Chapter -3

**ANALYSIS AND EVALUATION THROUGH GROWTH**

- Branch Expansion
- Deposit Mobilisation
- Growth in advances specially priority Sector lending
- Development of Different types of Customer from different market segments, i.e., increase in no. of accounts.
CHAPTER 3
ANALYSIS AND EVALUATION THROUGH GROWTH

With a view to promoting orderly and balanced growth of the urban cooperative banking in the state and to avoid unhealthy competition amongst UCBs, RBI did not favour UCBs operating outside the district in which they were registered except in rare circumstances such as in areas which were found to be most backward and where there were no prospects for organisation of new UCBs for serving the needs of small and middle calss people, cottage industries, artisans, etc. in such cases, preference was always given to the existing UCBs functioning in the adjoining district and in case no such bank from such district was interested in opening of its branch at the required place/s, then only banks from other districts within the State were considered for the purpose.

In Order to coordinate the programme of opening of branches by the commercial banks and urban cooperative banks in a consolidated manner based on the aforesaid criterion, small Working Group comprising representatives of commercial banks, UCBs and officers of RBI, were formed to chalk out banking plans for identifying the unbanked/underbanked pockets in these centres. This practice was in vogue till the RBI put in place liberalised branch licensing policy in 1993 for UCBs.
The Marathe Committee, appointed by RBI in the year 1991, had also addressed the issue of branch licensing of urban banks. The Committee had suggested that branch expansion of UCBs may be permitted for sustaining growth of existing banks and it felt “unless there are overwhelming reasons to be contrary, an application for issue of a branch licence need not be rejected, of course subject to the compliance with the relative eligibility criteria/statutory requirements”. Based on the recommendations of the Committee, a mid-term review was made in June 1993 and branch expansion programme was liberalised and banks were allotted centres for branch expansion without many restrictions. As per the observations made in the review, allotment of centres for branches for some time up to 1995 was allowed on tap basis till the concept of annual action plan was introduced in January 1996.

**BRANCH EXPANSION :-**

Though urban cooperative banks were conceived as entities of persons primarily belonging to lower and middle income groups at the time of their inception, no entity can always remain stagnant and lateral expansion is inevitable. Growth of UCBs is an offshoot of their expansion. The Committee endorses the view expressed by Marathe Committee that “unless there are overwhelming reasons to the contrary, an application for branch licensing should not be rejected”. In the responses received from some banks and federations, a view was expressed that if UCBs comply with the regulatory guidelines, they should be allowed to open branches within their area of operation without specific permission from the RBI. This view has been advanced because District Central Cooperative Banks (DCCBs) are enjoying such a freedom. The DCCBs are specifically given this facility under Section 23 of the B.R. Act, 1949, keeping in view the responsibility devolving on them for the disbursement of agricultural loans and their obligation for serving the affiliated primary
cooperative societies. If urban cooperative banks are allowed to open branches without restraint, there is every possibility that it will result in multiplication of branches competing with each other in a particular centre in over banked areas, wasteful duplication ultimately leading to weakness. For an orderly expansion of branches, it is necessary that there should be some regulation on branch expansion of UCBs. In effect, the above demand for freedom questions the very relevance of section 23 of the B.R. Act, 1949 and makes a case for repealing the same. This issue was also addressed by the Marathe Committee and it expressed its disinclination to agree with the above view. Even in case of commercial banks, requirement regarding branch licensing has not been dispensed with, to ensure orderly growth of the banking system in the state.

Researcher feels that while generally greater freedom should be given to UCBs to open new branches, this dispensation should be conditional on the UCBs having previously complied with all regulatory requirements and having demonstrated financial strength and efficient working. Evidence of satisfactory performance can be available only after an UCB functions for some time after its inception. Under the existing policy of the RBI, no UCB is allowed to open a branch for a period of two years from the date of commencement of its banking operations. This provision may be too restrictive and needs to be relaxed to permit an UCB to open not more than two branches at its inception or within a period of two years thereafter, provided its functioning is otherwise satisfactory.

Since entry point capital norms are different for different categories of centres, there is a possibility of banks trying to circumvent these norms by registering a bank in a lower category centre and extending its operation to a higher category centre through the medium of a branch. It
is, therefore, necessary to provide that before a bank registered in a centre opens a branch in a higher category centre, its networth must at least be equal to the entry point capital norm applicable for the higher category.

**Extention Counters**

The Scheme of extension counters (ECs) was introduced in U.P. urban cooperative banks with a view to mobilising deposits and inculcating saving habit among workers/staff/students of big industrial units, hospitals, educational units, etc. who, because of their common working hours and non-availability of banking facilities within a reasonable distance, find it difficult to carry out their banking transactions. Extension counters are intended to provide banking facilities to above categories of people at their work place itself. Therefore, only limited deposit related transactions are permitted at these extension counters. Since the above facilities are not intended for general public, extension counters are not allowed in residential colonies, shopping complexes, market places, etc. Opening of extension counters is governed by the same legal framework i.e., section 23 of the B.R. Act. Prior permission of RBI was necessary to open extension counters. Legally an extension counter does not have the status of an independent branch. With a view to simplify the procedure, RBI had allowed (in June 1993) opening of extension counters without its prior permission subject to compliance with certain eligibility criteria. The RBI, is, however, reported to have learnt that some UCBs tend to circumvent these guidelines and open extension counters at ineligible places and operate them almost like regular branches without even obtaining prior permission of RBI. Normally, this route is opted by those UCBs which are otherwise ineligible for branch licensing under the existing policy of the RBI. Having heard the views of bankers/federations on this issue in the interface
sessions and as per the responses to questionnaire, the Researcher is convinced that liberal licensing dispensation should not be used as an instrument to circumvent the regulatory procedure. The Researcher, therefore, strongly feels that only scheduled urban cooperative banks, which comply with RBI’s norms, may be allowed to open extension counters without prior permission of RBI. Non-scheduled urban cooperative banks should however, obtain prior permission of RBI for opening of extension counters. RBI may also consider decentralising the decision making in this regard, to its Regional Offices.

**Licensing Procedure**

Provisions of section 23 of the B.R. Act, 1949 (As Applicable to Cooperative Societies) enjoin upon urban cooperative banks to obtain specific licence from Reserve Bank of India for opening a new place of business (branch) or changing, otherwise than within the same city, town or village, the location of an existing place of business. Before granting licence, the Reserve Bank may require to be satisfied by an inspection or otherwise as to the financial condition and history of functioning of the cooperative bank, the general character of its management, adequacy of its capital structure and earning prospects and that public interest will be served by the opening or change of location of the place of business, as the case may be. For the purpose of this section, ‘place of business’ includes any sub-office, pay office, sub-pay office or any place of business by whatever name called at which deposits are accepted, cheques cashed or monies lent. Thus, opening of branch or extension counter or collection centre or any other place of business, by whatever name called, at which any of the above activities is carried out, would require specific prior permission of the RBI.
Mobile & Satellite Offices

Commercial banks have been allowed to open mobile and satellite offices subject to compliance with certain guidelines regarding security and internal controls. However UCBs have not been allowed this facility since this venture requires special skill and better internal control mechanism. The Researcher feels that the branch of scheduled urban cooperative bank may extend banking facilities through well protected mobile vans with regular account books, a small safe containing cash, etc., to specified places on specified days in a week at specified hours. If a scheduled UCB is convinced of the need, the satellite offices may also be established at fixed premises in the surrounding /neighbouring places to be controlled and operated from a base branch only after informing the concerned Regional Office of RBI.

