



## Performance Analysis of the Urban Co-Operative Banks: A Study On the Performance of the Urban Co-Operative Banks in India

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**Abstract:** *Urban co-operative banks play a very important role in mobilising deposits and financing the small borrowers. These co-operative banks cater mostly to the lower middle class, and people of limited means, self employed and micro enterprises. Urban co-operative banks with their deep rooted connections with specific communities can easily inspire the trust of small savers and borrowers. Urban co-operative banks have immense role to play in the present day and this study focus to analyse the performance of these urban co-operative banks in India. Analysing the performance of these urban co-operative banks in India would provide important information about their current position, which will further enable such banks to improve their performance in the near future.*

**Key Words:** *SWOT analysis, Gross Non-Performing Asset, Net Non- Performing Asset, Net Interest margin (NIM), Return on Assets (RoA), Return on Equity (RoE), Interest incomes on loans and advances to total income.*

### 1. INTRODUCTION:

Co-operative Banks, which are distinct from commercial banks, were born out of the concept of co-operative credit societies where members from a community group together to extend loans to each other, at favourable terms. Co-operative Banks are broadly classified into Urban and Rural co-operative banks based on their region of operation. The Urban Co-operative Banks are formed with the objectives of promoting sustainable banking practices among the lower and middle income strata of the urban and semi-urban population. These are the best media for taking banking facilities to the doorsteps of the common people, unbanked people in the urban and semi-urban area in particular. The banks promote thrift by attracting deposits from members and non-members and advance loan to the members, thereby plays an important role in bringing about the socio-economic changes in the urban and semi-urban areas.

Urban co-operative banks also play a vital role in the financial inclusion by providing banking services to people of less included segments of the economic strata. These banks often act as a forerunner of the economic empowerment of a large segment of the society. Many of these urban co-operative banks are small and do not have the capability, both financial and human resource, to carry out their operations smoothly. Further these banks do not have many avenues to raise capital and do not have the benefit of professional management in most of the cases. In such a scenario these banks continue to leverage on member loyalty to remain in business. Thus, analyzing the performance of urban co-operative banks becomes utmost important in this backdrop.

### 2. LITERATURE REVIEW:

The summary of various articles published in journals, varied views, opinions and studies conducted by the research scholars and experts are reviewed and presented hereunder:

**1. Gupta, J., & Jain, S. (2012).**, states that 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.

**2. Ghosh, S., & Ansari, J. (2018),** portrays the nexus between financial performance and board characteristics for Indian cooperative banks. The empirical results suggest that board size does not exert any discernible impact on banks, judged in terms of either performance- or return-based measures. When we disaggregate the findings by



income, the results suggest that both board size and its diversity matter in high-income districts, whereas only gender diversity exerts an impact on performance in low-income districts.

**3.Ramu, N. (2008)**, states that cooperatives prioritized its choices around workforce engagement. Successful HRM requires that the organization practice a sound management philosophy that respects human dignity and diversity, is committed to the growth of employees, believes in the value of employee's contribution and involves them in decision – making and shares its wealth equitably and fairly.

**4.Hooda, V. S. (2011)**, stated that DCCBs (with PACSs) in India are the true friends of farmers in particular and rural population in general. They have played significant role in the development of rural economy of India. But as per literature and studies done by various researchers, DCCBs are facing various problems and challenges such as dual control, poor financial base, less focus on deposit mobilisation, poor infrastructural facilities, lack of professionalism, low level of technology up gradation and poor recovery performance etc. But DCCBs are very important financial institutions and are equally important of Govt. of India that is financial inclusion.

**5.Singh, D. (2017)**, states that Performance of the Apex banks i.e. State cooperative banks and Central Cooperative banks is satisfactory in the country. The performance in the western and southern regions is excellent there are good contributions by cooperative banks in the Indian economy especially in rural areas. On the other hand the performance of the State Cooperative Agriculture Rural Development Banks (SCARDB) and Primary Cooperative Agriculture Rural Development Banks (PCARDB) are not good in India. There are negative growth rate in PCARDB in India, losses of the PCARDB are increased from -268 crores to -605 crores in the year 2017 it shows that there are needs of taking effective steps to improve their performance of these banks otherwise they are throwing out of markets by the other competitors banks.

