

Literature Review on Study of Impact Of Digitalization On Financial Performance Of Urban Co-operative Banks

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Abstract

The purpose of this study is to review the literature survey on Impact of Digitalization on Financial Performance of Urban Co-operative Banks. Digitalization is significantly changing the way of business. These developmental changes results in new delivery of channels for banking products and services such as implementation of core banking system(CBS),Unified Payment Interface (UPI), installation of Automated Teller Machines (ATMs), Telephone Banking, PC-Banking, and Electronic Funds Transfer(EFT) and mobile banking (app based). Urban cooperative banks (UCB) which was started to cater the banking needs is also gradually transforming into technology banking. Their main objective is being to serve customers more effectively and in the process, increase profits and competitiveness. UCB's have recognized the vitality of Digitalization and perceives this as an opportunity to increase their performance and competitiveness.

Keywords

Urban Co-operative Banks, Digitalization

Introduction

Banking sector is the backbone of any financial system of the economy. Urban Co-operative Banks (UCBs) are at the base level in the 3-Tier structure of co-operatives in India and for this reason they are referred to as Primary (Urban) Co-operative Banks. The middle and apex tiers in the co-operative structure are the District Central Co-operative Banks (DCCBs) and the State Co-operative Banks (StCBs) respectively. The term “digitize” describes the process by which any form of data is converted into a digital format. The term “digitalization” goes beyond simply digitization. In this sense, books don't simply become eBooks, but a complete interactive and multimedia experience; business processes give way to online dialogues between parties that were not previously connected directly.

Review of literature

Maclagan Committee on Co-operation (1915)¹ which was appointed by the then government during the banking crisis of 1913-14, when number of banks collapsed, pointed out that. "Urban Credit Societies might serve a useful purpose in training the upper and middle urban classes to understand ordinary banking principles. The Co-operative ideology was stated in 1904 in India and previously to that in 1844 in England.

Under the Chairmanship of the late Shri V. P. Varde (1963)², the co-operative banks have an important role to play in several areas including the following: (a) They can organize and bring together middle and working classes in urban and semi-urban areas. (b) The mobilization of savings by urban co-operative banks and the consequent drawing of urban resources into the Apex and Central Co-operative (c) By providing credit on reasonable terms to the middle classes, they can rescue them from the exploitation of money-lenders. (d) By financing individual industrialists and artisans in urban areas, they can make a significant contribution, to industrial development. (e) They can provide intelligent, experienced and active leadership to the cooperative movement including the central and the Apex Co- operatives Banks, which in view of their federal character; draw their directors from member institutions. The same opinion was also expressed in RBI Report on the survey of urban-co-operative banks (1957-58).

The Committee on Urban Co-operative Banks (1977)³, popularly known as 'Madhavdas Committee'. The committee has observed that, "despite various limitations, urban banks have mobilized substantial local resources and striven to serve small borrowers. According to the Committee, there is scope and need for the development of urban banks in some States. These banks are eminently suitable for filling up the credit inadequacies in urban and semi- urban areas at comparatively lower cost of operations. The foregoing sections show not only the continuous

¹ Government of India, Report of the Committee on Co-operation in India (1915), Delhi, p. 11

² Government of India, Report of the Study Group on Credit Co-operatives in the Non-Agricultural Sector. (1963) New Delhi, p. 67

³ Reserve Bank of India, Report of the Committee on Urban Co- operative Banks, (1979), Mumbai.

attempt and attention of the Government and the RBI through different committees and commissions. On the issue of urban co-operative banks, it also shows the degree and direction of change in the co-operative policies in favor of urban cooperative banks. Therefore, the urban cooperative banking is having dominating position in the banking sector".

Shivamaggi H.B. (1991)⁴, found that the Reserve Bank of India's policy for the urban co-operative banks has all along been restrictive. The experience about the urban banks hitherto has not been satisfactory. Some of them are not working properly and in fact are sick. The reasons for this state of affairs are not far to seek. Quite a number of them have become victims of vested interests resulting in not only cornering of credit available from them but also restricting both membership and advances to certain closed groups of traders or communities.

