CHAPTER - I

INTRODUCTION

1. Introduction to Co-operation

Cooperation means working together. The principle of cooperation is as old as human Society. It is truly the basis of domestic and social life. Cooperative effort is ultimately the group instinct in man, which enables him to live together and help each other in times of stress and strain. Unconsciously, the principle has always penetrated the life of human race. The history of modern civilization is in fact, the history of cooperation, for without it social and economic progress would have been impossible.1

In the primitive societies the germs of cooperation could be observed in religious institutions and traditional customs. The working of these customs and institutions throw light on the instinct and tradition of mutual assistance, joint possession and joint management, which are found in the thinking and in the life of the people in all ages and all countries. In India, for instance, the principle of cooperation has been practiced from times immemorial. The spirit of village communities of India was almost entirely cooperative. The villages have throughout the ages worked together on an informal corporate basis with regard to their religious and social and cultural life.2

In the modern technical sense the genesis of cooperative movement and its applications in the economic field can be traced after the industrial revolution which took place in England during the second half of eighteenth and the first half of the nineteenth century. Today, cooperatives are the most important type of voluntary organization throughout the world. In some countries, they are principal form of organization in agriculture, marketing and provision of credit and distribution of consumer goods. The movement now covers about 98% of the villages and 62% of the total rural population. The caste, color, Religion etc., have not been any bar for the development of
the cooperative movement. The working of the cooperative movement all over the world clearly demonstrates that there is hardly any economic need that cannot be met by organizing cooperative societies and hardly any form social or political organization with which they cannot be reconciled or integrated. The cooperative societies have helped to improve security of tenure of land; to consolidate holdings; to promote conservation of natural resources; to facilitate land settlement to foster the all important growth and speed of technical knowledge for better farming to secure savings and administer credit; to reduce the charges made for production requisites and use of the larger capital items for farm and small scale industrial production to reduce charges for consumer goods and services including housing to improve the marketing of farm products to minimize risks and to lower the costs of insurance. They have promoted education both general and vocational. They have provided effective training in democracy and self-government. They have been neither class-bound nor state-bound. They have maintained or increased that sense of interdependence so important for social progress.3

2. Historical Perspective

The cooperative movement in India started a century ago with the enactment of Cooperative Societies Act in 1904. Interestingly, legal status was conferred on credit societies keeping in view, in particular, the needs of the agricultural sector. Nevertheless, Sir Ibbetson, who piloted the legislation observed:

"We recognize that artisans, employees on small pay and other persons in towns may very properly be admitted to the benefits of our legislation".

Although joint stock banks opened branches in urban and semi-urban areas, they did not find it advantageous to cater to the banking and credit requirements of the urban middle/lower class comprising small traders/
businessmen, artisans, factory workers, salaried persons with limited incomes etc. The inability of joint stock banks to appreciate and cater to the needs of this class of clientele with limited means effectively drove them to money-lenders and similar agencies for loans at exorbitant rates of interest - this situation was the prime mover for non-agricultural credit cooperatives coming into being in India. The main objectives of such cooperatives were to meet the banking and credit requirements of this section of people and to protect them from exploitation. Thus, urban cooperative banks’ emergence was a result of local response to an enabling legislative environment, unlike rural cooperative movement that was largely State-driven. The origin of cooperative banks can be traced to a small town in South India, called Conjivaram, where in 1904; the Conjivaram Urban Cooperative Bank was set up, to cater to the needs of small businessmen as an alternative to moneylenders. Little attention had been paid to the development of the urban credit movement until the Maclagan Committee (1914) drew attention to its potentials. Interestingly, a banking crisis in India in 1913-14, when no fewer than 57 joint stock banks collapsed, led to a flight of deposits from joint stock banks to urban cooperative banks. The Maclagan Committee investigating the crisis stated ‘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 the two classes of security being well appreciated and preference being given to latter owing partly to the local character and publicity of cooperative institutions but mainly we think, to the connection of Government with the cooperative movement’.4

3. Perspective of Indian Cooperative Banking

Domestic banks continued to manage growth with resilience during 2010-11 with ample reserves of capital and liquidity, improved performance in profitability and asset quality. With high growth potential of the Indian economy and favourable demographics, banks have immense opportunities
to further expand their business both with traditional and innovative products and through financial inclusion using technology enabled sustainable business models. However, the prevailing interest rate environment and slowing growth in the near-term amidst somewhat skewed exposures to interest sensitive sectors will require adept management of such exposures going forward. Further, it will be challenging for banks to raise additional capital and liquidity to support higher growth and to comply with Basel III stipulations. This would require banks to use innovative and attractive market based funding channels, especially when capital continues to remain expensive and the Government support may be constrained by fiscal considerations. The challenge to converge with the International Financial Reporting System would require banks to upgrade infrastructure including information technology and human resources. Given the focus on inclusive growth, banks are also expected to renew efforts to broaden the scope of financial inclusion and use viable business models to achieve their targets. Finally, sustained pursuit of forward looking strategies aimed at mitigating risks, diversifying revenue sources, containing asset-liability mismatches, providing effective response to changing global market environment and improving customer relationships should strengthen the overall growth of the banking sector in the medium term.

4. Introduction to Urban Cooperative Banks (UCBS)

The urban cooperative credit movement in India is a century old. There are over 20 million members of urban cooperative banks in India making it, in terms of membership, the largest cooperative system in the world. It is a vast sector comprising over 1,850 urban banks and around 40,000 credit societies. The reserves of urban cooperative banks aggregate to over Rs.1.1 lakh crore. Though the share of the cooperative banking sector in the entire banking system in India is about 5 percent, it is an important segment considering the number of consumers availing of its services.
Visualizing the importance of cooperatives in the development process, the first Prime Minister of India, Pandit Nehruji, said that he wanted to "convulse" (shake) the nation with cooperatives. He had an abiding faith in the cooperative system, the objective of which was to give small traders, artisans, factory workers and others access to institutional credit, instead of them going to the private moneylender and then often meeting with disastrous consequences. By catering to the credit requirements of people with limited means in the urban and semi-urban centers, the urban cooperatives seek the financial inclusion of people who are economically disadvantaged and this is extremely important for the equitable growth in the country.

In a fast globalizing world order and growing competition, the challenge is to have a strategy for the urban cooperative banks who have the resilience to adapt to new requirements. A small number of cooperatives have grown to be big entities and are in a position to meet competition, but a number of others need support for their survival.

The strength of the cooperative movement is in its collectivity. Cooperative institutions, particularly small urban cooperative banks and credit societies find it difficult to face competition from bigger players in the field, as the latter have at their command resources, technology and managerial competence, far greater than what cooperative banks have. For the individual banks and societies to be competitive, the sector as a whole must be strong and each unit should be backed by collective strength. The urban banks ought to seriously consider ways of networking amongst themselves and aggregating their resources as well as their requirements so that they have the advantage of size while approaching the financial markets and dealing with larger entities. Such systems and structures exist in many countries, where a single strong apex body is providing the expertise and resources for the grassroots level banks to operate. The possibility of this
could be examined in the Indian context. It is equally important to make use of new management systems and technological advancements to modernize the urban cooperative sector. They may also consider mobile banking to reach out to their clientele.

The unprecedented growth of our economy, year on year for the last few years, is also bringing about huge demographical changes. Rapid urbanization through migration is now resulting in a significantly large section of the population in urban areas being financially excluded. To bring them under the institutional fold for their financial and banking requirements is a challenge but it is also a tremendous opportunity for the urban cooperative banks and credit societies. Organizational strengths such as committed leadership, efficient use of resources, transparency in operations and involvement of members are, however, pre-requisites for the cooperatives to be able to take advantage of the opportunities. Improvement in overall governance should strengthen cooperatives and equip them to become premier vehicles of financial inclusion.

The rate of growth of credit by cooperative banks is not keeping pace with the rate of growth of credit by the rest of the banking sector. The share of cooperative banks, both in the agricultural and in the urban sectors, appears to be progressively shrinking. This could, in the long run, have an adverse effect on credit to marginal farmers, artisans and weaker sections of society. It is, therefore, imperative that cooperative banks are strengthened to be in a position to take up financing for the less privileged sections of society. It will be equally important for the co-operative banking sector to set targets and work out innovative strategies to achieve them. The innovative strategies should essentially aim at improving the income levels of the beneficiaries, so that they do not fall into a debt trap.
The Urban Cooperative Banks (UCBs) have long had the reputation of serving all their members including those on the lower rungs of the economic ladder. UCBs have committed themselves to promoting the economic interests of the members, who are simultaneously their owners and customers. The Banking Regulation Act refers to UCBs as primary cooperative banks. The word “primary” is used to denote that the UCBs perform the role of a primary unit in a 3 tier cooperator credit structure.

5. **Introduction to Origin of Urban Cooperative Banks in India**

*Structure of Indian Banking:* 6
The origin of the urban cooperative banking movement in India can be traced to the close of nineteenth century when inspired by the success of the experiments related to the cooperative credit movement in Germany, such societies were set up in India. Cooperative 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 firm, partnership firms and joint stock companies which represent the dominant form of commercial organization.

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

The first known mutual aid society in India was probably the ‘Anyonya Sahakari Mandali’ organized 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 organized on a community basis to meet the consumption oriented credit needs of their members. Salary earners’ societies inculcating habits of thrift and self help played a significant role in popularizing 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 mobilize savings from the middle and low income urban groups and purvey credit to their members - many of which belonged to weaker sections.

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

6. **Salient Features of the UCB Sector**

The UCB sector is unique in that there is significant degree of heterogeneity among the banks in this sector in terms of size, geographical distribution, performance and financial strength. There is also diversity among the urban cooperative banks in the levels of professionalism, standards of corporate governance and access to advanced technology. Most importantly, the banks in this sector are under dual control, with a part of the powers vested in the State Government and a part with Reserve Bank.

