Chapter 1

INTRODUCTION

A sound and effective financial system of a country is always a fulcrum in the growth of a nation. Banking system is the imperative segment of the financial system of a country. The growth of banks leads to the economic intensification of a nation. Both development of banks and growth of a nation are positively correlated. Banking institution is a vital establishment which provides support to financial and economic plans and policies of the government. Banks channelize the flow of funds to deficit units from those units with surplus funds so that these surplus funds can be used for productive and development purposes (Lalitha, 2013).

Bank provides indispensable banking services of accepting deposits from public and deploying those funds in economic production by granting loans to entrepreneurs. Bank acts as custodian of public money and valuables and provide other services such as checking of accounts, money orders etc. (Naidu and Chandraiah, 2013). A variety of cooperation and integration models has emerged in finance industry and it has diminished the distinction between banks, insurance companies and securities firms. As a result, banks have been enabled to offer investment and insurance products (Gupta and Dubey, 2012; Manikayam, 2014). Now, banks are providing other financial services also along with essential banking services.

Indian banks, being the important pillar of financial system, have always prevented the economy from economic devastation (Katrodia, 2012) and remained stable during the global disturbances. It has led to retaining public's confidence in the banking system. A strong gross domestic product (GDP) growth is expected at the compound annual growth rate of 7 percent over 2012-17 and it will help to facilitate the banking sector expansion (Report of India Brand Equity Foundation, 2014). The Indian banking sector is considered as a main mechanism of monetary policy formulation and credit system (Vijaykumar, 2014, Narayan and Surya, 2014).

1.1 EVOLUTION AND GROWTH OF INDIAN BANKING

The Indian banking industry has navigated a long way to attain its present stature of modern and liberal business organizations from a socialist licensed raj business (Guaba, 2012). India has a vast history of banking practices. India was not a

stranger to the conception of banking and its traces could be found back in the vedic period. Reference is also made in Kautilya's Arthashastra regarding loan policy and interest rates. "Banks were successfully satisfying the assorted credit needs of the business, agriculture as well as individuals in the economy" (Dhole, 2014).

The origin of modern Indian banking may be traced back to the 18th century with the establishment of Bank of Hindustan in 1770 and General Bank of India in 1786. Both banks are defunct now. "This was followed by establishment of three banks under the charter of the East India Company i.e. The Bank of Bengal/Calcutta (1809), Bank of Bombay (1840) and Bank of Madras (1843). These three individual units (Bank of Calcutta, Bank of Bombay, and Bank of Madras) were called as Presidency Banks" (Bhole, 2003). Between the 1865 and 1913, a number of Indian private banks emerged which are operating successfully even today. "With the beginning of Swadeshi Movement in India, many Indians were prompted to establish a number of joint stock banks with Indian management. The Punjab National Bank Ltd. in 1895, The Bank of India Ltd in 1906, The Canara Bank Ltd. in 1906, The Indian Bank Ltd. in 1907, The Bank of Baroda Ltd. in 1908, and The Central Bank of India Ltd. in 1911 were started during this period" (Marvaniya, 2011).

In initial years of 20th century, many private banks failed due to ineffective control of the government and poor management. Hence, a need was felt to have one central bank in the country. As a result, persistent efforts were made to merge all the three presidency banks in to one single bank and the Imperial Bank of India was formed in 1921. "It was allowed to hold government balances, to manage public debts and clearing houses but was not given any power to have control over currency of the country. Thus, presidency banks performed the functions of quasi-central bank for many years till the establishment of Reserve Bank of India (RBI) in 1935" (Tannan, 1999). The Reserve Bank of India took over all the functions of central bank from Imperial bank. After India's independence, this Imperial Bank was renamed as the State Bank of India in 1955.

Indian banking faced challenges from the period of the First World War (1914-1918) till the independence of India. Though Indian economy got indirect boost up in economic activities relating to war during war and post war years but despite of that many banks collapsed (Saini and Lodha, 2014). Till 1935, majority of private sector banks were established without any regulatory framework for these banks and

due to absence of any regulations on these banks, private banks were freely using money in the way they wanted to use. This approach led to the failure of banks resulting in the exploitation of the poor. Therefore with the aim to control and regulate private banks, the Reserve Bank of India was established.

After independence, the regime of Laissez Faire in Indian banking came to an end. Various measures and Industrial Policy Resolution in 1948 taken by Indian Government had significantly changed the economic scenario in the country (Gajdhane, 2012). In 1949, the Banking Regulation Act was passed for regulation and supervision of banks. This act authorized RBI to regulate, supervise and develop the banking systems which resulted in rapid growth of banking sector.

Banking industry is considered as an institution which should touch the lives of millions but it was perceived that many rural and semi urban areas remained unserved by existence of private banks (Shikha and Jain, 2013). This deficiency was removed by the nationalisation of major banks on July 19th, 1969 (Kumar, 2008). The nationalisation of 14 banks in July 1969 was a historic and momentous event in the history of India. Afterwards 6 more banks were nationalized in 1980. The main purpose of nationalistion was to hold more control over the credit delivery system of the country. Afterwards in the year 1993, the government took steps to merge two nationalised banks into one bank which reduced the number of nationalised bank to 19 from 20. With the nationalization of these banks, Government took control over the major section of the banking sector.

