CHAPTER ONE
INTRODUCTION & OVERVIEW OF BANKING SYSTEM IN INDIA

1.1 Introduction
1.2 Need of banks
1.3 History of Indian Banking System
1.4 Nationalization of banks
1.5 Government Policy of Banking Industry
1.6 Law of Banking
1.7 Regulation for Indian Banks
1.8 A Brief Review of Reforms of Banking sector in India
1.9 Role of RBI in Banking Reforms in India
1.10 Impact of Reforms on the banking sector in India
1.11 Classification of Banking Industry in India
1.12 Reserve Bank of India
1.13 Introduction of Co-operation
1.14 Concept of Co-operation
1.15 Principles of Co-operation
1.16 Co-operative Legislation
1.17 Cooperative Movement in India
1.18 Co-operative Banking in India
1.18.1 Customer Owned Entities
1.18.2 Democratic Member control
1.19 Objectives of Cooperative Banking
1.20 Features of Cooperative banks
1.21 Functions of Cooperative Banking
1.22 History of cooperative banks in India
1.23 RBI polices for cooperative banks
1.24 Types of cooperative banks
1.24.1 Primary Cooperative Credit Society
1.24.2 Central Cooperative Banks
1.24.3 State Cooperative Banks
1.24.4 Land Development Banks
1.24.5 Urban Cooperative Banks
1.25 Definition of UCB
1.26 Area of Operation
1.27 ISO – 9000 Quality System and Urban Cooperative Bank
1.28 Objectives of Urban Cooperative Banks
1.29 Urban Cooperative Banks in India- Background
1.29.1 Phase I (1904-1966)
1.29.2 Phase II (1966-1993)
1.29.3 Phase III (Post scenario)
1.30 Urban Cooperative Banks in India
1.31 Characteristics of Urban Cooperative Banking in India
1.32 Status of UCBs in India
1.33 Madhava Das Committee Report
1.34 The High Power Committee on Urban Cooperative Banks
1.35 UCBs in Maharashtra
1.36 Future of the Urban Cooperative Banks
1.37 Some Observations & Future tips for UCBs
1.38 Conclusion
1.1. Introduction

A bank is an organisation which provides monetary and other financial services to society members. It is generally known as an organisation which provides basic banking services such as accepting deposits from customers and lending loans to its customers. There are also nonbanking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services Indian economy. Bank offers monetary services for customers, reporting the transactions of their accounts and portfolios, throughout the day.

The banking system in India should not be problem free but it should be able to meet the new challenges emerged by the technology and any other external and internal factors. In past forty years, India’s banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India and contributed a lion share in Indian economy. The Banks offer several facilities and opportunities to their customers. Banks provide several facilities such as the money, valuables and provides loans, credit, and payment services, such as checking accounts, money orders, and cashier’s cheques.

Now a day the banks also offer investment plans and insurance products. As a variety of models for cooperation and integration among finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role accepting deposits and lending funds from these deposits.  

1.2. Need of Banks

In India before the establishment of banks, the financial activities were handled by money lenders and individuals. During those days the rates of interest
were high and there were no security of public savings policies and no uniformity regarding loans policies. The government of India realised to overcome such problems and therefore the organized banking sector was established, which was regulated by the government of India. The organized banking sector works within the financial system to provide loans, accept deposits and provide other services to their customers.

The functions of the bank which explains the need and importance:

- To provide the security to the savings of customers.
- To control the supply of money and credit
- To encourage public confidence in the working of the financial system, increase savings speedily and efficiently.
- To restrict focus of financial powers in the hands of a few individuals and institutions.
- To set equal norms and conditions to all types of customers.

1.3. History of banking system in India

The first bank in India, called The General Bank of India was established in the year 1786. The East India Company established The Bank of Bengal/Calcutta 1809, Bank of Bombay 1840 and Bank of Madras 1843. The bank was Bank of Hindustan which was established in 1870. These three individual units (Bank of Calcutta, Bank of Bombay, and Bank of Madras) were called as Presidency Banks. Allahabad Bank which was established in 1865 was for the first time completely run by Indians. Punjab National Bank Ltd. was set up in 1894 with head quarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India which was run by European Shareholders.

The Reserve Bank of India was established in April 1935. The Govt. of India introduced Banking Companies Act, 1949 to control the functioning and activities of commercial banks, which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No.23 of 1965). Reserve Bank of India was vested with
extensive powers for the supervision of banking in India as a Central Banking Authority of Indian government.

In post independence period, Government of India has taken most important steps for Indian Banking Sector reforms. In 1955, the Imperial Bank of India was nationalized and was given the name "State Bank of India", to act as the principal agent of RBI and to handle banking transactions all over the country. It was established under State Bank of India Act, 1955. Seven banks forming subsidiary of State Bank of India was nationalized in 1960. On 19th July, 1969, major process of nationalization was taken place and 14 Indian commercial banks of the country were nationalized. Whereas in 1980 another 06 banks were nationalized, thus the number of nationalised banks reached up to 20. Seven more banks were nationalized with deposits over 200 Crores. Till the year 1980 approximately 80% of the banking segment in India was under government’s ownership. The Banking Regulation Act was amended in 1993 on the suggestions of Narsimhan Committee and thus the Govt. of India opened the new gates for private sector.

The development in Indian banking is as follows:-

1949: Enactment of Banking Regulation Act.

1955: Nationalisation of State Bank of India.

1959: Nationalization of SBI subsidiaries.

1961: Insurance cover extended to deposits.

1969: Nationalisation of 14 major Banks.

1971: Creation of credit guarantee corporation.

1975: Creation of regional rural banks.

1980: Nationalisation of seven banks with deposits over 200 Crores.
1.4 Nationalisation of Banks

The Indian banking industry has become an important tool in Indian economy and emerged as a large employer. Indira Gandhi, the Prime Minister of India expressed the intention of the Government of India (GOI) in the annual conference of the All India Congress Meeting in a paper entitled "Stray thoughts on Bank Nationalisation". Thereafter, her move was swift and sudden, and the GOI issued an ordinance and nationalised the 14 largest commercial banks with effect from the midnight of July 19, 1969.

A second step of nationalisation of 6 more commercial banks followed in 1980. The stated reason for the nationalisation was to give the government more control of credit delivery. In second step of nationalisation, the GOI tried to control around 91% of the banking business in India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalised banks and which was resulted in the reduction of the number of nationalised banks from 20 to 19.3
1.5 Government Policy for Banking Industry

Banks operating in foreign countries must contend with heavy regulations, rules enforced by Federal and State agencies to govern their operations, service offerings, and the manner in which they grow and expand their facilities to better serve the customers. A banker's work within the financial system to provide loans, accept deposits, and provide other services to their customers. They must do so within a climate of extensive regulation, designed primarily to protect the customer interests.

The main reasons why the banks are heavily regulated are as follows:

- To protect the safety of the public savings.
- To control the supply of money and credit
- To ensure equal opportunity and fairness in the public access
- To promote public confidence in the financial system
- To avoid concentrations of financial power
- To provide the Government with credit, tax revenues and other services.
- To help special needs sectors of the economy

1.6 Law of Banking

Banking law is based on a contractual analysis of the relationship between the bank and customer. The law implies rights and obligations as follows:

- The bank account balance is the financial position between the bank and the customer.
- The bank agrees to pay the customer's cheques up to the amount standing to the credit of the customer's account, plus any agreed overdraft limit.
- The bank may not pay from the customer's account without a mandate from the customer.
- The bank agrees to promptly collect the cheques deposited to the customer's account.
- The bank has a right to combine the customer's accounts.
- The bank has a lien on cheques deposited to the customer's account, to the extent that the customer is indebted to the bank.
The bank must not disclose details of transactions through the customer's account unless the customer consents.

The bank must not close a customer's account without reasonable notice.

These implied contractual terms may be modified by express agreement between the customer and the bank.⁴

1.7 Regulations for Indian Banks

Presently in most jurisdictions commercial banks are governed and regulated by government entities and require a special license to operate banking functions. Basically the definition of the business of banking for the purposes of regulation is extended to include acceptance of deposits, even if they are not repayable to the customer's order although money lending, by itself, is generally not included in the definition. Unlike most other regulated industries, the regulator is typically also a participant in the market, i.e. a government-owned (central) bank and they have a monopoly on the business of issuing banknotes. However, in some countries this is not the case. In UK, for example, the Financial Services Authority licenses banks, and some commercial banks (such as the Bank of Scotland) issue their own banknotes in addition to those issued by the Bank of England, the UK government's central bank.

There are several types of financial institutions, such as building societies and credit unions, may be partly or wholly exempted from bank license requirements, and therefore regulated under separate rules. The requirements for the issue of a bank license vary between jurisdictions but typically include:

• Minimum capital

• Minimum capital ratio

• 'Fit and Proper' requirements for the bank's controllers, owners, directors, and/or senior officers

• Approval of the bank's business plan as being sufficiently prudent and plausible.⁵
1.8 A Brief Review of Reforms of Banking Sector in India

The reforms are made to bring about sweeping changes in this critical sector of the Indian's economy. During the past two or three decades the Indian Banking sector has achieved outstanding credits. It was no longer restricted only to urban and cosmopolitans in India. In India, prior to nationalization period, banking business was restricted mainly to the urban areas and neglected in the rural areas.

By 1991, Indian banking became with an inefficient and financially unsound banking sector. Indian banking sector were facing the problems such as high reserve requirements, administered interest rates, directed credit, lack of competition, political interference and corruption. Therefore the Narasimham Committee Report (1991) recommended several reform measures such as reduction of reserve requirements, deregulation of interest rates, introduction of prudential norms, strengthening of bank supervision and improving the competitiveness of the system.

The second Narasimham Committee Report (1998) also focused on issues like strengthening of the banking system, upgrading of technology and human resource development (Ramasastri A.S. and Acharma Samuel, 2006). Banking in India is matured well enough in terms of supply, product range, and reach-even though reach in rural India still remains a challenge for the private sector and foreign banks in the year 2007. Presently, India has 88 scheduled commercial banks, 28 public sector banks, 29 private banks; they listed and traded on stock exchanges, and 31 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 per cent of total assets of the banking industry, with the private and foreign banks holding 18.2 per cent and 6.5 per cent respectively.

