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## A INDUSTRY ANALYSIS ON COOPERTIVE BANKING SECTOR IN INDIA

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### Introduction

In pre-independence India, the British Indian government reiterated the English model in the co-operative sector, and the Co-operative Credit Societies Act, 1904 was passed in India for the first time to reorganize the Indian co-operative society, based on Sir's recommendations. Frederick Nicholson and Sir Edward Law (1901). This move by the British Government of India addresses the issue of indebtedness in India and the resulting situation for farmers in the country. The Act encouraged the formation of credit unions across the country, which led to the formation of the first urban co-operative credit union in Tamil Nadu in October 1904. This was the first phase of the establishment of a co-operative banking system, and it was there. several errors in the Act have limited the achievement of the intended benefits of co-operatives across the country. The law allowed credit unions to register, but it did not make provision to protect non-credit organizations or state-owned enterprises. The government recognized these shortcomings, and to address them, a comprehensive law, known as the Cooperative Societies Act of 1912, was introduced. Approved the formation and organization of central Indian co-operatives and non-debtors. Even after enduring many hardships during that time, the union maintained a positive post-independence trend, and it became part of economic progress. India's First Five-Year Plan recognizes the importance of co-operatives in the implementation of development goals, with a focus on farmers and the poorest sections of society. To address the problem of rural debt and other financial concerns in the rural community, the Indian government established the All India Rural Credit Survey Committee. Indian Cooperatives Banks are regulated by the Reserve Bank of India and the National Bank for Agriculture and Rural Development (NABARD) under the Banking Regulation Act, 1949 and the Banking Act (Application for Cooperatives) Act, 1965, respectively. Basic co-operatives, central co-operatives, government co-operatives, and urban co-operatives are the four basic types of co-operative banks. The primary function of co-operative banks is to provide financial support for small and medium-sized small financial services. It collects funds from its members and distributes them.

### Publications or Literature Review

Table 1 summarises the findings of a study undertaken in India and overseas on the cooperative banking sector. The papers proposed shed light on growth, business processes, and cooperative banks' involvement in the country's economic model. In the given period, the importance and role of cooperative societies in financial stability has been explored under several headings.

Table 1 : Cooperative sector and its role in Indian Financial system

Serial No	Theory	Focus	References
1	In this study the Author conducted the study to understand the lending practices of cooperative banks and their efficiency based on the lending practices. Researcher used the descriptive method of study by preparing the questionnaires and interviews	The study involves the customers feedback in identifying the bank's lending methods and satisfaction with the bank.	A study on cooperative Banks in India with special reference to Lending practices by Jyoti Gupta and Suman Jain / volume 2
2	In the current study the researcher trying to identify the funds sources and at the same time he is trying to identify how these funds are invested in earning more returns	Researcher conclude the study with the basic suggestion to UCB to increase the number of customers by providing more offers.	Sources and Applications of funds in UCB in composite Thanjavur District. : Dr S Mayilvaganan and G Prabhakaran/ volume 3 IJCRTD
3	Here the researcher tries to identify the fund management procedures and the banks performance based on the selected financial operations	He concludes his research with the lower rate of interest charged from the bank to its customers and he also suggested the bank to increase the applications of funds in Loans and advances	A study on the effectiveness of fund management at Bangalore District and Bangalore Rural District cooperative bank” Pavan G Kulkarni ISSN 0039-2049
4	The researcher wanted to study the significant role played by cooperative banks in economic development	And the researcher also put his concerns regarding the minimum help from government to the cooperative banks.	Current scenario of state co-operative bank in India and its working performance by G. Subash Chandra Bose and Dr P Nagarajan.
5	Here the researcher wanted to study the lending practices and to compare the efficiency of urban cooperative banks in Delhi.	The study the types of loan and advances provided by the banks and how far the customers are satisfied with the service of these banks in Delhi	To study the pattern of lending Practices in Urban cooperative banks in Delhi by Supreeta Gaba and Dr Bharat Bushan ISSN : 2320 2882
6	Here the study suggested that performance of banking in terms of profitability,	They found that public sector banks have been more efficient than other banks operating in India	A study on Cooperative Banks in India with special

	productivity, asset quality and financial management has become important to stable the economy		reference to Lending Practices Boppana and Nagarjuna (2006)
7	This paper aims to analyze the problems and prospects of the banks of the Indian co-operative sector and its integration into the Indian economy.	The role of co-operative banks in rural and urban areas has increased significantly today due to the expansion of co-operatives and their major role in financing rural and urban areas is increasing day by day.	Research on Cooperative Sector Banks in India: Problems and Prospects   Indira R. *, Paramashiaviah Year: April, 2019 Volume: 16 / Release: 5
8	Co-operatives are successful business organizations around the world and exist in almost every sector of the economy, including banking and financial services.	The UCB sector is very diverse in material size and faces a number of challenges related to business modeling, governance, and professional management.	Urban Cooperative Banking in India: Key Issues and Way Forward ISSN 2349-7483. Volume VIII, No 11, June 2021.
9	The banking business has done wonders for the global economy. A simple way to accept cash deposits from depositors and borrow the same money from borrowers, banking activity promotes cash flow in productive spending and investment.	Bank performance checks and lending procedures offered to customers are conducted here	A study on Co-operative Banks in India ,Vol. 1, Issue: 7, September2013 ISSN:(P)2347-5404 ISSN:(O)2320-771X
10	There is currently a branch of the Federal Bank of India with a total population of about 1070035.33 in India, based on the 2011 population.	Implementation of the technology required by banks to redesign processes, networking and delivery of alternative service delivery services such as online banking, mobile banking and mobile banking, data storage and data mining, customer relationship management, integrated treasury management, human resource management and implementation. of major banking solutions.	Current Scenario of State Co-Operative Bank in India and Its' Working Performance - A Study International Journal of Science and Research (IJSR) ISSN (Online): 2319-7064 Index Copernicus Value (2016): 79.57   Impact Factor (2017): 7.296

## **Objectives of cooperative Industry Analysis**

1. To understand the structure and function of Indian cooperative system.
2. To study the growth of cooperative sector in India pre and post-independence
3. To identify the major opportunities for cooperative banks.
4. To analyse the challenges faced by cooperative banks.