The Reserve Bank is, therefore, continuously evolving the regulatory and supervisory framework for UCBs to ensure their soundness without
sacrificing their competitiveness. But before, stepping into the realm of regulation/supervision, I would like to elaborate further on the aspect of heterogeneity of UCBs, which would help in better understanding of the sector.

6.1 Duality of Control

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

However, concerns regarding the professionalism of urban cooperative banks gave rise to the view that they should be better regulated. Large cooperative banks with paid-up share capital and reserves of Rs.1 lakh were brought under the purview of the Banking Regulation Act 1949 with effect from 1st March, 1966 and within the ambit of the Reserve Bank’s supervision. This marked the beginning of an era of duality of control over these banks. Banking related functions (viz. licensing, area of operations, interest rates etc.) were to be governed by RBI and registration, management, audit and liquidation, etc. governed by State Governments as per the provisions of respective State Acts. In 1968, UCBS were extended the benefits of Deposit Insurance.

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Towards the late 1960s there was much debate regarding the promotion of the small scale industries. UCBs came to be seen as important players in this context. The Working Group on Industrial Financing through Co-operative Banks, (1968 known as Damry Group) attempted to broaden the scope of activities of urban co-operative banks by recommending that these banks should finance the small and cottage industries. This was reiterated by the Banking Commission (1969).

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

The Hate Working Group (1981) desired better utilization of banks’ surplus funds and that the percentage of the Cash Reserve Ratio (CRR) & the Statutory Liquidity Ratio (SLR) of these banks should be brought at par with commercial banks, in a phased manner. While the Marathe Committee (1992) redefined the viability norms and ushered in the era of liberalization, the Madhava Rao Committee (1999) focused on consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks.
A feature of the urban banking movement has been its heterogeneous character and its uneven geographical spread with most banks concentrated in the states of Gujarat, Karnataka, Maharashtra, and Tamil Nadu. While most banks are unit banks without any branch network, some of the large banks have established their presence in many states when at their behest multi-state banking was allowed in 1985. Some of these banks are also Authorized Dealers in Foreign Exchange.

6.2 Heterogeneity

While on the one hand, there are a number of small neighbourhood banks functioning for mutual interest of their members, on the other, there are several large UCBs with a wide network of branches, large number of depositors and borrowers, many of whom are medium/large corporates. In the latter kind of UCBs, the cooperative structure remains only as an organizational arrangement and their business model and goals are more akin to commercial banks. The extent of heterogeneity can be gauged by size-wise, region-wise and grading-wise analysis of the UCBs.
Table 1.1 : Brief profile of UCBs of India as on end-March, 2009 *
(Amounts in Rs. Cr)

<table>
<thead>
<tr>
<th></th>
<th>Scheduled</th>
<th>Non Scheduled</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of UCBs</td>
<td>53</td>
<td>1668</td>
<td>1721</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Tier I</td>
<td>Nil</td>
<td>1429</td>
<td>1429</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit Banks</td>
<td>Nil</td>
<td>830</td>
<td>830</td>
</tr>
<tr>
<td>(ii) Tier II</td>
<td>53</td>
<td>239</td>
<td>292</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multi State</td>
<td>25</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>2. Assets</td>
<td>85,895</td>
<td>1,10,500</td>
<td>1,96,395</td>
</tr>
<tr>
<td>3. Deposits</td>
<td>67,929</td>
<td>90,804</td>
<td>1,58,733</td>
</tr>
<tr>
<td>4. Loans and Advances</td>
<td>42,234</td>
<td>55,684</td>
<td>97,918</td>
</tr>
<tr>
<td>5. Investments</td>
<td>29,210</td>
<td>34,961</td>
<td>64,171</td>
</tr>
<tr>
<td>6. Total number of Deposit Accounts (March 2008)</td>
<td>1,44,87,941</td>
<td>3,91,43,063</td>
<td>5,36,31,004</td>
</tr>
<tr>
<td>7. Total number of Borrowal Accounts (March 2008)</td>
<td>11,38,934</td>
<td>67,61,846</td>
<td>79,00,780</td>
</tr>
</tbody>
</table>

• Provisional data

Table 1.2: State wise Distribution of UCBs in India as on end-March 2009*

<table>
<thead>
<tr>
<th>States</th>
<th>Total Number of Reporting UCBs</th>
<th>Total number of Unit UCBs</th>
<th>Total number of branches (including head office cum branches)</th>
<th>Total number of Extension Counters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>114</td>
<td>82</td>
<td>234</td>
<td>7</td>
</tr>
<tr>
<td>Assam/ Manipur/ Tripura/Meghalaya/ Mizoram</td>
<td>17</td>
<td>13</td>
<td>28</td>
<td>1</td>
</tr>
<tr>
<td>Bihar/Jharkhand</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Chattisgarh</td>
<td>13</td>
<td>10</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td>Gujarat</td>
<td>260</td>
<td>134</td>
<td>886</td>
<td>10</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>4</td>
<td>1</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>Karnataka</td>
<td>273</td>
<td>146</td>
<td>828</td>
<td>9</td>
</tr>
<tr>
<td>Kerala</td>
<td>60</td>
<td>16</td>
<td>332</td>
<td>2</td>
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<tr>
<td>Maharashtra</td>
<td>583</td>
<td>219</td>
<td>4148</td>
<td>165</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>55</td>
<td>41</td>
<td>84</td>
<td>0</td>
</tr>
<tr>
<td>New Delhi</td>
<td>15</td>
<td>6</td>
<td>62</td>
<td>1</td>
</tr>
<tr>
<td>Orissa</td>
<td>13</td>
<td>1</td>
<td>50</td>
<td>4</td>
</tr>
<tr>
<td>Punjab/Haryana/Himachal Pradesh</td>
<td>16</td>
<td>8</td>
<td>40</td>
<td>3</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>39</td>
<td>19</td>
<td>149</td>
<td>3</td>
</tr>
<tr>
<td>Tamil Nadu/Puducherry</td>
<td>130</td>
<td>58</td>
<td>310</td>
<td>0</td>
</tr>
<tr>
<td>Uttarakhand</td>
<td>5</td>
<td>1</td>
<td>49</td>
<td>2</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>70</td>
<td>42</td>
<td>189</td>
<td>28</td>
</tr>
<tr>
<td>West Bengal/Sikkim</td>
<td>49</td>
<td>29</td>
<td>100</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>1721</td>
<td>830</td>
<td>7532</td>
<td>244</td>
</tr>
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</table>

- Provisional data
### Table 1.3: Growth of Urban Cooperative Banks (UCBs)

(Rs. in crores of rupees)

<table>
<thead>
<tr>
<th>Year ended March 31,</th>
<th>Number of UCBs</th>
<th>Deposits</th>
<th>Percent Growth</th>
<th>Advances</th>
<th>Percent Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1307</td>
<td>10157</td>
<td></td>
<td>8003</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>1311</td>
<td>11108</td>
<td>9.4</td>
<td>8713</td>
<td>8.9</td>
</tr>
<tr>
<td>1993</td>
<td>1306</td>
<td>13531</td>
<td>21.8</td>
<td>10132</td>
<td>16.3</td>
</tr>
<tr>
<td>1994</td>
<td>1305</td>
<td>16769</td>
<td>23.9</td>
<td>12172</td>
<td>20.1</td>
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<tr>
<td>1995</td>
<td>1300</td>
<td>20101</td>
<td>19.9</td>
<td>14795</td>
<td>21.5</td>
</tr>
<tr>
<td>1996</td>
<td>1327</td>
<td>24165</td>
<td>20.2</td>
<td>17908</td>
<td>21.1</td>
</tr>
<tr>
<td>1997</td>
<td>1355</td>
<td>30714</td>
<td>27.1</td>
<td>21550</td>
<td>20.3</td>
</tr>
<tr>
<td>1998</td>
<td>1502</td>
<td>40692</td>
<td>32.5</td>
<td>27807</td>
<td>29.0</td>
</tr>
<tr>
<td>1999</td>
<td>1590</td>
<td>52681</td>
<td>29.5</td>
<td>34214</td>
<td>23.0</td>
</tr>
<tr>
<td>2000</td>
<td>1645</td>
<td>71189</td>
<td>35.1</td>
<td>45995</td>
<td>34.4</td>
</tr>
<tr>
<td>2001</td>
<td>1618</td>
<td>80840</td>
<td>13.6</td>
<td>54389</td>
<td>18.2</td>
</tr>
<tr>
<td>2002</td>
<td>1854</td>
<td>93069</td>
<td>15.1</td>
<td>62060</td>
<td>14.1</td>
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<tr>
<td>2003</td>
<td>1941</td>
<td>101546</td>
<td>9.1</td>
<td>64880</td>
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<tr>
<td>2004</td>
<td>1926</td>
<td>110256</td>
<td>8.6</td>
<td>67930</td>
<td>4.7</td>
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<tr>
<td>2005</td>
<td>1872</td>
<td>105021</td>
<td>-4.7</td>
<td>66874</td>
<td>-1.6</td>
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<tr>
<td>2006</td>
<td>1853</td>
<td>114060</td>
<td>8.6</td>
<td>71641</td>
<td>7.1</td>
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<tr>
<td>2007</td>
<td>1813</td>
<td>121391</td>
<td>6.4</td>
<td>79733</td>
<td>11.3</td>
</tr>
<tr>
<td>2008</td>
<td>1770</td>
<td>138496</td>
<td>14.1</td>
<td>88981</td>
<td>11.6</td>
</tr>
<tr>
<td>2009 *</td>
<td>1721</td>
<td>158733</td>
<td>14.6</td>
<td>97918</td>
<td>10.0</td>
</tr>
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- provisional data
Table 1.4: Market share of deposits of All Bank Groups (in India) to Total Deposits