Centres For Opening Branches :-

Centres for opening branches are presently allotted taking into account status of bank's compliance with statutory framework; maintenance of CRR/SLR as envisaged under the Act; timely submission of statutory returns; adoption of prudential accounting standards regarding income recognition, asset classification, provisioning and rectification of defects, pointed out in the statutory inspections, etc. Thereafter, UCBs are required to make applications to the concerned RBI office after making arrangements for premises, etc. for obtaining specific licence for opening branches at the allotted centres. The new system of AAP gave a fillip to opening of new branches as a large number of UCBs came forward with request for opening branches. However taking advantage of this liberalised scenario, many smaller UCBs approached RBI with unrealistic AAPs for opening new offices. This has, perhaps, been one of the important reasons why some UCBs which have been allotted centres did not open branches at the allotted centres.
necessitating cancellation of some of the allotted centres. It is also found that some UCBs which have been issued licences to open branches have not opened them even after two to three years of the grant of the licences.

DEPOSIT MOBILISATION

Deposit mobilisation scheme adopted by urban cooperative banks in Uttar Pradesh is not satisfactory. Yes they are showing their efforts in this particular area and trying to attract the customers but they are unable to compete with commercial banks. The position in this regard in other states like maharashtra, Gujarat & Tamil Nadu is just opposite, they are enjoying with a mountain of Deposits and have made their goodwill in this area. Overall we can say that they are trying their best and also want to do something remarkable in this field. Most of the person are yet in a dilemma that what is the term “Deposit”?

Urban Banks includes these items with the category of “Deposits”.

- Credit balance in cash - credit Accounts.
- Margins held against letters of credit, guarantees, bills purchased etc., if these amounts are held in an account of the depositor marking merely a lien or instructions as to disposal.
- Deposits held as security for advances or employees security deposits or staff cash security.
- Accrued interest on fixed and other term deposits.
- Mail and telegraphic transfers from one deposit account to another.
- Amount received for credit of a deposit account but held in “Suspense” pending receipt of full particulars or compliance with some formalities.
- Overdue term deposits and unclaimed deposits/balances.
- Provident fund balances relating to the bank's own staff.
- Deposits of local authorities and quasi-Government bodies like municipal corporations, District Boards, Housing and electricity board etc. which are separate legal entities.
- Deposits of autonomous or statutory Bodies, Government owned corporation, Government Companies, life Insurance corporations, Industrial and state financial corporation etc.

- Security deposits and earnest monies held in the name of Govt. departments on account of Constituents which are payable to the constituents, if not claimed by Govt.

- Deposits held in the individual names of Government and embassy officials, Regimental officers etc.

- Unpresented drafts and pay- orders held in the depositors accounts.

- Staff security deposits deposited in a scheduled bank as per provisions of comp. Act, 1956.

- Balance held in “Sundry Creditors” for the purpose of depositor’s Accounts.

- Recurring deposits, which have ceased to be deposits due to non-payment by clients, pending refund.

- Deposits of non resident rupee accounts.

- Provident fund balances relating to bank’s staff held by bank before they are transferred to provident fund commissioner.

- Balances of Small farmers Development Agency (SFDA), fish farmers development agency (FFDA), District rural development Agency (DRDA).

- Reserve funds of societies held with district/central Co-operative Banks.

- Daily collections of “Pigmy Deposits” credited to sundry creditors account.

- Surplus credited to sundry creditors account after appropriating loan due from the proceeds of term deposits.

* Items which do not fall within the scope of the definition of “DEPOSIT” are as follows.

- Deposits received outside India.
- Outstanding demand Drafts and telegraphic remittances other than transfers from one deposit account to another.
- Pay – orders issued, with exception of those representing the balance in deposit account closed without reference to the depositor.
- Proceeds of bills received for collection held in suspense pending remittance or compliance with certain formalities connected with the remittance.
- Collection account balances held for purposes of remittances.
- Taxes collected and held in suspense account for payment to competent authorities.
- Security Deposits (Earnest Money) held in the name of Govt. or Banking Comp.
- Share call money, deposit for godown locks, staff Guarantee fund, share suspense Account.
- Margins held separately for the specific purpose of appropriation in a contingency.
- Amounts held in suspense for appropriation towards any amount due to the bank. When payment has been received in respect of an advance and the same is held in suspense on account of some dispute or compliance with certain formalities, such amount would not be “deposit” as it is definitely meant to be appropriated towards the amount due.

⇒ For mobilization of the Deposits UCB’s of uttar pradesh are engaged in the following activities.

* Deposit Schemes for senior citizens

Urban Banks with the approval of the Board are offering higher and fixed rate of interest on term deposit of any size, to senior citizens. These schemes also incorporate simplified procedures for automatic transfer of deposits to nominees of such depositors, in the event of death.
* Interest rate payable on Current accounts

These Bank at their discretion, pay interest at a rate not exceeding ½% per annum on current deposits. Interest on current account balances shall be calculated on daily product basis and paid on quarterly or longer rests.

Note:

It has been observed that banks are receiving request from members of certain communities for placing of deposits free of interest with them or for payment of any compensation in lieu of interest payable on such deposits, as receipt of interest is forbidden according to their religious tenets. Acceptance of deposits free of interest violates RBI directives in regard to payment of Int. on deposits. Banks have been advised that no interest free deposits are accepted and no compensation be paid indirectly. The mention of setting up of a separate fund for utilizing such interest amount is also not in order.¹

* Interest Rate Payable on saving Account

The RBI by its directive No. UBD.D.S.PCB-DIR. 7/13.01.00/1999-2000 dated 1st April 2000, has reduced the interest rates on saving Bank A/c from 4.5% to 4%.

Note:

The primary co-operative banks may at their discretion continue to allow additional interest at a rate not exceeding 1% per annum on all saving deposits.

---

¹. RBI Circular Urban bank department 1985
* Acceptance of term deposits for longer period

Banks are not allowed to accept term deposits for a period exceeding 10 to years is deleted.

However, the Reserve Bank has advised that as a matter of prudence, Banks on their own part or in consultation with their federations / Associations, put a limit on the maximum period for which term deposits may be accepted by them. Attention is also invited to the ground rules formulated by Indian Banks association, for its member on the subject of acceptance of deposits for a period of longer than 10 years. In terms of the ground rules, Bank shall not generally accept any deposit for a period longer than 10 years. However they may accept deposits for a period exceeding 10 years in terms of orders of competent courts or in case where interest of minor are involved. The period of a deposit may be extended upto a maximum of 20 years in the case of institutions, Govt. Undertakings, corporate bodies etc. to meet their special needs like creation of sinking fund, amortisation funds etc. under permanent income scheme, the deposit may be accepted for a period not exceeding 10 years and automatic extension beyond the initial fixed period shall be in cycles of not more than 10 years, at the interest rate prevailing at the time of such extension.

- **Branding of deposit receipt issued in respect of term deposits**

All deposits receipts issued in respect of term deposits are branded with the legend that – "The rate of interest payable on the deposits in subject to the directives that may be issued by the Reserve Bank of India from time to time."
* Decreased Depositor: Interest Payable on the deposit:*

In case of a deposit standing in the name/s of a deceased individual depositor on two or more joint depositors, where one of the depositors has died interest is paid in the manner indicate below:

- at the contracted rate on maturity of the deposit;

- in the event of heir/s legal representative/s or nominee/s claiming the payment of deposit before maturity date, the bank, may, at its discretion, pay interest at an applicable rate prevailing on the date of placement of the deposits, without charging the penalty.

