

CHAPTER II

BACKGROUND OF THE URBAN CO-OPERATIVE BANKS

2.1 INTRODUCTION

One of the objectives of the research is to study development of co-operative Banking in India and Maharashtra State. This chapter explains the same. The term urban Co-operative Banks (UCBs) though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered on communities, localities work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably.

The origin of the urban co-operative banking movement in India can be traced back to the close of nineteenth century when, inspired by the success of the experiments related to the co-operative movement in Britain and the co-operative credit movement in Germany such societies were set up in India, co-operative societies are based on the principles of co-operation-mutual help, democratic decision making and open membership. Co-operatives represented a new and alternative approach to organization as against proprietary firms, partnership firms and joint stock companies which represent the dominant form of commercial organisation.

2.2 URBAN CO-OPERATIVE BANKS DEFINED

An urban co-operative Bank is defined as one which is organised for accepting deposits from the public, which is usually repayable by cheques which carry on normal banking business. Urban Banks are those credit societies which undertake all kinds of banking business including the acceptance of all types of deposits and the provisions of banking facilities for their clientele, such as making advances on personal surety, issue of drafts, discounting Hundis collection of Bills etc.

2.3 NEED FOR URBAN CO-OPERATIVE BANKING

The need for Urban Co-operative Banking arises from the fact that Joint stock Banks are not interested in providing credit to the urban middle class.

This is because it is not advantageous for joint stock banks in developing the business of small loans on account of high cost of advancing and receiving them. Further joint stock banks are not likely to have under ordinary circumstances, full and intimate knowledge of the standing and resources of persons of moderate means; they will not advance loans on personal securities. In such circumstances, the man with limited means in urban area may approach money lender. The establishment of Urban co-operative Bank is the most suitable alternative to these customers.

2.4 ORIGIN AND DEVELOPMENT OF URBAN CO-OPERATIVE BANKS IN INDIA

The first known mutual aid society in India was probably the 'Anyonya Sahakari Mandali' organised in the erstwhile princely State of Baroda in 1889 under the guidance of Vithal Laxman Kavthekar. Urban co-operative credit societies, organised on a community basis to meet the consumption oriented credit needs of their members. From its origins then to today, the thrust of UCBs, historically, has been to mobilise savings from the middle and low income urban groups and purvey credit to their members - many of which belonged to weaker sections.

The enactment of Cooperative Credit Societies Act, 1904, however, gave the real impetus to the movement. The first urban cooperative credit society was registered in Canjeevaram (Kanjivaram) in the erstwhile Madras province in October, 1904. Amongst the prominent credit societies were the Pioneer Urban in Bombay (November 11, 1905), the No.1 Military Accounts Mutual Help Co- operative Credit Society in Poona (January 9, 1906). Cosmos in Poona (January 18,1906), Gokak Urban (February 15, 1906) and Belgaum Pioneer (February 23, 1906) in the Belgaum district, the Kanakavii-Math Co-operative Credit Society and the Varavade Weavers' Urban Credit Society (March 13, 1906) in the South Ratnagiri (now Sindhudurg) district. The most prominent amongst the early credit societies was the Bombay Urban Co-operative Credit Society, sponsored by Vithaldas Thackersey and Lallubhai Samaldas established on January 23, 1906.

The Cooperative Credit Societies Act, 1904 was amended in 1912, with a view to broad basing it to enable organisation of non-credit societies. The

Maclagan Committee of 1915 was appointed to review their performance and suggest measures for strengthening them. The committee observed that such institutions were eminently suited to cater to the needs of the lower and middle income strata of society and would inculcate the principles of banking amongst the middle classes. The committee also felt that the urban cooperative credit movement was more viable than agricultural credit societies. The recommendations of the Committee went a long way in establishing the urban cooperative credit movement in its own right.

In the present day context, it is of interest to recall that during the banking crisis of 1913-14 when no fewer than 57 joint stock banks collapsed, there was a flight of deposits from joint stock banks to co-operative urban banks. Maclagan committee chronicled this event thus:

“As a matter of fact, the crisis had a contrary effect, and in most provinces, there was a movement to withdraw deposits from non-co-operatives and place them in co-operative institutions, the distinction between two classes of security being well appreciated and a preference being given to the latter owing partly to the local character and publicity of co-operative institutions but mainly, we think, to the connection of Government with co-operative movement.”

The Government of India Act in 1919 transferred the subject of "Cooperation" from Government of India to the Provincial Governments. The Government of Bombay passed the first State Cooperative Societies Act in 1925 "which not only gave the movement its size and shape but was a pace setter of cooperative activities and stressed the basic concept of thrift, self help and mutual aid." Other States followed. This marked the beginning of the second phase in the history of Cooperative Credit Institutions.

There was the general realization that urban banks have an important role to play in economic construction. This was asserted by a host of committees. The Indian Central Banking Enquiry Committee (1931) felt that urban banks have a duty to help the small business and middle class people. The Mehta-Bhansali Committee (1939), recommended that those societies which had fulfilled the criteria of banking should be allowed to work as banks and recommended an Association for these banks. The Co-operative Planning Committee (1946) went on record to say that urban banks have been the best

agencies for small people in whom Joint stock banks are not generally interested. The Rural Banking Enquiry Committee (1950), impressed by the low cost of establishment and operations recommended the establishment of such banks even in places smaller than taluka towns.

The first study of Urban co-operative banks was taken up by RBI in the year 1958-59. The Report published in 1961 acknowledged the widespread and financially sound framework of urban co-operative banks; emphasized the need to establish primary urban cooperative banks in new centers and suggested that State Governments lend active support to their development. In 1963, Varde Committee recommended that such banks should be organised at all urban centers with a population of 1 lakh or more and not by any single community or caste. The committee introduced the concept of minimum capital requirement and the criteria of population for defining the urban centre where UCBs were incorporated.

2.5 DUALITY OF CONTROL ON URBAN CO-OPERATIVE BANKS IN INDIA

However, concerns regarding the professionalism of urban cooperative banks gave rise to the view that they should be better regulated. Large cooperative banks with paid-up share j capital and reserves of Rs. 1 lakh were brought under the preview of the Banking Regulation Act 1949 with effect from 1st March, 1966 and within the ambit of the Reserve Bank's supervision. This marked the beginning of an era of duality of control over these banks. Banking related functions (viz. licensing, area of operations, interest rates etc.) were to be governed by RBI and registration, management, audit and liquidation, etc. governed by State Governments as per the provisions of respective State Acts. In 1968, UCBS were extended the benefits of Deposit Insurance.