Rural and semi-urban India is expected to account for 58.33 per cent of the insurance sector by 2010. The ATM outlets in India increased at a CAGR of 53.99 per cent to reach 20,000 in 2006 from 2000. Rural and semi-urban centres account for 66 per cent of total bank branches. Indian Mutual Fund industry witnessed a growth of 49.88 per cent from May 2006 to May 2007, and higher growth is recorded in closed-ended schemes at 215.61 percent. Increasing number of millionaires in India is increasing the scope of Wealth Management Services. Bankable household India is
expected to grow at a CAGR of 28.10 per cent during 2007-2011. Banking sector investment in Information Technology is expected grow at 18 per cent in 2007 from 2006.6

1.9 Role of RBI in Banking Reforms in India

Public sector banks have shown substantial improvements in the Indian economy, though their large presence and some institutional constraints, further progress in reform is desirable. The RBI has made the following attempts to outline-

➢ **Consolidation**

There are three aspects to consolidation viz., legal and regulatory regime governing consolidation, enabling policy framework where Government owns several banks and market conditions that facilitate such consolidation, recognizing that all mergers and acquisitions may not necessarily be in the interests of either the parties concerned or the system as a whole. While sanctioning the scheme of amalgamation, the RBI considers the financial health of the two banking companies to ensure, inter alia, that after the amalgamation, the new entity will emerge as much stronger bank. However, these provisions do not apply to viz., the nationalized banks, State Bank of India and its subsidiary banks.

➢ **Extension of Coverage of Reform Process**

The reform process has been extended to cover various other institutions such as Regional Rural Banks (RRBs), Cooperative Banks, All India Financial Institutions (AIFIs) and Non-Banking Financial Companies (NBFCs).

➢ **Payment System:**

The current dominant mode of funds settlement is through the clearing process achieved by the functioning of about 1050 clearing houses in the India. In anticipation of the statutory changes, certain preliminary steps have been proposed by the RBI to build the requisite infrastructure for having effective supervision over payment and settlement systems. A Board for Payment and Settlement Systems (BPSS) is proposed that would function like the Board for Financial Supervision. It would provide policy directions in areas relating to regulation and supervision of payment and settlement
systems, approval of payment systems, criteria for membership, various aspects relating to admission, continuation, and denial of membership, handling of offences etc.

➢ Rating of Supervision:

The supervision of banks is becoming very complex. The supervisors need to acquire technical skills, exhibit considerable judgments on systems and develop interinstitutional interactions on a continuing basis. The RBI has made efforts to introduce a system of feedback from the supervised banks on the adequacy, appropriateness and quality of supervision. That would help in rating of our supervisory performance from time to time and also obtain suggestions for improvements from a large, small foreign and local bank.

➢ Users’ Panel on Regulatory Instructions:

A Standing Technical Committee on Financial Regulation has been set up to advice on regulatory regimes administered by the RBI. The RBI has decided to prepare, self-regulatory organizations, a Users’ Consultative Panel consisting of those in charge of compliance in the regulated institutions aimed at to obtain feedback on regulations at the formulation stage to avoid ambiguities and operational glitches.7

1.10 Impact of Reforms on the Banking Sector in India

India has taken a lead role to improve the access to credit through newly established domestic banks, foreign banks and bank-like intermediaries. Government debt markets have been developed, enabling greater operational independence in monetary policy making. It has also provided a benchmark for private debt markets to develop. The borrowers have improved and information sharing through operationalisation of credit information bureaus has helped to reduce information asymmetry.

The technological infrastructure has developed in information technology and communications networking. The primary beneficiaries of the announced reforms are the state-owned banks, which control over three-quarters of total assets in the financial system. In 2005, the Central Government gave State-run banks significantly
greater operational and managerial freedom, including the rights to: establish overseas branches or subsidiaries; exit non-profitable ventures; set human resource policies; and acquire domestic and foreign banks.

The Government of India removed limits on banks Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) requirements, and gave the central bank greater flexibility to set the limits. In the first phase, between March 2005 and 2009, foreign banks will be permitted to establish a wholly owned subsidiary or to convert existing operations into a subsidiary. The RBI has raised the limit of Foreign Direct Investment in private banks to 74 percent from 49 percent. Before 2009, foreign banks will only be allowed to acquire up to 74 percent ownership of distressed private banks identified by the RBI for restructuring. After March 2009, foreign banks may be allowed to acquire any private bank, depending on a review of the outcome of the first phase.8

1.11 Classification of Banking Industry in India

In India banking industry is divided in two parts, organized and unorganized sectors. The organized sector includes of Reserve Bank of India, Commercial Banks and Co-operative Banks, and Specialized Financial Institutions like IDBI, ICICI, and IFC etc. The 28 unorganized sectors, which are not homogeneous, are largely made up of money lenders and indigenous bankers.

An outline of the Indian Banking structure may be presented as follows-

1. Reserve banks of India.
2. Indian Scheduled Commercial Banks.
   a) State Bank of India and its associate banks.
   b) Twenty nationalized banks.
   c) Regional rural banks.
   d) Other scheduled commercial banks.
3. Foreign Banks
5. Co-operative banks.9
1.12 Reserve Bank of India

The Reserve Bank of India is a central bank and was established in April 1, 1935 as per the provisions of reserve bank of India act 1934. The head office of RBI is located at Mumbai since its establishment. Though originally the reserve bank of India was privately owned, since nationalization in 1949, RBI is fully owned by the Government of India. The Reserve Bank of India was inaugurated with share capital of Rs. 5 Corers divided into shares of Rs. 100 each fully paid up. RBI is governed by a central board (headed by a governor) appointed by the central government of India. RBI has 22 regional offices across India. The Reserve Bank of India was nationalized in the year 1949.

The general superintendence and direction of the bank is entrusted to central board of directors of 20 members, the Governor and four deputy Governors, one Governmental official from the ministry of Finance, ten nominated directors by the government to give representation to important elements in the economic life of the country, and the four nominated director by the Central Government to represent the four local boards with the headquarters at Mumbai, Kolkata, Chennai and New Delhi. Local Board of Reserve Bank of India consists of five members each central government appointed for a term of four years to represent territorial and economic interests and the interests of cooperative and indigenous banks.

The RBI Act 1934 was commenced on April 1, 1935. The Act, 1934 provides the statutory basis of the functioning of the bank. The bank was constituted for the need of following:

- To regulate the issues of banknotes.
- To maintain reserves with a view to securing monetary stability
- To operate the credit and currency system of the country to its advantage.

Functions of RBI as a central bank of India are explained briefly as follows-

**Bank of Issue:** The RBI formulates, implements, and monitors the monitory policy. Its main objective is maintaining price stability and ensuring adequate flow of credit to productive sector.
Regulator-Supervisor of the financial system: RBI prescribes broad parameters of banking operations within which the country’s banking and financial system functions. Their main objective is to maintain public confidence in the system, protect depositor’s interest and provide cost effective banking services to the public.

Manager of exchange control: The manager of exchange control department manages the foreign exchange, according to the foreign exchange management act, 1999. The manager’s main objective is to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency: A person who works as an issuer, issues and exchanges or destroys the currency and coins that are not fit for circulation. His main objective is to give the public adequate quantity of supplies of currency notes and coins and in good quality.

Developmental role: The RBI performs the wide range of promotional functions to support national objectives such as contests, coupons maintaining good public relations and many more.

Related functions: There are also some of the related functions to the above mentioned main functions. They are such as; banker to the government, banker to banks etc.

• Banker to government performs merchant banking function for the central and the state governments; also acts as their banker.

• Banker to banks maintains banking accounts to all scheduled banks.

Controller of Credit: RBI performs the following tasks:

• It holds the cash reserves of all the scheduled banks.

• It controls the credit operations of banks through quantitative and qualitative controls.

• It controls the banking system through the system of licensing, inspection and calling for information.
• It acts as the lender of the last resort by providing rediscount facilities to scheduled banks.\textsuperscript{10}

1.13 Introduction of Co-Operation

The word ‘cooperation’ is derived from the Latin word “Co-operative”, which means ‘coming & working together for a common purpose’. This working is quiet common among men & women. Cooperative societies are organizations formed to take the benefits of co-operation. The co-operative societies are democratic self governing institutions. They are raised and managed by members on the basis of equality. One man one vote is the principle adopted by the cooperative societies.

Co-operative societies are formed with an object of promoting economic and moral conditions of the weaker section of the community. The success of the society depends upon their member’s loyalty and active participation. The members of the cooperative societies are expected to be alert, vigilant of the society.

A co-operative society may be defined as a voluntary association with unrestricted membership and collectively owned funds. It includes the funds of wages earners and small producers and consumers. A cooperative society is a special form of business organization, which differs considerably from other forms. It is neither a public, nor a profit seeking organization. It principal action is that it eliminates economic exploitation\textsuperscript{11}.

1.14 Concept of Co-Operation

Co-operation is the best art in the world. Co-operation is a vast movement which promotes voluntary association of individuals having common goals and combine towards the achievement of common economic ends.

Frank Robotka of the USA defines co-operation as “An association of autonomous units whose purpose is to conduct jointly some actively which is an integral part of the operation of the participating units, as a mean of increasing, reducing costs or otherwise enhancing the economic interest of the participating units.” envisages a group of person having one or more common economic needs.
Co-operation is a special method of doing work jointly and suits the poor more than the rich. The concept of co-operation thus envisages a group of person having one or more common economic needs, who voluntarily agree to pool their resources, both human and physical, and use them for mutual benefit through an enterprise managed by them by democratic lines.

Economic development involves not nearly economic change but also social and Institutional changes. It is a continuous process. It fulfils the aspirations of the people as well as national objectives. For more than decades, the development process has been associated with the challenges of persistent poverty, unemployment, degradation of natural resources and so on. In recent years economic development has also been linked with social progress. Accelerated economic growth brings with it social progress that is, increase in mass well-being, expansion of employment and reduction in income disparities.

