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Balkhande Sunil Sakharam
Research Scholar, Monad University, Hapur, Uttar Pradesh, India

Dr. Sarika Agarwal
Professor, Monad University, Hapur, Uttar Pradesh, India

Corresponding Author:
Balkhande Sunil Sakharam
Research Scholar, Monad University, Hapur, Uttar Pradesh, India

Capital efficacy in urban cooperative banks

Balkhande Sunil Sakharam and Dr. Sarika Agarwal

Abstract
Urban Cooperative Banks (UCBs) serve as vital financial intermediaries, catering to the banking needs of urban and semi-urban areas while fostering financial inclusion and local economic development. Amidst evolving regulatory requirements and dynamic market conditions, the capital efficacy of UCBs emerges as a critical determinant of their stability, resilience, and growth prospects. This study endeavors to conduct a comparative analysis of capital efficacy across UCBs, examining the factors influencing capital adequacy levels, risk management practices, and their implications for financial performance. The research adopts a mixed-methods approach, combining quantitative analysis of financial data with qualitative insights from interviews with key stakeholders in the UCB sector. Utilizing a sample of UCBs operating in diverse urban centers, the study assesses the capital adequacy ratios, capital structure dynamics, and regulatory compliance frameworks employed by these institutions. By benchmarking against regulatory standards and industry best practices, the research aims to identify patterns, trends, and disparities in capital efficacy across different UCBs.

Keywords: Stakeholders, financial, efficacy, risk, management

Introduction
The urban cooperative banking industry in India was also affected by the 1991 deregulation of the commercial banking sector. There have been 1,606 urban cooperative banks in India as of June 30, 2013, according to the Report on Trend and Progress of Banking in India for the year ending by the Central Government. Out of them, 51 are scheduled urban cooperative banks and 1,555 are non-scheduled urban cooperative banks.
Indian commercial banks have always focused on deposit mobilization, notwithstanding their widespread branch network in both urban and semi urban regions. As a result, cooperative banks are vital in addressing the expanding financial demands of middle and lower-class consumers, as well as providing capital to small enterprises. Loans to small business owners, street vendors, and entrepreneurs are often made available by urban cooperative banks via personal connections and soft data. This kind of borrower often does not get assistance from commercial banks due to the disorganized nature of their accounts and credit history. Customers are attracted to urban cooperative banks for their closeness, cultural and local affinity, personalized service, and convenient working hours, even if these banks are very localized. Despite their low performance, these banks cannot be closed due to their importance in providing loans to underserved socio-economic strata in India.

Capital Adequacy
In addition to safeguarding the public's trust in the financial system, banks operate as custodians of public funds. For a long time, banks have been adeptly juggling both functions. But the level of globalization and the changing banking landscape have necessitated that banks take on the extra responsibility of professional financial management. Now more than ever, banks must take on the role of agents who represent shareholders and work to increase their wealth.
For obvious reasons, capital is an essential component of any bank's operations in times of crisis. To be in the banking industry is to knowingly and willingly take risks. The capital has to be protected against future shock occurrences, thus the amount of risk in its company is crucial. Finding the amount of capital a bank holds in its portfolio to handle future shocks is the precise goal of the ratio of capital adequacy. While a larger capital adequacy ratio fraction may indicate that a bank is solvent, the most important factor is the degree to which the bank is vulnerable to risk.

Thus, capital adequacy degree is not a thought-provoking metric in and of itself, but it is an important metric to consider once a bank's risk profile has been calculated.

In recent years, capital sufficiency has been more important in determining a bank's soundness. A bank's ability to avoid insolvency and keep depositors' trust is paramount. The global financial system relies on capital to safeguard depositors and ensure efficiency and steadiness. The level of capital adequacy is indicative of a bank's health and management's capacity to provide the necessary funding. Additionally, it shows whether the bank has sufficient capital to handle unforeseen losses. A bank's leverage may be seen by looking at its capital adequacy ratio.

Many national central banks, including the Reserve Bank of India (RBI), have adopted the capital measurement and standard recommendations issued in July 1988 by the Basel Committee on Banking Regulations and Supervisory Practices. With effect from 1.4.92, it was introduced in India by the Reserve Bank of India. The rules are primarily in place to make sure the financial system is solid and stable.

Bank capital to risk asset ratio is called capital adequacy ratio. Ratio of Capital to Risk Weighted Assets is another name for capital adequacy ratio (CRAR). There are two kinds of capital that banks might have: tier one, which allows them to absorb losses without having to close their doors, and tier two, which provides less protection to depositors in the event of a winding-up

$$\text{CAR} = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}}$$

Resources Deployed

A large portion of the financial services business is devoted to banking. How well a bank uses its resources determines how well it does its job. A nation's social, economic, and industrial development are supported by a robust banking system, which is seen as a reflection of the nation's economic activity.