Towards the late 1960s there was much debate regarding the promotion of the small scale industries. UCBs came to be seen as important players in this context. The Working Group on Industrial Financing through Co-operative Banks, (1968 known as Damry Group) attempted to broaden the scope of activities of urban co-operative banks by recommending that these banks should finance the small and cottage industries. This was reiterated by the

Banking Commission (1969).

The Madhavdas Committee (1979) evaluated the role played by urban co-operative banks in greater details and drew a roadmap for their future role recommending support from RBI and Government in the establishment of such banks in backward areas and prescribing viability standards.

The Hate Working Group (1981) desired better utilisation of banks¹ surplus funds and that the percentage of the Cash Reserve Ratio (CRR) & the Statutory Liquidity Ratio (SLR) of these banks should be brought at par with commercial banks, in a phased manner. While the Marathe Committee (1992) redefined the viability norms and ushered in the era of liberalization, the Madhava Rao Committee (1999) focused on consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks.

A feature of the urban banking movement has been its heterogeneous character and its uneven geographical spread with most banks concentrated in the states of Gujarat, Karnataka, Maharashtra, and Tamil Nadu. While most banks are unit banks without any branch network, some of the large banks have established their presence in many states when at their behest multi-state banking was allowed in 1985. Some of these banks are also Authorised Dealers in Foreign Exchange.

2.6 PROGRESS OF URBAN CO-OPERATIVE BANKS

The Progress of Urban Co-operative Banks is shown in Table 3.1.

Table 2.1

Progress of Urban Banks and Primary Co-operative Banks**(Crores)**

Sr. No.	Particulars	Urban Banks	Primary Co-operative Banks						
		1948-49	1955-56	1959-60	1965-66	1977-78	1978-79	1982-83	1988-89
1	Number of Banks	815	1585	1242	1091	1162	1408	1107	1239
2	Membership (in lakh)	5	12	18	36	47	48	66.5	100
3	Own Funds	4	9	17	58	117	118	NA	1008
4	Deposits	17	32	61	153	519	590	1543	6300
5	Working Capital	22	44	82	222	722	-	-	-
6	Advances During the Year	19	32	65	167	407	600	NA	5200
7	Advances Outstanding	12	23	58	167	407	436	1267	NA
8	Overdues	1	3	4	NA	NA	53	107	NA
Source : V. V. Ghanekar – Co-operative Movement In India P. 154, 155									

It is observed from Table 3.1 that there is expansion of urban banks from 815 in 1948-49 to 1239 in 1988-89. It should be noted that with the introduction of Banking Regulation Act 1949 with effect from March 1966 urban banks with paid up share capital and reserves of Rs 1 lakh and above have been classified as primary co-operative banks. The Reserve Bank of India introduced scheme of rehabilitation of weak primary co-operative banks. Accordingly, 68 primary co-operative banks were rehabilitated in 1977-78. Recent

Development Over the years, primary (urban) cooperative banks have registered a significant growth in number, size and volume of business handled. As on 31st March, 2003 there were 2,104 UCBs of which 56 were scheduled banks. About 79 percent of these are located in five states, - Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu. Recently the problems faced by a few large UCBs have highlighted some of the difficulties these banks face and policy endeavors are geared to consolidating and strengthening this sector and improving governance.

2.7 URBAN CO-OPERATIVE BANKS AS SCHEDULED BANK

During the year 1988-89 11 primary co-operative banks each with demand and time liabilities of over ` 50 crores were included in the second schedule to the Reserve Bank of India Act, 1934. This is first time when primary co-operative banks have been scheduled. During the year 1988-89. The R. B. I cleared another 15 proposals for registration by the Registrar of co-operative societies.

2.8 FEDERATION OF URBAN/BANKS

With the growth of urban co-operative banks, their federation or associations have been formal in some of states including Gujrat, Karnatak, Maharashtra, west Bengal, Madhya Pradesh, and the Union Territory of Delhi. Some of them published useful data on urban banks in their states. They held regional or state level seminars or conferences to discuss the problem faced by these banks and to suggest appropriate remedial measures.

The National Federation of Urban Co-operative Banks and credit societies have also been formed since February 1977 with its head quarter in New Delhi. It has composite membership of State Federations as well as individual urban banks. Its object is to activism, stimulate and regulate the urban banking movement in India. It holds seminars and conferences to discuss the difficulties faced by urban banks and its measures for their redress.

2.9 OBJECTIVES AND FUNCTIONS OF URBAN CO-OPERATIVE BANKS

The main objects and functions of the urban co-operatives are :

- 1) To attract deposits from members as well as non-members.
- 2) To advance loans to members.
- 3) To act as agent for the joint purchase of domestic and other requirements of the members.
- 4) To undertake collection of bills, accepted or endorsed by members.
- 5) To arrange for safe custody of valuable documents of members.
- 6) To provide other facilities as provided by commercial banks.

Area of Operation

The area of operation of an urban co-operative bank is usually restricted by its bye-laws to a municipal area or a town. In some cases it exceeds this area.

Membership

The membership of urban co-operative bank is composed of persons living in urban areas, such as traders, merchants, salaried and professional classes etc. The conditions relating to the membership are laid down in their bye-laws.

The membership of these urban co-operative banks varies considerably. In Tamilnadu, the average membership exceeded 7000, while in Maharashtra it was over 3000, in Kerala, it was 2500, in Orissa 2000, in Madhya Pradesh 1800, in West Bengal it was about 900.

Management

The management of urban co-operative Bank rests in the board of Directors, who are elected by General Body, consisting of all the members. The final authority in all matters rests with the general body but actual conduct of the affairs of the bank rests with the board of directors and the secretary of the bank.

The tenure of office of the Board of Directors varies in the states. The usual practices are to hold elections (a) each year (b) once in three years, and (c) each year by rotation for one third of the board. Holding the elections every year is not favoured by the study group. The advantages of holding elections

once in three years are that expenses are kept at a minimum and the board of directors has time to learn the working of the bank. It is also observed that in a large number of institutions the same persons were elected to the board of directors from term to term. It can be checked by incorporating the clause in the bye-laws that prevents a person from contesting election more than one or two consecutive terms.

Resources

Owned funds and borrowed funds are main sources of finance of Urban Co-operative Bank. Own funds include paid up capital, accumulated reserves created out of appropriate from profits. Borrowed funds cover deposits of members and non members and loan from central co-operative banks.