Co-operative sector plays a very important role in fulfilling the directive principles and the objectives of Five Year Plans. The co-operative sector seeks to remedy the economic inequality and evils of concentration of income and wealth and thereby prevents the exploitation of the weaker sections by the stronger. Co-operation is a noble ideology and it aims at establishing a just civilised society. It lays the road to peace and abundance of wealth, both material and moral for all the citizens.

The co-operative policy evolved by former Indian Prime Minister P.V. Narasimham Rao, envisages that the co-operative should be promoted as instruments to harness and develop peoples’ creative power, for decentralized economic development, in order to maximise productivity. The Co-operative should also be encouraged to grow as self-reliant grass root democratic institutions, owned, managed and controlled by members for their economic and social betterment. The co-operatives should be given preference in agro processing, cottage industries, marketing and exports of agricultural commodities to emerge as principal sources of income for the small farmers and artisans. 12

In India, the co-operative sector has been assigned an important role in the development of many sectors. The co-operative sector covers a number of vital areas like agriculture, rural small scale industry, retail distribution, housing and so on. Since
independence, the co-operative sector has made progress especially in the fields of agricultural credit, marketing and processing of agricultural produce, supply of farm inputs and distribution of consumer goods.

The Banking system must respond quickly and appropriately to the credit and promotional needs of the farmers, rural artisans, women and other segments of the rural poor. The Banking system in India governs the savings of the people and makes them available for development of rural sector. The banking system in Germany and Japan has close links with industrial and agricultural sectors, which is an important element in the rapid development of these countries\textsuperscript{13}.

\subsection*{1.15 Principles of Co-Operation}

The principal of co-operation have been designed on the basis of experience gained by the workers in the co-operative movement in various countries. These may be briefly stated as under:

- Voluntary and open membership
- Democratic control through one member one vote
- Division of surplus in proportion to patronage
- Limited interest on capital
- Self help organisation
- Limited liability
- No profit motive but service motive
- Free from religion and politics
- Promotion of cooperative education
- Mutual co-operation among the co-operatives\textsuperscript{14}.

\subsection*{1.16 Co-Operative Legislation}

The first known mutual aid society in India was probably the ‘Anyonya Sahakari Mandali’ organised in the erstwhile princely State of Baroda in 1889 under the guidance of Vithal Laxman also known as Bhausaheb Kavthekar. Urban co-operative credit societies, in their formative phase came to be organised on a community basis to meet the consumption oriented credit needs of their members.
1. Salary earners’ societies inculcating habits of thrift and self-help played a significant role in popularising the movement, especially amongst the middle class as well as organized labour. From its origins then to today, the thrust of UCBs, historically, has been to mobilise savings from the middle and low income urban groups and purvey credit to their members - many of which belonged to weaker sections.

2. 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 (11th November 1905), the No.1 Military Accounts Mutual Help Co-operative Credit Society in Poona (9th January 1906). Cosmos in Poona (18th January 1906), Gokak Urban (15th February 1906) and Belgaum Pioneer (23rd February 1906) in the Belgaum district, the Kanakavli-Math Co-operative Credit Society and the Varavade Weavers’ Urban Credit Society (13th March 1906) in the South Ratnagiri (now Sindhudurg) district.

3. 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 23rd January 1906.

4. The Cooperative Credit Societies, 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.

5. The committee also felt that the urban cooperative credit movement was more viable than agricultural credit societies. The recommendations of the Committee went a long way in establishing the urban cooperative credit movement in its own right.

6. In the present day context, it is of interest to recall that during the banking crisis of 1913-14, when no fewer than 57 joint stock banks collapsed, there was a flight of deposits from joint stock banks to cooperative urban banks. Maclagan Committee chronicled this event.
7. “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”.15

1.17 Cooperative Movement in India

The Indian cooperative movement, like its counterparts in other countries of the world has been essentially a child of distress. Based on the recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901), the Cooperative Credit Societies Act was passed in 1904, paving the way for the establishment of cooperative credit societies in rural and urban areas on the patterns of Raiffeisen and Schulze Delitzsch respectively. The Cooperative Societies Act of 1912 recognized the formation of non-credit societies and the central cooperative organizations/federations. The state patronage to the cooperative movement continued even after 1947, the year in which India attained freedom.

After the independence the India accepted the concept of planned economy and cooperative organizations were assigned an important role. The policy of the Government towards the cooperative movement was guided by the recommendations of the Saraiya Committee, which stated that the cooperative society has an important role to play as the most suitable medium for the democratization of economic planning. Various expert committees, which examined the problem of rural credit subsequently, have come to the same conclusion, without exception, that in the Indian context, there is no alternative from the point of view of structural appropriateness, to cooperatives at the village level.

The Rural Credit Survey Committee (1954), the first comprehensive enquiry into problems of rural credit, after a detailed examination of the entire gamut of issues including the social ethos of rural society, summed up its findings in the celebrated dictum that cooperation has failed, but cooperation must succeed.

Since 1950s, the cooperatives in India have made remarkable progress in the various segments of Indian economy. During the last century, the cooperative movement has
entered several sectors like credit, banking, production, processing, distribution/marketing, housing, warehousing, irrigation, transport, textiles and even industries. In fact, dairy and sugar cooperatives have made India a major nation in the world with regard to milk and sugar production.

Today, India can claim to have the largest network of cooperatives in the world numbering more than half a million, with a membership of more than 200 million. Of the 6 primary (village) level cooperatives, around 28 percent with 137 million memberships are agricultural cooperatives, dealing directly or indirectly with agricultural sector. The cooperative network in the country is rather strong covering all the villages in the country and more than 67 percent of the households have been brought under the cooperative hold. Cooperatives supply about 46 percent of the total rural credit (including agricultural credit), account for 36 percent of the total distribution of fertilizers, produce about 55 percent of the total sugar and constitute for 28 percent of the rural fair shops (distributing consumer articles).

Though cooperative movement has made remarkable progress in several areas, certain glaring defects have also developed in the movement, which have been, in a way, defeating the very objectives of these institutions.16

1.18 Co-Operative Banking in India

Co-operative bank is a financial institution which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by a group of persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts etc.). Co-operative banks differ from other banks by their organization, their goals, their values and their governance. In most countries, they are supervised and controlled by banking authorities and have to respect prudential banking regulations, which put them at a level playing field with stockholder banks.

Co-operative banking is retail and commercial banking organized on a co-operative basis. Co-operative bank accepts deposits and lend money in most parts of the world. Co-operative bank, includes retail banking, as carried out by credit unions,
mutual savings and loan associations, building societies and co-operatives, as well as commercial banking services provided by manual organizations (such as co-operative federations) to co-operative businesses.

The co-operative banking structure is a three tier federal one.

- A State Co-operative Bank works at the apex level (i.e. works at state level).
- The Central Co-operative Bank works at the Intermediate Level. (i.e. District Co-operative Banks ltd. works at district level)
- Primary co-operative credit societies at base level (At village level)

1.18.1 Customer Owned Entities

In a co-operative bank, the needs of the customers meet the needs of the owners, as co-operative bank members are both. As a consequence, the aim of a co-operative bank is not to maximize profit but to provide the best possible financial products and services to its members. In India some co-operative banks only operate with their members but most of them also admit non-member clients to benefit from their banking and financial services.

1.18.2 Democratic Member Control

In India co-operative banks are owned and controlled by their members. They elect their members democratically and form their Board of directors. According to the co-operative principle of “one person, one vote” members usually have equal voting rights in their meetings.

In a co-operative bank, a significant portion of the profit is usually allocated to create reserves for future every year. A part of profit can also be distributed to the co-operative members, with legal or statutory limitations in most cases. Profit is usually allocated to members either through a patronage dividend, which is related to the use of the co-operative’s products and services by each member, or through an interest or a dividend, which is related to the number of shares subscribed by each member.

Co-operative banks are deeply spread inside local areas and communities. They are involved in local rural development and contribute to the sustainable development of economies, as their members and management board usually belong
to the communities in which they exercise their activities. They play an important role on the economic growth in the countries in which they work in and increase the efficiency of the international financial system.\(^\text{17}\)

### 1.19 Objectives of Cooperative Banking

The objectives of the cooperative banking are as follows-

- To evolve policies with a view to assist the constituents in implementing the programmes.
- To help and assist the state cooperative systems to implement policies and programmes.
- To take steps for removal of regional imbalances in the growth of cooperative credit and banking.
- To take steps for reorganizing and revitalization of organizational structures of cooperative credit and banking as per the guidelines /directions issued by Govt. of India and RBI from time to time.
- To establish effective liaison of cooperative credit and banking structure with the Govt. of India, State Governments, RBI, NABARD, and other financial institutions in the country as well as international banking and financial institutions.
- To rise resources from various sources e.g. Market borrowing and from financing institutions as well as international banking and financial institutions.
- To undertake human resource development and training for and on behalf of members cooperative banks in collection with training organizations for cooperatives.
- To undertake research, survey and consultancy for promoting development oriented cooperative finance.\(^\text{18}\)

### 1.20 Features of Cooperative Movement

The following are the features of Indian cooperative movement in India.

- The policy makers have more attention on agricultural cooperatives and thus growth development of the Indian cooperative movement is heavily
tilted in agricultural cooperatives. In India some areas like dairy, urban banking and sugar, the cooperatives have achieved success to an extent but there are larger areas where cooperatives have not been so successful.

- In the modern India cooperative is a state initiated movement. The state partnership is the unique feature of the Indian cooperative movement.

- Paradoxically, the state partnership which was conceived as a measure for strengthening the cooperative institutions had paved the way for ever-increasing state control over cooperatives, their increasing officialization and politicization culminating in virtually depriving the cooperatives of their vitality as well as their democratic and autonomous character.

- Indian Cooperatives suffer from the problems such as dormant membership, lack of active participation of the members in the management, lack of professionalism (and absence of corporate governance), undue political and bureaucratic intervention, have made majority of the cooperatives at the primary level almost moribund.

