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Performance Appraisal of the Urban Co – operatives Banks

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Urban cooperative banks (UCBs) are one of the vital segments of the banking industry of the country and are among the oldest cooperative institutions in the country. The UCBs play an important role in mobilizing deposits from the various sections of urban and semi-urban centers. They essentially cater to the credit needs of persons of small means and weaker sections of the society. The urban cooperative banks have made significant contribution towards financing of small scale sectors and tiny industries. They provide loans to small business enterprises extend loans to individuals for construction of houses and give small consumer loans to the middle class of the society.

Statement of the problem

The democratic organizational structure,the familiarity of area of their operation and consequent personalized union with clientele are the distinct advantages that these institutions enjoy.In the era of liberalization, active urban cooperative banks have started reorienting their lending policies to suit the emerging market changes. The capacity of these banks improved vastly and many of them have been authorized to deal in foreign exchange and maintain Non Resident Indian accounts. Also, big urban cooperative banks have been allowed to participate in bill marketing schemes. Thus, the urban cooperative banks have attained a special status and have become one of the important constituents of the multi agency banking systems of the country. Although the growth and achievements of UCBs have been praise worthy, at the same time number of these banks going red has been a cause of concern for all of us. The weaknesses which have crept into the urban banking system, over the years, leading to failure of source of them have posed systemic threat and shaken the confidence of the customers. Their growth rate in the business performance in the recent past is not encouraging. There are certain identified problems contributing to the slow performance of the UCBs in general. Some of them are:

The management style of urban cooperative banks is more individualistic rather than professional. As a result they were neither interested in nor were able to attract professionals. The size and quality of personnel affected their investment in technology and the ability to come out with innovative products. More often the organizational aspects are a neglected area in cooperative banks. In many banks, there is primarily lack of appreciation that organizational set-up is an important input as much as human resources. The reporting relationships are neither clear nor specified. The tendency is more towards reporting directly to the known board member with disregard to the available channels of reporting.

Urban cooperatives are subjected to duality of regulatory authorities, namely Reserve Bank of India and the department of cooperation of the state government. There is no clear cut line of demarcation about the role expectations of these regulators. The internal control mechanism in a majority of banks remains much to be desired. The operational procedures and systems are traditional and not documented. The problems faced by new entrants multiply particularly because of inadequate training arrangements.

The inability to raise adequate capital to meet revised capital adequacy norms, stringent NPA recognition and provisioning norms leading to the erosion of capital, inadequacy of procedures/ monitoring/ recovery etc., difficulties have added to their problems.

The constant state on urban cooperative banks that exists from the very beginning is that they are obsessed with security. Their lending operations are based mainly on security. That may be the reason why they are being called 'gold loan banks'. Another disturbing feature of lending operations in urban cooperative banks is the tendency of undue concentration of advances in the hands of few directors and their relatives. Large amount of advances have gone to vested interest groups. In such cases even the basic banking principles are not observed.

The cooperative banks, which could not offer new products to meet the customers' expectations, started offering higher interest rates on deposits to lure business sometimes even as high as two per cent to 2.5 per cent over the industry rates. When public sector banks offer lesser interest on term deposits, it isn't possible for UCBs to pay much higher interest. Further, there is a bad practice of offering commission to those who get high volumes of deposits. This move definitely added volumes to their business, but pushed up the cost of funds. Safe and profitable deployment of these high cost deposits in quality assets has been continuous to be a challenge before them. In the falling interest rate regime, any good borrower would demand lower interest rate and as a corollary to this, a borrower who is ready to pay higher interest is definitely a future NPA. Unfortunately even today, a large number of UCBs are offering high rates on deposits, which may drastically affect their spread and profitability.

Urban cooperative banks are facing the problem of mounting over dues. This is the outcome of improper credit appraisal, absence of periodical follow up or review of the amount by the management, grant of loans for unproductive purposes, overlooking extravagant habits of the borrowers and undue leniency in recovery of loans. The over dues problem needs serious attention and thorough over hauntling procedure.

