CHAPTER - II

EVOLUTION OF URBAN COOPERATIVE BANKS

2.1 INTRODUCTION

Banks, naturally, occupy a prominent place in the Nation’s egalitarian vision because of their unparalleled outreach and resources in terms of network, manpower, expertise and experience. The banking sector’s crucial role at times of major shifts in economic policy has been amply demonstrated in the past. Centuries of the banking evolution in India and elsewhere have seen umpteen falls and rise. Throughout its evolution, banking has proved to be an indispensable part of the Nation’s economy. It is evident from the history of banking in India that banking has grown along with the growth of civilization, culture and economy of the Nation. Banking throughout its history has been dynamic and gradually developed adapting to the changes of time. Although, in recent years, the history of banking has begun to receive attention, thanks to research workers in this field, it is not necessary, for our purposes, to give any detailed description of the banking system, which served this country before the advent of modern economy.

However, banking in those days must have meant largely money lending, financing kings and their wars, though certain rudiments of modern banking functions were not unknown to the then bankers (Tannan, 1991, 9). Thus in olden days, certain identified section of people of the society was doing the banking as their hereditary business. They were providing credit for productive and trading activities against tangible securities. Though, the indigenous bankers were helping the capital formation in the Indian economy, many of them were ruthless and usurious. Usury and profiteering constantly affected the poor sections of the society that covers a large percentage of Indian population. As an alternative to usury and to help mutually among themselves, people voluntarily came together to form cooperative institutions. Thus, co-operation as a form of business organization owes its origin to poverty and economic distress.

2.2 PRE-REFORM PERIOD DEVELOPMENTS

The Indian Banking System as a whole including cooperative banks have undergone many changes to suit the various phases of growth in the economy and growth of
population. Various milestones in the path of progress of a consolidated banking industry in India are:

- Emergence of India’s Central Bank, The Reserve Bank of India in 1935 as a result of the recommendation of Royal Commission on Indian Currency and Finance.
- Promulgation of Banking Regulation act, 1949 to consolidate and amend the laws relating to banking companies. (Banking Companies Act 1949 was renamed as Banking Regulation act w.e.f. 01.03.1966)
- The constitution of State Bank of India in 1955, converting the Imperial Bank of India which was formed earlier through an amalgamation of the three Presidency Banks (Bombay, Calcutta and Madras).
- Formation of State Bank’s subsidiary Banks representing seven princely states in India in 1959 through State Bank of India (Subsidiary Banks) act of 1959.
- Amendments of the Banking laws (as applicable to Cooperative societies) Act in 1965.
- Establishment of Industrial Development Bank of India in 1964 as per IDBI Act 1964.
- Setting up of Export-Import Bank of India (EXIM Bank) in 1982 as per EXIM Bank Act 1981.
The various phases of growth in Indian Banking have consolidated Indian Banking under Public sector, Private sector and Cooperative sector. A few foreign banks have been allowed to open their branches in India to facilitate international business and currency transactions.

2.3 POST-REFORM PERIOD DEVELOPMENTS

In 1991, the Government of India has set up a committee under the Chairmanship of Mr. Narasimham to make an assessment of the banking sector. The report of this committee contained recommendations that formed the basis of the reforms initiated in 1991. The banking sector reforms had the following objectives:

- Improving the macro-economic policy framework within which banks operate.
- Introducing prudential norms
- Improving the financial health and competitive position of banks
• Building the financial infrastructure relating to supervision, audit technology and legal framework, and
• Improving the level of managerial competence and quality of human resources (ICRA Ltd., 2002).

Thus the financial sector reforms, which include banking sector reforms, set in motion in 1991, have greatly changed the face of Indian Banking. The banking industry has moved gradually from a regulated environment to a deregulated market economy. The market developments kindled by liberalization and globalization have resulted in changes in the intermediation role of banks. The pace of transformation has been more significant in recent times with technology acting as a catalyst. While the banking system has done fairly well in adjusting to the new market dynamics, greater challenges lie ahead. Banks have to cope with the challenges posed by technological innovations. Banks need to prepare for the changes and cope up with the challenges. The important developments are:

1991-1992
• First Narasimham committee report on Financial Sector reforms.
• Introduction of Risk Weighted Capital adequacy norms and prudential norms.
• The SHG-bank linkage project was launched by NABARD as a pilot project.

1993-1994
• Deregulation of interest rates, prudential norms for maximum Non Performing Assets.
• Debt Recovery Tribunal (DRT) was set up under the Recovery of Debts due to Banks and Financial Institutions Act 1993.
• Introduction of Banking Ombudsman Scheme.
• An independent Board for Financial Supervision (BFS) under the RBI was constituted in Nov. 1994.

1995-1996
• A broad framework for negotiated settlements for old and unresolved NPAs was put in place by RBI/Govt. of India in July 1995.
• Concept of Local Area Banks (LAB) introduced.
• First shared payment network system and conditional autonomy to Public Sector Banks was initiated.