The process of nationalistion enabled the banks to play more efficiently the role of a catalytic agent for the financial intensification by expanding banking amenities to more deserving and needy sections of the society (Aggarwal, 2008). This phase of nationalisation had moved the emphasis from industry to agriculture (Ahooja, 2012). “India witnessed a phenomenal expansion in the geographical coverage and functional spread of banking and financial system since nationalisation in 1969. Despite impressive quantitative achievements in resource mobilization and in extending credit reach, several distortions had, over the years crept into the banking and financial system. As a result productivity and efficiency of the system had suffered, its portfolio quality had badly deteriorated and profitability had been eroded” (Kumar, 2008). To overcome these impediments, financial sector reforms were introduced in 1991 which considerably amplified the competition. The major plank of economic reforms

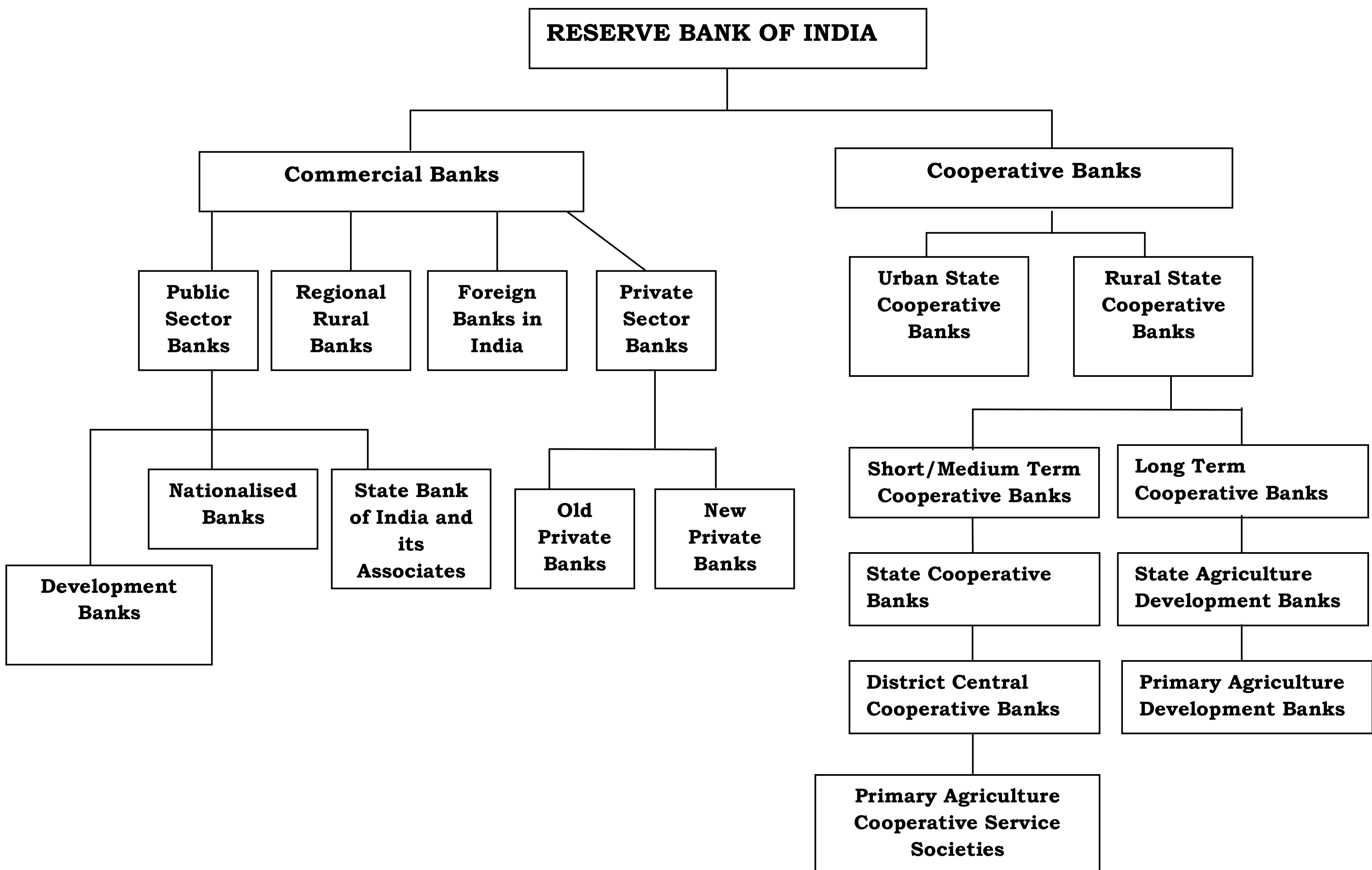

Fig. 1.1 Banking Institutions in India as on 31st March, 2014 (Source: www.rbi.org.in)

comprised of stabilization of the economy, deregulation of the financial sector by removal of license system, liberalization of trade and integration with world economy. These reforms had transformed the regulated Indian banking sector to a liberalized deregulated sector (Rao and Tiwari, 2009).

The second phase of reforms commenced in 1997 with attempt to strengthen the Indian banking sector and it consisted of strict prudential norms in line with international practices, improvement in technology etc. (Dwivedi and Charyulu, 2011). The Indian banking industry has become a mechanism for growth and development in the country.

