CHAPTER – I

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In India the cooperative movement was introduced as a remedy for the proverbial poverty of the small agriculturist. It was the Government of Madras who grasped the possibilities of a cooperative movement in India. During the past 110 years, the movement has entered several sectors like Credit, Banking, Processing, Housing, Ware housing, Irrigation, Transport and even Industries. It is because of the credit cooperatives, that it was possible to weaken the strong hold of moneylenders on thousands of poor families and free them from their bondage.

1.1 Cooperative Movement in the World

The earliest cooperatives were set up among the weavers, in other words workers in cottage industries, who were the first and the hardest hit by the development of the mercantile economy and the industrial revolution. So the weavers, in order to gain access to the market in the tools of their trade or to market the food stuffs set up the first cooperative in Scotland (Fenwick, 1761; Govan, 1777; Darvel, 1840), in France (Lyons, 1835), in England (Rochdale, 1844) and in Germany (Chemnitz, 1845). Though cooperation and mutual enterprise has been an essence of human-society ever since it evolved, the real cooperative movement can be credited to the Rochdale Pioneers who established a cooperative consumer store in 1844 in North England. This store can be called as the first in the cooperative consumer movement. The "Rochdale Pioneers", made their first aim to establish cooperatives where the members would not only be their own merchants but also their own producers and their own employers.

1.2 Cooperative Movement in India

The principle of cooperation is part and parcel of Indian culture. We can trace the concept of cooperation in our ancient Vedas and Upanishads. Cooperation occupies an important place in the Indian economy. Perhaps no other country in the world has cooperative movement as large and as diverse in Indian. There is almost no sector left untouched by the cooperative movement.
1.3 The main areas of operation of cooperatives in India are as under:

- Agriculture Credit
- Agriculture Supplies
- Agriculture Marketing
- Agriculture Processing
- Industrial Cooperatives
- Public Distribution of essential commodities through consumer cooperatives
- Urban Banking and Credit Cooperatives
- Housing Cooperatives

Cooperative movement in India is the result of a deliberate policy of the state and is vigorously pursued through formation of an elaborate governing infrastructure. The successive Five year plans looked upon the cooperative movement as the balancing sector between public sector and the private sector, and the success is evident. Almost 50 per cent of the total sugar production in India is contributed by sugar cooperatives and over 60 per cent of the total fertilizer distribution in the country is handled by the cooperatives. The consumer cooperatives are slowly becoming the backbone of the public distribution system and the marketing cooperatives are handling agricultural produce with an astounding growth rate.

1.4 Cooperative Movement in Karnataka

Karnataka has a special place in the Indian cooperative sector, as it is one of the first states to have started the movement. The first agricultural credit cooperative society was started in a village called Kanaginahaala, Gadag district of Karnataka, in 1905. In the same year, a consumer cooperative society was also started in Bangalore. Prior to unification of states, present Karnataka is divided into various provinces such as Hyderabad, Mumbai, Mysore, Madras etc. All these provinces had enacted their own law relating to cooperative societies. They are:

- Mumbai Cooperative Societies Act, 1925
- Madras Cooperative Societies Act, 1932
- Madras Land Mortgage Act, 1934
- Kodagu Cooperative Societies Act, 1936
- Mysore Cooperative Societies Act, 1948
Hyderabad Cooperative Societies Act, 1952
Hyderabad Land Mortgage Act, 1949

After unification of states in 1950, The Mysore Cooperative Societies Act, 1959 was enacted which applies to whole of Mysore State. It came into force from June 1, 1959. Mysore State was renamed as Karnataka in 1973 and the Act was also renamed as Karnataka State Cooperative Societies Act, 1959.

1.5 The Growth and Structure of Indian Cooperatives:

The cooperative movement received legal sanctity in the year 1904 and has completed its centenary in the year 2004, and has played a dynamic role in achieving its objectives. During the past 110 years, the movement has entered several sectors like, Credit, Banking, Processing, Housing, Warehousing, Irrigation, Transport and even Industries. The cooperative movement has made remarkable progress in several areas; some glaring defects have also developed in the movement defeating the very objectives of these institutions.