(Market Share in Percentage)

<table>
<thead>
<tr>
<th>Year ended March 31,</th>
<th>Urban Co-op. Banks (UCBs)</th>
<th>Rural Co-op. Banks (DCCB &amp; State CBs)</th>
<th>Regional Rural Banks (RRBs)</th>
<th>Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>4.5</td>
<td>7.2</td>
<td>2.5</td>
<td>85.8</td>
</tr>
<tr>
<td>1997</td>
<td>4.9</td>
<td>7.6</td>
<td>2.6</td>
<td>84.9</td>
</tr>
<tr>
<td>1998</td>
<td>5.3</td>
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<td>84.2</td>
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<td>82.9</td>
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<td>2001</td>
<td>6.3</td>
<td>7.2</td>
<td>2.9</td>
<td>83.6</td>
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<td>2002</td>
<td>6.4</td>
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<td>3.0</td>
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<td>2003</td>
<td>6.3</td>
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<td>2.9</td>
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<td>4.7</td>
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<td>88.6</td>
</tr>
<tr>
<td>2008*</td>
<td>3.7</td>
<td>4.1</td>
<td>2.7</td>
<td>89.5</td>
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</tbody>
</table>

* Provisional data (Share of RCBs arrived on the basis of projections as their total deposits as on 31.3.2008 is not available)

7. **Strength of Urban Cooperative Banks**

i) UCBs are self-reliant in financial position with less risk in operations.

ii) UCBs account for nearly 10% of resources of the entire banking sector in India.

iii) The deposits of members of UCBs are protected by Deposit Insurance and Credit Guarantee Corporation of India (DICGC)
iv) They have been filling credit gap in semi-urban area, urban area and nearby towns and winning confidence of members /customers.

v) UCBs primarily cater to credit requirements of lower and middle income class people comprising of small entrepreneurs, artisans, small traders / businessmen, factory workers, salaried class as well as other self-employed.

vi) UCB enjoy greater confidence of local people, and have proved an effective instrument of economic development of the people particularly those riddled with limited means and economically and socially weaker section of the society.

vii) Majority of UCBs have been successful in meeting mandatory target of lending 60% of their advances to priority sector out of which 35% are for weaker sections on the other hand, commercial banks have admitted that it is difficult for them to meet priority sector lending target even though this has been set up at 40%.

viii) The urban cooperative banking system has witnessed phenomenal growth during the last one and a half decades. From 1307 UCBs in 1991, the number of UCBs has risen to 1725 in 2010. Deposits have increased from Rs. 8600 crores to over Rs.1,60,000 while advances have risen from Rs.8003 crores to over Rs. 98920 crores during the period of 10 years. There are two reasons for this growth, one is on account of the enabling policy environment in post 1991 period and another reason is deregulation of interest rates as available to commercial banks enabled UCBs to mobilize vast deposits together with liberal policy propelled the growth of UCBs in terms of members as also in rise.

ix) In the case of member of the UCBs there is no income tax deduction at source on the interest earned on the deposits.
8. Weaknesses of Urban Cooperative Banks

i) Dual control of RBI (Banking Regulation Act) and Registrar of Cooperative Societies (State Cooperative Act) is creating a lot of confusion in operations of UCBs.

ii) UCBs are self reliant but they have limited area of operation. Due to their cooperative character, they are not entitled to enter capital market and raise funds.

iii) Government treats UCBs like other class of cooperative societies and creates all bureaucratic hurdles in their working which create operational problems.

iv) Staff recruitment is not done properly in UCBs. Hence more number of miss-fits and un-fits are found occupying chairs of administration. UCBs recruit their staff locally on the basis of consideration other than merit.

v) In most of UCBs in India, computerization has developed at a fast rate but utilization of its potential needs to be stepped up. Though computers have been installed the data offered by Management Information System is not properly used as a management tool.

vi) UCBs in India do not submit required reports and financial information in time to RBI. Data base on all India basis is lacking. There is a lack of transparency in transaction of business of UCBs.

vii) In many UCBs, political factors play an adverse role in hampering smooth functioning of banks.

viii) Problem of recoveries of overdues because of non-cooperative attitude of state government.

ix) Regional imbalance in distribution and development of UCBs is seen in India. Growth of urban banking sector was confined to Maharashtra, Karnataka, Gujarat and Tamilnadu. Regional disparities in growth of UCBs were mostly due to strong
cooperative initiative exhibited in these states and absence of similar cooperative leadership in other states.

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 cooperative banks in new centers 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 lakh 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.

9. Cooperative Banks in Changing Banking Scenario – Govt. of India Revival Package

With one of the largest acreage of cropland in the World and 11% of world’s land under agriculture, India continues to be one of the most prominent agricultural economies of the world. There is a huge untapped potential in the Indian market for food and agribusiness, both in mature sectors such as agri-inputs, edible oil and sugar, as well as the emerging sectors like dairy, poultry, fruits & vegetables and biotechnology.

India is the seventh largest and second most populous country in the world. Population of India rose from 361 million in 1951 to 846.3 million in 1991, breaching the billion marks in the year 2000. The population is expected to increase at the rate of 1.54% per annum until 2010, or another 162 million people.

The estimates made by the Planning Commission indicate that the Indian population will be of the order of 1.6 billion by the year 2050. A new
spirit of freedom is now stirring the country, bringing sweeping changes in its psyche. Today, India is one of the most exciting emerging markets in the world.

Skilled managerial and technical manpower that match the best available in the world and a large middle class provide India with a distinct cutting edge in global competition.

The Indian economy recorded a growth of 5.4% during 2001-02 and has grown at the level of 9% for three years since 2005-06 and the accelerated growth performance was attributed mainly to agriculture sector which grew at a rate of 4%. Agriculture accounted for about 22% of the Indian GDP with 65% of population engaged in agriculture. Cropland in India accounts for almost half the geographical area of 328.8 million hectares. The production of food grain in India during 2001-02 was 209.2 million tons and has crossed 230 million tons during 2007-08. India is the world’s second largest producer of wheat and paddy and the leading producer of fruits and vegetables. However, the productivity of Indian crops remains at 40-50% of global average, largely due to lack of adoption of modern agriculture technology and inputs. To keep pace with the needs of the expanding population, India needs 383.2 million tons of food grains at current levels of per capita availability by 2020 and it may even go up since economic growth translates into higher purchasing power and hence higher consumption. Credit is one of the crucial inputs for propelling the growth of agriculture. For the past few decades, institutional finance is coming in a big way to help the Indian farmer in increasing the productivity and production. All Rural Financial Institutions have played a crucial role and the role of Cooperatives was laudable till the end of 20th century as the largest purveyor of agricultural credit. However, with the liberalization and the reforms that had swept the banking industry in the past decade and half had diminished their leadership position and made the way for the new players to fill the gap. The share of the cooperatives in
agriculture which used to be around 70% even in late ‘90s had slipped down to less than 30% due mainly to inertia to keep pace with the changes and efforts not matching with those of competitors especially from Commercial Banks of Public and Private sectors.

When the cooperative banks’ share in the agricultural sector is declining, public sector commercial banks & private sector banks are emerging as new champions in agricultural and rural banking. ICICI bank experienced a 37% growth in rural and agricultural portfolio from Rs.146.87 billion to Rs.201.79 billion during 2006-07. Agricultural lending accounts for around 10% of SBI’s loan book in the financial year 2007 at a year-on-year growth of 33%. (Business Outlook, July 20, 2007)

The present banking scenario in India is witnessing sea changes. Adoption of policy reforms in Indian economy has resulted in the change of economic order towards the process of Liberalization, Privatization and Globalization (LPG). The Liberalization of the financial sector in India is exposing Indian banks to a new economic environment that is characterized by increased competition and new regulatory requirements. As a result, there is a transformation in every sphere of activities of the banks in India, especially in Governance, nature of business, style of functioning and delivery mechanisms. The new generation banks brought the necessary competition into the industry and are spearheading changes towards higher utilization of technology, improved customer service and innovative products.

In spite of their huge and monolithic and bureaucratic organizational structure, public sector banks also proved to be surprisingly nimble and flexible to meet the emerging needs of customers. Thus, there is a paradigm shift form the seller’s market to buyer’s market in the industry which forced the bankers to change their approach from conventional banking to convenience banking and mass banking to class banking. The shift has also
increased the degree of accessibility of bank to common man for his varied needs and requirements.

The business of banking revolves around effective mobilization and efficient application of funds of the bank. Changes taking place in the banking business in recent years as a result of the financial sector reforms are too fast and challenging to the bankers. This has created a complex business climate on the one side and opened up wide opportunities in the area of investments, advances, services and so on. The approach to the credit policy of the banks has also changed. Besides, the services so far offered by the bankers have taken a new leaf and experiencing drastic developments. Banking Sector has been dealing with only paper currency till the third quarter of 20th century. Excepting the mode of telegraphic transfer, the transfer of funds in banking has been either through currency or instruments like cheque, demand draft etc. The final phases of 20th century had witnessed plastic currency in the form of Credit cards, Charge cards, Money cards etc. Cards are gradually being used by a large number of people as it avoids carrying of paper currency and its connected risks. As the situation changes, the issues confronting the bankers are also new, unique and not experienced before. Though Cooperative banks are also operating in the same environment, they became mute spectators to rapid changes happening in the present banking sector as illustrated below:

**Customer Focus**

Hectic competition in the banking sector put the customers on the driver’s seat by getting their required products and services. As the business environment changes across industries, the customers’ expectations are also growing. The facilities and options put forth by banks to customers made the present customers demand more through customer service. Customer service is the main guiding factor to enhance banks’ reputation and ensure their survival in the competitive environment. Increased competition, technology
driven services, lower entry barriers leading to new entrants, less protective regulation, increased autonomy for the banks etc are some of the features of the new trend. These characteristics have resulted in introduction of various reform measures. Thus in the bankers’ point of view, the customer service had undergone metamorphosis over the years beginning with Serving followed by Pleasing, Delighting and now the ultimate challenge for all is Retaining the customers. Shamrao Vittal Cooperative bank, Mumbai recently had taken a decision to send all the office assistants, attenders of its head office to its branches in order to give better attention to the customers.

