CHAPTER – II

ORGANIZATION AND MANAGEMENT

In consonance with the Cooperative Societies Act of 1904, a number of urban cooperative banks came into being to render the serves to weaker section people in urban as well as semi-urban areas of the country. The urban cooperative banks were given an important role after National Economic Planning (NEP) started in independent India. With the advent of planning process, the cooperative became an integral part of the Five Year Plans. The urban cooperative banks are the Government sponsored, the Government supported and the Government subsidized financial agency in India. They get financial and other help from the Reserve bank of India, National Bank for Agriculture and Rural development, Central Government and State Government. An attempt is made on the organization and management including the connected issues thereto and genesis of the urban cooperating banking in this chapter.

CONCEPT AND PRECEPT

The urban cooperative banks with their long experience in rendering yeoman services in terms of mobilizing savings from the public, deploying funds to economic-oriented projects and recovery of loans lent punctually, shift in concept and precept of urban cooperative banks that has brought in a profound impact on them in two ways. The impact of urban
cooperative banking is on the issues which are specified categorically as follows:

- The urban cooperative banks develop an appropriate position in the new emerging environment by rebuilding themselves on the basis of values and ideals.
- They make them socially unique, economically attractive and politically desirable
- They have come a long way with an extensive local operational coverage by the means of providing banking access to the urban and rural masses and cultivating banking habits among them for whom the formal organizational system has unreached. Thus, it is a vehicle for demonstration of the Indian financial system.
- They form an integral part of financial system with the local feel and familiarity and play an important role as financial intermediary. Thus, the urban cooperative banking is unique in terms of clientele-mix and channels of credit delivery.

**SCENARIO OF COOPERATION**

In the olden days, people were used to work together in large or small groups to attain social and economic goals on the social philosophy. This was formulated into cooperation by Veterans namely Robert own (Britain) and Charles Fourier (France). The cooperative movement saw the light of
the day in 1844 after the formation of ‘The Rochdale Society’ in England. Later on under the guidance of Schelze, F.W., and Raiffeisen, F.W., cooperative credit societies were started in Germany which had been a model to the present day cooperative credit sector in the world. To-day’s cooperative credit sector is the result of revolution against mercantile economy. This gained momentum after October 24, 1844 and gave inspiration to the cooperative movement on the principle of ‘all for one and one for all’. 

The idea of cooperative movement was first conceived in India by the then madras Government in 1882. A precise conclusion was drawn based on the report of Sir Frederick Nicholson and Dupernex that the cooperatives were worthy of every encouragement. Taking this view into account and the Famine Commission recommendations (1901), Devzil Ibbetson had moved and piloted a Bill which was passed into an Act on March 25, 1904 known as Cooperative Credit Societies Act of 1904. The main features of the Act were:

- Simplicity, as the Cooperative Credit Societies Act had to deal with a large number of ignorant farmers
- Elasticity, so that the State Government could have sufficient power to control on various for the growth and development of societies

The great depression of thirties had a great distress on the effective and efficiency of the urban cooperative banks as their progress was with no
ups and downs. Aftermath, the results of distress had made a remarkable change in expansion of urban credit. Up to 1938, there was no difference between the urban cooperative bank and the urban cooperative society. As per the Indian Companies Act of 1956, section 227(b) that if the cooperative had not less than $ 20000 as paid share capital that was allowed to call as urban cooperative bank.

The urban cooperative banks were governed by the respective Provincial Cooperative Societies Acts. On March 1, 1966, the urban cooperative banks were brought under the Banking Regulations Act of 1949 and wherefrom a significant role had provided to them by the Reserve Bank of India under its direction and control in tuning to achieve the defined objectives.

In pursuance of the recommendations of the Standing Advisory Committee with regard to introduction of discipline on priority sector advances, a circular was issued to all the urban cooperative banks in the country. Of the priority sector advances, at least 25 per cent should go to the weaker sections. Thus, the cooperative credit movement has become a potent force for well-being of the weaker sections. It is in true spirit of the urban cooperative banking which would certainly become a strong edification to the cooperative movement.
DEFINITION

Cooperation is a form of organisation in which persons voluntarily associate together on the basis of equality for the promotion of their economic interests. An association with participation of members voluntarily and open membership to work together for achieving the expected results. This is referred to as cooperation.