- Because of this has resulted in weakening of the cooperative edifice. The upwardly transmission of the weaknesses of the primary societies have affected the capabilities of the higher level cooperative federations in so far as their usefulness to the former is concerned.

- The agricultural credit cooperative system in general has become rather over dependent on external support in terms of participation in share capital by Government and refinance from Government owned Financial Institutions.

1.21 Functions of Cooperative Banking

The important functions as stated in bye laws 7 of the bank are given below-

1. To undertake banking business as provided in and accordance with the Banking Regulation Act.

2. To provide all types of financial accommodation to the cooperative institutions which are its constituents in all sectors of economy and with special emphasis on credit for agriculture, forestry, fisheries and rural development.

3. To provide finance for all the business undertaken by the cooperative organizations of all kind which are its constituents and to function generally as
the bank for provision of credit for agriculture, forestry, Fisheries, Marketing, processing, small scale and cottage industries and other allied activities.

4. To serve as balancing centre for cooperative banking institutions in the country,

5. To undertake administration of schemes so as to facilitate the issue of cheques and drafts on cooperative banks in various parts of the country.

6. To raise resources from the government and market operations both national and international including the floatation of debentures and bonds and other financial instruments.

7. To obtain finances from the financial institutions as well as World Bank, institutional development agency and other international financing institutions.

8. To Purchase and sell securities of Govt. bonds of financial institutions and shares of cooperative societies, scrips and other forms of securities on behalf of constituents and depositors.

9. To do any other form of business which the Govt. of India, RBI or NABARD may specify as a form of business in which it is lawful for the bank to engage.

10. To acquire, hold, issue on commission, underwrite and deal in stocks, funds, shares, debenture stock, bonds, securities and investment of all kinds.20

1.22 History of Co-Operative Banks in India

Co-operatives are organized groups of people and jointly managed and democratically controlled enterprises in India. They work to serve their members and depositors and produce better benefits and services for them. The cooperative banks show professionalism in their day to day working of skills and standards in performing, duties entrusted to an individual. The bank needs current and future development in information technology.

It is necessary for cooperative banks to devote adequate attention for maximizing their returns through effective services. In India co-operative banks have completed 100 years of existence. They play a very important and dominant role in the financial structure of the country. They are an integral part of money market today. Therefore, a brief view of their development should be taken into account. The history of cooperative banks goes back to the year 1904. In 1904, the co-operative
credit society act was enacted to encourage co-operative movement in India. But the
development of cooperative banks from 1904 to 1951 was the most disappointing one.

The first phase of co-operative bank development was the formation and
regulation of cooperative society. 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 co-operative activities and
stressed the basic concept of thrift, self help and mutual aid.” This marked the
beginning of the second phase in the history of Co-operative Credit Institutions.

There was the general realization that urban banks have an important role to
play in economic construction. This was asserted by a host of committees. The Indian
Central Banking Enquiry Committee (1931) felt that urban banks have a duty to help
the small business and middle class people. The Mehta-Bhansali Committee (1939)
recommended that those societies which had fulfilled the criteria of banking should be
allowed to work as banks and recommended an Association for these banks. The Co-
operative Planning Committee (1946) went on record to say that urban banks have
been the best agencies for small people in whom Joint stock banks are not generally
interested. The Rural Banking Enquiry Committee (1950), impressed by the low cost
of establishment and operations recommended the establishment of such banks even
in places smaller than taluka towns. The real development of co-operative banks took
place only after the recommendations of All India Rural Credit Survey Committee
(AIRCSC), which were made with the view to fasten the growth of co-operative
banks.

The co-operative banks are expected to perform some duties, namely, extend
all types of credit facilities to customers in cash and kind, advance consumption loans,
extend banking facilities in rural areas, mobilize deposits, supervise the use of loans
etc. The needs of co-operative bank are different. They have faced a lot of problems,
which has affected the development of co-operative banks. Therefore it was necessary
to study this matter. The first study of Urban Co-operative Banks was taken up by
RBI in the year 1958-59. The Report published in 1961 acknowledged the widespread
and financially sound framework of urban co-operative banks; emphasized the need to
establish primary urban co-operative banks in new centres and suggested that State Governments lend active support to their development. In 1963, Varde Committee recommended that such banks should be organised at all Urban Centres with a population of 1 lakhs or more and not by any single community or caste. The committee introduced the concept of minimum capital requirement and the criteria of population for defining the urban centre where UCBs were incorporated.  

1.23 RBI Policies for Co-Operative Banks

The RBI appointed a high power committee in May 1999 under the chairmanship of Shri. K. Madhava Rao, Ex-Chief Secretary, Government of Andhra Pradesh to review the performance of Urban Co-operative Banks (UCBs) and to suggest necessary measures to strengthen cooperative banking sector. With reference to the terms given to the committee, the committee identified five broad objectives:

- To preserve the co-operative character of UCBs
- To protect the depositors’ interest
- To reduce financial risk
- To put in place strong regulatory norms at the entry level to sustain the operational efficiency of UCBs in a competitive environment.
- To align urban banking sector with the other segments of banking sector in the context of application or prudential norms.
- RBI has extended the Off-Site Surveillance System (OSS) to all non-scheduled urban co-operative banks (UCBs) having deposit size of Rs. 100 Cores and above.
1.24 Types of Co-Operative Banks

The co-operative banks are organised small-sized banking units which operate both in urban and rural areas. They provide financial services to small borrowers in industrial and trade sectors besides professional and salary classes. Cooperative banks are regulated by the Reserve Bank of India, governed by the Banking Regulations Act 1949 and banking laws (co-operative societies) act, 1965. The co-operative banking structure in India is divided into following 5 components:

1.24.1 Primary Co-Operative Credit Society

The primary co-operative credit society is an association of borrowers and non-borrowers residing particularly in rural areas. The funds of the society are derived from the share capital and deposits of members and loans from central co-operative banks. The borrowing powers of the members as well as of the society are fixed. The loans are given to members for their agricultural activities such as purchase of cattle, fodder, fertilizers, pesticides, etc.
1.24.2 Central Co-Operative Banks

These are the banks which are located at district level. These banks provide funds to Primary Agricultural Credit Societies. The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank.

1.24.3 State Co-Operative Banks

This bank works at apex level of this structure. The state co-operative bank is a federation of central co-operative bank and acts as a watchdog of the co-operative banking structure in the state. Its funds are obtained from share capital, deposits, loans and overdrafts from the Reserve Bank of India. The state cooperative banks lend money to central co-operative banks and primary societies and not directly to the farmers.

1.24.4 Land Development Banks

The Land development banks are organized in 3 tiers namely; state, central, and primary level and they meet the long term credit requirements of the farmers for developmental purposes. The state land development banks oversee, the primary land development banks situated in the districts and tehsil areas in the state. They are governed both by the state government and Reserve Bank of India. Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural development (NABARD). The sources of funds for these banks are the debentures subscribed by both central and state government. These banks do not accept deposits from the general public.

1.24.5 Urban Co-Operative Banks

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centred on communities, localities, work place groups. They essentially lend to small borrowers
and businesses. Today, their scope of operations has widened considerably. The origins of the urban co-operative banking movement in India can be traced to the close of nineteenth century.

Inspired by the success of the experiments related to the cooperative movement in Britain and the co-operative credit movement in Germany, such societies were set up in India. Co-operative societies are based on the principles of cooperation, mutual help, democratic decision making, and open membership. Cooperatives represented a new and alternative approach to organization as against proprietary firms, partnership firms, and joint stock companies which represent the dominant form of commercial organization. They mainly rely upon deposits from members and non-members and in case of need, they get finance from either the district central co-operative bank to which they are affiliated or from the apex co-operative bank if they work in big cities where the apex bank has its Head Office. They provide credit to small scale industrialists, salaried employees, and other urban and semi-urban residents.23

1.25 Definitions of UCB

- According to the Banking Regulation Act 1949
  “Accepting for the purpose of lending of investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order of otherwise”

- According to Reserve Bank of India
  “Urban Cooperative Bank refers to primary cooperative banks located in urban and semi urban areas.”24

1.26 Area of Operations

The area of operation of an Urban Cooperative banks include a compact area such a town, municipal limit or city. If it is a big city like Mumbai or Chennai there may more than one urban bank for effective operation, supervision and active participation of members in bank’s management. Normally the urban banks are permitted to open branches within the area of operation. On consideration of its viability it is permitted to open branches outside the district. In exceptional cases,
selected banks are allowed to open branches outside the state and they are brought under the Multi-State Co-operative Banks.  

1.27 ISO - 9000 Quality System and Urban Cooperative Banks

In 1987 five ISO series of standards were published by International organization for standards (ISO) whose Head office is located in Geneva, Switzerland. These Standards have been used as national standards in more than 70 countries including all the developed nations. ISO 9000 is generally applicable to financial sector especially to bank branches.

The UCBs were ignored in the Eighth five year plan but through the sustained effort of NAFCUB, these have found mention in the Ninth Five year plan to ensure fast and planned growth of the banks. However much depends on the people working in the sector. Now the Urban banks are also to undertake almost such activities as hitherto carried out by commercial banks including merchant banking. Hence professionalizing the UCBs is the need of the hour and setting up ISO – 9000 quality system will aptly serve this need. The benefits of standards can be summarized as under-

- Competitiveness through cost reduction by eliminating waste of resources.
- Employee’s efficiency, productivity and house-keeping.
- Cycle time for various transactions.
- Improved employees’ morale resulting in team building.
- Effective communication, MIS and quality information.
- Increased customer confidence.  