1.2 ROLE OF BANKS AND NEED FOR SUPERVISION

Banks act both as repository and trustee of the public's liquid savings. Banks are provider of credit to the factors of production to facilitate both the acceleration of growth and reduction of poverty in the economy. Banks have to maintain customers' confidence. In case any financial crisis arises resulting in bank failure then shock waves will resonate in the economy (Rajadhyaksha, 2004). So it is essential to have an effective fool proof supervisory system of banks to ensure financial stability in the country and also to maintain depositors' confidence in it.

With the aim to control over working of banks to ensure their financial stability, an effective banking supervision system is required. Stability of bank is the main key driver to attain economic development of the country. The objectives of having effective supervision system must be prevention of any systematic risk in the banking business and maintain transparency in the banking system. This will lead to effectiveness of banking sector and protection of small depositors of the banks (Davis and Obasi, 2009).

1.3 SUPERVISORY SYSTEM FOR BANKS IN INDIA

"In India, the Banking Regulation Act, 1949 is concerned with regulation and supervision of banks (Koul and Chatterjee, 2008)". RBI is the main regulator of the banking system as per section 35 of the Banking Regulation Act, 1949. This section vests powers in RBI to ensure efficient conduct of banking operations, to inspect the books of accounts of the banks and adoption of proper preventive and corrective actions. This leads to protection of depositors' interests as well as maintenance of financial stability.

In mid 1980s, on the recommendations of Pendharkar committee, for public sector banks, a system of Annual Financial Review (AFR) was introduced. Under this system of supervision, the banks were made to submit reports on basis of which Annual Financial Reviews were conducted. Till 1990, the statutory regulations of commercial banks in India were concerned with licensing, requirements of minimum capital, administration of interest rates on deposits as well as credit, reserves and liquid asset requirements. In 1991, committee headed by Sh. M. Narasimham on the Financial System recommended that the duality of control over the banking system should be abolished. The regulatory function of the banking system should be given to Reserve Bank of India instead of Banking Division of the Ministry of Finance. On the basis of recommendations of the Committee, the supervisory function of banks was hived off to an autonomous body (The Board for Financial Supervision) under the aegis of the RBI (Narain and Ghosh, 2001). "The Board for Financial Supervision (BFS) provided guidelines to Department of Banking Supervision (DBS) for discharging supervisory function. In January 1995, The Board for Financial Supervision framed an audit sub-committee. This committed had the Vice-Chairman of the board as its Chairman and two non-official members of BFS as members" (RBI report, 2012).

The DBS has devised and executed a supervisory plan which involves a combination of off-site supervision and onsite supervision.

1.4 OFF SITE SUPERVISION SYSTEM

An off-site supervision system for supervision over banks was on track by RBI in 1996 as an ingredient of the supervisory policy. Off Site Surveillance and Monitoring System (OSMOS) acts as an instrument for early caution indicator and has a significant function in recognition of risks and monitoring banks on an incessant basis. OSMOS has focused on introduction of a set of returns, fortifying in-house control systems in banks and increased use of outside assessor in offsite banking surveillance.

"Off-site examination system explores and reviews periodic financial information relating to banks' activities by the supervisor" (RBI report, 2012). In this system, capital of bank, liquidity, earning and asset quality are certain parameters generally covered in these regulatory reporting requirements.

The OSMOS is an information system used by the RBI to help in incessant supervision between two onsite inspections. The most significant purpose of the offsite inspection is to check the financial health and identifying banks which show financial decline.The OSMOS system has a set of returns planned to get prudential and critical information concerning the financial health of the supervised banks at periodic intervals.

1.5 ON-SITE EXAMINATION

An annual on-site supervision of banks is the main instrument of supervision employed by RBI under Section 35 of the Banking Regulation Act. Specialized and trained bank supervisors make an overall assessment of a banking institution on the premises of the organization by allowing a more practical evaluation of factors like capabilities of management and in house control procedures that may not be replicated satisfactorily in regulatory reports.

Some particular branches, head office and controlling offices are covered under on-site supervision. The on-site Annual Financial Inspection (AFI) is conducted by a team of RBI Inspecting Officers led by a Principal Inspecting Officer (PIO). The CEO of the bank is then apprised about the outcomes of AFI. Regions of divergence which remained unsettled are pointed out discretely in the Draft Inspection Report. This report is further processed by Monitoring Division of the respective Bank. It mainly consists of appraisal of systems and procedures existing in the bank. The onsite inspection is generally compliance focused. It focuses on authorized regions of solvency, liquidity and operational health of the banks. It is based on universally adopted CAMEL model modified as CAMELS (S for Systems & Control) to suit the needs of Indian banking system.

1.6 CONCEPT OF CAMELS RATING

Indian financial system has transformed its existing supervisory and regulatory mechanism into more comprehensive system. This new system has more emphasis on certain prudential norms of capital adequacy, control over non performing assets, system of internal control and complete upgradation of credit delivery system. It can be carried out all the way through by suitable supervisory and regulatory method known as CAMELS.

The CAMELS methodology was developed and practiced by the North American banks regulators to evaluate the performance of banks in terms of financial

and managerial activities. Afterwards Basel Committee on Banking Supervision (BCBS) established in 1974 also accepted CAMEL methodology to assess and supervise the banks. India has also approved Basel norms as a whole to make certain improved financial standing of banks & financial Institutions (Siva and Natarajan, 2011).

