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# Co-operative banks attempt to stay relevant by offering faster credit disbursal and internet banking

By [Pratik Bhakta](#), ET Bureau | Updated: Aug 17, 2016, 08.42 AM IST

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Co-operative movement, at its heart, was aimed at making society egalitarian. Now, what welcomes you in one of the nation's biggest co-operative banks, [SVC Bank](#), when you walk in is a sign board 'privilege banking'.

In the much-maligned [world](#) of cooperative banking, which has become a hot-bed of local politics, things are being turned on their heads. Some of the transformation happening with an eye on future could leave one amazed — and at the same time be a cause for worry that the change is coming at the cost of the movement's founding principles.

Years of obduracy and 'touchme-not' syndromes are giving way to higher regulatory directions and growing ambition among some to remain relevant, helping usher in changes.

Many co-operative banks fear they would fade into oblivion with the advent of multiple banking formats, especially small finance banks (SFBs) and payment banks. As they scramble for a [new](#) identity, many are rolling themselves into both a small bank and a universal bank to retain their rich customers in villages and at the same time lend to a vegetable vendor.

"With SFBs and [payments banks](#) coming into the fray, there will be some difficulty for co-operative banks," says [AP Hota](#), managing director, National Payments Corporation of [India](#). "Till now, they were mainly competing with commercial banks and the [NBFCs](#) (nonbanking finance corporations). NBFCs anyway had a higher rate of interest. Thus, [people](#) were moving to co-operative banks. Now, SFBs with comparable interest rates, should be able to compete harder with the co-op banks."

Top co-operative banks like Saraswat, SVC (formerly Shamrao Vithal Co-op), and [Mumbai Bank](#), are now offering facilities like e-lobbies, faster credit disbursal and internet banking, just like private lenders such as [HDFC Bank](#) and [ICICI Bank](#). Changing mindset and affordable [technology](#) are helping ringing in these changes.

## The co-operative movement

The co-operative movement in India had its roots in the 19th century with the formation of [Anyonya Sahakari Mandali](#) in [Baroda](#), Gujarat, in 1889. But it was a long and winding route in how they got folded into the financial system. Although the Banking [Regulation](#) Act was passed in 1949, it was extended to co-operative societies much later, in 1966. The number of urban co-operative banks declined to 1,579 from 1,872 a decade earlier. The sector accounted for 3.9% of deposits of the banking sector and 3.3% of the advances.

The path travelled by the co-operatives has been bumpy. They are governed by the laws of their respective state governments and [Reserve Bank of India](#). This led to massive abuse of the banks by local politicians, forcing the [RBI](#) to every now and then ban some cooperative or the other from [business](#) for misdeeds. In September 2014, the RBI had banned six co-operative banks on charges of money laundering.

But the biggest blow for the sector was due to [Madhavpura Mercantile Co-operative Bank](#), from which stock broker [Ketan Parekh](#) had borrowed hundreds of crores of rupees to speculate in equities and defaulted when the dotcom bubble burst.

## The changing face

"There are already some 790 banks that have mobile banking licences and that list is going to increase further," said [Rajesh Mirjankar](#), whose company [Intrasoft Technologies](#) provides software to co-operative banks. "Banks like [Shree Charan Bank](#) and [M Visvesvaraya Coop Bank](#) are planning to expand."

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One of the biggest obstacles for any institution willing to change is access to technology. Private sector banks exploited [Mastercard](#) and [Visa](#) technologies successfully. Modern banking in a way is more technology-driven rather than banking services. The fact that technology companies command higher valuations than banks is a testimony to that. Regulatory changes and the technology platform that the [National Payments Corp](#) provides for almost free is helping the smaller ones and co-operatives reinvent themselves.

Urban co-op banks were allowed the [liquidity](#) adjustment facility by the RBI, allowing them to borrow to meet liquidity needs, doubled limits on [gold](#) loans, statutory audits, and bringing them on par with other banks in maintaining cash with the RBI and holding government [bonds](#) in proportion to deposits.

"What [NPCI](#) is offering through [UPI](#) (Unified Payments Interface) and [BBPS](#) (Bharat Bill Payments System) is very beneficial for players like us because we will be able to offer all that a [HDFC Bank](#) or an [ICICI Bank](#) offers and on top of that they (customers) will get a personalised service which we specialise in," says [Salil Datar](#), head, [retail](#) banking, [SVC Bank](#).