1.28 Objectives of Urban Cooperative Banks

The main objectives of the urban cooperative banks are as follows-

1. To attract deposits from members and non members.
2. To advance loans to members
3. To collect bills, cheques, issues drafts and provide banking services.
4. To provide safe custody of valuables.
5. To promote thrift, saving and self and mutual help among the members.
In scheduled urban cooperative banks, the following objectives also included-

1. To buy and to sell foreign exchange including foreign bank notes.
2. To grant and issue letters of credit.
3. To carry on and to transact every kind of guarantee and indemnity business on behalf of constituents.
4. To provide financial and technical assistant to small and cottage industries to help self employed persons for setting up their own business.
5. To enter in to consortium finance arrangements with any other bank or financial institutions with the object of marketing loans and advances.27

1.29 Urban Cooperative Banks in India- Background

Cooperative endeavour is not an alien phenomenon to India. Kautilya (BC 340-293) described guilds of workmen as well as those who carry on any cooperative work shall divide their earnings either equally, or as agreed upon among themselves.

Co-operative societies Act of 1904 was passed as per the recommendations of Sir Edward Law Committee, appointed on the basis of the report of Sir Fredrick Nicholson. Inspired by the success of urban cooperative credit movement in Germany and Italy, the first mutual aid society 'Anyonya Sahakari Mandali' was organized in erstwhile Baroda state in 1889.

However, 1904 Act gave real impetus to the movement. First urban cooperative credit society was registered in Canjeevaram in the then Madras province in October, 1904. Cooperative credit movement is a state initiated movement and was perhaps first ever attempt at micro credit dispensation in the country28. Some of the prominent early societies include Pioneer Urban Bank (1905), No.1 Military Accounts Mutual Help Cooperative Credit Society, Pune (1906), Cosmos, Pune (January 18, 1906), Belgaum Pioneer (1906), etc. The most prominent amongst early societies was Bombay Urban Cooperative Credit Society established on January 23, 1906.29

1.29.1 Phase I (1904- 1966)

The urban cooperative credit movement in Germany and Italy, the first mutual aid society “Anyonya Sahakari Mandali” was organised in the then princely State of Borada in 1889 under the guidance of Late Shri. Vithal Laxman Kavthekar. The
Enactment of Cooperative credit societies Act 1904, however, gave the real impetus to the movement as the then Madras province in October, 1904. Therefore, few more societies were organised in Madras and Bombay provinces. In 1912, some major amendments were brought in the act with a view to broad basing it to enable organisation of non-credit societies. The Maclagan Committee’s recommendations, as mentioned above, have much contribute in evolving the urban cooperative credit movement.

There was no well defined concept of urban cooperative bank. It was the Joint Reorganisation Committee popularly known as Mehta Bhansali Committee (1939) in the then Bombay province, which for the first time, made an attempt to define an urban cooperative bank. It defined a credit society as an Urban Cooperative Bank UCB whose paid up share capital was Rs.20000 or more and was accepting deposits of money on current accounts or otherwise subject to withdrawals by cheque, draft or order. In Madras province, urban cooperative credit societies accepting current account deposits and maintaining certain amount of liquid resources, as prescribed by Registrar of Cooperative Societies, had come to be known as Urban Cooperative Banks (UCBs), irrespective of size of size of their share capital. Subsequently in 1966, when banking laws where made applicable to cooperative banks, provisions of section 5(CCV) of Banking Regulation Act 1949 defined an Urban Cooperative Bank as a primary cooperative bank other than a primary agricultural credit society.

Similarly, between 1939 -1949 when 588 joint banks failed in various states eroding public deposits to the tune of 26 crores, there was not even a miniscule impact on urban cooperative banks, presumably due to the fact that cooperative institutions were subjected to stringent regulation as compared to a lax supervision over commercial banks. It is indeed strange to note that commercial banks were governed by the law applicable to ordinary nonbanking companies. Very aptly, the Central Banking Enquiry Committee 1931 had come to the conclusion that the provisions of Indian Companies Act were inadequate to deal effectively with banking malpractices and recommended comprehensive legislation. Although, Companies Act was amended in 1936 and separate Chapter relating to banking Companies was added, the provisions therein were still found to be ineffective. This was a classic era of laissez faire banking and was a perfect Hobbesian state of nature.
1.29.2 Phase II (1966 – 1993)

During this period, the demand for extension of deposit insurance was gaining momentum on account of significant increase in the operation of Urban Cooperative Banks and their volume of deposit and more particularly in the context of sad experience of Palai Central Bank failure. As extension of deposit insurance to cooperative banking sector presupposes some semblance of Reserve Bank control over them, some provision of B.R. Act 1949 were made applicable to urban cooperative banks in 1966 after an intense debate among State Governments, Government of India and RBI. This was a landmark in the evolution of urban banking movement in India. Consequently, the cooperative banks came duality of control.

The banking related functions such as licensing, branch licensing, area of operation, exposure norms, interest rates etc, governed by RBI directives and regulations’ incorporation and registration of cooperative banks, audit, management, liquidation, winding up, amalgamation etc, these functions are governed by the State Government by virtue of powers conferred on them by the respective State Cooperative Societies Acts.

The Urban Cooperative Banks made an integral part of the well developed 3 tier cooperative structure which was developed to cater to the needs of rural India. The Urban Cooperative Banks, by implication, have to be affiliated to District Central Cooperative Bank (DCCB) at district level and to State Cooperative Bank (SCB) at apex level and these banks in turn, were supposed to help, nurse and guide the UCBs. Historically, UCBs were organised in semi-urban, urban and metropolitan centres.

Between 1966 -1993, the resources mobilised by way of deposits by the UCBs have registered a phenomenal growth. From a meagre Rs.153 crores as at the end of June 1967, they rose to Rs.13531 crores by during this period. Year wise key financial indicators of UCBs are given in the annualised average growth of deposits and advances was found to be quite impressive.

1.29.3 Phase III (Post 1993 Scenario)

The year was a watershed in the annals of urban cooperatives banking movements. After Narasimha Committee (Report I) addressed the ills of banking
system in 1991, and suggested a road map for liberalising the banking sector, a similar need was also felt to look de novo at the regulatory issues relating to UCBs. Accordingly, RBI appointed the Marathe Committee were quite far reaching, particularly, in the realm of new bank licensing, branch licensing and area of operation etc. Marathe committee suggested to dispense with the “one district bank” licensing policy and recommended organisation of banks based on the need for an institution and potential for a bank to mobilise deposits and purveying of credit. RBI accepted these recommendations and had come out with its new policy approach in May 1993; RBI has issued as many as 537 license for setting up new banks.

RBI had also appointed a working a Group 10 under the Chairman of Shri Uday M. Chitale in December 1995 to review the existing audit systems of UCBs. With a view to in still professionalism in the audit of UCBs, with deposits of Rs.25 crores and above, be conducted by charted Accountants, thus, ending the monopoly of State Government’s audit of UCBs. It has suggested a standard format of audit for all the states. The working Group also suggested revised audit rating model for UCBs.

Thus in the post Marathe Committee dispensation, there was a paradigm shift in RBI’s regularly approach. An excessively controlled regime gave way to a thoroughly liberalised dispensation. The shift in RBI policy on UCBs was a natural corollary of its policy stance on financial sector. Strangely, state governments who are co-regulators have not brought out any significant parallel reforms in tune with liberalisation process set in by RBI.30

1.30 Urban Co-Operative Banks in India

Banking sector in India is currently passing through a challenging phase. The reform measures taken in 1991 have brought about sweeping changes in this vital sector of the country's economy. The process of liberalization was set in motion with gradual removal of restrictions on the operation of the pricing mechanism, especially interest rates and statutory liquidity and reserve requirements – a process which is still underway. Enhanced competition in the banking sector has been introduced through a dynamic mix of public and private as well as domestic and foreign ownership – along with deregulation. The market driven economy, through deployment of more capital,
advanced technology and skilled human resources, is posing stiff and increasing competition to all traditional institutions.

India being a geographically vast country with its rural population constituting almost 70% of the total, the role of cooperative banks remains important. The urban cooperative banking system, a unique sector blending banking and cooperation, has witnessed phenomenal growth during the last one and half decades. Increase in deposits by more than 1100% reflects the tremendous growth witnessed by this sector. Despite the sector has shown spectacular growth, exhibiting substantial potential for sustained growth, in last few years it has gone through a lot of turmoil.

UCBs are operating in a hostile socio-economic environment and maintaining a coherent direct challenge to the mainstream is not easy. Market competition and the need to retain good clientele are affecting the Urban Cooperative Banks (UCBs) too. The commercial banks, with their ability to invest more in technology and offer better remuneration to attract skilled persons, are better off in fending competition.

Therefore, the UCBs that are competing in the same space, especially in cities and towns, are also being aggressively targeted by these commercial banks and face tough competition. In this competitive environment UCBs have to be more effective and efficient to survive. As democratic, member-based organizations, co-operative banks are experiencing a range of strains, stresses and tensions in their attempts to ensure their continued viability. The basic question in this research is how co-operative banks can respond to current challenges and changes while meeting members’ social and economic needs.

We have accepted the new economic policy and the new Industrial policy has opened the doors for many industries and naturally increased the need of financial assistance on large scale. In this connection contribution by the UCBs would be a unique thing. UCBs come under the purview of the Banking Regulations Act, 1949 and became effective since 1st March 1966. Many UCBs, which were organized initially, were essentially credit societies but later converted themselves into UCBs. There was no well-defined concept of UCB till 1996, when banking laws (provisions of section 5 [CCV] of Banking Regulation Act 1949) were made applicable to UCBs. Accordingly an UCB was
defined as a primary cooperative bank other than a primary agricultural credit society. At the end of March 2003, the number of the UCBs stood at 2004, this was inclusive of 89 Salary Earners' Banks, 133 Mahila Banks and 163 UCBs under liquidation. Of these, 57 were scheduled UCBs. They had a network of over 6300 branches.\textsuperscript{31}

CHART 1.3 - ORGANIZATIONAL SET UP OF UCBS

**Elected Board of the UCB**

![Elected Board Diagram](image-url)
1.31 Characteristics of Urban Cooperative Banking in India

- **Lower cost of capital:**

  Cooperative banks only need to remunerate the part of their equity that is represented by member shares (this part is henceforth referred to as the cooperative capital), not the often much larger intergenerational endowment (which, in accounting terms, partially appears in the books as reserves). Moreover, cooperatives do not remunerate member shares very generously and need not do so because in most cases members do not acquire shares in the first place for investment purposes. This lower cost of capital should allow cooperatives to sell their products at below-market prices, or, putting it differently, to incorporate their profits into their products.