The crises faced by few UCBs in March, 2001, which were characterized by the central bank of the country as 'liquidity and insolvency problems', undoubtedly exposed the vulnerability of urban cooperative credit institutions to financial adversities and corroded the credibility of these institutions to a considerable extent.

While commenting on the RBI report 2003-04, Business standard in its editorial observed "…perhaps the most important part of the report lies in its analysis of the cooperative banks. The picture is one of the deep crises, with rising NPAs and financial position of a third of these banks not considered satisfactory. The cooperative banks constitute a ticking time bomb, and it is imperative that they are reformed and restructured without delay."

The lack of branch network across the main centers necessitates the UCBs to enter into collection or demand draft drawing arrangements with public or private sector banks. The amount of deposits as well as credit per account is small and the servicing costs are obviously high. This affects the business performance and profitability of the bank.

Profitability of urban cooperative banks depends upon the efficiency in lending and recovery of loans. The total net loss of the urban cooperative banks as on March 2001 is Rs 910.52 crore against the net profit of Rs 310.10 crore in the previous year. The basic reason for the heavy loss is the UCBs had to make a huge provision for NPA which put axe over profit of the urban cooperative banks.

The problems highlighted above calls for a thorough appraisal of the urban cooperative banks' business performance to assess the present status and future prospects. This will also help the banks to find its strengths and weaknesses for further improvement and corrective actions. The appraisal is gaining significance ever before as more stringent the NPA norms are imposed by the RBI from time to time. Keeping this point in view, the performance of the urban cooperative banks in the Thanjavur district has been analyzed in this study.

Objectives of the study

The present study covering a period of ten years from 1995-96 to 2004-05 has the following objectives.

1. To examine the different sources of working funds in general and deposit mobilization in particular of the selected UCBs.
2. To appraise the deployment of working funds with reference to loans and advances and investments.
3. To assess the management of the non-performing assets in the selected UCBs.
4. To evaluate the overall financial performance of the sample banks

Methodology

Survey method has been followed for this study. Primary and secondary information has been collected through various sources. To collect primary information about the policies, procedures and practices of the performance of the banks, only one schedule was constructed for the sample UCBs. The information gathered through discussions with the officials in the selected banks and offices of the related agencies has been supplemented. The secondary information has been gathered from financial statements, audit reports and records of the sample UCBs and published reports of the IBA and NAFCUB. The profit and loss accounts and balance sheets of selected UCBs have been recast and presented in a condensed form. In the course of the analysis in this study, use of various accounting and statistical techniques has been made. Ratio analysis, trends, percentages, correlation coefficient, t-test, F-test, chi square test and analysis of variance have been applied.

Sampling

There are six UCBs working in the Thanjavur district. Out of these six UCBs, three banks were selected for this study using the simple random sampling method.

Chapterisation

The present study is organized into seven chapters as: The first chapter deals with the design and execution of the study. The second chapter reviews the previous studies. The third chapter is devoted to the analysis of sources of working funds of the selected UCBs.The fourth chapter appraises the deployment of working funds by the selected UCBs in the loans and advances and investments. The fifth chapter assesses the management of non performing assets. The sixth chapter evaluates the financial performance of the selected UCBs. The last chapter summarizes the findings and suggestions of the study.

Findings

Sources of working funds**:** The UCBs derive their working funds from three major sources, viz., 1.Owned funds consists of share capital and reserves, 2.Deposits from the public and other institutions, and 3.Borrowings and refinance.

Analysis of the sources of working funds of the three UCBs chosen for the study, shows that the deposits mobilized from the public form the major portion of working funds. The average deposits during the study period constitute 79.2 to 90.6 per cent of the total working funds. The owned funds consisting of share capital and reserves has been 9.4 per cent to 20.8 per cent in the select UCBs.

The share capital has set a positive increasing trend during the study period, except a slight decline in two banks during the tail end of the decade. The growth of share capital in ten years is at 294 to 544 per cent. The reserves have registered an increase by 6.5 to 12 times in ten years. The total owned funds has increased in all the three UCBs.