Sir Horace Plunkett defined cooperation as: “Co-operation is self-help made effective by organisation.” The Indian Cooperative Societies Act of 1912 has not given any definition on cooperation but under Section 4 (c) defines a cooperative society as: “A society has its object of promotion of the economic interests of its members in accordance with cooperatives principles.” Watkins, W.P., a former director of the International Cooperative Alliance (RCA) defines cooperation as “a system of social organisation based on the principles of unity, economy, democracy, equity and liberty”. The essentials of this definition are that the cooperation:

- Is an enterprise
- Is an association of users
- Applies the rules of democracy
- Is intended to serve both of its own members and the community as a whole
What does cooperation means? Cooperation means working together. This principle is as old as human society. It is truly the basis of domestic and social life. What is known as cooperative effort is finally the group of instinct in people which makes them to live together, work together and help each other in times of need. The spirit of cooperative is an innate and intrinsic in human beings and cooperation is a pass word for the future. The history of cooperation without its social and economic progress would be seen impossible. Cooperation is the universal instrument of creation. The ancient Indian scripture, Rig Veda states thus:

May you all have a common purpose?
May your hearts be in unison?
May you all be the same mind?
So that you can do work efficiently well.

OBJECTIVES

The provision of credit was main objective of the urban cooperative banks during the pre-plan period. The policy of them has changed to ‘developing project’ rather mere reservoir for provision of credit. The specific objectives of urban cooperative banks are as follows:

- To improve the economic conditions of member-borrowers with sound and effective policy
- To inculcate thrift, self-help and cooperation among the members
➢ To recover loans lent through persuasion and keep the non-performing assets as per norm

➢ To render banking services to all urban people

**FUNCTIONS**

The functions of urban cooperative banks are revolved around tapping the resources particularly deposits mobilization from the members and the non-members too with more preference to the former, credit deployment and recovery. The functions of them are:

➢ Accepting deposits of different types from myriad surplus income savers

➢ Borrowing funds from other financial institutions

➢ Deploying credit to the productive purpose of the needy people

➢ Investing surplus funds in Government approved securities

➢ Recovering loan punctually

➢ Discounting bills and cheques

➢ Distributing profit as per bye-laws
BYE-LAWS

The urban cooperative banks follow the guidelines provided by Reserve Bank of India, National Bank for Agriculture and Rural Development (NABARD) and the Cooperative Societies Act from time to time. The urban cooperative banks prepare their own bye-laws within the framework of policy on the advice of the Board. While preparing the bye-laws, the Board advice should focus the needful actions such as purpose of loan to be granted, credit limits, security, margin, mode of disbursement, appraisal of applications, recovery, etc., in the conduct of business operations. The lending policy of urban cooperative banks is laid down in their bye-laws. The urban cooperative banks provide credit for purpose of:

- Working capital to trade, small business, artisans, micro-enterprises
- Construction and repairs of dwelling houses and cattle sheds
- Educational loan
- Agricultural credit

NEED OF NEW SERVICE

The urban cooperative banks apart from doing the banking business of mobilizing funds and deploying them to the productive purposes of economy in order to improve the socio-economic conditions of borrowers
also carry certain operations to improve their the socio-economic positions. The people of modern day indispensably need the modern banking services with the present day technologies for availing the need service swiftly. The new services area of operations undertaken by the urban cooperative banks to carried out the technology-oriented services are discussed below. They are as:

- **Debit-Card:** Reserve Bank of India has allowed some urban cooperative banks to offer debit-card to their customers. To add greater currency to the debit-card of the urban cooperative bank has made a tie-up arrangement with VISA, the international agency. The debit-card with VISA accreditation has been launched to limited customers in March 2008. After successful testing, it is now being made available to all the customers who are entitled to draw cash from any of the VISA accredited ATMs not only in India but also across the globe by the use of debit-card for making payment at any point of sale and use it for internet transaction of all types.

