



SOURCES AND APPLICATIONS OF FUNDS IN INDIAN URBAN COOPERATIVE BANKS

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ABSTRACT

The success or the failure of a financial institution mainly depends on the way they effectively collect the funds and efficiently manage those funds in turn to get return. The effective fund management is something like our heart manage the blood circulation throughout the body and have control over the functions. This study examines the sources and applications of funds by cooperative urban banks in India overall.

Banks's performance is measured by the way they raise the funds and how do they manage that fund to increase the efficiency of Bank. Efficiency of bank in financial operations decides their survival level and the long-term objectives of the bank. For the cooperative urban banks, the efficiency of financial operations in their business is interlinked with efficient management of funds which is reflected through the financial margin and is the ultimate financial gain available to them, which are influenced by owned funds to working funds, low-cost deposits to total deposits and balanced credit to deposit ratio. Generally, the Urban cooperative banks works on the principles of cooperation, self-help and mutual help, and even these banks are organized well in terms of their fund management and other financial operations.

LITERATURE REVIEW

Various studies have been conducted and number of suggestions have been made to improve the sources and applications of funds at UCB, still there are many opportunities to conduct study in improving the banking operations. Banks's performance can be measured in many ways, as Padamanabhan committee suggest to use CAMEL rating and Tarapore committee recommend NPA and asset quality and several committees formed by RBI till today have recommended their own findings time to time. The measure of financial performance of UCB is required to predict the corporate failures and incident of bankruptcy among the institutions.

1. A study on cooperative Banks in India with special reference to Lending practices by Jyoti Gupta and Suman Jain / volume 2

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 Author used the secondary data from the bank reports to analyse the quantitative data with regard to financial operations. The study involves the customers feedback in identifying the bank's lending methods and satisfaction with the bank. The researcher concludes the study by providing the reasons why the customers approach cooperative bank for loans and what made them to select cooperative bank for their financial needs.

2. Sources and Applications of funds in UCB in composite Thanjavur District. : Dr S Mayilvaganan and G Prabhakaran/ volume 3 IJCRD

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. The purpose of study was completed with the analysis of the Thnkajvur UCB's financial reports with special consideration of their investment activity. Calculation of Mean, standard deviation, covariance helped the researcher to identify the growth and pattern on financial operation under the study period of UCB. Researcher conclude the study with the basic suggestion to UCB to increase the number of customers by providing more offers. He also advises the banks to concentrate more on loans and advances which leads to NPA.

3. A study on the effectiveness of fund management at Bangalore District and Bangalore Rural District cooperative bank" Pavan G Kulkarni ISSN 0039-2049.

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.

4. Current scenario of state co-operative bank in India and its working performance by G. Subash Chandra Bose and Dr P Nagarajan.

The researcher wanted to study the significant role played by cooperative banks in economic development. The researcher found that SCB's should create employment to the public rather than opening more branches in this study. And the researcher also put his concerns regarding the minimum help from government to the cooperative banks. He also appraised the progress of state cooperative banks in the country by analysing the financial activities performed during the study period.

5. To study the pattern of lending Practices in Urban cooperative banks in Delhi by Supreeta Gaba and Dr Bharat Bushan ISSN : 2320 2882

Here the researcher wanted to study the lending practices and to compare the efficiency of urban cooperative banks in Delhi. And the researcher conducted 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. After analysing the performance researcher suggested the bank to implement the technology so that banks can attract customers and he also suggested to increase the number of branches.

6. A study on Cooperative Banks in India with special reference to Lending Practices

Boppana and Nagarjuna (2006) : suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India.

OBJECTIVES OF THE STUDY

- To study the various sources of funds in UCB's.
- To Analyse the various sources and application of funds in UCB's
- To measure the growth rate of UCB in recent days.
- To offer valuable recommendations to strengthen the sources and application of funds.

METHODOLOGY

This particular study was undertaken with the help of data already available that is secondary data. The required data was collected by office records, Annual reports from bank and the reports disclosed by the statutory body RBI in its website. Basic statistical tools like standard deviation, covariance, mean, Maxima and Minimum are used for the analysis purpose.

PERIOD OF STUDY

The study confines a period of five years from 2016 to 2020.