**Branch Banking**

Expansion of branch network is one of the means to augment business. The new generation private sector banks and foreign banks have started exploiting business potential through other strategies as well. Traditionally public sector commercial banks have been able to augment the business level by increasing their branch network.

**Transparency and Disclosures**

With a view to ensuring meaningful disclosure of the true financial position of banks and to enable the users of financial statements to study and have meaningful comparison of their positions, a number of measures were taken by RBI. These disclosure norms covered aspects like capital adequacy, asset quality, profitability, country risk exposure, risk exposure in derivatives segment etc. In the context of implementation of Basel II norms, RBI has proposed enhanced disclosure norms for implementation by banks.

**Capital Adequacy Norms**

Norms stipulated by the Basel Committee on Banking regarding measures for capital augmentation and capital standards were accepted by RBI and the same have been under implementation. The main objective of capital adequacy norm is to strengthen the soundness and stability of the
banking system, Capital adequacy ensures that the financial fundamentals of the banks are strong. Capital adequacy ratio is the ratio of capital fund to risk weighted assets expressed in terms of percentage.

**Best Practices Code**

The Best Practices Code represents detailed procedural rules for entering into transactional relations within the banks. The objective of BPC is to ensure that all procedures, especially in sensitive areas are well documented, compared with national and international best practices and improved upon in the light of the experience gained. Best practices Code involve examination of all procedures, products, activities and systems. It needs to be integrated with the over-all risk management strategies of the bank. RBI issued guidelines for ensuring minimum level of uniformity in content and coverage of Best Practices Code.

**Business Process Re-engineering**

Business Process Re-engineering represents transformation of select processes and procedures with a view to empower the bank with contemporary technologies, business solutions and innovations that enhances the competitive advantage. It is the fundamental reconsideration and radical redesign of organizational processes in order to achieve drastic improvement of current performance. It seeks to enhance the value of services to the customers. Four important aspects are (i) Customer (to give him enhanced value), (2) Competition (to meet successfully), (3) Change (to meet it) and (4) Cost (to reduce). There are three key parameters (i) Customer Service, (ii) Product innovation and (iii) Operational excellence. BPR seeks to further the strategic goals of the bank.

**Corporate Governance**

Corporate Governance refers to conducting the affairs of a banking institution in such a manner that gives a fair deal to all the stakeholders, i.e.,
Shareholders, bank customers, regulatory authorities, society at large and employees. Corporate governance is important for bankers as majority of them are in public sector, where they are not only competing with each other but with other players in the banking system. Corporate Governance is to create an environment to help the management to enhance the stake holder’s value.

**Liberalized Branch Authorization Policy**

RBI has liberalized and rationalized the policy for authorization of branches and it has put in place a framework for branch authorization policy which would be consistent with the corporate strategy of banks. While considering applications for opening branches, RBI shall give weightage to the nature and scope of banking facilities provided by banks to common persons, credit flow to priority sector, pricing of products and banks’ efforts towards promotion of financial inclusion and enhanced services. The system of granting authorization for opening individual branches from time to time is replaced by a system of giving aggregated approvals, on an annual basis, through consultative and interactive process. The authorization given would be valid for one year from the date of communication. Banks are not required to approach RBI for license and instead submit proposals for opening of branches and on the basis of consolidated authorization granted, they may proceed to open branches.

**Insurance Business by Banks-Banc Assurance**

Banks may undertake insurance business either on risk participation basis (underwriting) or do insurance business as an agent of insurance companies on fee basis. Insurance business offers an opportunity to banks to increase fee based income thereby improving profitability. Banks may undertake insurance business (underwriting) on fulfillment of certain parameters relating to net worth, capital adequacy, continuous profit, low NPA etc. The insurance activity shall be undertaken by forming a subsidiary.
Bank’s equity stake can be 50% of the insurance entity. Banc assurance helps the banks to build synergy between insurance business and bank branch network to sell insurance products through banking channel. RRBs, Urban Cooperatives and DCCBs are also allowed to undertake banc assurance business. With the tie up of HDFC Standard Life Insurance Company Ltd, Saraswat Cooperative Bank, Mumbai sells the life insurance products of HDFC. With the tie up with Bajaj Allianz General Insurance Company Ltd, Saraswat Cooperative bank sells the general insurance policies of Bajaj Allianz.

**Universal Banking**

Universal Banking represents all kinds of activities of banking, development financing subject to compliance with statutory and other requirements prescribed by RBI, GOI and other enactment. Activities include accepting deposits, granting loans, investing in securities, credit cards, project finance, remittances, payment systems, project counseling, merchant banking, foreign exchange operations, insurance etc.

**Retail Banking**

Increase in purchasing power and emergence of strong middle class, development of retail market have increased the scope for retail banking in India.

**Retail Banking has three main features:**

**Multiple Products**
- deposits, credit cards, insurance, investments etc

**Multiple Delivery Channels**
- call centers, branch, internet, Kiosk etc

**Multiple Customer Groups**
- Consumer, small business, corporate etc.
Public sector commercial banks and new generation private sector banks have been successful in creating strong retail banking segment. Focus on retail banking has contributed to increasing market share of private banks in total advances. Retail loan account for a significant portion of the loan portfolio of new private sector banks. It formed 53% of HDFC bank’s and close to 65% of ICICI bank’s advances as on 31st March, 2007. Still there is wider scope for expansion of retail banking for other banking sector in India. Retail loans have been a prime driver of credit growth in recent years, witnessing a growth of over 40% in 2004-05 and 2005-06. As a percentage of gross advances, it increased from 22% in 2003-04 to 25.5% in 2005-06. The objective of retail banking is to increase penetration by providing increasing level of services and access, by offering value added services to customers. It consists of three elements, viz, deposit products, loan products and other products. Other value added services are also being offered by banks. The key retail loan categories are mortgage finance, auto finance, personal finance, credit cards and consumer durable finance. Cross selling of various retail products also takes place.

**Cross Selling**

It represents additional services offered to existing customers, with a view to expand banking business. It results in reduction of cost and enhances satisfaction level of customers. While public sector banks have not gone deep into the concept, new generation private sector banks are embarking upon cross selling to maximize income. The main benefit is reduction of cost as the cost of contracting a new customer is much higher than to serve an existing customer. Cross selling enables creation of brand value. The existing customer base of the banks is used for the purpose of cross selling. It is not a transaction based activity but is primarily a relationship building exercise.
Outsourcing of Work by Banks

Outsourcing represent utilization of services of another entity or outside service provider to perform certain functions/activities, continuously which otherwise would have been normally undertaken by the bank itself. This may be through an affiliated entity (say a subsidiary) or an external entity like a marketing agent. The outside service provider is an entity undertaking the outsourced function on behalf of the bank. Outsourcing enables them to economize their cost of operations. It however involves certain risks like strategic risk, reputation risk, compliance risk, operational risk, exit strategy risk, counter party risk, contractual risk, access risk, concentration risk, systemic risk etc. The failure of service provider in providing quality service, breach in security/confidentiality, non compliance with legal and regulatory requirement etc may lead to financial losses to the outsourcing bank and hence they should guard against such risks. There is need for adoption of proper risk management practices in this regard. As per latest RBI guidelines, outsourcing of certain functions like core management functions, internal audit, compliance, decision making etc is not allowed.

Business Facilitators Model

NGOs, Farmers' clubs, Cooperatives, Community based organizations, IT enabled rural outlets, post offices, insurance agents, panchayats, village knowledge centers, ACABC units, KVKs, KVIC/KVIB units may be involved in the models.

Activities / Services

- Identification of borrowers and activities
- Collection and processing of loan applications
- Creating awareness about various bank products
- Advice on managing money and debt counseling
- Processing and submission of applications to banks
- Promotion and nurturing of SHGs and JLGs
- Post sanction monitoring
- Monitoring and handholding of SHGs/JLGs
- Follow up for recovery

No approval of RBI is required for using intermediaries for these services

**Business Correspondents Model**

NGOs, MFI, Societies registered under Cooperative Societies Act, Sec 25 companies, registered NBFCs and post offices are eligible to be covered. While engaging these agencies, banks may ensure that they are well established, enjoying good reputation and having the confidence of local population. Banks are to give wide publicity and avoid being misrepresented.

Services/activities
- all activities listed under Business Facilitators model
- disbursal of small value of credit
- recovery of loan
- collection of small value deposits
- sale of micro insurance, mutual fund products, pension products
- receipt and delivery of small value remittances/other
- payment instruments

**Computerization**

Another segment which tries to revamp the various sectors in general and banking sector in particular, is the introduction of computers in the functioning of the banking system. Management Information System of the banks is fully utilizing the benefits of computerization. The controlling units of the bank offices are connected to the Head Office of the bank and also amongst themselves. All types of communications are now by way of computerized output of letters, statements etc. One of the areas of computerization is total branch computerization. Under this package, all the sections of the bank branch, viz., cash, deposits, advances, minor heads of subsidiaries, day book, trial balance, etc. are computerized. The data given as
input in one section is getting recorded in the contra section. The system normally does not admit any entry in which the amounts of debit and credit do not tally with each other. Thus the differences on account of transfers are totally eliminated. Another package under branch computerization is called as ALPM which means advanced ledger posting machines. In this package, the deposit sections, current account, savings bank, overdraft, day book etc. are computerized. This package does not cover cash, advances, etc. for computerization.

