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## Role of Urban Cooperative Banks in Financial Inclusion

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**Abstract:** Role of financial system makes a country strong and capable to stand out in this competitive world financial inclusion become key development parameter to reduce poverty and achieve financial milestones. It catalyzes development activates specially in developing country. This paper studies the role of urban cooperative banks to fill up the gap to access for finance, financial literacy to afford cheap finance for weaker sections of society. Government leaders of developing country making vast effort to expand financial inclusion network by implementing regulatory framework in countries. Financial inclusion should be implemented in grassroots bases so that rural development can be happening in India. Being local in the nature and minimal operating cost and labor cost give an advantageous our economy to spread development on the grassroots level through cooperative banks. Cooperative banking sector capture Attention of economic policy maker when there is burning issue of inclusive growth after the World Bank Report. No doubt in India currently there is large gap in demand and supply side of finance at affordable cost. Urban cooperative banks achieved significantly growth in terms of size, deposits, lending in Urban areas which makes urban cooperative banks as strong Pillar of financial inclusion apart from commercial banks.

**Keywords –** Financial Inclusion, Urban Cooperative Banks (UCB), Commercial Banks.

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### Introduction

Financial inclusion is the way to achieve economic growth by overcoming income inequality in economy. Financial inclusion enables poor people to save and to borrow - allowing them to build their assets, to invest in education and livelihoods opportunities, and thus to improve their quality of life. Inclusive finance especially benefits disadvantaged groups such as women, youth, and rural communities. For all these reasons financial inclusion has gained prominence in recent years, across the world, in many countries as a policy objective to improve the lives of the poor. Recognizing that 2.5 billion adults worldwide are 'unbanked' the World Bank has put forward a vision for achieving universal financial access by 2020. More than 50 countries, including India, have made ambitious commitments to financial inclusion targets. Financial inclusion focus not only to provide banking services in weaker and non-banking area but also focus to speed up financial literacy, financial products at less cost and at less time. There should be 5p's concept which is suggested by RBI that is Product, Place,

Price, Protection and Profit in financial inclusion area. CRISIL defines financial inclusion as the extent of face by all sections of society to formal financial services such as credit, deposit, insurance and pension services. Financial inclusion may be defined as the process of ensuring access to financial services and timely adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). Lots of efforts has been done by various countries in world and agreement is taking place like MAYA declaration is great effort by developing countries in the creating the right environment, implementing the correct framework, ensuring consumer protection measures are taken towards financial Inclusion. To give the importance of poverty reduction and financial empowerment government has launched various schemes like Pradhan Mantri Jan Dhan Yojna which aims there should be at least one account in one households in India so that financial services can be provided in affordable

manner. In Budget 2016-17 MNAREGA and Jan Dhan Yojna has been given focus to uplift economy. Aynsley (2010) identifies three key aspects of definitions of financial inclusion: (i) access to financial services and products; (ii) financial capability (managing money effectively, etc.); and (iii) financial literacy.

There are various financial institution and banks which are doing work in this direction but in this paper we are analyzing role of urban cooperative banks in financial inclusion. A co-operative 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-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. The co-operative credit structure is three-tier and federal. At the apex is the State Co-operative Bank (SCB) in each state (co-operation being a state subject in India); at the intermediate (district) level there are Central Co-operative Bank (CCBs); and at the village level there are primary agricultural credit societies (PACS). Cooperative banks structure in India-Cooperative banks has two categories which includes Urban cooperative banks and rural cooperative banks.

Urban cooperative banks were established under the cooperative societies act 1904 to lend small borrowers and small business purpose but now a day the scope of the operation of UCB has changed significantly. Currently in India UCB 1606 across India where there are 51 Scheduled Bank and 1555 Non Scheduled urban cooperative bank. Urban cooperative bank is primary cooperative banks which is situated in urban (1 lakh and above and less than 10 lakh Population) and semi urban area (10,000 and above and less than 1 lakh Population). Rural cooperative banks main objective to lend farmers for agriculture purpose for short and as well as long term. India having 93550 Rural Cooperatives, it is small share of total credit system among commercial banks in formal banking system still they have lots of importance because they have wide distributed in various geographic location and has the

ability to reach poor people at affordable cost.

### **1. Review of literature-**

Y.V. Reddy (2005) Financial inclusion term was firstly used in India RBI annual policy 2005-2006. Under financial inclusion policy framed in this committee report it is noticed that vast section is excluded in formal finance system so banks given advice to practice to attract more and more people towards financial inclusion.

Khan (2005) committee report suggest that to achieve greater financial inclusion. Based on the report credit facility through business correspondents and business facilitator, Self Help Group, Micro finance institution by using technology at affordable cost is provided in the economy. According to committee report bank accounts can deploy suspicious transactions and can help in antimoney laundering. No frill account introduced after this committee recommendation which mean there is no minimum cash requirement for opening the account.

