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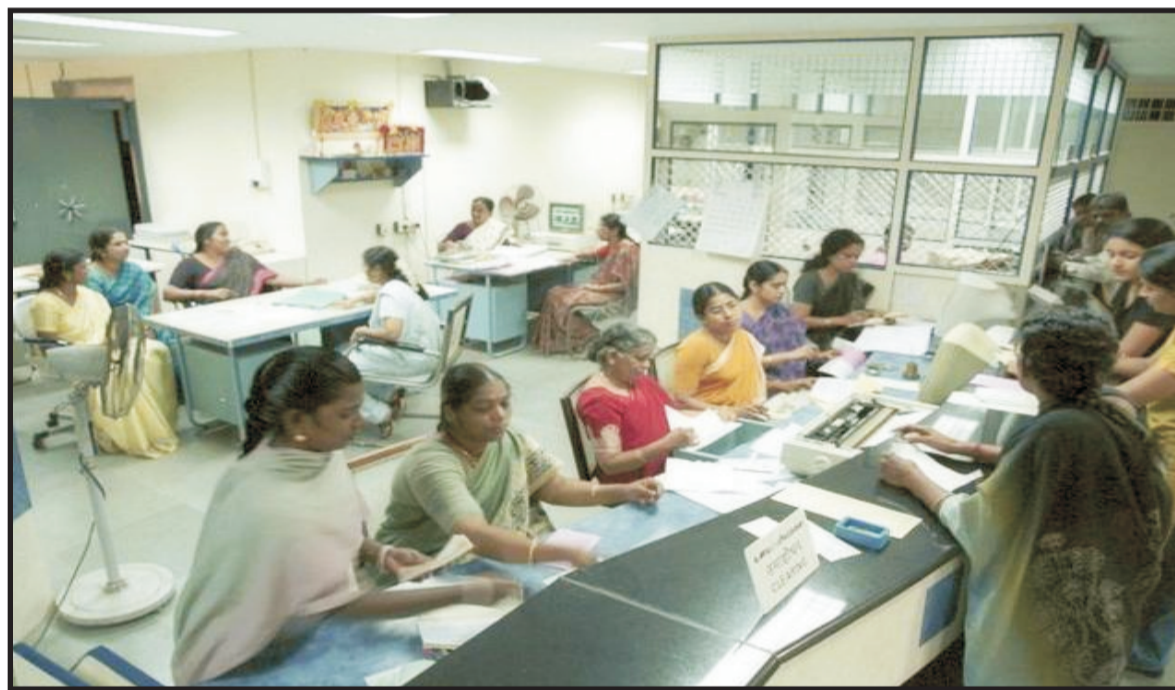
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**A STUDY ON URBAN COOPERATIVE BANKS TOWARDS  
ECONOMIC PROGRESS THROUGH FINANCIAL INCLUSION**



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## **ABSTRACT:**

Financial institutions play a significant role in the economic development of a country broadly by promoting mobilization of resources and allocating the funds in the form of loans and advances. Indian banking sector widely includes Commercial, Cooperative and development banks is the backbone of the Indian economy. Efficient banking system helps in the nation's economic development. Urban cooperative banks are primary cooperative banks located in urban and semi urban areas. Since inception, the Urban cooperative Banks have been playing a major role in the socio economic development of the country by making available institutional credit at reasonable cost particularly in the urban and semi urban areas. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and weaker sections in particular. A financial system which takes care of the needs of the poor is to be developed on

an urgent basis Urban cooperative banks, by their structure and nature of clientele are well designed to cater to financial inclusion as the basis of cooperative structure is mutual help and thrift. The present study tries to understand the significance of UCBs towards economic development.

**KEY WORDS:** Urban Cooperative Banks, Economic Development, Weaker Sections, Financial Inclusion, Mutual help

**INTRODUCTION:**

Financial institutions play a major role in the monetary development of a country broadly by promoting mobilization of resources and allocating the funds in the form of loans and advances. Financial sector in general and banking sector in particular is one of the vital ingredients for the economic development of the country. The Indian banking sector widely includes commercial, cooperative and development banks is the backbone of the Indian economy. Reserve Bank of India as the central bank of the country plays different roles like the Regulator, Supervisor and Facilitator of the Indian banking system. Cooperative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co operatives are formed by organized groups of people sharing a common interest. Since inception, the Urban Cooperative Banks have been playing an important role in the socio economic development of the country by making available institutional credit at affordable cost, particularly in the urban and semi urban areas. Cooperative banks have completed 100 years of existence in India. Cooperative banks are deeply rooted inside local areas and communities. By increasing banking access in areas or markets less preferred by commercial banks, farmers in rural areas, and middle or low income households in urban areas cooperative bank reduces banking exclusion.