- **Mobile Banking:** Now, the urban cooperative banks also have introduced the service of mobile banking for the benefit of customers to avail much information about their accounts. Mobile banking has provided messages of both types push and pull. In push messages a bank has been sending the alerts through SMS about cash transaction above $ 5000 and also for the demat transactions. In pull messages, the customers can check balances in
the account and find out details of last five transactions by sending SMS on a given number.

- **Mutual fund:** The rising of income from exemption of Income Tax created a huge potential for investment in insurance and mutual fund considering the changes in India’s demographic profile i.e. more than 70 per cent of the population is below the age of 36. In the wake of changes in investment pattern, increased competition and thinning of interest margins, the Indian banking industry had redesigned their bouquet of products and introduces marketing of third party products like insurance and mutual fund to increase the fee based income.

- **Insurance:** Many urban cooperative banks have tied-up with the insurance companies like Life Insurance Corporation of India, Housing Development Finance Corporation, Standard Life Insurance Company limited, etc. for various life insurance schemes such as Endowment Plan such as the children’s double benefit plan, term assurance plan, regular personal pension plan, etc.

- **Demat Account:** The urban cooperative banks offer the facility of opening the demat accounts for their customers. This helps the customers to operate securities business of their interest either to buy or sell and also transfer from one account to another account. The operations carried out through demat account are not only ensure safe but also consider the time value factor.
➢ **Any where Banking:** Almost all urban cooperative banks offer the customers, the ‘facility of anywhere banking’ with the cleaning and quick collection of outstation cheques. The customers can withdraw cash up to the limit from the account of bank’s branches with the support of core banking solutions. Money to the account of partners through business association customers can remit money to the account of partners through any of branch instantly. The facility is extended to saving account holders. The current and overdraft account holder-customers can also transfer funds from one account to another and check the balance and details of the transaction and get pass book printed from any of bank branch.

➢ **Internet Banking:** Most of the urban cooperative banks do offer the internet banking facility to their customers by which one can undertake banking within the confinement of the office and enjoy the facilities of live information linked with the accounts, settlement of accounts, balance enquiry, loan account, etc. Most of business people do adopt the facility of internet banking in conduct of their business.

➢ **Foreign exchange:** Now, most of the urban cooperative banks before the license, can deal with the provision of RBI in foreign exchange. Today, the division of urban cooperative bank plays an active role in the foreign exchange operations through the category branches. These banks offer export credit finance through pre-shipment and post-shipment credit at the competitive market rate.
The bank provides finance to its valuable customers by providing letter of credit facility for its customers to purchase raw material which is generally given for 90 to 180 days.

**SECURITY**

The urban cooperative banks sanction loans against mortgage of immovable property and pledge or hypothecation of movable property as far as security for loan is concerned. No uniform pattern is existed in conduct of business by all the urban cooperative banks. The urban cooperative banks follow the pattern of security of fixed deposits receipt, solvent member guarantee, and un-encumbered immovable property not exceeding 40 to 50 per cent of the market value, the Government securities and life insurance policies which accepted to grant loans. It is given in Table 2.1.
TABLE 2.1
SECURITY PATTERN

<table>
<thead>
<tr>
<th>Purpose of loan</th>
<th>Security</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Agriculture, housing, petty</td>
<td>Mortgage of property</td>
<td>$ 5000</td>
</tr>
<tr>
<td>trade and consumption</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Any other purpose</td>
<td>Pledge of</td>
<td></td>
</tr>
<tr>
<td>(i) Deposit certificate</td>
<td>85% of deposits</td>
<td></td>
</tr>
<tr>
<td>(ii) Jewels</td>
<td>$ 4000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Sample Urban Cooperative Banks, Bye-laws

For the sound business operation yielding a fair return, the urban cooperative banks follow the dictum that ‘does not put all eggs in one basket’. They should diversify their lending based on various securities. This aspect requires credit planning and portfolio management carefully; the management should follow it.