1997-1998
• Second Narasimham Committee report on Banking Sector reforms.
• Guidelines on Risk Management were issued by RBI.

1999-2000
• Specific guidelines were issued by RBI in May 1999 to Public Sector Banks for One-Time Settlements (OTS) of NPAs of Small Scale Industries.
• Provisioning requirements of minimum 0.25% were introduced for standard assets in 1st April, 2000.
• The minimum Capital Adequacy Ratio (CAR) was raised to 9% (from 8%) on the recommendation of the committee on Banking Sector Reforms w.e.f. 31st March 2000.
• Indian Parliament enacted a comprehensive Information Technology Bill which received the President’s ascent on 9th June 2000. (I.T. Act 2000)

2001-2002
• RBI tightened the NPA norms by removing the ‘past due’ concept. As such NPAs well recognized 30 days earlier.
• Govt. of India introduced the competition Bill 2001 to do away with the Monopolies and Restrictive Trade Practices (MRTP) Act 1969.
• RBI issued detailed guidelines on 23rd August 2001 for implementation of Corporate Debt Restructuring (CDR) scheme by Financial Institutions and Banks.

2003-2004
• RBI advised banks to adopt integrated risk management systems on 29th January 2003.
• Pension Fund Regulatory and Development Authority (PFRDA) was established.
• The period of classification for NPA was shortened from 180 days to 90 days from the year ending 31st March 2004.

• Govt. appointed a committee under the chairmanship of Prof. A. Vaidyanathan for the revival of ailing cooperative sector.

• RTGS – Real Time Gross Settlement was established by RBI for quick transfer of funds.

2005-2006

• IRDA issued guidelines on 14th July 2005 for insurers appointing corporate agents.

• RBI formulated a draft vision document and placed it in the public domain in March 2005 to regulate governance of Urban Cooperative Banks.

• RBI constituted State Level Task Force for Cooperative Urban Banks (TAFCU).

• The Micro Small and Medium Enterprises Development (MSMED) Act 2006 was passed and came into force from 2nd October 2006.

• RBI appointed a Technical working group headed by S.C. Gupta, the then legal advisor to RBI in May 2006 to study on the role of money lenders in the rural credit delivery system.

2007-2008

• RBI announced in October 2007 that RRBs and State/Central cooperative banks to disclose their Capital to Risk weighted Assets Ratio (CRAR) as on 31st March 2008 in their balance sheets.

• On 6th August 2008, the RBI and SEBI issued operational guidelines for trading in currency derivative markets.

2009-2010

• An outcome of the on-going consolidation of the urban cooperative banking (UCB) sector was the further decline in the number of UCBs in 2009-10. However, there were also signs of increasing concentration of banking business within the UCB sector with the share of banking business in the larger asset-size categories and business-size categories showing an increase.
Unlike SCBs, the consolidated balance sheet of UCBs expanded at a higher rate in 2009-10 attributable to the growth in deposits on the liability side, and a growth in both investments, and loans and advances on the asset side.

There were emerging concerns with respect to profitability of the UCB sector as net profits posted a decline in 2009-10, due to the decline in the operating profits. Consequently, the RoA of the UCB sector registered a fall from 0.8 per cent in 2008-09 to 0.7 per cent in 2009-10.

There was an improvement in the asset quality of the UCB sector with a decline in the gross NPA ratio from 13.0 per cent at end-March 2009 to 11.8 per cent at end-March 2010.

More importantly, the capital adequacy of UCBs was reasonable, with 86.3 per cent of UCBs complying with the minimum CRAR norm of 9 per cent at end-March 2010.

In line with their role in financial inclusion, about 65 per cent of total advances of UCBs was made towards priority sectors with more than 16 per cent of the total advances being provided to weaker sections in 2009-10.

While State Cooperative Banks, District Central Cooperative Banks and State Cooperative Agriculture and Rural Development Banks earned net profits, the ground level institutions, viz., Primary Agricultural Credit Societies, and Primary Cooperative Agriculture and Rural Development Banks reported net losses in 2008-09.

Despite the improved financial performance, the asset quality of rural cooperative credit institutions witnessed deterioration with the short-term rural cooperative credit institutions accounting for the major share of non-performing loans at end-March 2009.

2010-2011

There was a moderation in the profitability of UCBs while the asset quality of these institutions improved. The number of UCBs attaining minimum statutory capital to risk weighted assets ratio remained stable. However, scheduled UCBs with low levels of CRAR need to improve their capital position. The ongoing
process of consolidation has led to an increase in asset concentration. Given the UCBs’ credit disbursement to small enterprises, housing, education and micro-credit in small towns, these institutions need to play an important role in promoting financial inclusion. With regard to urban cooperative banks, the enactment of the Constitution (97th Amendment) Act, 2011, is likely to bring uniformity with respect to certain provisions in the State Co-operative Societies Acts and also promote professionalism in the management of these institutions. These changes are expected to have an important bearing on the overall operations of UCBs.