## **Internal Analysis :**

### 4.1 Products and services :

Indian cooperative banks provided the following Products and services to their customers. Most of the cooperative banks offer all type of services what other regular banks offer to their customers. Below are some of the products and services offered by them.

1. Loans to small borrowers and small Businesses
2. Working capital and term Loans
3. Various deposit schemes
4. Advances against shares and Debentures
5. Deposit facilities similar to other banks.

### 4.2 SWOC Analysis of Cooperative Banks in India

#### **Strengths :**

1. These banks have ethical policies which safeguard the investors.
2. Cooperative banks main target of customers are from rural and semi urban areas.
3. The banks provide all type of facilities to its customer with related to latest technology.
4. RBI, Central and state govt are the back bone for these banks.

#### **Weakness**

1. These banks are much controlled by govt bureaucrats.
2. They have more restrictions in terms of loan approvals
3. Collection policy is not much effective and active
4. These banks can provide financial support for only small enterprises.

#### **Opportunities**

1. Since India got strong rural background, these banks can operate in all places.
2. Most of the commercial banks are underperforming due to wrong policies, cooperative banks have got huge opportunity to expand.
3. Rural and semi urban living people prefer cooperative banks for their financial needs.
4. Enough government funding facility is available for these banks.

#### **Challenges :**

1. These banks are facing the challenge of recovery and debt.
2. High transaction cost and administration cost due to low level of technology.
3. More competition in the market by other commercial banks with huge financial services.
4. Lack of administration and management skills in the management level.

## **ABCD Analysis**

In the research many methods are available to analyse the industry and its constituents. Out of this ABCD analysis is one of the new techniques in identifying the potential capacity of particular industry. The cooperative sector which falls under banking industry has its own strength and challenges, these areas can be identified and collated using ABCD analysis (Advantages, Benefits, Constraints and Disadvantages).

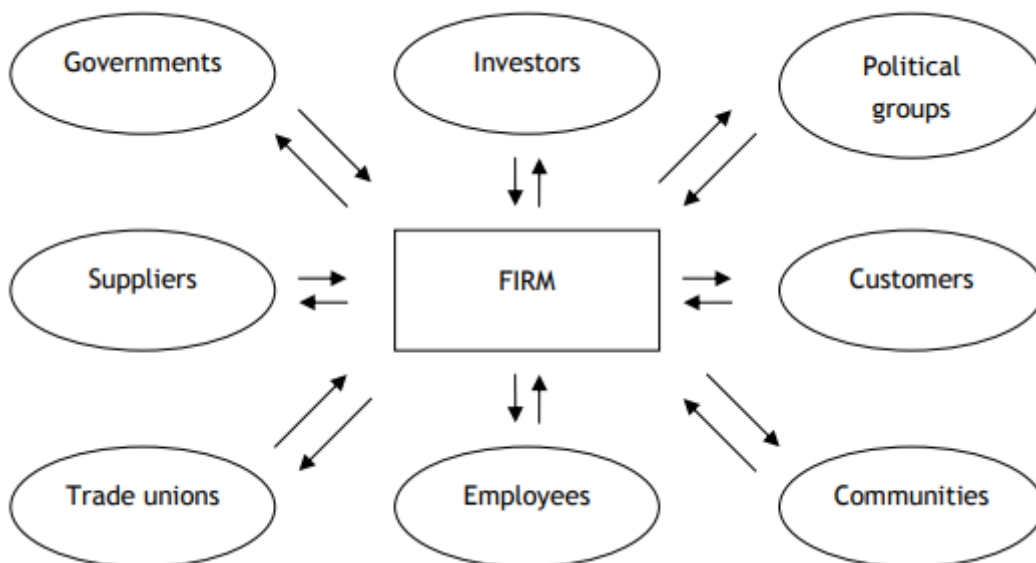
**Table : 2 ABCD Analysis**

Area of Focus	Advantages	Benefits	Constraints	Disadvantages
Organisational Issues	<ul style="list-style-type: none"> <li>● Good returns for small investments.</li> <li>● Fund availability at lesser cost</li> <li>● Large group of investors</li> </ul>	<ul style="list-style-type: none"> <li>● Overall money circulation in the rural areas.</li> <li>● Fund flow within the small group of people</li> </ul>	<ul style="list-style-type: none"> <li>● very few decision makers</li> <li>● no proper hierarchy levels</li> <li>● Differences in opinions and lack of principles</li> </ul>	<ul style="list-style-type: none"> <li>● No standard vision and objectives</li> <li>● Improper financial plans and strategy</li> <li>● Bias in financial decisions</li> </ul>
Operational issues	<ul style="list-style-type: none"> <li>● Lesser the employees, more effective decision making</li> <li>● High Productivity due to better understanding</li> </ul>	<ul style="list-style-type: none"> <li>● Implementation of plans are easy.</li> <li>● There will be clear information on each process to all employees</li> <li>● Quick and easy methods for work environment</li> </ul>	<ul style="list-style-type: none"> <li>● Economies of scale is difficult sometime</li> <li>● Monopoly in each activity due to geographical criteria</li> </ul>	<ul style="list-style-type: none"> <li>● Lack of planning and forecasting</li> <li>● Lack of coordination between each credit cooperative societies</li> <li>● Improper functional departments</li> </ul>
Technological issues	<ul style="list-style-type: none"> <li>● Cooperative banks are almost computerised.</li> <li>● Providing all type of technology based facilities to customers</li> </ul>	<ul style="list-style-type: none"> <li>● Easy access to customers queries</li> <li>● Much quick and right fund flow activities.</li> <li>● Service based customer improvements</li> </ul>	<ul style="list-style-type: none"> <li>● These banks are lack in safety and security of their customer data.</li> <li>● International fund transfer and payments are still not implemented</li> </ul>	<ul style="list-style-type: none"> <li>● Employees are in fear of losing job due to technology implementation</li> <li>● Huge cost involved in implementation of technology</li> </ul>
Employee and employer issues	<ul style="list-style-type: none"> <li>● Cheap labor is one of the advantage.</li> <li>● Work satisfaction is more in these cooperative bank employees</li> </ul>	<ul style="list-style-type: none"> <li>● Division of work or activity is easy</li> <li>● Good relationship exist between management and employees.</li> </ul>	<ul style="list-style-type: none"> <li>● Lack of trained employees</li> <li>● Improper management decision due to lack of experience</li> </ul>	<ul style="list-style-type: none"> <li>● Employee union is strong due to geographical advantage</li> <li>● Improper management skills by top management is common here</li> </ul>
Social and Environmental issues	<ul style="list-style-type: none"> <li>● cooperative banks create rural employment opportunities</li> <li>● Good returns in macro level business will make the stakeholders happy</li> </ul>	<ul style="list-style-type: none"> <li>● Better work environment for long duration of stay.</li> <li>● positive contribution towards country economy</li> </ul>	<ul style="list-style-type: none"> <li>● Each state will have different levels of management</li> <li>● Repay of loans and advances are in irregular trend.</li> <li>● Lot of uncertainty in business management</li> </ul>	<ul style="list-style-type: none"> <li>● Lack of ethics in both employees and customers day by day.</li> <li>● Government intervention is much disturbing part in cooperative sector.</li> <li>● Huge competition by</li> </ul>