A cooperative organisation is an autonomous association of person’s united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. This is a broad definition and not intended as a description of the perfect cooperative organisation. It is intentionally wide in scope, recognising that members must have some freedom in how they organize their affairs. Hopefully, this definition will be useful in drafting legislation, educating members and preparing text books. The basic principles of cooperatives that are followed as under (1995 ICA principles);

1. Voluntary and Open Membership;
2. Democratic Member Control;
3. Member’s Economic Participation;
4. Autonomy and Independence;
5. Education, Training and Information;
6. Cooperation amongst Cooperatives: and
7. Concern for Community.
The cooperative movement in India must be consistent with these basic principles and must operate with the parameters laid down by the International cooperative Alliance norms.

In short cooperation is a form of organization wherein persons voluntarily associate together for a common good. It is a voluntary association of persons for doing business on basis of equality and the objective is to satisfy the common need i.e., the economic development of them.

The urban cooperative credit movement originated in Germany when Herman schultz started such societies for the benefit of the artisans in cites. He founded the first urban credit society in 1850.

1.5.1 The Cooperative Credit Structure

The cooperative credit institution, occupy an important position in the financial system of the economy in terms of their reach, volume of operation and the purpose they serve. They were the first to attempt at micro credit dispersion in rural, semi urban and urban areas in India and are voluntary organized in a democratic setup by people having common interest and high moral values with the aim of Thrift and “Self Help”through mutual help. The credit needs of rural economy are met by institutional as well as non-institutional agencies. The institutional agencies that operate in the country are;

1. Cooperative Credit Institutions
2. Commercial Banks
3. Regional Rural Banks
4. RBI/NABARD/IDBI/ICICI
5. State Government

The non-institutional agencies consist of money lenders, rich landlords, traders, commission agents, relatives etc. The cooperative credit institutions are the foremost and play a unique role in the rural and urban credit supply in our country.
The cooperative credit structure is based on a three tier system consisting of an apex body at the state level i.e., State Cooperative Bank, an intermediary layer of District Central Cooperative Bank at district level and primary cooperative societies at the base level.

The primary cooperatives are further divided into Primary Agriculture Cooperative Societies and non-agriculture cooperative societies. Agricultural credit societies play a pivotal role in the rural credit delivery system in dispersing short term, medium term and long term credit to rural weaker sections of society. Generally short term and medium term agricultural credit needs are satisfied by the state cooperative banks, the central cooperative banks and the primary agricultural coop societies constituted at the apex level, district level and village, town or city level respectively. While long term agricultural credit needs are satisfied by state cooperative agricultural and Rural Development banks and primary cooperative Agricultural and Rural Development Banks set up at the apex level and at the base level respectively.

On the other hand non-agricultural cooperative credit institutions serve the credit needs of urban and semi-urban areas and provide credit to other than agricultural purposes, having a three-tier federal structure. In a three tier federal structure of cooperative credit system, UCBs come at the grass root level but occupy an important place. They have got a unitary structure and advance short term, medium term and long term loans to urban semi urban areas against personal security as well as against gold, silver, property, housing loans and other commodities and so on.

The second wing of non-agriculture cooperative institutions consists of State Industrial Cooperative Banks and Central Industrial Cooperative Banks whose main Purpose is to provide credit for development of cottage/small and medium scale industries. The Cooperative credit structure is explained by figure 1.1
Figures:-1.1

STRUCTURE OF INDIAN COOPERATIVE CREDIT INSTITUTION

COOPERATIVE CREDIT INSTITUTIONS

Agricultural Credit Institutions | Non- Agricultural Credit Institutions

<table>
<thead>
<tr>
<th>Short &amp; Medium Term</th>
<th>Long Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Coop. Banks</td>
<td>State Cooperative Bank</td>
</tr>
<tr>
<td>Central Coop. Banks</td>
<td>Central Coop. Banks</td>
</tr>
<tr>
<td>Primary Credit Societies</td>
<td>Primary Credit Institutions</td>
</tr>
</tbody>
</table>