- Presently interest in paid to the claimants of a deceased account holder beyond the date of maturity at the interest rate applicable to the period for which the deposit has remained with the bank upto the date actual payment only if the death of the depositor has occurred before the death of maturity of the deposit. No interest is payable beyond the date of maturity of the term deposit on the basis that the depositor failed to exercise his right to renew the deposit for the further period. However the RBI has now advised to pay interest at saving deposit rate operative on the date of maturity till the date of payment.

- If an request from the heir/s, legal representative/s or nominee/s, bank agrees to split the amount of term deposit and issue two or more receipts individually in the name of the heir/s, legal representative/s or nominee/s, it shall not be construed as premature with drawl of the term deposit for the purpose of levy of penalty provided the period and aggregate amount of the deposit do not undergo any change.
Note:

"In the case of legal heirs being residents, the maturity proceeds may be converted into Indian Rupees on the date of maturity and interest be paid for the subsequent period at a rate applicable to the deposit of similar maturity under domestic deposit scheme."

- If the amount of the term deposit is claimed after the date of maturity the, bank shall pay interest at the contracted rate till date of maturity from the date of maturity till the date of payment, the bank shall pay interest as permissible under the directive on interest rates on deposits operative on the date of maturity.

- In the case of balance lying in the current account standing in the name of the deceased individual depositor, interest shall be paid, only after 1st August, 1993, or from the death of the depositor whichever is later till the date of payment, at the rate of interest applicable to saving Bank accounts as on the date of payment.

* Deceased Depositor- Payment of Balance in Accounts to survivor/claimants

- Banks do not insist upon succession certificates from legal heirs of Depositors for any amount i.e. the previous restriction requiring production of succession certificate on amounts exceeding Rs. 25,000/- stands withdrawn. RBI has advised to adopt such safe guards while setting the claims as they consider appropriate, including taking of indemnity bond.

- Banks may call for succession certificate from legal heirs of deceased depositors in case there is a dispute and all legal heirs do not Join in
indemnifying the bank or in certain other exceptional cases where the bank has reasonable doubt about the genuineness of the claimant/s being the only legal heirs of the depositor.

- Presently premature payment of deposits, to the legal heir(s) of a deceased individual, depositor, does not attract the penalty for premature payment as indicated in the Reserve Bank's directive. (Vide directive No. VBD(PCB)/8/DC.V.1/90-91 dated 7th September, 1990). The Reserve Bank has granted a similar concession in the case of premature repayment of deposits standing in joint names, where one of them dies and accordingly in such case also Bank need not levy penalty. They are further advised that in all such cases, it is upto the Banks to decide whether the deposit amount may be paid to the survivor(s) and legal representative of the deceased depositor/s Jointly as they may be advised by bank's legal department/Advisers.

- It has been clarified that substitution of the name of a deceased depositor by the name of the legal heir is by operation of law and if therefore premature withdrawal is sought by the legal heir/nominee/legal representative of deposit (domestic as well as NRE/FCNR) Standing in the name of a deceased depositor, where substitution of the name of the deceased depositor by the name of legal heir/nominee/legal representative has not been effected, Penalty shall not be lived on such premature withdrawal. However, if the deposit standing in the name of a deceased depositor is prematurely withdrawn after the substitution of the name of the deceased depositor by the name of the legal/heir/nominee/legal representative, penalty should then have to be levied because in this case the legal heir, by virtue of the substitution has become the absolute deposit holder at the time of the premature withdrawal.
Note:-

In light of the above, it is left to the legal heir not to opt for substitution of his name in the deposit receipt of the deceased depositor if he is likely to withdraw the amount prematurely so that he can avoid the payment of penalty.

* Transfer/Splitting up of the deposits on the death of the account holder

On the death of the depositor, the bank allow the deposit to be held in the name/s of one or more legal heirs or legal representatives or nominees of the depositor, either jointly in their names or alongwith other person or separately in their names by splitting up the deposits without charging the penalty, provided however in the case of term deposit, the duration of the original deposit and the total amount of deposit does not undergo any change.

* Discretion to pay additional interest to Bank’s staff and their exclusive associations:-

Banks, at their discretion pay an additional interest not exceeding 1% in respect of saving or term deposits account opened in the name of :-

♦ A member or a retired member of the bank’s staff either singly or jointly with any other member or members of his/her family;
♦ The spouse of a deceased member or a deceased retired member of the bank’s staff and
♦ An association or a fund, members of which are members of the Bank’s staff.
- The Banks at their discretion pay additional interest not exceeding 1% on deposits accepted/renewed from the managing director of the Bank, Provided he acts as chief executive of the bank, drawing regular salary from the bank as applicable to the staff members.

The Reserve Bank of India has made certain changes in regard to the payment of additional interest to Bank's staff as under:

♦ The Bank’s staff does not include a person employed on casual basis. However, staff includes a person recruited on probation or employed on a contract of a specified duration or on deputation and an employee taken over in pursuance of any scheme of amalgamation. The benefit of additional interest will expire the cessation of the contract;

♦ An employee retired compulsorily of disciplinary action is not eligible for the additional interest

♦ “Family” means and includes the spouse of the member/retired member of the bank’s staff and the children, parents, brothers and sisters of the bank’s staff, who are dependent on such member but shall not include include legally separated spouse;

♦ The additional interest shall be payable only as long as the person continues to be eligible for the same and in case of his ceasing to be so eligible till the maturity of the deposit in the case of term deposit account.

* Interest Payable on overdue deposits (Matured Deposits):

These Banks allow on overdue term deposits or a portion of the said overdue term deposit from the date of maturity provided:-

- The total amount of overdue deposit or the part thereof is renewed from the date of its maturity till some future date.
- The interest allowed shall be at the appropriate rate, operative on the date of the maturity of such overdue deposit, which shall be payable only on the amount of the deposit so renewed.

- At present overdue Domestic term deposits are renewed at an interest rate applicable on the day of maturity. In order to facilitate better ALM, it has been decided that the renewal of overdue term deposits at the rate of interest prevailing on the date of maturity be allowed only for an overdue period of 14 days. In case the old deposit period exceed 14 days and the depositors places entire amount of overdue deposit or a portion thereof as a fresh team deposit, banks may prescribe their own interest rates for the overdue period on the amounts so placed as a fresh deposit. Banks, however, have to inform the depositors in advance of their policy for renewal of overdue deposits.

* Interest Payment on term deposits maturing on a Holiday :-

  In case where the due date of payment of the proceeds of a fixed deposit full on a holiday(s) or Sunday intervening between the date of expiry of the specified term of deposit and the date of payment of the deposit on the succeeding working day, interest at contracted rate is allowed for the intervening period provided the claim for its refund is made immediately on the next succeeding working day. It is clear that interest should be paid for the intervening holiday(s)/Non-business working day, irrespective of whether the depositor seeks repayment on the succeeding day or later on.

* Premature closure of term deposit, a deposit in the form of daily deposit or recurring deposit for reinvestment in term deposit :-
The primary co-operative Bank of U.P. on a request from the depositor allow closure of a term deposit, a deposit in the form of a daily deposit or recurring deposit to enable the depositor to immediately reinvest the amount lying in the aforesaid deposits with the same bank in other term deposit. These Banks pay interest in respect of such term deposit without reducing the interest by way of penalty. Provided that the deposit remains with the bank after reinvestment for a period longer than the remaining period of the original contract.

In respect of recurring deposit, the interest shall be allowed on compounded basis. Such reinvested deposit shall remain in the bank for a period longer than the remaining period of the original contract.

