
CHAPTER - III

THEORETICAL

FRAMEWORK

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CHAPTER - III

THEORETICAL FRAMEWORK

3.1 INTRODUCTION -

Progress and development of human being -

In all spheres, social, Economic, religious and political is marked by the sense of thinking, working and living together. Therefore, it is said that "Man is social animal". Co-operative is something than a series of activities organized on co-operative lines. Basically its purpose is to evolve a scheme of co-operative community. Organisation, which touches upon all aspects of life within the rural and urban economy. These organizations are playing a major role in economic progress of weaker section of the society. Today co-operation has been applied in a wide range of activities such as production, distribution, supply, marketing, housing, banking and Insurance.

3.2 ORIGIN AND THE CONCEPT OF CO-OPERATION -

The concept of co-operation was originally coined by 'Rochdale Pioneers against capitalists' exploitation, in the early period of 19th century. The society formed some basic guidelines and rules. These rules later became the principles of co-operation.

The term co-operation finds its origin form Latin word 'co-operati' which means 'work'. Co-operation today being understood to mean working together for a common purpose were a group of person decides to work together in co-operation with each other, may that be a club, playground or educational institution, co-operation starts to play its role. The basic principles of co-operations

are very old and can be found even in the primitive society in one form or other.

Level of co-operation ratio can be local, regional, national or international. But there was no period in human history when the people decided to work without mutual co-operation. In India e.g. at local level the whole villages panchayat system was based on co-operation. Co-operation was the event element of religious, social, economic and cultural life in those days. Even in Rig Veda there is a prayer that all may work with the same mind so that they could work well our customers bear an ample testimony to the fact that in society co-operation had paramount place.

3.2.1 Meaning and definition -

Co-operation means together. The principle of co-operation is as old as human society. It is the basis of domestic and social life. In its technical sense, it denotes a special method of doing business. In its former sense, co-operation existed even before the existence of man. Formation of social groups is the outcome of reflexive co-operation, while the life of ants, bees, wasp, lions etc. Provides the best example of instinctive co-operation.

According to biologists co-operation has acted more powerfully towards the development of man than bitter competitive struggle for existence. The history of modern civilization is in fact, the history of co-operation, for without it social and economic progress would have been impossible.

Co-operative is, thus older than the co-operative movement. The co-operative movement is only one example of human co-

operation among others, e.g. joint stock companies, cartels, trusts etc. According to the sociologists, it is a socio-economic movement; for the socialists, it is a social order in which man is free from class struggle. Economists believe that it is a form of business organization in which there is no scope of being exploited by middle man and lawyers take it to be an organization in whose membership one enjoys "the special privileges and concessions conferred by law".

Discussion about national and International Co-operative circles is one of the most heated topics. Co-operators, without caring for a universal theory have been adopting in their own say to suit the size and magnitude of their problems, in accordance with their environments. If there is any theory, then as the Macalagan Committee has suggested that "the theory of co-operation is very briefly that an isolated and powerless individual can by association with others, and by moral development and mutual support obtain his own degree the material and advantages, available to the wealth powerful persons, and there by, develops himself to the fullest extent of natural abilities." It is thus, a movement whose theory had evolved with times and experiences gained by the co-operators.

Definition -

Soligman -

"Co-operation in its technical sense means the abandonment or competition in distribution and production elimination of middleman of all kinds."

Dr. K. N. Katju -

"Co-operation is self help as well as mutual help. It is joint enterprise of those who are not financially strong and cannot stand on their own legs and therefore come together not with a view to getting profit but to overcome disability arising out of want of adequate financial resources are thus better their economic conditions."

3.2.2 Features of Co-operation -

The main features of co-operation are as follows.

- 1) It is voluntarily
- 2) It is democratic
- 3) It is not based on exploitation
- 4) It includes people having common needs.
- 5) It looks after wider interest of the community.
- 6) There is no place for middleman in it.
- 7) In it there is less stress on profits.
- 8) No outside interference is tolerated in it.
- 9) It is based on concept of equality.
- 10) In it each is for everyone.
- 11) It works on the spirit of self - help.
- 12) It is a socio-economics concept.
- 13) It is universal because it is found in all the countries of the world.
- 14) It is an association of persons.
- 15) It is an undertaking.

3.3 CONCEPT OF BANK -

Banking system occupies an important place in a nation's economy. A banking institution is indispensable in a modern society. It plays a pivotal role in economic development of a country and forms the core of money market in an advanced country. Banks provide a variety of services. They provide both short term and long term credit. Their customers come from all walks of life from small business to Multinational Corporation having its business activities all around the world. The bank has to satisfy the requirement of different customers belonging to different social groups. Banks are the lifeblood of modern trade and industry. Economic growth is important for all countries. For the developing country it is a vital, economic development of country depends upon industrialization of that country which needs bold banking structure catering to the needs of Commerce and Industries. No nation can secure quick economic development and expand her commerce and industry without proper and sound development of a banking system. It will be not wrong to say that without development of sound commercial banking under developed country cannot hope to join the ranks of the advanced countries. Thus banking system occupies an important place in a nation's economy. Indeed bank are the backbone of Modern Industries.

3.3.1 Origin of the World Bank -

According to some economist, word Bank has been derived from the German word BANC, which means a joint stock firm. Some other says that it has been derived from the Italian word BANCO, which means heap or mount. As a matter of fact at the time of

establishment of Bank of Venice in 1157 the Germans were influential and hence perhaps the word Bank or Banco was used by Italians to denote the accumulation of securities or money with a joint stock firm, which later on with the passage of time came to be known as "Bank".

It is also derived from Latin Word Bancus or Banque which means a bench of the money dealers in Italy used benches while they dealt with money in their routines. So the modern banks use furniture to facilitate and regulate their cash and credit transactions.

3.3.2 Meaning and Definition of Bank -

Meaning -

The word banking denotes a certain kind of trading in money. It consists of principally the exchanging of money, the lending of money, the depositing of money and the transmitting of money. In most countries these activities seem to have taken their rise in this very order. In India during the Vedic period, indigenous bankers exchanged the coins of Sovereign for that of another and also those of gold or silver and vice versa. Simultaneously they lend money to the needy both on the basis of interest and without it. Later on, perhaps much before the time of manu, they had begun receiving deposit and finally undertaking remittance business. In England also Edward III appointed in 1344 royal exchangers with the exclusive privilege of given newly coined gold, nobles half nobles and farthing nobles for silver currency vice versa at fixed rates which yielded them a profit of 1.1/5% every year transaction. They were also, empowered to give the current coins of the kingdom in exchange for foreign coins and vice versa. According to a table which hung up their office, for public

inspection. In the profit made by these operations the king too, had a certain share. There is a record the lending business as well as in that country even in the days of Edward the confessor. The Jews, a Lombards gradually became the principle money lenders in the kingdom, and when they were driven out, goldsmiths, bankers had begun undertaking this business. Deposit business began there only after 1140. Till then people deposited their money with the exchequer, but in this year Charles I passed a confiscation order. This was, no doubt, with drawn later on, but the prestige of royal smiths, instead of with the exchequer. Transmission of money was, first off all, effected by sending the coins through messages. Later on it was accomplished by 'Bill of exchange', which began to be purchased and sold by merchants and finally bankers.