### 3. RESEARCH GAP:

The previous studies conducted by the scholars have provided significant information about the performance of urban co-operative banks in India. But this paper intends to study the performance of the urban co-operative banks in India by analysing their strength, weakness and financial performance; to provide a comprehensive picture of the recent scenario of these urban co-operative banks in India. Such comprehensive analysis is not depicted by the earlier studies.

#### 3.1. OBJECTIVES OF THE STUDY

- 1) SWOT analysis of urban co-operative banks in India .
- 2) To portray a comparative analysis of the financial performance of urban co-operative banks and other banking sector entities in India.

### 4. RESEARCH METHODOLOGY:

In this part the method, approach, type of data analysis and the limitation of the study is outlined. For the purpose of this paper the data collected is secondary data. Secondary data is the data that has already been collected by the primary sources and made readily available. Existing data is summarized and collated to increase the overall effectiveness of the study. The limitations of the study include – (i) This study intends to deal with only the SWOT analysis and examination of the financial strength of urban co-operative banks in India, there are other parameters of performance evaluation as well, which are not considered in the study. (ii) Since the data collected for the study is secondary data, the information portrayed by these data are upto a certain time period only, the developments after that period is not taken into account in this study.

### 5. CONCEPTUAL FRAMEWORK :

#### SWOT analysis of urban co-operative banks in India

SWOT analysis is a useful technique for understanding an entity's strengths and weaknesses, and identifying both the opportunities that are open for the entity and the threats that the entity might face. SWOT analysis for the urban co-operative banks in India would help in developing a fuller awareness of the situation and help these banks in planning and decision making. The analysis of the strengths, weaknesses, opportunities and threats for the urban co-operative banks in India are summarized and presented hereunder:

Table 1 SWOT Analysis of urban co-operative banks in India	
Strengths	Weakness
Business oriented towards serving the small customers	Inadequate avenues for raising capital and even



with flexibility of operations tailored to local conditions	greater difficulty in raising capital during stress.
Ability to quickly design products suited to local conditions.	Lack of professional management, poor corporate governance.
Proximity to the borrower and better understanding of local requirements leading to informal sources adding to credit quality	Weak internal control and audit system.
High customer loyalty due to mutuality of objectives	Small Area of operation resulting in absence of economies of scale which in turn results into inadequate ability to invest in IT infrastructure and hire skilled manpower.
<b>Opportunities</b>	<b>Threats</b>
A large untapped market particularly in respect of small borrowers to whom UCBs generally cater to.	Acute competition emanating from differentiated banks, MFIs and FinTechs in the niche market segment of UCBs
Huge business potential emanating from financial inclusion initiatives.	Dent to the image of UCBs because of frequent failure of UCBs including certain large UCBs
Offering third party products, digital payments, etc.	Shift in customer preference towards digital channels of banking
Likely boost after establishment of UO	Geographical concentration risk to smaller UCBs due to small area of operation

Source : <https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=1185#>

Thus, from Table 1 we can get important insights into the inherent capabilities of the urban co-operative banks in India and can also identify the favourable conditions which will enable these banks to further strengthen their position. Furthermore the inherent constraints that these banks face and the unfavourable conditions that can damage its position are also analysed in the above table.

### **Comparative analysis of the financial performance of urban co-operative banks and other banking sector entities in India.**

In this segment of the study a comparative analysis have been done of the financial performance of urban co-operative banks and other banking sector entities in India. For this purpose three key financial indicators are considered :

- Gross Non-Performing Asset (GNPA) and Net Non- Performing Asset (NNPA) ratio.
- Net Interest margin (NIM), Return on Assets (RoA), and Return on Equity (RoE)
- Interest incomes on loans and advances to total income ratio.

#### **Comparison of Gross Non-Performing Asset (GNPA) and Net Non- Performing Asset (NNPA) ratio of urban co-operative banks and other banking sector entities in India.**

Table 2  
Gross Non-Performing Asset (GNPA) and Net Non- Performing Asset (NNPA) ratio.

