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Capital Adequacy and Financial Stability of Urban Co-operative Banks in India : A Temporal Analysis

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Abstract

Banks come across with various types of risks while carrying the business of financial intermediation. Thus, risk form an integral part and parcel of banking. To tackle risk and function efficiently, there is a need to manage all kinds of risks associated with banking. Hence, risk management is the core to any banking service and consequently the need for sufficient Capital Adequacy Ratio is felt. To reduce bank failures, to promote stability, safety and soundness of the banking system and to reduce ultimately the losses to the bank depositors, regulation of capital is required. This paper makes an attempt to evaluate capital adequacy in the case of urban cooperative banks in India since its inception by RBI. It is found that about ninety four percent of the urban cooperative banks in India satisfies capital adequacy ratio stipulated by the Reserve Bank which implies the strong financial strength of the urban cooperative bank, in spite of its merger or amalgamation.

I. Introduction

COOPERATIVE BANKS IN India are more than 100 years old and form an integral part of the Indian financial system. These banks came into existence with the enactment of the Agricultural Credit Cooperative Societies Act in 1904. These banks operate mainly for the benefit of rural areas, particularly the agricultural sector. Cooperative banks mobilise deposits and supply agricultural and rural credit with a wider outreach. They are the main source of institutional credit to the farmers. Cooperative banks are chiefly responsible for breaking the monopoly of moneylenders in providing credit to agriculturalists. They have also been an important instrument for various development schemes, particularly subsidy based programmes for the poor.

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