As present banking denote, all these activities and certain other which we shall deal with subsequently.

DEFINITION OF BANK -

The bank is defined by many authorities, committees. Some of the important and meaningful definitions are given as follows.

1. Prof. H.L. Hurt -

"A banker is one who in the ordinary course of his business honours, cheques drawn upon him by person from a for whom he receives money on current account."

2. Prof. R.S. Sayers -

"Banks are institution whose debts are normally, referred to as bank deposit are commonly accepted in final settlement of other peoples debts to each other."

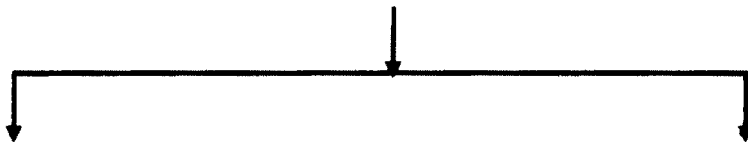
3. Prof. Crowther -

"A banker is dealer, indebted his own, and of the other peoples debt to each other."

1.3.3 Functions of Bank -

The functions of banks are classified into three categories were as follows.

1. Primary Functions



Acceptance of Deposits

- a. Fixed deposit
- b. Current deposit
- c. Saving deposit
- d. Term deposit
 - I. Recurring deposit
 - II. Children welfare
 - III. Pension deposit
 - IV. Sickness benefits

Advancing Loans

- a. Money at call and short notice
- b. Bank Overdraft
- c. Bank loans
- d. Cash credits
- e. Term loans
- f. Discounting bills
- g. Credit Creation
- h. Financing of Foreign trade

2. Secondary Functions -

Apart from primary functions banks render to their customers number services, such as Agency services encourage the customer to holds deposit in more quantity with the banks the banks expand their business on the basis of deposit. Such agency functions can be described as follows.

- 1) Collection of income.
- 2) Collection of cheque.
- 3) Payment on behalf of customer.
- 4) Payment on cheque, Bills etc.
- 5) Purchase and sale of securities.
- 6) Transfer of funds.
- 7) Acting as executives, trustee and Attorney.

3. General Functions -

Bank renders valuable services to the public and they are follows.

1. Safe custody of valuables and securities.
2. Information and statistics.
3. Issue of letters of credits.
4. Receiving deeds, securities and other valuable for safety custody.
5. Underwriting of securities.
6. Circular notes.
7. Serving as referees.
8. Dealing in foreign exchange.
9. Miscellaneous services.

3.3.4 Structure of Banking -

In every country banking system plays an important role in development of nation's economy and forms the core of the money market in an advanced country. In India, money market is characterized by the existence of both the organized and unorganized segments, besides the aforesaid institutions, which mainly serve as source of short-term credit to industry, trade commerce and agricultural, a variety of specialised financial institutions have been set up in the country.

In the field of industrial finance the Industrial Development Bank of India (IDBI), set up in the Apex Bank. There are two prominent all India institutions in the field namely IFCI and ICICI. Besides SFCS and SIDCS have been set up to meet the need of small and medium scale industries in the respective states. IRBI has been set up to bring back to normally the industrial units, which fall, sick. SIDBI has been set up to later the need of the small scale sector in the country.

For financing agricultural and allied activities in the rural areas, through Co-operative credit societies and central co-operative bank have been set up namely the land development banks which a two ties structure - primary land development banks at the district level and state land development Banks at the state level. NABARD is the Apex institution in the field of agricultural and rural development. In order to provide liquidity in the money market discount and finance house of India Ltd. was set up.

There are few institutions, which are engaged in the business of investing in the corporate, government and semi government securities.

etc. They are LIC, GIC, and UTI, to facilitate the banking business and to faster the growth of banking habit, two institutions have been set up. They are the deposit insurance and credit Guarantee Co-operation of India and the Export Credit Guarantee Corporation.

CHART NO - 3.1

CHART SHOWING INDIAN BANKING SYSTEM

CENTRAL BANK AND MONETARY AUTHORITY RESERVE BANK OF INDIA

APEX BANKING INSTITUTIONS

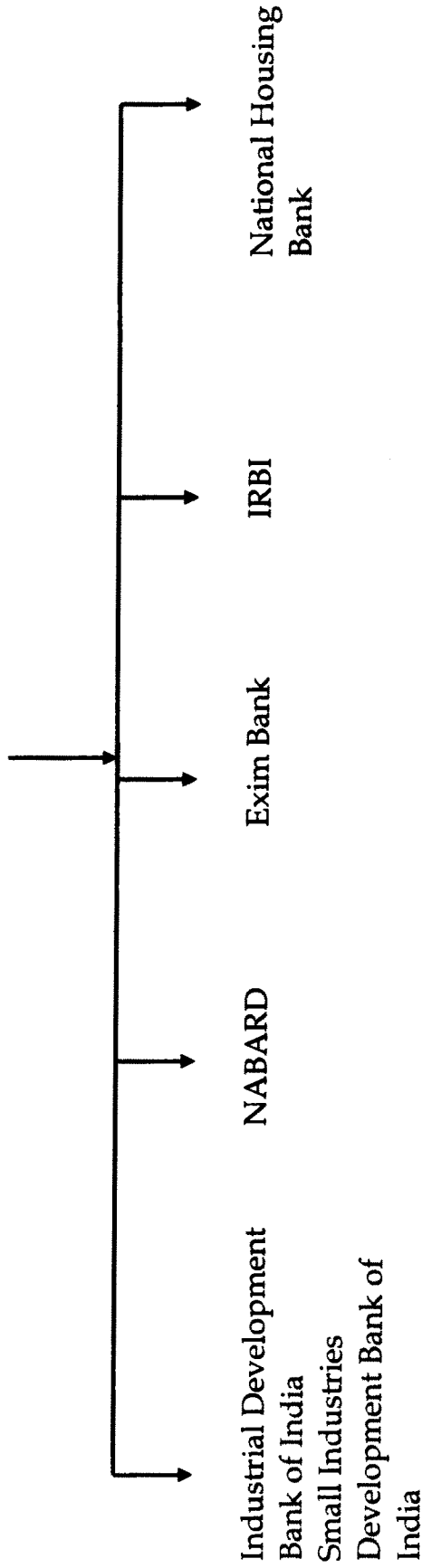


CHART NO - 3.1(A)

