in this study in order to identify the lending practices of bank and determining customer's level of satisfaction. The method used was questionnaire and interview of the experienced loan officers.

Collection of data

Primary Data

- a. Observation Method
- b. Interview Method
- c. Structured Questionnaire

Secondary Data

- a. Annual reports of the bank
- b. Manual of instructions on loans and advances
- c. Books, Internet

d. Articles and Research Papers

Sampling Unit

The Study population includes the customers of bank and Sampling Unit for Study was Individual Customer.

Sampling Size

200 Respondents

LIMITATIONS OF THE STUDY

1. The study is based on the data of past three or four years only.
2. The data for study mainly based on a single bank.
3. As majority of the customers are employees of the bank, they might be biased in giving the information.
4. The time period of the research was limited.

FINDINGS OF THE STUDY

- Majority (32% as per the study) of the respondent were having housing loan from this bank.
- Most (64% as per the study) of the people prefer to take long term loan which is more than 3 years.
- There is a very simple procedure followed by bank for loan.
- Easy repayment and fewer formalities are the main factors determining customer's selection of loans.
- Quality of services provided by the staff is satisfactory because bank is catering to a small segment only and the customers are properly dealt with.
- Customers are satisfied with the mode of repayment of installments.
- Average time for the processing of loan is less i.e. approx 7 days.

The financial performances of Urban Cooperative Banks (UCBs) improved in 2010-11 though there are some concerns with regard to some of the UCBs reporting negative CRAR. Within the rural cooperative sector, State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs) reported profits but the ground level institutions, i.e., Primary Agricultural Credit Societies (PACS) continued incurring huge losses. The financial performance of long term cooperatives was found to be even weaker than their short term counterparts. Also, it was

observed that the branch network of cooperatives, though widespread across the country, continued to be concentrated in certain regions.

Moreover, the network of cooperatives was not broad based in the north-eastern region of the country. This suggests that efforts need to be taken to improve banking penetration in the north-eastern part of the country along with improving the financial health of the ground level cooperative institutions.

INCREASED INTER-LINKAGES BETWEEN UCBS AND COMMERCIAL BANKS

In recent years, the integration of cooperative banks with the financial sector has increased following the inclusion of UCBS in Indian Financial Network (INFINET) and Real Time Gross Settlement System (RTGS) from November 2010. Further the annual policy statement of the Reserve Bank for 2010-11 envisages inclusion of financially sound UCBS in the Negotiated Dealing System (NDS) and opening up of internet banking channel for UCBS satisfying certain criteria. An analysis of deposits and advances base wise distribution of UCBS revealed that banking business was predominantly concentrated in favour of larger UCBS. UCBS with larger deposit base (more than or equal to `500 crore), though accounted for only 4 per cent of total number of UCBS, contributed almost 53 per cent of total deposits. Balance sheet of UCBS expanded at a rate of 15 per cent at end-March 2011 over the previous year. This expansion in balance sheet was largely attributed to borrowings on the liabilities side and loans and advances on the assets side.

PROBLEMS FACED BY COOPERATIVE BANKS

1. The cooperative financial institution is facing severe problems which have restricted their ability to ensure smooth flow of credit
 - I. Limited ability to mobilize resources.
 - II. Low Level of recovery.
 - III. High transaction of cost.
 - IV. Administered rate of interest structure for a long time.
2. Due to cooperative legislation and administration, Govt. interference has become a regular feature in the day-to-day administration of the cooperative institution. Some of the problem area that arises out of the applicability of the cooperatives legislative is:

- I. Deliberate control of cooperatives by the government.
 - II. Nomination of board of director by the government.
 - III. Participation of the nominated director by the government.
 - IV. Deputation of government officials to cooperative institution etc.
3. The state cooperative banks are not able to formulate their respective policies for investment of their funds that include their surplus resources because of certain restrictions.
 4. Prior approval of RBI is mandatory for opening of new branches of SCBs. The SCBs are required to submit the proposal for opening of new branches to RBI through NABARD, whose recommendation is primarily taken into consideration while according permission.

CONCLUSION

In this paper that all Cooperative banks have both problems and comparative benefits. The Co-operative bank is just another business model and not by definition the key to success. The success of all banks, including mature co-operative banks, is ultimately determined by the level of customer/ member satisfaction, which is in turn influenced by many variables, including the quality and prices of products and services, innovative capacity, the perceived corporate social responsibility and employee attitude, knowledge and competences. For co-operative bank, tangible and intangible advantages of membership are an additional factor. The success of current mature co-operative banks can be explained by their evolving comparative advantages as well as their capability to react to and/or anticipate changes in the external environment. Co-operative Bank play pivotal role in the rural and urban banking system yet failure/bankruptcy of these banks raise many doubts about their viability and sustenance. The results reveal that banks performed better on one parameter but weaken on other which led to dwindling situation.

SUGGESTIONS

1. The banks should adopt the modern methods of banking like internet banking, credit cards, ATM, etc.
2. The banks should plan to introduce new schemes for attracting new customers and satisfying the present ones.
3. The banks should plan for expansion of branches.
4. The banks should improve the customer services of the bank to a better extent.

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