

## **Urban Co-Operative Banks In India: Survival Strategies in the Era of Globalisation and Digitalisation**

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**Abstract:** *Urban Co-operative Banks (UCBs) in India that have been functioning over 100 years on the principles of co-operation, self-help and mutual-help have gained real impetus only after the UCB sector was brought under the purview of Reserve Bank of India's Banking Regulation Act, 1949 since 01.03.1966. Tough time started to the UCB sector after the influx of private sector banks and foreign banks after the economic liberalisation initiated in India in 1991 and subsequent series of scams & closure of UCBs starting with Madhavpura Mercantile Co-operative Bank episode in 2001. The UCB sector with a localised banking practices finding it hard to compete the private sector banks and foreign banks that are equipped with the modern technology, adaptability to changing dynamics of services, professionally qualified human resources, global management practices & huge capital base. In order to survive in the current day cut-throat competition especially in the banking sector, in addition to adhering to RBI's guidelines from time to time, UCBs have to equip themselves with state of the art technology that enables anywhere banking, phone banking, internet banking coupled with wide array of services on a user-friendly interface coupled with smart-phone enabled app-based services to retain the business as well as customers'. Moreover, the manpower of the UCB sector should be trained to cater to the present day needs & expectations of customers' as well as to extend banking services on par with private sector as well as foreign banks. Stringent adherence to RBI regulations & guidelines and practising transparency coupled with sound governance & professional management practices will make the UCBs stand among the private sector banks as well as foreign banks in the era of globalisation and digitalisation. This paper focuses on the strategies to be adopted by Urban Co-operative Banks to survive and grow in the dynamic banking system.*

**Keywords:** *EFT, TAFCUB, UCBs.*

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### **I. Introduction**

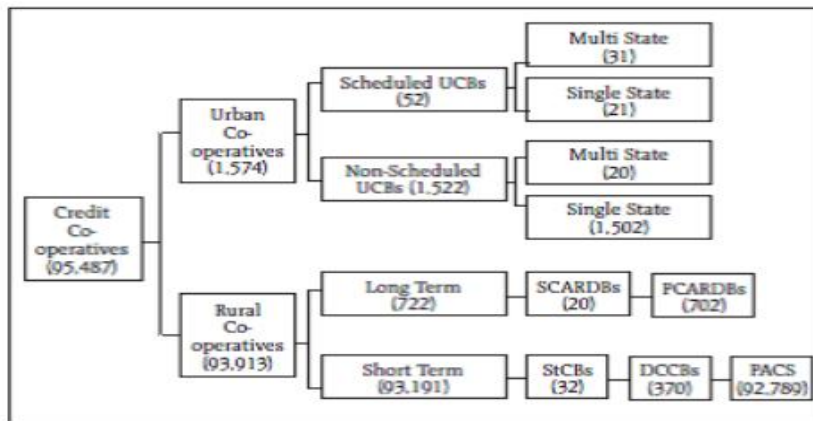
#### **1.1. History of Co-operative Movement**

Origin of Co-operative movement can be traced to England by the idea of "self help through mutual help" propounded by the well known philosopher Robert Owen to address the issue of sufferings of the then exploited class of people. The first ever Co-operative organisation by name Rochdale Pioneers was formed in the year 1844 at Rochdale in England. Later, it crossed the boundaries of England and spread across the world. Apart from this consumer cooperative, Workers cooperatives in France, agricultural credit cooperatives like Raiffeisen Union in Denmark and Germany were constituted to address the problems of respective classes of people to fight against exploitation. During this period, Luigi Luzzatti's People's Banks organised in Italy, Robo bank of Netherlands & D.G. Bank of Germany competed the dominant exploiting class of moneylenders and traders. With this inspiration, cooperative movement spread its magnanimous influence on almost all the countries across the world to safeguard the common man from exploitation.

#### **1.2. Co-operative Movement in India**

With the influence of success of cooperative credit movements in Germany & Italy by Herman Schulze and Luigi Luzzatti, respectively in between 1855 & 1885, a mutual aid society by name "Anyonya Sahakari Mandali" under guidance of Shri Vithal Laxman Kaythekar was constituted on 05.02.1889 in Baroda state in India. The Co-operative Credit Societies Act was passed in the year 1904 by Imperial Legislative Council and it can be assumed as the beginning of the Co-operative credit movement in India. It led to the establishment of first ever Co-operative credit society in Conjeevaram in October, 1904. It followed by Betegiri Co-operative Credit Society in Bombay Province, Bangalore City Co-operative Credit Society in Mysore, Kancheepuram Urban Bank in Madras Province. The Maclagan Committee in 1915 has given a stimulus to these credit societies, in addition to economic boom created by World War - II.