2013-14
- The balance sheets of urban co-operative banks (UCBs) showed stable growth in 2013-14. Growth in liabilities was driven by an increase in their other liabilities and deposits. Following consolidation, the number of UCBs came down marginally to 1,589 in 2013-14 from over 1,600 a year ago.
- Net profits of UCBs increased by 31 per cent during 2013-14 as compared to a decline of 25 per cent in the previous year. Although the growth in both income and expenditure decelerated during the year, the sharp contraction in provisions, contingencies and taxes resulted in an increase in their net profits. Consequently, RoA and RoE of UCBs improved to 0.9 per cent and 9.0 per cent, respectively, during the year from 0.8 per cent and 7.2 per cent during 2012-13.

2014-15
- As at end-March 2015, India’s co-operative banking sector comprised of 1,579 Urban Co-operative Banks (UCBs) and 94,178 Rural Co-operative Credit Institutions, including short-term and long-term credit institutions. During 2014-15, the UCBs witnessed a moderation in their asset growth and an increase in their net profits. During 2013-14, the balance sheets of all rural co-operative banks, except the short-term State Co-operative Banks (StCBs), witnessed either deceleration or reversal in growth. The state level short term and long-term rural co-operatives witnessed a decline in net profits.
The consolidation of the UCBs continued as the number of UCBs came down from 1,606 in 2013 to 1,579 in 2015. The Reserve Bank had ordered closure of six UCBs in September 2014 on account of charges of money laundering.

2.4 COOPERATIVE BANKS IN INDIA

While commercial banks cater to the requirements of the highly organized industries and commercial undertakings and organizations, the cooperative banks in India, as elsewhere, provide banking facilities to the highly disorganized agricultural sector of the country’s economy (Hajela, 1994).

The cooperative banks are institutions established with the principles of co-operation. The objective of such organization is to facilitate rural credit and to promote thrift and self help among the economically weaker sections of the society. Cooperative banks in India have come a long way since the enactment of the Agricultural Credit Cooperative Societies Act, 1904. The century old cooperative banking structure is viewed as an important institution of banking, having an access to the rural masses and those who are engaged in unorganized productive activities. Thus, this cooperative banking serves as a vehicle for democratization of the Indian financial system.

The cooperative banking structure in India comprises Urban Cooperative Banks and Rural Cooperative Credit Institutions. Urban Cooperative Banks consists of a single tier viz., primary cooperative banks, commonly referred to as Urban Cooperative Banks (UCBs). The rural cooperative structure has traditionally been bifurcated into two parallel wings viz., short term credit institution and long term credit institution. Short term cooperative credit institutions have a federal three tier structure consisting of a large number of Primary Agricultural Credit Societies (PACS) at the grass root level, Central Cooperative Banks (CCBs) at the district level and State Cooperative Banks (SCBs) at the state level. The long term cooperative credit structure has two tiers, viz., State Cooperative Agriculture and Rural Development Banks (SCARDBs) at the State level and Primary Cooperative Agricultural and Rural Development Banks (PCARDBs) at the Taluk level.
2.5 PERFORMANCE OF URBAN COOPERATIVE BANKS IN INDIA

As at end-March 2015, India’s co-operative banking sector comprised of 1,579 Urban Co-operative Banks (UCBs) and 94,178 Rural Co-operative Credit Institutions, including short-term and long-term credit institutions (Chart 3.1). During 2014-15, the UCBs witnessed a moderation in their asset growth and an increase in their net profits. During 2013-14, the balance sheets of all rural co-operative banks, except the short-term State Co-operative Banks (StCBs), witnessed either deceleration or reversal in growth. The state level short term and long-term rural co-operatives witnessed a decline in net profits. Urban co-operative banks 3.2 The consolidation of the UCBs continued as the number of UCBs came down from 1,606 in 2013 to 1,579 in 2015 (Chart 3.1). The Reserve Bank had ordered closure of six UCBs in September 2014 on account of charges of money laundering. Performance of UCBs 3.3 Growth in assets of UCBs witnessed moderation during 2014-15 as compared to the previous year (Chart 2.2). Slowdown in growth of assets was led by lower growth in ‘other assets’ of UCBs. Loan & advances grew by about 12 per cent and contributed significantly to the total increase in assets in 2014-15.

Figure – 2.2

Structure of co-operative credit institutions in India – position as on March 31, 2015

[Diagram showing the structure of co-operative credit institutions in India as of March 31, 2015.]

DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

Notes: 1. Figures in parentheses indicate the number of institutions at end-March 2015 for UCBs and at end-March 2014 for rural co-operatives.