The CAMELS rating system is a technique to classify banks based their financial status, operational management, compliance with norms and overall health. CAMELS rating system measures the performance of a bank in six areas namely, Capital Adequacy (C), Assets Quality (A), Management Efficiency (M), Earnings Capability (E), Liquidity (L) and System and Control (S).

1.7. COMPONENTS OF CAMELS RATING

1.7.1. C- CAPITAL ADEQUACY

Capital adequacy replicates on the whole financial conditions of the banks. It also point out whether the bank has sufficient capital to soak up unforeseen losses. Capital adequacy ratio act as a gauge of bank leverage (Vijaykumar, 2012). Capital adequacy is bank's capacity to preserve capital matching with the type and level of all risks. Adequate capital is required to preserve equilibrium with the risk revelations of the financial institution so that bank can soak up the possible losses and defend the financial institution's debt holders. The most extensively used measure of capital adequacy is capital to risk-weighted assets ratio (CRWA). Loan assets of a bank are allocated weights according to risk associated with their recovery. Amount of assets multiplied by risk weights is known as risk weighted assets. "As per the guidelines of the Basel Committee of Banks for International Settlements, capital adequacy ratio should be maintained by every bank at a minimum rate of 9 percent of risk weighted assets (Joshi & Joshi, 2002)". For calculation of the capital adequacy ratio, capital is segregated into Tier-1 and Tier-2 capital. Tier-1 capital consists of the equity capital and free reserves, while Tier-2 capital consists of subordinated debt of 5-7 year tenure. The greater capital adequacy ratio (CAR) reflects the strong financial position of the bank. But keeping a very high rate of CAR indicates that the bank is keeping more funds in reserves and not utilizing its capital in investment of high yield earning assets (Sangmi and Nazir, 2010).

In India, capital adequacy norms were introduced on the recommendations of Narsimham committee formed in 1991. "Banks were to achieve CAR of 4 percent by

March 1993 and 8 percent by March 1996. Then in 1998, RBI raised the CAR norms to 9 percent with effect from March 2000" (Sarma and Nikaido, 2007).

1.7.2. A-ASSET QUALITY

Loans, advances and investment are the main part of asset portfolio of a bank. Despite the best efforts of bank, some percentage of loans and advances become bad due to default of borrowers. Asset quality reflects the extent of credit risk due to its composition and quality of its assets existing in the bank. "The loss in the value of assets is eventually written-off against capital, which ultimately expose the earning capacity of the bank. This indicates quality of types of advances the bank has made so that interest income can be generated" (Reddy, 2012). The asset quality is measured in relation to the level of non-performing assets, adequacy of provisions, recoveries and distribution of assets etc. "As per the guidelines of RBI, the advances of a bank can be classified in performing assets (PAs) and non performing assets (NPAs)" (Waraich and Dhawan, 2014). Assets of a bank which generate income for the bank are called as performing assets and include standard assets whereas when an asset does not generate any income, it is known as non-performing asset. Performing assets include standard assets where as non performing assets are further classified as sub-standard assets, doubtful and loss assets. Profitability and efficiency of a bank is negatively correlated with NPAs of a bank. NPAs affect not only profitability but it also affects future operations of a bank. Hence, every bank tries to keep its NPA at the lowest level.

1.7.3 M-MANAGEMENT EFFICIENCY

Management efficiency is another significant element of the CAMEL Model. This parameter involves the measurement of efficiency and effectiveness of the management (Prasad and Ravinder, 2012). Management efficiency shows the aptitude of bank personnel to recognize, measure, monitor and control risks coupled with banking. The ability of management is to have effective utilization of resources with minimum of cost and maximum return.

1.7.4. E-EARNING CAPABILITY

The 'Earnings/Profit' is a traditional factor of gauging financial performance of any institution. This parameter measures ability of a bank to earn profits consistently and shows the trend and growth in future earnings. Increased earning in a bank reflects its financial soundness which reduces the likelihood of bank failure

(Sangmi and Nazir, 2010). Earnings and profitability are the key basis for increase in capital base. Further, it ensures survival and sustained growth of the bank. Good earning capacity is the manifestation of a bank's capability to absorb losses, capacity to pay dividends to its shareholders and build up an adequate level of capital along with ability to finance its expansion programme (Siva and Natrajan, 2011).

1.7.5. L-LIQUIDITY

Liquidity in banks has assumed key significance. Liquidity means ability of an organisation to meet its current liabilities. Liquidity parameters measure the ability of a bank to ensure the availability of funds to meet commitments at a reasonable price at all (Stigum and Branch, 1983). Liquidity helps the bank to meet unexpected shocks such as large deposit withdrawals or heavy loan demand. Bank must be able to return the money of depositors at any point of time. The banks, therefore, ensure adequate amount of liquidity in their assets so that they may be able to meet any claims (Srivastav and Nigam, 2009).

1.7.6. S-SYSTEM AND CONTROL

Systems and Controls are essential for efficient functioning of a bank, to prevent occurrence of frauds and also to facilitate quick detection of frauds/ embezzlement of funds. Bank deals in money. They sell and purchase money. Every action of its every employee results in financial transaction. To prevent any loss, banks have developed elaborated system of business conduct. It includes internal control system, other systems and procedures followed by bank to control its business. It includes compliance to various norms issued by the banking authorities.