* Transfer/Splitting up of deposits of Joint accounts :-

These banks, at their discretion, and at the request of all the Joint account holders of a deposit receipt

- Allow the addition or deletion of names of joint account holder.

- Allow the splitting up of the joint deposits in the name of each of the joint account holder(s) only;

- Allow an individual depositor to add the name of another person as a joint account holder, provided that in no case shall the amount or duration of the original deposit undergo change in any manner in case the deposit is a term deposit.

* Service to Non Resident Indian (NRI) depositors:-

The urban cooperative Banks of U.P. are dealing with non resident Indian (NRI) depositors to extend prompt attention to the reference
inquiries from such depositors. The Banks are advised to endeavor not to give room for any complaint from such depositors by offering best possible service to them. The Bank may at the time of opening such deposit accounts seek instructions from the depositors as regards automatic renewal of the deposits and the method of payment of periodical interest on these deposits. If such clear instructions are obtained, it would be easier for the Banks to make payment of interest and avoid delays. Providing services to the satisfaction of non-resident Indian depositor would help in mobilization of foreign exchange.

* Interest Rate on NRE Deposits

- Since 1st March, 1982 and upto 31st March, 1987, urban Cooperative banks, which are authorised dealers in foreign exchange and which accept term deposits having a maturity period of one year and above under the foreign currency (Non-Resident) accounts scheme (FCNR) and non-resident (External) Rupee Accounts (NRE) are paying interest on such deposits at 2% per annum above the rates specified for domestic for the relevant periods.

- Effective 1st April, 1987 and independent structure of interest rates and maturities have been specified.

- Effective 1 October, 1992, different maturity period and interest rates for the term periods have been abolished and instead cap rates has been fixed for deposits of 6 months to 3 years and above.

- Effective 4th April 1996, duration of the term deposit was reduced to 2 years and the Banks were given freedom to fix the interest rates on the deposits of over 2 years duration.
- Effective 16th April 1997, the duration of the term deposit has been reduced to one year and interest rates were linked to Bank Rate minus 2 percentage points.

- Effective 13th September 1997, with a view to provide greater flexibility to the banks in mobilising non-resident deposits, the Banks have been given complete freedom to fix interest rates on NRE Term deposits of 6 months and above.

Note:
The Banks should however obtain the prior approval of their respective Boards for the deposit rates, they will be offering on deposits of various maturities. The revised term deposit rates will apply only to fresh deposits and on renewals of maturing deposits.

* Deposit Schemes involving Awards or Prizes and Gifts:-
- These banks do not introduce deposit schemes which envisage awards or prizes based on lucky draws to be conducted. RBI has been advised these banks to conform the following ground rules.

♦ No Prizes or gifts etc. are to be given or linked with any deposit schemes.

♦ Banks shall not have any deposit schemes linked with any lottery prizes, lucky deposits, gifts, prizes or any other benefit to the depositors even if such gifts, prizes or benefits come from depositors own money, such as part payment of principal or occurred future interest or the difference between the compound and simple rate of interest.
- RBI has advised, that Banks should desist from launching prize-oriented deposit mobilisation scheme paying brokerage in the form of commission or gift or incentives on deposits in any manner or in any other form. The Banks have also been advised to desist from accepting large deposits offered by agents on commission basis.

- The Reserve Bank of India has withdrawn with immediate effect the permission granted to primary co-operative Banks to offer gifts or incentives within the discretionary additional interest, which these Banks were paying. The Banks have been advised to terminate all deposits with gift schemes. However, they are allowed to continue the scheme already started till maturity of the said deposits.

* **Interest payable on loan against term deposits**

  The RBI has now given freedom to the Banks to fix the rate of interest on all advances against term deposits.

* **Margin on Advances against term deposits**

  The Reserve Bank of India has withdrawn the minimum margin requirement of 15% on advances against term deposits. Primary cooperative Banks are free to determine the rate of margin to be maintained on advances granted by them against term deposits.

* **Renewal and delivery of deposits to customer when the same is from another Bank for collection**:

  As certain complaints have been made regarding the deposit receipts sent by a collecting bank to the deposit receipt issuing Bank, the Reserve Bank has examined the issued and observed that the practice adopted by some of the Banks viz. that the deposit receipts received from
the collection Banks have been either renewed straightaway by them without sending them to the collecting Bank is unethical apart form being legally unsound. The Banks are, therefore, advised to take a note that the deposit receipt received for collection from another Bank should neither be renewed by the deposit receipt issuing Bank nor delivered to the customer directly. The receipt issuing Bank should either pay to the collecting Bank or else the instrument should be return to it, if the issuing bank has any valid reason for not paying the instrument.

* Deposit Collection Schemes floated by Private organisation and sale of lottery tickets by Banks

The RBI has advised the Banks that lottery would fall within the expression “Prized chits” under the “Prized chits and money circulations scheme (Banning) act 1978, and that the sale of lottery tickets on Bank counters could be open to abuse and avoidable complaints from members of public. The Banks are, therefore, advised, not to associate themselves directly or indirectly with organisation of lottery schemes of any description.

* Interest Rate” an Important factor in Deposit Mobilisation :-

The Reserve Bank of India for the first time issued a directive on the interest rates on deposits on 16th August 1974, Subsequently several directives were issued clarifying/modifying certain provisions. The RBI has since issued a consolidated directive bearing No. UBD / (DC) / 102 / 86 / 87 dated 25th June, 1987, incorporating all the modifications issued upto that date, Subsequently, certain classifications have been issued and these have been indicated under the appropriate clauses.
- Till April 1992: Int. rates on deposits were fixed by the Reserve Bank of India on slab system with lower rates for shorter duration and higher rates for longer duration. There were almost eight slabs of different duration ranging from 15 days to 5 years and above. In April 1992, the slab system were abolished and cap rate was introduced for deposits of over 46 days to 3 years and above, allowing Banks to fix their own maturity slabs and rates of interest with the minimum of at least 3 maturity prescriptions with minimum interest rates differential between any two successive maturity slabs of at least 0.25 percentage point.

- In October 1995: The fixed rate of interest on term deposit of 46 days to 3 years was removed and a cap rate of 12% was fixed for deposits of 46 days and upto 2 years period. Banks were given freedom to fix their own rates of interest on deposits of over 2 years duration Even the 3 maturity prescriptions with minimum interest rate differential of 0.25 percentage point between any two successive maturity slabs was also abolished. Effective 2nd July 1996, the maturity period of term deposits has been reduced from minimum 46 days and upto 2 years to 30 days and upto 1 years. For deposits of over 1 year, the Bank have been given freedom to fix their own rates of interest and also the slabs. Effective 16-4-97 the interest rates on term deposits of 30 days to one year have been fixed linking to bank rate minus 2% the revised term deposit rates will apply only to fresh deposits and on renewals of matured deposits.¹

---

¹ RBI Circular Urban Bank Department 1995.
- In October 1997:- RBI has given freedom to the Banks to fix the interest rates on domestic term deposits with a maturity of 30 days and over. The Banks may offer fixed rate on deposits or a floating rate clearly linked to an anchor rate. The Bank should adopt uniform rates at all their branches and for all customers.1

- In April 1998- The RBI has reduced the minimum period of maturity of domestic term deposits from 30 days to 15 days. It has also permitted the Banks at their discretion to offer differential rates of interest on domestic term deposits of the same maturity.2

- In April 2001- The minimum maturity period for domestic/ordinary non-resident/non resident special Rupee (NRSR) term deposit has been reduced from 15 days to 7 days at the discretion of the Banks. But this facility will be available only in respect of single term deposit of Rs. 15 lac and above.