	Public sector banks	Private sector banks	Foreign Banks	Small Finance banks	Urban co-operative banks
GNPA (%)	10.3	5.5	2.3	1.9	10.96
NNPA(%)	3.7	1.5	0.5	0.9	5.26

Source : <https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=1185#>

Data collected as on 31<sup>st</sup> March 2020

A nonperforming asset (NPA) refers to a classification for loans or advances that are in default or in arrears. A loan is in arrears when principal or interest payments are late or missed. A loan is in default when the lender considers the loan agreement to be broken and the debtor is unable to meet his obligations. Table 2 shows that the urban co-operative banks in India records the highest GNPA(%) and NNPA(%) across the banking sector, which is also represented in Fig 1 below.

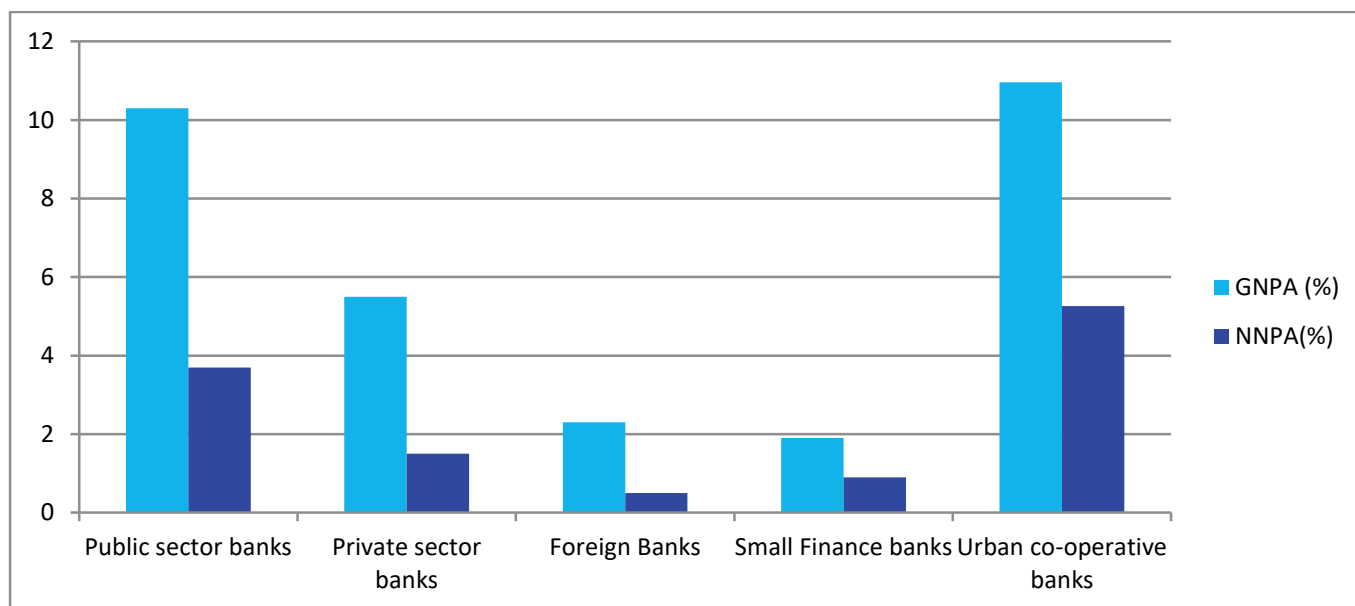


Figure 1

Source : <https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=1185#>  
 Data collected as on 31<sup>st</sup> March 2020

Comparison of Net Interest margin (NIM), Return on Assets (RoA), and Return on Equity (RoE) of urban co-operative banks and other banking sector entities in India.