Deposits :

The percentage of deposits to working capital varied from state to state. It was 76% total capital in 1967-68. These banks have succeeded in attracting deposits from non members also because of growing public confidence in their working. These banks generally accept current deposits, saving deposits and fixed deposits. But with increasing competition by the commercial banks, more intensive efforts will be required by urban co-operative banks to attract more deposits.

Borrowing :

Such borrowings of urban co-operative banks from other financing agencies are negligible. These banks generally borrow from central co-operative bank, while a few borrowed from the appex banks. The study group on credit co-operatives in the Non Agricultural Sector (1963) that the urban banks should be affiliated with central co-operative banks and appex banks should not finance them directly.

Loan Operation :

The loan operations of UCB (Urban Co-operative Banks) consists of granting fixed loans or cash credit loans to their members against mortgage of unencumbered immoveable property, or on surety of one or more persons who are also members. The member is eligible for loan against personal security upto 5 to 10 times the share capital paid by him.

Banking and other facilities :

UCBs provide facility of withdrawal of deposits by cheque and arrange for remittance of funds to other centre. Some banks collect pensions, pay regularly insurance premiums of its members, discount hundis and bills.

Investments :

The UCBs invest their surplus money in government and other trustee securities.

2.10 STATEWISE PROGRESS OF URBAN CO-OPERATIVE BANKS :

During the period 1919-38, many urban credit co-operatives came to be organised in Bombay and Madras provinces'. The Urban Credit Societies which came into being in Bombay confined their activities to the members of particular communities and their lending operations were also primarily with a view to meeting the consumption needs of their members. Later, the economic boom created by the Second World War (1939-45) provided a stimulus to the growth of urban banks in India.

The usefulness of urban banks in financing artisans, small traders, factory workers and urban middle classes was recognised by various committees and working groups such as Central Banking Enquiry Committee (1931), the Co- operative Planning Committee (1946) The Study Group on credit co-operatives in Non Agricultural Sector (1963), the Working Group on industrial Financing through Co-operative Banks (1968). Certain provisions of Banking Regulation Act 1949 were extended to Urban Co-operative Banks having paid up share capital and reserves of ` 1 Lakh. The Reserve Bank acquired control over the functioning of Urban Co-operatives Banks especially in respect of maintenance of reserves and liquid assets, regulation of loans and advances, opening new branches etc.

The Urban Co-operatives Bank having paid up share capital and reserves of 1 lakh was classified as Primary Co-operative Bank, by Reserve Bank of India in 1968. Total number of these Primary Co-operative Banks was 1408 in June 1978. The State wise distribution indicates that Maharashtra is top with 348 banks, followed by Gujarat (265), Karnatak (225), Andhra Pradesh (132) Tamil nadu (131) and West Bengal (111), Kerala had (67) such banks

while all other states had less than 25 each. Over the years, Primary (Urban) Co-operative Banks have registered a significant progress in growth, in number and size and volume of business handled. As on 31st March 2003, there were 2104 UCBs of which 56 were scheduled banks. About 79 percent of these banks are located in five states – Andhra Pradesh, Gujrat, Karnatak, Maharashtra and Tamilnadu.

Cooperative banks:

People who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act. When a co- operative society engages itself in banking business it is called a cooperative Bank. The society has to obtain a license from the Reserve Bank of India before starting banking business. Any cooperative bank as a society is to function under the overall supervision of the registrar, cooperative societies of the state. As regards banking business, the society must follow the guidelines set and issued by the Reserve Bank of India.^[1]

Urban Cooperative Banks (UCBs):

The term Urban Cooperative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. A cooperative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their banks. The cooperative banks are often created by persons belonging to the same local or professional community or sharing a common interest. The cooperative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts).

The cooperative banks in India have a history of almost 100 years. The origins of the urban cooperative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany such societies were set up in India. The cooperative societies are based on the principles of cooperation, mutual help, democratic decision making and open membership. The cooperatives represented a new and alternative approach to organization as against proprietary firms, partnership firms and joint stock companies which represent the dominant form of commercial organization.^[2]

The cooperative banks are an important constituent of the Indian financial

system. The cooperative movement originated in the west, but the importance of such banks have assumed in India is rarely paralleled anywhere else in the world. The cooperative banks in India are registered under the Co-operative Societies Act. The cooperative banks are also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Bank in Laws (Co-operative Societies) Act, 1965. These banks were conceived as substitutes for money lenders.

A feature of the urban banking movement has been its heterogeneous character and its uneven geographical spread with most of the banks concentrated in the states of Gujarat, Karnataka, Maharashtra, and Tamil Nadu. While most of the banks are unit banks without any branch network, some of the large banks have established their presence in many states when at their behest multi-state banking was allowed in 1985. The large size banks are also authorized dealers in foreign exchange.

Over the years, primary (urban) cooperative banks have registered a significant growth in numbers, size and volume of business handled. As on 31st March, 2003 there were 2,104 UCBs of which 56 were scheduled banks. About 79 percent of these are located in five states - Maharashtra, Karnataka, Gujarat, Andhra Pradesh and Tamil Nadu. ^[2]

2.11 GENESIS OF URBAN COOPERATIVE BANKING MOVEMENTS:

Evolution of urban cooperative banking movement in India can be traced through three distinct phases which are discussed in the succeeding paragraphs.

1.2.1 Phase I (1904-1966):

Inspired by the success of urban cooperative credit movement in Germany and Italy, the first mutual aided society 'ANYONYA SAHAKARI MANDALI' was organized in the princely state of Baroda in 1889 under the guidance of Late Shri. Vithal Laxman Kavthekar.

The enactment of Cooperative Credit Societies Act, 1904, however, gave the real impetus to the movement as the first urban cooperative credit society was registered in Canjeevaram town in Madras in October 1904. Thereafter, few more societies were established in Madras and Bombay area.

In the formative phase, urban cooperative credit societies came with organized on community basis and their lending operations were confined to meeting the consumption oriented credit needs of their members. The term 'bank' was very

loosely used by many societies in the initial phase. Many urban banks which were organized in the early part of this century were essentially credit societies but later converted themselves into UCBs. Many urban credit societies which were not engaged in any banking functions also used the word 'bank' or 'banker'. There was no well defined concept of urban cooperative bank. It was the Joint Reorganization committee popularly known as Mehta Bhansali committee (1939) in the Bombay province, which for the first time, made an attempt to define an urban cooperative bank. It defined a credit society as an urban cooperative bank (UCB) whose paid up share capital was Rs.20000 or more and was accepting deposits of money on current accounts or otherwise subject to withdrawals by cheque, draft or order. In Madras province, urban cooperative credit societies accepting current account deposits and maintaining certain amount of liquid resources, as prescribed by Registrar of Cooperative Societies, had come to be known as Urban Cooperative Banks (UCBs), irrespective of size of their share capital. Subsequently, in 1966, when banking laws were made applicable to cooperative banks, provisions of section 5(CCV) of Banking Regulation Act, 1949 [As Applicable to Cooperative Societies (AACS)] defined an urban cooperative bank as a primary cooperative bank other than a primary agricultural credit society.