- **Retail market positions and loyal customers:**

  Cooperative banks typically have strong retail market positions, especially in their target market segment. Moreover, customer members can be expected...
to be more loyal than customers of a commercial bank, since the relationship they have with their cooperative is one that goes beyond a pure bank-client relationship. However, with retail markets becoming increasingly competitive, this loyalty does not imply that members will necessarily do all their banking with their cooperative.

- **Extensive branch networks:**
  Cooperatives thank their strong and entrenched retail market positions in part to disproportionately large branch networks. Although rationalizations have occurred, often these have not been as drastic as those of commercial banks and some cooperative banks have expansion strategies that are based on a further build-up of their branch networks. As a result, in many countries the market share of cooperatives, as measured in terms of branch networks, has increased in recent years. These branch 23networks are also typically spread differently than those of commercial banks.

- **Loyal employees:**
  Employees who are members of the cooperative that employs them are likely to be relatively loyal. Involvement in decision-making (and the higher degree of job security that this typically entails) may also encourage employees to invest more in firm-specific human capital. Employees also tend to be close to the cooperative’s customers. They are people with similar backgrounds and employees often stay in their own region for their entire career. In return for their involvement in decision-making, job security, in many cases a share in the cooperative's profits, and the possibility to have a career in one's own region, employees may accept to work for lower salaries. Employee loyalty also enhances a cooperative’s returns on investment in training.

- **Ability to mobilize and retain deposits:**
  With their large branch networks, loyal customers, and overall strength in retail markets, cooperatives usually have a disproportionate share of retail deposits. This typically results in comfortable levels of liquidity, high deposit-to-loan ratios, and a tendency for cooperatives to be net lenders in interbank markets.

- **Opportunistic behaviour by banks:**
  This has led to new forms of information asymmetries and ex-post market power of the kinds listed above. Given furthermore that consumer protection
laws cannot always be relied upon to fully protect consumers and provide them with cost-effective ways to seek redress, the trustworthiness of institutions has become an essential criterion in consumer’s choice of bank. Consumers want to be able to trust the advice their bank gives them and sign documents without (their lawyer) having to read the fine print.32

1.32 Status of Ucbs in India

Indian Banking system is on its sound footing UCBs in India are playing major role in servicing rural economy and there is no need to worry as evident from following data regarding UCBs in India.

Total Number of Banks in India 1770, Total Deposits Rs.1, 12,000 Corers, Total Advances Rs. 78,000 Corers, Total No. of scheduled banks in India 53, Total No. of Mahila Banks 139,Total No. of Mahila Banks in Maharashtra. 27,Total No. of 1 Unit Banks 900,Salary Earner Banks 24 ,Total deposits of scheduled banks Rs. 51,173 Corers (42% of total deposits of UCBs),Total advances scheduled banks Rs. 32, 884 Corers, Gradation of Banks all India level, Grade-I Banks 690, Grade-II 430,Grade-III 390 and Grade-IV 260.

With the onset of liberalization, Co-operative banks in India are under pressure to change the ways in which they do business. They now face an increasingly competitive environment not only from banks but also from non-bank financial institutions. Explosive growth in IT has changed the way individuals interact with banks and the way banks respond. In the changed scenario, success will depend on the ability of banks to leverage the human potential and capabilities, Marketing of Banking products, G-sec Market, Customer value added services, competitive pricing of deposits and advances, good corporate governance, information & Technology. Co-operative banking – The challenges ahead in recent years, there has been a considerable widening and deepening of the Indian financial system, of which banking is a significant component. With greater liberalization, the financial system has come to play a much larger role in the allocation of resources than in the past and its role in future can be expected to be much larger than at present. The growing role of the financial sector in the allocation of resources has significant potential advantages for the efficiency with which our economy functions. Net profits of UCBs
improved in 2010-11 as compared to the previous year owing to higher growth of their total income. But the gross as well as net NPA ratio of UCB sector declined.33

1.33 Madhava Das Committee Report

The committee constituted by the RBI under the Chairmanship of Mr. Madhava Das to evaluate the role and other working features of the Primary Urban Cooperative Banks in September 1977, submitted its report on 11th July 1978. The important recommendations of the committee are as follows-

- Urban banks should do vigorous pioneering work in financing the small scale industrial sector in close collaboration with the State Govt. departments dealing with small – scale industries.
- Urban cooperative banks should solve unemployment problems by financing the educated unemployed, self employed persons and professionals.
- Provisions of finance to small transport operators such as pliers of cycles, scooters, rickshaws, taxis and vans.
- Finance for small traders and shopkeepers.
- Urban banks can undertake the house finance to individuals, housing societies, housing boards, local bodies etc.
- Financing of consumer stores was also recommended a new and fruitful avenue for flow of credit from urban banks.
- Urban banks may enter into participation arrangement with commercial banks.34

1.34 The High Power Committee on Urban Co-Operative Banks

The High Power Committee headed by Shri. Madhav Rao, (IAS Rtd) and former Chief Secretary, Andhra Pradesh, constituted by the RBI has submitted its report to Dr. Bimal Jalan, former Governor, RBI on November 30th 1999. The problems and recommendations contained in the report are as follows-
Problems

1. The loan facility is not extended to the directors of UCBs except in case of loan to directors of salary earners bank, loan to employee director for normal schemes and loan on director’s own deposits.
2. The branch licenses have not been liberalized resulting in total stagnation in the growth of the UCBs sector.
3. The success achieved by the urban banks does not go to prove that they are free from organizational and operational problems. Some of the problems faced by these banks are given below-
   • Uneven Development
   • Concentrated on only Metropolitan cities
   • Weak status
4. The standing advisory committee of RBI on UCBs holds its 18th meeting during the period 2002-03. Some of the issues discussed in the meeting are as follows-
   • Representation of depositors on the Board
   • Professional directors
5. More important and crucial to the urban cooperative banking sector is the issue of the bill to amend B. R. Act that has been referred to the Finance Committee of the Parliament.
6. Need for RBI initiative on issues of income tax concerning urban cooperative banking sector.

Suggestions

1. 80% of urban cooperative banks concentrated in the following cooperative advanced states of Maharashtra, Goa, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu accounting for 90% of total business of UCBs. The remaining 10% business is done by 20% of UCBs. Hence it is necessary to identify the problems related to the backwardness of cooperative banks in other states and make necessary revitalization for their proper development.
2. Management of the UCBs must be forced to come out of the orthodox management policies and introduce new management techniques.

3. Restrictions on loans to the directors and their relatives should be removed as they are also members of UCBs.

4. Cooperative banks are brought in to income tax net, which is major setback. There should be relief to augment the capital through retained profits.

5. Cooperative bank should have accesses to low cost depositors.

6. Surplus funds available with UCBs should be prudently managed for lending.

7. Every UCB should prescribe a format and prepare SWOT analysis so as to improve for further development.

8. Both professionalization of management and democratic management should be imposed wherever not existing

9. The seminar on capital formation in cooperative banks conducted in Kerala in January 2007 under the Chairmanship of Shri. B.S. Viswanathan, made important recommendations for the development of cooperative credit and banking.35

Table 1.1 Regional office wise distribution of UCBs.
(UCBs as on September end 2012 in India.)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Regional office</th>
<th>No. of Non scheduled Banks</th>
<th>No. of scheduled Banks</th>
<th>Total UCB</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ahmadabad</td>
<td>240</td>
<td>8</td>
<td>248</td>
<td>14.9</td>
</tr>
<tr>
<td>2</td>
<td>Bangalore</td>
<td>267</td>
<td>1</td>
<td>268</td>
<td>16.1</td>
</tr>
<tr>
<td>3</td>
<td>Bhopal</td>
<td>66</td>
<td>0</td>
<td>66</td>
<td>3.97</td>
</tr>
<tr>
<td>4</td>
<td>Bhubaneswar</td>
<td>12</td>
<td>0</td>
<td>12</td>
<td>0.72</td>
</tr>
<tr>
<td>5</td>
<td>Chandigarh</td>
<td>16</td>
<td>0</td>
<td>16</td>
<td>0.96</td>
</tr>
<tr>
<td>6</td>
<td>Chennai</td>
<td>130</td>
<td>0</td>
<td>130</td>
<td>7.82</td>
</tr>
<tr>
<td>7</td>
<td>Deharadun</td>
<td>4</td>
<td>0</td>
<td>4</td>
<td>0.24</td>
</tr>
<tr>
<td>8</td>
<td>Delhi</td>
<td>15</td>
<td>0</td>
<td>15</td>
<td>0.90</td>
</tr>
<tr>
<td>9</td>
<td>Guwahati</td>
<td>17</td>
<td>0</td>
<td>17</td>
<td>1.02</td>
</tr>
<tr>
<td>10</td>
<td>Hyderabad</td>
<td>105</td>
<td>3</td>
<td>108</td>
<td>6.49</td>
</tr>
</tbody>
</table>
Table 1.1 Shows that there are 1663 UCBs in India (Including Scheduled & Non scheduled UCBs). They are divided into 18 regions as per their regional offices. Most of the UCBs are coming under Mumbai region i.e. 401 followed by Bangalore - 268, Ahmadabad -248, Nagpur-152, Chennai-130, Hyderabad-108, Lucknow- 71, Bhopal-66 , Thiruvanthapuram- 60, Kolkata- 47, Guwahati -17, Chandigarh- 16, Delhi-15, Bhubaneswar- 12, Deharadun - 4 & Jammu & Kashmir-4. 

The table also indicates the imbalance growth of UCBs in India. Most of the UCBs are located in Western region i.e. in Maharashtra and Northern and eastern region covers very less numbers of UCBs.