BANKING INSTITUTIONS

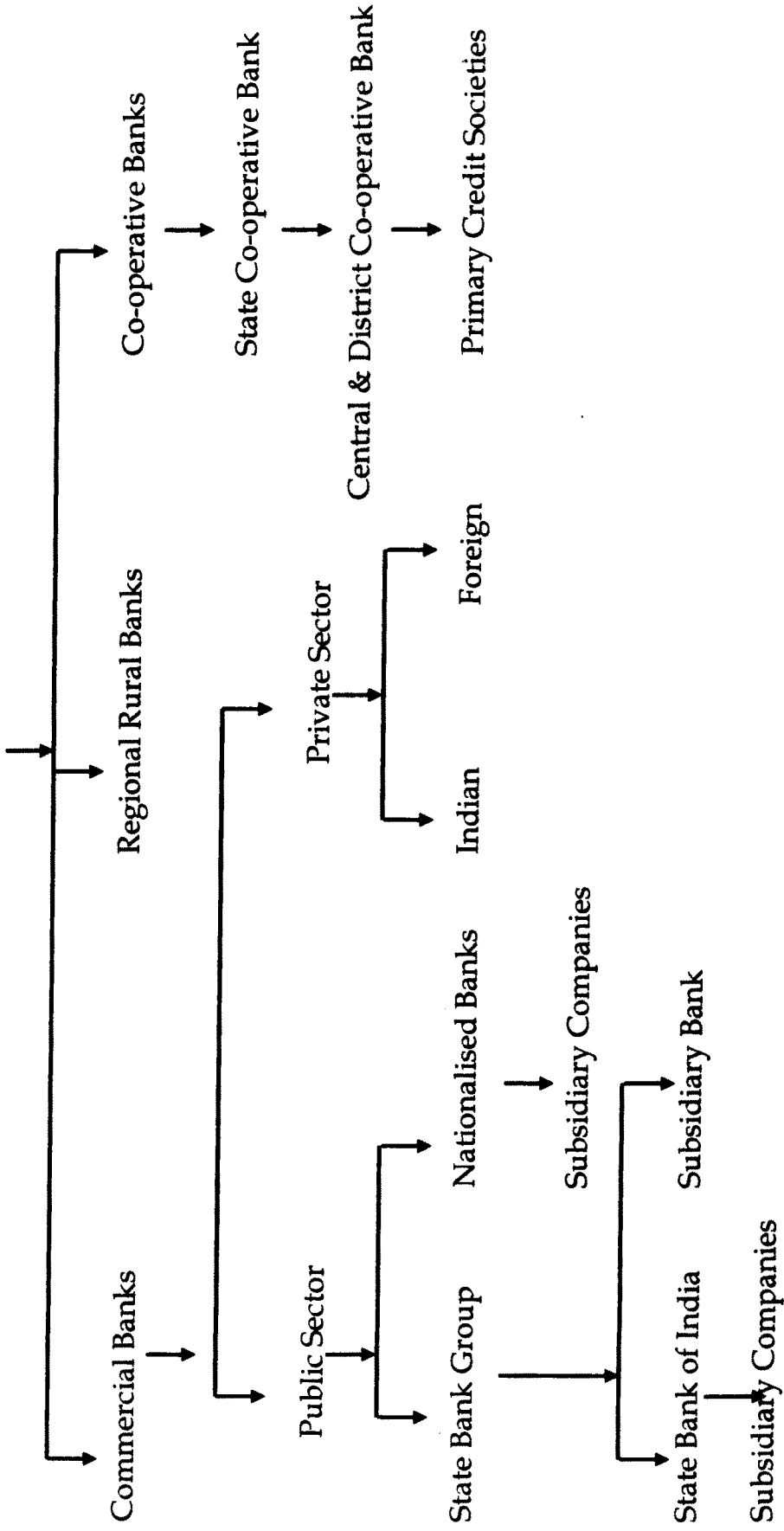
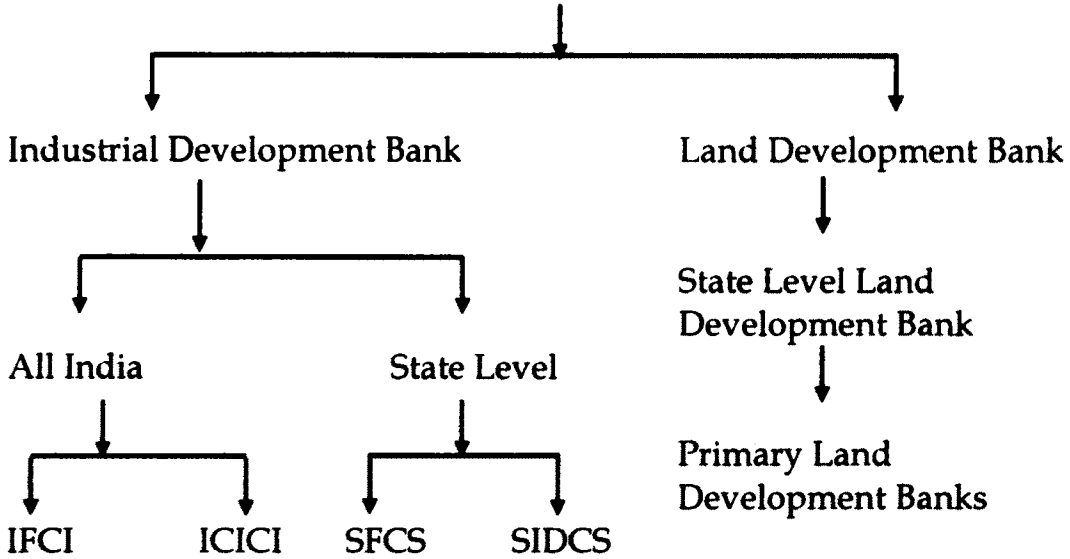
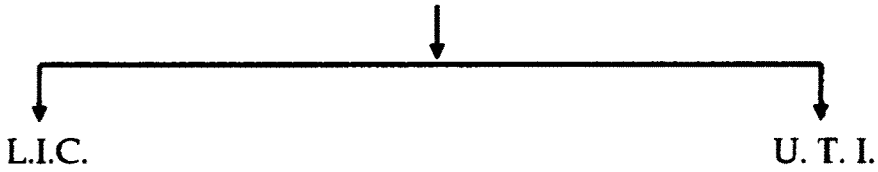


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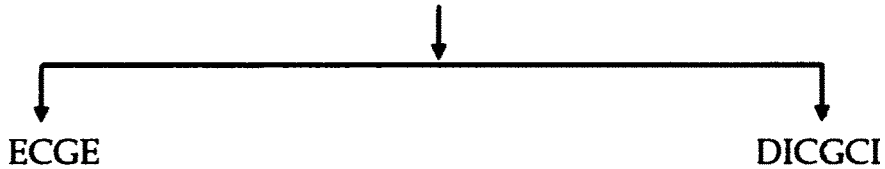
DEVELOPMENT BANKS