				unethical local money lenders.
Customers issue	<ul style="list-style-type: none"> <li>• There exist good customer service provided in rural areas.</li> <li>• User friendly process and plans for their customers</li> <li>• Lost lasting products and service for customers</li> </ul>	<ul style="list-style-type: none"> <li>• Customers' expectations are fulfilled by financial assistance</li> <li>• Rural agriculture development is possible</li> </ul>	<ul style="list-style-type: none"> <li>• More number of branches are not available for quick service.</li> <li>• Huge expectations in quality and easy service by customers</li> <li>• Lack of customer data base management and query handling</li> </ul>	<ul style="list-style-type: none"> <li>• There is a less demand for these type of cooperative banks.</li> <li>• No much attractive offers and facilities from these banks to retain customers and attract new customers</li> </ul>

**External Analysis**

External analysis mainly deals with the analysis of stakeholders of the cooperative banks. The major stakeholders include not only the owners, but Investors, Government, Customers, Employees and community.



**Figure :Stakeholder model from Donaldson and Preston**

These co-operative banks have benefited many people and people who have invested in the sector. Both the input industry and the output industry users have benefited from this collaboration program. Co-operatives are member organizations, voluntarily formed (or joined) by their members, aimed to meet the needs of their members. Their members have a double relationship with the federation. Both owners and users, whether buyers, producers, employees. Because of their co-operative identity they are driven by investors who are ‘involved in design’. They are the ‘top and most prominent stakeholders’ who have the power to make their grievances sound and influence the way they will be cared for and this has been achieved through the activities of co-operative banks in India. As these key stakeholders are satisfied, the co-operative sector is very common in our country.

Even the governments both central and states have much confidence on the performance of cooperative banks in the rural as well as Urban areas. The supports extended by the govt’s in functioning of these banks have evolved major miles in their growth and prosperity.

The employees and customers are much satisfied in this sector by their deep knowledge and understanding of the cooperative system. Any individual who borrows loans from the cooperative banks have benefited

with low interest rates compare to commercial banks. The funding facility and regulations made by these banks have increased the number of customers in these banks who approach for loans and advances.

Basic idea in the sector is sharing the excess of resources with the known people for less profit and hence this agenda has been achieved with the low cost loans and minimum profit margin in these banks. The majority of the investors in these banks are the local people and agriculture based families. And the level of satisfaction with these investors is reachable and flexible. Indian cooperative banks have been measured in terms of growth and positive attitude with the enormous satisfaction of the investors.

#### PESTEL Analysis of The Indian Co-operative Banking system

PESTEL's analysis is about learning and understanding the political, economic, social, technological, environmental and legal aspects that will directly or indirectly affect the level of small business in co-operative societies.

In India we have seen a stable political system in the middle but we have an unstable political system in the provinces. Rural business finance institutions can develop strategies based on a stable political climate. There are many government agencies and central government that reduce the risk of extreme stress with proper support and guidance. But on the other hand it increases the time and cost of doing business as well as obtaining certificates and approvals.

The tax evasion culture of the democratic government has greatly increased shortages and this could lead to financial crisis in the coming financial years. We have all seen how the rise in U.S. spending has led to debt overuse. Reducing the culture of nursing has led to people not having enough to save. Cfis Rural in India should focus more on developing these areas where co-operatives fail. The inflation rate could impact and create demand for Cfis Rural products in India. High inflation may require Cfis Rural to further raise prices associated with inflation which could lead to lower levels of product reliability and ongoing cost management efforts. Cost-Based Price can be a bad strategy under such circumstances. Currently in India the high level of GDP growth reflects the growing economic demand at the same time, Cfis Rural can use this movement to expand its product range / services and target new customers. One first step is to make a map near the center - a buyer's approach and a growing price proposal.

Birth rate is one of the indicators of future need. Attitudes toward healthy living and safety are often reflected in product quality and cost-effectiveness of production processes. Rural financial institutions have strict health and safety rules so in developing countries, this world has to compete with players who do not have the most expensive structures. Level of Public Concern & Public Awareness is much needed - High levels of public concern often result in high consumer awakening and pressure from non-governmental organizations, as well as oppressive groups.

Mobile Phones and Internet Access - Cooperative banks should assess the level of expertise regarding internet users and mobile users in the country as they will in creating the required business model based on local needs and realities. The transfer of technology and licensing issues in the country has made these banks face many internal and external problems. such as shakedowns and IPR theft. Technology Integration in Business and Procedures where we can take the example of Uber failed in China because it tried to get in before the smartphone spread in China. Co-operative banks should develop a strategy that can integrate public standards, infrastructure resources, and their available business model.