- The primary object of which is the transaction of banking business.
- The paid up share capital and reserves of which are not less than Rs.1 lakhs
- The by-laws of which do not permit admission of any other cooperative society as a member.

With the economic boom created by second World War, the urban banking sector received tremendous impetus and started diversifying its credit portfolio, branching out from meeting traditional consumption oriented credit needs into catering to the needs of artisans, small businessmen and small traders.

The various committees and study groups, like the Central Banking Enquiry Committee (1931), the Cooperative Planning Committee (1946) popularly known as Saraiya Committee, Varde Committee (1963), the study group on Credit Cooperatives in Non-Agricultural sector (1963), and working groups on industrial financing through cooperative banks (1968) commended

the working of UCBs in extending support to the micro agencies, to whom the commercial banking sector was quite wary of lending. Interestingly, the survey made by RBI in 1958-59, for assessing the financial pattern of UCBs and their role in financing Small Scale Industries, revealed that notwithstanding absence of state support to urban banking sector (unlike its counterpart viz. in the Agricultural Cooperative Credit sector), the UCBs sector, as a whole registered a fairly good rate of progress.

Data prior to 1948 about the urban cooperative banking sector is, unfortunately, not available. As at the end of financial year 1948-49, the numbers of UCBs were 815 and go up to 1106 by the end of financial year 1966-67. During this period, the deposits held by UCBs sector increase from Rs.17 corers to Rs.153 cores, registering a growth of 800% [Urban cooperative banks were brought under the purview of B.R. Act, effective from 1 March, 1966]. An interesting feature of urban cooperative credit movement in the early part of this century was that the public confidence in urban cooperative credit sector, particularly the lower and middle income groups, was unshaken notwithstanding the collapse of joint stock banks. It is indeed interesting to note that during the years 1913 and 1914, in the then Bombay Presidency, United Provinces and Punjab, where banking crisis led to collapse of no fewer than 57 joint stock banks, there was a flight of deposits from the joint stock banks to urban cooperative banks. The Maclagan committee graphically chronicled the phenomenon.

Similarly, between 1939-1949, when 588 joint stock banks failed in various states eroding public deposits to the tune of Rs. 26 cores there was not even a miniscule impact on urban cooperative banks, most probably due to the fact that cooperative institutions were subjected to stringent regulation as compared to a lax supervision over commercial banks. It is indeed strange to note that commercial banks were governed by the company law applicable to ordinary nonbanking companies. The central banking enquiry committee in 1931 had come to the conclusion that the provisions of Indian Companies Act were inadequate to deal effectively with banking malpractices and recommended comprehensive legislation. Although companies act was amended in 1936 and a separate chapter relating to banking companies was added, the provisions therein were still found to be ineffective. This was a

classic era of laissez faire banking and was a perfect Hobbesian state of nature. Shri. B. Ram Rau, the Governor, RBI, concisely described the scenario "Any financial adventurer who required money for a speculative venture or for financing a business, in which he was interested, started a bank with many branches and collected substantial deposits by the offer of high rates of interest and by lavish advertisement". As compared to the above scenario, the segment of urban cooperative banks was fairly better regulated and UCBs did not reflect any symptom of systemic failure. As a matter of fact, in Madras province, UCBs were required to maintain fluid resources, a concept akin to statutory liquidity ratio prescription.

1.2.2 Phase II (1966-93):

During this period, the demand for extension of deposit insurance was gaining momentum on account of significant increase in the operations of urban cooperative banks and their volume of deposits and more particularly in the context of sad experience of Palai Central Bank failure. As extension of deposit insurance to cooperative banking sector presupposes some semblance of Reserve Bank control over them. The provisions of B.R. Act, 1949 were made applicable to urban cooperative banks to some extent in 1966 after an intense debate among State Governments, Government of India and RBI. This was a landmark in the evolution of urban banking movement in India. Consequently, the cooperative banks came under dual control. The banking related functions such as licensing, branch licensing, area of operation, exposure norms, interest rates etc. are governed by RBI directives and regulations, incorporation and registration of cooperative banks, audit, management, liquidation, winding up, amalgamation etc. were governed by the State Governments by virtue of powers conferred on them by the respective State Cooperative Societies Acts.

It is interesting to note that the Banking Regulation Act does not recognize the term 'Urban Cooperative Bank' and defines it as a primary cooperative bank. The word "primary" is used to denote that the bank performs the role of a primary unit in a 3- tier cooperative credit structure. By this definition, the urban cooperative banks were made an integral part of the well developed 3-tier cooperative credit structure which was developed to cater the

needs of rural India. The urban cooperative banks, by implication, have to be affiliated to District Central Cooperative Banks (DCCB) at district level and to State Cooperative Banks (SCB) at apex level and these banks in turn, were supposed to help, nurse and guide the UCBs. Historically UCBs were organized in semi-urban, urban and metropolitan areas. This was the reason for popularly known as urban cooperative banks.

Between 1966-93, the resources mobilized by way of deposits by the UCBs have registered a phenomenal growth. From a meager Rs.153 crores as at the end of June 1967, they rose to Rs.13531 crores by the end of March 1993. The annualized average growth of deposits and advances was found to be quite impressive. The number of urban cooperative banks had grown from 1106 to 1399 during the corresponding period.

A class of urban cooperative banks, which are popularly called, salary earners banks also emerged as a matter of course and had their own place in the urban cooperative banking system over the years. These banks are essentially thrift societies set up by employees of governmental departments/ PSUs/large establishments for mutual help on the principles of cooperation. These societies also started using the word 'bank' and were accepting deposits from members of public. Since Reserve Bank of India did not find any rationale for their continuing as banking entities, as they were essentially thrift societies, they were advised to go out of the purview of the B.R. Act, after returning the deposits to non-members. As a result 599 salary earners banks went outside the purview of the B.R. Act, during the period 1 March 1966 to 30 June 1977 by converting themselves into cooperative credit societies. As on 31 March 1999 there were 90 salary earners banks.