PROCEDURE OF LOAN

The area of operations of urban cooperative banks is determined by its bye-laws. The Study Group on Credit Cooperatives in non-agricultural sector is of the view that the areas of operations of an urban cooperative banks should be restricted to a municipality or taluk town where it operates. However, if certain members of primary cooperative agricultural
People who fall under the jurisdiction of urban cooperative banks are eligible to become members and need to submit the necessary requisites. The procedure of sanction of loans adopted by the urban cooperative banks is of two types which are:

- The loans on the security like jewels, etc., issued after valuation by the appraiser
- The surety given against loan needs inspection by the supervisor and forwards the same to the Secretary who in turn place before the Board.

The period of loan, the instalments and other terms and conditions are decided by the Board subject to the approval of the Registrar of the Cooperative Societies.

**PURPOSES OF CREDIT**

The thrust urban cooperative banks come and end only when they provide loans for the purposes which are of economic significance. The purposes for which the urban cooperative banks provide loans are as follows:

- Credit to the (i) trade, (ii) business, (iii) artisans, (iv) small scale industry and (v) cottage industry for the purpose of working capital
- Credit to the construction and repairs of dwelling houses and cattle the sheds
- Credit to the purpose of education
- Credit to the purpose of agriculture and allied activities

**CREDIT LIMITS**

A member of urban cooperative bank is eligible to borrow credit amount as specified in its bye-laws which are as follows:

- Up to five to ten times of his share capital paid towards loan against personal security
- Up to ten to twenty times of his share capital for a loan against the mortgage
- Not exceeding four times of salary if the borrower is salary earner.

**FEATURES OF COOPERATIVE**

On the careful study of definition of the term cooperation, some important characteristics of it can be inferred. The imports of features are:

**Member but not capital:** A cooperative is an association of members voluntarily who need the services of it. It is an association of an impersonal grouping of capital like Joint Stock Company. It implies that it is the members that counts much but not capital.
**Democratic Organisation:** A cooperative is democratic organisation on the principle of one man on vote and is governed on the principle of democratic. Within the members, the relation is governed by the principle of equality

**Undertaking:** A cooperative is an undertaking to conduct and carry business ensuring the socio-economic conditions of people in the society through the principle of self-help. Service is the main motto of the cooperative with the spirit of motivation.

**Socio-economic Movement:** The cooperative is a movement of a socio-economic process bringing about revolutionary changes by the peaceful means. The cooperative salient feature is social economy with the distributive social product. The surplus is distributed not according to the share holdings but according to proportionate business done by members.

**Medium of Democratic Planning:** Despite cooperation is highly beneficial economically, socially and educationally, the cooperative plays as the most suitable medium for the democratisation of economic planning. Based on the principle of unity, economy, democracy, equity and liberty, the cooperation is a mean of social organization and often the only means of people in economic planning.

Thus, cooperation has been described as the keystone of an arch without which the technical knowledge offered from the side of the State and
enterprise to the people will not succeed in supporting a prospective rural economy among millions of small farmers and cottage workers.

**ORGANIZATION**

The urban cooperative banks occupy a distinct place among the urban institutions or agencies supplying the services including credit needs of the people among the weaker sections living in urban areas. They cater credit to the weaker sections people on personal security as well against gold, silver and produce. At present, the urban cooperative banks finance to weaker sections people, cottage and small industry, micro-enterprises, rural artisans, self-employment and informal sector. Keeping in view the goal of nation, the urban cooperative banks grow dynamically in nature and diversify the activities. Cooperation, thus, is conceived as the answer to the injustice of capitalism and developed as its antidote. Generally speaking, the urban cooperative banks have got unitary structure. It was based on the presumption that the urban cooperative banks will be affiliated to the district central cooperative banks.