Unitary Type Bank | Federal Type Bank

Land Development Banks

PCARDBs | SCARDBs

UCBs | Employee Cooperative Credit Societies | Other Societies

Source:- A.V. Agrawal: Analysis of Financial statements Page 29
1.6 Concept of Urban Cooperative Bank

As the name suggests, a bank operating in urban areas on the basis of cooperative principles is known as Urban Cooperative Bank. Earlier there was no clear definition of the concept of an urban cooperative bank before 1939. Initially UCBs were organized as credit societies in India and later converted into urban banks. It was the Mehta Bhansali Committee (1939) which made the first attempt to define an Urban Cooperative Bank.

Subsequently in 1966, when banking laws were made applicable to cooperative banks, Provision of section 5(CCV) of Banking Regulation Act 1949 defined an Urban Cooperative Bank as a primary Non-Agricultural Credit Society. “Urban Cooperative Bank means a society registered under act and doing the business of banking, as defined in clause (b) of section 5 of the Banking Regulation Act 1949.

From the above definition we may list out the UCB’s characteristics as below, they are;

i) The primary object or principal business of which is the transaction of banking business

ii) The paid up share capital and reserves of which are not less than one lakh rupees;

iii) The bye laws of which do not permit admission of any other cooperative society as a member.

1.7 Historical Background of Urban Cooperative Banks in India

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

The origin of the urban cooperative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments
related to the cooperative movement in Britain and the cooperative credit movement in Germany such societies were set up in India. Cooperative societies are based on the principles of cooperation, i.e., mutual help, democratic decision making and open membership. Cooperative organisations represented a new and alternative means as against proprietary firms, partnership firms and joint stock companies which represent the dominant form of commercial organizations.

1.7.1 The Beginnings

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

The Cooperative Credit Societies Act, 1904 was amended in 1912, with a view to broad basing it to enable organisation of non-credit cooperative societies. The Maclagan Committee of 1915 was appointed to review their performance and suggest measures for strengthening them. The committee observed that such institutions were eminently suited to cater to the needs of the lower and middle income strata of society and would inculcate the principles of banking amongst the middle classes. The committee also felt that the urban cooperative credit movement was more viable than agricultural credit cooperative 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’s context, it is of interest to recall the banking crisis of 1913-14, when no fewer than 57 joint stock banks collapsed, there was a flight of
deposits from joint stock banks to urban cooperative banks. Maclagan Committee chronicled this event thus:

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

1.7.2 Under State Purview

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

1.8 Distinction between cooperative banks and commercial banks on the following counts:
1. Commercial banks are joint-stock banks established under companies Act. Cooperatives banks, on the other hand, are cooperative organizations established under cooperative societies Act.
2. Commercial banks are governed by the Banking Regulation Act 1949. Cooperative banks are governed by the Cooperative Societies Act of respective states.
3. Commercial banks are subject to the control of the Reserve Bank of India directly. Cooperative banks are subject to the rules laid down by the Registrar of Cooperative Societies of respective states.
4. Cooperative banks have lesser scope in offering a variety of banking services than commercial banks.
5. Commercial banks in India are on a larger scale. They have adopted the system of branch banking, so they have countrywide operations. Cooperative banks are relatively on a much smaller scale. Many cooperative banks follow only unit-bank system, though there are cooperative banks with a number of branches but their coverage is not country wide.

6. Commercial banks in India are of two types: (i) public sector banks and (ii) private sector banks. Cooperative banks are private sector banks i.e., cooperative organizations.

7. Commercial banks mostly provide short-term, medium term finance to industry, trade and commerce, including priority sectors like exports, etc. Cooperative banks usually cater to the credit needs of agriculturists, small businessmen and non-agricultural loans. Cooperative banks offer a slightly higher rate of interest to their depositors than commercial banks.