Yet another interesting feature of the history of urban cooperative banking movement is that despite the exit of so many salary earners banks from the ambit of B.R. Act, the number of UCBs increased from 403 (excluding salary earners banks) to 1023 during 1 March 1966 and 30 June 1977. This increase in number of UCBs was not on account of a liberal licensing policy stance of RBI but an offshoot of statute induced expansion i.e., automatic conversion of Primary Credit Societies into UCBs.

The only difference between a primary credit society and an urban cooperative bank is the level of owned funds. If the owned fund of primary

credit society reaches Rs.1 lakhs, automatically, it has to apply to RBI for a license to carry on banking business.

The period between 1966-1993 can be termed as an over regulated regime. The licensing policy of RBI was too restrictive as it was governed by the one district through the cooperative initiative demonstrated by the cooperators. Urban cooperative banks were also not allowed to expand beyond municipal limits. There was an embargo on their entry into rural areas and financing agricultural operations. Branch licensing policy was linked to the "planned expansion of branches". There were also restrictions on deployment of UCBs surplus resources outside the cooperative fold. Growth of urban banking sector was confined to the states of Maharashtra, Karnataka, Gujarat and Tamil Nadu where the cooperative movement had already taken strong roots. The regional disparities in the growth of urban cooperative movement were mostly due to strong cooperative initiative exhibited in these states and absence of similar cooperative leadership in other states.

1.2.3 Phase III: Post 1993 Scenario:

The year 1993 was a break point in the history of urban cooperative banking movement. After Narasimham committee addressed the problems of banking system in 1991, and suggested a road map for liberalizing the banking sector. Accordingly RBI appointed the Marathe committee in 1991 to address these issues. The recommendations of this committee were quite far reaching, particularly, in the realm of new bank licensing, branch licensing and area of operation etc. Marathe committee suggested dispensing with the "one district-one bank" licensing policy and recommended organization of banks based on the need for an institution and potential for banks to mobilize deposits and purveying of credit. It also felt that existence of commercial banking network should not prevent the cooperative initiative. RBI accepted these recommendations and had come out with its new policy approach in May 1993. Between May 1993, when the revised policy was put in place and 31 March 1999, RBI has issued as many as 537 licenses for setting up new banks. The liberalized branch licensing policy's stress was more on bank's inherent financial strength rather than assessing the need for a branch and its viability in a given centre.

As a result, the branch network of UCBs has increased from 3691 as at the end of March 1993 to 6619 by 31 March 1999. RBI had also appointed a working group under the chairmanship of Shri. Uday M. Chitale in December 1995 to review the existing audit systems of UCBs. With a view to instill professionalism in the audit of UCBs, the working group suggested that audit of UCBs, with deposits of Rs.25 crores and above, be conducted by chartered accountants, thus, ending the monopoly of State Government's audit of UCBs. It has suggested a standard format of audit for all the states. The working group also suggested revised audit rating model for UCBs. Regrettably, none of the states, not even the cooperatively advanced states, has implemented the recommendations of Chitale working group.

Effective from November 1996, urban cooperative banks have been given freedom to finance direct agricultural operations. The interest rates on deposits of urban banks have been deregulated from 21 October 1997. They can also install ATMs without prior approval of RBI. Thus, in the post Marathe committee dispensation, there was a paradigm shift in RBI's regulatory approach. An excessively controlled regime gave way to a thoroughly liberalized dispensation. The shift in RBI policy on UCBs was a natural corollary of its policy stance on financial sector. Strangely, state governments who are co-regulators have not brought out any significant parallel reforms in tune with liberalization process set in by RBI. The no exception is Andhra Pradesh which enacted the Mutually Aided Cooperative Societies Act, 1995 freeing the cooperative societies, registered under this Act, from government control as long as they do not solicit share capital or seek guarantees from state government.^[3] eographical Distribution - India and Maharashtra:

The urban cooperative banks (UCBs) sector has emerged financially stronger since 2005, when the Reserve Bank conceived a vision document for the revival of this sector. Through the document, the Reserve Bank laid down a multilayered regulatory and supervisory approach aimed at the merger/amalgamation of viable UCBs and the exit of unviable UCBs. On account of this process of consolidation, there has been a continued reduction in the number of UCBs. In continuation with this trend at the end of March 2012, the total numbers of UCBs were 1,618 as against 1,645 at the end of March

2011. Further, there was a steady rise in the number of financially stronger UCBs (defined as UCBs belonging to Grades I and II) and a decline in the number of financially weaker UCBs (defined as UCBs belonging to Grades III and IV) between 2005 and 2011. The Map 1.0 shows the geographical map of India.

Map 1.0: Geographical Map of India



Table No. 1.1 shows the geographical distribution of UCBs in India. It indicates that UCBs are concentrated in five states, namely Andhra Pradesh (6.4%), Gujarat (14.8%), Karnataka (16.9%), Maharashtra (32.8%) and Tamil Nadu (7.8%) which collectively account for 78.7% of all UCBs.^[4]

Table No.2.2

**State-wise Distribution of Urban Co-operative Banks as on March 31,
2012**

State-wise Distribution of UCBs								
(As at end-March 2012)								
Sr. No.	States / Union Territories	No. of UCBs	No. of branches (including head office)	Total no. of ATMs	No. of districts with a UCB branch	No. of districts without a UCB branch	Deposits (Rs. Billion)	Advances (Rs. Billion)
Northern region		74	342	2	46	60	80	46
1	Haryana	7	16	0	7	14	5	3
2	Himachal Pradesh	5	9	0	4	8	4	2
3	Jammu and Kashmir	4	19	0	6	16	3	2
4	Punjab	4	19	2	4	13	8	4
5	Rajasthan	39	205	0	24	9	41	25
6	Delhi	15	74	0	1	0	18	10
North-eastern region		17	45	0	15	45	10	4
7	Assam	8	23	0	5	22	5	2
8	Manipur	3	10	0	2	7	3	1
9	Meghalaya	3	5	0	3	4	1.4	0.7
10	Mizoram	1	1	0	1	7	0.3	0.1
11	Sikkim	1	4	0	2	2	0.2	0.1
12	Tripura	1	2	0	2	3	0.2	0.1