2. For rural co-operatives, the number of co-operatives refers to reporting co-operatives.

Source: RBI.
2.6 ORIGIN AND GROWTH OF URBAN CO-OPERATIVE BANKS IN INDIA

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. These banks were allowed to lend money only for non-agricultural purposes till 1996. This distinction does not hold good today. These banks were traditionally concentrated around communities, localities and work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has broadened considerably and they work as parallel institutions of commercial banks.

The origins of the urban cooperative banking movement in India can be traced to the close of nineteenth century. Co-operative societies were set up in India based on the inspiration drawn from the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany. Cooperative societies are established on the principles of co-operation, mutual help, open membership and democratic decision making. Cooperatives highlighted a new and alternative approach to organization as against proprietary firms, partnerships and joint stock companies, which represent the main forms of commercial organization.

2.6.1 The Beginnings

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, also popularly known as Bhausaheb Kavthekar. The urban co-operative credit societies, in their initial phase came to be organised on a community basis to meet the consumption oriented credit needs of their members. Salary earners’ societies inculcated the habits of thrift and self-help amongst people. And, hence played a major role in popularizing the movement, especially amongst the middle class and organized labour. From its origins till today, the thrust of UCBs has been to mobilize savings from the middle and low income urban groups and purvey credit to their members - many of which belong to the weaker sections.

The enactment of Cooperative Credit Societies Act in the year 1904, however, gave the real push to the movement. The very first urban cooperative credit society was registered
in Canjeevaram (Kanjivaram) in the erstwhile Madras province in October, 1904. 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. Amongst the other 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 Kanakavli-Math Co-operative Credit Society and the Varavade Weavers’ Urban Credit Society (March 13, 1906) in the South Ratnagiri (now Sindhudurg) district.

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 found 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 realized 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 the year 1913-14, about 57 joint stock banks collapsed. As a result, there was a flight of deposits from joint stock banks to urban cooperative banks. Maclagan Committee explained this event that as a matter of fact, the crisis had an opposite effect, and in many provinces, people started withdrawing deposits from non-cooperatives and were placing them in cooperative institutions. The committee further explained that people were giving preference to the co-operative institutions partly due to their local character and mainly due to the Government connection with Cooperative movement.

2.6.2 Under State Purview
The Government of India Act was passed in 1919 after many constitutional reforms. These reforms transferred the subject of “Cooperation” from Government of India to the
Provincial (now called States) Governments. The first State Cooperative Societies Act was passed in 1925 by the Government of Bombay. This Act not only gave the movement its size and shape but it also gave speed to cooperative activities and stressed the basic concept of thrift, self-help and mutual aid. Other States also followed the lead. This marked the beginning of the second phase in the history of Cooperative Credit Institutions. It was generally realized that urban banks have an important role to play in economic construction. This was asserted by many committees. The Indian Central Banking Enquiry Committee (1931) founded that the 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 Cooperative 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) was impressed by the low cost of establishment and operations and thus, recommended the establishment of such banks even in places smaller than Taluk towns.

The first study of Urban Co-operative Banks was carried out 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 also suggested that State Governments should lend active support to their development. In 1963, Varde Committee suggested that such banks should be organised at all Urban Centres with a population of 1 lakh or more and not by any single community or caste. The committee also introduced the concept of minimum capital requirement and the criteria of population for defining the urban centre where UCBs were incorporated.

2.6.3 Duality of Control

However, concerns regarding the professionalization of urban cooperative banks gave rise to the view that they should be better regulated. Large cooperative banks with paid-up share capital and reserves worth Rs.1 lakh were brought under the purview of the
Banking Regulation Act, 1949 with effect from 1st March, 1966 and within the domain 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, interest rates, area of operations, etc.) were to be governed and controlled by RBI and registration, management, audit and liquidation, etc. will be governed by State Governments as per the provisions of respective State Acts. In 1968, UCBs were provided with the benefits of Deposit Insurance.

Towards the late 1960s, great emphasis was laid on the promotion of the small scale industries. UCBs came to be seen as an important tool in this context. The Working Group on Industrial Financing through Co-operative Banks, (1968 known as Damry Group) made an attempt 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 repeated by the Banking Commission (1969).

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

The Hate Working Group (1981) wanted better utilization of banks' surplus funds and desired 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) revised the viability norms and ushered in the era of liberalization. The Madhava Rao Committee (1999) focused on consolidation, control of sickness, laying down of better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks.

A key feature of the urban banking movement has been its mixed character and its uneven geographical spread with most banks concentrated in Gujarat, Karnataka, Maharashtra, and Tamil Nadu. While most banks are unit (single) banks without any branches, some of the large banks have established themselves in many states when multi-state banking was allowed in 1985. Some of these banks are also authorized dealers in Foreign Exchange.
2.6.4 Recent Developments

Over the years, primary (urban) cooperative banks have registered a significant growth in number, size and volume of business handled. As on 31st March, 2012 there were 1618 UCBs of which 52 were scheduled banks and 1566 were nonscheduled banks. Majority of the scheduled banks are located in five states, namely, 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.