K C Chakraborty committee this committee focus on urban poor people like Household workers, Construction workers, Weavers, Hawkers, Rickshaw pullers, Auto Drivers who are excluded from formal banking system. There lots of solutions provided like training and capacity building can be provided through Jawaharlal Nehru National Urban Renewal Mission (JNNURM). Joint liability group and Self Help Group play very important role in it. KYC norms should be relaxed and Aadhar card will be good option for as identity proof. Rangrajan committee-This committee focused on the new role of regional rural banks as this banks have higher presence in financial exclusion areas. This committee has suggested that micro credit should be linked with micro insurance.

### **2. Objectives of the study-**

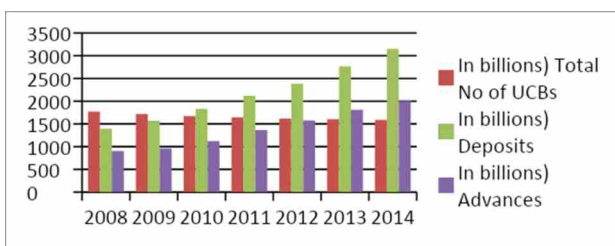
1. To study the growth and expansion of UCB in India.
2. To study Branch penetration in all over India.

- To understand the Loans and advanced to priority sector and contribution in access to finance.

**3. Research Methodology-**

To analyze study secondary data is used including report of RBI, NABARD and other research agency and financial institution reports like CRISIL and KPMG report. Graphical and tabular representation used for better analysis and understanding. In this paper under introduction part we have discussed about financial inclusion concept and cooperative banks in India. In next part, we have analyzed urban cooperative banks in terms of branch expansion, ATM, loans & advances to priority sector. We have taken certain parameters to identify the role of urban cooperative banks towards financial inclusion.

**1.EXPANSION OF URBAN COOPERATIVE BANKS-**Urban cooperative banks play an important role providing all banking services to common and unprivileged society. From 2008 to 2014 Urban cooperative banks numbers declined from 1770 to 1589 .UCB divided into four categories grad 1,grade 2,grade 3,grade 4 based on financial performance. In declining of UCB grade iii and IV decline but grade 1 and ii increase time to time. In total 1589 UCB there is more grade 1 that is 1132 makes 71.69 percentage of total UCB and 447 which makes 28.31 %.UCB deposits.

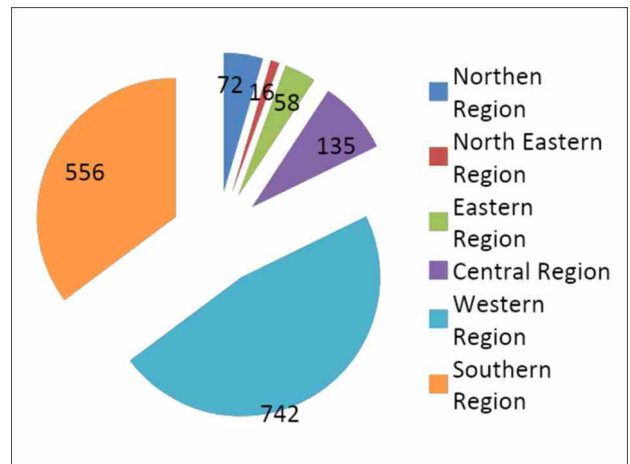


RBI: High powered committee report on UCB

A deposit of UCB increases from 2008 to 2014 1398.71 billion to 3155.03 billion and it is 125 percentage growth in deposits terms. It is good Sign in terms of financial inclusion. Urban cooperative banks advance increases from 904.44 Billion to 1996.51 Billion almost 120 percentage increase significantly.

**2. BRANCH PENETRATION IN INDIA**

Urban Cooperative banks distributed in all over State, Territory and Region wise-UCB has it presence in Northern, Northeastern, Eastern, Central, Western, Southern Region. UCB has highest number in western region which include Goa, Gujarat, Maharashtra, Dadar and daman in which highest presence of UCB is in Maharashtra (510), Gujarat (226) with 5442 and 1028 Branches respectively. After western region Urban Cooperative Bank has 2nd highest presence in southern region in which Karnataka has highest no that is 265.

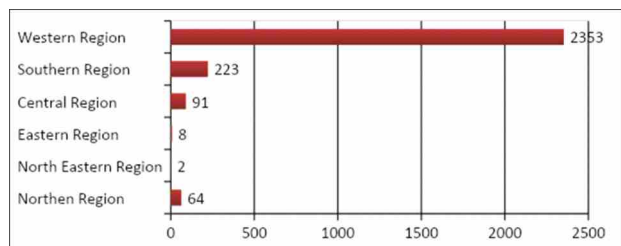


Source: RBI Database on 31st March 2015

Urban cooperative branches with 1012 branches of Urban cooperative banks. Central region has total 135 presence of Urban cooperative bank but there is the less presence of urban cooperative bank in northern region (72), north eastern region (16) and eastern region (58). Branch penetration is being good some region and less in other but urban cooperative bank can provide much more to Unbanked area as they are more interwoven with local community and can do lot of to break physiological barrier to get finance at affordable cost. Commercial banks have more penetration than cooperative banks but they opt technology based solution reach customer but there are local community which are not prone to technology so at that time urban cooperative bank can do lot for weaker sections.