Kulkarni S.R. (1996)⁵, some of the problems in Urban Cooperative Banking are: limited area of operation, selected class functioning, limited membership, lack of effective leadership, lack of remittance facility, neglect of weaker sections of society and women, higher proportion of Cash Reserve Ratio and Statutory Liquidity Ratio, higher proportion of unproductive funds due to high Credit-Deposit ratio, advances for consumption purposes, lack of training to staff, inadequate equipments etc.

Maji and Dey (2003)⁶ concluded a case study of the Khatra People's Co-operative Bank Ltd (KPCB), an Urban Co-operative Bank (UCB) in the district of Bankura in west Bengal regarding management of NPAs. This study makes an attempt to analyses amount wise, age-wise, loan head-wise and sector-wise classification of NPAs and identify the factors responsible for the growth of NPAs of KPCB. This study reveals that the gross NPAs (both in absolute and relative terms) of KPCB, though lower than other UCBs operating in this district, has not improved significantly during the study period. Higher proportion of NPAs in unsecured loans, increasing NPAs in service security loans and high level of NPAs in hypothecation loans are important factors for the growth of NPAs. Another alarming factor is that the quantum of doubtful asset is very high. It is clear from this study is that the KPCB has already taken certain steps to reduce

⁴ Shivamaggi H.B.(1991), Policy for Urban Co-operative Banks: Need for New Approach, Economic and Political Weekly, Vol. 26, No. 45

⁵ Kulkarni S. R. (1996), Urban Cooperative Banks-An Appraisal New Delhi, Anmol Publication.]

⁶Maji, S.G. and Dey, S. (2003), "Management of NPAs in urban co-operative bank: a case study of The Khatra People's Co-operative Bank Ltd.", The Management Accountant, Pp.195-207

NPAs in service security and hypothecation banks. Lastly, this study concludes that KPCB should adopt certain further steps to reduce substandard and mounting doubtful assets.

Suhrud T. (2003)⁷, tried to analyses reasons behind the collapse of Urban Cooperative banks by undertaking case-study of bank failures in Gujarat. Some of the reasons stated in the research study are: inability of the Reserve Bank of India to enforce mechanisms of financial discipline. No significant technology creation or transfer, limited area of operation as the NGO-led and sponsored Urban Cooperative banks remained largely rural and confined themselves to land-based activities and thus having access to limited resources. Low levels of technological and managerial innovations, dominance of caste-led cooperatives, financial resources became the means to dispensing political favors and investment in the speculative markets.

Nair (2006)⁸, in his paper 'Banking and Technology to meet 21st Century challenges' discussed the future challenges of technology in banking. According to the author "IT poses a bright future in rural banking, but is neglected as it is traditionally considered unviable in the rural segment. A successful bank has to be nimble and agile enough to respond to the new market paradigm and ineffectively controlling risks. Innovation will be the key extending the banking services to the untapped vast potential at the bottom of the pyramid".

A study was conducted by Negi and Thakur (2006) on Online Banking. This study attempts to examine whether banks can meet their client's expectation through online and internet in the competitive environment. Concept of on-line banking, evaluation of on-line banking, types of on-line banking, how on-line banking helps, current on-line banking products, advantages of on-line banking, on-line banking on Indian perspective, future of online banking are discussed in details in this study. Lastly, this study concludes that on-line banking has become a necessary weapon and is fundamentally changing the banking industry worldwide.

Singla (2008)⁹, in the research paper examined role of financial management in the growth of banking. The study is related to examination of the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the portability

⁷ Suhrud T. (2003), Collapse of Urban Cooperative Banking, Economic and Political Weekly, Vol. 38, No. 32.]

⁸ Nair K. N. C. (2006) 'Banking and Technology to meet 21st Century challenges'. Bank Net India, vol.XIX, No.7

⁹ Singla H. K. (2008), "Financial Performance Of Banks In India", ICFAI Journal of Bank Management No 7.

position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet, place banks in better position.