LIMITATIONS OF THE STUDY

This particular study was conducted to understand the recent banking financial operations in terms of raising the funds and investment activity. And hence only five years of data have been collected. The other limitation of the study is that the report collected to conduct the study is the consolidated data of all the UCB in India and hence individual UCB based on state wise, region wise or district wise has been ignored. So, the output of the study gives the overall efficiency of UCB's but not on the specific group of banks.

ANALYSIS AND INTERPRETATION

Sources of Funds

The working capital of the UCB's comes from their own funds, deposits, borrowings and other sources. In general, own funds comprise of share capital, membership fee and reserve funds. Deposits will be received from both members and non- members. Borrowings are mainly from Reserve Bank and the government.

Table 1 : Trend in Major sources of funds between 2016 to 2020 at Scheduled UCB
Amount in Billions

Period	Major sources of funds			
	Share Capital	Reserves & Surplus	Total Deposits	Borrowings
2016	36	142	1844	24
2017	40	158	2073	31
2018	41	167	2120	45
2019	43	183	2256	65
2020	44	152	2305	69
Maximum	44	183	2305	69
Minimum	36	142	1844	24
Mean	40.8	160.4	2119.6	46.8
SD	2.79	13.92	161.93	17.87
CV	6.83	8.68	7.64	38.19

Sources: RBI annual banks statistics report.

Table 1 clearly indicates the sources of funds during the study period for Scheduled UCB's. From the above it is very clear that major sources of funds in UCB is from the Deposits. It was increased every year at increasing rate, in the same way Average level of deposit and standard deviation is also high compare to other modes of funds. The remaining modes like Reserves, borrowings and share capital funds share the next levels of fund mobilization. CV value is high in Borrowings, which indicates that the greater the level of dispersion around the mean.

Table 2 : Trend in Major sources of funds between 2016 to 2020 at Non-Scheduled UCB
Amount in Billions

Period	Major sources of funds			
	Share Capital	Reserves & Surplus	Total Deposits	Borrowings
2016	74	154	2078	2
2017	82	177	2362	3
2018	89	186	2445	4
2019	92	190	2586	4
2020	97	186	2711	4
Maximum	97	190	2711	4
Minimum	74	154	2078	2
Mean	86.8	178.6	2436.4	3.4
SD	8.03	13.02	215.33	0.80
CV	9.26	7.29	8.84	23.53

Sources: RBI annual banks statistics report.

Table 2 clearly indicates the sources of funds during the study period for Non-Scheduled UCB's. From the above it is very clear that major sources of funds in Non-UCB is again from the Deposits. It was in the increased trend every year and in the same way Average level of deposit and standard deviation is also high compare to other modes of funds. The remaining modes like Reserves, share capital and borrowings share the next levels of fund mobilization. When compare to UCB, the Non-UCB have more funds through Share capital. Here deposits were increased depending upon their share capital of the bank.

Applications of Funds

Table 3: Trend in Major Application of Funds at Scheduled UCB between 2016 and 2020
Amount in Billions

Period	Major Applications of funds				
	Cash	Balance with other Banks	Investments	Advances	Money at call and short notice
2016	12	251	585	1187	18
2017	15	276	662	1292	39
2018	15	264	689	1369	31
2019	13	282	722	1466	44
2020	18	284	754	1412	63



Maximum	18	284	754	1466	63
Minimum	12	251	585	1187	18
Mean	14.6	271.4	682.4	1345.2	39
SD	2.06	12.35	57.69	97.45	14.87
CV	14.10	4.55	8.45	7.24	38.14

Sources: RBI annual banks statistics report.

Table 3 shows how the funds were used during the study period 2016 to 2020 Generally Cash, Deposits with other banks, Investments and Advances are the major application of funds for every bank. Here UCB's invested more funds in Loans and advances, which shows that the banks utilized more funds in providing the loans which in turn creates good return to the bank. Value of Standard deviation is high in Advances and Investments, and even the trend is in increasing mode every year from 2016 to 2020.

