

CHAPTER - I

ROLE OF THE RESERVE BANK AND URBAN BANKING  
DEVELOPMENT IN INDIA.

## CHAPTER-I

### ROLE OF THE RESERVE BANK AND URBAN BANKING DEVELOPMENT IN INDIA

In this chapter, first section is devoted to review the role of the Reserve Bank. The Second Section deals with Development of Urban Co-operative Banks in India. The third section is concerned with scheme of the dissertation.

#### Section-I

~~Definition of an Urban Co-operative Bank was modified from time to time. Upto 1939, there~~ <sup>the</sup> ~~was definition of an Urban Co-operative Bank was modified from time to time, and there was hardly any distinction between an Urban Co-operative Bank and an Urban Credit Society as the term bank was loosely used by societies. In 1939, Bhasali Committee defined an Urban Co-operative Banks as an Urban Co-operative Societies having paid up share capital to the extent of Rs. 20,000/- and over and accepting deposits of money on current account or otherwise subject to withdrawal by cheque, draft or orders. The R.B.I. Act defines an Urban Co-operative Bank as a Co-operative Society (Other than PACCS) (i) the primary object~~

of which is the transaction of banking business, (ii) the paid up capital and reserves of which are not below Rs. 1 lakh and (iii) the by-laws of which do not permit admission of any other co-operative society as a member.<sup>1</sup>

The Genesis :

The banking industry in the country was organised on the model of the British Banks. Some of the emerging business houses, started forming banks to cater to the financial requirements of industries in their groups. Naturally, therefore, these were generally established in the port towns and cities which were the main business centres. The business policies and practices of these banks were mostly attuned to the requirements of big business and a few industries on the pattern of their British counterparts.

In these circumstances, therefore, the common man had no alternative except to resort to the usurious private credit. Indebtedness especially in the villages, increased to such an extent as to cause extreme unrest culminating in riots and revolts in any places. In such a situation, people started thinking in term of mutual help to overcome these difficulties. The alien Government also realised the need to take some measures to pacify people. This led to

the first Co-operative Societies Act of 1904 which enabled the formation of Co-operative Societies for disbursing agricultural loans. The Act, in fact, was proved to be useful in two ways.

- 1) The Act gave legal recognition to the efforts in this direction already under way in the last quarter of the 19th century.
- 2) The Act provided a boost to the formation of co-operative societies by persons belonging to different casts and communities.<sup>2</sup>

The Co-operative Societies Act, 1911, recognised the organisation of societies in the non-agricultural sectors too. Initially, small traders, middle class people, especially the salary earners and labouring classes, organised their own societies, which in later years paved the way for the formation of Urban Banks.<sup>3</sup> During the Pre-independence period since 1905, Urban Banks continuously grew in number owing to following factors :

- i) The failure of local joint stock banks gave an impetus to the growth of urban co-operative societies.<sup>4</sup>
- ii) Urban credit societies were eminently suitable institutional agencies for collecting local savings and providing financial accommodation to those who were in the clutches of money lenders.
- iii) Even the great depression of thirties did not hinder the development of urban banks mainly because the fall in urban incomes was not as steep as the fall in rural income.
- iv) Later, the economic boom created by the second world war (1939-45) provided a stimulus to the growth of urban banks.

Role of the Reserve Bank :

It is observed that role of the R.B.I. during the period from 1951 to 1964 was by and large passive in case of urban banking development owing to two factors :

1) The R.B.I. gave more attention to the agricultural credit co-operatives in as much as the major segment of the Indian co-operative movement consists of agricultural credit co-operatives. Moreover, owing to acceptance of proposals of the Rural Credit Survey Committee by the Government of India, the R.B.I. was assigned the crucial role of implementing the scheme of integrated credit with a view to building-up sound co-operative credit structure which could provide timely credit to the agriculturists for the development of agriculture.<sup>5</sup> Naturally, the R.B.I. did not play a significant role in urban banking development.