10. **Electronic Banking**

One of the most exciting growth phases for the banking sector is the emergence of technology-enabled business models, which led to geographic expansion, wider product offerings and newer revenue streams. Perhaps no other sector has been affected by advances in technology as much as banking. Almost all segments of the banking sector witnessed phenomenal growth. The share of private sector banks in total assets increased from 10% in 1998 to 23% in 2006. Electronic banking means banking done electronically. Transaction handling, cash management, account reporting is done through electronic media. Banks today reach their customers through ATMs, Point of Sale Devices, Telephone Banking, Internet banking etc. Thus, bank is getting itself presented as a technology driven unit in the banking sector with the means of electronic banking. Customer visits are reduced and thereby human intervention and their consequences are avoided resulting in the reduction in the establishment cost to a greater extent. Electronic Banking comprises of the following:

a) Electronic Funds Transfer
b) Electronic Clearing System
c) Tele-banking
d) Automated Teller Machines
e) Shared Payment Network System
f) Credit Cards/Debit Cards
g) Corporate Banking Terminals
h) Point of Sale Terminal.
i) Electronic Data Interchange

a) Electronic Funds Transfer

Transfer of funds has been made hither to in India by demand draft, mail transfer and telegraphic transfer. RBI has devised Electronic Funds Transfer (EFT) System to Facilitate Speeder Transfer of Funds Electronically.

This will enable transfer of funds from bank accounts of one customer to the bank account of another customer. The sender and the receiver may be located in different cities or they may even bank with different banks. EFT is presently operative in Mumbai, Calcutta, New Delhi and Chennai. All the 27 public sector banks are participating under EFT System.

b) Electronic Clearing System

This covers ELECTRONIC CREDIT CLEARING and ELECTRONIC DEBIT CLEARING services.

i) Electronic Credit Clearing

It is a simple, reliable and cost effective solution for bulk and repetitive payment transactions of Companies and Government departments. Companies who have to make bulk payments to a large number of beneficiaries prepare the credit instructions on the magnetic media and submit it to RBI. RBI processes the date, arrive at inter bank settlements and provide bank and branch-wise reports. This Credit Clearing services is available in 46 centres in India. The institution who wants to avail this facility has to register with the sponsor bank. The sponsor bank will forward a copy of the registration to RBI after allotting a registration number. The Institution has to prepare a magnetic media and submit to the sponsor bank. The sponsor bank would present it to the local clearing house. Clearing house debits the
institutions bank account and credit the various destination bank accounts where the beneficiaries maintain their accounts.

ii) **Electronic Debit Clearing**

It covers payment to utility companies like telephone and electricity bills. The customer on getting the telephone/electricity bill approaches his banker and authorizes the bank to debit his account and transfer the amount to the bank account of the utility company. The bank branch prepares a floppy and sends it to the service branch which ultimately reaches the clearing house. RBI debits the individual bank/s and credit the sponsor bank of the utility company. This service is available in Mumbai, Chennai, Calcutta and Delhi.

c) **Tele-Banking**

The automatic voice recorder is used for simpler queries, which will get activated for certain specific and routine queries. Manned phone terminals are provided for answering complicated queries and transactions. The customer can actually do entire non cash related banking on telephone.

d) **Automated Teller Machines**

The customer is provided with an ATM card which enables him to have his routine banking transactions done without interacting with a human teller. The card holder can withdraw money 24 hours a day on all days. Some cities are interconnected under this service so that the cardholder can withdraw cash at one city by getting access to his account in another city.

e) **Shared Payment Network System**

This is large network of ATMs spread in the city of Mumbai, Vashi and Thane. This is established as per the requirement of IBA. The participating banks issue universal cards to their customers for transactions. SPNS offers services like – cash transactions, extended hours service, across the bank
payments, utility payments, statements, cheque book request, standing instructions etc.

f)   Credit Cards / Debit Cards

Credit Cards: This is a facility of making post payment, viz., purchase now and pay later. The customer can use his credit card within the fixed limits prescribed by his bank with various member establishments who display the acceptance of the cards in their office. The member establishments cover airlines, hotels, railway stations, shops etc. Most credit cards carry the facility of cash withdrawals every month which can be availed with any or selective bank branch of the issuing bank.

Debit Cards: This is a facility of prepaid system. Every time this card is used, the person who provides the service gets the money transferred from the account holder’s account. The buyer of the service who is the card holder, gets his account debited at his branch. The individual has to approach the issuing bank for getting a debit card. The bank issues the card with a Personal Identification Number. The Card is normally operated through an electronic terminal and the transaction authority, approval etc. are known when the card is swiped through. The account holder can never overspend beyond the balance in his account because the system will reject the transaction simultaneously. Citibank and Times Bank have so far launched debit cards.

g)   Corporate Banking Terminal

Large Corporate customers can log into the bank data base and have access to their accounts/transactions from their business places. Only some banks have so far provided this service to their corporate clients and that too to a limited extent.
h) **Point of Sale Terminal**

A computer terminal is linked online to a computerized customer information file in a bank. A plastic magnetically encoded transaction card identifies the customer to the computer. During a transaction, the customer’s account is debited and the retailer’s account is credited by the computer for the amount of purchase.

i) **Electronic Data Interchange**

EDI is the electronic exchange of business documents like purchase order, invoices etc. in a standard, computer processed, universally accepted format between trading partners. EDI can be used to transmit financial information and payments in electronic form. Recently some banks have provided the facility of using the standard formats for opening the accounts by downloading the same into the customer’s computer, generate the formats and use the same with the concerned bank for opening the account.

j) **Real Time Gross Settlement (RTGS)**

Under the present system whenever any person wants to make payment to another person, he draws a cheque in favour of that person and delivers it to him.

The recipient deposits the cheque in his account. He will receive the clear payment after the cheque gets cleared for payment through clearing system. If both parties maintain account in the same city, the cheque is cleared in comparatively short duration. If the parties maintain accounts in different cities, the clearance time is longer. It may go beyond 7 days also. Under RTGS instead of cheque, the message is delivered to the banker of the remitter. eg. If Mr. X who is maintaining account with SBI Chiplun Branch wants to make payment to Mr. Y who is maintaining account with Corporation bank, Mangalore branch then Mr. X will give instruction to his branch to debit his account and remit the money to Mr. Y’s account., giving the account number
and unique IFSC code (which is very essential) of the Y’s account. The Chiplun branch will debit his account and send the instruction to the nodal branch. The treasury department in turn inputs the message in the RTGS system provided by RBI. The RTGS settlement account of the SBI with RBI is debited and the RTGS settlement account of the Corporation Bank is credited. The message with full particulars will appear in the RTGS system of corporation bank. Corporation bank in turn passes on the message to Mangalore branch and the account of Mr. Y will be credited. The time required for all this process will not be more than few minutes. Thus the settlement is now made on real time basis. Other than many commercial banks and private banks, Cooperative banks like Saraswat Cooperative Bank, Cosmos Bank are the members of RTGS.

11. Technology Initiatives Automation in Cooperative Banks

In order to enhance the access to technology for UCBs, Reserve Bank would consider facilitating acquisition of basic hardware and software for conducting routine operations. Further, software has also been developed to enable the UCBs to prepare and submit all returns to Reserve Bank, electronically. The software has been implemented free of cost in the banks and the officials of banks are also being provided adequate training in using the software, which enables banks to maintain a database of returns submitted to the supervisor which in turn acts as a MIS for the UCBs. The stronger UCBs also are members of clearing house and of the Real Time Gross Settlement System.

12. Skills Development / Training, including Directors and Auditors Training

To the extent that it does not lead to any conflict of interest, the Reserve Bank of India, in addition to its regulatory and supervisory functions also seeks to play a developmental role for the urban cooperative banks. In this
context, in order to improve the skill level of human resources and the
technological infrastructure of UCBs, RBI in addition to subsidized programs
also provides free of cost training on all important areas of banking
operations to the staff and top managements of UCBs through its own
training establishments as also through off-shore training programs at
regional centers that have a large network of such banks. As mentioned
earlier, software has been developed for banks to help them prepare and
submit all the returns.

The recent developments in banking technology and expansion of
telecommunication network have ushered in new banking experience.
Customers have benefited by way of quick and efficient service delivery. The
increase in level of efficiency has been translated into higher profits for the
banks. Most of the technology initiatives have been taken by new generation
banks and the Public Sector Banks have also followed suits. Of late
technology has penetrated into the Regional Rural banks as well. However,
the cooperative banks have by and large remained in the periphery of this
rapid technological development. Only a few cooperative banks have been
able to adopt technology in a big way. Computerization is no doubt
investment oriented and cooperative banks may not have the complete need
or sources to go ahead with computerization. Nevertheless, when the entire
country is marching ahead with computerization in the banking sector,
cooperative banks cannot lag behind. Ernakulum DCCB in Kerala has
implemented Core Banking Solutions. It also has mobile ATMs mounted on
bus and boats. Lessons may be drawn from such banks and computerization
may be attempted by the cooperative banks. The revival package of
Vaidyanathan Committee advocates computerization in a big way. The
package has provisions for providing computers to the PACS. With the
introduction of computerization, efficiency will increase, staff can be
deployed for more field work and new products can be introduced by the
banks. Cooperative Banks can consider using some of the software packages. Some are given below for adoption by cooperative banks:

- **Deposit Accounts Module**: Opening of deposit accounts will be standardized. Pension accounts can be segregated in a single ledger which will be convenience for operations. Term deposit accounts package can be used for generation of printed deposit receipts, which will be attractive to be depositor customers.

- **Back Office Package**: Transfer waste entries can be captured under this system which will help tallying of debits with credits as a whole. The details will automatically be transferred to the respective subsidiaries. General Ledger System and also for Day Book. Trial Balance can be generated at any point of time to find out the closing balance under the various assets and liabilities.