Table 4: Trend in Major Application of Funds at Non – scheduled UCB between 2016 and 2020

Amount in Billions

Period	Major Applications of funds				
	Cash	Balance with other Banks	Investments	Advances	Money at call and short notice
2016	30	424	624	1262	14
2017	30	446	759	1320	12
2018	40	489	809	1436	14
2019	40	462	846	1564	16
2020	40	505	865	1642	21
Maximum	40	505	865	1642	21
Minimum	30	424	624	1262	12
Mean	36	465.2	780.6	1444.8	15.4
SD	4.90	29.08	86.25	142.94	3.07
CV	13.61	6.25	11.05	9.89	19.95

Sources: RBI annual banks statistics report.

Table 4 shows how the funds were used during the study period 2016 to 2020 by Non-scheduled UCB's. Even the Non-scheduled UCB used much funds in loans and advances which proves that there is a good return generation in this when compare to other investment alternatives. The Value of SD is also high in Advances and Investments, which shows the continuous positive growth in Loans and advances from Non-UCB in India.

Investments by Urban Co-operative Banks

In order to control the expansion of bank credit, RBI has determined the concept of SLR and Non-SLR Investments for the banks in India. This is applicable for UCB's also and hence UCB's have to maintain 18% (as on 20121) of their total NDTL (Net demand and Time Liability) in SLR investment. SLR generally includes gold bonds, Treasury bills of India, Dated securities, State development loans and any other instrument notified by RBI. In the same while the Non-SLR instruments are those where the return on the investment is based on the prospects of commercial market and this includes bonds, capital market, commercial papers and mutual funds etc. The Limit for Non-SLR investment will be prescribed by RBI time to time. (Flow chart of cooperative banks based on March 2021)

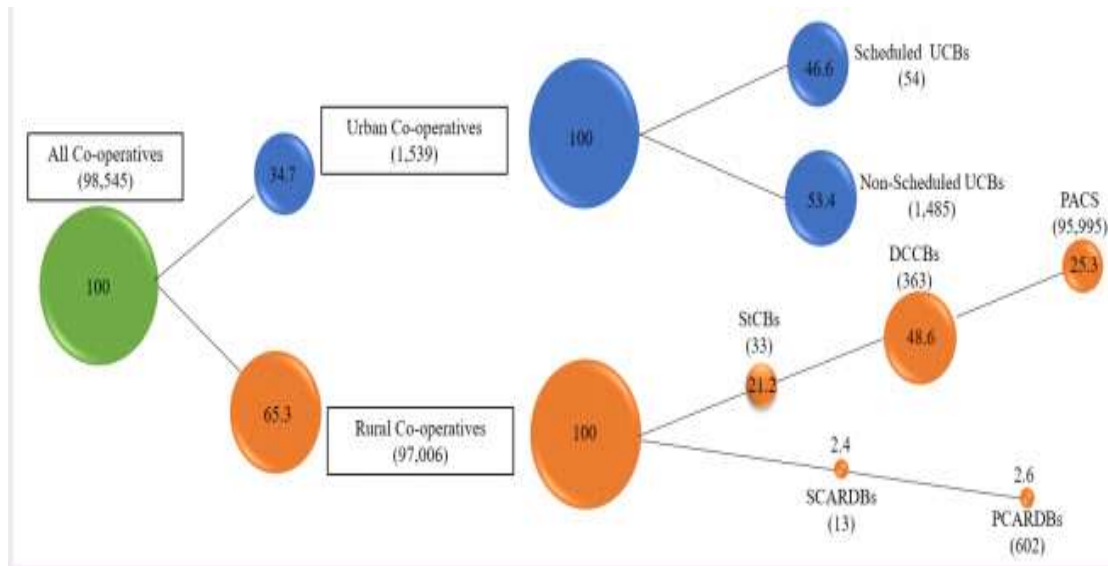
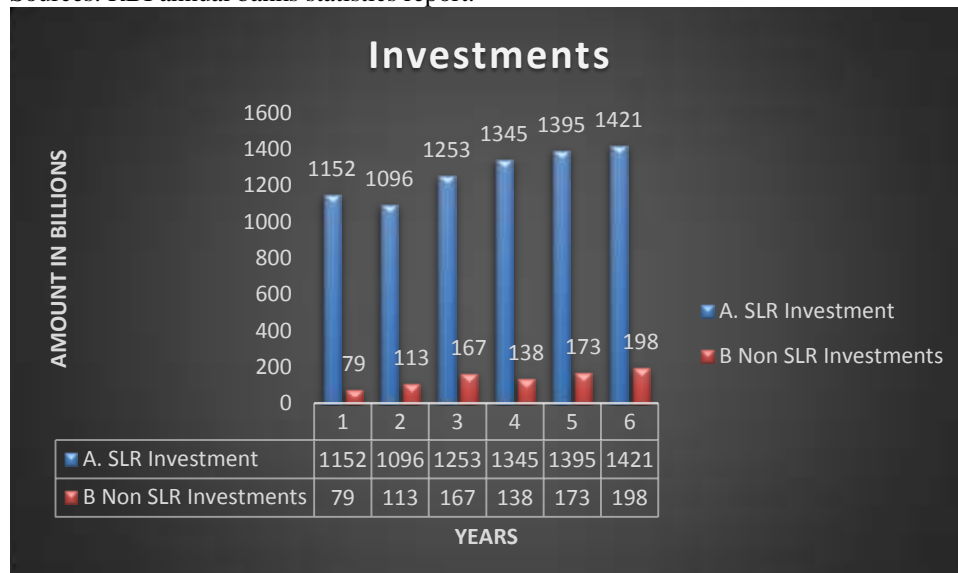