1.8 COOPERATIVE BANKING SECTOR

Cooperative banks are the most considerable segment of Indian banking system. A cooperative bank is a credit agency with democratic management, responsiveness to felt needs and local participation (Kumar, 2008). The traces of beginning of cooperative movement were found in Europe in the mid-nineteenth century. "Robert Owen of England, Charles Fourier of France, Herr F.W. Raiffeisen and Herr Franz Schulze of Germany are considered as the founders of modern cooperative system. In 1844, a group of people in Rochdale, England, formed the Rochdale Society of Equitable Pioneers to get rid of the exploitation done by shopkeeper and set up a cooperative store. The Rochdale Society inspired others for similar stores and related enterprises throughout the world" (Singh and Pundir, 2000).

Indian economy is basically an agriculture economy. Due to unfavourable conditions and dependence on natural forces, it is not beneficial profession for farmer. By the end of 19th century the situation of the countryside people in India was reasonably terrible. The Indian peasants had depended upon usurious moneylenders and it resulted in indebtedness and poverty. At that moment cooperative movement had achieved remarkable success in Europe. It was felt that cooperative movement had the greatest source of relieving Indian farmers from the overwhelming burden of debt and the dictatorship of moneylenders. As a result, Indian officials started taking keen interest in encouraging credit cooperatives in the country (Report of task force on revival of cooperative credit institutions, 2004). Subsequent to the efforts, cooperative societies were established in India at the end of the nineteenth century taking motivation from the triumph of experiments. The cooperative movement was started in India to assist the people with very less sources and to encourage among people the practice of saving and reciprocated assistance. To achieve this objective, Cooperative Societies Act of 1904 was passed. The 1904 Act was basically based on the English Friendly Societies Act, 1896 and was restrictive in its range. This act incorporated only primary credit societies and kept non-credit and federal societies out of its purview. This shortcoming was bridged by the Cooperative Societies Act, 1912 in which all types of credit societies, non-credit and apex federations were allowed registration. After the 1915, on recommendations of Maclagan Committee on cooperation, provincial cooperative banks were established in almost all major provinces by 1930.

After independence, cooperative movement was given a significant place in the economic policies of Government of India. "On the recommendations of the Saraiya Committee, the Indian government framed policy for cooperative movement. The committee stated that the cooperative society has an important role to play as the most suitable medium for the democratization of economic planning" (Sukhmani, 2011). Since 1950s the cooperatives in India demonstrated significant progress in the various sections of Indian economy. With the passing of the Banking Laws (as applicable to cooperative societies) 1965, the cooperative banks have been brought under the purview of the Banking Regulation Act, 1949. This amendment in the Act also amended the RBI Act, 1934 for the purpose of regulating the operations of cooperative societies, which carry on the business of banking in principal. Now, these

banks suffer from dual control mechanism. As a cooperative entity, it has to follow the policies, programmes, priorities and directions of the state government and as a banking industry; it is supposed to follow the RBI guidelines and to work in the banking environment. Now the cooperatives have diversified their operations to fields like credit, production, processing, marketing, housing, warehousing etc. Today, India can claim to have the biggest network of cooperatives in the world having a membership of more than 200 million (Vadher, 2011). Cooperative banks in India are functioning in a very peculiar way. Cooperative banking system has to maintain an operational balance between its cooperative character i.e. 'social objectives' and the banking character i.e. 'economic functioning'.

1.9 STRUCTURE OF INDIAN COOPERATIVE BANKING SYSTEM

In India, cooperatives are playing a major role in providing need based credits to the farmers on terms and conditions favorable to farmers. The structure of cooperative banking system can be divided into two broad segments:

A. The Urban Cooperative Banks: These banks are of a single tier structure i.e. Primary Cooperative Banks commonly known as Urban Cooperative Banks (UCBs).

B. The Rural Cooperative Banks: These are further divided into two segments:

1) Long term cooperative credit structure: It has a two tier structure i.e.
   a) State Cooperative Agriculture and Rural Development Banks (SCARDBs)
   b) Primary Cooperative Agriculture and Rural Development Banks (PCARDBs)

II) Short term cooperative credit structure: It has a three tier structure i.e.
   a) State Cooperative Banks (SCBs)
   b) Central Cooperative Banks (CCBs)
   c) Primary Agriculture Cooperative Societies (PACSs)

Figure 1.2 depicts the cooperative banking structure and tier wise number of cooperative credit institutions in India as on March 31, 2015.