Hajela T. N. (2010)¹⁰ in his book-"Cooperation-Principles, Problems and Practice " deals with various aspects related to cooperatives in India, like: origin and development of cooperation. Objectives and functions of cooperatives, Area of operation. Membership. Constitution and Management, Structure, Methods of raising funds. Investment of Funds, Distribution of Profits, Supervision and Audit, Performance Review, problems and difficulties and so on.

Ramachandran A. and Shanmugam D.S. (2012)¹¹, tried to study the financial performance of Urban Cooperative banks in India, which were covered under schedule II of RBI Act. The researchers tried to analyses the financial performance of 10 Urban Cooperative banks for sample study. The relative performance of each bank has been assessed in the context of Resources deployed, Assets Quality, and Management Productivity and Earning Capacity variables. The various ratios used for the analysis are: credit-deposit ratio. Investment-Deposit ratio, Deposit-liability ratio. Business per employee, Deposit per employee. Advances per employee etc. The researchers found that the Urban Cooperative Banks need to concentrate more on improving Investment-Deposit ratio and Credit Deposit ratio which are found at very low Level increasing risk of failure. It was suggested to increase term deposits and level of spread to make banks stronger.

Namita Rajput & Monika Gupta (2011)¹² in their research states that, there is an increasing trend in performance of Indian banks caused by IT innovation and technology during the recent time period (2005 - 06 to 2009 - 10). Introduction of digitalization for their customer's transactions became a part of banking operations. Hence, it seen that Indian commercial banks have improved efficiency and performance after the advent of IT in recent era.

¹⁰ Hajela T.N. (2010), Cooperatives-Principles, Problems, and Practice. New Delhi, Ane Book Pvt. Ltd.

¹¹ Ramachandran A. and Shanmugam D.S. (2012), An Empirical Study on the Financial Performance of Selected Scheduled Urban Cooperative Banks in India. Asian Journal of Research in Banking and finance, vol..2, No.5.

¹² Namita Rajput & Monika Gupta "" Impact Of IT On Indian Commercial Banking Industry : DEA Analysis "" Global Journal of Enterprise Information System, Volume-3, Issue-I, Jan 2011-March 2011

T.Swapna Chander (2012)¹³, in the research paper on A study on sustainability of urban cooperative bank by adopting information and communication technology states that there is an increase in the level of efficiency and effectiveness of operations since the introduction of information and electronic technologies in Cooperative bank. Also it examines the extent to which information technology has contributed to customer satisfaction and bank performance. Use of technology in Banking has positive impact on the banking operations and performance.

Jayanta Kumar Nandi (2012)¹⁴, evaluates comparative financial performance of twenty leading Indian commercial banks, ten each from public sector and private sector, the present study has employed different parameters of study. Performance of each bank has been analyzed in details in terms of deposit mobilization, loans and advances, investment position, nonperforming assets, social responsibility efficiency, cost minimizing efficiency, productivity efficiency, earnings and profitability efficiency. These new private sector banks are more technology savvy and more concerned about the changing needs of customers. Public sector banks and old private sector banks were in the banking service under controlled economy for a long period of time. The success of any firm including banks depends on internal strength and how it adjusts with the external changes by adopting digitalization.

R. Gandhi (2015)¹⁵, Report of the High Powered Committee on Urban Co-operative Banks (UCBs) recommends to align their business models and goals with those of commercial banks while availing of the concessions granted to the sector,UCBs which are registered under Multi-state Co-operative Societies Act, 2002 may be considered for conversion to commercial banks(>20kcr) ,resolution mechanism for UCB and powers with RBI for constituting BODs of UCBs

Thakkar, Sagar Harishbhai (2015)¹⁶, a comparative study of performance of Urban Cooperative Banks and Public Sector Banks in Thane and its found satisfactory and the performance of Urban

¹³ T.Swapna Chander, A study on sustainability of urban cooperative bank by adopting information and communication technology,2012, VAMNICOM

¹⁴ Jayanta Kumar Nandi (2012), "Performance Evaluation Of Selected Banking Companies In India: A Study" University Of Burdwan

¹⁵ Reserve Bank of India (2015) "Report of the High Powered Committee on Urban Co-operative Banks (UCBs)", RBI, Mumbai (Chairman R. Gandhi).