Table 5 : Showing the UCB’s Investment in SLR and Non-SLR Investments

Item	Years (Ending March)						Variation in percentage				
	2015	2016	2017	2018	2019	2020	2015-16	2016-17	2017-18	2018-19	2019-20
Total Investment	1231	1209	1420	1483	1568	1619	-1.8	17.5	5.4	5.7	3.3
A. SLR Investment	1152	1096	1253	1345	1395	1421	-4.8	14.3	8.6	3.7	1.9
i) Central Govt Securities	792	878	954	974	982	970	11	8.7	4.7	0.8	-1.3
ii) State Govt securities	175	215	293	369	406	440	22.9	36.7	22.9	10.1	8.4
iii) Other Approved securities	4	3	5	2	7	11	20.4	61.5	79.8	226.4	74.5
iv) Balane with central/ state cooperative banks	181	-	-	-	-	-	-	-	-	-	-
B Non SLR Investments	79	113	167	138	173	198	43	48.2	18.3	25.7	14.2

Sources: RBI annual banks statistics report.





The above table shows the SLR and Non-SLR investment made by UCB's in India and in the study period 2015-2020 UCB's have shown positive growth in both the type of investment. This particular trend proves the strong liquidity position of the banks and the high deposits received. It was observed by the above calculation that, the total value of investment is in increasing trend but the percentage of variation is in decreasing trend. This is due to the change in the country's Inflation rate, as we know that the RBI will increase the SLR in the time of inflation and decrease the rates in the tie of recession to increase the bank credit.

Scope for further study

The study period can be extended up to a period of 10 years ie from 2010 to 2020. And the study has been conducted only based on the financial data and hence the regulations and guidelines for investment of funds could be considered further to analyse. Some of the major tough competitors' study could also be included because the banks sources and investment strategies changes as per the competitors proactive moves.

SUGGESTIONS

- Urban cooperative banks need to increase their sources of funds through share capital, since the contribution from share capital is very less.
- Scheduled UCB's borrowings is comparatively higher than Non-scheduled banks and hence these banks need to work on decreasing the borrowings.
- UCB's have to increase their application of funds in advances, since this will give good return with less risk
- UCB's should continue their proportion of SLR investment in state govt securities, which helps the state govt in increasing the development activities.
- Urban cooperative banks can also increase their non-SLR investments by taking extra measures and risk proportions.

CONCLUSION

The study on sources and investment of funds at UCB's broadly considered in this study was pertain to the whole India was much helpful in understanding their operational strategies. The scheduled UCB's with the less number (54) compare to Non-scheduled UCB's (1453) still performed well in their operations and proved again the number doesn't matter but the performance is what much important. Since from the beginning the UCB's have shown positive growth in both sources and investments, banks can create more financial activities than commercial banks in near future.

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