The Co-operative banks have been consistently playing a key role in the rural development by addressing the issues of poverty and unemployment. With effect from 01.03.1966, Urban Co-operative Banks were put under RBI's Banking Regulations Act, 1949 to oversee the functioning of these banks across India. Subsequently, RBI has constituted several committees over the years, to review their performance on various parameters and to offer recommendations & measures to be taken up to strengthen the sector. As a part of these measures, RBI had entered into MoU with all state governments as well as central government in 2005 to coordinate regulatory policies through TAFUCBs. It yielded noteworthy results in terms of strengthening of weak banks, consolidation in the sector through the mechanism of merger of financially unsound banks with those of the strong economically. Though UCBs were small ones to cater banking facilities to people of small means of urban and rural areas, with the strengthening of the sector, the benefits of these banks have contributed to welfare of large number of people and increased their purchasing power along with a modest contribution to the growth of GDP of the nation. As on 31<sup>st</sup> Mar, 2016, there are 1574 UCBs in India and the cooperative credit institution's structure in India, is outlined as below:



## II. Strategies to be adopted in the era of Globalisation and Digitalisation

Economic liberalisation initiated in India in 1991 led to the doing away with Licencraj and opening up of the key sectors to private sector as well as foreign investors & Multi-National Companies posed stiff competition for Urban Co-operative Banks and these UCBs were also compelled to scale up their infrastructure as well as management practices to stand among the capital rich private sector as well as foreign banks. In the current day globalised and digitalised world, Urban Co-operative Banks can survive and thrive despite their structural weaknesses provided they focus on the following aspects :

### 2.1. Effective implementation of latest corporate governance practices

The effective functioning of Urban Co-operative Banks, by and large, depends on the level of adherence to latest corporate governance practices that are widely practiced by fundamentally strong banks across the world. Previously the banking sector has focused solely on profit maximisation and thereby ignored the crucial aspects that could possibly ignite the growth trajectory to the levels on par with industry stalwarts. But, of late, by understanding the global practices and the importance of the principles of corporate governance, many promising banks are adopting these principles and ultimately winning the much needed customers' as well as huge business thereby increasing their market share in terms of major ratios. The transparent practices coupled with accountability, made these banks to stand tall in the sector and management of these banks' also focusing on prudent measures to perform banking operations on highest precision levels. The corporate governance practices facilitated allocation of duties and responsibilities among the senior management, in a judicious manner to attain the objectives of the bank as well as expectations of the shareholders. It also focuses on measures to be taken to protect the interests of shareholders' as well as stakeholders' in the light of changing dynamics of banking sector in the era of globalisation and digitalisation. Adherence to these practices ensures safe and sound functioning of Urban Co-operative Banks despite their low capital base as well as inherent weaknesses. Adherence to sound corporate governance will allow Board of Directors as well as the management to focus on pruning the internal processes to register year-on-year growth in terms of major ratios. The Basel Committee's "Principles for enhancing corporate governance" published in October 2010 highlighted the committee's consistent efforts to uphold the sound corporate governance practices in the banking sector. The corporate governance practices delineate role of the Board of Directors, senior management and internal auditing guidelines. Recognising the impeccable importance of corporate governance, banks have to review their level of adherence on a regular basis to strengthen checks and balances under diverse structures.

## **2.2. Technology upgradation and adopting smart-banking practices**

With the adaptation of improvements in technology and automation, the scope and size of services of the banking sector have further widened and it has become very competitive. The banks are forced to adopt these latest technologies to survive and to grow in the current day highly competitive market scenario. The latest innovations in the banking sector are e-cheques, app-based user-interface on smart-phones, EFTs through NEFT & RTGS, Core Banking Solutions, PoS terminals at retail locations, internet banking & mobile banking. In the present day globalised and digitalised world, banks are providing internet banking services in a user-friendly interface to facilitate the customers' to do wide range of services at a click of the mouse by adopting high security measures. Moreover, over the last few years, smart-phones have enabled e-banking practices among the people through app-based banking services along with phone-banking services. These cost-effective e-banking services have made it very easy not only for the tech-savvy customers', but also for the common man. Further, these e-banking practices have led to the reduction in work load on employees of the bank, as well. These provisions resulted in lowering the per-transaction costs of the banks and proper utilisation of manpower in a rational way. The conventional banking practices have taken a backseat after the advent of technological advancements on banking sector thus making it more user-friendly and banks are competing on adaptation of latest technological breakthroughs and customer service practices to register year-on-year growth with respect to major statistics, thereby targeting to grab the market share as well as wealth maximisation of shareholders.