Table 3  
Net Interest margin (NIM), Return on Assets (RoA), and Return on Equity (RoE)

	Public sector banks	Private sector banks	Foreign Banks	Small Finance banks	Urban co-operative banks
NIM (%)	2.37	3.42	3.26	8.34	1.89
RoA (%)	-0.23	0.51	1.55	1.7	-0.85
RoE (%)	-4.16	3.3	8.76	1.5	-10.59

Source : <https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=1185#>  
 Data collected as on 31<sup>st</sup> March 2020

Net Interest margin (NIM), Return on Assets (RoA), and Return on Equity (RoE) are the important earning parameters which indicates the success of an entity. Hence these earning parameters are compared to form an opinion on the earning position of urban co-operative banks in India. On comparison in Table 3 it is evident that the urban co-operative banks in India have lower NIM(%), RoA (%) and RoE(%) than the other banking sector entities in India, which is also represented in Fig 2 below. This clearly indicates the lower profitability position for these urban co-operative banks. This further stresses on the fact that taking steps to increase their profitability is the need of the hour for urban co-operative banks in order to sustain for long.

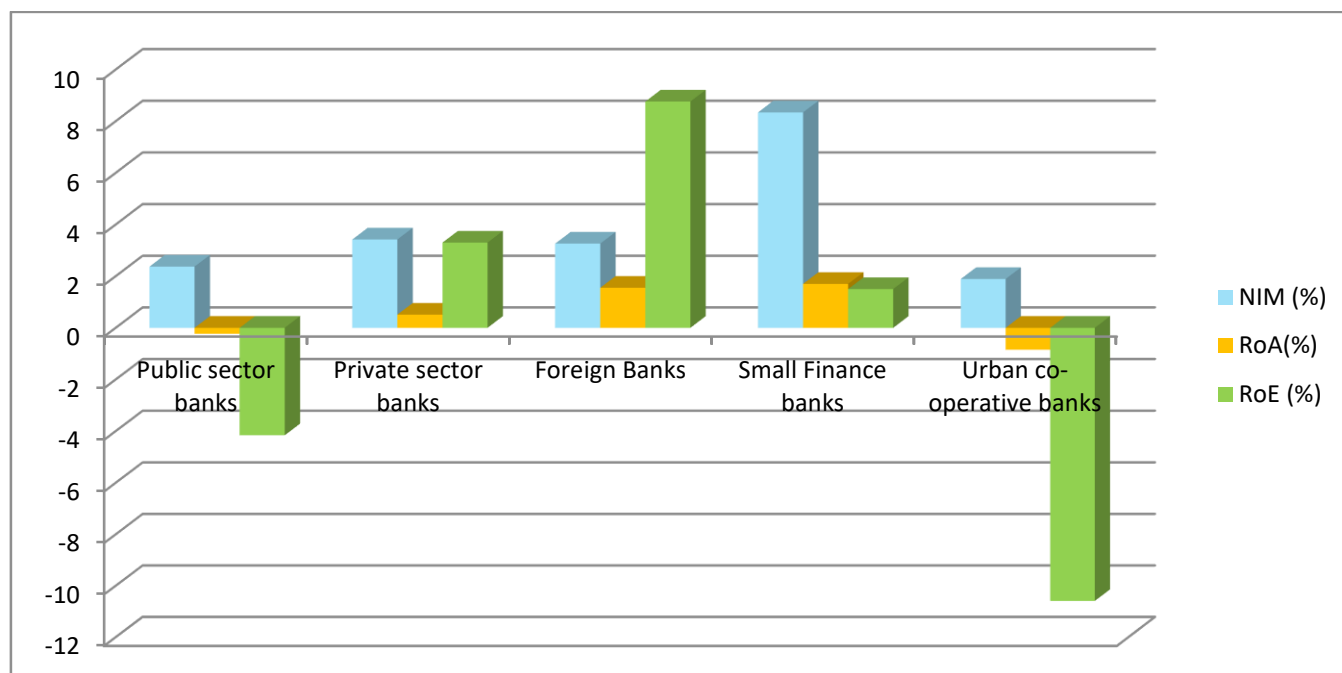


Figure 2

Source : <https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=1185#>  
 Data collected as on 31<sup>st</sup> March 2020

Comparison of Interest incomes on loans and advances to total income ratio of urban co-operative banks and other banking sector entities in India.