### 1.35 UCBs in Maharashtra

The first Urban Co-operative bank was established in Mumbai on 20th December 1906 by name 'Shamrao Vitthal Co-operative Bank.' It may be specifically noted that in June 1989, 385 out of 1,378 UCBs were in Maharashtra, constituting 30per cent of the total. In June 1990, 48 out of 100 top UCBs were in Maharashtra and 45per cent of the total branches of the UCBs in the country existed in Maharashtra. By 2001, Maharashtra's share in the grand total of banks moved up to 31.16per cent indicating there by the fact that the state has a faster run on the track compared to all other states in the country.

There are 55 scheduled UCBs in India; out of that 39 are in Maharashtra. Total branches of the UCBs are 4,243 in Maharashtra and 23 are the extension centres. 

<table>
<thead>
<tr>
<th></th>
<th>Region</th>
<th>UCBs</th>
<th>Out</th>
<th>Total UCBs</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Jaipur</td>
<td>39</td>
<td>0</td>
<td>39</td>
<td>2.35</td>
</tr>
<tr>
<td>12</td>
<td>Jammu &amp; Kashmir</td>
<td>4</td>
<td>0</td>
<td>4</td>
<td>0.24</td>
</tr>
<tr>
<td>13</td>
<td>Kolkata</td>
<td>47</td>
<td>0</td>
<td>47</td>
<td>2.83</td>
</tr>
<tr>
<td>14</td>
<td>Lucknow</td>
<td>70</td>
<td>1</td>
<td>71</td>
<td>4.27</td>
</tr>
<tr>
<td>15</td>
<td>Mumbai</td>
<td>366</td>
<td>35</td>
<td>401</td>
<td>24.10</td>
</tr>
<tr>
<td>16</td>
<td>Nagpur</td>
<td>147</td>
<td>5</td>
<td>152</td>
<td>9.14</td>
</tr>
<tr>
<td>17</td>
<td>Patna</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>0.30</td>
</tr>
<tr>
<td>18</td>
<td>Thiruvanthapuram</td>
<td>60</td>
<td>0</td>
<td>60</td>
<td>3.61</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1610</strong></td>
<td><strong>53</strong></td>
<td><strong>1663</strong></td>
<td><strong>100</strong></td>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
Table 1.2 Urban Cooperative Banks in Maharashtra
(UCBs for the financial year 2011-2012 in Maharashtra.)

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Division</th>
<th>No. of UCBs</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pune</td>
<td>91</td>
<td>17.60</td>
</tr>
<tr>
<td>2</td>
<td>Nasik</td>
<td>95</td>
<td>18.38</td>
</tr>
<tr>
<td>3</td>
<td>Nagpur</td>
<td>31</td>
<td>6.00</td>
</tr>
<tr>
<td>4</td>
<td>Mumbai</td>
<td>88</td>
<td>17.02</td>
</tr>
<tr>
<td>5</td>
<td>Kolhapur</td>
<td>98</td>
<td>18.96</td>
</tr>
<tr>
<td>6</td>
<td>Aurangabad</td>
<td>86</td>
<td>16.63</td>
</tr>
<tr>
<td>7</td>
<td>Amravati</td>
<td>28</td>
<td>5.42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>517</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


Table 1.2 Indicates that the division wise number of UCBs in Maharashtra how it is divided into seven divisions. The above table shows that the Kolhapur division covers maximum numbers of UCBs i.e. 98 followed by Nashik- 95, Pune-91, Mumbai- 88, Aurangabad- 86, Nagpur – 31 and Amaravati- 28 only.

Table 1.3 District wise UCBs in Pune Division

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>District</th>
<th>No. of UCBs</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pune</td>
<td>63</td>
<td>62.37</td>
</tr>
<tr>
<td>2</td>
<td>Solapur</td>
<td>38</td>
<td>37.63</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>101</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: - Pune District Urban Cooperative Banks Association Ltd. Pune, 34th Annual Report 2011-2012

Table 1.3 Indicates that the Pune division includes only two districts which are Pune and Solapur. But most of the UCBs are located in Pune district i.e.53 and 38 banks in Solapur district.
<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Bank</th>
<th>Year of Establishment</th>
<th>No. of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Cosmos Cooperative Bank Ltd, Pune</td>
<td>1906</td>
<td>41</td>
</tr>
<tr>
<td>2</td>
<td>Janta Sahakari Bank Ltd, Pune</td>
<td>1949</td>
<td>37</td>
</tr>
<tr>
<td>3</td>
<td>Rupee Cooperative Bank Ltd, Pune</td>
<td>1992</td>
<td>36</td>
</tr>
<tr>
<td>4</td>
<td>Janseva Sahakari Bank Ltd, Pune</td>
<td>1972</td>
<td>18</td>
</tr>
<tr>
<td>5</td>
<td>Pune people’s Cooperative Bank Ltd, Pune</td>
<td>1952</td>
<td>14</td>
</tr>
<tr>
<td>6</td>
<td>Visheshwar Sahakari Bank Ltd, Pune</td>
<td>1972</td>
<td>14</td>
</tr>
<tr>
<td>7</td>
<td>Mahesh Sahakari Bank Ltd, Pune</td>
<td>1972</td>
<td>10</td>
</tr>
<tr>
<td>8</td>
<td>Bhagini Nivedita Sahakari Bank Ltd, Pune</td>
<td>1974</td>
<td>09</td>
</tr>
<tr>
<td>9</td>
<td>Baramati Sahakari Bank Ltd, Pune</td>
<td>1961</td>
<td>15</td>
</tr>
<tr>
<td>10</td>
<td>Vidya Sahakari Bank Ltd, Pune</td>
<td>1974</td>
<td>11</td>
</tr>
<tr>
<td>11</td>
<td>Bharti Sahakari Bank Ltd, Pune</td>
<td>1971</td>
<td>18</td>
</tr>
<tr>
<td>12</td>
<td>Muslim Cooperative Bank Ltd, Pune</td>
<td>1931</td>
<td>17</td>
</tr>
<tr>
<td>13</td>
<td>Suvarnyug Sahakari Bank Ltd, Pune</td>
<td>1973</td>
<td>10</td>
</tr>
<tr>
<td>14</td>
<td>Shivaji Bhosale Sahakari Bank Ltd, Pune</td>
<td>1972</td>
<td>11</td>
</tr>
<tr>
<td>15</td>
<td>Pune Urban Cooperative Bank Ltd, Pune</td>
<td>1924</td>
<td>09</td>
</tr>
<tr>
<td>16</td>
<td>Rajgurunagar Sahakari Bank Ltd, Pune</td>
<td>1931</td>
<td>09</td>
</tr>
<tr>
<td>17</td>
<td>Sharda Sahakari Bank Ltd, Pune</td>
<td>1978</td>
<td>06</td>
</tr>
<tr>
<td>18</td>
<td>Sadhana Sahakari Bank Ltd, Pune</td>
<td>1975</td>
<td>08</td>
</tr>
<tr>
<td>19</td>
<td>Jijamata Mahila Sahakari Bank Ltd, Pune</td>
<td>1974</td>
<td>10</td>
</tr>
<tr>
<td>20</td>
<td>Pune Contentment Sahakari Bank Ltd, Pune</td>
<td>1973</td>
<td>07</td>
</tr>
<tr>
<td>21</td>
<td>Rajshri Shahu Sahakari Bank Ltd, Pune</td>
<td>1984</td>
<td>06</td>
</tr>
<tr>
<td>22</td>
<td>Sharad Sahakari Bank Ltd, Pune</td>
<td>1974</td>
<td>06</td>
</tr>
<tr>
<td>23</td>
<td>Sanmitra Sahakari Bank Ltd, Pune</td>
<td>1972</td>
<td>07</td>
</tr>
<tr>
<td>24</td>
<td>Sampada Sahakari Bank Ltd, Pune</td>
<td>1974</td>
<td>04</td>
</tr>
<tr>
<td>25</td>
<td>Pune Merchant’s Cooperative Bank Ltd, Pune</td>
<td>1924</td>
<td>07</td>
</tr>
<tr>
<td>26</td>
<td>Sopankaka Sahakari Bank Ltd, Saswad</td>
<td>1997</td>
<td>03</td>
</tr>
<tr>
<td>27</td>
<td>Shree Laxmi Sahakari Bank Ltd, Pune</td>
<td>1972</td>
<td>04</td>
</tr>
<tr>
<td>28</td>
<td>Lala Urban Cooperative Bank Ltd, Narayangaon</td>
<td>1974</td>
<td>08</td>
</tr>
</tbody>
</table>
Table 1.4 Indicates that there are 54 UCBs are registered in Pune district. It is clear that from the above table, Cosmos Cooperative Bank Ltd is the biggest among all the cooperative banks in Pune district i.e. 41 branches followed by Janta Sahakari Bank Ltd.
is having 37 branches and Rupee Cooperative bank is having 36 branches and it is at third place. The Cooperative banks are also contributing in the growth of Cooperative sector of Maharashtra.