The environmental impact is broad in the area of cooperation. Most of the customers in these banks are from rural areas and any impact on these areas will have a significant impact on debt collection and repayment. Being a country like India the main participants in the co-operation sector come from rural and urban areas. The climate of the villages has a profound effect on the corporate banking business.

Most control is in the RBI and most banks follow the guidelines of authorized banks. Financial and operational support will be extended by the RBI to develop co-operative banks in India. Performance standards and organizational decisions are approved and regulated by the central bank of India. The federal banks comply with all types of legal requirements imposed by the national and local governments.

#### Major Players in cooperative sector in India.

### **Saraswat Co-operative Bank :**

Saraswat Co-operative Bank, established in 1918, is India's largest co-operative bank. It is headquartered in Mumbai and operates in six states. In the financial year that ended on March 31, 2020, it made a gross profit of Rs 651.69 crore. During the global COVID pandemic, the bank defied all constraints and experienced growth across the board.

Saraswat Co-operative Bank provides exceptional customer service and has open policies, which have enabled the bank establish itself as one of the country's largest cooperative banks. In 2019, it was named "Best Technology Bank of the Year."

### **Cosmos Co-operative Bank**

With clearance from the Reserve Bank of India, Cosmos Bank is the first of its kind to open a currency chest. This bank's market capitalization and profits are among the best in the industry. These have aided Cosmos Bank in cementing its status as one of the greatest cooperative banks and gaining clients' trust.

### **Shamrao Vithal Co-operative Bank (SVC Bank)**

Shamrao Vithal Co-operative Bank was founded in 1906 in Mumbai and is regarded a pioneer in India's cooperative banking industry. Shamrao Vithal Co-operative Bank, India's third-largest co-operative bank, has changed its name to SVC Bank.

SVC Bank tries to serve as many people as possible and has a total business of over Rs.250 billion. The bank has 193 branches spread across India's 10 states. SVC Bank received the "Best Urban Co-operative Bank" award from the Brihan Mumbai Nagari Sahakari Banks Association in 2018.

### **Abhyudaya Co-operative Bank Ltd**

The first bank on the list, Abhyudaya Co-operative Bank Ltd, began operations following India's independence in 1964. With an initial investment of Rs 5000, it was founded by the economically disadvantaged workers of Mumbai's Kalachowkie, Sewri, and Parel slums and now generates billions in revenue.

In Maharashtra, Karnataka, and Gujarat, Abhyudaya Co-operative Bank has 111 branches, with 34 of them offering evening banking services. In 2014-15, Abhyudaya Co-operative Bank earned the "Best IT Enabled Co-operative Bank" award for keeping up with new technologies.

### **Bharat Co-operative Bank**

The Bharat Co-operative Bank was established in 1978 and is based in Mumbai. The bank has a customer base of around Rs 5.5 lakhs throughout Maharashtra, Karnataka, and Gujarat, despite its youth.



Bharat Co-operative Bank has kept up with technology and now offers new technological solutions such as mobile apps, card offers, and more. In 2017, it received the "Best Urban Co-operative Bank" award, and in 2016, it received the "Best Information Technology" award.

## **TJSB Co-operative Bank**

In terms of the number of individuals it serves on a daily basis, Thane Janata Sahakari Bank is one of the country's largest banks. It was founded in 1972 and now has 136 locations throughout five states.

The bank has been constantly adjusting to new technology in order to provide the best possible service to its customers. It is the first co-operative bank to implement UPI, and it has several award-winning mobile applications and payment systems to help consumers with transactions and banking.

## **Janata Co-operative Bank**

In Malleshwaram, Bangaluru, the Janta Co-operative Bank was established. The bank is renowned as one of the most transparent banks in the country, with new goals set to be achieved every year. It is affiliated with some of the country's most prominent people. The bank has a reserve of Rs 1,336.61 crore, which would provide stockholders with an 18 percent dividend for many years.

Many awards have been given to the bank, including "best green effort," "best ATM initiative," and "best bank in the deposit category of more than Rs 5000 crores."

## **The Ahmedabad Mercantile Co-operative Bank**

The Ahmedabad Mercantile Co-operative Bank Ltd., also known as AMCO BANK, was founded in 1966. It has 34 locations and focuses on providing quick and accurate service.

As of March 2021, the bank has an authorised capital of Rs 20 crores and a profit of Rs 40.46 crores.

### **CSR Activities by Cooperative Banks**

From the beginning, the founders and successors of this bank intuitively grasped the significance of cooperative institutions in philanthropy. They were foresighted in recognising the importance of keeping a cooperative institution connected to society's needs and ambitions. When the people of Mumbai faced a severe shortage of food grains during WWII, Saraswat Bank took the risk of opening a ration shop in Girgaum to alleviate their suffering and provide the fundamental essentials of life. Saraswat Bank was a

community-oriented bank at the time, yet no one questioned his charitable gesture, despite the fact that the Banking rules, Cooperative Laws, and Bye-laws did not allow it. Since then, these banks have provided financial aid to a variety of social, educational, and medical institutions through grants from their funds each year. It has served as a precursor in times of adversity such as floods, famines, earthquakes, and other natural disasters. It has established scholarships and apprenticeships for eligible students, and it has aided in the development of several young people's careers.

Cooperative banks are making a greater contribution to society through CSR efforts in a variety of sectors. This includes delivering low-cost health-care kits to the underprivileged, low-cost fertilisers and seeds to farmers, and much more.

However, co-operative banks face a difficulty in combining their cooperative specificities with external CSR criteria in order to entrench their contribution to more sustainable economic and social development. Self-help, responsibility, and solidarity are promoted by cooperative banks. They place a premium on the well-being of society as a whole. They began as an innovative response to uneven access to financial services, and the notion of mutualisation served as a means of emancipation. We promote education, knowledge, and skills in accordance with the cooperative premise that "co-operatives provide education and training for their members, elected representatives, managers, and employees so that they can effectively contribute to the development of their co-operatives." These institutions educate the broader public, particularly young people and opinion leaders, about the nature and benefits of these institutions.