The Capital Adequacy Ratio has been introduced in the UCBs as per banking regulations and supervisory norms by RBI in 1994-95 while the same norms were introduced in the commercial banks in 1992-93. At present the banks have to maintain a minimum CAR of 9 per cent as prescribed by RBI.

The CAR of two banks is at a higher level, i.e., 29.87 per cent and 30.44 per cent, while it is maintained comfortably at 12.66 per cent by another bank. Higher CAR exhibits the capital strength of the banks with a strong capital base. The reason for higher CAR of the selected banks is that they maintain large size of capital funds. The result of high CAR is low revenue for the banks. It is evident from the analysis of CAR of respective two banks, that large amounts have been parked by these banks under bank balance where the revenue is negligible or nil.

The performance of select UCBs in deposit mobilization is almost the same as the average achievement over the targets fixed by the respective banks are 100.5 per cent, 103.2 per cent and 101.2 per cent. The growth of incremental deposit 4.5 to 7 times.

All the UCBs chosen for the study have the term deposits on the higher side to the tune of 90 per cent and consequently the demand deposits occupy the smaller portion of total deposits. The demand deposits consisting of savings, current and call deposits amount to about 10 per cent in their total deposits. The higher percentage of fixed deposits, naturally, increases the interest expenditure of the bank.

Source wise analysis of deposits shows that the main source of deposits for UCBs taken for study is from individuals. The deposits from societies are negligible.

Two of the select banks have fixed deposits mobilized only from individuals and another bank has fixed deposits both from societies and individuals. The net growth of fixed deposits is about seven times.

The UCBs taken for the study mobilize savings bank deposits mainly from individuals. The growth of savings deposit is highest at 7.22 times. However The net growth of current deposits in 10 years of the study is 2.54 to 5.98 times. During the decade the trend of current deposits in all the three UCBs is not uniform as it witnesses more ups and downs.

Analysis of sources of deposits shows that all the three UCBs have higher percentage of high-cost deposits under fixed deposits category. Further they have paid less attention towards current deposits.

Analysis of rate of interest on fixed deposits shows that though the rate of interest declined during the study period, the amounts of deposits have grown in all the three selected UCBs. It indicates that the people prefer to deposit with UCBs giving priority to safety and liquidity rather than returns.

Out of the three UCBs selected for the study, one bank has borrowed funds from DCCB and other cooperative financial institutions. Out of 10 years, it has resorted to borrowings in seven years only. Due to the low profile of borrowings, its influence on the overall performance of the bank is negligible or nil.

Lending operations and investments: Analysis of deployment of working funds of select banks shows that two banks had an average of 25 per cent of their total assets under cash and bank balances. But another bank had nearly half of its total assets (47.53 per cent on an average) under cash and bank balances. Though cash and bank balances help to have more liquidity and forms risk free assets for the bank, the purpose of deployment of funds, i.e., to earn income, is defeated. A large proportion of assets under cash and bank balances deprive the bank from increasing the interest income.

The average of total advances in total assets was between 39.32 per cent and 53.62 per cent. When compared to loans, the investments bear low risk and yield less income. Two banks have investments under money at call and short notice and other investments, while another one has not invested in money at call and short notice and it has only 'other investments'. Further the analysis shows that the one bank has a low level of 8.11 per cent of total assets under investments. Other UCB has the highest proportion of investments among the three UCBs as its average is 20 per cent of the total assets. Higher percentage of funds deployed in investments denotes that the bank takes low risk and derives low income, as investments are safer than loans with reference to the risk of recovery of both interest and the principal.

The proportion of fixed and other assets held by two banks may be treated as tolerable limits while that of another one has to be reviewed. The bank has funds under other assets little over the prudent level. The higher percentage of funds deployed under these categories will affect the chances of earning more interest income.