Main Committees and Working Groups Formed for Urban Cooperative Banks

With a view to professionalize the management and operations of the Urban Cooperative Banks, the RBI and the Central Government have made continuous efforts in this direction. In order to understand and remedy the problems of these banks, the RBI and Central Government have appointed various committees and groups from time to time. Some of the major committees and groups along with their recommendations are explained here under:

(a) RBI Committee Appointed in 1981

This committee was appointed by RBI to review the arrangements for Institutional credit for agriculture and rural credit. This committee recommended the establishment of NABARD (National Bank for Agriculture and Rural Development), which was established in 1982. NABARD is concerned only with the development of Rural Cooperatives. There are three levels of relationships between NABARD and rural cooperatives, viz., organizational, functional and operational.

(b) The Marathe Committee

This committee found that the Urban Co-operative Banks were unable to extend their geographical reach and spread of services due to rigidity of policies. Thus, RBI constituted a committee under the chairmanship of Mr. S.S. Marathe in 1991 to review the licensing policy related to Urban Co-operative Banks. The committee made the following major recommendations:
• The establishment of UCBs in the areas untouched by banking services should be promoted.
• The approach of “one district one bank” should be adopted and the establishment of new UCBs should be encouraged.
• Viability norms for UCBs should be established and their area of operations should be broadened.
• A comprehensive study on treatment of weak and sick UCBs should be undertaken.

Keeping the narrated facts in view, the researcher has taken an attempt to gather the possibilities of consolidation of cooperative financial institutions, through a study with the Urban Cooperative Banks functioning in Thanjavur District.

2.7 ROLE OF THE UCBS IN THE INDIAN BANKING SYSTEM

The performance of the co-operative banking sector as a whole has attracted attention in recent year. Today they have become an important constituent of the Indian financial system and cover a large segment of society because of their prompt and personalized service. They take the responsibility of covering the unmonitored sector neglected by commercial banks and most priority is given by UCBS to small and medium enterprise UCBs provide service with no bars of caste religion etc. and thus spread the feeling of —Unity of diversity. Some UCBS operate beyond their state of registration and are governed by the Multi state Co-operative Act 1984. They are not responsible only to employees and societies. The UCBs bears some responsibility in the following ways.

A. SERVICE ON BEHALF OF CUSTOMERS

1. Provide facility regarding opening current, saving and fixed deposit accounts and collect deposits.
2. Issue draft, letter of credit and discount bill on a low rate of commission.
3. Provide services of automatic teller machine mobile banking and depository participants and do immediate transfer of money.
4. Computerized bank passbook issued to customers.
5. Received complaint of customers and solve it as early as possible
6. Provide self deposit vault facilities
7. Advances are given to small scale and medium enterprise and cottage industries.
8. Advances against properties, jewelry, govt. securities, life policy and new or old vehicles.

B. SERVICE ON BEHALF OF EMPLOYEES
1. Provide medical facilities and educational facilities.
2. Provide various types of allowances.
3. Maintain various types of funds like staff provident fund bonus fund etc.
4. Conduct training programs for new employees and refresher programs for old employees and organize a seminar and the conferences to update their knowledge.
5. Special education reward is given to employees children for highest percentage.

C. SERVICE ON BEHALF OF SOCIETY
1. Provide donation to educational institutions charitable institutions and hospitals etc.
2. Advances to the weaker sections of the societies to be self-sufficient.
3. Helping to the people at the time of natural calamity like earthquake, flood, drought.
4. Sustain and generate gainful employment.
5. Equal distribution of credit structure by branch expansion particularly in areas which are not covered by the banking system.

2.8 MERGER AND AMALGAMATION OF URBAN COOPERATIVE BANKS
The consolidation of the UCBs through the process of merger of weak entities with stronger ones has been set in motion through transparent and objective guidelines issued in February 2005. Though mergers/amalgamations of UCBs come within the purview of concerned State Government, prior approval from the Reserve Bank is required for obtaining No Objection Certificate (NOC). The Reserve Bank, while considering proposals for merger/amalgamation, confines its approval to the financial aspects of the merger taking into consideration the interests of depositors and post-merger financial stability of the acquirer bank.
The financial parameters of the acquirer bank post merger must conform to the prescribed minimum prudential and regulatory requirements invariably for the merger cases. In addition to the guidelines issued in February 2005, the Reserve Bank issued another set of guidelines in January 2009 for merger/acquisition of UCBs having negative net worth as on end-March 2007. According to the new guidelines, the Reserve Bank would also consider scheme of amalgamation that provides for (i) payment to the depositors under section 16(2) of the Deposit Insurance and Credit Guarantee Corporation Act, 1961; (ii) financial contribution by the transferee bank; and (iii) sacrifice by large depositors.