¹⁶ Thakkar, Sagar Harishbhai (2015), "Comparative study of performance of urban cooperative banks and public sector banks in Thane District"

Cooperative Banks is better than Public Sector Banks. Over 25 per cent of total 330 deposit resources of Public Sector Banks and Urban Cooperative banks in the district are coming from six selected scheduled UCB and the latter has also financed deposit resources of former by parking their excess resources with Public Sector banks. It is thus a case of reverse flow or cross flow, where primary units are supporting federal units, at the district and state level.

Radhakrishna Geeta and Pointon Leo (2007)¹⁷, examined the legal issues specific to internet banking, focusing on the incidence of fi-aud and its prosecution. The objective of research was to investigate three questions in relation to Malaysia. Firstly, the incidence of fraud in internet banking; secondly. The adequacy of the relevant regulations and statutes; and thirdly, whether the setting up of a cyber-court would better facilitate the prosecution of such financial crimes in Malaysia. Technology and the borderless nature of the internet present fraudsters with manifold opportunities. Phishing' leads to identity theft and 'money laundering' has been found to be the main threat to internet banking. The newness of the subject and traditional banking secrecy have contributed to a dearth of legal literature pertaining to issues in internet banking, specific to Malaysia. It was found that the applicability of various existing laws and banking practices to internet banking has not been fully tested in Malaysia and is still evolving.

Geetika, Nandan Tanuj, Upadhyay Ashwani (2008)¹⁸ discussed the concept of Internet Banking, perception of Internet bank customers, non-customers and issues of major concern in Internet banking. The state of Internet banking in India has been explored using various concepts like E - banking scale, and gap analysis related to the various services and the security features offered. In order to have a clear and focused insight about the perceptions of users and non-users about Internet banking a survey was conducted. The findings of the survey provide valuable insights into concern for security, reasons for lower penetration, and likeliness of adoption, which have been used to make useful recommendations

¹⁷ Radhakrishna Gita and Pointon Leo, " Fraud in Internet Banking: A Malaysian Legal Perspective ", ICFAI University Journal of Bank Management, Volume - 6, Issue - 1, February, 2007.

¹⁸ Geetika, Nandan Tanuj, Upadhyay Ashwani , "Internet Banking in India: Issues and Prospects", The ICFAI University Journal of Bank Management, Volume 7, Issue-2, May 2008.

Summary:

The literature review summarizes the advent of Co-operative Banking. It is studied by comparing it with Public Sector Banks, Commercial Banks. Also, it seen that induction of Banking technology i.e. Digitalization in various forms such as e-banking, ATM, POS, UPI, app based etc. have seen a positive impact on performance of Banking sector. Co-operative Banking sector is no exception to it.

We have reviewed performance in various aspects such as financial, operational, customer based, and employee centric, strategic and overall. Technology has touch based all the aspects of Banking business.

An important aspect of system security/ cyber threat still looms the business in spite of multi – layered firewalls and access control.

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- ¹² Namita Rajput & Monika Gupta "' Impact Of IT On Indian Commercial Banking Industry : DEA Analysis "' Global Journal of Enterprise Information System, Volume-3, Issue-I, Jan 2011-March 2011
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- ¹⁵ Reserve Bank of India (2015) "Report of the High Powered Committee on Urban Co-operative Banks (UCBs)", RBI, Mumbai (Chairman R. Gandhi).

¹⁶Thakkar, Sagar Harishbhai (2015),“Comparative study of performance of urban cooperative banks and public sector banks in Thane District”

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Research Funding:

The research is self-funded by Ms. Isha Apte. All the expenses from study design to final submission are borne by Ms. Isha Apte.