

An Empirical Study on Financial Performance of Urban Co-operative Banks in terms of various Banking Parameters

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Abstract- Finance is the critical key input of the development of industries, agriculture, infrastructure and social reconstruction. India's financial system has been evolved on the Need Based Approach (NBA) over a long period of time. In order to meet the growing development demand for capital, our government, under the leadership of Reserve Bank of India (RBI), developed a multi financial institutions' structure based on the specialization. The government has given priority for the promotion and development of Co-operative banking. The Co-operative banks are community banks. They have special social reconstruction mission in our economy. Therefore, their financial health is very important.

Keywords-NPA, BIS, BFS.

I. INTRODUCTION

When an entrepreneur uses his own capital in his business and suffers loss on account of lack of financial discipline, then it adversely affects him. The banks in the economy are also business entity. Their viability and health will determine the health of an economy. The banks are the biggest financial intermediaries. The banks collect deposits from depositors on interest and lend this money to the businessmen at higher rate of interest. If a borrower fails to repay the borrowed money, the loss of interest income incur interest cost and breaks the financial mechanism of recycling of funds. This will affect the banking system and also the potential growth of economy. The Co-operative banks are the community banks with a mission of bringing socio-economic transformation of target group of society. Therefore, their health will sensitively influence the health of society.

In order to promote banking on sound line, the 'World Bank' constituted the 'Basel Committee'. This committee for Banks is known as 'International settlement' (BIS) The BIS focuses on three aspects of the banking parameters viz.

- (i) The adequacy of Capital and Reserve of the Bank in relation to the risk it is exposed to its lending operations.

- (ii) The quality of its lending i.e. the assets it has created and guidelines for provisioning of assets of bad and doubtful debts.
- (iii) Recognition of income that the assets generate so as to give the true and correct picture of profitability of the banks.

In order to make Indian banks comparable and competitive with foreign banks our government appointed the financial sector reforms committee, headed by Narsimham. The recommendations of Narsimham committee have been implemented since the year 1992-93. This has introduced a paradigm shift in the concept, philosophy and operations of banks. The major focus is on profitability and efficiency. The reforms interlaid aim at accounting and operational transparency, capital adequacy, deregulation of interest rates, provisional norms etc. The urban Co-operative banks have been made to implement these new accounting norms in a time bound and phased manner.

The urban Co-operative banks have changed their banking culture. They have introduced new product profiles, ATM facilities, foreign exchange business, merchants banking etc. In a high voltage competitive environment, the growing problem of non-performing assets (NPAs) has adversely affected their financial performance. The survival and the future of urban Co-operative banks sensitively depend on the successful management of NPA. Therefore, an attempt is made to probe this problem, to investigate its causes, consequences and measure to solve this problem. The output of this research study has policy potential and will be useful to the bankers, research scholars and policy makers

II. OBJECTIVES OF THE STUDY

- (i) To understand the evolution of Indian Co-operative banks in general and urban Co-operative banks in particular.
- (ii) To assess the financial performance of urban Co-operative banks in terms of various banking parameters.

- (iii) To analyze the causes and consequences of Non-performing assets and their effects on the financial health of urban Co-operative banks.
- (iv) To suggest ways and means to minimize the problems arising out of NPA on the performance of urban Co-operative banks.

III. LITERATURE REVIEW

The subject of urban Co-operative banks has been a matter of research over many years, however, the Review of Literature presented below is with specific research paper and studies relating to management of Non-Performing Assets and its relation with urban banks.

Mrs. Ranjana Kumar: The article titled "Restructuring of bank an overview" says "Non Performing Assets (NPAs) are a severe drain on the profitability of the banks. On one hand, no income on such account can be recognized and on the other hand, certain amount has to be provided from the profit, depending on the asset classification and availability of security.

The problem of NPA has two aspects of the recovery amount and the other provision transferred to the profit, it is improved credit assessment and credit processes. The recovery of NPA support to its staff members, banks should develop proper risk forecasting techniques, which should enable them to check generation of fresh NPAs. Indian Legal System, fail to protect borrowers and not lenders. 75% borrowers are standard but 25% substandard. The creditors have practically no rights; as a result, no money was disbursed to the borrowers. It is often said, "In India, one can see sick companies and closed factories, but not, sick promoters"

T. P. Misra: The article titled "Managing Non -Performing Assets" says the profitability of the financial institution largely depend upon the level of income generated through optimum use of assets after paying the cost of funds for acquiring them and other administrative costs, which not only have cost of funds involved but also requires to be provided as per prudential norms. They also pointed out concept on NPA, objective parameter and mentioned classification of NPA and objective of credit Management and developed for handling credit portfolio in an era of increased global competition and liberation.