Financial inclusion is the process of ensuring access to suitable financial products and services needed by all sections of the society in general, and weaker sections and low income groups in particular. The poor can overcome poverty by generating their own employment and income. A financial system which takes care of the needs of the poor is to be developed on an urgent basis. Urban cooperative Banks, by their structure and nature of clientele, are well designed to cater to financial inclusion. Financial inclusion has two sides, the Demand side and Supply side. Adequate training and motivation to the people to undertake business activities along with availability of infrastructure like roads, transport, market, skilled labor etc increase the confidence level to the minimum required level. Bank finance at reasonable cost is essential at this point. When all these factors are favorable the situation is ripe for successful absorption of bank finance. At this point the Demand for financial inclusion is generated.

Supply side of financial inclusion includes availability of timely finance at affordable rate of interest. The product should be customized according to the demand of the customers and the delivery should be hassle free and at the easiest mode. In India the basic tool of financial inclusion is having a savings or current account with a bank. The scope of financial inclusion includes services like opening of bank accounts, immediate credit facilities, insurance facilities, financial advisory services etc.

**Review of Literature**

Lakshmi. P and Visalakshmi. S, (2013) in their paper 'Impact of Cooperatives in Financial Inclusion & Comprehensive development', analysed the Agricultural finance Corporation (AFC) Kenya and discussed the need of a proactive approach for transferring the banking technology into an

opportunity. They have suggested that the provision of uncomplicated, small and reasonable financial products will help to bring the low income families into the formal financial sector. The Bank's limitations to reach directly to the people can be solved by appointing correspondents whom can be considered as an excellent channel to distribute their product information. Educating the customers about the financial benefits and products of banks which are beneficial to low income groups will be a great step to tap their potential. They have concluded that changes in the corporate culture will bring sustainable efficiency and thereby cooperatives can compete with strong players.

'Financial Inclusion and Role of Cooperative Banks' is the study conducted by Dr. Dilip Ambarkhane and Dr. Sheela Sahasrabudhe (2013). They have assessed that with good rural network and local staff cooperatives are in a better position to understand rural situation and the problems of the poverty. Even though they are serving large number of small borrowers and depositors, they have developed a serious weakness which needs to be addressed urgently. Revitalizing the cooperative banks can be very effective in facilitating financial inclusion. They have suggested that human resource development, credit management and information and communication technology can strengthen cooperative banks and promote inclusive growth in rural areas.

'A Conceptual study on the Role of Financial Inclusion on Economic and Social Development of India' was conducted by Dr. K.V. Deepak and R.P. Prakash (2014). The major objective of the study was to determine the role of Reserve Bank of India in promoting financial inclusion on social development. They have made an attempt to understand the trends in poverty in India, the percentage of people living below poverty line and the Human Development Index in select states of India. They have concluded that the various attempts made by the RBI regarding financial viability, profitability and competitiveness, the much needed banking services have not reached the underprivileged sections of the society.

Dr. Bimal Jaiswal and Saloni Bhasin (2015) in their paper 'Role of Cooperative Banks in Financial Inclusion for Inclusive Growth of India' shows the extent of inclusiveness of India's growth since 1995, the number of households availing banking services according to the 2011 census, Institutional credit to agriculture, performance of rural credit cooperative etc. The main objectives of the study was to examine the extent of inclusiveness of India's growth and the initiatives taken by NABARD and RBI for achieving financial inclusion through cooperative banks in India. The tool used for the study was Tables and charts showing Moving average trend line with the help of Microsoft Excel. They have concluded that the cooperative banks play a vital role in the progress of financial inclusion in India by increasing accessibility of goods and services in the unbanked areas and providing opportunities for employment and income generation in the rural area. They emphasized that bringing financial services to rural clients at affordable cost is the biggest challenge in the quest for broad-based financial inclusion.

#### **Statement of the Problem**

Policies of the banks in India mainly focused on removal of poverty. As a result after nationalization network of branches and credit to rural and urban areas increased manifold. On the other hand commercial banks are essentially urban in their orientation and have to cater to the needs of large and medium commercial and industrial sector also. Credit gap still exists in urban areas. It is therefore felt that commercial banks cannot improve credit delivery into far flung urban areas ahead of a point due to their inherent limitations. By being local in nature and indicatively interwoven with the local community the Urban Cooperative Banks have a clear advantage over commercial banks

Financial inclusion likely to make important changes in the country, especially the urban and

semi urban economy, which is expected to witness a revolution in the accessibility of financial instruments. Urban cooperative banks by their structure and nature of clientele are well designed to cater financial inclusion. Financial inclusion is critical for achieving inclusive growth in India. In this view the present study examines the growth of financial inclusiveness through Urban Cooperative Banks in India. In this context the following research questions arise: How important the role UCBs in India can play for financial inclusive growth? Why should we have more thrust on the role played by the Urban Cooperative Banks?

