



## RESEARCH ARTICLE

### PERFORMANCE EVALUATION OF SERVICE SECTOR INDUSTRY WITH SPECIAL REFERENCE TO URBAN CO-OPERATIVE BANKS IN UTTAR PRADESH, INDIA

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#### ABSTRACT

The urban cooperative banking movement in India has been growing steadily ever since were brought under the Banking Regulations Act, 1949 in 1966. The number of Urban Co-operative Banks (UCBs), which was nearly 1900 in 2004, has reduced to nearly 1550 in 2017 due to mergers policy. They have mobilized sizable deposits of around Rs. 100,000 crores, more than Rs. 73,000 crores of these deposit of UCBs have been deployed in the form of loans and advances. Thus, UCBs are contributing considerably to the cause of economic development of the country. Even today despite all sorts of efforts by the private sector banks and foreign banks to rope in every economic endeavour in India, UCBs are going on flourishing day after day. Men with small means as well as sizable part of middle class still depend on UCBs for all sorts of banking services. This research paper evaluates performance parameters of UCBs in the State of U.P. that comes under service sector industry in India. The emergence of private sector banks and foreign banks has further thrown a challenge on the path of their working and has highly accelerated the competition, which they are supposed to face. Hence, here the objective of this research paper is to analyse and evaluate the performance parameters of UCBs in U.P. in terms of parameters of growth, productivity, work organization and profitability.

#### INTRODUCTION

Urban Co-operative Banks (UCBs) are primary co-operative bank organized on co-operative basis operating in metropolitan, urban and semi-urban areas to cater the need of specific types of groups of members pertaining to certain class of community, small scale industrial units, trade, professions etc. They are of two types; a unit banking type and branch banking type. Besides providing main banking services to their customer, they also provide other banking and subsidiary services to their customers and have developed a nice market for them to survive. Urban Co-operative Bank structure is bifurcated into Scheduled and Non-scheduled Banks. UCBs are graded into four categories on the basis of their financial performance. This financial performance is determined by various parameters such as capital adequacy, level of Non-performing Assets, history of profit or loss, etc. while UCBs from Grades - I and II can be considered as relatively stronger banks, the banks belonging to Grades - III and IV can be classified as sick and weak banks. Total number of UCBs is 1,721 by the end of March 2009 comprising of 845 Grade – I Banks, 484 Grade – II Banks, 219 Grade – III Banks and 173 are Grade – IV Banks. Total income and expenditure of UCBs for the year 2008-09 are Rs.18,962 crore and 15,402 crore respectively. Hence, the total net profit of all UCBs for the year 2008-09 is Rs.1,746 crore. However, gross non-performing assets of UCBs amounts to Rs.13,043 crore which is a matter of great concern. A study (2013) on Urban Cooperative Bank (UCB) in Lakhimpur Kheri district of U.P

shows that though the bank has shown reasonable growth in terms of advances and deposits but it is felt by researcher that it could have done much better, had it not followed an over cautious approach in lending policy and would have gone for required expansion. The findings of financial performance of DCC Bank [2016], Vijayapur district of Maharashtra, shows that the target has not been reached for every year there is a wide gap between target and achievement due to multidimensional problems, it may be Financial management, Loan Distribution, Recovery Loan, Generation of Funds, etc. year wise average and percentage of particular has been increased after 2012-13 which is the positive indicator of financial transaction and the growth rate of financial performance is better during five year period 2010-11 to 2014-

**Suggestions:** 1. The banks should adopt the modern methods of banking like internet banking, credit cards, ATM, etc. 2. The banks should plan to introduce new schemes for attracting new customers and satisfying the present ones. 3. The banks should plan for expansion of branches. 4. The banks should improve the customer services of the bank to a better extent. Service sector is one of the important sector of Indian economy. This sector contributes approximately 56 percent of India's GDP. Between 2002-03 to 2006-07, service sector contribute around 68.6 percent of the overall average growth in GDP [Table-1]. UCBs that come under the service sectors of Indian economy are contributing to the country in many ways. There is strong need to evaluate the performance of UCBs with different parameters. At constant prices (FY-2004-05), during decade of fifties (1950-51 to 1960-61) share of service sector to total GDP increased from 29.5 percent to 39.1 percent. In the next decade i.e. 1960 to 1970-71 it declined from 39.1 percent to 33.1 percent. In the financial year 1990-91, total