Eastern region		63	155	6	27	84	44	24
13	Bihar	3	5	1	2	36	1	0.4
14	Odisha	12	45	0	12	18	11	6
15	West Bengal	46	103	5	11	8	33	18
16	Jharkhand	2	2	0	2	22	0.2	0.1
Central region		139	440	18	82	82	84	43
17	Chhattisgarh	12	23	0	8	19	4	1
18	Madhya Pradesh	52	90	0	23	26	14	7
19	Uttar Pradesh	70	258	11	42	33	43	22
20	Uttarakhand	5	69	7	9	4	23	13
Western region		766	5427	1379	61	2	1814	1208
21	Goa	6	73	17	2	0	19	12
22	Gujarat	237	865	85	24	2	246	155
23	Maharashtra	523	4489	1277	35	0	1550	1041
Southern region		559	1826	30	97	6	353	254
24	Andhra Pradesh	103	283	7	21	2	64	47
25	Karnataka	266	851	18	30	0	163	115
26	Kerala	60	370	1	14	0	70	48
27	Tamilnadu	129	316	4	31	1	54	44
28	Puducherry	1	6	0	1	3	1.3	1.0
All-India		1618	8235	1435	328	279	2,385	1,580

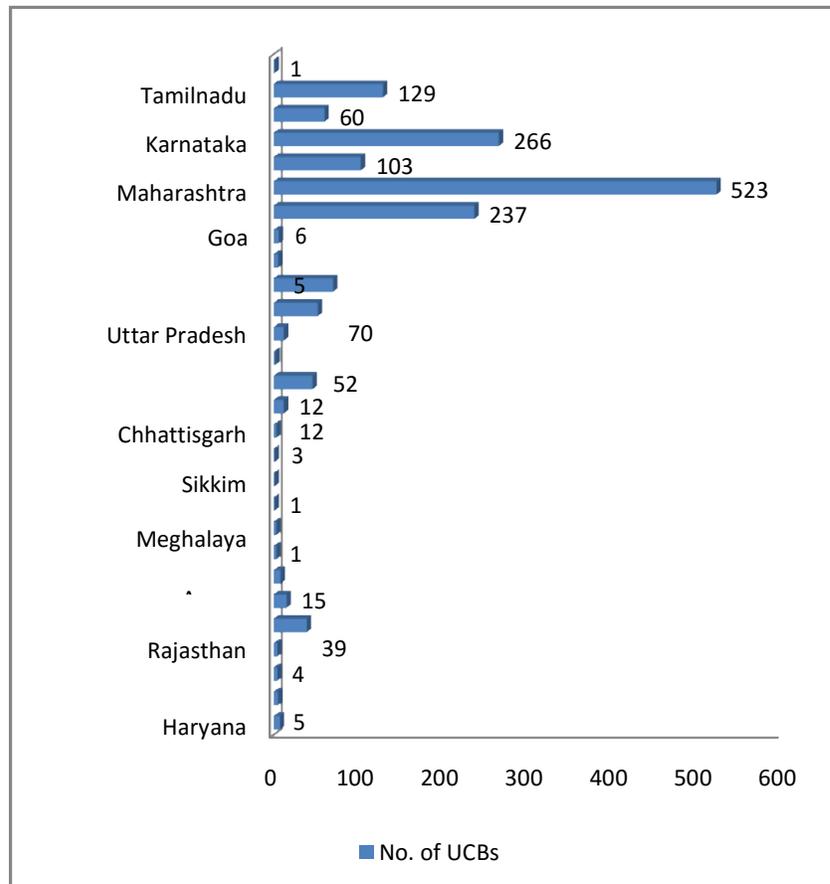
[2] <http://www.rbi.org.in/scripts/PublicationReportDetails.aspx>

[3] <http://www.rbi.org.in/scripts/PublicationReportDetails.aspx>

Table No. 1.1 shows that, there are 1618 UCBs and 8235 branches of UCBs in India at the end of March 2012. In Maharashtra, total number of UCBs is 523(32.32%) and the total branches of UCBs are 4489 (54.51%). Maharashtra is the State with the largest number of UCBs followed by Karnataka, Gujarat, Tamil Nadu and Andhra Pradesh. However, in other states

the share of UCBs is very low. From this, it seen that there is centralization of UCBs only in Maharashtra.

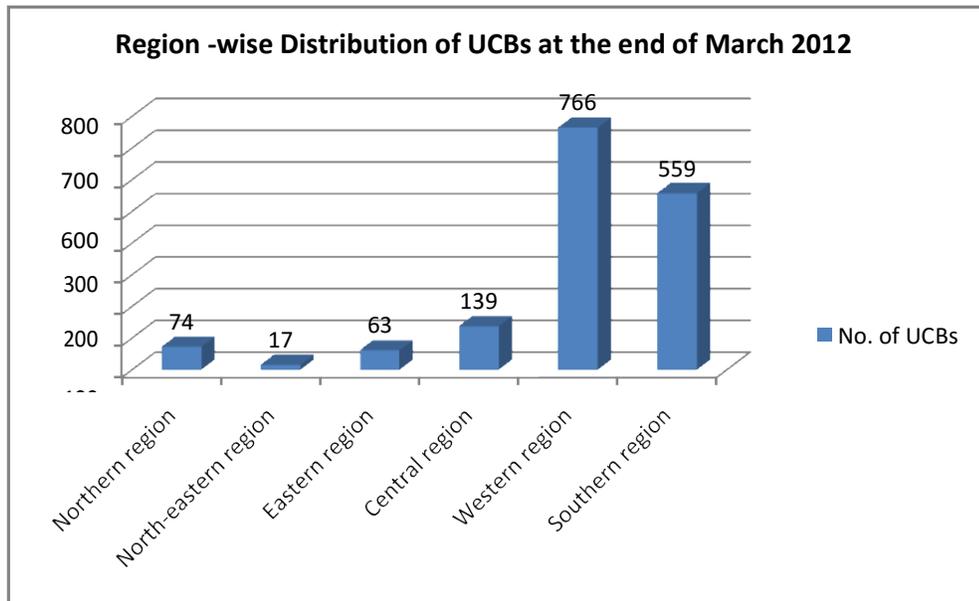
The Graph 1.1 shows the state wise total number of urban cooperative banks. It shows that Maharashtra is highest number of UCB's followed by Karnataka and Gujarat.