### **Effect of Covid 19 on Cooperative banking sector in India**

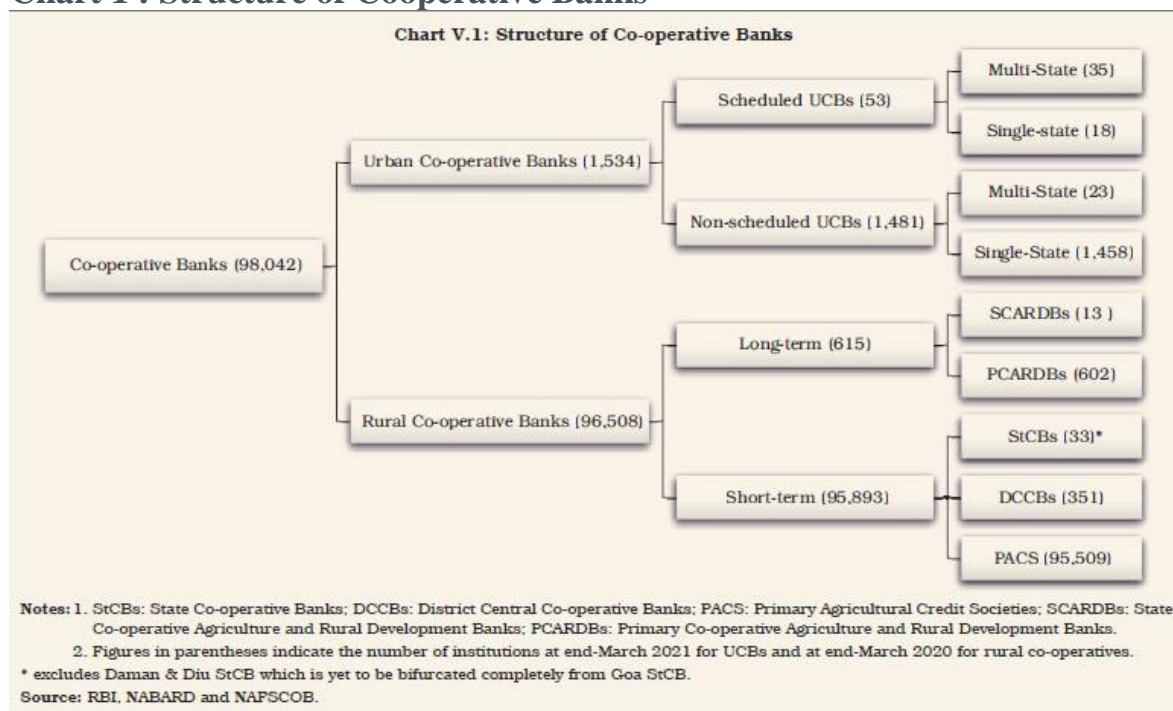
We have seen that the merger banks and the federal banking sector, especially the domestic co-operatives, are trying to emerge from the 2022 epidemic. And yet, some of the major problems such as structural barriers that hinder the accumulation of rules, as well as higher standards. of credit issues and the restoration of trust by the treasury due to fraud at various banks continues to emphasize this area of cooperation. By 2022, the Reserve Bank, the Government of India and other provincial governments are working on these issues and addressing the issues as a priority. The Banking Regulation (Amendment) Act, designed to support this type of co-operative banks in India enacted in 2020 gave the State Bank of India additional powers to regulate and re-establish the urban and rural co-operative sector. The development of another deposit insurance by co-operative funders from 42.7 percent at the end of March 2021 to 69.4 percent at the end of March 2022. Establishment of a separate department for the Indian government under the name Ministry. Co-operation in July 2021 focused on providing a separate administrative, legal and policy framework that allows for the development of multi-provincial co-operatives. The strengths and successes of UCBs are likely to increase during the post-Covid closure, due to their 'concentration risks'. The level of

vulnerability can be estimated by the fact that by the end of March 2020, 357 UCBs have been completed / reassembled / rebuilt covering a total of 4,903 cr as part of DICGC's claim compensation process.

By 2020, the RBI had issued strict directives to 4 large UCBs, extended the guidelines to 28 cooperatives and at the same time canceled three licenses and imposed fines on about 17 coops. Without all of these reasons the weak CBB inflation may not be able to stop them from emerging shocks.

A recent review by the current government that provides central banks with regulatory and regulatory provisions that may encourage UCBs to operate more efficiently, will not only make these banks ready for the future, but also reduce the frequency of causal banks. crores of depositors deposits. The central bank of the country has also been able to control UCBs more directly and effectively as 'dual' control has been reduced. As a result, most of the red tape and official jargon will be removed.

**Chart 1 : Structure of Cooperative Banks**



StCBs and DCCBs are having more than 78 percentage of their branches in rural/semi-urban areas. And the agricultural loans account for approximately 42% and 51% of their outstanding loan portfolios, respectively. In comparison to SCBs, StCBs and DCCBs were able to manage the pandemic in more favourable geographies and industries. As SCBs made inroads into this market, co-operative banks in states and rural india proportion of ground level credit to agriculture has been steadily shrinking. However, in 2021 and mid of 2022, the former's proportion grew due to a large increase in new loans given. In 2020-21, 94 percent of StCBs and 88 percent of DCCBs14 recorded profits, compared to 97 percent and 83 percent in 2019-20.