The growth trend in total assets intimates a message that all the three UCBs are marching ahead with their banking operations. They continue to serve the customers of their service area by deploying their mobilized funds profitability and improve their business performance. However there are disparities in the growth of total assets of the three UCBs.

An inference derived from the analysis of the growth of loans and advances is that all the three UCBs have started lending more under MT loans and LT loans. In the initial years of the decade, all the three UCBs had more loans outstanding under ST loans and in the subsequent years of the decade, the contribution of ST loans to total loans has slowly decreased.

Comparision of the 'actual loaning' of the selected UCBs with 'loanable funds' shows that except few years in the initial period of the decade, all the three UCBs chosen for the study have not fully utilized the loanable funds for their lending activities. They utilised on an average of 56.17 to 78.92 per cent of loanable funds to lend. They have poor percentage of utility of its loanable funds for its loans and advances. All the three UCBs are reluctant to take risk in lending for the fear of creation of NPAs. Further the analysis indicates that the UCBs have no strong credit management to improve their advances portfolio.

Comparative analysis between 'investable funds' and 'actual investments' indicates that they have invested only 32.8 to 94.41 per cent of investable funds, i.e., 57.98 per cent. The selected UCBs have not paid serious attension towards the investment pattern. They have not formulated any strategies to work out the risk in investments as well as the returns from investments and so a proper investment policy could not be drawn.

Analysis of the ratio of credit to deposit shows that the one UCB has a low level of CD ratio which has great scope to improve by enhancing the loans disbursements taking calculated steps. Another UCB has the required level of CD ratio and it can also be improved slightly. Third one has a higher level of CD ratio, and it is only slightly higher than the general accepted level.

With respect to ratio of recovery to disbursement in short term loans, their averages vary between 92.48 and 97.78 per cent. ST loans are to be repaid in one lumpsum, the principal along with interest after the loan period is over. Therefore 100 per cent recovery of the disbursement must be ensured to prevent creation of overdues in ST loans. More than 100 per cent recovery facilitates to reduce the past overdues, non performing assets, besides preventing the creation of fresh non-performing assets.

The recovery performance in MT and LT loans is less than that of their recovery performance in ST loans. The non-recovery of instalments will lead to the classification of the entire loan account as overdue or NPA.

Non Performing Assets

Analysis of gross NPA ratio indicates that all the three UCBs taken for the study could maintain a low percentage of NPA in the first five years of the study period. In the middle of the decade, the growth of NPA is very steep and sudden. This may be due to the exercise done at the banks to identify properly the NPAs as per norms, while in the earlier years; the norms might not have been fully implemented. In the second half of the study period, all the three UCBs have contained their NPA level. But the rate of growth of gross advances in the second half of the decade is less than that of the first half.

Averages of problem assets ratio of the three UCBs are 9.34 per cent, 2.79 per cent and 4.95 per cent respectively. Further a common feature observed in the performance of all the three UCBs is that in the first half of the study period, the problem assets ratio is less than that of the second half of the study period.

The averages of the depositors' safety ratio are arrived at as 55.12 per cent, 46.86 per cent and 37.91 per cent. The low level of the ratio would cause great concern for the safety of the depositors' money with the bank. The low level of standard assets affect the income generation of the bank which in turn would affect its capacity to serve the interest on deposits. Thus the overall position of standard assets in all the three UCBs is not exhibiting a comfortable picture.

Analysis of shareholders' risk ratio shows that the highest level of the ratios in 1999-00, 2000-01 and 2001-02 has threatened the shareholders' safety. But all the three UCBs have taken serious and sincere steps in the last four years of the decade to reduce the NPAs and to improve the capital and reserves.

The amount of provision for NPA in all the three UCBs increased every year. All the three UCBs have higher provision ratios in the tail end of the decade. The common feature found in all the three UCBs is that the banks have attempted to make maximum provisions for their NPAs so as to provide a clean and healthy balance sheet in the years to come. The financial statements of the UCBs with 'nil' net NPAs will help the banks to project its good image to the public especially to its clientele. However the larger provisions will affect the profitability of the banks.