1.9.1 LONG TERM COOPERATIVE CREDIT STRUCTURE

Long-term cooperative credit structure provides loan to farmers for infrastructure development in agriculture sector such as purchase of agriculture implements, installation of tube wells, construction of cold stores, warehouses and reclamation of land. These loans are provided for a period of 5-10 years. Loans are

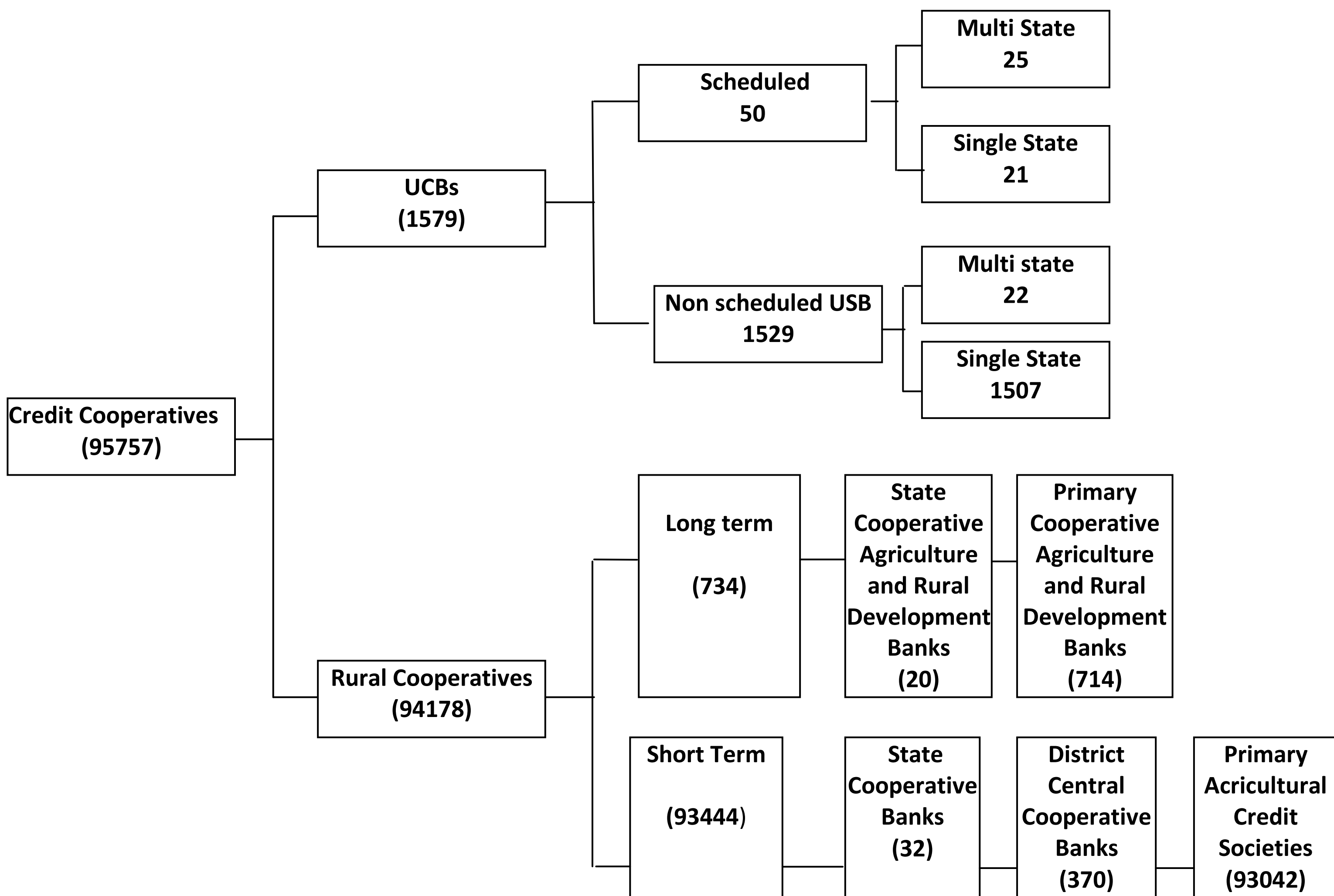

Fig. 1.2 Structure of Cooperative credit institutions in India as at end March 2015 (Source: RBI report on Trends and Progress of Indian Banking, 2015)

also provided to start allied agriculture activities such as dairy farming, bee keeping etc. Earlier these banks were known as 'Land Mortgage Banks' as loan is provided on the security of land mortgaged in favour of bank. "The long-term cooperative credit structure is of two tiers in many states with Primary Cooperative Agriculture and Rural Development Banks (PCARDB) at the primary level and State Cooperative Agriculture and Rural Development Bank at the state level. In some states it has unitary structure" (Muraleedharan, 2014).

1.9.2 SHORT TERM COOPERATIVE CREDIT STRUCTURE

Short-term cooperative credit structure provides working capital to farmers. The credit facility is provided only for a short period i.e. one crop circle and whole amount is returnable after harvesting and selling the crop. Therefore, this structure is called short term cooperative credit structure. Short term credit is provided for purchase of agriculture inputs such as seeds, fertilizers, pesticides, for payment of labour charges and to meet other operational cost. Loan provided is known as 'Crop Loan'. In Punjab, cooperative credit structure for short and medium term is a three tier structure. Primary agricultural credit societies (PACS), central cooperative banks (CCB), state cooperative bank (SCB) operate at the base level, at the district level and at the apex level respectively.

At the base level, the primary agricultural credit societies have individuals as their members. These societies provide credit and other services (agriculture inputs, essential commodities) to their members. Table 1.1 depicts that total number of primary credit societies in 2005-06 was 89827 and it increased to 93042 in 2013-14 with membership of 130120 thousand in 2013-14. Their own funds were Rs 7490 crores in 2005-06 which rose to Rs 18924 crores in 2013-14. These primary cooperative societies had a deposits of Rs 17566 crores and borrowings of Rs 30667 crores in 2005-06 which had increased to Rs 81895 crores and Rs 95836 crores respectivley in 2013-14. Total loan outstanding was Rs 41024 crores in 2005-06 and had increased to Rs 130054 crores in 2013-14. Number of borrowers and employees in these primary cooperative societies was 48081 and 177036 respectively in 2013-14.