The process of merger/amalgamation requires the acquirer bank to submit the proposal along with some specified information to RCS/CRCS and the Reserve Bank. The Reserve Bank examines the pros and cons of the merger scheme and places the same before an expert group for further screening and recommendations. If the proposal is found to be suitable Reserve Bank issues No Objection Certificate (NOC) to the concerned cooperative/RCS/CRCS. Pursuant to the issue of guidelines on merger of UCBs, the Reserve Bank received 158 proposals for merger of which the Reserve Bank has issued NOC to 120 proposals as on end-June 2011.

**Table - 2.1**

**Year-wise Progress in Mergers/acquisitions**

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<thead>
<tr>
<th>Financial year</th>
<th>Proposals Received in RBI</th>
<th>NOCs issued by RBI</th>
<th>Merger Effected (Notified by RCS)</th>
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<td>13</td>
<td>4</td>
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<td>2006-07</td>
<td>32</td>
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<td>15</td>
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<td>2007-08</td>
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<td>2008-09</td>
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<td>2009-10</td>
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<td>13</td>
</tr>
<tr>
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<td>13</td>
<td>11</td>
</tr>
<tr>
<td>2011-12</td>
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<td>3</td>
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<td><strong>Total</strong></td>
<td><strong>158</strong></td>
<td><strong>120</strong></td>
<td><strong>95</strong></td>
</tr>
</tbody>
</table>

*Source: RBI, Report on Trend and Progress of Banking in India for the year ended June 30, 2011 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949.*
Out of the 95 mergers reported so far, 59 comprised of UCBs having negative net worth. The maximum number of mergers took place in the State of Maharashtra (58), followed by Gujarat (16) and Andhra Pradesh (10). Details about State wise progress in mergers/acquisitions are furnished in Table 2.2.

Table - 2.2

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<td>22</td>
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<td>3</td>
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Source: RBI, Report on Trend and Progress of Banking in India for the year ended June 30, 2011 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949.

2.9 PROFILE OF UCBs IN THANJAVUR DISTRICT

2.9.1 Nicholson Cooperative Town Bank Ltd.

The Nicholson Cooperative Credit Society, Thanjavur was registered on February 09, 1905 under section 6 (2) of Indian Cooperative Credit Societies Act 1904 and started its function in a single room of the Clock Tower, Thanjavur on February 15, 1905 with registration No.8. The society was named after venerable father of Cooperation, Sir Fredrick Nicholson who made a detailed study of the methods of Cooperation in foreign countries and recommended its introduction in India. The founder President of the society is Rao Bhahadur Swaminatha Vijaya Thevar, Zamindar of Papanadu who adorned the Chairmanship for 20 years continuously. The subsequent Presidents as well as directors devoted to the growth of the society. They are responsible for its present day position as Nicholson Cooperative Town Bank Ltd. Growing along with the Cooperative Movement, the Nicholson Cooperative Town Bank Ltd., has completed 100 years of yeomen service to the public of Thanjavur Town.
Started with a membership of about 180, paid up share capital of Rs. 6,375, deposit of Rs. 1,350 and loan outstanding Rs. 7,000, the bank has made remarkable progress. As on October 31, 2004 the membership has grown to 26305, the paid up share capital swelled to Rs. 71.55 lakhs, the total deposits increased to Rs. 2,994.87 lakhs and the loan outstanding arose to Rs. 1,637.89 lakhs.

The bank has been working within the preview of the Banking Regulation Act, 1949 (as applicable to Cooperative Societies) and necessary license has been issued by Reserve Bank of India for continuing banking business. Further, the bank has been registered as an “insured bank” in term of section 13-A of the Deposit Insurance and Credit Guarantee Corporation (DICGC) Act 1961.

At present the bank is managed by Special Officer appointed by the State Government. The bank transacts all kinds of banking business in its own building situated in the business part of the town. The bank has opened its branch at Yagappa Nagar, Thanjavur on December 12, 1997 with the permission of the Reserve Bank of India.

2.9.2 Kumbakonam Urban Cooperative Bank Ltd., (KUCB)

According to By-Law 1 of the Bank, the Central Co-Operative Bank Ltd, Kumbakonam, was registered and established on 08.02.1913 as a limited liability society under the Act of 08.02.1913. Its registered office is at Kumbakonam.