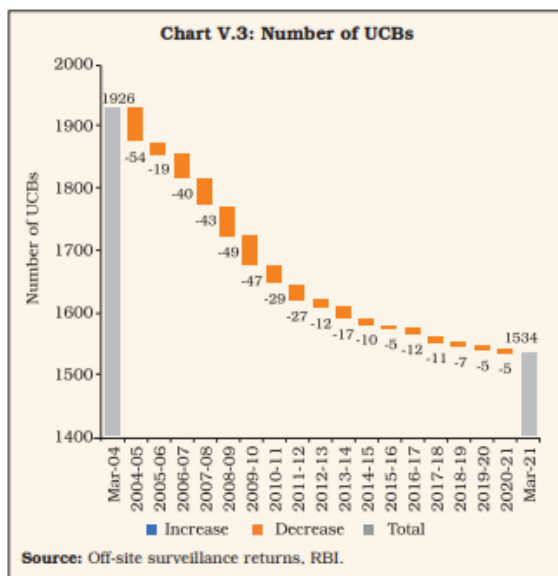
## Analysis of Cooperative Sector in India : Predictive Analysis

The Banking Regulation (Amendment) Law of 2020 authorized the State Bank to make regulations in this area. The increase in deposit insurance from '1 lakh to '5 lakh' increased institutional investor coverage from 42.7 percent at the end of March 2019 to 69.4 percent at the end of March 2021. The Cooperative Department was established in July, 2021 to provide a separate regulatory, legal and growth framework for multi-provincial cooperatives.

As sub categories we have

1. UCB: Urban cooperative banks
2. Rural Co-operatives

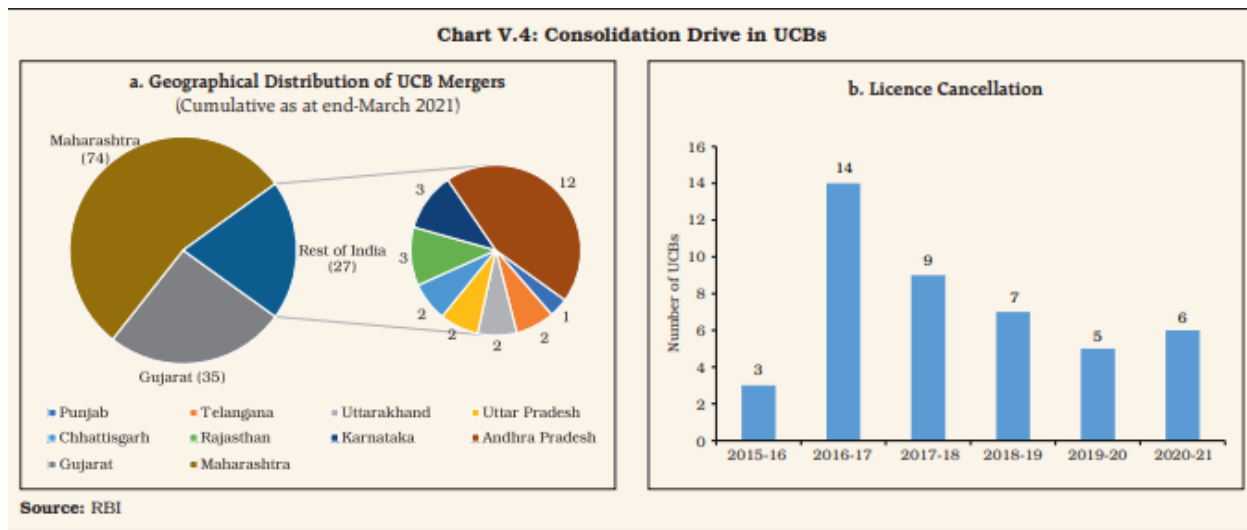
### 1.1 Growth of UCB



The urban cooperative banking sector felt the effects of financial liberalization in the 1990s. A more open licensing policy has lowered barriers to entry, while interest rate deregulation has attracted new players with higher operational margins. The number of UCBs increased from 1,307 in 1991 to 2,105 in 2004, and deposits increased at a CAGR of 18%. However, financial weakness in many organizations in the following years raised concerns about their systemic impact. The Reserve Bank initiated a consolidation effort in the industry, which included merging unprofitable UCBs with

viable equivalents, closing non-performing institutes.

**Chart 2 : Growth of UCB in Numbers** New licenses will not be issued to viable entities, and new licences will be suspended. As a result, the number of UCBs has increased. Number of UCBs (Graph V.3) RBI's off-site surveillance returns are the source of this information. Consolidation Drive in UCBs (Graph V.4) a. UCB Mergers' Geographical Distribution (Cumulative as at end-March 2021) b. Licensing Termination By the end of March 2021, the RBI had dropped to 1,534. **1.2 Consolidation Drive in UCB's** Since 2004-05, the consolidation effort has resulted in 136 mergers, with more than three-quarters of them occurring in two states: Maharashtra and Gujarat (Chart V.4a). The merger process was accompanied by licence cancellations, with 44 UCB licences being cancelled between 2015 and 2016. The number of scheduled UCBs (SUCBs) has stayed relatively steady, despite the majority of mergers and closures occurring in the non-scheduled category.

