

Co-operative Banks: A Vital Lifeline for Indian Economy - Case Study: Andhra Pradesh Mahesh Co-operative Urban Bank Ltd., Hyderabad

¹Preeti Premraj Bhala, ²Prof. Dr. Anil S. Purohit,

¹Ph. D. Research Scholar, ² Ph.D. Supervisor,
Faculty of Commerce and Management,
S.P.M.T.M. Arts & Commerce College, Chikhli, Buldana, Maharashtra

ABSTRACT: The cooperative banks are small sized banking units which operate both in urban and non-urban areas over the last 100 years. These banks play a pivotal role in meeting the credit requirements and development of Small & Medium size industries. It is a unique sector where banking and cooperation works together. These banks work on the basis of two tier system and on the principles of cooperation, self-help and mutual-help. Cooperative banks are playing a very crucial role in catering the credit needs of small depositors and borrowers, mainly in the urban informal sector that are deemed non-credit worthy by the commercial banks. Urban and rural cooperative banks are the different types of cooperative banks functioning in India.

The urban cooperative banks also known as primary cooperative banks operate in urban and semi urban areas. These are the small size cooperatively banking units cater the needs of small scale business units, retail traders, professionals, salaries classes etc. Despite of a sustained growth, the sector has gone through a lot of turmoil in the last few years. These banks are striving relentlessly to address the issues of economic inequality and the concentration of wealth that are causing exploitation of weaker sections by the stronger. The present study analyzed the evolution of urban cooperative banks in India, its financial performance and the developments that are needed to boost the performance of the banks to have better economic growth.

Keywords: Urban Cooperative banks, Mahesh Bank, Indian Economy

1. INTRODUCTION

1.1 Banking Regulations

Banking Companies Act of 1949 defined "banking" means accepting, for the purpose of lending or investment, of public deposits of money, repayable on demand or otherwise, and withdraw able by cheque, order, draft etc. Banks accepts deposits from public, makes the funds available to those who need them and helps in remittance of money from one place to another.

Banking is considered to be the "**Backbone of a Nation's Economy**". The Indian Banking, today, is divided into commercial banks which are Private, Public scheduled and non-scheduled banks, Regional and Rural, and Cooperative Banks. Banking business has done method of accepting money deposits from depositors and then lending the same money to the borrowers, banking activity encourages the flow of money to productive use and grow. In the absence of banking business, the entrepreneurs would not be in a position to raise the money and the savings would sit idle in our homes.

investments. This in turn allows the country's economy to

1.2 Cooperative Movement in India

In the year 1904 the government of India started the cooperative movement and decided to develop the cooperatives as the institutional agency to tackle the problem of usury and rural indebtedness. In such a situation cooperative banks operate as a balancing center. Presently we have several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system.

The first known mutual aid society in India was probably the '**Anyonya Sahakari Mandali**' organized in the erstwhile princely State of Baroda in 1889 under the guidance of **Vithal Laxman Kavthekar**. Urban co-operative credit societies, organized on a community basis to meet the consumption oriented credit needs of their members. From its origins then to today, the thrust of UCBs, historically, has been to mobilize savings from the middle and low income urban groups and purvey credit to their members - many of which belonged to weaker sections.

The **Maclagan Committee of 1915** was appointed to review their performance and suggest measures for strengthening them. The committee observed that such institutions were eminently suited to cater to the needs of the lower and middle income strata of society and would inculcate the principles of banking amongst the middle classes. The committee also felt that the urban cooperative credit movement was more viable than agricultural credit societies.

The **Government of India Act in 1919** transferred the subject of "Cooperation" from Government of India to the Provincial Governments. The Government of Bombay passed the first State **Cooperative Societies Act in 1925** "which not only gave the movement its size and shape but was a pace setter of cooperative activities and stressed the basic concept of thrift, self help and mutual aid." Other States followed. This marked the beginning of the second phase in the history of Cooperative Credit Institutions. There was the general realization that urban banks have an important role to play in economic construction. This was asserted by a host of committees.

The Indian Central Banking Enquiry Committee (1931) felt that urban banks have a duty to help the small business and middle class people. **The Mehta-Bhansali Committee (1939)**, recommended that those societies which had fulfilled the criteria of banking should be allowed to work as banks and recommended an Association for these banks. **The Co-operative Planning Committee (1946)** went on record to say that urban banks have been the best agencies for small people in whom Joint stock banks are not generally interested. The **Rural Banking Enquiry Committee (1950)**, impressed by the low cost of establishment and operations recommended the establishment of such banks even in places smaller than taluka towns. The first study of Urban co-operative banks was taken up by RBI in the year 1958-59.