The organization of the KCUB consists of two wings, deliberative and executive. The deliberative wing consists of the General Body, the Board of Management and the Chairman. The executive wing at the headquarters is further divided into two: the Banking Wing and Administrative Wing. The chart-I gives a clear picture of the organization of the KCUB The General Body is the highest authority in all matters relating to the policy and administration of the KCUB. It meets at least once in a cooperative year. The day-to-day administration of the KCUB is entrusted to the Board of Management. It decides policies and supervises their implementation. The chairman who is the political head of the KCUB is the most important functionary. He, apart from presiding over the meeting of the General Body and the Board, exercises general control and supervision over the affairs of the KCUB.
The Banking Wing on the executive side deals with all banking functions like any other commercial bank. It is headed by the Secretary who is assisted in his duties by an Assistant Secretary. The wing is divided into five sections each under the control of an independent manager viz. Manager Banking, Manager Central Office, Manager Accounts, Manager Loans and Advances, and Manager Branches. These five managers are assisted by many clerks, accountants and cashiers. The administrative wing deals with the general administration, supervision and control. It is responsible for the recovery of loans advanced by the bank. Its other functions include all those matters connected with the board and its committees like the preparation and circulation of agenda, maintenance of minutes book, etc. It is headed by the Chief Executive Officer, who is assisted in his duties by the Development Officer or Liaison Officer. These two heads are assisted by the Manager Administration. This wing is divided into about 17 sections viz. establishment, plans and schemes, loans, paid-secretary, advances and recovery, inward and onward, fair copy, statistical section, societies, supervisors circles, execution and liquidation, legal reviews, dispatch records, typing, provident fund, etc. The branch organizations at the Taluk and village level constitute an important link between the KCUB and the primary agricultural Co-Operative bank. Its main functions are to create the habit of savings among the people: mobilize deposits, scrutinize loan applications and recover the loans in its area of operations. The branch is headed by the Branch Manager who is assisted in his duties by one cashier and one or more clerks. Larger branches have one accountant in addition to cashier and clerks. Both secretary and the Chief Executive officer exercise control over the branches.

2.9.3 Pattukkottai Cooperative Urban Bank Ltd.

Pattukkottai Cooperative Urban bank Ltd. No.2344, Pattukkottai classified under non-agriculture credit society, was registered on November 5, 1917 and started it business on the same day. Duraimanickam Pillai took the initiative to start the credit society in Pattukkottai. Pattukkottai Cooperative Urban Bank, started in the year 1917, had a humble beginning as a non-agriculture credit society. Slowly but steadily the society stretched its arms widely, became an Urban Cooperative Bank and covered almost all fields of banking and served all sector of the public in urban, semi-urban and rural areas.
in and around Pattukkottai town. Loans are granted to members on the security of their immovable property and on the pledge of gold jewels. The bank provides loan to micro, small and medium enterprises in its service area.

PCUB has the following objectives:

- Mobilizing deposits from members as well as non-members.
- Providing loans to members.
- Undertaking collection of bills accepted or endorsed by members and other banking functions.
- Arranging for the safe custody of valuable documents of members.

The management of PCUB is democratic, being based on the principle of one man one vote. The management of cooperative society vests in the general body comprising of all the members. The general body generally meets once in a year. The management of this PCUB is just like any other cooperative institution. The members can meet together, discuss and decide upon the various matters concerning the PCUB. For day-to-day management, there is a managing committee. It consists of five to nine members including President, Secretary and Treasurer. Each member of the managing committee takes upon himself the responsibility of looking after at least one particular function of the PCUB. For instance, one member should be in charge of deposits, second may look after advances while the third may be in charge of establishment and so on.

At present all cooperative institutions in Tamil Nadu including the PCUB are under the control and supervision of the respective special officers. In other words, the Board Management in cooperatives has been superseded by the Tamil Nadu Government and accordingly the PCUB is also under the special officers’ control since 25.5.2001.

2.9.4 Karanthattangudi Dravidian Cooperative Urban Bank Ltd.,

The Karanthattangudi Dravidian Cooperative Urban Bank Ltd., No. E.197/3523 is registered as a Cooperative Society under the Cooperative Societies Act of 1912 - Act II of 1912. Its address shall be: No.1658, Gandhiji Road, Karanthattangudi, Karanthattangudi Post, Thanjavur Taluk in the Thanjavur District. It was classified under Non-agricultural credit society and was registered on March 15, 1919. It started its business on April 14, 1919 with only 25 members and Rs. 310 as the paid-up share.
capital. Thiru Appasamy Vandaiyar, a landlord, took the initiative to start the KDCUB Ltd., in 1919. He was the first president of the bank and the first secretary of the bank was Thiru Umamaheswaranar Pillai. Loans are granted to members on the security of immovable property situated in the registration sub districts of Thanjavur and Karanthattangudi.

The Objects of the bank shall be:

- To borrow funds from members or others to be utilized for loans to members for useful purposes.
- Generally to encourage thrift, self help and co-operation among the members.
- To raise a common good fund for promoting the education of Dravidian boys and girls.
- To issue cheques on and collect cheques, drafts through cooperative Banks with which this bank may have accounts.