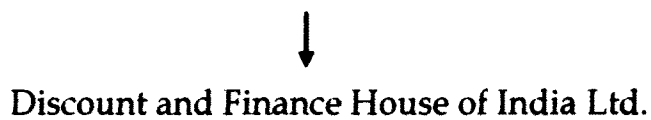
INVESTMENT INSTITUTIONS



**GIC
CREDIT GUARANTEE INSTITUTIONS**



MONEY MARKT INSTITUTIONS

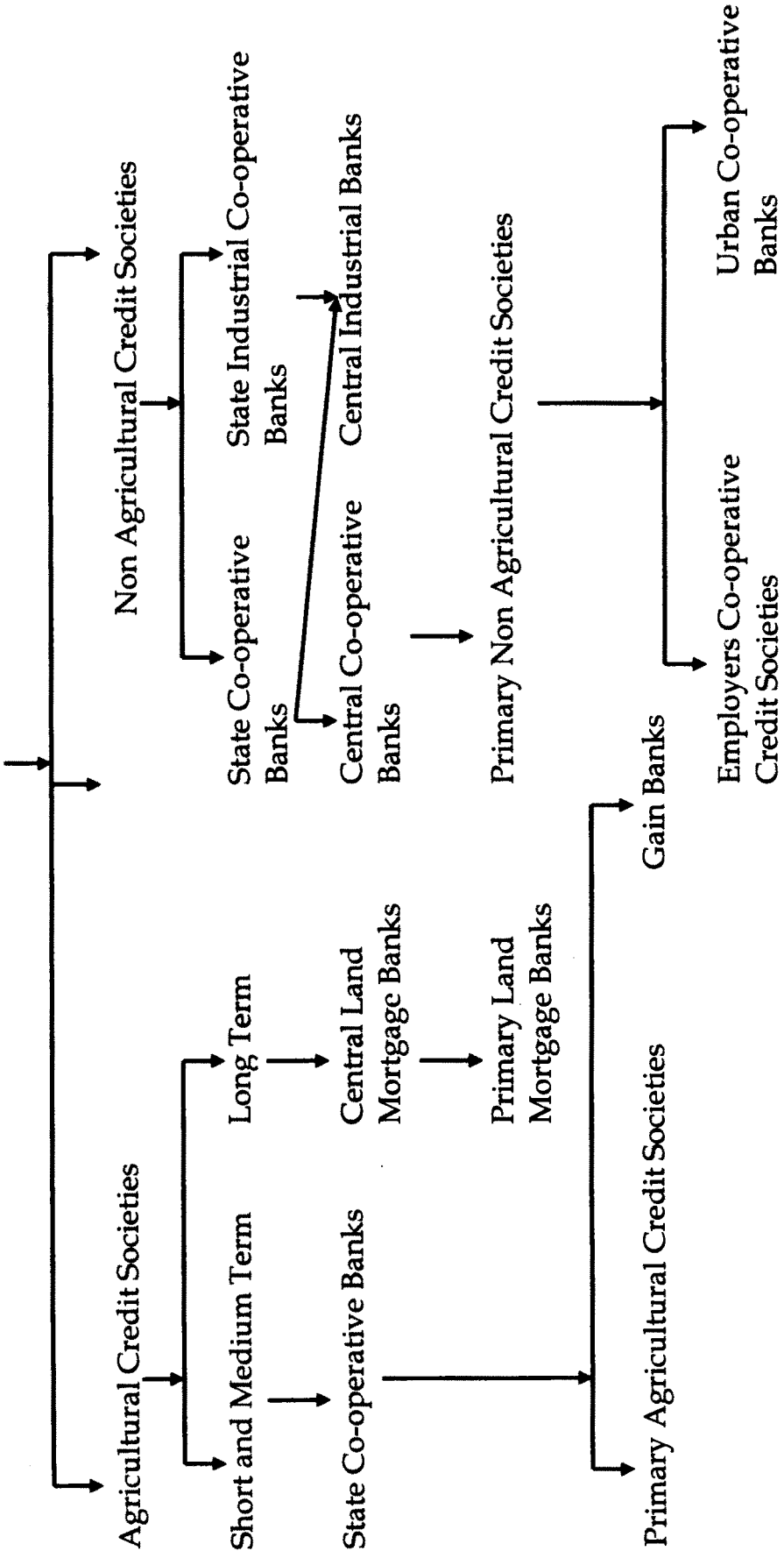


3.4 CO-OPERATIVE BANKING STRUCTURE -

The Co-operative Banking structure is pyramidal or federal in character. It is seen that these banks are functioning from the root to top level i.e. from rural area. Federated at the district level into a central society called the central Co-operative bank. At the state level, the district banks are federated into a bank. The long-term credit structure consists of two tiers; there are primary land mortgage banks base and central land development banks at the top. In some states central land development banks operate through their branches. There are, in addition, a few industrial banks operating at the state or district level.

CHART NO - 3.2

CO-OPERATIVE BANKING STRUCTURE



3.5 URBAN CO-OPERATIVE BANKS -

Among non-agricultural credit societies urban Co-operative Banks occupy an important place in urban and semi urban areas. They meet the credit needs of small industrialists, artisans, salary earners on personal security as well as against gold silver and produce. They accept deposit of various types and provide facilitates for investment to persons of small means. They also provide banking facilities of various kinds to their members and customers.

3.5.1 Meaning and Definition'-

There was no distinct definition of urban Co-operative Bank in India till the year 1938. They formed part of non-agricultral credit societies. The distinguishing criterion between urban credit society and urban bank was mainly the volume of working capital. Mehta - Bansali Committee 1937-38 defined "An urban bank as a co-operative organization, with a share capital of Rs. 20,000/- or more undertaking banking business as defined in section 277(E) of the India Companies Act (1913) and amended in 1936."

According to a study group on credit co-operative in the non-agricultural sector an urban bank is

- 1) A credit Co-operative registered under the state Co-operative Societies Act in urban and semi urban areas.
- 2) Has a minimum paid up capital of Rs. 20,000/-.
- 3) Provides Banking facilities.

The Banking Regulation Act 1949 defined "An Urban Co-operative Bank as primary co-operative bank having paid up share capital and reserve of Rs. 1 lakh and above. These banks are required

to obtain license to carry on banking business to seek prior permission for opening of new offices from RBI. They have to maintain certain minimum cash reserves and liquid assets and submit returns prescribed under the rules formed as per the Act."

Madhav Das Committee (1973) appointed by RBI, defined "An urban bank as a primary co-operative bank and co-operative society other than primary agricultural credit society."