*Safe Deposit locker facility :-*

Some urban Banks are following these working Technanics in regard to provision of safe deposit locker facility :-

- All applications received for allotment of locker entered in the waiting list and the number in that waiting list communicated to the applicant by acknowledging the receipt of his application.

- Atleast 60% of the lockers has been alloted by the banks on first come-first served basis. The remaining lockers may be alloted by the

1. RBI Circular Urban Bank Department 1997
2. RBI Circular Urban Bank Department 1998
bank, at its discretion, to valued customers and on business consideration.

- These banks do not insist on fixed deposits as a pre-requisite for allotment of lockers. There is, however, no objection to a bank seeking a deposit (but not as a precondition for allotment) from the applicant who has been allotted a locker, the amount of this deposit should be such that the interest payable thereon (as per Reserve Bank's directive) may not be more than the annual sent of locker. In the alternative advance payment of locker rent may be collected for a period of 3 years. In the case of those who opt for annual payment of rent and default payment, they should not be allowed to operate the locker till in areas is cleared.

Like Commercial Banks, the urban banks also raise a large proportion of their working capital by way of deposits. In actual practice, urban banks have adopted a number of ways for tapping deposits are accepted by these banks :-

(i) Current (ii) fixed (iii) Savings (iv) Recurring (v) home safe (vi) chit funds (vii) Provident fund deposit of staff (viii) Provident fund deposit and (ix) day deposits. The nature and operation of current account, fixed deposit account and savings deposit account are more or less the same as those in the field of commercial banking. A recurring deposit is an assured deposit and must go on depositing the agreed amount up to certain period. The whole amount and accumulated interest thereon at a certain rate, is repaid on the expiry of the agreed period. Home safe deposits are intended to inculcate the habit of thrift among women and school-going children and others, the depositors are provided with a sealed home safe
or boxes having a slit on the top to enable them to put inside their small savings. At the end of the month the boxes are collected and opened. The accumulated amounts are credited to the home-safe deposit holders. Interest at a certain rate is allowed on such deposits. The total amount thus, deposited becomes payable only after the expiry of a certain period. No withdrawal is allowed in the middle of the agreed period. Chit fund deposits are the most popular in Tamil Nadu. On application of 10 or more members, the Board of Directors of an urban banks may start conduct chit funds to secure savings. The number of members of a single chit fund is not less than 10 and not more than 24. The total amount of any chit fund is not more than Rs. 2400.00. The period during which a chit is to run is not less than 10 and not more than 24 months. Every member has to subscribe for at least one share but no one can take more than three shares. The method of disposal of a chit fund amount is generally the auction system. The discount in disposing of any chit fund is not less than 4½% and not more than 8%. The member are jointly and severally responsible for any loss arising by any member of the chit failing to fulfil his engagements. The Board of Directors has full discretion in the matter of obtaining security from members to whom the chit amount is allowed.

The provident fund deposit is a novel way adopted by the urban banks for increasing their working capital. The provident fund contribution of the full-time paid staff of the bank is deposited into this account. The bank allows quite attractive interest on the whole amount. It also allows loans to the beneficiaries from this fund. The whole amount is permanently available to the bank for investment until the retirement of the employees.
Provident fund deposits are intended to offer facilities to the people, especially to those of low means; to make provision for themselves against physical incapacity and old age and for their family in the event of their death. The deposits are generally made in fixed monthly installments for a period, as agreed to by such depositors, generally ranging between 7 years and 30 years.

The facility of day deposits is provided to enable daily wage earners to save something from their daily wages. The depositors have to pay a nominal admission fee for obtaining the benefit of such account. In case of default, the bank charges some penalty from the defaulters. On the expiry of the period the amount is paid back to the depositors with interest.

The urban cooperative banks can borrow either from member or non-members or from other institutions. Their borrowings are limited to certain times of their paid-up share capital and reserve fund.

UCBs of U.P. are adopting a various kind of policies for improving the position of their deposits. But their deposits are not showing an attractive increase. The table ahead shows the position of their deposits up to the year 2003.

<table>
<thead>
<tr>
<th>Year</th>
<th>Deposits</th>
<th>Reporting Banks to RBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>Rs. 889 Crore</td>
<td>57</td>
</tr>
<tr>
<td>2002</td>
<td>Rs. 1009 crore</td>
<td>47</td>
</tr>
<tr>
<td>2003</td>
<td>Rs. 1240.25 crore</td>
<td>72</td>
</tr>
</tbody>
</table>

(Source – Urban Banks Department, RBI)
Above mentioned table is showing a gradual growth of deposit from 2001 to 2003. So UCBs should provide more facilities to their customer for the increase in deposits and should also control the staff.

**GROWTH IN ADVANCES SPECIALLY PRIORITY SECTOR LENDING**

Urban Co-operative Banks advances loans to their members. After meeting the demands of the members they give loans to the non-members on the security of their deposits for a number of useful purposes. There purposes can be :-

- Advances to the artisans for the purchase of implements and raw materials.
- Advances to traders;
- Payment of prior debts;
- Purchase of food grains and other necessary requirements;
- Ceremonial purposes;
- Educational Purposes;
- Payment of Insurance Premia;
- Medical Expenses;
- Payment of rent, taxes etc.
- Building, Buying or repairing of dwelling – Houses;
- Improvements on land and purchase of land
- Manufacture or purchase of country carts;
- Purchase of cattle and
- Purchase of seeds, manures or agricultural implements etc.

The loans are granted for a period not exceed 3 years. Loans are generally given on the following securities :-

- Fixed deposit receipts upto 90% of their face value;
- One the guarantee given by solvent members.
- Unencumbered immovable property not exceeding 40 to 50% of the market value of the hypothec
- Govt. Securities and life insurance policies
- Central land development bank debentures up to 80% of their market value
- Agricultural produce and finished products upto 60% to 70% of their market value.

The individual credit limit is fixed according to the shares held by the members. They may be allowed surety loans on the basis of shares upto 10 times of their share holding. Non-members are not generally accepted as sureties. Credit limits are also fixed for mortgage loans, It may be 20 times of the paid-up share Cap of a member willing to obtain mortgage loan. Overall credit limit is generally prescribed in the byelaws. Absolute limits for all types of loans are generally laid down in the byelaws. In granting loans UCBs give preference to loans on the security of deposits. Loans are also given by way of cash credit. The period of the loan is fixed by the president and the directors of the board. The repayments are allowed in easy monthly installments. In case of default the same remedies are open to urban cooperative Banks as to other cooperative societies.

**Priority Sectors Lending**

- The urban cooperative banks should achieve a target of 60% of their total advances for priority sector lending.
- Of the total priority sector advances, atleast 25% (or 15% of the total advances should have been advanced to weaker sections.)
**Note:**

- Atleast 40% of the advances under the small scale industries, within the priority sector, should be granted to cottage industries, Khadi & village industries, artisans and tiny industries (with investment in plant and machinery upto Rs. 5 lacs) or other small scale industrial units availing credit limit upto Rs. 5 lacs

- A separate register should be maintained to record the information relating to the priority sector lending made by a bank.

- List of priority sector items and those to be considered as weaker section advances.

<table>
<thead>
<tr>
<th>Priority Sector items</th>
<th>Advances which are considered as those to weaker sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Advances to individuals for activities allied to agriculture.</td>
<td>Person with borrowal limits not exceeding 50,000/-</td>
</tr>
<tr>
<td>* Loans and advances to cottage/Small scale industries and equipments/systems for the development of new and renewable sources of energy</td>
<td>Advances upto 50,000/-</td>
</tr>
</tbody>
</table>
| Advances made to a road and water transport | Advance upto Rs. 50000/- for purposes of cycle/rickshaws, auto-rickshaws, small boats etc. and also for repairs and replacement of spare parts.