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contribution of service sector to GDP was 42.5 percent which was greater than the previous decade i.e. 1980-81 to 1990-91. In the decade of nineties it grew up to 50.3 percent. From the Table-1, it is clear that over a period of time from 1950-51 to 2010-11 (60 years), the contribution of service sector to GDP in percentage term has doubled.

**Table 1. Share of Service Sector in GDP (in per cent) At Constant 2004-2005 Prices (Rs Crore)**

Year	Service Sector	G.D.P	(%) of GDP
1950-1951	82591	279618	29.5
1960--1961	123872	410279	39.1
1970-1971	196158	589787	33.2
1980-1981	300613	798506	37.6
1990-1991	573465	1347889	42.5
2000-2001	1179976	2342774	50.3
2010-2011	2818125	4885954	57.6

Source: GOI, 2012, Economic Survey.

**UCBs in Uttar Pradesh:** The Indian Cooperative Movement is one of the largest movements in the world in respect of its area of operation and coverage, with more than 22 percent of total world membership of the International Cooperative Alliance (ICA). Urban Cooperative Banks, which are termed as primary cooperative banks under the Banking Regulations Act 1949, were initially organized as credit societies which in course of time started banking functions and came to be known by their present name as UCBs. These co-operative banks were promoted with an aim to stimulate thrift, self help and co-operation and to cater to the needs of their members in particular and non-members in general in urban and semi-urban areas. The Economic survey for the year 2006-07 underlined the continuing crucial role of the credit cooperative in the economic development of the country as they alone accounted for 67 percent of total short term bank disbursement followed by commercial banks with 28 percent and RRBs providing the balance 5 percent during 2000-01, for productive purpose. Further, the RBI has recognized the importance of U.P. Urban Cooperative Banks by allowing them to extend their operation to rural areas and providing finance to agricultural activities. Some UCBs have recorded a higher growth rate both in term of deposits and advances as compared to the commercial banks and their role as an ideal institution to meet the timely credit requirements of the weaker sections of the society, has been recognized by the experts. Contrary to the above fact, there have been strong feelings expressed by experts that the performance of UCBs in general is not satisfactory and they are not financially viable. Over and above, the liberalized economic policies including extensive reforms in banking sector have posed a threat to the survival and growth of such cooperatives. Therefore, it was felt by researchers an extensive analysis of performance evaluation of UCBs is necessary.

**Aim of the Study:** Keeping in mind the above facts about UCBs, I felt that there is an urgent need to evaluate performance parameters of UCBs in Uttar Pradesh. UCBs come under service sector industry of Indian economy. The emergence of private sector banks and foreign banks has further thrown a challenge on the path of their working and has highly accelerated competition, which they are supposed to face. Therefore, the objective of this research paper is being set to analyse and evaluate the performance parameters of UCBs in terms of growth, productivity, work culture, organization and profitability.

**Performance Parameters for Service Sector Industry:** Performance of UCBs in relation to services provided to the service sector industries in the Indian economy like transport, electricity, private retail trade, education, health, professional and self employed persons etc. has been satisfactory, while the situation in this regard in the State of Uttar Pradesh has been quite different being much below satisfactory. These sectors in U.P. have not been getting adequate financial help from UCBs and have failed in getting the protection of UCBs and contrary to it most of these sectors are being financed by the other commercial and private banks. Moreover, situation in this regard in other states in the country is much better as they are getting adequate finance from UCBs. The table given below [Table-2] shows the percentage wise lending to different sectors of service industry at the end of financial year 1996-97 and 1997-98.