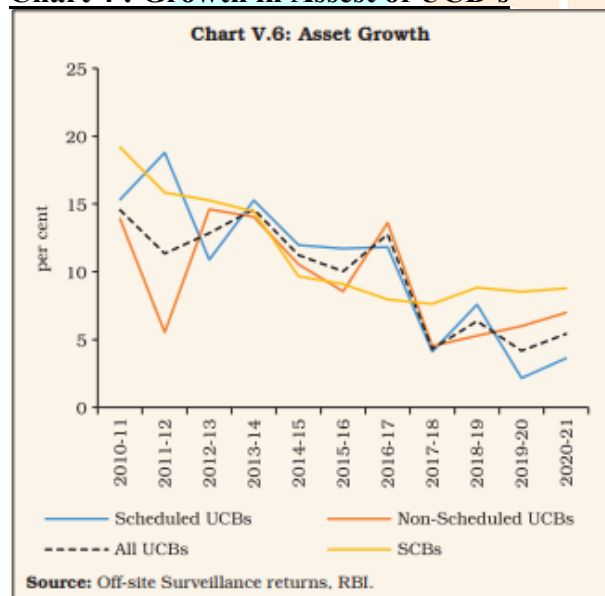


**Chart 3 : Consolidation drive in UCB**

**1.2 Asset Growth in UCB’s**

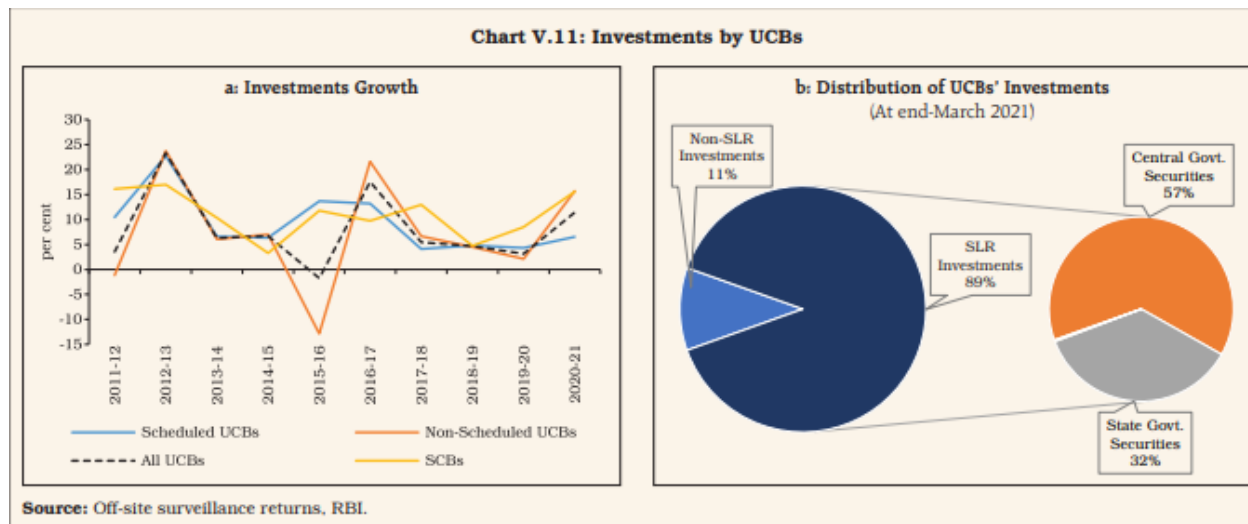
For nearly a decade, the consolidation push, which began in 2004-05, has shown positive results, with the combined balance sheet of UCBs growing at a CAGR of 14%. However, from 2017 to 2018, the economy has been in a low-growth phase that will last until 2020-21. SUCBs were the leaders in driving the sector's growth from 2013-14 to 2015-16; however, non-scheduled UCBs (NSUCBs) have gained traction since then. Over the last four years, the sector has grown at a slower rate than SCBs.

**Chart 4 : Growth in Assest of UCB’s**



At the end of March 2021, UCBs had invested 89 percent of their total assets in SLR instruments, with more than half of it in central government securities (Chart V.11b). Low credit demand and a need for returns have stimulated investment in state government securities in recent years. As a result, the share of central government securities held by UCBs has decreased from 73% at the end of March 2016 to 57% at the end of March 2021.



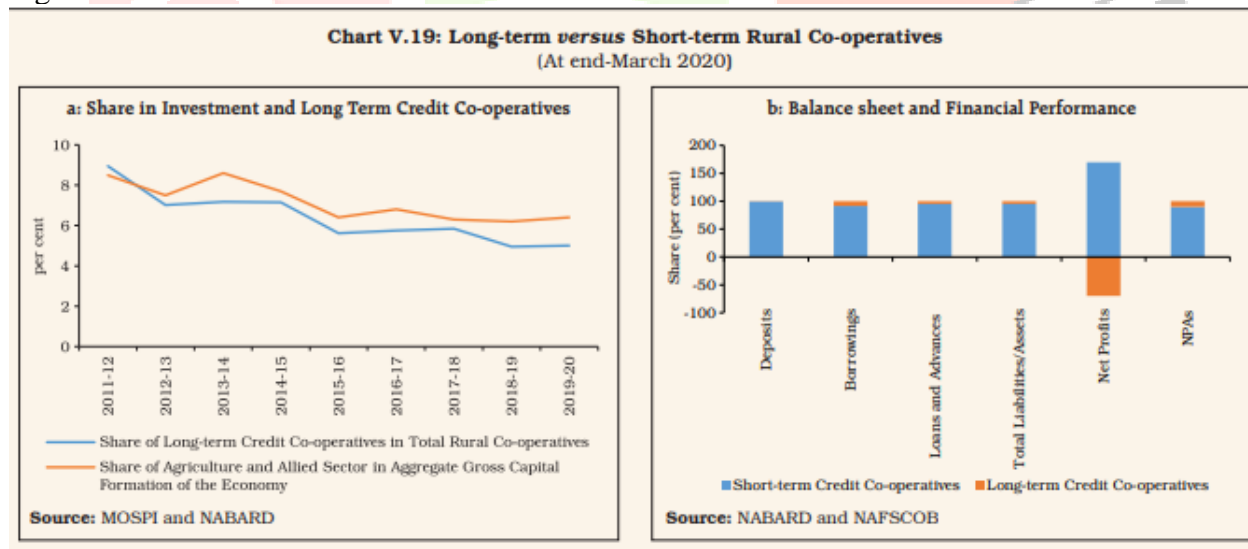


**Chart 5 : Investment Proportionate by UCB**

**2. Rural Cooperatives**

Rural co-operatives, which accounted for roughly 67 percent of all co-operative assets at the end of March 2020, differ from their urban counterparts in terms of their operations, reach, performance, and liability makeup. While UCBs may raise funds at a low cost because to their large depositor base, rural co-operatives are largely reliant on borrowings for their operations — borrowings accounted for roughly 1% of UCB liabilities at the end of March 2020, but as high as 27% for rural co-operatives.