Average substandard assets ratios of select UCBs are 72.67 per cent, 73.38 per cent and 58.99 per cent respectively. A common feature observed in the three UCBs is that the percentage of substandard assets in their respective gross NPAs has increased during the first half of the decade under study due to increase in the substandard assets.

From the analysis of doubtful assets ratio it is found that 12.5 per cent to 25 per cent of their NPAs were under doubtful category of assets. Further it has been identified that the doubtful assets have increased in the last three years of the study period in all the three UCBs. The situation is poor in one bank. The common trend of increase in doubtful assets during the tail end of the decade denotes that the UCBs have failed to upgrade the substandard assets and as a result they slipped into doubtful assets. All the three UCBs have large percentage of loss assets with reference to gross NPAs.

Financial performance

Solvency ratios: Analysis of cash to deposits ratio shows that the select UCBs had 11 to 21 per cent of the deposits as average cash in the first half of the decade. One bank has higher percentage of its deposits as cash throughout the decade. It has realized the consequences of higher cash balance. All the three UCBs must realize that high cash balance may help to show higher liquidity position, but it will affect the profitability.

All the three UCBs have high level of cash to deposits ratio and they have low level of investment to deposits ratio. This comparision indicates that the UCBs have not taken any strategic steps to augment income by diverting the excess cash balances to investment portfolio without affecting the liquidity and solvency.

Analysis of credit to deposits ratio of the three UCBs reveals that in many of the years in the decade, the ratio of the selected UCBs is less than the standard. It indicates that the UCBs are restrictive in improving their credit portfolio.

The spread to total assets ratio has been at an average of 0.04 times for the select UCBs. The ratio is not encouraging for all the three UCBs and it is not enough for the UCBs to claim a comfortable profitability position. There is enough scope for the banks to enhance interest income and to contain the interest expenditure, so that the spread ratio may be strengthened.

In the ratio of net worth to fixed assets, no homogeneity is found in the selected UCBs. Net worth of all the three UCBs has positive growth with annual increments. In case fixed assets, it has been almost stable throughout the decade in one UCB. But in the other banks, the fixed assets have fluctuated. So the net worth to fixed assets ratio has set an increasing trend in the first bank throughout the decade and in the case of others the ratio has been fluctuating.

Operational ratios: Analysis of ratio of interest earned to total income indicates that the selected UCBs are highly depending on the interest income generated through investment and credit portfolio, especially through credit portfolio. While strengthening their credit management to augment interest income, they concentrate more to realize fee-based income, the realization of which is instant. The select UCBs have only 2 per cent to 5 per cent total income as other income.

On an average 56 per cent to 69 per cent of total income is spent towards payment of interest in the selected UCBs and leave less margin for the banks to meet the establishment expenses and other operational expenses. High ratio of interest paid to total income pose threat to profitability.

Analysis of ratio of total income to working funds reveals that though the working funds increased at a faster rate, the growth in total income is inadequate. So the ratio declined in some of the years in all the three selected UCBs.

Ratio of total expenditure to total income indicates that the surplus of income over expenditure is less and on an average it has been 0.06 to 0.15 times. For future development in the present competitive banking arena, the surplus earned by the UCBs is not sufficient.

A common feature found in the performance of all the three UCBs is that the growth rate of establishment expenses is not commensurating with that of the total expenditure. The rate of growth of total expenditure is more than that of establishment expenditure during the decade. The administration of all the three UCBs could control the establishment expenditure during the second half of the decade effectively. The management of selected UCBs deserve appreciation for their effective control over the establishment expenses.

Productivity ratios: Analysis of productivity ratios reveals that all the three UCBs have limited the number of employees and the number is almost constant throughout the decade of the study. Therefore, growth potentials of each employee have set a parallel trend in the growth of total deposits. The per employee deposits ratios of all the three UCBs have increased and they have to maintain the trend in future.

From the anlaysis of per employee advances a common feature seen in all the three UCBs is that the advances has grown annually throughout the study period in all the UCBs except very marginal set back in one or two years. Therefore the ratio of per employee advances has registered a positive growth trend in all the three UCBs.