**Table 2. Percentage –wise lending to Different Sector of Service Industry**

S.No.	Sector	As on 31.03.1997 (% of total sector lending)	As on 31.03.1998 (% of total sector lending)
1.	Road & Water Transport	14.91 (1679.40)	12.32 (1926.45)
2.	Private Retail Trade- Commodities	3.16 (356.32)	2.53 (396.28)
3.	Private Retail Trade (Others)	9.92 (1117.52)	11.29 (1609.42)
4.	Small Business Enterprises	13.47 (1517.55)	14.17 (2215.73)
5.	Professional & Self employed Persons	6.59 (741.88)	6.74 (1054.88)
6.	Education	1.00 (112.30)	1.02 (159.69)
7.	Housing	14.35 (1616.49)	16.22 (2536.71)

Source: Urban Cooperative Banks Departments, RBI, 1999.

Note: Figures in parentheses are total credit provided to service sector industry.

The Road and water transport, which has got 14.91 percent in the end of Financial Year (FY) 1996-97 of the total credit provided to service sector has come down to 12.32 percent in FY-1997-98. Similarly private retail trade of essential commodities has also shown a downward trend while the credit provided to the service sector industries like private retail trade (others) in addition to Small Business Enterprises and professional and self employed persons along with education and housing showed an increase during the same years. The data regarding credit extended to service sectors in Uttar Pradesh by UCBs could not be obtained because the office of the Urban Bank's Department of RBI, is not able to make the relevant data available to the researcher because these banks have not been reported to RBI since years together also approached the Registrar of Cooperative societies. U.P. Lucknow but result was of no avail because such data are supplied to them by the RBI. As per the estimates by the executives of the U.P. Cooperative Banks Federation Ltd., Lucknow service sector credit extended by UCBs in U.P. has been quite negligible being not more than 5 percent of total credit extended by them.

#### Parameters of Evaluating Performance of UCBs in U.P.

**Expansion of Services of Urban Co-operative Banks:** It is necessary to analyse the strengths and weaknesses of urban cooperative bank of Uttar Pradesh in the field of micro credit and to find out up to what extent they foster and encourage UCBs in rendering these services to the small borrowers who

are adequately entertained by the commercial banks. The representatives of UCBs and their federations constantly claim that they have a different role in the banking sector as they and the small borrowers are made for each other and that any amount of expansion of branch net work of commercial banks, including RRBs, will not solve the problem of the small borrowers without the presence of UCBs. To increase in the number of UCBs in the last 10 years is something which requires a serious focus by the RBI. If the increase is due to relaxed entry norms and the promoters are genuine cooperators, position is not worrying. On the other hand, if the new entrants are not genuine cooperators and if some of them are promoted by the people who had to quite the Non-banking Finance Companies (NBFC) sector because of stringent regulatory framework put in by the RBI there is reason to worry. In such a case, the RBI should take appropriate steps to enquire into the matter and ensure that the wrong hands may not inter into the UCB sector.

**Priority sector lending:** We conducted a survey of clients who approached UCBs on two different dates. The response of these clients was a resounding confirmation of the claim of UCBs. 85 percent of the clients said that they had come to UCBs because they are not better entertained by the commercial banks. Other 82 percent of the clients told that UCBs provide more personalized service than by the commercial and private banks. Senior executives of commercial banks came to the same conclusion. State Government Officers have the same word of praise for the UCBs. The data with RBI show that the UCBs fulfill the stipulated priority sector lending of 60 percent target though the priority sector target for commercial banks is only 40 percent and which is not always achieved. This shows that UCBs are giving micro credit to small borrowers and cater more than 60 percent of their financial need. This shows that UCBs are pro-priority sector lending bans. The service being rendered by the UCBs to micro credit enterprises and small borrowers seem to be quite satisfactory. However, the researcher feels that there are some harsh and unpleasant aspects in the surroundings. Some relevant of them like expansion of UCBs, their sickness and quality of professionalism have been discussed below.