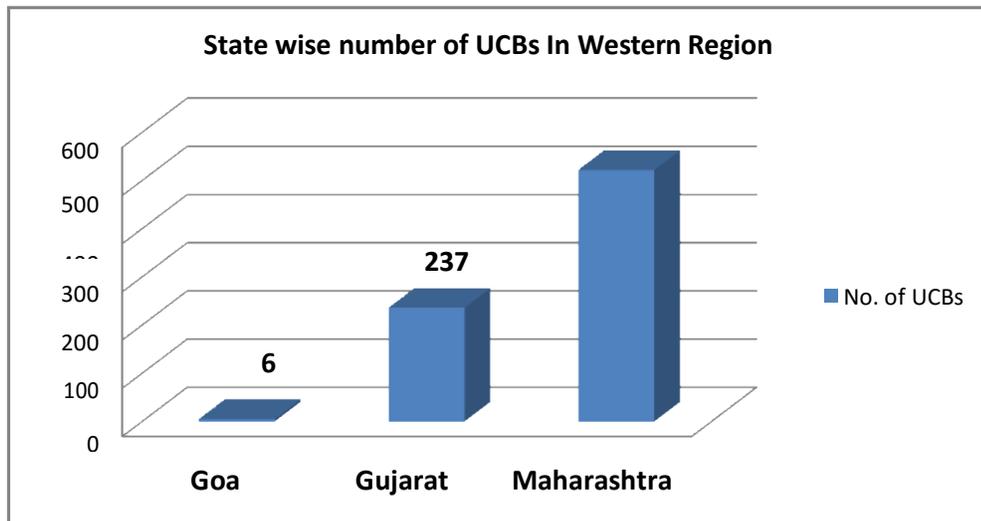
Graph 1.1: State wise total number of UCB as on March 2012

The Graph 1.2 shows the region wise distribution of UCB's at the end of March 2012. It shows that western region has highest number of UCB's (766 out of 1618) followed by southern region.

Graph 1.2: Region wise distribution of UCBs at the end of March 2012



The Graph 1.3 shows that in state wise number of UCB's in western region. It shows that in western region Maharashtra state has largest number of UCB's (523 out of 766) followed by Gujarat and Goa.



Graph 1.3: State wise number of UCBs in Western Region

The banking business of UCBs captured spatially concentrated in the Western region followed by the Eastern region. Table No.1.2 shows volume of banking business per branch. Banking business was significantly higher in the western and

southern regions of India.

Table No. 2.3
Region wise volume of banking business per branch for UCBs Source:
Developments in cooperative banking,

Volume of Banking Business per Branch for UCBs by Region			
Region	Volume of banking business		
	per branch (in millions)		
	2009	2011	2012
Northern region	290	320	367
North-eastern region	151	262	313
Eastern region	342	403	445
Central region	234	285	290
Western region	395	490	557
Southern region	214	289	332
All-India	341	426	481

2.12 CREDIT STRUCTURE IN INDIA: STATUS

The cooperative structure in India can broadly be divided into two segments. While the urban areas are served by urban cooperative banks (UCBs), rural cooperatives operate in the rural parts of the country. By end of March 2011, there were 1,645 UCBs operating in the country, of which majority were non-scheduled UCBs. Moreover, while majority of the UCBs were operating within a single State, there were 42 UCBs having operations in more than one State.

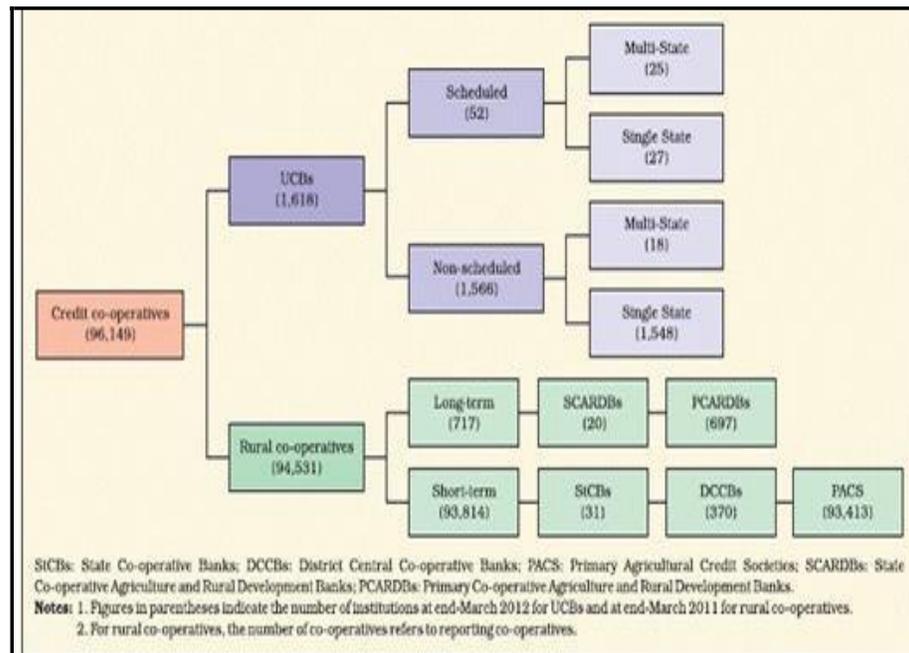
The rural cooperatives are divided into short term and long term structures. The structure of short term cooperatives sector comprises of State Cooperative Banks (SCBs) operating as apex level institutions in each state, District Central Cooperative Banks (DCCBs) operating at district level and the Primary Agricultural Credit Societies (PACS) operating at grass root level. Similarly, the long term cooperatives are the State Cooperative Agriculture and

Rural Development Banks (SCARDBs) and Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) operating at district/block level.^[6]

2.13 TYPES OF CO-OPERATIVE BANKS:

The Credit cooperatives in India are divided into two main categories namely urban cooperative banks (UCBs) and rural cooperatives. The urban cooperative are of two different types scheduled or Non-scheduled which are operating either in single state or multi-state. There are two types of rural cooperatives long-term and short-term. Figure 1.1 shows the structure of cooperative bank in India.

Figure 1.1: Structure of cooperative banks (As on March 2012) Source: Reserve Bank of India



Tier-Wise Profile of UCBs:

UCBs are classified into two categories, viz., **Tier-I** and **Tier-II** for regulatory purposes. All UCBs following the below stated criteria are classified as Tier I banks whereas all other banks are classified as tier II banks.

- Banks having deposits below 100 crore operating in a single district.
- Banks with deposits below 100 crore operating in more than one district

provided the branches are in bordering districts and, deposits and advances of branches in one district separately constitute at least 95 percent of the total deposits and advances, respectively of the bank.

- Banks with deposits below 100 crore, whose branches were originally in a single district but subsequently, became multi-district due to reorganization of the district.

There was an increase in the number of tier-II banks while number of tier-I banks reduced as on March 2011 as compared to the previous year. By the end of March 2011 tier-I banks accounted for more than three fourths of total number of UCB's. [7]

2.14 URBAN COOPERATIVE BANKS (UCBS) AND ITS ROLE IN DEVELOPMENT:

There are over 1,650 UCBs with close to 7,000 branches in the country. Yet they form a tiny part of the banking system accounting for less than 3% of the total banking assets and deposits and less than 3.5% of total advances. They also follow the 80-20 rule. The top 20% of UCBs accounts for almost 80% of its deposits.