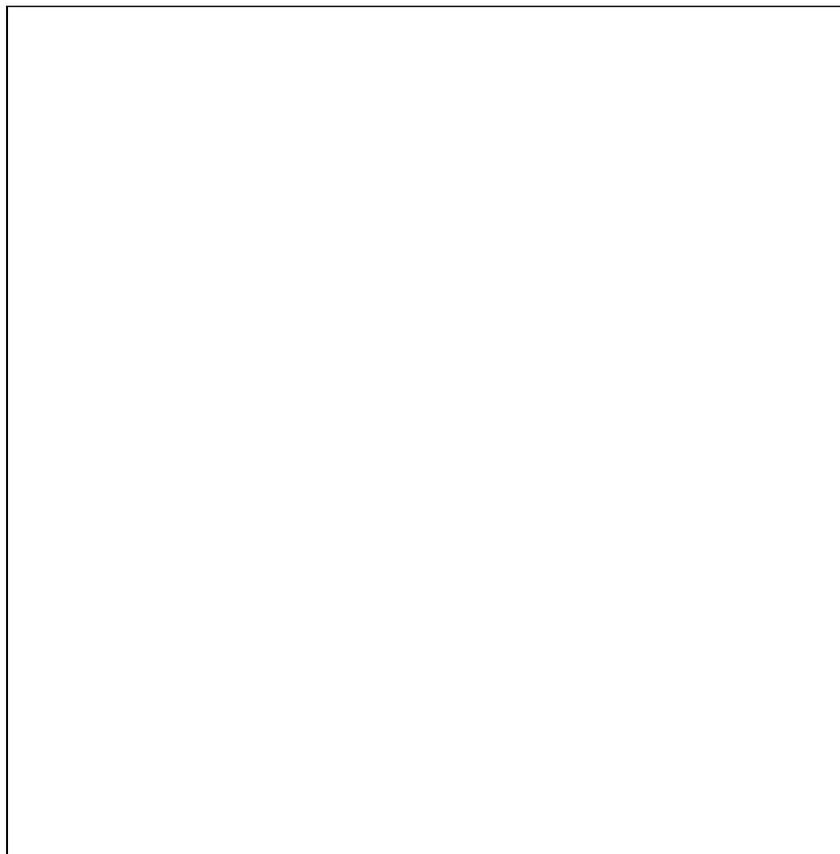
### Leapfrogging innovation

By leapfrogging the innovation path taken by their bigger peers, cooperative banks are going directly for e-lobbies rather than expanding their ATM network and innovating on mobile banking rather than net banking. "E-Lobbies are 24/7 centres where our senior citizens can also go for banking at any point of time. We have already done this in [Mumbai](#) and [Pune](#). We are in the process of developing a new application, which will be platform agnostic, which can be used on a mobile phone or tablet," said [SK Banerji](#), managing director, [Saraswat Cooperative Bank](#).

But it is not an easy road ahead for them as microlenders like [Bandhan](#), [Ujjivan](#) and [Equitas](#) also turn themselves into full-fledged banks.

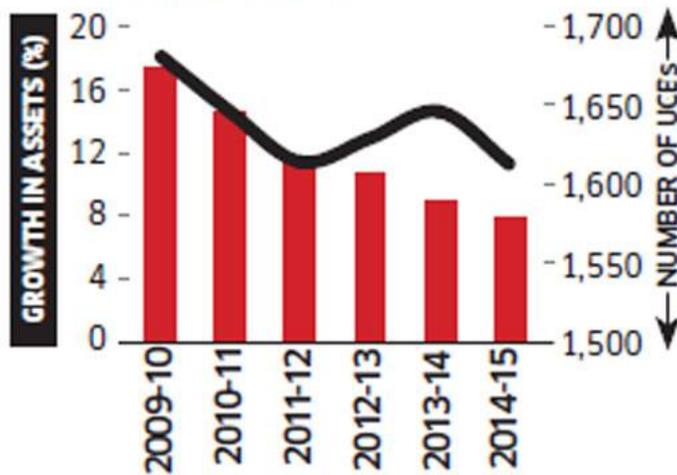
"Now, with [Bandhan Bank](#) having opened shop and expanding, we are facing a few challenges. But, then, we are also putting in effort to modernise our systems to be able to compete with them," says [Swapan Saha](#), managing director, [Tripura State Cooperative Bank](#). "There are changes happening in the grassroots with direct transfer of benefits from the government to bank accounts. But once the money comes in, it gets withdrawn in one go. Slowly, the idea of savings will have to be developed."

There is a feeling among some that these institutions are increasingly losing their character and are imitating their more sophisticated rivals from metropolitan areas.