The authorized share capital of the bank is Rs. 9.55 lakhs, which consists of 10113 “A” class members whose share is Rs.25 each. The maximum borrowing power of the bank shall not exceed 15 times the paid-up share capital and reserve fund. Individuals are admitted as members of the bank after proper scrutiny of their application and approval of the board of directors. The liability of the members is limited only to their share holdings in the bank. The administration of the bank is vested in the hands of Board of Directors consisting of 12 Members elected by the members. The Directors have to elect, one among them as chairman to look after the day-to-day administration of the bank. There are 15 employees working in the bank. The Board of Directors and the employees are under the direct control and guidance of Managing Director. Periodical inspections are undertaken by cooperative department, in addition to the statutory inspection of the RBI. The bank has been classified as “A” class bank for audit purposes. The department of co-operation of Government of Tamil Nadu deputed two cooperative sub-registrars for the purpose of auditing the accounts of the bank.

2.9.5 Papanasam Urban Cooperative Bank Ltd., (PUCB)

Papanasam is located 25 km away from Thanjavur. The Papanasam Co-Operative Bank Limited (PAPCUB) was established in the year 1969. It was registered under Madras
Co-Operative societies Act, 1967. The area of operation of PAPCUB spread over to the following villages such as Swamimalai, Patteeswaram, Nallur, Saliyamangalam, Ammapettai and Kabistalam. There are thirteen employees working in the Bank in various capacities. The bank is headed by the Secretary. At the lowest level there are six ration shop salesman working under the control of this Bank.

**Nature of Liability**

The liability of the members shall be ten times of the paid up value of their share capital in the PAPCUBs at the time of its winding up. However, this liability condition has no application has no application with regard to the following categories of members of the PAPCUBs

- Minors and persons of unsound mind.
- Nominal members
- Government and
- Central Co-Operative Bank

**Management**

The management of a PAPCUB just like and other cooperative institution be conducted in the general meeting. The members can meet together, discuss and decide upon the various matters concerning the PACB. The general meeting of a PACB should be held generally once or twice a year decides the broad policies. For day today management; there should be a managing committee. It should consist of five to seven members including a President, secretary and treasurer. Each member of the managing committee should take upon himself the responsibility of looking after at least one particular function of the PACB. For instance, one member should be in charge of credit, the second may look after supply, while the third may be in charge of marketing and so on.

**Membership**

The Agriculturists in the village covered by this bank are eligible to become members of the Bank on payment of Rs.25 as entrance fees.

**Share Capital**

The authorized share capital of the Co-Operative bank is Rs.10,00,000 made up of 1,00,000 shares of Rs. 10 each.
Reserves in PAPCUB

The Co-Operative society regularly ploughs back considerable proportion of profits in different reserves, which not only help in strengthening the capital base but also insulate the organization against business risks. Retained earning is a major internal sources of resources in any Co-Operative enterprises. The reserve fund generated out of net profit is a zero cost source, which will reinforce the earning power without incurring extra cost. The building up of reserve fund is contingent upon the quantum of net profit earned in the past which in turn depends on the efficiency in operation of the institution.

Reserves are created out of the net profits by the society every year subject to the provisions of the Co-Operative societies act rules and by laws of respective institution. The Co-Operative societies maintain various types of reserve viz., statutory reserve fund, dividend equalization fund, common good fund, building fund, investment depreciation reserve etc., These reserve always serve as a source of financial strength to the societies. As reserves are the undistributed, accumulated and retained portion of the profit, no interest is payable on it. High proportion of reserves to the owned founds or working capital with reduce the average cost of funds to the society. Holding huge volume of reserves will help the society in a big way to reduce the quantum of borrowings from outside source. This will result in reduction of cost of proportion enabling the society to earn more.

2.10 SUMMARY

The evolution of cooperative banks in the background of the development of banking in India has been seen in this chapter. The cooperative banks in the form of societies were existing in India even before the dawn of professional commercial banks. The cooperative banks were identified as banks for agriculture and rural industries as they were operating mostly in villages and their clientele were from economically and socially backward society of India. The volume of business, wide varieties of financial products, higher level of profitability, legislative support for inland and off shore banking, access to the public for raising capital, etc have enabled the commercial banks to grow fast. In case of cooperative banks, several hurdles, viz., weak capital structure,
limited area of operation (district/state), dual control (central/state government), non-focus on profitability (focus on mutual service), lack of professionalism, etc, have proved to be the stumbling blocks for their growth.

Financial sector reforms and the subsequent developments in banking in India have not spared cooperative banks. RBI has identified cooperative banks as a vital segment of Indian Banking that facilitates the development of rural economy and hence takes several steps to strengthen the cooperative sector. Among the cooperative sector, Urban Cooperative Banks receive special attention of RBI as they are fast in adapting to the changes when compared to other banks in cooperative sector. A mention about the consolidation of UCBs has been seen in this chapter under Marathe Committee 1991, which has recommended ‘one UCB for on District’. The recommendation is yet to be considered. Now many UCBs in India are operating successfully undertaking most of the banking activities of commercial banks. Consolidation of these banks at district and state level will pave way for the emergence of National Integrated Cooperative Banking Sector in India.