- **MICR Clearing and Clearing Package**: This system will help for MICR instruments clearing. The system will automatically segregate bank-wise details of receipts and payments. Generation of information for individual banks will bring down the manual labour and time.

- **Establishment Package**: This system will help centralization of payment of salaries, Deduction particulars, and credits to the branches where the loan accounts are maintained, payments to Stores and Credit Society etc. Dearness Allowance calculations can be made automatic.

**Position of Cooperatives**

Most of the developments taking place in the banking sector have bypassed cooperatives since they are financially not so strong and technically ill-equipped due to aging and not so qualified human resources. In order to remedy the situation and bring back the cooperatives to their glory a series of measures to Increase efficiency and ability of Cooperatives to give better services to rural clients had been initiated by Government of India and the following gives the package devised for revitalization of cooperatives:
13. Govt. of India Revival Package for Short Term Cooperative Credit Structure (Vaidyanathan Committee)\textsuperscript{10}

The Government of India (GoI) is committed to increasing the flow of credit to agriculture, especially to small and marginal farmers. The short term rural cooperative credit structure (CCS), which should play a central role in this respect, is unable to do so. This structure is severely impaired financially and institutionally. Its share in total credit flow to agriculture has been declining. Concerned at this state of affairs, the GoI had set up a special Task Force in August 2004 under the Chairmanship of Prof. A. Vaidyanathan to suggest an implementable action plan for reviving the CCS. The Task Force submitted its report to the Government of India on 04 February 2005. The Government, after due consideration, accepted their recommendations in principle. The recommendations are now being implemented.

The package is aimed at reviving the short-term rural cooperative credit structure (STCCS) and make it a well-managed and vibrant medium to serve the credit needs of rural India, especially the small and marginal farmers. It seeks to (a) provide financial assistance to bring the system to an acceptable level of health; (b) introduce legal and institutional reforms necessary for their democratic, self-reliant and efficient functioning; and (c) take measures to improve the quality of Management. It is to be emphasized that all three components are equally important and should be treated and implemented as an integrated package. Financial assistance under the package would cover accumulated losses in the CCS. This however, does not mean writing off of the loans which are yet to be repaid by the borrowers. The cooperatives will have to continue to make efforts to recover these loans and thereby improve their financial health further.

Financial Package

Financial restructuring will start with first bringing the PACS to an acceptable level of financial health through cleansing of their balance sheets
and strengthening their capital base and then move on to upper tiers. This step will enable PACS to clear their dues to the upper tiers and thereby reduce the accumulated losses of DCCBs. The DCCBs will thereafter be provided assistance to clear the remaining balance of accumulated losses, if any, and to reach a minimum norm of capital adequacy. The same process will apply to the SCBs. Financial restructuring will include criteria for determining the eligible purposes and institutions, quantum of assistance required, pattern of sharing the liability, conditionality attached and the time frame. Financial assistance under the package will be available for wiping out accumulated losses, covering invoked but unpaid guarantees given by the state governments and other dues to the CCS from them and increasing the capital to a specified minimum level. In order to ensure that the CCS continues on sound financial, managerial and governance norms. Technical assistance will also be provided to upgrade institutional and human resources of the CCS.

**Sharing Pattern**

The liability for funding the financial package will be shared by the GoI, State governments, and the CCS based on origin of loss and existing commitments. The Central Government will bear 100% of the losses arising out of direct credit business of PACS, 100% losses out of the agricultural credit business of DCCBs and SCBs and a portion of their losses out of non agricultural credit business, 50% of the losses due to PDS and input distribution undertaken in pursuance of national policy, the requirement of resources to raise CRAR to 7% and the full cost of technical assistance for human resource development, computerization and improving accounting systems. State governments will bear 50% of the losses on account of PDS and input distribution, all dues pertaining to invoked guarantees and other receivables, and a small portion of losses out of non agricultural business of DCCBs and SCBs. The CCS will bear losses for activities like direct advances taken up on their own and losses due to frauds etc.
Regulation

The fiduciary nature of relationship between the RBI and a cooperative bank which accepts public deposits entails, by definition, that the regulator should have the authority not only to lay down prudential norms but also in regard to those aspects of management which have a bearing on the financial health of the institution. It is also essential to ensure that the directives of the Regulator are implemented strictly and expeditiously. The BR Act and the respective Cooperative Societies Acts would accordingly be suitably amended to empower the RBI to lay down the guidelines for the fit and proper criteria for the CEOs and the professional Directors on the Boards of cooperative banks, prescribe a panel and the prudential guidelines requiring audit by Chartered Accountants. The RCS will implement and monitor these guidelines within a given timeframe.

Legal and Institutional Reforms

A) Reforms in the Cooperative Societies Act : As making legal amendments is time consuming process, the state governments may issue Executive Orders under the existing powers to bring in the desired reforms which will relate to:

- Ensuring full voting membership rights on all users of financial services including depositors in cooperatives other than cooperative banks
- Removing state intervention in all financial and internal administrative matters in cooperatives
- Providing a cap of 25% on government equity in cooperatives and limiting participation in the Boards of cooperative banks to only one nominee. Any state government or a cooperative wishing to reduce the state equity further would be
  - free to do so and the cooperative will not be prevented from doing so
- Allowing transition of cooperatives registered under the CSA to migrate under the Parallel Act (wherever enacted)
Withdrawing restrictive orders on financial matters

Permitting cooperatives in all the three tiers freedom to take loans from any financial institution and not necessarily from only the upper tier and similarly placing their deposits with any regulated financial institution of their choice.

Permitting cooperatives under the parallel Acts (wherever enacted) to be members of upper tiers under the existing cooperative societies Acts and vice versa

Limiting powers of state governments to supersede Boards

Ensuring timely elections before the expiry of the term of the existing Boards

Facilitating regulatory powers for RBI in case of cooperative banks as mentioned earlier

Prudential norms including CRAR for all financial cooperatives including PACS.

B) **Reforms in the BR Act 1949:** Amendments to the BR Act would cover the following:

All cooperative banks would be on par with the commercial banks as far as regulatory norms are concerned.

RBI will prescribe fit and proper criteria for election to Boards of cooperative banks. Such criteria would however not be at variance with the nature of membership of primary cooperatives which constitute the membership of the DCCBs and SCBs.

However, as financial institutions, these Boards would need minimum support at the Board level. Thus, the RBI will prescribe certain criteria for professionals to be on the Boards of cooperative banks. In case members with such professional qualifications or experience do not get elected in the normal
electoral process, then the Board will be required to co-opt such professionals in the Board and they would have full voting rights

The CEOs of the cooperative banks would be appointed by the respective banks themselves and not by the state. However, as these are banking institutions, RBI will prescribe the minimum qualifications of the CEO to be appointed and the names proposed by the cooperative banks for the position of CEO would have to be approved by RBI

Cooperatives other than cooperative banks as approved by the RBI would not accept non-voting member deposits. Such cooperatives would also not use words like “bank”, “banking”, “banker” or any other derivative of the word “bank” in their registered name.

If a State Government and the CCS units in that state are enthusiastic in implementing the package, fulfillment of all the above conditionalities and consequently release of the entire financial assistance could be completed even within a year.

**Implementation Mechanism**

NABARD has been designated as the implementing agency for the scheme. However, for guiding and monitoring the implementation of the scheme at national, state and district levels, Implementing and Monitoring Committees would be constituted. At national level this committee comprises Secretary (Financial Sector), Secretary (Agriculture), RBI, NABARD, state governments under review in any meeting, and two eminent co-operators. This committee reports to the Finance Minister on a quarterly basis. At the state level, the committee comprises the Secretary (Finance), Secretary (Cooperation), RCS, NABARD, SCB and a Chartered Accountant. At the district level, similar committees have been constituted.
With the implementation of the recommendations of Vaidyanathan Committee, it is expected that the rejuvenated cooperative credit structure will play a vital role in the banking sector of the country.

Banking services have penetrated only 68 million of the 192 million households (i.e. 35% of total households) indicating a huge untapped potential. The cooperative banks have to utilize this untapped household by finding out their requirements and make the business in terms of mobilization of deposits and lending of loans. Better service quality, innovative products, better bargains are all greeting the Indian customers. An increasing size of the banking pie itself indicates that there is a lot of untapped potentials in the market for banking. Even though the challenges ahead are of great, the Indian banking system is optimistic in facing the challenges head-on, by adopting proactive changes. Positively, the new era beckons “Customer Delight” and builds up a new banking horizon.

Due to stiff competition for other payers in the rural credit, cooperative banks are facing serious challenges at this juncture. The enhanced role of the banking sector in Indian economy and the increasing levels of competition have placed numerous demands on co-operatives. Globalization has also resulted in improved risk management practices. In such circumstances, the cooperatives shall have to shoulder greater responsibilities:

To step up their network of services to ensure sustainable growth in agriculture production

Generate potentials for rural employment in view of shifting policy of the government.

The cooperative banks have to face the latest challenge in the form of technology adoption. Ironically to mention, many cooperative banks do not
even have computers in many of their branches. Presently, the role of cooperatives, no longer remains confined to their traditional activities, but expanded to new economic ventures as in the case of other enterprises in the public or the private sector. It is high time for the cooperative banks to understand the changing environment in banking and rise with suitable strategies to meet the future confidently. The revival package offered by the GOI is to rejuvenate the rural cooperative credit structure. The cooperatives which are the beneficiaries of the financial package, should therefore, utilize it effectively, change according to the present days' requirement and offer according to the customers expectations so as to withstand the competition.

14. Urban Co-operative Banks: Problems and Prospects

One of the major areas of the macro economy that has received renewed focus in recent times has been the financial sector. The financial sector acts as the 'brain' of the economy: it acts as a bridge for channeling resources from final savers to final investors. As a result, the greater the ease of resource intermediation, the lower the cost at which these resources can be available to final investors, enhancing investment and growth.