At district level, the main players in the cooperative credit system are central cooperative banks. No individual can become member of these banks. Only primary cooperative societies can be their members. Individuals may be admitted as nominal members without voting right. These banks act as a connecting link between apex

bank and primary agricultural cooperative societies.

Table 1.2 highlights that in 2005-06, total 370 DCCBs were working in India and it increased to 372 in 2013-14. The membership of these DCCBs increased to 3563497 thousands in 2013-14 from 2136666 thousand in 2005-06. In 2005-06, paid up capital of these DCCBs was Rs 4112 crores and it rose to Rs 9774 crores in 2013-14. The reserves were Rs 12609 crores in 2005-06 which increased to Rs 25690 crores in 2013-14. They had deposit of Rs 80285 crores and borrowings of Rs 21566 crores in 2005-06 which increased to Rs 215662 crores and Rs 67229 crores in 2013-14 respectively. The loans outstanding of these DCCBs were increased to Rs 183144 crores in 2013-14 from Rs 72090 crores in 2005-06.

State Cooperative Banks (SCBs) are known as apex bank in the cooperative credit system in each state. Only central cooperatives can be the members of these cooperatives. These apex banks act as policy making body for short-term credit cooperatives in the state and coordinate on behalf of short term credit cooperatives with the government, National bank for Agriculture and Rural Development (NABARD), RBI and other agencies. These banks act as leader of short term credit cooperative system and do not involve in direct banking business. They arrange loans to district central cooperative banks (DCCBs) and also take their deposits for investment at national level. Table 1.3 shows that 31 state cooperative banks were working with membership of 338485 thousand and 13233 employees in 2013-14. These banks had total paid up capital of Rs 1094 crores and reserves of Rs 7343 crores in 2005-06 which increased Rs 3629 crores and Rs 10850 crores in 2013-14 respectively. In 2005-06, total loans outstanding of these banks were Rs 38961 crores which had increased to Rs 99057 crores in 2013-14 and their deposit base was Rs 101970 crores in 2013-14 as compared to Rs 47672 crores in 2005-06.

Cooperative banks are the valuable institutional source of credit to serve rural sector of economy. Thus, cooperative banks are the most excellent tool for improving the socio-economic batch of underprivileged community in broader sense and elevating them to the standards of the mainstream of national life. They account for the major amount of total institutional credit to agriculture and related actions in rural sector (Kumar 2008).

Presently, the cooperatives are under the control of State Government in all

Table 1.1 Primary Agricultural Cooperative Credit Societies at a Glance (All India Position from 2005-06 to 2013-14)

(As on 31st March) (Rs ` in crores, Membership and Borrowers in ’000)

	Main Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
1	No. of Societies (in numbers)	89827	53339	67146	46222	89523	90279	101297	90958	93042
2	Total Membership	93560	92018	92711	65821	122226	106136	127646	110068	130120
3	Paid Up Capital	4540	3168	4685	2786	6828	7005	9467	8008	9789
4	Total Reserve	2950	2598	3101	2252	5350	6417	8565	6668	9135
5	Owned Funds (3+4)	7490	5766	7786	5038	12178	13422	18032	14676	18924
6	Total Deposits	17566	16054	10981	13375	35680	37282	54763	37561	81895
7	Total Borrowings	30667	21070	32564	21375	49074	48226	97564	81385	95836
8	Total Resources(5+6+7)	55723	42890	51331	39788	96932	98930	170359	133622	196655
9	Working Capital	59025	42404	57536	41466	130314	109385	173564	148939	212429
10	Total No. of Borrowers	40922	34406	33859	27317	57802	47714	52374	42629	48081
11	Total Loans Issued	35552	25277	32932	27465	72882	85296	122826	98440	171420
12	Total Loans Outstanding	41024	32773	40244	28515	80487	79504	103462	91171	130054
13	and	41821	26509	41300	31978	92557	85757	101782	95926	155853
14	Total Collection	30018	17724	25885	22760	54271	64490	76705	70346	126221
15	Total Balance	11803	8786	15415	9219	38282	21428	25234	25580	29632
16	Percentage of Overdue	30.36	29.11	35.67	44.82	41.39	25.15	26.78	24.65	19.01
17	Number of Staff	241609	229007	278842	222173	215529	290540	208697	210136	177036

Source: Basic Data on Performance of Primary Agricultural Credit Societies Published by NAFSCOB – Navi Mumbai

Table 1.2. District Central Cooperative Banks at a Glance (All India Position from 2005-06 to 2013-14)

(As on 31st March) (Rs ` in crores, Membership and Borrowers in '000)