The Report published in 1961 acknowledged the widespread and financially sound framework of urban co-operative banks; emphasized the need to establish primary urban cooperative banks in new centers and suggested that State Governments lend active support to their development.

1.3 Co-operative Banks

A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. It is often established by people belonging to the same local or professional community having a common interest. It is formed to promote the upliftment of financially weaker sections of the society and to protect them from the clutches of money lenders who provide loans at an unreasonably high-interest rate to the needy. The co-operative structure is designed on the principles of cooperation, mutual help, democratic decision making and open membership. It follows the principle of 'one shareholder, one vote' and 'no profit, no loss'.

Cooperatives Banks are registered under the Cooperative Societies Act, 1912. These are regulated by the Reserve Bank of India and National Bank for Agriculture and Rural Development (NABARD) under the Banking Regulation Act, 1949 and Banking Laws (Application to Cooperative Societies) Act, 1965. Cooperative banks differ from commercial banks on the grounds of organization, governance, interest rates, and the scope of functioning, objectives and values.

An urban co-operative Bank is defined as one which is organized for accepting deposits from the public, which is usually repayable by cheques which carry on normal banking business. Urban Banks are those credit societies which undertake all kinds of banking business including the acceptance of all types of deposits and the provisions of banking facilities for their clientele, such as making advances on personal surety, issue of drafts, discounting Hundis collection of Bills etc. Co-operative banks have helped India usher in a new dawn of progress by taking banking to common people in villages and towns across the country.

These banks are small-sized units organized in the co-operative sector which operate both in urban and non-urban regions and are traditionally centered on communities, localities and work place. Most of the services provided by these banks are 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 hard earned money, facilities like Internet banking or phone banking is not very important.

Co-operative banking, incorporate retail banking, as carried out by credit unions, mutual savings and loan associations, building societies and co-operatives, as well as commercial banking services provided by manual organizations like co-operative federations to the cooperative business.

1.4 Indian Economy

The meaning of the economic system refers to the role or model of distribution and production which take place in the society. The economic system may either be simple or complex. It may adopt either a 'capitalistic' or 'socialistic' system or may be a 'mixed' one (as is in our country). The economy itself may be predominantly agricultural or industrial.

India, as a developing country, features a mixed economy in the world. The major characteristics of developing economy are low per capita income, overpopulation, maximum population below the poverty line, poor infrastructure, agro-based economy and a lower rate of capital formation. Since, the independence of the country, India has been developing in many perspectives from the economic point of view. Although the Indian economy is developing in nature, it tends to move towards a developed economy. The major reforms in the Indian economy were done in the year 1991.

Since independence India has been a 'Mixed Economy'. India's large public sectors were responsible for rendering the country a 'mixed economy' feature. Indian economy is basically based in the contribution of service sector (currently provides 60% share of GDP) and near about 53% of its population is dependent on the Agriculture. As soon as the time is passing, the share of Agriculture is decreasing and share of service sector is increasing. Currently India is called a developing economy of the world.

2. LITERATURE REVIEW

Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of the financial institutions. **Narsimham Committee (1991)** emphasized on capital adequacy and liquidity, **Padamanabhan Committee (1995)** suggested CAMEL rating (in the form of ratios) to evaluate financial and operational efficiency, **Tarapore Committee (1997)** regarding Non-performing assets and its quality, **Kannan Committee (1998)** opined about working capital and lending methods, **Basel committee (1998 and revised in 2001)** recommended capital adequacy norms and management measures.

Kapoor Committee (1998) has suggested for credit delivery system and credit guarantee and **Verma Committee (1999)** recommended seven parameters (ratios) to judge financial performance and several other committees constituted by the Reserve Bank of India to bring reforms in the banking sector by emphasizing on the improvement in the financial health of the banks.

Bhaskaran and Josh (2000) concluded that the recovery performance of co-operative credit institutions continues to be unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested

legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable in tune with competitive commercial banking.

Jain (2001) has compared the performance analysis of District Central Co-operative Banks (DCCBs) of Western India, like Maharashtra, Gujarat and Rajasthan and found that DCCBs of Rajasthan have performed better in profitability and liquidity as compared to Gujarat and Maharashtra.

Singh and Singh (2006) studied the funds management in the District Central Co-operative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin. **Mavaluri, Boppana and Nagarjuna (2006)** recommended that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the country's economy. As per their study, public sector banks have been more efficient than other banks operating in India.