The total income as well as the ratio of per employee income has grown in all the three UCBs. The rate of increase in income as well as the increase in ratio is faster in the first 5 years of the study period, i.e., from 1995-96 to 1999-2000. In the second half, i.e., from 2000-01, the rate of increase is slow and moreover negative in the last two years. In other words, the productivity of the employees in terms of income has come down in the second half of the study period.

The establishment expenditure has grown in all the three UCBs and the growth trend is not uniform. In all the three UCBs, the ratio of per employee establishment expenses has increased, but has not set any regular increase. The net increase in the ratio of per employee establishment expenses is around 2 to 3 times in the select banks. Two banks have the higher ratio of per employee establishment expenses when compared to that of another one. The select UCBs must review its establishment expenses and contain the same.

All the three UCBs are to be appreciated for registering growth in the spread as well as the ratio of per employee spread in the first half of the study period of 10 years. In the second half, though the net growth is seen, the increase in both spread and the ratio of per employee spread is not continuous and it experienced both increase and decrease. Further, the rate of growth in the second half is not as fast as that of the first half of the decade. The lost speed of the increase in the rate of per employee spread during the second half of the study period has to be regained by the UCBs in future implementing appropriate strategies by all personnel.

From the analysis of per employee profit a common feature identified in the performance of the three UCBs is that they have increased the profit level at a faster rate in the first 5 years of the decade than their performance in the second half. Therefore it is necessary to strive hard to make more profits in the ensuring years to improve the rate of growth in profits. The personnel of all cadres of the banks have to contribute to enhance their productivity.

Profitability ratios: The average ratio of net profit to total income ranges from 5.90 to 13.57 per cent. The common feature found in all the three UCBs is that they make net profit in all the years of study and registered net increase. The net growth of net profit in 10 years varies between 3.5 times and 6 times.

The ratio of net profit to total deposits for all the three UCBs is low. The growth of total deposits in all the three UCBs is good in the first half of the decade. In the second half of the decade, all the three UCBs have experienced either decline or slow rate of increase in deposits.

The average ratio of net profit to spread is 20.61 to 46.81per cent. The low ratio is the result of low level of net profit. Though the spread is more, because of low net profit, the ratio has come down. All the three UCBs have to improve their net profit in the years to come and the growth of net profit must be consistent.

The average ratio of net profit to total assets is 0.69 to 1.68 in the select banks. It is very low for all the three UCBs, but the ratio is positive. The positive ratio of net profit to total assets has to be maintained by all the three UCBs and efforts are to be initiated to improve the ratio by enhancing the net profit in the years to come.

Suggestions

On the basis of the above observations the following measures are suggested to improve the performance of the selected UCBs.