Table 4  
Interest incomes on loans and advances to total income ratio

	Public sector banks	Private sector banks	Foreign Banks	Small Finance banks	Urban co-operative banks
Int Inc/ Total Inc (%)	85.84	82.15	80.11	88.18	89.3
NI Inc/ Total Inc (%)	14.16	17.85	19.89	11.82	10.7

Source : <https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=1185#>  
 Data collected as on 31<sup>st</sup> March 2020

From Table 4 it is evident that the interest income to total income ratio of urban co-operative banks in India in comparison to other banking sector entities in India is showing a favourable picture. This can also be seen in Fig 3 below. On one hand when the interest income is showing a favourable picture, the non interest income of urban co-operative banks is comparatively less. This reveals that though there is fair amount of interest income avenues for urban co-operative banks, there is limited avenues for generating fee based income for these urban co-operative banks.

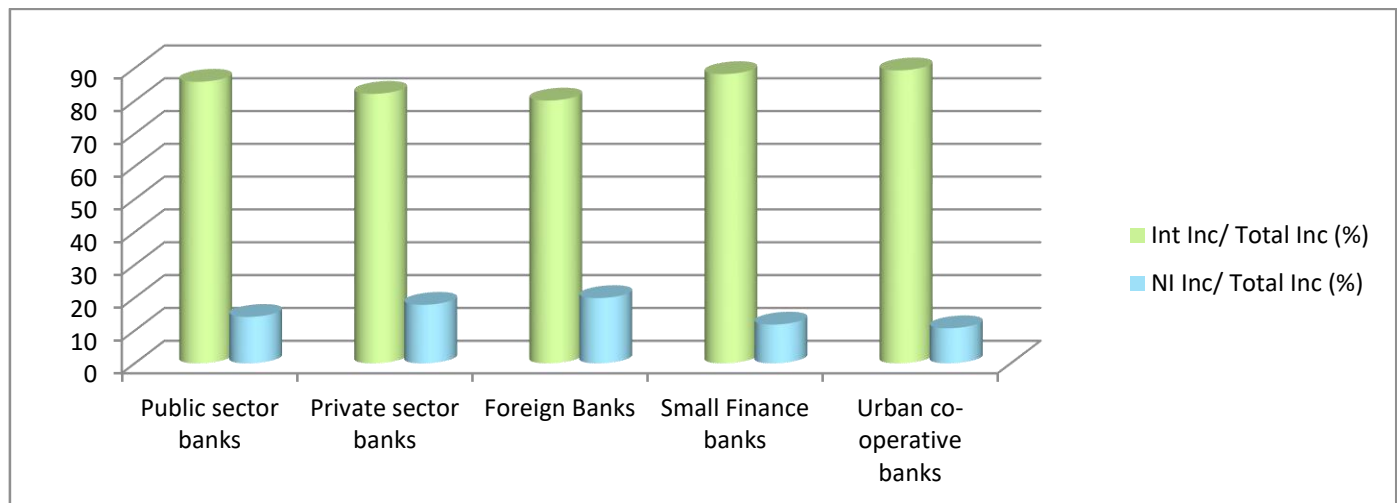


Figure 3

Source : <https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=1185#>  
 Data collected as on 31<sup>st</sup> March 2020

## 6. CONCLUSION:

Urban co-operative banks have been an important sector in the Indian Banking scenario. From this study it can be perceived that these banks have great potential and have opportunities in front of them which are still not grasped by these urban co-operative banks. The operational efficiency of urban co-operative banks seem to be unsatisfactory and is characterised by low profitability, growing non-performing assets, inability to increase their capital base and so on. In spite of these facts urban co-operative banks in India have a great role to play in the development of banking services in the country. These banks should try to overcome their limitations and improve their performance in years to come. For this purpose these banks should develop the digital banking facilities to keep at par with the other banking sector entities. It should further give relaxation on the limits on loans and advances in certain segments as far as possible. These banks have huge role to play in the financial inclusion of the country and should reach to the large untapped market of small borrowers.

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