Another cause of concern is the number of weak / sick UCBs. RBI should also look at the cause for their sickness, if the sickness is due to some genuine commercial decisions going wrong, the problem is less serious. If a large number of UCBs became weak due to motivated actions of the Managing Committees, the situation is serious leading to much concern. Theoretically, Managing Committees are answerable to the General Body, This accountability work if the membership of the UCBs is genuine and the members take active interest in the affairs of the UCBs. Further, there are reasonable proofs conveying things to the contrary that low entry capital norms have facilitated small group of persons or a few families establishing UCBs by increasing the capital and taking names of voiceless persons on the membership rolls. It is also found that the attendance at the General Body meetings is due to the confidence of the genuine members in the impartiality, integrity and efficiency of Managing Committee to do the things, the problem is less serious. In case it is because of bogus membership, the problem becomes acute. Another aspect of performance evaluation of UCBs is the quality of professionalism. Quality of professionalism is very poor in case of UCBs in Uttar Pradesh. If there is predominant

presence of genuine cooperators in the Management Committee and General Body, their experience, common sense and commitment to the bank can partly compensate for lack of professionalism. If it is not like that, lack of professionalism can be incurable to the health of the UCBs. Therefore, a co-operative, competitive and customer sensitive work culture is needed to improve the efficiency UCBs. The above points of concern prove that UCBs as set up in India have alarming points of strength, but they are not at all free from deficiencies and short comings. There is strong need to take action in this regard. UCBs are not like other cooperative societies. These banks have social effect too. The good and bad aspects of a normal cooperative society benefit or harm only its members as these societies are organized and run by the members and for the members of UCBs. But UCBs do more than that. UCBs accept deposits from the public and, hence, their actions affect the interests of the depositors. Since depositors place their funds with UCBs in good faith the UCBs become trustees of the depositor's money. Hence, service to depositors becomes a higher responsibility than service to members. Thus, the moment a cooperative society gets licence as a bank; its actions and discipline have to be judged in quite a different context. Experts of cooperative movement claim that since cooperative banks are democratic organizations, they should be left to self discipline and outside bodies should not trample their democratic rights. This argument makes perfect sense as long as they remain normal cooperative societies. But when they aspire to take on banking functions, their democratic rights have to be subordinated to the interest of the depositors. Safeguarding the interests of depositors cannot be left only to the Management Committee and General Body. It needs an external agency to play the role of a patron. If the members of cooperative societies are not prepared to accept external discipline, they are free to remain as normal cooperator. If some existing UCBs feel uncomfortable with external discipline they are free to return the deposits of the public and revert to the status of normal society. The banking function necessitates subordination of democratic rights of the members to the duty of serving the depositors. UCBs, therefore, cannot complain when stricter financial norms are prescribed or professional aspect in the composition of Management Committee is stipulated to safeguard the interest of the depositors.

**Integrated Performance Evaluation Parameters:** Many studies and statistical Statements relating to cooperative movement in India, published by the RBI and NABARD reveal that during the last couple of decades the number of banks grew at the rate of 6.18 percent per annum and recorded a compound growth rate of 0.52 percent over the year indicating a very poor growth. One of the key reasons for this phenomenon could be a wide regional imbalance in their growth and extension. For instance, more than 73 percent of total urban co-operative banks are concentrated exclusively in four states viz. Maharashtra, Gujarat, Karnatka and Tamil Nadu. In U.P. and most of the remaining states and union territories, the urban cooperative credit movement over the year has not at all been encouraging. Abroad based membership strength is more essential for the survival and success of every cooperative organisation as it is a voluntary organization. The membership strength has increased annually and has registered good growth rate over the years which is reasonable. However, the membership growth cannot be considered to be satisfactory. The gradual growth in membership might be because of common practice followed

by some of the urban banks towards admitting the members. For instance, there are two classes of members viz. Regular and Nominal. The nominal members are generally admitted to enable them to borrow for a short period against readily realizable securities, the moment they pay of their dues they cease to be the members of the bank which in fact affects the membership strength. A sufficient amount of paid-up capital as a part of owned funds indicates an internal financial soundness of any organisation and urban co-operative banks are no exception to it. Among all the financial indicators, the paid-up share capital has registered the lowest growth rate in U.P. The low face value of shares, nominal members admitted just on payment of admission fee, cessation from membership and obtaining refund of shares after availing of the facilities, lack of incentives for the members to enhance their existing share holdings in the bank etc. are some of the reasons for the weak capital base. On the other hand, a remarkable rise in the reserve funds indicates an inner source strength and viability of the UCBs.