With the advancement of Information Technology, it has become the 'enabling resource' to make the banking sector more flexible as well as dynamic system to respond to queries and services of customers' on various parameters with the added advantage of cost reduction in per transaction criteria and for effective communication through mobiles and emails. Technology ensures more effective delivery channels in banking sector. The introduction of cyber-cash and smart card have further simplified the banking transactions. With the adaptation of IT and IT-enabled services, the banking services have undergone unprecedented drastic changes to meet the ever-changing customers' expectations. The transition from branch banking to e-banking acted as a 'pull' factor for banks to attract & retain the customer base as well as business and thereby fuelling the growth of Urban Co-operative Banks which are adopting the advancements in technology, despite closure of large number of Urban Co-operative Banks due to governance issues & series of scandals.

## **2.3. Adhering to Regulatory guidelines for effective functioning of UCBs**

The growth of UCB sector was haphazard before the sector was brought under the purview of Banking Regulation Act, 1949. The UCB sector was brought under the purview and control of Reserve Bank of India, post-application of Banking Regulation Act, 1949 since 01.06.1949 and from then various committees like Varde Committee (1963), Study group on Credit Cooperatives in Non-agricultural sector (1963), Cooperative Planning Committee (1946), Working group on Industrial Financing through Co-operative banks (1968), Banking Enquiry Committee (1972), Joglekar Committee (1976), Madhavdas Committee (1978), Narsimham Committee (1991), Marathe Committee (1992), Chitale Committee (1996), Madhava Rao Committee (1999), AnanthGeethe committee (2002), Joint Parliament Committee (2002), Malegam Committee (2011) & High powered committee on UCBs (2015) etc., have studied the functioning of Urban Co-operative Banks and as per their observations and recommendations, various measures were taken up to strengthen the sector as well as operating framework to cope up with changing dynamics of banking sector across the world. To foster growth, all the Urban Co-operative Banks have to adhere strictly the regulations and guidelines issued by RBI as well as Registrar of Co-operative Societies, from time to time so that the benefits of these regulations be passed on to the UCBs and these measures could drive the growth engines of UCB sector and benefit the customers' interests in a large scale by winning the loyalty of customers'.

## **2.4. Adopting state-of-the-art Customer Services**

Customer service plays a pivotal role in the functioning of banking industry since banking is basically a service-based business that does selling of financial as well as banking products. As such, the quality of human capital is very crucial factor in shaping the growth and stability of bank. Regular training of manpower to prune the skill sets as well as acquainting them with the latest developments in banking sector and strategies to be adopted to retain the existing customer base as well as to attract the new customers'. Banking industry has turned out to be a intensely competitive financial entity and the range of products being offered by almost all the top notch banks are more or less of the same kind and the deciding factor to push the growth by doing huge business on these existing as well as newly crafted businesses is through adopting the finest customer service practices. Of late, banks started understanding the importance of huge potential to grow in terms of various major ratios, financial dimensions and to expand the branch network by gearing up through pruning their more efficient customer service strategies and by means of rewarding & awarding the personnel who does a remarkable contribution in fulfilling the objectives of the banks. The Urban Co-operative Banks should

understand the importance of quality of human capital which is the single most important factor in shaping the growth story of bank.

The present day banks are banking on wide range of financial services like investment options, mutual funds, insurance policies, wealth management, asset management, foreign exchange transactions, securities transactions with demat account as well as trading account, door-step services, privileged account services, brokerage services, financial advisory services in addition to the conventional banking services to scale up their growth as well as customer base. Usually most of the banks depend on High Net-worth Individuals to extend the personalised financial advisory services. Banks have to focus on upper middle class, who occupy a large chunk of population with surplus cash to invest and lack of proper advisory support by the financial experts.

### **III. Conclusion**

Banking is a very dynamic sector and it is further fuelled by the impact of globalisation and digitalisation. To sustain and register growth in the present day competitive environment, all the business entities, especially the service-based ones like Banks have to adopt the latest developments on a priority basis. Due to liberalisation & globalisation, Urban Co-operative Banks have been facing stiff competition from the private sector banks as well as foreign banks. Though lagging behind in terms of low capital base, UCBs are banking on their strengths and gearing up their operations to stand in this cut-throat competitive world by adopting the regulations and measures prescribed by Reserve Bank of India from time to time and by following transparency & accountability as a part of adhering to corporate governance practices. To withstand the competition from cash-rich private sector banks as well as foreign banks, Urban Co-operative Banks have to follow the above mentioned strategies to register year-on-year growth in terms of various parameters and thereby contributing to the welfare of the society by addressing the issue of economic inequality and contributing to the financial inclusion by following the principles of Co-operation.

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