- Owning not more than six vehicles (Including the one proposed to be financed in respect of Banks having DTL of more than
25 crores be reckoned as priority sector advances.)
- Owning not more than ten vehicles (including the one proposed to be financed in respect of Banks having DTL of more than 25 crores be reckoned as priority sector advances.)
* Retail traders:
  (i) Private retail traders dealing in essential commodities (fair price shops)
  (ii) Other Private retail traders with credit limit not exceeding Rs. 50,000/-
* Small business enterprises.
* Professionals and self-employed persons.
* Educational loans
* Loan to software industry: credit limit up to Rs. 1 crore from the banking system
* Loans for Housing
  - Loans upto Rs. 10 lacks to individual, granted for the purpose of construction, be considered as priority sector advances. Loans upto Rs. 50,000 for repairs, additions and alterations, would
Advances upto Rs. 50,000/-
Advances upto Rs. 50,000/-
Advances upto Rs. 50,000/-
Advances to persons having monthly income not exceeding Rs. 2000/-
be reckoned as priority sector advances.
- Assistance granted to any Governmental agency for the purpose of construction of houses exclusively for the benefit of SC/STs, Where the loan component does not exceed Rs. 5 lakhs per unit and all advances for slum clearance and rehabilitation of slum dwellers would continue to be classified as weaker section advances. Besides the governmental agencies, assistance given to non-governmental agencies, approved by national Housing Bank for all the categories of borrowers as applicable to Government Agencies.
- All investments in Bonds issued by NHB/HUDCO exclusively for financing of housing, irrespective of the loan size, per dwelling unit, will be reckoned for inclusion under priority sector advances.
i. Consumption loan upto Rs.1000/- per individual.
(Source : Urban Banks Circular 2000)
Note :-

- All advances upto the limits specified under the priority sector granted to schedule castes/schedule Tribes and women, which are to be reckoned towards priority sector, would also be treated as advances to weaker section.

- The Reserve Bank of India has advised that advances granted by primary cooperative Banks to non-banking financial companies for financing of trucks for the purpose of on-lending to SRWTOs, be treated as priority sector lending, provided the ultimate borrowers satisfy the eligibility requirements for being classified under the priority sector.

- In order to ensure that credit is available to all segments of SSI sector, it has been suggested that out of the funds available to all segments of SSI sector, it has been suggested that out of the funds available to SSI sector under priority sector advances, banks should ensure that 40% will be made available for units with investment in plant and machinery upto Rs. 5 lakhs, 20% for units with investment between 5.00 lakhs and Rs. 25 lakhs and the remaining 40% for other SSI units.¹

The Particulars of activities allied to agriculture, cottage, industries, small scale industries, new and renewable sources of energy, small business enterprises, professional and self employed person, Education loans, Housing loans, consumption loans which come under priority sector have been furnished in detail. In brief they are :

---

¹ RBI Circular Urban Bank Department 1998
Activities allied to agriculture

The following activities undertaken by the members of the urban cooperative Banks will comprise activities allied to agriculture:

- Development of dairy and animal husbandry.
- Development of Fisheries.
- Development of poultry, piggery, etc.
- Development and maintenance of stud-farms, be -keeping, sericulture, etc. However, breeding of race horses can not be classified.
- Purchase of bullock carts, camel carts, Pack animals etc.
- Distribution of inputs for allied activities such as poultry, cattle feed etc.

Artisans village & cottage industries etc.

Artisans or small industries activities (viz. Manufacturing, processing, preservation or servicing) involving utilisation of locally available natural resources and/or human skills.

Small scale industries

- Definition of Small scale and Ancillary industrial undertaking:
- The government of India has raised the ceiling on investment in Plant and machinery of SSI/ ancillary units to Rs. 3 crores from the existing limit of Rs. 60 lacs and Rs. 75 lacs respectively.

Note: -

- The definition of “ancillary units” has been modified and according to the government notification, an ancillary unit is one which sells not less than 50% of its manufactured products or services, to one or more industrial units.
- Industrial units in the small scale sector get tax concessions. No excise duty is imposed on items produced by units with a turnover of less than Rs. 20 lacs.

- The investment limit for the tiny sector has been raised from the present limit of Rs.2 lacs to Rs. 5 lacs.

- The time period for applying for registration of new SSI units, fixed earlier at 180 days, has been done away with it as per the notification No. S.O. 857 (E) dated 10th December 1997, issued by the government of India, Department of industrial policy and promotion.

- The Development Commissioner (SSI), ministry of Industries, Government of India vide his letter No. 5 (1)/87/SSI-1 dated 27th December 1987, has clarified that all undertaking engaged in activities such as maintenance, repair, testing or servicing of all types of vehicles and machinery of any description, including/electronic/electrical equipment/instruments, i.e. measuring/controlling instruments, televisions, tape recorders, VCRs, Radios transformers, mators etc. would be recognised as industrial activity eligible for registration as ‘small scale industrial undertakings’, provided that such undertakings satisfied the parameters of small scale industries as laid down from time to time. The units engaged in such activities would be eligible for all facilities and incentives as would be available for small scale industrial undertakings.

Ownership of Units :- Two or more undertakings

The Reserve Bank had advised that if an industrial undertaking / Proprietor/Partner, sets up two more units within the same state or
outside, whether manufacturing similar or different items, fixed investments in Plant & machinery of all such units, will be clubbed for determining the small scale/ancillary industrial status of the units. It is further clarified that investment of the industrial undertaking as a whole is to be clubbed and not to the extent of the share of the partner.

- Government of India, ministry of Industry vide its circular No. 4(1)/93-SSI Bd. & Policy, dated 21st September 1993 has clarified that the cost of cylinders used by industrial use gas manufacturing units, should not be included as part of cost of plant and machinery, while computing the investment in plant & machinery for determining the status of SSI in case of industrial gas manufacturing units.

**SSIs registered before December 1999**

The Govt. on march 15, 2000 clarified that units which had obtained permanent registration prior to December 1999 notification would continue to be regarded as small scale industries. Under the December 1999 notification, the government had reduced the investment limit on plant and machinery from Rs. 3 crore to Rs. 1 crore for units to be regarded as SSIs or Ancillary industrial undertakings.

**Small Scale Industrial Sector.**

- Promulgation of Ordinance.
- Recommendation of the SSI Board.

The Government of India has promulgated an ordinance (No. 15 of 1992) titled “The interest on delayed payment to small scale and Ancillary industrial undertakings ordinance 1992” and Published in the Gazette of India, Extraordinary, part II, section 1 on 23 September 1992 for regulating the payment of interest on delayed payment to small scale and
ancillary industrial undertakings and for matters connected therewith or incidental thereto. It has since been amended with effect from 11 August 1998, as published in the Gazette of India, Extraordinary, part II, Section 1 on 11 August 1998.

The ordinance 1992 was promulgated to provide for and regulate the payment of Interest on delayed payments to small scale and ancillary industrial undertakings and for matters connected therewith or incidental thereto. The amended ordinance, besides other charges provides for

- Fixing the period to 120 days from the date of acceptance or the day of deemed acceptance for payment

- Rate of Interest to be one and half time of prime lending Rate charged by the state Bank of India

- The state Government may by notification in the official Gazette establish one or more industry facilitation council at such places exercising such jurisdiction and for such areas as may be specified in the notification.