- UCBs must have a vision and mission to widen their membership base. The mamagement of the UCBs have to initiate professional marketing tacts among their personnel to attract more members/customers.
- The UCBs have to shift their dependence from fixed deposits to saving bank and current deposits with planned strategies to reduce cost of funds.
- All the three UCBs should maintain an optimum level of cash balance by trading off between liquidity and profitability. Idle or low income yielding portion of assets under the cash and bank balances must be deployed in loans or investment category to augment the interest revenue.
- The capital adequacy ratio has been identified as one of the benchmarks to measure the stability of the bank. Selected UCBs have higher CAR than the prescribed 9 per cent level. Therefore the UCBs must take all efforts to maintain their CAR at optimum level. The excess capital and reserve funds may be deployed in long term lendings to earn interest income.
- Advance is an area where the banks earn more interest income and it is one of the vital functions of the bank. Therefore the UCBs have to enhance their loans and advances. Based on their working funds poisitions, demand for loans, credit deposit ratio, level of NPA, capacity to mionitor the credit portfolio etc., the UCBs can have their respective annual credit plans. Further, the UCBs have to train their officials and staff to handle the credit proposals boldly in order to increase the interest income.
- Higher percentage of funds deployed in investments beyond the required level to meet statutory liquidity ratio denotes that the banks take low risk and derive low income. Simillarly the funds locked in other assets generate almost nil income. Therefore, the UCBs must review their investments and other assets periodically to avoid accumulation of idle assets.
- More than 90 per cent of loans by all the three UCBs is under short term loans category. Short term loans are to be repaid in one lumpsum. Therefore 100 per cent recovery of the short term loans must be ensured by the UCBs to prevent NPAs. The UCBs can expand their loans under medium term and long term loans category taking all possible precautions both at pre-disbursement survey and post disbursement follow up.
- All the three UCBs must take immediate follow up of the fresh NPAs, namely, substandard assets. Recovery of few overdue instalments and interest will help the banks to upgrade the loan assets to standard category besides the banks can avoid provisioning.
- In case of doubtful assets, provision for the secured portion is at the rate of 20 per cent to 50 per cent of balance outstanding, while for unsecured portion it is 100 per cent. Therefore, the UCBs must review each account under doubtful assets and take immediate steps to secure the loan balance with tangible primary or colleteral securities, so that the UCBs can contain the provisioning.
- All the three UCBs must take immediate steps to employ all possible techniques to recover the NPA, particularly loss assets. The bank can employ the RBI's compromise schemes of 'One Time Settlements' to wipe out the loss assets from the banks' financial statements. Removing these assets from the financial statements

could spare more time and energy to the bank officials to concentrate on other categories of NPAs. Further elimination of loss assets from the balance sheet would reduce the risk weighted assets while calculating the capital adequacy ratio for the UCBs concerned.

- The spread must be improved through professional approach by augmenting the interest income, i.e., by an effective investment and credit management and by containing interest expenditure, i.e., by mobilizing low cost deposits.
- The banks can launch schemes to provide more ancillary services through which they can earn more non-interest income.
- The UCBs must develop agency arrangements with the cooperative banks of all districts and states to get the country wide network. This would facilitate the UCBs to provide effective ancillary services like remittances and collection of bills which are essential for business people. Such ancillary services will provide float funds at less cost for the UCBs.
- All the three UCBs must take steps (a) to modernise their banking activities, (b) to computerise and link with other cooperative banks to compete with commerical banks, (c) to train the personnel so that they can break their traditional systems and procedures and adopt sophisticated technology based operational methods, and (d) to aim at profitability as their cherished goal while adhering to the cooperative principles.

Conclusion

The performance of the UCBs in recent years is deplorable. Deposits mobilized from the public occupy the major portion of the working funds. Borrowings in the selected UCBs are almost nil or negligible. In case of deposits, the term deposits and demand deposits are in an average ratio of 85:15. The selected UCBs have higher proportion of high cost deposits, namely, fixed or term deposits where the interest commitment is high. Therefore, they must mobilise more demand deposits, namely, savings and current deposits where the interest expenditure is less. The average loans and advances in total assets has been 40 to 50 per cent.Further comparisions of 'loanable funds with actual loaning' and the 'investable funds' with 'actual investment' reveal that the selected UCBs did not utilise the funds profitably. Therefore the UCBs have to enhance their loans and advances evaluating annual credit plans. Poor credit management and inadequate follow up measures result in accumulation of NPAs in UCBs. However these banks have taken some corrective measures during the tail end of the decade of the study. A healthy and calculated credit management with a cautious pre-sanction approach and an unfailing follow up at the post disbursement stage of all critical advances is the need of the hour in all the UCBs. The UCBs maintain their solvency at the cost of their profitability as they keep high level of cash to deposits ratio. The operational ratios have thrown light on the bank's deficiency in increasing the income and particularly the non-interest income. The productivity ratios are comfortable for all the three UCBs.The basic reason being that they could manage the growth in the business without increasing the manpower strength. The profitability ratios of the UCBs have brought to light that they have vast scope to make more profit as the UCBs have individually done in the earlier years of the decade chosen for the research.