Deposits are the part and parcel of borrowed funds mobilized from both the members and non-members. It is one of the important components of working funds of the banks and the lending activities of the banks depend on the quantum of their working funds. It is worth mentioning that notwithstanding a stiff competition from their counterpart viz., public sector and private sector banks, RRBs and non banking finance companies (NBFCs), some branches of U.P. UCBs made an excellent achievement in the area of deposit mobilization. For every banking institution, borrowings from other financial agencies are a must in order to augment its resource strength whereby the credit requirements of the people can be met. However, the percentage of borrowings to total working funds should not be too high. The urban banks are mostly understood as self reliant institutions depending upon their own funds and deposits for their operations. The urban banks borrowed too much from their apex agencies viz., District and State Cooperative Banks as well as from other financial institutions. With regard to working capital, an adequate amount of working capital is of paramount importance for every economic activity, as the growth and expansion of any business organisation is largely dependent upon the degree of working funds. For the urban banks, the working funds include both the owned and borrowed funds. But, thick equity based working capital structure is considered more desirable. Similarly, it is notable that the urban banks witnessed a satisfactory growth in credit disbursement, though there is a continuous declining trend in credit disbursement experienced by commercial banks, which may be attributed to slow down in industrial growth. The 'overdues' represent the amount of interest, installment and other dues outstanding for thirty days or more after the due date. The highest compound growth rate indicates rising trend of strict supervision towards recovery of loans. This increasing trend of overdues is not good for the banks since it cease to generate income for them. So far as the credit-deposit ratio is concerned, no significant growth is noticed and the overdues percentage to total outstanding is not satisfactory.

**Conclusions and Observations:** The overall conclusions and observations of the research paper are as under:

- The overall working growth performance of UCBs in U.P is not found to be satisfactory during the study period. But some co-operative banks have made a

remarkable achievement in respect of some variables viz. Paid-up share capital, reserves, deposits, working capital and credit disbursement.

- The physical growth in terms of number of banks over the years in U.P. is very low, which is even less than 1%. This calls for an immediate attention of the Apex Co-operative Bodies, national as well as state level federations to initiate necessary steps to promote and develop Urban Co-operative Banks in the State of Uttar Pradesh where the growth is still poor, whereby the regional imbalance in their distribution and growth can be minimized. Besides, instead of promoting Local Area Banks (LABs) as an innovative banking institution, it would be better to develop and strengthen the existing urban co-operative banks.
- The membership growth is observed to be reasonably good. However, steps are to be initiated to broaden the membership strength so as to have a strong equity base. This may be achieved by creating awareness among the people about the exclusive benefits of urban co-operative banks as compared to other banking institutions.
- There is a sharp increase in borrowings of the UCBs. This shows more and more dependency upon the apex financing agencies for their financial needs. Thus, it is very essential for the banks to introduce some measures like raising the face value of shares, discouraging refund of share money, linking borrowings with share holdings, motivating the existing members to increase their share holdings etc, increase their own funds to become self reliant.
- The 'overdues' which is the most important indicator needs to be taken care of as they have gone up during the study period. The mounting overdues have resulted in an acute problem of recycling of funds which in turn limits the income for the banks. Keeping this in view, the banks must have to find out some suitable ways and means to speed up the recovery of overdues.

Thus, the UCBs are very important in the Indian banking sector, which in recent year has gone through a lot of challenges. Though some UCBs have shown credible performance in many aspects in recent year and a large number of have shown weakness in many aspect of performance. The operational efficiencies of these banks are unsatisfactory and characterized by low profitability, constantly growing non-performing assets (NPA) and comparatively low capital base. UCBs also have not been able to provide service the growing credit requirement of customers or newer demand for the loan in the field of personal finance. In the interest of healthy banking environment, the UCBs should be encouraged to grow, competitive and maintain healthy work culture.

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