8. In cooperative banks, borrowers are members/shareholders, so they have some influence on the lending policy of the banks, on account of their voting power. Borrowers of commercial banks are only account holders and have no voting power as such, so they cannot have any influence on the lending policy of these banks.

9. Cooperative banks have not much scope of flexibility on account of the rigidities of the bye-laws. Commercial banks, on the other hand, are free from such rigidities.

1.9 Objectives of the Urban Co-Operative Banks

The UCBs are generally considered as “Small People Bank” because they are organized for Promoting thrift and cooperation among the lower and middle strata of the society. The Objectives of the UCBs are divided in two parts, which are as follows.

1.9.1 Principal Objectives:

i. To promote thrift, self-help and mutual cooperation among the members.

ii. To mobilize resources i.e. to borrow funds as share capital and deposits from members and non-members to utilize the same for providing loans to their members.
iii. To provide credit to the members at a reasonable rate for productive or trading purpose.
iv. To undertake collection of bills drawn, cheques, draft etc. accepted or endorsed by members and approved constituents; to remit funds and to discount cheques and bills of approved members subject to rules and bye laws on their behalf.
v. To arrange for safe custody of valuables and documents of members and constituents and
vi. To provide other banking and subsidiary services.
vii. To give housing and vehicles loans to members of the bank.

1.9.2 Subsidiary Objectives:
i. To give possible help and necessary guidance to traders, artisans etc. who are members of the bank.
ii. To do every kind of trust and agency business and particularly do the work of investment of funds, sale of properties and of recovery or acceptance of money.
iii. To undertake every kind of banking and Sharaffī business and also give bank guarantee and letters of credit on behalf of members.

1.10 Role of the UCBs in the Indian Banking System

The performance of the cooperative 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 being given to small and medium enterprises by UCBs. UCBs provide services irrespective of caste, creed or 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 Cooperative Societies Act 1984. UCBs are not only responsible to the members/employees and societies and also assume some responsibilities in the following ways.
1.10.1 Service on Behalf of Customers:
1. Provide facilities like opening current, saving and fixed deposit accounts and collect deposits.
2. Issue draft, letter of credit and discounting of bills at a low rate of commission.
3. Provide services like automatic teller machine (ATM), mobile banking and depository participants and do immediate transfer of money.
4. Issuing of computerized bank passbook to the customers.
5. To receive complaints from the customers and resolve it as early as possible
6. To provide safe deposit vault facilities
7. To lend loans and advances to small scale and medium scale enterprises and cottage industries.
8. Advances against the mortgage of properties, jewelry, govt. securities, life insurance policies and to new or old vehicles.

1.10.2 Service on Behalf of Employees:
1. Provide medical facilities and educational facilities.
2. Provide various types of allowances.
3. Maintaining of funds like staff provident fund, bonus and stamp welfare fund etc.
4. Conduct training programs for new employees and refresher programs for old employees and organize seminars and the conferences to update their banking knowledge.
5. Providing special education incentives/scholarships to the employee’s children for securing highest percentage.

1.10.3 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 make them economically viable.
3. Helping the people at the time of natural calamity like earthquake, flood, drought etc.
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.

1.11 Problems and Prospects of Urban Cooperative Banks:

UCBs were setup with the objective of promoting saving habits amongst the middle-income group urban population. 2004 is the golden jubilee year of urban cooperative banks, celebrated by Government of Gujarat. During the 100 years of their inception they have attracted considerable attention and large number of them has shown creditable performance but fair number of them have simultaneously shown discernible signs of weakness too, because of the problems they could not overcome some important factors which are hindrance to the progress of the Urban Cooperative Banks and are as hereunder;

1.11.1 Dual Control:

A major problem faced by Urban Cooperative Banks is the duality of control by the State Government and the RBI. Licensing and supervision of Urban Cooperative Banks are being done by RBI and regarding Registration, administration, management, audit, liquidation are being under the Registrar of Cooperative Societies i.e., the State Government. This had negative impact on the functioning of the Urban Cooperative Banks. Duality in control hampers effective supervision. The Narsimhan committee suggested doing away with the dual control system which affected Urban Cooperative Banks. High Power Committee also recommended the same.