Urban Cooperative Banks were set up with the objective of promoting sustainable banking practices amongst a relatively specific target clientele viz., the middle income strata of the urban population. They were brought under the regulatory ambit of the Reserve bank by extending certain provisions of the Banking Regulation Act, 1949, effective from March 1, 1966.

It might be useful to briefly recount the basic structure of the cooperative banking sector and locate Urban Cooperative Banks as a group within that framework. The cooperative banking sector may be viewed as consisting of Rural Cooperative Banks and Primary (Urban) Cooperative Banks. Leaving aside the structure of Rural Cooperative Banks, Primary Cooperative Banks, numbering 1,936, have a network of over 6,300 branches
catering to the banking requirements of the lower and middle income groups in urban and semi-urban areas.

The performance of the cooperative banking sector as a whole has attracted considerable attention in the recent years especially in the context of the ongoing phase of financial sector reforms. Compared to their rural counterparts, the Primary Cooperative Banks (PCBs), which operate in the urban areas, have posted better performance. Not surprisingly however, there is significant heterogeneity in the performance of PCBs which number more than 1,900 at present. While a large number of these banks have shown creditable performance, a fair number of them, on the other hand, have shown discernible signs of weakness.

Problems and Findings of High Power Committee on Urban Cooperative Banks

The second phase of financial sector reforms has brought about vast changes in the structure and operation of the Indian financial sector. However, the reform measures are yet to fully impact the system. Financial and managerial weaknesses of a good number of cooperatives have been a matter of concern for quite some time. State Governments and cooperatives have been demanding capital infusion for wiping out past losses. Unless the inherent weaknesses are adequately addressed, funds infusion alone may not solve the problem. In this respect, the areas that need careful examination include: (i) the pattern of resources of cooperatives (owned funds, deposits, and borrowings), (ii) the deployment of resources, (iii) the management and supervision, (iv) the role of cooperative banks in the financial system and (v) the regulatory framework for cooperatives.

The essential spirit of the regulatory and reform measures adopted for the commercial banks need to be extended to the cooperatives as well with necessary adaptations to suit the circumstances in which cooperative banks
operate. This would imply that areas such as (i) strengthening of regulatory
and supervisory framework, (ii) enhancing capital adequacy standards (iii)
introducing stringent licensing norms for new entrants into the sector (iv)
enabling legal amendments and (v) corporate governance measures need to
be given very close attention.

15. Narasimham Committee Recommendations (High
Powered Committee) ¹¹

As a starting point, it would be useful to look at the Narasimham Committee recommendations. The Committee suggested that the RBI should review the entry norms in respect of UCBs and prescribe revised prudent minimum capital norms for them. To achieve an integrated system of supervision over the financial system, the Committee recommended that UCBs should also be brought within the ambit of the Board of Financial Supervision. In response to these recommendations of the Committee, the Reserve Bank set up a High Powered Committee on Urban Cooperative Banks under the chairmanship of Shri K. Madhava Rao, former Chief Secretary to Government of Andhra Pradesh, to review the performance of UCBs and suggest measures to strengthen them. The committee gives its views on important areas such as

a) Licensing Policy

In the new liberalized regime, licensing policy for new UCBs is expected to be not only transparent, but also precise and objective, based on established standards and procedures. Moreover, the procedures governing these licensing norms have to be simple and minimal.

b) Dual Control

One of the problem areas in the supervision of UCBs is the duality in control by the State Government and the Reserve Bank. Since UCBs are primarily credit institutions meant to be run on commercial lines, the
responsibility for their supervision devolves on the Reserve Bank. Therefore, while the banking operations pertaining to branch licensing, expansion of areas of operations, interest fixation on deposits and advances, audit and investments are under the jurisdiction of the RBI, the managerial aspects of these banks relating to registration, constitution of management, administration and recruitment, are controlled by the State Governments under the provisions of the respective State Cooperative Societies Act. The Narasimham Committee (1998) recommended that this duality of control be done away with and the responsibility of regulation of UCBs be placed on the Board for Financial Supervision. This will require amendment of the Multi-State Cooperative Societies Act, 1984; State Cooperative Societies Act, and the Banking Regulation Act.

c) Corporate Governance

Good corporate governance is essential for the effective functioning of any financial entity. To this end, the Madhava Rao Committee suggested that at least two directors with suitable professional qualification and experience should be present on the Boards of UCBs and that the promoters should not be defaulters to any financial institutions or banks and should not be associated with chit funds/ NBFCs/ cooperative banks/commercial banks as Director on the Board of Directors. These recommendations would need to be examined intensively before formulating policy actions in this regard.

d) Capital Adequacy

The Narasimham Committee (1998) had raised the issue of extending capital adequacy prescription for cooperative banks. Accordingly, the Committee recommended that the cooperative banks should reach a minimum 8 per cent CRAR over a period of five years. The findings of the Madhava Rao Committee on UCBs also reiterated that a majority of the UCBs was in favour of extending the CRAR discipline to UCBs. However, the ability of the UCBs to raise additional capital for the purpose has been limited by
certain features viz., inability to make public issue of capital and that, they can raise capital only from members, subject to an overall ceiling and restrictions imposed by the various Acts (State Cooperative Societies Act and Multi-State Cooperative Societies Act, 1984) which constrains the number of shares that an individual can hold.

e) Legislative Reforms

The Narasimham Committee in its Report had rightly observed that a legal framework that clearly defines the rights and liabilities of the parties to contracts and provides for speedy resolution of disputes is essential bedrock of the process of financial intermediation and UCBs are no exceptions. Accordingly, the Government had appointed an Expert Group under the Chairmanship of Shri T.R. Andhyarujiina, former Solicitor General of India, to suggest appropriate amendments in the legal framework affecting the banking sector. The Committee would address amendments in the various external Acts affecting banking sector such as, the Transfer of Property Act, foreclosure laws, Stamp Act, Indian Contract Act, DRT Act, etc. The Committee, in its Report submitted in April, 2000, recommended inclusion of a new law for granting statutory powers directly to banks (and financial institutions) for possession and sale of securities backing a loan, an enabling framework for securitization of receivables and strengthening the recovery mechanism.

f) Unlicensed and Weak Banks

The existence of a large number of unlicensed banks has become a serious cause for concern to regulators. The main reason for proliferation of such banks has been a mild screening process in the past. In view of the regulatory discomfiture that such banks impose on the system as a whole, it has been suggested that these banks be licensed provided they satisfy the quadruple criteria of (a) minimum prescribed CRAR, (b) net NPA ratio not...
exceeding 10 per cent, (c) have made profits continually for the last three years, and (d) have complied with the RBI regulatory directions.

One issue of serious concern regarding UCBs is the delay/ non-submission of returns within the stipulated time frame. In particular, PCBs are required to submit two types of returns (statutory returns and control returns) to the Reserve Bank with a view to exercise adequate supervision over them. Unfortunately, there is often a serious delay in the submission of these returns by individual banks. Non-availability of adequate and timely data would no doubt have serious effect on timely policy action. In this context, PCBs have to improve their statistical reporting system and bridge the wide gap in data availability as compared to that of commercial banks.

The urban co-operative banking sector being an integral part of financial system, the Reserve Bank has brought in a series of reforms for it. The recent Madhava Rao Committee which is also called High Power Committee (HPC) on UCBs, has dwelt extensively on certain regulatory issues related to UCBs' licensing policy, future set up of weak and unlicensed banks, application of capital adequacy norms, resolution of conflicts arising of dual control over UCBs, etc. The Reserve Bank has accepted these recommendations and implemented them. However, issues related to dual control necessitate legislative changes to State and Central Acts and there is hardly any progress in this area. In the backdrop of the present scenario, future agenda for reforms in urban co-operative banking sector are, as follows:

Aligning UCB sector with rest of financial system Unlike the other segments of cooperative credit sector, UCBs today undertake multifarious banking activities. Some of them have also been permitted to undertake forex and merchant banking activities. There is a view emerging in the recent past that UCBs, being members of payment system, beneficiaries of deposit
insurance scheme and enjoying unlimited access to public deposits, it is an imperative necessity to apply exactly the same regulatory rigors to UCBs as applicable to commercial banks.

**Interest Rates**

Today, main risk exposure of UCBs' is not the credit risk but interest rate risk. Most of the UCBs' interest rates particularly on deposits are out of sync with the rest of the banking sector. In this backdrop, observance of Risk and Asset Liability Management guidelines assumes importance. The Reserve Bank has recently constituted a Working Group to evolve guidelines keeping in view the specifics of UCB sector. The Group is expected to submit its recommendations very soon.

**Timely Disclosure of Returns**

As market discipline is an important supervisory tool in approach to new capital adequacy framework, prescription of disclosure standards for UCBs, perhaps is of imminent necessity. UCBs, therefore, should be able to disclose their level of owned funds, unimpaired net worth, CRAR, Gross/Net NPAs, operating results, ROA, compliance with reserve requirements, per employee productivity, etc. with balance sheet figures. This issue is engaging the attention of the Reserve Bank.

**Audit System**

Strengthening the audit systems is of paramount concern for the Reserve Bank as it is an important tool in its supervisory kit. It had taken a lead in appointing an expert panel in 1995 for reforming the audit systems in vogue in UCBs. The panel suggested Professionalization of audit, mandatory concurrent audit for larger banks, redesigning audit format, etc. The Reserve Bank had accepted these recommendations and advised States to initiate measures. Unfortunately, many State Governments have yet to respond positively despite five years of persistent persuasion by the Reserve Bank.
**Future Set-up of Weak Banks**

The sheer number of weak banks which is well over 200 is a cause of concern. In a large number of cases, licenses have already been cancelled and the banks have been closed down. This process is taken up very cautiously so as not to create panic in the society. Closure is decided only after all other options are exhausted. Level of capital, history of losses and size of NPAs are some of the factors which weigh with us in taking a decision on closure. Possibilities of rehabilitation are invariably explored before such a decision is arrived at. Rehabilitation may involve the following strategies:

1. Registrars should direct the cooperative courts for speedy recovery process and execution of decrees,

2. Unviable branches should either be relocated or closed down,

3. Avenues should be explored for the bank getting additional capital, and Merger with a well-managed bank. However, a forcible merger should be strictly avoided.