Table 1: Ratio of capital adequacy

S. No	Name of the Bank	Min. Val	Max. Val	Mean	SD	CV (%)
1	A.P Mahesh Coop Bank Ltd	20.9	44.48	36.009	7.21	20.02
2	Abhyudaya Coop Bank Ltd	13.7	41.74	29.966	9.58	31.98
3	Akola Urban Coop Bank Ltd	7.7	11.95	9.978	1.25	12.49
4	Amanath Coop Bank Ltd	-67.1	12.52	-0.005	23.67	473.36
5	Bassein Catholic Coop Bank	19.5	31.7	25.137	4.66	18.54
6	Bharat Cooperative Bank	13.7	17.16	15.87	1.01	6.34
7	Bombay Mercantile Coop Bank	-14.42	13.85	-6.571	9.07	-138.08
8	Citizencredit Coop Bank Ltd	15.63	19.15	17.294	1.2	6.96
9	Cosmos Coop Urban Bank Ltd	11.7	17.22	14.298	2.3	16.1
10	Dombivli Nagari Sahakari Bank Ltd	13.28	14.86	14.139	0.55	3.91
11	Goa Urban Cooperative Bank Ltd.	14.75	18.4	16.226	1.23	7.56
12	Greater Bombay Coop Bank Limited	12.29	22.93	17.446	3.66	20.95
13	Ichalkaranji Janata Sahakari Bank Ltd.	-36.89	17.87	7.256	15.67	215.99
14	Indian Mercantile Coop Bank Ltd	11.41	22.7	16.864	3.68	21.82
15	Jalgaon Janata Sahakari Bank Ltd	9.56	13.26	10.918	1.47	13.45
16	Janakalyan Sahakari Bank Ltd	-6.64	10.35	3.933	6.88	174.85
17	Janalaxmi Cooperative Bank Ltd	5.5	14.24	10.947	2.9	26.5
18	Janata Sahakari Bank Ltd	-11.94	11.7	-1.217	9.32	-765.68
19	Kalupur Commercial Coop Bank Ltd	31	56.67	45.51	8.25	18.13
20	Kapole Cooperative Bank Ltd	10.38	20.37	14.258	4.16	29.19
21	Karad Urban Coop Bank Ltd	10.34	15.25	12.054	2.08	17.26
22	Mahanagar Cooperative Bank Ltd	6.3	16.64	13.896	3.03	21.82
23	Mapusa Urban Coop Bank Of Goa Ltd	-57.7	12.3	-3.743	22.55	-602.47
24	Nagpur Nagrik Sahakari Bank Ltd.	10.38	13.86	12.103	1.07	8.87
25	New India Coop Bank Ltd	14.72	42.72	30.636	12.19	39.8
26	N K Goud Saraswat Brahmins Coop Bank Ltd	12.1	16.48	13.955	1.4	10.03
27	Nutan Nagarik Sahakari Bank Ltd	14.9	46.65	36.87	15.95	37.4
28	Parsik Janata Sahakari Bank Ltd	12.28	28.72	24.363	4.91	20.17
29	Pravara Sahakari Bank Ltd.	8.39	13.47	10.948	1.79	16.38
30	Punjab & Maharashtra Coop Bank Ltd	13.2	14.49	13.91	0.53	3.79
31	Rajkot Nagrik Sahakari Bank Ltd	18	34.07	27.533	5.33	19.37
32	Sangli Urban Cooperative Bank Ltd.	2.1	14.56	10.741	3.9	36.35
33	Saraswat Coop Bank Ltd	10.85	15.23	12.476	1.45	11.59
34	Shamrao Vithal Coop Bank Ltd	11.64	14	12.724	0.66	5.17
35	Shikshak Sahakari Bank Ltd	-5.2	7.6	2.947	4.63	157.18
36	Solapur Janata Sahakari Bank Ltd.	9.2	13.56	11.604	1.39	11.98
37	Surat Peoples Coop Bank Ltd	19.95	28	24.337	3.26	13.4
38	Thane Bharat Sahakari Bank Ltd.	9.95	15.4	12.365	2	16.16
39	Thane Janata Sahakari Bank Ltd	14.63	20.29	17.954	2.46	13.72
40	Zoroastrian Cooperative Bank Ltd	13.38	19.94	17.052	2.47	14.47

Source: Data computed from the report on trend and progress of banking in India, R.B.I., and Mumbai issues from 2002 to 2011

Capital Adequacy

A bank's capital to risk asset ratio is called the capital adequacy ratio. A capital adequacy ratio (CRAR) compares a company's total assets to the risk associated with those assets. There are two kinds of capital that banks might have: tier one, which allows them to absorb losses without having to close their doors, and tier two, which provides less protection to depositors in the event of a winding-up.

CAR = CAR Tier I + Tier II Capital / risk weighted assets

Table 1 reveals that the minimum most ratio of -67.10 obtained belongs to Amanath Cooperative Bank Ltd, and the highest ratio of 56.67 per cent belonging to Kalupur commercial Cooperative Bank Ltd.