1.11.2 Limited Area of Operations:

The Urban Cooperative Banks have to function within restricted framework in the context of mobilization of deposits. The need for heavy industrial advances and trade finance for industrial units as well as for commercial enterprises is here but the Urban Cooperative Banks are not able to meet as they have to serve within the area of operation as per the RBI directives. But to survive in the competitive world the Urban Cooperative Banks should enhance their area of operation and start providing loans as per local needs.
1.11.3 Violation of Prudential Financial Norms:

It is found that many Urban Cooperative Banks Violated norms governing advances. Top non officials of the banks receive loans without documents. The failure of Visanagar Cooperative Bank (Mehsana) and Madhavpura Mercantile Cooperative Bank (Ahmedabad) are the example of violation of prudential norms. The UCBs must adopt a system of internal audit and inspection of branches and the cooperative department and the RBI should strictly supervise and effectively control to stop such malpractices.

1.11.4 Poor Management:

The necessity of the financial institution is to provide good corporate financial management i.e., good governance. The Madhava Rao committee insisted to appoint two directors who have professional experience in banking and related field. But in Urban Cooperative Banks directors are not professional or experienced enough and not having the qualification to understand the banking and some are politically affiliated. Due to this reasons management of the Urban Cooperative Banks is poor.

1.11.5 Poor Quality Services:

The services of the Urban Cooperative Banks are not significant enough in terms of quality and have failed to attract deposits from individuals and institutions other than the cooperative sectors. Hence they should try to improve the quality of services by providing required facilities like waiting space, customer information counter, complaint box, banking information chart, easy accessibility to higher officials at the banking promises etc. At the same time they should maintain good customer relations and keep positive attitude towards customers. Besides this they should start providing door to door services.

1.11.6 Lack of Modernization:

In today’s world of technological advancement, still manual form of work is followed in some of the UCBs which causes delay and increase in operational cost. Most of the UCBs failed to provide service through use of modern technology except some UCBs. It has become inevitable now on part of the UCBs to have computerized
system of banking and adopt latest banking technique like ATM, Credit Card, Internet Banking, Branch Banking, Tele Banking etc.

1.11.7 Increasing Overdues:

The UCBs are suffering from alarming overdue due to disbursal of poor quality loans & advances and highly unsatisfactory recovery of loans, which increases the proportion of overdue. UCBs must have to develop a system of efficient & transparent credit appraisal and sanction of loans and advances and must have a separate recovery department for quick recovery of loans.

1.11.8 Political Interference:

Political interference in the affairs of the UCBs leads to faulty lending and poor recovery and political interference leads to pressure on the banks to provide loans to the parties whose repaying capacity is not enough or doubtful. Visanagar cooperative bank is an example of such instance. Though banks take legal action against the defaulter it often interferes/surrenders to the pressure/for influence and postponing such an action. Hence political interference hinders the effective administration of UCBs.

1.11.9 Lack of Training and Education:

The UCBs don’t have much the trained and professional staff. The majority of UCBs do not select staff in a transparent way on professional basis. External pressures/influences in recruitment of untrained staff and under qualified staff leads to poor quality of work. At least appointment of chief executive officer and supervisory staff (like General Manager or Managing Director) should be made on professional lines and provide proper training and education to the untrained or fresh staff/employees.

1.11.10 Some Other Problems of UCBs are as under:

i. Low capital adequacy ratio etc.
ii. Lack of transparency in financial statement.
iii. The Balance sheets of most of UCBs are not finalized in time due to non-completion of audit.
iv. Lack of planning and coordination.

v. Lack of standardization in data reported by ratio etc.