Therefore, there was no necessity of organising separate district and apex organization for such banks. In practice since most of the urban cooperative banks were self-sufficient, they did not required any substantial funds from the district central cooperative banks. In fact, some of urban cooperative banks are stronger than the district central cooperative banks.
The urban cooperative banks are registered by the registrar of Cooperative Societies and are licensed by the Reserve Bank of India. The Reserve Bank of India in order to stop the mushroom growth of urban credit societies has evolved certain norms for the registration of new urban cooperative banks. Some important norms are:

- A Primary urban cooperative bank should be registered with the share capital not less than on lakh rupees.
- A survey regarding the prospects of mobilization of deposits and the scope for lending with reference to the small scale industry recognised by the Reserve Bank of India as eligible for refinance from it, should be conducted by the promoters of urban cooperative bank.
- The operations of the urban cooperative bank should be adequate to enable it to attain viability within a period of three years of its existence.
- The initial membership should be 500.
- The area of operations of urban cooperative bank should be confined to a town or city.
- The bye-laws should contain provisions which are essential.

The urban cooperative banks organization is shown in Chart 2.1.
APPRAISAL OF LOAN APPLICATION

Appraisal of loan application is a phenomenon of complex. The urban cooperative bank has to rely on the principles relating to the repaying capacity of the borrower and security offered, and thereon prompts recovery. On these canons, the banker has to examine carefully, the technical feasibility and the economic viability of the borrower. In the
words of Reddy, C. R., the banker has to follow the principle of three ‘R’s of credit for effective recycling of funds. These are:

- Return
- repayment capacity
- Risk-bearing capacity

The recovery of loans mostly depends on careful assessment of the credit-worthiness of the member-borrowers and prevention of over-borrowing and effective utilization for productive purposes for which borrowed. It is necessary that the urban cooperative banking sector follows the loan disbursement system with the instalments which would not disturb the economic feasibility and commercial viability.

The mode of disbursement of loan acts an effective role over the end-use of loan. The urban cooperative bank directly provides cash to its borrowers after verification of information and it is necessary to check up the utilization of loan properly. It is noted that sanctioning of loan should not coincide with the repayment of old debt by the borrowers to their creditors.

**DOCUMENTATION**

Documentation means furnishing the required documents to the lending institution. The contents of loan policy documentation indicate getting or obtaining the need documents from the borrower relating to or owning
the property by him. It is as much important as supervision and inspection of loans. Since the urban cooperative banks are required to cater credit with the utmost attention and care. Singh stated that “proper documentation of loan applications is necessary not only for proper security to determine the eligibility of loan but also to reduce the malpractices.” Getting necessary documents from the borrower would help the urban cooperative bank in two ways namely:

- Identifying the eligibility of loan
- Reducing the malpractices in the sense the borrower would not get once again loan from the same bank or other institutions

The documentation itself determines the eligibility of borrowers in borrowing loans from the urban cooperative banks. The consumption loans are also need to be supported with proper documentation. In other words, availing banking credit facility by the borrower and availing safeguards by the bank are the utmost essential from their respective effective functioning-style for betterment. If violated, it leads to unhealthy transactions.

**PLAN OF RECOVERY**

The recovery of loans is as important factor as lending. Hence, the lending institution should plan properly the loaning programme. In other words, if the loan becomes overdue, the entire loaning structure gets diluted. If overdues exceed certain level, it freezes the bank’s fluidity,
cripples the operations of it, chock up the lending channel and, as a result, the credit needy resorts to the usury. This naturally affects the very institution’s motto of rendering services with provision of credit. Proper utilization of loan is the responsibility of borrower. However, the bank as a lender needs to supervise and help the activities of borrowers’ loan utilization. This minimizes misutilization or diversification.

The effective utilization ensures higher income and gears up capital. Otherwise, the overdues are on the increase and the volume of credit institution gets thinner and thinner. Admitting the consequences of overdues, it is better to any banking institution to have effective recovery machinery with plan. To this effect, the sample banks have equipped their staff with training.

Mere having staffs are not an end to the mean of recovery but what want is the dynamic activity of effective supervision over utilization of loans. The Reserve Bank of India in its Survey Report emphatically stated that “absence of supervision over loan utilization can be said to be the major factor responsible for misutilization of loan and causing overdues.” The effective supervision of loan is an added factor to ensue higher income as no place for diversion. When the banks called upon to finance the priority sector and weaker sections on priority basis, the effective supervision and recovery plan is the core.
The urban cooperative banks are the banks functioning in urban areas in business and trade like the commercial banks so that they may also come to a stage of facing the ‘curse of overdues.’ Recovery plan and effective supervision measures would be taken up at the state of loan sanctioning point itself. This could reduce overdues to major extent.