Abnormality of negative value in the capital adequacy was found during the period of study with some banks namely Amanath Cooperative Bank, Ichalkaranji Janata Sahakari Bank Ltd, Bombay Mercantile Cooperative Bank Limited, Janakalyan Sahakari Bank Ltd, Janata Sahakari Bank Ltd, Mapusa Urban Cooperative Bank of Goa Ltd and Shikshak Sahakari Bank Ltd. The rest of the banks fared positive.

Capital adequacy values ranged from 7.6 percent to 56.67% during the research period. The capital adequacy ratio is consistently over 10% for the majority of banks. Kalupur Commercial Cooperative Bank Ltd. had the most average mean of 45.51 percent, while Bombay Mercantile Cooperative Bank Ltd. had the lowest.

It turns out that every single bank achieved the same thing, and even those results weren't in any particular sequence. With a narrow margin, there are advantages in investment, interest income revenue, and the amount of non-performing assets. As a result, most banks were unable to reduce their setup expenses, which had already risen. While doing research, it was discovered that several banks, including Amanath Cooperative Bank, Bombay Mercantile Cooperative Bank Limited, Janata Sahakari Bank Ltd, Janakalyan Sahakari Bank Ltd, Shikshak Sahakari Bank Ltd, and Mapusa Urban Cooperative Bank of Goa Ltd, had abnormally negative values in their capital adequacy. All of the other financial institutions did well.

Banks like Nagpur Nagrik Sahakari Bank Ltd, Indian Mercantile Cooperative Bank Ltd, Dombivli Nagari Sahakari Bank Ltd, Rajkot Nagrik Sahakari Bank Ltd, and Bombay Cooperative Bank Limited went overboard when it came to the Credit + Investment to Deposit Ratio. The majority of banks fell within the acceptable range, but a few stood out. Unwise borrowing of cash from other banks can account for the extra percentage.

A small number of banks-including Akola Urban Cooperative Bank Ltd, Greater Bombay Cooperative Bank Limited, Nagpur Nagrik Sahakari Bank Ltd, and Sangli Urban Cooperative Bank Ltd-maintained term deposit to total deposit ratios below 40% throughout the research period. When it comes to the allocation of loans, Kapole Cooperative Bank Ltd and Punjab & Maharashtra Cooperative Bank Ltd have both provided one hundred percent of their overall advances directed toward short-term loans. The entire amount of the medium-term loan has been given in full by Parsik Janata Sahakari Bank Ltd. Almost half of the banks included in the study-Andhra Pradesh Mahesh Cooperative Urban Bank Ltd, Janalaxmi Cooperative Bank Ltd, Kapole Cooperative Bank Ltd, Parsik Janata Sahakari Bank Ltd, Sangli Urban Cooperative Bank Ltd, Thane Janata Sahakari Bank Ltd-did not make any long-term loans during the study period. Banks can't expand indefinitely without a balanced portfolio of short-, medium-, and long-term loans.

During the time period under consideration, several banks were actually losing money when looking at profit per employee. With respective values of -7.99 lakhs, -1.1 lakhs, -2 lakhs, 10.43 lakhs, -1.6 lakhs, -0.64 lakhs, and -1.31 lakhs, these banks were Amanath Cooperative Bank Ltd, Bharat Cooperative Bank Ltd, Bombay Mercantile Cooperative Bank Limited, Janakalyan Sahakari Bank Ltd, Janalaxmi Cooperative Bank Ltd, Sangli Urban Cooperative Bank Ltd, and Shikshak Sahakari Bank Ltd. Saraswat Cooperative Bank Ltd. had the greatest average annual business per employee, at 568.85 lakhs. It was determined that the average mean of business per employee at nearly all of the institutions was good. Andhra Pradesh Mahesh Cooperative Urban Bank Ltd, Rajkot Nagrik Sahakari Bank Ltd, and Jalgaon Janata Sahakari Bank Ltd all achieved 5.84 percent, 5.75 percent, and 5.17 percent of net nonperforming assets to net loans throughout the research period, respectively. Despite a 3% mean average, the individual bank ratios of the aforementioned financial institutions were over 5% and require significant reduction. By increasing deposits per employee, profits per employee, and decreasing nonperforming asset levels, most banks demonstrated exceptional managerial efficiency.

Conclusion

The findings of this study contribute to a deeper understanding of the determinants and consequences of capital efficacy in UCBs, providing insights for policymakers, regulators, and UCB management teams to enhance the resilience and sustainability of these institutions. By identifying areas for improvement in capital management, risk mitigation strategies, and corporate governance frameworks, the research aims to support the long-term viability and mission fulfillment of UCBs as key pillars of the urban banking landscape. In conclusion, the study underscores the importance of effective capital management in UCBs to mitigate financial risks, enhance depositor confidence, and promote the overall stability of the banking system. The insights gleaned from this research can inform policy formulation, regulatory supervision, and strategic decision-making within the UCB sector, fostering a more robust and inclusive financial ecosystem in urban areas.

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