In spite of being present in 25 states, much (almost 80%) of the action happens in the five states of Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu with the largest share going to Maharashtra. As on March 31, 2010, Maharashtra stood third among all UCBs, There are almost half of all UCB branches, around 60% of total extension counters of UCBs and more than 85% of all its automated teller machines (ATMs) are in Maharashtra. As a result more than 60% of the total banking business of the UCBs sector was concentrated in Maharashtra but their numbers have been decreasing in recent years. During 2000-2010, 132 banks had their licenses cancelled and 62 merged with other banks. In this scenario, it is perhaps understandable why this sector does not exactly steal the limelight in banking policy.

As far as financial inclusion is concerned, ignoring the value of this sector would be a serious mistake. By their nature, UCBs in India can play a critical role in this area. They have traditionally played an important role in

mobilizing resources from lower and middle-income groups and in providing direct finance to small entrepreneurs and traders. The UCBs, with their deep-rooted connections with specific communities, can easily inspire the trust of small savers and borrowers. By being local in nature and intricately interwoven with the local community, the UCBs have a clear advantage over commercial banks. It is easier for the UCBs to break the psychological barrier that proves prohibitive in the last mile of financial inclusion – create trust for the bank among its target community and bring customers within its fold. Today, when large commercial banks are working hard to set up branches and employing technology to reach out to thus far untouch regions of the country, it is time for the UCBs to step into the game that is naturally theirs.

2.15 REVIEW OF GROWTH OF UCBS:

While reviewing the progress made by the urban cooperative banks during the last 10 years, it was observed that the performance has by and large been satisfactory as shown in Table No. 1.3. Though there has been reduction in the number of UCBs from 2004 onwards, the total banking business (deposits plus advances) of UCBs has shown steady increase signifying that the banks have been able to earn more business.

Table No. 2.4

Performance of UCBs – Deposits and Advances Source:

Reserve Bank of India,

Note: Provisional data as on March 31, 2011

As on March 31	No. of UCBs	Deposits (Crore)	Advances (Crore)
2001	1618	80840	54389
2002	1854	93069	62060
2003	1941	101546	64880
2004	1926	110256	67930
2005	1872	105021	66874
2006	1853	114060	71641

2007	1813	121391	79733
2008	1770	138496	88981
2009	1721	158733	97918
2010	1674	182862	110303
2011	1645	209949	135104

2.16 ROLE OF TECHNOLOGY IN DEVELOPMENT OF UCBS:

Technological innovation has not only enabled a broader reach for consumer banking and financial services, but has enhanced its capacity for continued and comprehensive growth. Banks and financial institutions rely on gathering, processing, analyzing information in order to improve its service and fulfill the expectation of customers. The visible benefits of IT in day-to-day banking in India are quite well known. The Anywhere Banking“ is now possible as „Anytime Banking“ with the help core banking system solution, through new, 24 by 7 by 365 days delivery channels such as Automated Teller Machines (ATMs), net banking and mobile banking etc and are also becoming gradually more an integral part of the services provided by the UCBS. In addition, IT has enabled the efficient, accurate and timely management of the increased transaction volume that comes with a larger customer base.

Another important aspect with regard to technology implementation for internal purpose in UCBS is the Management Information System (MIS). The MIS reports generated help the top management as an effective risk management and a strategic decision making tool.

Use of IT reduces the costs of financial transactions, improves the allocation of financial resource and increase the competitiveness and efficiency of financial institutions.

The challenge now lies in taking greater advantage of new technologies and information-based systems and expanding the coverage of Indian banking and financial system to served markets in rural and semi-urban areas. The use of Smart Card technology, ATMs, Electronic payments networks in remote areas could play significant role in providing financial services to people. The technology based solution would go a long way for achieving inclusive growth in India.

However, the expansion of such capabilities must be accompanied by a minimum level of information security features and continued compliance with established covenants and international standards relating to privacy of customers transaction in order to enhance the customer's confidence in the internet banking by controlling the fraudulent transactions

2.17 PROFILE OF THE TASGAON URBAN CO-OPERATIVE BANK LTD.

Tasgaon was a state ruled by Patwardhans. It was a small town consisting of farmers, traders, small vendors etc. in fact Tasgaon is a central place of the district. But due to inadequate communication and transportation facilities it could not develop properly. Many urban banks in the state Maharashtra were established by Philanthropists and Establishment of Tasgaon Urban Co-operative Bank Ltd. was no exception to it. It was founded by Roabahadur shete and his colleagues on 6th Feb, 1936, recently the Bank celebrated its Golden Jubilee.

PROFILE OF THIS BANK

1. NAME OF THE BANK- "THE TASGAON URBAN CO-OPERATIVE BANK LTD."

2. ADDRESS OF BANK- 2396 B, GURUVAR PETH, TASGAON.

TAL- TASAGAON, DIST. SANGLI

3. DATE OF REGISTRATION- 6TH FEB 1936.

4. FOUNDER OF BANK- SHRI. RAOBAHADUR SHETE

5. NO.OF BRANCHES- 8

6. NO. OF MEMBERS- A- REGULAR- 8264

B- NOMINAL-986

7. AUDIT GRADE- A

2.18 URBAN CO-OPERATIVE BANKING IN SANGLI DISTRICT

Sangli district came on the map of Maharashtra state in the year 1962. Before the emergence of sangli district and during the Pre-Independence period the district was fragmented. Sangli, Miraj, Budhgaon, Tasgaon etc. were ruled by Patwardhans having state boundary in Karnataka and Kolhapur region.

NAME OF THE BANKS	YEAR OF ESTABLISHMENT
Islampur Peoples Co-op. Bank Ltd.	1926
Islampur Urban Co-op. Bank Ltd	1935
Urban Co-op. Bank Ltd, Sangli	1935
Vita Merchants Co-op. Bank, Vita.	1936
Tasgaon Urban Co-op. Bank Ltd, Tasgaon	1936
Ashta Co-op. Urban Bank Ltd, Ashta.	1947
Tasgaon was a state ruled by Patwardhans.	It was as small town consisting of

Sangli state, through small in its boundary area was at par with other developed states such as Kolhapur, Aundh etc. farmers, small traders etc. In fact Tasgaon is a central place of the district. Many urban banks in the state of Maharashtra were establishment by philanthropists and establishment of Tasgaon Urban Co-operative Bank Ltd. was no exception to it. It was founded by Roabahadur Shete and his colleagues on 6th February 1936.