Short-term institutions, such as State Co-operative Banks (StCBs), District Central Co-operative Banks (DCCBs), and Primary Agricultural Credit Societies (PACS), were created among rural co-operatives to offer farmers and rural artisans with short-term crop loans and working capital loans. Long-term co-operatives, on the other hand, such as SCARDBs and PCARDBs, have a mandate to offer capital for agricultural investment, such as land development, farm mechanisation, and minor irrigation, rural industries, and housing. Long-term credit co-operatives' percentage of total assets has been declining for more than a decade, and is expected to reach slightly over 5% by end-March 2020, primarily in line with the declining share of agriculture investment in total investments. Concurrently, their financial performance has deteriorated: by the end of March 2020, their share of total NPAs and rural cooperative net losses was higher than their share of total assets.



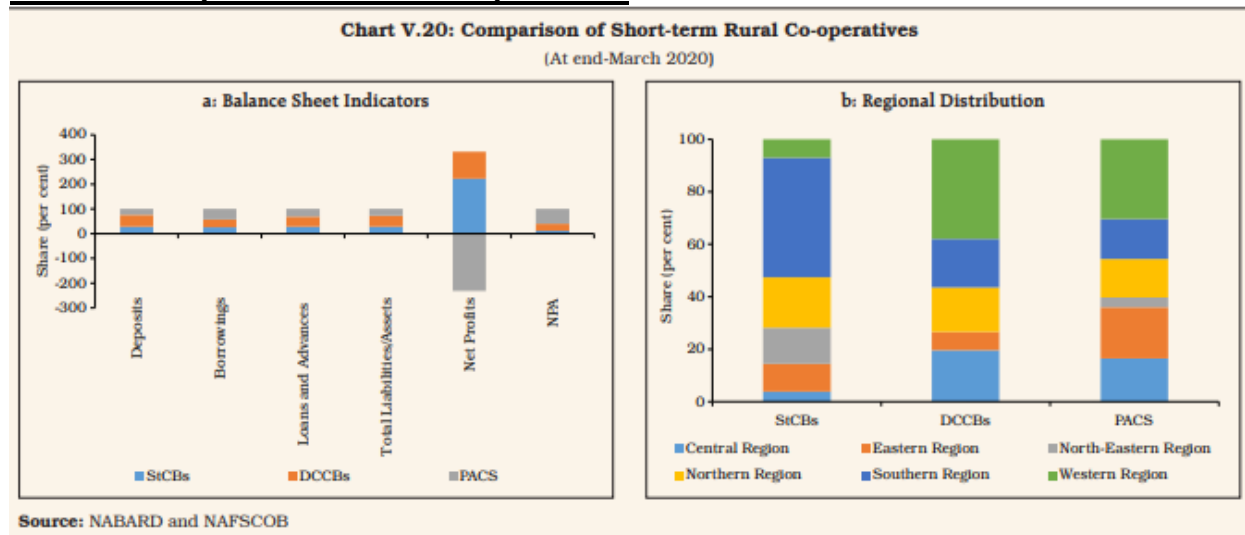
**Chart 6 : Financial Performance.**

**2.1 Short-term Rural Co-operatives**

Short-term rural co-operatives, which were originally created to provide short-term crop loans, have expanded their activities to include non-farm lending, term lending to allied sectors, and personal and housing loans, among other things. A three-tier structure is currently in place in 20 states, with StCBs at the state level, DCCBs at the district level, and PACS at the village level. Jharkhand and Kerala<sup>12</sup> each have a

single DCCB, while the remainder were merged with their respective StCBs. They are arranged in a two-tier structure in 9 states and 5 union territories, with only StCBs and PACS.

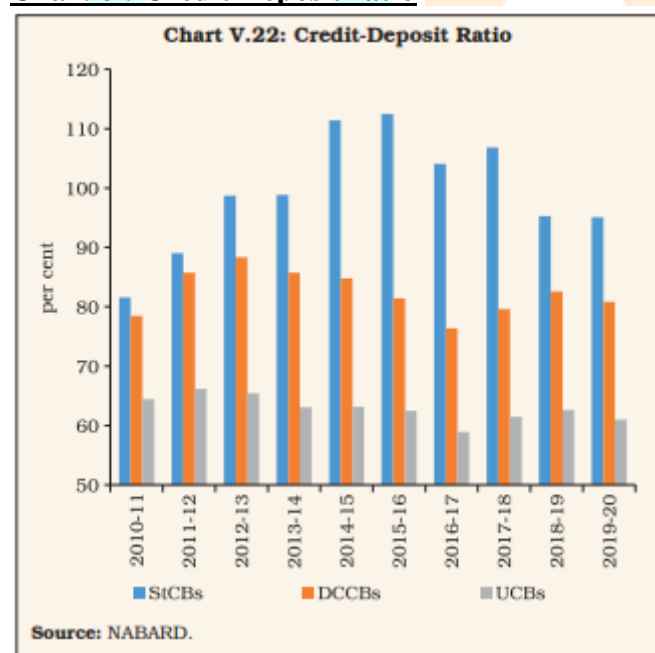
**Chart 7: Comparisons of Rural cooperatives:**



**2.2 Credit Deposit ratio at Rural Cooperatives.**

DCCBs are the intermediate tier in the short-term rural co-operative system, mobilising capital through public deposits, borrowing from StCBs, and refinancing through NABARD. Individual borrowers and PACS are both lent to by DCCBs. In fact, however, they are less reliant on borrowings than StCBs because they may collect deposits through their wide branch network. This corresponds to lower C-D ratios than StCBs, despite DCCBs' bigger outstanding credit.

**Chart 8 : Credit Deposit ratio**



**Conclusion :**

Early indications imply that cooperative banks fared well throughout the pandemic's first wave. It is believed that structural improvements that address deep-seated fault lines will catalyse change in their operations. To combat competitive pressures from other specialty banking categories, such as SFBs, UCBs are increasingly turning to technology. Regulations and enforcement measures are being used to address issues of poor governance. With an upswing in economic activity, the sector is projected to build on its resilience and use recent financial developments to expand its footprint in order to access finance at the grass-roots level in the future.

Furthermore, there is an urgent need to assess whether having a genre of banks that creates confusion and doubt in the minds of customers is desirable or not.

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