**MANAGEMENT**

Cooperation is an important role to play as it is the most suitable medium for the democratisation of economic planning. By making plan popular, the cooperative will create better atmosphere needed for execution voluntarily. The cooperatives, thus, provide a feedback to the Planning Bodies of nation and help to modify the plans whenever necessary. The effective functioning and successful operations of the urban cooperative banks is the concern of management like in other financial institutions. The urban cooperative banks are governed by the management which includes:

- General Body
- Board of Management
- The Chief Executive and Managerial staff

The process of establishing an enlighten management for the urban cooperative banks comprising electing the members of the Board by the General Body. The members of the Board who are going to be elected should inspire confidence in members as well as in the public. Such is the
importance of members of the General Body in the urban cooperative banks working. If the General Body elects wrong persons as Board of Directors, the working of urban cooperative bank will be in doldrums. Thus, the general Body plays a key role in attaining the mission-goal from the outside for which they have joined an association.

**BOARD**

The day-to-day administration of the urban cooperative bank is vested with the democratically elected Board. Its main responsibility is to advise the Chief Executive in framing the guidelines. The Board is like brain which instructs the organs for efficient and effective functioning. “The Board of directors play an important role in crucial decision-making. The success or failure of the cooperative depends upon the advice on the leadership provided by the President and the Board of Directors.”

All the members who operate account in the cooperative bank are eligible to contest as member in the Board. However, to be effective, an experienced member is very much niche as well as essential as fresh member has only half knowledge in conduct of business effectively and viably. The Report of the Committee on Urban Cooperative Banks stated this; “To formulate the right policies, to participate in the decision-making and to appraise the performance abilities which can be developed over a period of time through active association and participation.” This is laudable as the contestant needs to possess both the skill and the
knowledge for conduct of successful business. Hence, the Board of Director should be professionals with rich experience who ought to be conversant in all the matters, forward looking and man of integrity.

The Board of urban cooperative bank consist of nine directors from among ‘A’ class members holding not less than 40 shares and shall not be in arrears to the bank as borrower or surety on the last day of one month preceding the date of election. The Board of Directors from among themselves elect a President, Vice-President and Treasurer. Interim vacancy/vacancies in the Board of Directors may be filled up by the remaining members of the Board by cooption for the remaining term except when he commits default in respect of a loan taken by him from the urban cooperative bank. The tenure of Board of Directors is three years but any member or members may at any time be removed by the resolution of the general Body.

Giving due representation to the depositors in the Board is advisable to safeguard the depositors interest as well as the rate of interest on deposits. More and more deposits will be needed to the urban cooperative bank as the judicious flow of lending hinges on deposits. The Board should be:

- Conversant with all the matters under the scope of operations of the urban cooperative bank
- Progressive forward looking
Men of integrity

The Board of the urban cooperative banks carries the functions which comprising of:

- Strong and healthy urban cooperative bank with resources
- Laying down of lending policies and proceedings
- Recruitment of suitable personnel
- Providing adequate training to the staff
- Appointment of Chief Executive and staff committee
- Chalking future development activities

**CHIEF EXECUTIVE**

The chief executive also called as General Manager, Manager and Secretary of an urban cooperate banks in the country but in Southern States, he is called Secretary. He looks-after the mobilization of resources and their deployment. He also develops sound recovery, cost of various sources of funds and margin of profit. He acts as a link between the Board and the staff working under him, and maintains cordial relationship. To gain in implementing the policies of the Board, he should be specialized not only in identifying the problems and fill the missing gaps; but also add life to the game of management.

For effective functioning of the urban cooperative banks, a sound banking structure with unlighted and dedicate services of the member of the
Board on the democratic principle is most essential. The Chief Executive on the side of implementation and the staff in carrying out the implementation side should clothe with duties and responsibilities in achieving the goal. Once this goal is attained, it would certainly add life of urban cooperative bank for further enshrinement for the well-being of people of the urban society.
REFERENCES