Sr. No.	Main Items	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
1	No. of D.C.C. Banks	370	370	371	372	373	372	371	371	372	372
2	No. of Offices Incl. HO	12813	12956	12898	13130	13213	13238	13327	13495	13655	13811
3	Total Membership	2136666	2270155	3262023	3395434	3528451	3976725	3145789	3420520	3915657	3563497
4	Paid Up Capital	4112	4478	5089	5820	6070	7797	7255	8189	8915	9774
5	Total Reserves	12609	13952	15469	16377	17787	20204	20692	22920	24375	25690
6	Total Deposits	80285	86196	91978	105740	123510	146364	161309	176711	195726	215662
7	Total Borrowing	21566	22931	27865	30475	28413	30522	39101	50545	61731	67229
8	Working Capital	122346	130394	145852	167768	183546	207281	235431	257306	288021	318651
9	Investments	34726	36833	40751	48130	60895	75418	82976	91133	94051	109113
10	Total Loans Issued	65295	69869	76553	87136	87956	111076	137754	162557	209371	217941
11	Total Loans Outstanding	72090	77819	85445	95827	97070	105240	122797	144763	171513	183144
12	Total Demand	54810	56636	64813	73914	80782	89290	106119	124376	154825	173329
13	Total Collection	36797	38865	43444	46458	54360	65504	77069	97167	123295	135577
14	Balance (Overdue)	18013	17771	21370	27456	26421	23785	29049	27209	31530	37752
15	Percentage of Overdue/Demand	32.86	31.38	32.97	37.15	32.71	26.64	27.37	21.88	20.37	21.78
16	Percentage of COM to WC	3	2.3	2.59	2.23	2.29	2.12	2.25	2.28	2.56	2.53
17	Cost of Management	3674	2995	3776	3743	4207	4404	5307	5865	7375	8055
18	Number of Employees	108723	105934	91596	88984	89161	88028	87928	85996	85611	84497

Source: Basic Data on Performance of District Central Cooperative Banks Published by NAFSCOB – Navi Mumbai

Table 1.3 State Cooperative Banks at a Glance (All India Position from 2005-06 to 2013-14)

(As on 31st March) (`Rs in crores, Membership and Borrowers in '000)

Sr. No.	Main Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
1	No. of State Coop. Banks	30	31	31	31	31	31	31	31	31
2	No. of Offices Incl. HO	962	979	986	992	1015	1028	1047	1081	1096
3	Total Membership	153697	148771	150917	200772	330808	234827	254358	339896	338485
4	Paid Up Share Capital	1094	1437	1316	1390	1630	2067	2617	2894	3629
5	Total Reserves	7343	8145	8632	8764	8763	9559	10558	10297	10850
6	Total Deposits	47672	48470	56287	71315	84838	81664	86653	89905	101970
7	Total Borrowings	16872	22150	22444	21950	23660	32607	42714	49270	60494
8	Working Capital	74544	83447	89851	105901	122057	130671	147989	142729	183499
9	Investments	22750	23970	26885	40350	50321	48604	50253	52808	61190
10	Cost of Management	912	674	854	1312	989	1196	1455	1660	2109
11	Loans Issued	48803	47069	53314	51866	59784	68481	81523	89961	110208
12	Loans Outstanding	38961	46676	49101	46201	49104	65082	75632	80994	99057
13	Total Demand	24390	27707	31795	39607	34550	32273	47912	59309	73828
14	Total Collection	21033	24031	26335	36171	31717	29792	46061	56239	70619
15	Balance (Overdue)	3356	3675	5460	3436	2833	2481	1851	3070	3209
16	Percentage of Overdue to Demand (%)	13.76	13.27	17.17	8.68	8.2	7.69	3.86	5.18	4.35
17	Percentage of COM to WC (%)	1.22	0.81	0.95	1.24	0.81	0.92	0.98	1.16	1.15
18	Number of Employees	14742	14748	14857	14635	13781	13461	13288	12027	13233

Source: Basic Data on Performance of State Cooperative Banks Published by NAFSCOB – Navi Mumbai

matters varying from registration to loan recovery and audit. However, Reserve Bank of India regulates and supervises certain banking activities for urban cooperative banks directly and in rural cooperatives through NABARD. The Banking Regulation Act 1949 is applicable only to state cooperative apex banks, district central cooperative banks and urban credit cooperatives. Therefore, only these banks are competent to be identified as banks in the cooperative sector or we can say that only these banks can carry out full fledged banking business.

1.10 ROLE OF COOPERATIVE BANKS IN PUNJAB

Cooperatives have been instrumental in the overall economic growth of Punjab. Cooperatives have surrounded roughly all significant areas of economic functioning in Punjab like marketing of agriculture produce, processing of agriculture produce and housing sector etc. (Sukhmani, 2011).The considerable role of these banks in guiding in green revolution in Punjab has been well recognised all the time. Subsequent to the green revolution, further, cooperative banks remained instrumental for the allocating of agriculture loans by giving timely, adequate and easily accessible financial assistance to the rural peasantry for the different agricultural related deeds like Dairy, Poultry, and Fishery etc. (Goel, 2013). Banks remained pivotal in guiding in white and blue revolutions in Punjab. The banks also played a very important task in abolition of joblessness in Punjab (Rajni and Dhaliwal, 2013) by providing financial help to start agriculture allied activities, such as dairy, poultry, sugarcane etc. Indian economy is predominantly an agrarian economy and Punjab is backbone and leader of Indian agriculture. As discussed earlier, cooperative credit institutions play an important and decisive role in agrarian development. Therefore, it is in the interest of every one that cooperative system works and develops on sound professional lines. This study will help the stakeholders to analyse their strong and weak areas and will help to manage their operations effectively and efficiently.

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