## Total number and growth in assets of UCBS

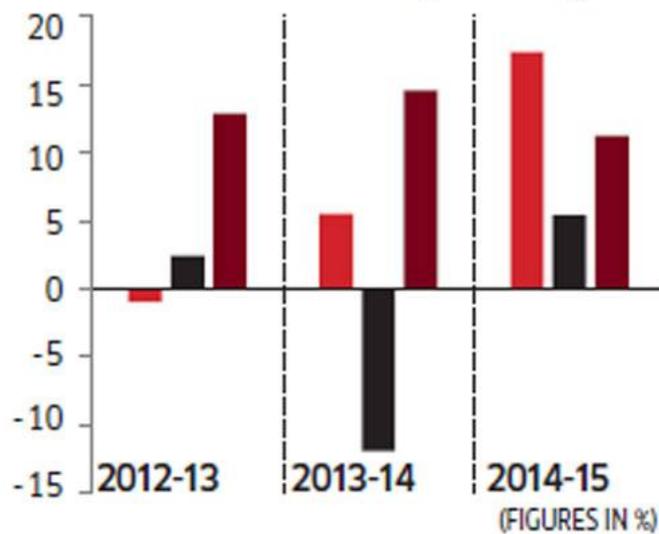
■ No. of urban cooperative banks (RHS)  
 — Rate of growth of assets



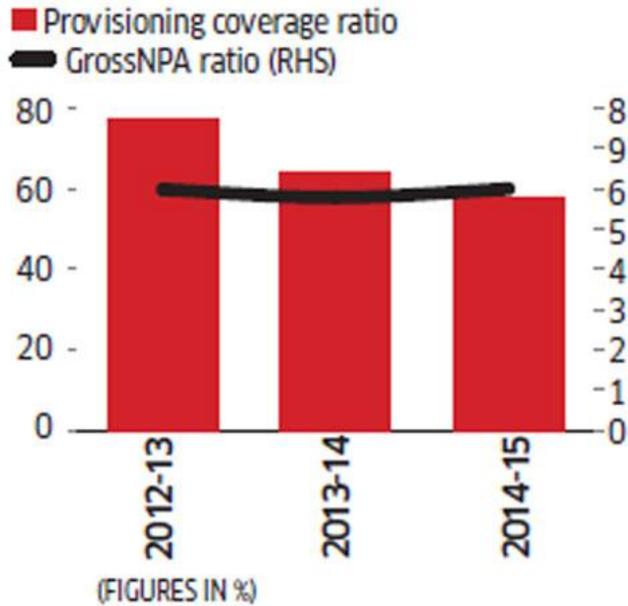
NOTE: Data for 2014-15 are provisional

## Growth in Assets, NPAs & Provisions

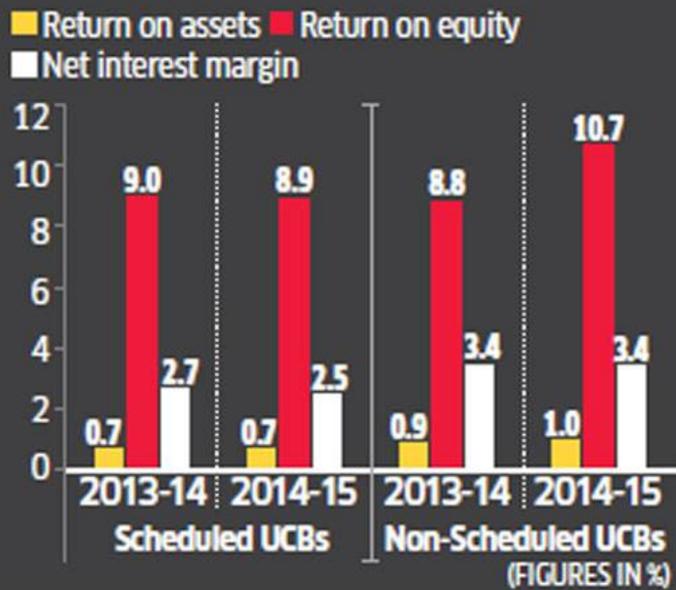
■ Growth in gross NPAs  
 ■ Growth in total assets  
 ■ Growth in provisioning



## Non-Performing Advances of UCBs



## Profitability Indicators of UCBs



SOURCE: RBI supervisory returns and staff calculations

"I do not think community-based banking is the answer to the expanding banking needs of the country. Maybe, they should target small finance bank licence or try becoming a commercial bank," says [Chandra Shekhar Ghosh](#), MD of Bandhan Bank. RBI has come up with on-tap banking licences and is open to let some cooperatives become full-fledged banks.

"It is unfortunate that the co-operative character is increasingly being undermined even in the uni-state cooperative banks," RBI deputy governor [R Gandhi](#) has said. "Looking into the future, some hard questions relating to maintaining the co-operativeness in co-operatives need to be answered."

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