#### Objective of the Study

1. To understand the significance of Urban cooperative Banks for financial inclusion.
2. To find out the role of Urban cooperative Banks in nation's economic development
3. To examine the performance of urban cooperatives towards financial inclusion in India

#### Data Base and Methodology

The present study depends on secondary data which is collected from the web sites of RBI, NABARD, Economic Survey of the Ministry of Finance. The methodology is both descriptive and analytical in nature.

#### Data Analysis and Interpretation

##### Growth of Urban Cooperative Banking Sector

While reviewing the progress made by the UCB during the last 10 years (Table 1) it shows that the performance has by and large been satisfactory. Though there has been reduction in the number of UCBs from 2004 onwards, the total banking business of UCB has shown steady increase signifying that the banks have been able to garner more business. The Reserve Bank adopted a multi-layered regulatory and supervisory strategy aimed at the merger /amalgamation of viable UCBs and the exit of unviable ones for the revival of this sector. This initiative led to gradual reduction in the number of UCBs, As a result, the total number of UCBs at end March 2015 stood at 1579 as against 1589 in 2014. The total amount of deposits mobilised by these banks was Rs. 3,55,134 crores and the total amount of advances was Rs. 2,24,329 crores.

**Table 1 : Performance of UCBs-Deposits & Advances**

As on 31 <sup>st</sup> March	No of UCBs	Deposits (crores)	Advances (crores)
2006	1853	114060	71641
2007	1813	121391	79733
2008	1770	138496	88981
2009	1721	158733	97918
2010	1674	182862	110303
2011	1645	209949	135104
2012	1618	238500	158000
2013	1606	276900	181000
2014	1589	315503	199651
2015	1579	355134	224329

Source: Report on trends and progress in India. [www.rbi.org](http://www.rbi.org)

#### Credit to Priority Sector

Small enterprises, housing loans and micro credit, are the three major constituents of priority in

providing credit to weaker sections by UCBs. The aggregate credit to weaker sections has increased in 2014-15 reflecting improved financial inclusion efforts by UCBs (Table 2). The composition of credit to priority sectors by UCBs suggests that small enterprises and the housing sector accounted for over one third of the total credit of these institutions in 2014-15. These institutions primarily cater to the requirements of urban consumers which explain the predominance of these two sectors in the UCB's credit portfolio.

**Table 2: Composition of Credit to Priority Sector by UCBs( percentage to total credit)**

Priority Sector/year	Agriculture	Micro&Small Enterprises	Micro Credit	Housing Loan	Aggregate
2012-13	3.8	23.5	7.6	10.8	45.7
2013-14	2.9	23.1	1.6	10.3	37.9
2014-15	2.5	23.3	2.2	10.2	38.2

Source:Report on Trend and Progress in Banking in India , www.rbi.org

#### Region Wise Distribution of Urban Cooperative Banks

There is a disparity in the distribution of banking business of the urban cooperative banks. There are 1579 UCBs with close to 9722 branches in the country. In spite of being present in 25 states, almost 82% concentrates in the Western and Southern region mainly in five states of Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu - with the lion's share going to Maharashtra. The western and southern region which accounts for 27 percent of the total districts in India and about 91 percent of the total banking business of UCBs. On the other hand, the remaining four regions in north, north east, east and centre with 73 percent of the total districts had a share of around nine percent only in the total banking business of UCBs.

#### Findings of the Study

- The role of urban cooperative banks for financial inclusion is noteworthy. They have played significant role in mobilizing savings from lower and middle income groups and in providing direct credit to small entrepreneurs and traders. The total Deposits of UCBs over a period of 10 years is increased by 312 % and the Advances also increased by 313%.
- Even though UCBs are to some extent , into financial inclusion still a large hidden potential to be tapped. Uniform presence in the different regions of the country and credit disbursement to the different sectors will help UCB in achieving better results in the long term
- The organisational structure , local clientele and easy access are UCBs strengths in promoting financial inclusion. The unbanked and under banked districts inhabited by people like artisans, migrant labour ,small businessmen and retailers etc in urban areas can be brought into the ambit of banking.

#### Summary and Conclusion

Urban Cooperative Banks occupy an important position in the Indian financial system. The study indicates that the business of UCBs is growing but needs to provide more facilities and professionalism to increase popularity. It can provide much value addition to the society to play an important role for the sustainable development of India. A financial system which takes care of the needs of the poor is to be developed on an urgent basis. Affordable financial services enlarge livelihood opportunities and empower them to take charge of their lives. Banks should give wide publicity to the facility of no-frills account. Banking services need to be marketed to connect with large population

segments. UCBs, with their deep-rooted connections with specific communities, can easily inspire the trust of small savers and borrowers. It is easier for the UCBs to break the psychological barrier that proves prohibitive in the last mile of financial inclusion- create trust for the bank among its target community and bring customers within its fold. Undoubtedly the UCBs can prove to be a successful instrument in the mission of financial inclusion.

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