**Table 1.5 Multi-State UCBs in Maharashtra as on 31.03.2012**

(Not subject to audit allotment)

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>Name</th>
<th>District</th>
<th>Division</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Thane Janta Coop. Bank ltd.</td>
<td>Thane</td>
<td>Mumbai</td>
</tr>
<tr>
<td>2</td>
<td>The Khamgaon Urban Coop. Bank ltd.</td>
<td>Khamgaon</td>
<td>Amravati</td>
</tr>
<tr>
<td>4</td>
<td>Akola Urban Coop. Bank ltd.</td>
<td>Akola</td>
<td>Amravati</td>
</tr>
<tr>
<td>5</td>
<td>Nagpur Nagrik Coop. Bank ltd.</td>
<td>Nagpur</td>
<td>Nagpur</td>
</tr>
<tr>
<td>6</td>
<td>Osmanabad Janta Sahakari Bank</td>
<td>Osmanabad</td>
<td>Aurangabad</td>
</tr>
<tr>
<td>7</td>
<td>Peoples Coop. Bank ltd.</td>
<td>Hingoli</td>
<td>Aurangabad</td>
</tr>
<tr>
<td>8</td>
<td>Nasik Merchants Coop. Bank ltd.</td>
<td>Nasik</td>
<td>Nasik</td>
</tr>
<tr>
<td>9</td>
<td>Abhyuday Coop. Bank</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>10</td>
<td>Bharat Coop. Bank ltd.</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>11</td>
<td>Bombay Mercantile Coop. Bank ltd.</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>12</td>
<td>Kapol Co-op. Bank Ltd.</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>13</td>
<td>Kokan mercantile Coop. Bank</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>14</td>
<td>Memon Coop. Bank ltd.</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>15</td>
<td>New India Coop. Bank ltd.</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>17</td>
<td>Punjab &amp; Maharashtra Coop. Bank ltd.</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>18</td>
<td>Saraswat Coop. Bank ltd.</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>19</td>
<td>Shamrao Vitthal Coop. Bank ltd.</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>20</td>
<td>Jain coop Bank</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>21</td>
<td>Citizen coop Bank</td>
<td>Mumbai</td>
<td>Mumbai</td>
</tr>
<tr>
<td>22</td>
<td>Bharati Coop. Bank ltd.</td>
<td>Pune</td>
<td>Pune</td>
</tr>
<tr>
<td>23</td>
<td>Cosmos Coop. Bank ltd.</td>
<td>Pune</td>
<td>Pune</td>
</tr>
<tr>
<td>24</td>
<td>Vishveshwar Coop. Bank ltd.</td>
<td>Pune</td>
<td>Pune</td>
</tr>
<tr>
<td>25</td>
<td>Pune Peoples Co operative bank Ltd</td>
<td>Pune</td>
<td>Pune</td>
</tr>
<tr>
<td>26</td>
<td>Janata Sahakari Bank Ltd</td>
<td>Pune</td>
<td>Pune</td>
</tr>
<tr>
<td>27</td>
<td>Kallappanna Avade bank Ltd</td>
<td>Kolhapur</td>
<td>Kolhapur</td>
</tr>
</tbody>
</table>


Table 1.5 Indicates that there are 27 Multi-state urban cooperative banks in Maharashtra as on 31.03.2012. These banks are scattered in all over the Maharashtra state such as Mumbai, Pune, Amravati, Aurangabad, Kolhapur, Nagpur and Nasik.
1.36 Future of the Urban Cooperative Banks

Looking at the progress of the UCBs it can be said that they have expended by leaps and Bounds and increased their business over the last few decades. A walk down the streets of Mumbai, Ahmadabad, Hyderabad, Surat etc. reveals how widely they have spread their tentacle across the nation. Every nook and corner displays the hoarding of the office of one or the other UCBs. But an increasing number of failures of the UCBs have spoiled the image of the UCBs and shaken the faith of their depositors and investors.

In spite of so many problems, with regard to the future of these banks it can be said that the UCBs will continue to be promoters of mass banking as distinguished from class banking usually practiced by commercial banks. The future of UCBs is much better due to their numerous distinctive such as (a) Close familiarity with the members (b) Local feel (c) Democratic management (d) Personalized service (e) Compactness in the area of operation (f) Close supervision over the end use of credit (g) Prompt recovery of dues from member borrowers.

But both the RBI and the UCBs should try to maintain this distinctive identity of the UCBs and take care to waive scandals or scams. In order to achieve this goal, the RBI should take measures to strengthen the regulatory frame work for the cooperative sector, lay down clear cut guidelines for their management structure and should enforce further prudential standards in respect of access to uncollateralized funds and lending against volatile assets. Simultaneously, the UCBs should try to complete with private financial institutions and commercial banks within their limits. Their main inclination should be towards customer’s satisfaction.

They should introduce a Customer Day on which customer’s can meet and discuss with the Board of Directors their problems. They should also try to reach to the customers by providing door-to-door services. They should open a separate wing for publicity and advertisement of existing well as new schemes of deposits loans and other services provided by them. Simultaneously they should try to enhance their deposits and advances by providing quality services. For enhancing deposits, they should introduce children savings and youth savings centres in schools and colleges respectively and provide knowledge about the benefit of savings.
All UCBs should introduce mobile vans for 86 handicapped and illiterate people. Similarly for enhancing advances, they should do market research and start loaning according to the local needs; keep less margin of profit on advances; provide a guideline about the procedure of advances to the general public so that they would not procedure of advancing loans; etc. Such comprehensive attempts will help the UCBs in enhancing the banking business in limited areas only.

In short, the UCBs must come into their own to take the future head on. It’s time for them to think strategically and focus on the opportunities in terms of market, products and customers. It requires a vision about which their future customers are going to be what they will need; who their competitors will be and what their disadvantages mean for the UCBs; etc. They should be ready to make changes in their policy as per the demands and competition. They should consider diversification of business product and must upgrade their skills and technology to provide efficient and affordable services. At evolve a systematic approach towards human resource development in many areas like manpower planning, recruitment, placement and leadership development for motivating staff and increasing productivity.

In short UCBs should pay attention to human resources development and evolve a systematic approach toward human resource development in many areas. They should focus on the opportunities in terms of market, products and customers. They also focus on need of customers should be removed disadvantages of management and administration.

1.37 Some Observation & Future Tips for UCB

The observations of the various committees about the UCBs are as follows-

- Lacunae in implementing corporate governance, Inadequate understanding of banking the level of directors and senior managers.
- Anomaly created out of dual control of RBI and State Govt. through their cooperative societies Act.
- Ignorance for self sustainable growth, with specific reference to prudential norms.
➢ Lack of professionalism. Inadequate of no provision in bye laws to ensure the same.
➢ Undue importance to interest of borrowers at the cost of stake of the depositors and members.
➢ Non- remunerative post of directors. No explicit provisions in the State Cooperative Acts for remuneration to directors to attract qualified and professional people.
➢ Politicization of cooperative banks. Majority of cooperative banks are affected by these lacunae. The cooperative banks are being used for fulfilment of political aspirations.
➢ In case of directorship more trust is given on electoral merit of the person rather than his professional abilities.
➢ No restrictions on tenure of directorship. A person capable of being elected enjoys indefinite tenure.
➢ Apathy of members or shareholder. 38

In spite of some inherent weakness, it is clear that the growth of UCBs on the whole is satisfactory. However, one can suggest few tips for the banks namely-

➢ The most critical area in the improvement of profit is reduction in non-performing assets. This can be achieved through up gradation of quality of loan assets.
➢ Profit maximization should be the pure motive of the urban cooperative banks. It is argued that liberalization would lead the banks to lend at higher rates and higher rates of interest would further lead to higher level of risks.
➢ Urban banks should depend upon the non-fund business, such as advisory and consultancy services, guarantees and custody services.
➢ A significant improvement in customer service by banks can no longer be ignored.
➢ The house keeping issues should also be in innovative manner. Computerization and overall up gradation to technology, rationalization of branch structure and staffing, reduction of costs including greater degree of professionalism and improvement in productivity must receive their due attention.
The financing of agricultural activities by urban banks is allowed by RBI since 199ers for. Now urban banks can finance to members for agricultural purposes.

There is need of simplification of loan process. Banks should try to simply the procedure and loan sanctioning period should be 2 to 3 years.

Bank should select target customer and then approach them.

As of now, 73% of the banks are still concentrated in the states of Maharashtra, Gujarat, Karnataka, and Tamil Nadu having over 86% of deposits. The co-operators need to pay concerted attention in the remaining states to form banks.

The weakness, such as, Absence of sound management, political interference, lack of delegations of powers, delay in decision making, lack of operation manual, lack of training to staff, over dues, etc should be taken care of.

Continuous training of banking principles and trends in banking is essential for directors. Non directives but at least some guidelines should be given and made applicable preferably by central bank.

Necessary provision should be made in State Cooperative Act and Bye laws of the bank, for adequate representation of directors having professional or banking background.

Activating and strengthening the branch local committee and getting continuous feedback there from at board level.

In addition to normal or EDP audit, a system of management audit should be introduced for monitoring and assessing the performance of various committees of the board and senior management.

Thus the future of UCBs seems bright. These have to remove its inherent weakness to usher in a more equitable society in 21st Century.39

1.38 Conclusion

UCBs play an important role by providing banking services to the wider sections of the society in semi urban and urban areas. UCBs collect deposits from the middle and lower income groups and give credit to small borrowers, including weaker section of the society. During the period 1991-2012 the urban co-operative banking
sector witnessed substantial growth possibly encouraged by the liberalized policy environment in post reform period.

The UCBs in India, in recent times have been in the news more for their malpractice, fraud and collapses than for their unique services and contribution to the economy. A number of UCBs became weak and unviable, eroding public confidence and posing systemic risk to the urban co-operative banking sector in India. So it is become important to study the financial performance of UCBs. This research is an attempt to study financial performance of UCBs in India.

It is seen that, in recent era the development of UCB is awesome. The number of scheduled and non scheduled banks increased like anything in India mostly in Maharashtra, Gujarat, Karnataka, Andhra Pradesh, and Tamil Nadu. It is also seen that in Maharashtra maximum number of UCBs are providing services to customers. In Maharashtra there are seven divisions which cover all these banks.

If we see the district wise growth of UCBs in Maharashtra maximum numbers of UCBs are providing services to customers of Mumbai, Pune, Kolhapur and Solapur. These banks mobilise the savings of middle class people and lower groups. They extend credits to small borrowers as well as weaker section of the society. It is noticed that from the above discussion, the growth of UCBs in Maharashtra is well and good and these banks play an important role in the economy of India.

***
References

1 www.rbi.org.in/publications
6 www.rbi.org/publication
7 www.rbi.org.in.
8 www.frbsf.org. and www.eac.gov.in
21 www.iba.org.in/cooperative banking/publication
22 www.iba.org.in/cooperative banking/publication
29 www.rbi.org.in/publication/urban cooperative banks.
31 www.rbi.org.in/publication/urban cooperative banks
36 sahakarayuktamaharashtra.gov.in.

38 Ghanekar V.V., Cooperative Movement in India, Institute of Rural Development and Education, Apte Road, Pune, 2004, Page No. 163-164.


***