- 1) The primary object of which is the transaction of banking business.
- 2) Paid up, share capital and reserves of which are not less than Rs. 1 lakh.
- 3) The by-laws of which do not permit admission of any other co-operative society as member.

An urban co-operative bank has been defined as one which has been organized for accepting deposit form the public, which are usually repayable by cheques and which carry on normal banking business.

If we consider above definition we will find that at present there is uniformity in the definitions of urban co-operative banks. Madhav Das Committee remarks that instead of primary co-operative bank, urban bank is the term which is more popular in common parlance.

3.5.2 Need of Urban Co-operative Banks -

The need for Urban Co-operative Banking arises from the fact that joint stock banks are not interested in providing credit to the urban middle class. This is because it is not advantageous for joint stock banks in developing the business of small loans on account of

high cost of advancing and recovering them. Further, as joint stock banks are not likely to have under ordinary circumstances full and intimate knowledge of standing resources of persons of moderate means they will not advance loans on personal security. In this circumstance the man with limited means in urban areas would be driven to money lenders or similar agencies to obtain loans at exorbitant rate of interest. In this connection the following observation of W. K. H. Campbell are significant.

"A very little investigation of the condition of the salary earning class is frequently enough to reveal that when sudden emergencies arise which make an unexpected demand on their fixed salaries. They have to borrow, that they do so on most unfavorable terms and that as a class, they are heavily, and in most cases hopelessly indebted."

As institutional agencies like commercial banks normally do come forward to help the urban middle class and weaker sections, a strong need to organize urban co-operative bank is left. There are in urban areas numerous persons of small means like traders merchants, artisans, factory workers, motor and lorry drivers etc. who need finance to relieve these persons from the grip of money lenders, UCB, are essential. The UCB are basically the institutions of small persons, by small persons, and for the small persons. They are local organization having democratic management and they are serving the persons of small means ever since the days when the commercial banks were not prepared to look towards them. Various committees stress the need for USB, in India from time to time after the birth of the first decade of century.

3.5.3 Objectives / Functions of Urban Co-operative Banks -

The main objectives of the urban co-operative banks are as follows.

- 1) To borrow funds from members and non-members to be utilized for loans to members for useful purposes.
- 2) To act as an agent for the joint purchase of domestic and other requirements of the members.
- 3) To undertake collection of bills drawn, accepted or endorsed by members and constituents and discount cheques and bills of approved members.
- 4) To encourage thrift, self-help and co-operation among the members.
- 5) To arrange for the safe custody of valuables and documents of the members and constituents.
- 6) To carry out instructions for periodical collections, remittances of the members and to depositors.

3.5.4 Role of Urban Co-operative Banks -

It may be mentioned that non-agricultural credit society can make considerable contribution to their members, to co-operative structure and to general economic development. IN so far as urban co-operative banks are concerned, they have an important role to play in several respects including the following.

- 1) They can organize and bring together middle and working classes in urban and semi-urban areas and inculcate in them the

habit of thrift and self help and acquaint them with the elements of ordinary banking principles.

- 2) The mobilization of saving by urban co-operative banks and consequent drawing of urban resources into the Apex and central co-operative banks which are in need of fund to finance the rural, industrial and other functional co-operatives can contribute to general economic development.
- 3) By providing credit on reasonable term to the middle classes, they can rescue them from the exploitation of money lenders and other unscrupulous agencies, which is particularly important in the context of rising prices and cost of living; this has consequent effect also on non co-operative lending.
- 4) By financing individual industrialist and artisans working in urban areas, they can make a significant contribution to industrial development.
- 5) They can make certain essential banking facilities such as remittance of funds etc. available in areas which may not be considered suitable for commercial banking to persons who may not be able to get such facilities from commercial banks.
- 6) They can provide intelligent, experienced and active leadership to the co-operative movement including the central and apex co-operative banks, which in view of their federal character drew their directors from member's institution.

3.5.5 Main Income Sources -

The urban co-operative banks earn their incomes through the following sources.

- 1) Interest on loans and advances.
- 2) Interest on Govt. and other securities.
- 3) Dividend on shares held in other co-operative institutions.
- 4) Commission from agency service, and bill collection.
- 5) Entrance fees.
- 6) Interest on deposit with other banks.
- 7) Discount, commission bills and cheques discounted.

3.5.6 Area of Operation -

The area of operation of an urban bank is determined by its bye-laws. The study group on credit co-operatives in non-agricultural sector was of view that the area of operation of an urban co-operative bank should be restricted to a municipality or taluka town where it operates. However, if certain members of the primary agricultural credit society are not able to get credit facilities from their society, they may be allowed to become members of the urban co-operative bank after obtaining permission from the register.

3.6 PROGRESS OF URBAN CO-OPERATIVE BANKING IN INDIA

3.6.1 Phase I (before 1904)

The urban co-operative credit movement originated in Germany when Herman Schultz started such societies in 1849 for the benefit of artisans in the cities. In Initially, the credit of starting such societies goes to Luigi Luzzafi, the first urban co-operative societies. In Chennai, the first such society was registered in October 1904 at Canjeevaram.

3.6.2 Phase II (1904 - 47)

As a result of the recommendations of the Maclagan Committee (1915), a number of urban credit societies came up. The committee itself has numbered the non-agriculture credit societies as 602. The banking crises of 1913 to 1917 saw the failure of money commercial banks, which paved the way for the organization of new agencies. Similarly between 1939 - 49 when joint stock banks failed in various states eroding public deposits to the tune of Rs. 26 crore. There was not even a minuscule impact on urban co-operative banks. Presumably due to the fact that co-operative institutions were subjected to stringent regulation as compared to tax supervision over commercial bank. The great depression of the 1930, severely affected the agricultural credit society more than urban credit co-operative. Upto the year 1938, all the urban banks were included in the first list of non-agricultural credit societies. There was particularly no difference seen between an urban credit society and urban co-operative bank. In Mumbai, an urban credit society could be styled as an urban bank if it had a paid up share capital of Rs. 50,000 upto 1938 and since 1938, Rs. 20,000 with all the ups and downs during this phase ultimately in 1947 - 48 in India. There were 1060 UCB's having membership of 6.98 lakh, owned capital of Rs. 5.64 crore, working capital of Rs. 26.9 crore. Loans advanced to the tune of Rs. 8.22 crore and 6.8 percent of overdue to total out standing.

3.6.3 Phase III (1948 - 1989) -

A greater fillip to the development of urban co-operative banking was given during the year after independence progress of urban co-operative banks over four decades between 1948 - 49 and 1988 - 89 has been presented decade wise, in table 2.1.