1.12 UCBS – Recent Regulatory Measures:

The scheduled UCBSs and other similar UCBSs have increased the need for a greater role of the RBI as a regulator of the UCBSs. Hence, the RBI has announced a series of measures for the UCBSs by day to day statements relating to monetary and credit policy. The salient feature of these measures for regulation of UCBSs is as under;

1.12.1 Lending Stock Market:

The RBI had put restriction on lending by the UCBSs against security of stocks. The UCBSs have been advised to unwind existing lending to stockbrokers or direct investment in shares on contracted dates.

1.12.2 Inter UCBSs Term Deposits:

The UCBSs were advised not to increase their deposits with other UCBSs and ordered to unwind the outstanding deposits with other UCBSs as on 14th April 2001 before the end of June 2002. However Shri Anant Giti committee recommended the scheduled UCBSs may accept deposit from non-scheduled UCBSs. The RBI imposed some conditions by circular date 17th 2003.

1.12.3 Gold Loans and Small Loans:

Gold loans and small loans up to Rs.1,00,000/- given by primary Urban Cooperative Banks will no more be exempted from the 90 day NPA norms. The RBI recently issued a notification for chief executive officers (CEOs) of all primary UCBSs, stating that it has been decided that 90 day loan impairment norm will be applicable even in case of gold loans and small loans up to Rs.1,00,000/-. In May 2003, RBI directed the CEOs of all primary UCBSs to classify an asset as non-performing if the interest of installment of principal amount remains overdue for a period of more than 90 days, with effect from March 31st, 2004.
1.12.4 Maintenance of Statutory Liquidity Ratio (SLR):

The UCBs are required to maintain their statutory liquidity ratio equivalent to 25 per cent of their Net Demand and Time Liabilities (NDTL). They can maintain it in the form of investments in government and other approved securities or as deposits with State Cooperative or Central Cooperative Banks. But with effect from April 1st, 2003 all scheduled UCBs would need to maintain their entire SLR investment of 25 per cent of NDTL only in government and other approved securities and that compliance with Cash Reserve Ratio (CRR) requirements on par with scheduled commercial Banks would be prescribed in due course.

1.12.5 Capital Adequacy Norms:

The traditional approach to sufficiency of capital does not capture the risk elements in various types of assets in the balance sheet as well as in the off-balance sheet business and compare the capital to the level of the assets.

The Basel Committee on Banking Supervision had published the first Basel Capital Accord (popularly called as Basel I framework) in July, 1988 prescribing minimum capital adequacy requirements in banks for maintaining the soundness and stability of the International Banking System and to diminish existing source of competitive inequality among international banks. The basic features of the capital accord of 1988 are as under:


(ii) Tier approach to capital:

- Core Capital: Equity, Disclosed Reserves.
- Supplementary Capital: General Loan Loss Reserves, Other Hidden Reserves, Revaluation Reserves, Hybrid Capital Instruments and Subordinate Debts.
- 50 per cent of the capital to be reckoned as core capital.

(iii) Risk Weights for different categories of exposure of banks ranging from 0 per cent to 127.5 per cent depending upon the riskiness of the assets. While commercial loan assets had a risk weight of 100 per cent, inter-bank assets were assigned 20 per cent risk weight; sovereign paper carried 0 per cent risk weight. In 2002, maintenance of capital funds as a percentage of risk weighted
assets was extended to all UCBs. Since 2005, the minimum Capital to Risk Assets Ratio (CRAR) that is expected to be maintained at 9 per cent. Further, vide 1996 amendment to the original Basel Accord, capital charge was prescribed for market related exposures.

1.12.6 New Grades System:

The Reserve Bank of India vide its circular dated 5th April, 2003, introduced a new system of awarding grade to UCBs i.e. Grade I,II,III,&IV and dispensed with earlier nomenclature of classifying UCBs as weak and sick bank. These grades are to be awarded by RBI based on their view carried through statutory returns/ statements submitted by urban cooperative banks or statutory inspections, scrutiny of books of accounts of UCBs conducted.