Pal and Malik (2007) look over the differences in the financial characteristics of 74 public, private and foreign banks in India based on factors, such as profitability, liquidity, risk and efficiency. It is suggested that foreign banks were better performers, as compared to other two categories of banks, in general and in particular utilization of resources. **Dutta and Basak (2008)** suggested that Co-operative banks should improve their recovery performance by adopting new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters.

3. IMPACT OF URBAN COOPERATIVE BANKS FOR ECONOMIC DEVELOPMENT

Today, **Co-operative banks** operate across the country side-by-side with commercial banks and play a crucial role in providing need-based finance, especially for people engaged in agricultural and agriculture-based operations including farming, cattle, milk, personal finance, etc, along with some small industries and self-employment driven activities. Co-operation is the **backbone of rural and semi-urban economy**. It should not be allowed to collapse only because of weak links in the system. **RBI and State Government** should put in place a system which will ensure success in the co-operative movement.

The Govt. and RBI should consider the Co-operative banks as essential factor in the overall banking and credit environment of the society. These banks are the most competent tool for financial inclusion and over time have proved their ability to provide credit at the grass root level effectively. The only thing is that they need proper cushioning, guidance, advice and support. With the growing networking of UCBs and their utility in financial uplift and financial inclusion, which is need of the hour, it is felt necessary that a separate umbrella organization exclusively for urban co-op. banks may be designed on the lines of NABARD.

UCBs with their unique and exclusive organizational set up will be the most effective tool for the financial inclusion of urban poor and hence this sector needs special attention in the years to come. Co-operation if run on trust, honesty, and confidence is the best alternative to Corporate Sector; we feel that it should not be allowed to collapse. The Government and the Reserve Bank should nourish this sector. The significant economic contributions made by co-operative banks are in good strength, indicates their direct role in **transforming the economic growth scenario in India**. The government and regulator too are not ignorant of this fact and "policy endeavors are geared to consolidating and strengthening this sector and improving governance", says RBI.

The important development in urban co-operative banking was the survey undertaken by the Reserve Bank with the object of studying the pattern of financial resources of urban banks, part played by urban banks in financing small-scale industries, the outlets for their investments and the factors underlying the success or failure in their working.

The Report on the Survey of Urban Co-operative Banks published by the Reserve Bank observed that with the growth of planning and an increase in the tempo of economic development, steps had been taken to promote the development of various types of economic activities in the sphere of co-operation. But, while much attention had been paid to the promotion of agricultural co-operatives, industrial cooperatives and various other types of co-operative societies such as those for fisheries, dairying and housing societies, similar importance had, however, not been accorded to urban banks.

For the **promotion and development of urban banks** and the full utilization of their potentialities, the Survey Report made the following suggestions:

1. An assessment may be made of the scope of the establishment of urban banks in new centers and in different parts of existing cities and towns.
2. Active efforts should be made by the management of urban banks to expand their membership.
3. Urban banks should adopt a progressive attitude towards their functions and should try to diversify their activities and offer a wide range of facilities to their members than are now given.
4. In their loan policy, urban banks should adopt a sufficiently wide and diversified system suiting the needs of the times and of different categories of members, keeping in view loans to small industries as an important line of future development.
5. The working of urban banks should be placed on sound and efficient lines, by elimination of non-credit activities of the trading type, improvement of the accounting and operational arrangements and reduction and avoidance of overdue.
6. There should be continuous building up of member relations and publicity. (As per Report on the Survey of Urban Co-operative Bank by RBI)

The statutory power of inspection of Urban Co-operative Banks was also vested in the Reserve bank of India which could exercise it either directly or through the concerned state co-operative bank. Powers in regard to incorporation, management and winding up continued to be governed by the State Co-operative Societies Acts concerned.

4. CASE STUDY – MAHESH URBAN COOPERATIVE BANK, TELANGANA

Andhra Pradesh Mahesh Co-operative Urban Bank Ltd. (popularly known as Mahesh Bank) was registered as a Primary Co-operative Society on 30th June, 1977. The Bank has commenced its operations on 9th August, 1978. The Bank was accorded Scheduled Status by Reserve Bank of India from **26th October, 1996** - the first Co-operative Bank to be accorded this status in the entire South India. **Dr C. Rangarajan**, the then Governor, Reserve Bank of India graced the occasion. The Bank has been registered as a Multi-State Co-operative Bank under the Multi-State Co-operative Societies Act, 1984 with effect from 30.05.2001 - again the first Co-operative Bank to achieve this coveted position in South India.