TABLE 3.1
Progress in urban Co-operatives in India

Sr. No.	Particulars	1948-49	1957-58	1967-68	1977-78	1988-89
1	Number of banks	815	826	925	1162	1378
2	Owned funds (crore)	4	8	50	121	1082
3	Deposits (crore)	17	27	156	532	72.52
4	Loan Rs. (crore)	12	24	157	434	58.20
5	Working capital Rs. (crore)	22	57	214	761	95.60
6	Owned funds per bank Rs. (Lakh)	49	96	5.24	10.41	78.52
7	Deposit per bank Rs. (Lakh)	2.09	3.27	16.86	45.78	524.82
8	Loans per bank Rs.(Lakh)working capital per bank	1.47	2.91	16.97	37.34	422.35
9	Rs. (Lakh) ratio of deposit to working capital	2.10	6.10	23.14	55.49	693.76
10	Percentage (%)	77	47	73	70	76
11	Ratio of owned capital to working capital %	18	14	23	16	11
12	Ratio of loans to deposits %	70	89	101	82	80
13	Member ship	5	12	31	N.A	87

Source - Artha sumwad, October, December 1990.

N.A - Not Available.

Observation -

- 1) Increase in the number of banks during the period from 1948 - 49 to 1957 - 58 was marginal to the extent of only 1.59%. Deposits rose by 58.8% whereas owned funds and loans moved up by 100% and working capital by 1.59%.
- 2) Progress during the second decade (1958-59 to 1967-68) was relatively better as the number of the banks rose by 11.98% whereas owned funds, deposits and loans increased by 525, 477 and 544 percent respectively. Ratio of deposits to working capital, owned capital to working capital and loans to deposits swelled by 26, 9 and 12% respectively. Membership enrollment of 31 lakh registered an increase of 158%.
- 3) In the next decade of 1968-69 to 1977-78 the number of banks rose by 25.6% and further by 18.5% during the following decade funds, deposits, loans and working capital percentage increase in these stood at 142, 24, 176 and 255% during the former decade and 794, 1259, 1241 and 1156% in the latter decade.
- 4) Position of 1988-89 may be looked Vis-à-vis that in 1947-48 in order to perceive the progress over span of 4 decades after independence. The number of banks moved up by 69% owned funds shot up by 270 times, average amount of deposits collected moved up from Rs. 2.09 lakh to Rs. 524 lakh average amount of advance spurted from Rs. 1.50 lakh to Rs.422 lakh and membership rose by 640% during the period under consideration. The number of bank given in table 2.1 includes both and salary earners co-operative societies. The Banking

regulation Act was applied to those banks whose owned funds were more than Rs. 1 lakh with affect from first March 1966.

3.6.4 Phase IV (Economic reforms period) (1991 onwards)

The economic reforms period since 1991 was a watershed in the annuals of the urban co-operative movement. Narasimhan Committee (1) suggested liberalization of the banking sector. A similar needs was also felt for the UCBS. Accordingly, the Reserve Bank of India (RBI) appointed the Marathe Committee in 1991 to make suitable Marathi Recommendations in this behalf. Recommendations of this committee were quite for reaching, particularly, in the real of new bank licensing branch licensing and area of operation. Marathe Committee suggested the policy of 'one district, one bank'. The bank should be organized on the need basis. Existing commercial banking should not prevent the need basis. Existing commercial banking should not prevent the co-operative initiative RBI accepted these recommendations and issued as many as 537 licenses between May 1993 and March 1999. Urban Co-operative banks are also allowed to extend their area of operation to the entire district without specific approval from the R.B.I.

Banks with deposit of Rs. 50 crore and above were permitted to cross the borders or states their registration. Banks fulfilling certain norms could open their extension counters without the RBIs permission. The Committee suggested a standard format of audit for all the states. UCBs can now invest to percent of their surplus funds outside the co-operative fold; ceiling on quantum of loans and advances has been increased substantially. Scheduled UCBs have been allowed to do merchant banking / foreign banking operations. From November 1996 UCBs have been given freedom to finance directly

agricultural operations. The interest rates on deposit of urban banks have been deregulated from 21st October 1997. They can also install ATM without prior approval of the R.B.I.

High power committee on UCBs 1999 recommended the implementation of capital adequacy ratio discipline in a phased manner from 9th Feb. 1993 like commercial banks, the norms of capital adequacy ratio, income recognition; asset classification and provisions are made applicable to UCBs also. Thus, in the post Marathe Committee report there has been a radical shift in the RBI approach towards UCBs. Not with standing the rigid norms the growth of the UCBs is rapid since 1993, which is clear from Table 2.2.

Table 3.2

Growth of UCBs in India

Growth of UCBs IN INDIA During reforms period

(Figures in Rupees)

Sr No.	Particulars	1992-93	2000-01
1	Numbers of Banks	1326	2038
2.	Deposits	10,00,439	72,06,892
3.	Loans	8,09,289	4,42,0,874
4.	Working capital	13,73,545	91,02,197
5.	Deposit per Bank	754.48	3,536
6.	Loan per Bank	610.32	2,169
7.	Working capital per Bank	1,03,586	4,466
8.	Ratio of loans to deposits (%)	80.9	61
9.	Ratio of Deposit to working capital %	72.8	79
10.	Membership (000)	158.61	176.85

Source -

- 1) Co-operative Movement in India, A statistical profile, 1994 Ministry of Agricultural Government of India New Delhi. pp. 3-35.
- 2) Indian Co-operative Movement a profile, 2002, National Resource Centre, National Co-operative union of India New Delhi p.113.

3.7 PROGRESS OF URBAN CO-OPERATIVE BANKS IN MAHARASHTRA :

As stated earlier Maharashtra is leading in urban co-operative Banks among the states in the country. Urban Co-operative Banks birth and were disparate in the districts like Mumbai, Kolhapur, Pune and Sangli. The study of urban co-operative banks can be divided into two parts. The growth of urban co-operative banks in Mumbai province and second the growth of urban co-operative banks in Maharashtra. The following table shows progress of urban co-operative banks in Mumbai state.

The progress of urban co-operative banks in Maharashtra is depicted in the following table No. 2.3 from 1961 to 1991 there was an increase in all the figures of urban co-operative. If we consider the recent development of banks during the last 10 years i.e. 1981 to 1991 it shows that was slightly increase in the number banks and the bank in profit. However, there was a significant growth in share capital (378.55%) membership (200.92), owned capital (645.12%), loans disbursed (404.71), working capital (679.19%), and loans outstanding (772.15%). It is important to state that the amount of government share capital in there banks were totally absent and hence the progress seems self-reliant and satisfactory. Hence banks have to take measure for the recovery of overdues.

