Benefits and Challenges Faced By the Cooperative Banks

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Abstract – "A Co-operative bank, as its name indicates is an institution consisting of a number of individuals who join together to pool their surplus savings for the purpose of eliminating the profits of the bankers or money lenders with a view to distributing the same amongst the depositors and borrowers." 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. In brief, the cooperative banks have to act as a friend, philosopher and guide to entire cooperative structure. The paper is based on some successful co-op banks in Uttar Pradesh (India). The paper of the bank's performance along with the lending practices provided to the customers is herewith undertaken. The customer has taken more than one type of loan from the banks. Moreover they suggested that the bank should adopt the latest technology of the banking like ATMs, internet / online banking, credit cards etc. so as to bring the bank at par with the private sector banks.

Index Terms – Internet/Online Banking, Rural Indebtedness, Lending Practices, Loan, ATMs, Bank's Performance, Cooperative Banks, Cooperative movement of India, Credit Cards and Private Sector Banks.

1. 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.

2. COOPERATIVE BANKS IN INDIA

In India, 1992 cooperative banking groups or networks have been listed.

Urban Cooperative bank-1589 (69 in U.P)

State cooperative bank-31 (1 in U.P)

District central cooperative bank-372 (50 in U.P)

Primary cooperative societies-93,488 (8,925in U.P) (Source: www.RBI.org.)

3. HISTORY OF COOPERATIVE BANK IN INDIA

The history of the cooperative banks goes back to the year 1904. In 1904, the cooperative credit society act was enacted to encourage cooperative movement in India.

The first phase of cooperative banks development was the formation and regulation of cooperative society. The constitutional reform which leads to the passing of the Government of India Act in 1919 transferred the subject of cooperation from government of India to the provisional Governments. The Government of Bombay passed the first State Cooperative Societies act in 1925.The first paper of Urban Cooperative Banks was taken by RBI in the year1958-

59.The report published in 1961 acknowledged the widespread and financially sound framework of Urban Cooperative Bank, emphasized the need to established Primary Urban Cooperative Bank in new centres and suggested the State Government lead active support to their development. In 1963 Varde Committee recommended that such banks should be organized at all Urban Centers with a population of 1 Lakh or more and not by a single community or Caste.

3.1 Structure of Cooperative bank In India

India's Cooperative banking structure consist of two main segment,viz.,Agriculture and Non-Agricultural credit. There are two separate structure in the case of agricultural credit – One for short term and medium term credit and the other for long term credit. The cooperative credit structure for short term and medium term is a three tier one with Primary agricultural societies at the base level, the central cooperative bank at the District level and State cooperative bank at the apex level.

In India, Cooperative Banks in India are registered under the cooperative societies act. These banks are regulated by the Reserve Bank of India, and governed under the Banking Regulations Act 1949 and Banking Law (cooperative Societies) Act, 1965.

Adequately managing credit risk in financial institutions (FIs) is critical for the survival and growth of the FIs. In the case of banks, the issue of credit risk is of even of greater concern because of the higher levels of perceived risks resulting from some of the characteristics of clients and business conditions that they find themselves in.

Credit creation is the main income generating activity for the banks. But this activity involves huge risks to both the lender and the borrower. The risk of a trading partner not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a bank's business. On the other hand, a bank with high credit risk has high bankruptcy risk that puts the depositors in jeopardy.

4. LITERATURE REVIEW

Uppal (2011) reviewed the banking sector reforms' policy, crucial issues and agenda for the future on the basis of certain parameters like productivity, profitability and NPAs' management. The paper concludes that foreign banks and new private sector banks are much better in performance as compared to our nationalized banks in the post-banking sector reforms period.

Mallikarjun (2012) stressed upon the various risks that are public sector banks are facing; systematic risks, operational risks, liquidity risks and credit risks. He had suggested different plans and decisions should be taken by the banks to reduce these risks.

Dan Rosen, presented a simulation based model to estimate the credit loss distribution of retail loan portfolios and applied the model to sample credit card portfolio of a North American financial institution. Within this model the researcher tested three default models that describes the joint behaviour of default event. It was suggested that application of portfolio credit risk models to retail portfolios is in its infancy and much more research is required.

Leeladhar(2007), in his inaugural speech on Basel II and Credit Risk Management points out that even though Basel-II framework has a broader scope and includes 'operational risk' under Pillar 1 and public disclosures under Pillar 3, the credit risk still claims the largest share of the regulatory capital. This underscores the significance of credit risk in the bank's operations. This is hardly surprising result that the several banking crises in many countries had their roots in lax credit standards, poor portfolio risk management, and the inability or failure to evaluate the impact of the changing economic environment on credit worthiness of the banks' borrowers. The Basel II framework creates an enabling environment for enhancing the risk management capability in the banks by providing the right incentives.

Kalyankar (1983) in his paper titled, "Wilful Default in Loans of Co-operatives" examined the trends in deposits, share capital, working capital, loans outstanding, advances, overdues and recoveries at the district level financing institutes. Socioeconomic factors responsible in projecting and promoting future development in the operations and approaches of the co-operative credit organizations were also considered to examine the specific progress made by Central Co-operative Bank of Parbhani District. The paper revealed that the cropping intensity, irrigation facility and working capital of the societies were the major factors for explaining overdues at primary agricultural credit societies' level. The socio-economic factors were not responsible for increasing overdues at the borrowers' level, but overdues were mainly mounted due to the non-economic factors in case of wilful defaulters.

Kurulkar (1983), in his published work on agricultural finance in backward region, reported glaring defects in the set-up of co-operative credit system. He pointed that out of the ten sample owners who obtained long- term credit from the co-operative banks, 30% could not secure short- term credit. Lack of short-term or production credit to the farmers who availed long-term credit resulted in lower output per acre, thereby resulting in overdues.

5. PURPOSE OF THIS RESEARCH PAPER

Benefits and challenges of cooperative banks got much important in the Indian Economy growth and betterment of farmers and middle class families. The foremost challenges faced by the cooperative banks.

6. OBJECTIVES OF THE RESEARCH

- To study the benefits of Cooperative Bank.
- To identify challenges faced by the Cooperative Bank.
- To suggest techniques adopted by the Co-operative Bank.

7. RESEARCH METHODOLOGY

This paper is theoretical based on the extensive research for which information has collect form secondary sources (Books, Online publications, Annual report of the Bank, Article and Research paper)

8. BENEFITS OF COOPERATIVE BANKS

A Cooperative Bank carries on the normal banking business i.e. the business as defined in Section 5 (b) of the Banking Regulation Act, 1949 and engages in one or more forms of business specified in Section 6(1) of that Act. A Cooperative bank may, in particular, undertake the following types of business, namely:

- The granting of loans and advances, particularly to small and marginal farmers and agricultural laborers, whether individual or in groups and to co-operatives societies (including agricultural marketing societies, agricultural processing societies, Co-operative farming societies, primary agricultural credit societies or farmers' service societies) for agricultural purposes or agricultural operations or for other connected purposes.
- The granting of loans and advances, particularly to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities within the notified area of a Cooperative Bank.

9. CHALLENGES FACED BY COOPERATIVE BANKS

1. The cooperative financial institution is facing severe challenges 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:

- Deliberate control of cooperatives by the government.
- Nomination of board of director by the government.
- Participation of the nominated director by the government.
- 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.

10. SUGGESTION

1. The banks should adopt the modern technologies 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.

11. 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.

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