Mahesh Bank is the first Co-operative Urban Bank in the States of Telangana and Andhra Pradesh:

- To offer Core Banking Solutions(CBS), Bancassurance, Mutual Funds, Direct RTGS/NEFT, e-Seva, Rupay ATM-cum-Debit Card facilities.
- To offer IMPS – Merchant Payment Service – for online payment of Electricity, Telephone Bills and booking flight, bus and hotel bookings.

Branch Expansion: Mahesh Bank presently has 45 branches - 35 in the twin cities of Hyderabad and Secunderabad and one each at Khammam, Warangal, Karimnagar in Telangana State, Vijayawada, Guntur, Rajahmundry, Visakhapatnam, in Andhra Pradesh State, Jaipur & Bhilwara in Rajasthan and Mumbai in Maharashtra State.

Foreign Exchange Transactions: The Bank has been granted license – **Authorized Dealer – Category – II** by the RBI to undertake money transfer business and specified non-trade current account transactions. Mahesh Bank is the first Co-operative Urban Bank to get this license in the States of Telangana and Andhra Pradesh.

Capital Adequacy Norms: The Capital to Risk Weighted Assets Ratio (CRAR) of the bank stood at 20.07% as on 31-3-2021 as against a minimum stipulation of 9% prescribed by RBI.

Awards:

- The Bank has been conferred with “Best Cyber Security Education Campaign” award by Banking Frontiers, Mumbai during 2020.
- Sri Purshotamdas Mandhana, Former Chairman and present Sr.Vice-Chairman of the bank received “BEST CHAIRMAN” award under the category of Large Co-operative Banks of the Country by the Banking Frontiers, Indian’s first publication of its kind on Banking Technology and Business issues at a function held at Goa on 19th September, 2019 at a function – “Frontiers in Cooperative Banking Awards (FCBA)”.
- The Bank bagged the "**Special Award**" in 77th All India Industrial Exhibition held at Hyderabad during 1.1.2017 to 15.02.2017 for its exemplary participation and personalized services rendered to its customers.
- One more feather on the cap of the bank for having Award Award for "**BEST MOBILE APP**" and "**BEST e-PAYMENTS AWARDS**" by the Banking Frontiers, (India’s first publication of its kind on Banking Technology and Business issues) at a function held at Jaipur – Rajasthan on 9th September, 2017.

Economic Development of the Bank:

1. Technology Enabled Services:

Bank continues to be at the forefront of leveraging technology to improve the customer experience. The following are the major services operational to serve the customers banking needs:

1. RuPay Debit Card
2. Bharat Bill Pay
3. Internet banking- Retail/ Corporate
4. Mobile Banking
5. BHIM Mahesh Pay
6. Toll Free Services
7. Payment Facility on Whatsapp
8. Missed Call Services
9. RuPay Prepaid Card
10. Tab Banking
11. Loan Origination System
12. Artificial Intelligence Enabled BOT
13. Positive Pay System

2. Human Resource Services:

Bank develops its workforce capabilities, skills and competencies by engaging employees in learning and development activities. These activities are planned to be in sync with the business goals of the Bank and are conducted with an objective to enhance performance of employees towards business growth.

Besides giving training in the own training college of the Bank at Head Office, Staff were also deputed to various external workshops & seminars conducted by renowned Organizations and institutions in banking & financial sector like CAB RBI, NAFCUB, VAMNICOM, ICM (Institute of Co-operative Management, Pune) etc.

Training classes were conducted at regular intervals round the year. The e-learning concept introduced by the bank found to be very useful during this pandemic period. The Staff are pursuing the course online during holidays sitting at home and also at their leisure time.

3. Customer Services:

Mahesh Bank follows this quote:

"Treat the customer like you would want to be treated".

Bank maintains absolute commitment to client relationships and satisfaction, integrity and transparency. To elevate customer delight, Bank is constantly enhancing its technology and risk management capabilities to ensure that customer has the most state of the art tools available at his fingertips. Bank has developed own technology and partnered with others to provide techno based services at par with New Generation Banks.

References:

1. <https://www.nabard.org/pdf/annual-report-2020-21-full-report.pdf>
2. <http://pdvpmtasgaon.edu.in/uploads/dptsncommerce/ChapterNo-II.pdf>
3. <https://www.rbi.org.in/scripts/AboutUsDisplay.aspx?pg=UrbanBankDept.htm>
4. <https://bfsi.eletsonline.com/co-operative-banks-a-vital-lifeline-for-indian-economy/>
5. <https://www.economicdiscussion.net/india/cooperative-banking/cooperative-banking-in-india-history-structure-importance-and-weaknesses/31365>
6. home | MAHESH BANK (apmaheshbank.com)