**3. ATM FACILITY-** ATM Facility by urban cooperative banks-To open up ATM of

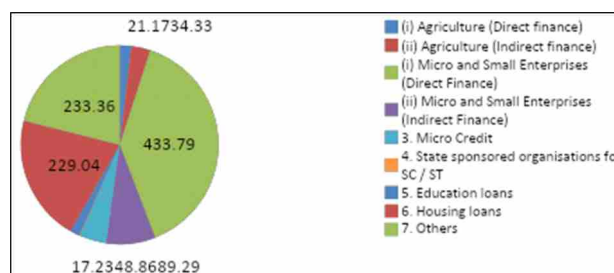
urban cooperative banks 50 Crore net worth and it should be financial sound and well managed (FSWM).



UCB –ATM has highest presence in western region (2353), Southern Region (223), Central Region (91), Northern Region(64), Eastern Region(8), North Eastern Region(2) date 31st march 2015.

4.LOANS & ADVANCES TO PRORITY SECTOR- In 1968 banks have given direction to give loans to priority sector.

Urban cooperative banks give various types of loans but main emphasis on priority sector. Following are the priority sector in India-



Source: RBI Report (31st March 2015), Amount is in Rupee Billions.

- (I) Agriculture
- (ii) Micro and Small Enterprises
- (iii) Education Loans
- (IV) Housing Loans
- (v) others

Total Priority Sector	40 percent of Adjusted Net Bank Credit or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Total agriculture	No target.
Micro & Small Enterprises (MSE)	<p>(I) Advances to micro and small enterprises sector will be reckoned in computing achievement under the overall priority sector target of 40 percent of ANBC or credit equivalent amount of Off -Balance Sheet Exposure, whichever is higher.</p> <p>(ii) 40 percent of total advances to micro and small enterprises sector should go to Micro (manufacturing) enterprises having investment in plant and machinery up to ` 10 lakh and micro (service) enterprises having investment in equipment up to ` 4 lakh;</p> <p>(iii) 20 percent of total advances to micro and small enterprises sector should go to Micro (manufacturing) enterprises with investment in plant and machinery above ` 10 lakh and up to ` 25 lakh, and micro (service) enterprises with investment in equipment above ` 4 lakh and up to ` 10 lakh.</p> <p>The targets for Micro Enterprises within the Micro and Small Enterprises segment ( MSE) will be computed with reference to the outstanding credit to MSE as on preceding March 31st.</p>
Advances to Weaker Sections	10 percent of ANBC or credit equivalent amount of Off -Balance Sheet Exposure, whichever is higher.

**CRITERIA FOR URBAN COOPERATIVE BANKS FOR LOANS AND ADVANCES-**



According to report of RBI total loans provided by UCB highest loans given to micro small enterprises in direct finance amount 433.79 Billion which include manufacturing enterprises, Loans for food & agro processing, service enterprises, khadi and village industries sector but loans granted for indirect finance under micro n small industries is which include loans for decentralized sector that is 89.29Billion. Urban cooperative banks have gain their strategic position in housing finance under priority sector lending. UCB is offering various schemes to provide finance for house especially for weaker sections yet UCB has limit for loans under house finance. To provide loans to housing societies UCB has to take permission from registrar.

**MOBILE BANKING-** It is a part of the financial inclusion initiative where customer can use financial services in easy way. Mobile banking is the service which is given by banks and other financial institution to avail financial services or do financial transaction in prescribed amount by using mobile or tablet. According to KPMG report adoption rate of mobile banking are highest in developing countries: reaching to about a 60-70 per cent in India and China, rather than developed nations such as the USA, Canada and the UK. It also suggests that mobile banking and payment systems are increasingly being integrated with other technologies, driving an era of 'Open Banking'. NABARD has taken initiative to come all cooperative banks under CBS platform. To provide mobile banking it is necessary to link it with CBS. Total 201 central and state cooperative banks with 6,953 branches from 16 states & 03 UTs of the country, has come under CBS Major commercial banks and urban cooperative banks are providing mobile banking services to customer which is based on technology which is adopted by them. Various urban cooperative banks are providing mobile banking services via completed RBI norms related to authentication, security, grievance handling, security etc.

#### **4. NECESSARY ACTIONS TO URBAN COOPERATIVE BANKS-**

Urban cooperative banks should provide more education loans as it is the less one. It provides more security in mobile transactions so that it is benefited to customer in longer way. UCB has dual control of RBI and state governments are remove for better functioning and better governance.

#### **5. CONCLUSION-**

Urban cooperative bank is important role in India financial system as it's have certain advantage over commercial banks like to provide financial services on ground level which help in poverty reduction. UCB can create income generation; can give more opportunity for employment and most important can create women entrepreneurs. UCB can solve ground level problems by emphasizing on more branch penetration, qualitative services to customers. Cooperatives bank can contribute in income inequality problems and by implementing appropriate strategy it can lead inclusive growth.

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