**Improving Governance**

It is extremely important that there is a mechanism to ensure that an effective system of internal governance is in place. Chief Executive should be a person of clean image and display a professional attitude. Board should consist of knowledgeable persons who are aware of their responsibilities as board members. There should be a board level committee which should focus attention on the findings of audit and inspection teams and ensure compliance thereof. The committee should also ensure compliance with various regulatory instructions issued by the Reserve Bank as also State Governments. It is ultimately the Board's responsibility that all prudential norms of governance are observed by the bank.

**Dual Control Dilemma**

Duality of command over UCBs perhaps has become an intense issue of debate in co-operative circles. Academics, co-operators and bankers made
vociferous representations to the Madhava Rao Committee that dual control over UCBs must end as that was instrumental in stifling their growth. Narsimham Committee II had also unequivocally recommended for ending dual control regime over UCBs. Most of the issues emanating out of dual control regime are due to overlapping jurisdiction of the Reserve Bank and State Governments. Duality in command does come in the way of effective supervision. In the case of commercial banks, the Reserve Bank has the wherewithal under the Banking Regulation Act for dealing with crucial aspects of functioning of commercial banks. In the case of co-operative banks, however, many areas which directly relate to supervision over them have been kept beyond the Reserve Bank's authority. Situation gets somewhat messy as may be indicated by a few illustrations as follows:

(i) The Reserve Bank has no authority to deal with delinquent management in a co-operative bank. This requires intervention of the Registrar of Co-operative Societies.

(ii) Making investments out of surplus resources being clearly a banking function should be entirely within the decision making powers of cooperative banks subject to the Reserve Bank guidelines but this needs approval of the Registrar.

(iii) Similarly, writing off an unrealizable debt also requires permission of the Registrar.

(iv) There was an instance where on request made by the Reserve Bank, the Registrar superseded the board of a co-operative bank. But subsequently the State Government in its wisdom annulled Registrar's orders and restored the Board. It is strange but true.

(v) It is open for a bank whose license has been cancelled to appeal to the Government. The Reserve Bank is required to appear before the Appellate Authority. Often, the Reserve Bank is advised to review its decision. It is a matter of satisfaction; however, that the Reserve Bank's decisions have been supported by Government and in no case the
Reserve Bank's decision has been struck down. Nevertheless, the exercise has to be gone through.

Urban co-operative banking sector has come to occupy a formidable place in the Indian financial system. However, sustenance of its growth is attendant to Professionalization of its management, inculcating good corporate governance, technology absorption and scrupulous adherence to regulatory framework. I hope the sector will learn from its past experiences and adjust to new realities since banking is risky business.

16. **Latest Developments**

**Reserve Bank of India Offers More Operational Freedom to Co-operative Banks**

The Reserve Bank of India (RBI) has lifted some of the operational restrictions which have have long been put on Urban Co-Operative Banks (UCBs) since five years in a bid to weed out the problems in the co-operative banking sector. The RBI has allowed UCBs to widen their area of operations so that they can reach out to other states besides their state of origin.

The apex bank has also liberalized the branch licensing policy which will allow UCBs to make use of Business Correspondents (BCs) and business facilitators to venture into un-banked areas and bring in more business.

This decision is expected to have a ripple effect as most of these UCBs are usually backed by politicians. The RBI has also decided to collaborate housing, real estate, and commercial real estate loans extended by UCBs to their total assets instead of deposits. As per the existing norms, UCBs can loan a maximum of 2 lacs rupees on unsecured loaning terms.
RBI has Increased the Housing Loan Limit and Repayment Period

Reserve Bank of India has increased the housing loan limit and repayment period. RBI has issued a circular regarding this. RBI issued circular no. 7 dated 31-10-2011 about housing loan limit and repayment period. RBI under this circular increased the repayment period up to 20 years and loan limit to 30 lakhs and 70 lakhs Tier 1 USB and Tier 2 USB respectively.

17. Modern Day Role

Banking system and the Financial Institutions play very significant role in the economy. First and foremost is in the form of catering to the need of credit for all the sections of society. The modern economies in the world have developed primarily by making best use of the credit availability in their systems. An efficient banking system must cater to the needs of high end investors by making available high amounts of capital for big projects in the industrial, infrastructure and service sectors. At the same time, the medium and small ventures must also have credit available to them for new investment and expansion of the existing units. Rural sector in a country like India can grow only if cheaper credit is available to the farmers for their short and medium term needs.

Credit availability for infrastructure sector is also extremely important. The success of any financial system can be fathomed by finding out the availability of reliable and adequate credit for infrastructure projects. Fortunately, during the past about one decade there has been increased participation of the private sector in infrastructure projects.

The banks and the financial institutions also cater to another important need of the society i.e. mopping up small savings at reasonable rates with several options. The common man has the option to park his savings under a few alternatives, including the small savings schemes introduced by the government from time to time and in bank deposits in the form of savings.
accounts, recurring deposits and time deposits. Another option is to invest in the stocks or mutual funds.

In addition to the above traditional role, the banks and the financial institutions also perform certain new-age functions which could not be thought of a couple of decades ago. The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and the credit/debit cards has revolutionized the choices available with the customers. The banks also serve as alternative gateways for making payments on account of income tax and online payment of various bills like the telephone, electricity and tax. The bank customers can also invest their funds in various stocks or mutual funds straight from their bank accounts. In the modern day economy, where people have no time to make these payments by standing in queue, the service provided by the banks is commendable.

While the commercial banks cater to the banking needs of the people in the cities and towns, there is another category of banks that looks after the credit and banking needs of the people living in the rural areas, particularly the farmers. Regional Rural Banks (RRBs) have been sponsored by many commercial banks in several States. These banks, along with the cooperative banks, take care of the farmer-specific needs of credit and other banking facilities.

18. Future of Urban Coop. Banks

Till a few years ago, the government largely patronized the small savings schemes in which not only the interest rates were higher, but the income tax rebates and incentives were also in plenty. The bank deposits, on the other hand, did not entail such benefits. As a result, the small savings were the first choice of the investors. But for the last few years the trend has been reversed. The small savings, the bank deposits and the mutual funds
have been brought at par for the purpose of incentives under the income tax. Moreover, the interest rates in the small savings schemes are no longer higher than those offered by the banks.

Banks today are free to determine their interest rates within the given limits prescribed by the RBI. It is now easier for the banks to open new branches. But the banking sector reforms are still not complete. A lot more is required to be done to revamp the public sector banks. Mergers and amalgamation is the next measure on the agenda of the government. The government is also preparing to disinvest some of its equity from the PSU banks. The option of allowing foreign direct investment beyond 50 per cent in the Indian banking sector has also been under consideration.

Banks and financial intuitions have played major role in the economic development of the country and most of the credit-related schemes of the government to uplift the poorer and the under-privileged sections have been implemented through the banking sector. The role of the banks has been important, but it is going to be even more important in the future.

One of the major considerations that led to the nationalization of the fourteen major commercial banks of India in 1969 was the fact that banks, in general, had been negligent of the vital priority sectors of the economy, viz., agriculture and small-scale industries. The commercial banks had remained largely indifferent to the credit needs of the farmers for agricultural operations and land improvement. A handful of people were able to exploit the bank finance to serve their own individual interests and convenience. Very often, they used bank funds for the hoarding of essential articles and for specialization, thus nurturing anti-social elements. Nationalization brought about a major policy shift in the working of these banks.
The economic development of our country depends more on real factors like the industrial development, modernization of agriculture, organization of internal trade and expansion of foreign trade, especially exports, and less on the monetary factors contributed by banking—Economic planning like laying down of specific targets and allocating particular sums of money that constitute the economic policy of the government also plays a significant role. Still we cannot under-estimate the importance of banking and the monetary mechanism.

One of the most important problems of a developing economy is that of capital formation. There is a good deal of difference between hoarding and saving and the people in the countryside have to be made to realize the difference. This can be easily done by banks. They can undertake to educate the rural populace and thus mobilize their savings. A number of leading economists have confirmed the fact that the amount of capital available in India for investment is surprisingly and inexplicably large. Only we need exploiting this idle capital. Who else can exploit it, if not banks? Both in rural and urban areas, huge amounts of money are wasted on celebrations like marriages and births. If banks can offer handsome interest on savings, people can be induced to direct their savings from wasteful activities to banks. Promoting attractive deposit schemes needs some very active work on the part of the banks, but it can certainly mobilize a large amount of saving for capital formation.

**SUMMARY**

The cooperative movement in India started a century ago with the enactment of Cooperative Societies Act in 1904. From time to time there were several committees appointed by the Reserve Bank of India which has made possible the development of these banks on sound footing. Even after the banking sector reforms and the globalization of the Indian economy the urban cooperative banks have made their presence felt as they cater mainly to the
masses. These banks are currently facing stiff competition from public and private sectors banks in the country. Despite this these banks have showed reasonable performance. The quality of management is in process of change and professionalism is positively being introduced. The Reserve Bank of India is also closely watching the performance of these banks and has drawn out a mechanism to take appropriate action in time, whenever things are getting worse, to ensure the safety of the public interest. The cooperative banks have also adopted computerization and automation in the banking industry which have enabled them to face the competition in right earnest. Considering the strengths of these cooperative banks it is sure that these banks have a bright future even in the post globalized scenario.
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