- As the 44th SSI Board meeting held on 30th August 1997, the following recommendation had been made:

- The manufacturing and non-manufacturing enterprises amongst the sick units should be differentiated. The share of non-manufacturing sick units is substantial and affects the flow of credit to the manufacturing units.
- The under utilization of installed capacity in small-Scale sector for various item is a grey area. Institutional initiative involving state directorate of Industries and financial institutions will facilitate in improving capacity utilisation leading to better returns and productive use of investment. The Banks will particularly be required to support small industries on their increased working capital requirements with the improvement in the capacity utilisation.

The Units that had obtained provisional registration from state Authorities for their SSI status would continue as SSI units, provided the registration was done within the period of limitation of 180 days specified in the order.

- It is further classified that units which had switched over to the SSI status, based on the order dated 10\textsuperscript{th} December 1997, would continue as SSI Units, despite the new order. (Ref. RBI Circular UBD NO. plan PCB CIR 07/09.27.00/99-2000 dated 21\textsuperscript{st} September 1999)

\textbf{New and renewable sources of energy}

This category cover the following activities of manufacture and use of equipment/Systems for development of new and renewable sources of energy.

- Flat plate Solar collectors.
- Concentrating and pipe type solar collectors.
- Solar Cookers.
- Solar water heaters and systems.
- Air/Gas/fluid Heating systems.
- Solar, refrigeration Cold storage and air conditionings systems.
- Solar crop dryers and systems.
- Solar pumps based on solar thermal and solar photo voltaic conversion.
- Solar power generating systems.
- Solar photo voltaic modules and panels for water pumping and other application.
- Wind mills and any specially designed devices which run on wind mills.
- Any special devices including electric generator and pumps running on wind energy.
- Bio-gas plants and bio-gas engines.
- Electrically operated vehicles including batter operated or fuel cell powered vehicles.
- Agricultural and municipal waste conversion devices producing energy.
- Equipment for utilising ocean waves and thermal energy.
- Machinery and plant used in the manufacture of any of the Above Sub-items.

**Small Business enterprises**

Small Business enterprises include individuals and firms managing business enterprises established mainly for the purpose of providing services, whose original cost of equipment does not exceed Rs.5 lakhs and have working capital not exceeding Rs. 3 lakhs. An illustrative list of small business enterprise is indicated below:
- Agents selling goods on Commission basis.
- Booking, clearing and forwarding agents.
- Estate agents.
- Press cum publishing houses etc.
- Hair dressing-saloons.
Professionals and self-employed persons

Professionals and self-employed persons are those, whose borrowings (Limits) do not exceed Rs. 5 lacs, of which not more that Rs. 2 lakhs should be for working capital requirements. However, in the case of qualified medical practitioners setting up practice in the semi-urban and rural areas, the aggregate borrowings limits should not exceed Rs. 10 lacs, of which not more than Rs. 2 lakhs should be for working capital requirement. Further, advances granted to a qualified medical practitioner for purchase of motar vehicle within the above mentioned revised ceiling may be considered as eligible to be reckoned towards priority sector.

Such activities, as will be carried out by using the skill and labour of the individuals or that of his/her family members alone, will be covered under this category of persons. Loans including advances for the purpose of purchasing equipment’s, repairing or renovating existing equipment and/or acquiring and repairing business premises or for purchasing tools and/or for working cap. Requirements to medical practitioners including dentist, chartered accountant, cost accountants, surveyors, construction contracted management consultants, persons trained in any other art or craft who holds either degree or diploma from any institution established, aided or recognised by government, or, to a person who is concerned by the bank as technically qualified or skilled in the field in which he is employed. Loans for purchase of cars, Scooters, motorcycles etc. to these categories of persons (other than qualified medical practitioners) to the extent and in the manner indicated above are not considered priority sector advances.

Besides, all advances to the following categories of persons, will also be classified under advances to self employed persons viz., Xerox
operators, Small tea -stall owners, carpenters, plumbers, handcart pullers, hand loom weavers, milk procurers, bamboo workers, quilt makers, lace artisans, hand-block printers, new garment makers, old and used garment sellers, etc.

Note :-
This segment does not include small scale service and business industry related Enterprises.

**Housing Loans :**

- Loans, granted for construction, additions, alterations, repairs, etc. would be categorised as housing loans. Assistance granted to any governmental agency, for the purpose of construction of houses, exclusively for the benefit of scheduled castes and scheduled Tribes and where the loan does not exceed Rs. 2 Lakhs per unit and all advances for slum clearance and rehabilitation of slum dwellers, would be classified as weaker section advances. Assistance granted to non-governmental agencies, approved by the national housing bank, for the purpose also be eligible for all the categories of borrowers as applicable to the governmental Agencies.

- The National Housing Bank has so far approved the following housing finance companies.
  AB Home finance Ltd.
  Can fin Homes Ltd.
  Dewan Housing finance & Dev. Ltd.
  GIC Housing finance Ltd.
  Housing Dev. & Finance Corpn. Ltd.
  Ind. Bank Housing finance Ltd.
  LIC Housing finance Ltd.
PNB housing finance Ltd.
Saya Housing finance Co. Ltd.
Perless Abasen finance Ltd.
BOB Housing finance Ltd.
Cent Bank Home finance Ltd.
Fairgrowth Home finance Ltd.
Gujrat Rural Housing finance Corp. Ltd.
Housing and Urban Development Corpn.
Parshvanath Housing finance corp. ltd.,
SBI Home finance Ltd.
Vysya Bank Housing finance ltd.

Consumption loans

Consumption loans include loans for general consumption medical expenses, marriage ceremonies, funerals, births, religious ceremonies etc.

Note :-

Monitoring the priority sector advanced, RBI has advised the Banks with working capital of Rs.5 crores and above to dispense with the half yearly statement. All Banks are now required to send annual review of priority sector advances as on 31st March, each year on or before 30th April.

Development of different types of customer from different market segments, i.e., Increase in no. of accounts

Urban Cooperative Banks are providing different kind of service to their customer by adopting many types of market segments.
Urban Credit Co-operatives, with a membership of nearly 15 million people all over the country and with a working capital of more than five thousand crore, constitute a very important segment of the Indian Co-operative movement.

These cooperative mainly cater to the banking and credit requirements of the lower and middle class people comprising small traders, businessmen, artisans, factory workers, salaried people etc. in urban areas. The main objective of these banks is the qualitative and quantitative promotion of thrift and self-help among the members and collection of deposits from the public in respect of urban banks to augment resources for supply of credit to their members. Thus, these co-operative Banks have on intense local feel and enjoy greater confidence of the people. They have proved effective for economic development of people with limited means and other weaker section, e.g., scheduled castes/Scheduled tribes, women folks and the self-employed persons.

These Banks are providing services to their customers in many ways. Here we are focousing on Accounts position of these Banks; Because that is the main factor which helps in the development of customers :-

Opening of a Deposit Account (Introduction)

Obtaining & Photographs
- RBI has advised these banks to obtain satisfactory introduction in respect of all deposits (which includes call, Short term and term deposits) and also ensure that the full and complete address of the depositor(s) are recorded in the books and account opening forms, so that the parties could be traced without difficulty in case of need. Instances of opening deposit accounts with vague or fictitious
addresses, indicative of deposits held in "benami" or fictitious names, with a view to render infructuous the provisions of Income Tax act, enacted for the purpose of curbing circulation of black money were noticed. The Reserve Bank reitered that the introduction should be treated as a substantive step having real significance and not merely as a formality. Any lapse in this regard would be viewed seriously. Bank are advised to impress upon all the concerned officials to comply with these instructions and not to facilitate any 'benami' or bogus transactions. Banks are also advised to incorporate a certificate in the account opening forms to be given by the introducer confirming the identity, occupation and address of the person when he has introduced.