Table No. - 3.3

Progress of Co-operative Banks Mumbai State

(1938-39 to 1951-52)

(Rs. Lakh)

Sr No.	Particulars	1938-39	1948-49	1951-52
1.	No. of urban banks	52	140	184
2.	No. of membership	59,988	1,44,701	2,19,781
3.	Share capital	29.16	104.83	158.82
4.	Reserve and other fund	34.78	79.35	127.62
5.	Working capital	242.52	1,180.67	1,588.36
6.	Member deposits	96.87	463.95	631.17
7.	Non-members deposits	75.87	485.50	563.94
8.	Loans from central banks	4.33	34.72	N.A.
9.	Profits	3.36	12.99	20.24
10.	Loans Due	120.28	470.05	717.62
11.	Over dues	36.20	28.29	77.69
12.	Percentage of overdue	30.10	6.00	10.80

Source -

- 1) Naik. K.N. - The co-operative Movement in Mumbai State, the Popular Depot, Bombay, 1953, page - 151.
- 2) Fifty years of Co-operative, The Bombay Provincial Co-operative Institute 1959, page - 167.

Table No. - 3.4

Urban Co-operative at a Glance in Maharashtra (1961-1991)

31-03-1991

(Rs. In Lakh)

Sr No.	Particulars	1961	1971	1981	1991	% change during the decade 1981-91
1	Number of Banks	149	265	345	382	10.72
2	Membership (000)	433	883	1614	4857	200.92
3	Share capital	294	947	4201	20104	378.55
4	Owned capital	511	1502	8530	63559	648.12
5	Deposits	1243	6852	65779	51602	648.78
6	Borrowing	N.A	308	1666	35176	2011.40
7	Loans Disbursed	N.A	9260	88704	691173	679.19
8	Loans outstanding	1671	5007	48008	418703	772.05
9	Overdues	133	364	3732	3583	-3.99
10	No. of Bank in profit	N.A	N.A	338	367	8.57
11	Amount of profit	25	N.A	4652	8830	79.06
12	No. of Bank in loss	N.A	N.A	20	14	-30.00
13	Amount of loss	N.A	N.A	73	281	284.93

Source -

Co-operative Movement in Maharashtra at a Glance 1991, page - 79, 80, 81.

N.A. - 1) N.A. Not Available.

2) Members in thousand.

3) % of compared to figures of 1981.

The first urban co-operative bank was established in Mumbai on 20th December 1906 by name Shamrao Vitthal Co-operative Bank. This provided impetus to many persons to follow suit and thus there was rapid increase in the number of the UCBs in the state. It maybe specifically notes that in June 1989, 385 out of 1,378 UCBs were in

Maharashtra, constitution 30 percent of the total. In June 1990, 48 out of 100 top UCBs were in Maharashtra and 45 percent of the total branches of the UCBs in the existed in Maharashtra. By 2001 Maharashtra's share in the grand total of banks moved upto 31.16 percent indicating there by the fact that the state has a faster run on the track compared to all other states in the country.

Progress of Maharashtra in this sphere has been amazing. The number of UCBs was 265 in 1971, which went up to 345 in 1981. It increased marginally to 381 in 1991. There was a phenomenal increase in the number of banks during 1961-71 when it shot up by 77.85 percent. In the next decade (1971-81) the rise was to the tune of 30.19 percent. There was marginal addition (10.43%) to the total number of bank during 1981-91. It once again zoomed by 72.18 percent during 1991-2001, the period of economic reforms. In totality, over the period 1961-2001, the aggregate increase was 340 percent.

Even though Maharashtra state has shown an outstanding performance in the growth of primary co-operative bank (PCBs) the growth is spatially uneven as can be perceived with the help of table 2.5. It could be noted that development of the PCBs in Maharashtra has remained largely restricted to the western Maharashtra and as such, the picture is very much over the state. Kolhapur, Nashik, Pune, and Mumbai divisions together command 67.38 percent of the bank, that is nearly two third of the state total. These four divisions are in their declining sequence. Kolhapur divisions are of the top. Nothing by individual districts Pune with 63 banks is in the vanguard, closely followed by with 60 banks.

Table 3.5

**Spatial Distribution Co-operative Banks in Maharashtra State
(2001 - 01)**

Sr No.	Division	Districts	No. of Banks	No. of Districts in the Division	No. of Banks in the Division	Percentage Total
1	Mumbai	1. Mumbai	95	1	95	14.48
2	Kokan	1. Thane 2. Rajgad 3. Sindhurg 4. Ratanagiri	20 10 2 4	4	36	5.49
3	Nasik	1. Nasik 2. Dhule 3. Nandurbar 4. Jalgaon 5. Ahmednagar	50 12 7 25 23	5	117	17.84
4	Pune	1. Pune 2. Solapur	63 41	2	104	15.85
5	Kolhapur	1. Satara 2. Sangali 3. Kolhapur	34 32 60	3	126	19.21
6	Aurangabad	1. Aurangabad 2. Jalana 3. Purbhani 4. Hingoli	18 7 20 7	4	52	7.93
7	Latur	1. Beed 2. Nanded 3. Usmanabad 4. Latur	16 10 12 19	4	57	8.69
8	Amaravati	1. Buldhana 2. Akola 3. Vashim 4. Amaravati 5. Yavatmal	9 9 1 13 4	5	36	5.49
9	Nagpur	1. Wardha 2. Nagpur 3. Bhandara 4. Gondia 5. Chandrapur 6. Gadchiroli	5 19 1 2 4 2	6	33	5.03
	Total			656		

Source - Co-operative Movement at a glance in Maharashtra 2001 (part - II), commissioner for Co-operative and register of co-operative societies Maharashtra State, Pune PG - 56-63.

3.8 NON-PERFORMING ASSETS (NPA)

An asset becomes non-performing when it ceases to generate income for the bank. Earlier an asset was considered as non-performing asset (NPA) based on the concept of 'Past Due'. A 'non performing asset (NPA) was defined as credit in respect of which interest and / or installment of principal has remained 'past due' for a specific period of time. The specific period was reduced in a phased manner as under -

Year ended March, 31	Specific period
1993	4 quarters
1994	3 quarters
1995	2 quarters

An amount is considered as past due, when it remains outstanding for 30 days beyond the due date. However, with effect from March 31, 2001 the 'past due' concept has been dispensed with and the period is reckoned from the due date of payment.

With a view to moving towards international best practices and to ensure greater transparency, 90 days overdue norms for identification of NP. As have been made applicable from the year ended March 31, 2004.

Note -

Any amount due to the bank any credit facility, it not paid by the due date fixed by the bank becomes overdue.

3.8.1 Income recognition for Co-operative Societies -

- Account is considered as NPA, if interest due for 3 quarters.
- (9 months) is not actually received, [Reduced to 2 quarters (6 months) for F.Y. 2007-08 onwards].
- Once an account becomes NPA, all accrued interest not actually recorded has to be reserved and thereafter all interest has to be accounted on receipt basis and not on accrued basis.

