1.7 Evolution of Urban Co-operative Banks

**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, workplace 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 the 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.

**The Beginnings**

The first known mutual aid society in India was probably the ‘AnyonyaSahakariMandali’ organised in the erstwhile princely State of Baroda in 1889 under the guidance of VithalLaxman also popularly known as BhausahebKavthekar. 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.
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 taluka 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._
Introduction

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 MadhavaRao 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.

**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 non-scheduled 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.

**Origin and Growth of Urban Co-operative Banks in Rajasthan**

The history of Urban co-operative Banks in Rajasthan coincides almost with the dawn of co-operative movement in the country. *The first primary (Urban) Co-operative credit society in Rajasthan which has subsequently acquired the status of an Urban Bank* following extension of certain provisions of the B.R. Act 1949 to co-operative societies with effect from 1st March 1966, *came into existence under the Co-operative Societies Act 1912 (Act No.II of 1912) at Kaiserganj in the erstwhile territory of Ajmer as early as in the year 1923*. As on 1st March 1966, there were seven Urban Co-operative Banks in the state of Rajasthan.

*Baran Nagrik Sahkari Bank (Baran NSB) Ltd.* at Baran occupies the second place in order of date of establishment (17.2.1959), followed by *Urban Co-operative Bank Ltd.*, at Jaipur (15.4.1959).

Presently, there are 39 Urban Co-operative Banks operating in state of Rajasthan, comprising of one multi-state Urban Co-operative Bank.
1.8 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:

i) The establishment of UCBs in the areas untouched by banking services should be promoted.

ii) The approach of “one district one bank” should be adopted and the establishment of new UCBs should be encouraged.

iii) Viability norms for UCBs should be established and their area of operations should be broadened.

iv) A comprehensive study on treatment of weak and sick UCBs should be undertaken.