Note:--

In terms of the introductions issued by RBI, Banks are inter alia, require to treat introduction as not merely a formality but as a measure of safeguard against opening of accounts by undesirable persons or opening of accounts in factitious names. The Banks are also required to obtain photograph of account holders/persons Authorised to operate the accounts and get their addresses verified independently. Besides, the banks are required to keep a close watch on the operations in new accounts and monitor cash deposits/withdrawals for Rs. 10 lakhs and above in all deposit and other operative accounts.

- Banks have been introduced the practice of obtaining photographs of depositors/account holders except staff at the time of opening new account with effect from 1st January 1994. The cost of the photograph may be borne by the Customers. The Reserve Bank has clarified that photographs should be obtained for all types of deposit accounts including fixed/Recurring/Cumulative deposits, NRE/NRO etc.
However the Bank can use one photograph by making reference to all the accounts opened by one individual.

With a view to avoid fraud Banks are following instruction in regard to the opening of deposit accounts and ensure that all account opening formalities are undertaken at the bank premises and no document is allowed to be taken out for execution. Where it is absolutely necessary to make exemption of the above rule, Banks take precaution such as deputing an officer to verify the particular, obtaining a signed photograph on a suitable formatted verification sheet, forwarded by Registered A.D., mail a copy of the account opening form and accompanying instructions to the client for necessary verification's before any operations are conducted in the account.¹

**Opening of Bank account in the name of minor with mothers as guardian :-**

The RBI advised the Banks that there could be no difficulty in opening a fixed, Recurring and saving Bank account in the name of a minor, with the mother as guardian, though in terms of Sec. 6 of the Hindu Minority and Guardianship act, 1956, the father alone should be the natural guardian of a Hindu minor during his lifetime. However, Banks are advised to take the following precautions:

(a) The account should not be allowed to be over drawn.

---

¹ UBD No. BSD 1/11/12.05.00/2001-01 dated 15-11-2001
(b) Where the minor is old enough to understand the nature of the transactions and where the withdrawal involves a large amount, the signature of the minor may also be obtained.

**Monitoring of deposit Accounts :-**

Urban Banks of U.P. are introducing a system of closely monitoring of cash deposits and withdrawals for Rs. 1 lakh and above in deposit accounts and also in all other accounts like cash credit/overdraft etc. The branches maintain a separate register to record details of such deposits and submit a report to Head Office. RBI, has raised the cut-off point for monitoring of cash transaction from Rs. 1 lakh to Rs. 5 lakhs.

**Opening of Non-Resident Accounts :-**

A- **Non Resident Indian:-** An Indian citizen who stay abroad for employment; for carrying on business ;a vocation or any other purpose; in circumstances indicating an indefinite period of stay outside India, Continues to be regarded as Non-Resident even during his short visit to India say, for holiday, personal work etc..

- **Persons of Indian Origin**
  A person shall be deemed to be of India origin if,

- He, at any time, held an Indian passport.

- He or either of his parents or any of his grandparents was an Indian and a permanent resident in undivided India.

**Bilateral Group of Countries :-**

- Czechoslovakia, Romania, Russia & Other countries of former U.S.S.R.
- **External Group of Countries** :- All other countries except Bilateral Group of Countries.

- **Foreign Exchange**
  Means foreign currency and includes
  - All Deposits, credit and Balances payable in any foreign currency and any drafts, Travellers cheques, letter of credit and bills of Exchange expressed or drawn in Indian currency but payable in any foreign currency.

  - Any instrument payable, at the option of the drawee or holder there of or any other party thereto either in Indian currency or any foreign currency or partly in one and partly in the other.

- **Foreign Currency** :-
  Means any currency other than the currencies of India, Nepal and Bhutan.

**B- Non Resident accounts in Rupees** :-
All State Co-operative Banks and such urban Banks which fulfill the following two criteria are eligible to apply to the Reserve bank for an authorisation to open and maintain ordinary non-resident accounts and Non-Resident (External) Accounts.

- The urban Co-operative Bank should have a minimum working cap. Of Rs. 10 crores as per its latest balance sheet.
- The bank should have earned on ‘A’ Audit classification from the registrar of Co-operative societies for atleast two consecutive years at the time of submission of the applicable to the Reserve Bank.
It is necessary for each such Bank authorised to maintain non-resident (External) account to enter into a standing arrangement with a designated branch of an authorised dealer for the purpose of handling the foreign exchange transaction such as encashment of drafts/cheques, effecting remittances outside the country on the request of the account holder etc.

Renewal of Overdue deposits of Non-resident (External) Rupee account

The primary co-operative Bank may, at its discretion, renew an overdue deposit or a portion thereof provided the overdue period from the date of maturity till the date of renewal (Both days inclusive) does not exceed 14 days and the rate of Interest payable on the amount of the deposit so renewed shall; be the appropriate rate of interest for the period of renewal as prevailing on the date of maturity or on the date when the depositor seeks renewal whichever is lower. In the case of overdue of deposits where the overdue period exceeds 14 days and if the depositor places the entire amount of overdue deposit or a portion thereof as a fresh NRE term deposit, primary co-operative Banks may fix their own interest rates for the overdue period on the amount so placed as fresh deposit. Banks are free to recover the interest so paid for the overdue period if the deposit is withdrawn before completion of minimum period prescribed under the scheme, after renewal.¹

NR(E)/FCNR Accounts (for Loans/overdrafts to residents against security of fixed deposits):

UCBs sanction advances against the security of NR(E) deposits to a resident account holder of the Bank subject to the following conditions.

- There should be no direct or indirect foreign exchange consideration, for the non-resident depositor agreeing to pledge his fixed deposits, to enable the resident individual/firm/company to obtain the facility.

- The period of loan shall not exceed the unexpired period of maturity of NRE/FCNR deposits accepted as security.

In addition the non-resident depositor should furnish an irrevocable undertaking to authorised dealer not to withdraw the deposit at least during the period of the loan/overdraft.

- Regulations relating to normal margin, interest rate etc., as stipulated by reserve bank from time to time should be complied with. Additionally in case of loans/overdrafts against FCNR fixed deposits, the margin requirements should be calculated on the rupee equivalent of the deposits at the prevailing notional rate of exchange for the relative currency.

- The loan could be utilised for personal purposes or for carrying on business activities other than agriculture/Plantation activities or real estate business.

Foreign Currency Non-Resident Accounts (Banks) Scheme

From 22nd October 1997 primary co-operative Banks authorised to deal in foreign exchange shall pay fixed/floating rate of interest on
deposits accepted by them, under foreign currency non-resident Accounts (Banks) Scheme as under:

- In respect of deposits of six months and above but less than one year. Interest shall be paid within the ceiling of LIBOR for the respective currency/maturity. For floating rate deposits, the interest reset period shall be six month.

- In respect of deposits for maturity of one year and above, the interest shall be paid within the ceiling of swap rates for the respective currency/maturity.

- The LIBOR/Swap rates as on last working day of the preceding week would be the ceiling rates for the interest rates that would be offered effective the following week.

**Note :-**
Reserve Bank of India has issued comprehensive regulations relating to deposits between a person resident in India and person residing outside India, Known as foreign exchange management (Deposit) Regulations 2000. These rules has been came into force from 1st June 2000.¹

¹Notification No. FEMA 5/2000 - RB dated 3-5-2200