This article gives new approach of reliability of income to develop credit management profit and risk approach for all repayment received in NPA accounts. Cost of funds increasing for upgradation of non-performing assets with recovery which supported by climate, legal system, approach to the lenders interest, also account rescheduled / restructured will before the account slips to NPA. Banks have to perform well to achieve the targets for NPA reduction as per international standard. Bank improving the overall quality of loan assets, then automatically cost of funds increased.

The problem of NPAs is not a matter of concern for banks and Fls. As credit, economic growth of the country and any bottleneck in the smooth flow of credit is bound to create adverse repercussion in the economy.

"It is the responsibility of banking institutions to maintain the quality of their credit portfolio. Direct credit, does not lead to non-performing assets; Bank has a choice of borrowers. There is evidence to show that the proportion of non-performing assets among banks can be effectively used in monitoring accounts and improving the overall quality to loans assets."

Dr. C Rangarajan³ pointed out that, "Another weak link in urban cooperative sector is lack of professionalism. In a competitive financial milieu where the customers look for innovative products and efficient service, the UCBs can not insulate themselves from the rising demands of their clientele"

Urban Co-operative sector is facing with a serious problem of weak and sick banks. As per the Report on Trade and Progress of banking in India (RBI) 1990 -2000, the number of weak UCBs showed rise and stood at 261 as on 31/3/2000 as against 250 as on 31/3/1999. The Madhav Rao Committee identified the problem being faced by the UCBs (1) dual control (2) increasing incidence of weakness (3) low level of professionalism, absence of compliance with prudential norms and the absence of timely identification of sickness have been the major contributory factor behind persistent weaknesses of certain UCBs to get warning signals.

The Madhav Rao Committee recommended certain criteria of CRAR, NPA and history of losses for identification of weak/sick bank. Post identification, these banks may be placed under moratorium under the Banking Regulation Act and reconstruction/rehabilitation may be carried out.

Dr. K M Bhattacharya⁴ article titled "Dealing with the NPA menace" says, 'the problem of NPA is multi-dimensional and unless the same is checked and the NPA level is brought down to the international standards of 2 to 3 % of total loan assets, it is bound to weaken the banking system. A major obstacle for the banks to reduce their NPAs has been the prevailing legal system in the country'.

Dr Raravikar Yashwants in his article "Bad and Doubtful Debts of the bank must be recovered" write that 'though the Indian banks have made a quantitative progress in amount of deposits and loans and advances, they have not been successful. Complied the qualitative norms such as credit supply to the priority sector, capital adequacy and profitability etc. the annual overall performance of the bank is decided on these qualitative parameter"

Dr. Anand Bansal says in the articles "Banking Sector Reform Towards a New Face of Indian Banking". "The committee on banking sector reform, 1998 (Narsimham Committee) in its Reports has recognized the importance of UCBs and advised, RBI to review and prescribe revised prudent minimum capital norms for their bank. These banks should be brought under Board for Financial Supervision (BFS). The dual control should be dispensed with and the supervision power should be given to BFS. Among other recommendations of this committee include narrow banking for the financially weaker banks merger and acquisitions bancassurance (integration of banking and insurance service reduction of government equity stake greater emphasis on Assets / liability management (ALM) and NPAs and universal banking etc.

IV. RESEARCH METHODOLOGY

The research methodology is one of the core areas of research exercise. The quality and standard are reflected through the

quantitative tools and techniques used by the researcher. In fact, survey method and exploratory methodologies are used.

Primary Data:

Primary data is used as the input of the research. The primary data is required to be collected from various sources. In the context of present research, it was decided to collect the primary data from bankers, banking personnel and some of the borrowers whose accounts rendered as NPA. Initial discussions held with some of the banking personnel revealed that they were, in general reluctant to give the information regarding the policy issues. The borrowers were also not found very Co-operative in disclosing the data. It was, therefore, decided that the study will be mainly based on the processing analysis and interpretation of secondary data to be collected from selected Urban Co-operative banks in Pune City.

Secondary Data:

This data were collected from annual reports (Balance Sheet & Profit and Loss A/C) of Urban Co-operative banks, statistical tables, relating to banks in India, currency and Finance, R.B.I., Publications of State Co-operative Banks of Maharashtra (SCBM).

V. SCOPE AND LIMITATIONS OF STUDY

The present study is confined to the selected urban co-operative banks in Pune districts and the study is pertaining to the non-performing assets of those banks. As such the conclusion drawn are also related only to the banks under study. It is possible that similar conclusions would emerge in case of comparable urban co-operative banks elsewhere.

The limitations of the study include the inadequacy of certain data particularly the primary data, which could have added more value to the research work. However, further research in the area can certainly be conducted with the help of collection of primary data and analysis thereof.

VI. CONCLUSION

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