Table no. - 3.6

Income Recognition and Asset Classification Norms

Credit Facility	Basis for treating a credit Facility as NPA	Remarks
Term Loans	Interest on installment remains overdue for a period of more than 90 days from end of the quarter. Agricultural Advances :-In respect of advances granted for agricultural purpose were interest and / or installment of principal remains overdue for a period of more than two crop seasons for short duration crops and one crop season for long duration crops, the Advance should be treated as NPA.	Overdue :- An amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.
Cash Credits and overdrafts	The account remains continuously "out of order" for a period of more than 90 days i.e. outstanding balance remains continuously in excess of the sanctioned limit/drawing power or there are no credits continuously for a period of 90 days as on the date of Balance sheet or credits	Banks may not classify an account merely due to existence of some deficiencies, which are of temporary nature such as non-availability of adequate drawing power, balance outstanding exceeding the limit, non-submission of stock

	are not enough to cover the interest debited during the same period.	statements and non-renewal of the limits on the due date etc. However, stock statements older than three months should not be considered for drawing power and the working capital borrowal account will become NPA. If such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial positions is satisfactory. Further, an account where the regular/ adhoc credit limits have been reviewed/renewed within 180 days from the due date/date of adhoc sanction respectively will be treated as NPA.
Bills purchased and Discounted	The bills purchased/ discounted remains overdue for a period of more than 90 days.	Overdue interest should not be charged and taken to income account in respect of overdue bills unless it is realized.
Other Accounts	Any amount to be received in respect of that facility remains overdue for a period of more than 90 days.	
Government guaranteed advances	State government guaranteed advance would attract assets classification and provisioning norms. If interest and /or principal or any other amount due to the bank remains overdue for more than 70 days.	Credit facilities backed by guarantee of central government though overdue may be treated as NPA only when the government repudiates its guarantee when invoked. However, income shall not be recognized if the interest or installment has

		reminded overdue or the account has remained continuously out of order or the bills or any other facility has remained overdue for a period of more than 90 days.
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3.8.2 Assets Classification

The primary (urban) co-operative banks should classify their assets into the following broad group, viz -

- i) Standard Assets
- ii) Sub-standard Assets
- iii) Doubtful Assets
- iv) Loss Assets

Definitions -

1) Standard Assets -

Standard Asset is one which does not disclose any problems and which does not carry more than national risk attached to the business such an asset should not be an NPA.

2) Sub-standard Assets -

- i) With effect from March 31, 2005 an assets would be classified a substandard if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers/guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other

words, such assets will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

- ii) An asset where the terms of the loan agreement regarding interest and principal have been re-negotiated or rescheduled after commencement of production, should be classified as sub-standard and should remain in such category for at least 12 months of satisfactory performance under the re-negotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of this condition.

3) Doubtful Assets -

With effect from 31, 2005 an asset is required to be classified as doubtful, if it was remained NPA for more than 12 months. For Tier banks the 12 month period of classification of a substandard asset in doubtful category will be effective from April 1, 2008. As in the case of sub-standard assets, rescheduling does not entitle the bank to upgrade the quality of an advance automatically. A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, with the added characteristic that the weakness made collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Note - Consequent to changes in asset classification on norms w.e.f. March 31, 2005 banks are permitted to phase the consequent additional provision in each of the first two years and the balance in equal installments over the subsequent three years.

4) Loss Assets -

A loss asset is one where loss has been identified by the bank or internal or external auditors or by the co-operation department or by the Reserve Bank of India inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

3.8.3 Asset Classification for Co-operative Societies -

An asset is classified an NPA, if the installments are overdue for more than 9 months. The various classification and provisions to be made thereon are as follow -

Table 3.7

Asset Classification and Provision for Co-operative Societies

Asset classification	Provision required
Performing (standard) assets (overdue upto 9 months) (Reduced to 2 quarters (6 months) for F.Y. 2007-08 on wards.	Nil
Non performing Assets (NPA) sub-standard (overdues >9 months up to 21 months) (overdues > 6 months up to 18 months for F.Y. 2007-08 onwards)	5%
Doubtful (overdue > 21 Months) (overdue > 18 Months for F.Y. 2007-08 onwards)	10/15/20% for secured doubtful 0/5 upto 2 years/2-3 years > 3 years resp.
Loss (No chance of recovery)	50% for unsecured doubtful advances. 100%

Note - NPA provision for small loans upto Rs. 10,000/- per borrower need not be provided.

Table 3.8

Asset Classification

Category	Conditions to be satisfied	Provision Amount	Remarks
Standard Assets	* Does not disclose any problem and which does not carry any more than normal risks attached to business	General provision on standard assets as per R.B.I circular No. B.P. B.C. 53/21.04.048/2006-07, dt. January 31, 2007, is as under : <ul style="list-style-type: none"> • Direct advances to Agricultural and SME 0.25%. • Residential Housing Loan over Rs. 20 lack 1%. • Personal loans, credit card, capital market exposure, commercial and real estate loans and loans to systemically important. NBICs - ND 2.00% * All other loans and advances not included in above categories 0.40%.	Such an asset is not a NPA
Sub-Standard asstes	<ul style="list-style-type: none"> • Classified as NPA for a period less than or equal to 12 months. • Classification of an asset should not be upgraded merely as a result of rescheduling, 	* A general provision of 10% of total sub-standard assets.	In respect of accounts where there are potential threats of recovery of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed

	<p>unless there is satisfactory compliance of the required conditions at least for one year.</p>		<p>by borrowers, it will not be prudent for banks to first classify them as sub-standard and then as doubtful after expiry of twelve months from the date the account has become NPA. Such account should be straightway classified as doubtful assets or loss assets, as appropriate, irrespective of the period for which it has remained as NPA.</p>
<p>Doubtful assets</p>	<ul style="list-style-type: none"> • Remained NPA for a period exceeding 12 months. 	<ul style="list-style-type: none"> • 100% to the extent to which the advances are not covered by the realizable value of the security to which the bank has a valid recourse • Over and above the aforesaid, depending upon the period for which the assets has remained doubtful, provision on the secured portion to be made on the following basis: 	<p>It has all the weaknesses inherent in that of a sub-standard asset with the added characteristic that the weaknesses make the collection. Liquidation in full, highly questionable and improbable, on the basis of current known facts, conditions and values.</p>

		<ul style="list-style-type: none"> • Upto 1 years 20% • 1 to 3 years 30% • Over 3 years 100% 	
Loss Assets	<ul style="list-style-type: none"> • Loss asset is one where loss has been identified by bank, external or internal auditors or RBI inspectors, but amount has not been written off (wholly or partly) 	<ul style="list-style-type: none"> • 100% of the outstanding, should be provided for written off. 	<p>* If the assessed realizable value of the security is less than 10 percent of the outstanding amount the existence of security should be ignored .</p>