2) The urban co-operative banks since their organisation were dependent on their own resources and gained considerable success in tapping up local deposits. Owing to their self-reliant nature, they did not register any financial claims from the R.B.I. Naturally, this led to the automatic neglect of the urban banks by the Reserve Bank.<sup>6</sup>

Shift in Role of the  
R.B.I. since 1965 :

Before the application of the Banking Regulation Act 1949 to co-operative banks, the role of the R.B.I. with

regard to urban banks was negligible. However, one important action was taken by the R.B.I. in that it conducted a survey of urban co-operative banks mainly to study the pattern of financial resources of urban banks, the outlets for their investments and the factors underlying the success or failure in their working. Therefore, the first 10 years from the middle of fifties were mostly spent on analysing the position of urban co-operative banks.<sup>7</sup>

Shift in role of the R.B.I. took place from the March 1, 1966 after the application of the Banking Regulation Act 1949 to co-operative banks. After March 1966, when certain provisions of the Banking Regulation Act, 1949 were extended to co-operative banks, including urban co-operative banks, the Reserve Bank started inspecting urban banks either directly or through the concerned State Co-operative Banks. It also started receiving statutory returns prescribed under the Banking Regulation Act and rules framed there under. As per Act, urban banks were required to maintain necessary cash reserves. The control of the R.B.I. has not only improved the working of the urban banks but also enhanced the image of the urban banks among the public depositors.

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In 1967, the R.B.I. appointed a Working Group on Industrial Financing through co-operative banks. The working group submitted its report in 1968. In pursuance of the recommendations made in the report, the R.B.I. sanctioned loans to State Governments from 1969-70 from its National Agricultural Credit (long-terms operations) Fund for contribution to the share capital of urban banks. The Reserve Bank also extended to urban banks refinance facilities for the working capital of small scale and cottage industries under Section 17(2)(bb) of the Reserve Bank of India Act in respect of the 22 approved categories of industries from the year 1969-70. These refinance facilities were made available to provide an incentive to the financing of cottage and small scale industries by urban banks. The refinance facility is available only to such banks, whose financial position and working are satisfactory. The other conditions to be satisfied are : (i) overdues of the banks not to exceed 20% of the demand for the year or 10% of loans outstanding as on June 30. (ii) By-laws should specifically provide for admission of State Government/State Co-operative Bank as a member and collection of share capital from members atleast at the rate of 5% of the loans advanced to them.



The R.B.I. has also prepared a comprehensive manual exclusively for urban banks on different aspects of their working such as deposits, borrowings, loans and investments.

The R.B.I. has also started performing promotional role to assist national and State Federations of urban banks, State Co-operative Banks in conducting conferences for urban banks. Common problems of urban banks are discussed in such conferences.

Thus, efforts, during the period since 1966, appear to be concentrated on developing and equipping the urban banks for undertaking larger and larger responsibilities by making available to them, Government help, assistance and encouragement in increasing degree.<sup>9</sup> In this way, urban banks are controlled directly or indirectly the R.B.I. It is, now, the responsibility of the R.B.I. to co-operate and help in the daily work of urban cooperative banks. The relation between the R.B.I. and urban banks should not be as governor and governee.<sup>10</sup> On the contrary, it is necessary to have friendly and co-operative relationship between the R.B.I. and urban banks akin to that between the former and commercial banks.

## Section-II

### Development of Urban Co-operative Banks

During the planned period, diversification of loans portfolio, provision of credit at reasonable rates to small borrowers, high priority accorded for financing of weaker section of the community, good performance in the matter of recovery of loans, mainly caused urban co-operative banks to <sup>o</sup>grow not only in number but also in size. During the period from 1948-49 to 1959-60 number of urban banks increased by 52% from 815 to 1242, their membership and working capital increased nearly fourfold. The advances outstanding rose by 5 times and deposits increased by more than three times.

During the period since 1966 to 1977, total number of urban banks increased from 403 to 1023.<sup>11</sup> The membership of these banks substantially increased from 36 lakhs to 47 lakhs during the same period. Therefore, the average membership per bank increased from 3250 to 4100 during the period. However, the coverage of urban population by urban bank declined from 23% in 1966-67 to 21.5% in 1975-76 owing to increase in the urban population from 79 millions to 109 millions. The

operation of urban banks also showed a considerable progress. Share capital and reserves increased from Rs. 58 crores to Rs. 117 crores. Similarly, the deposits registered a significant increase from Rs. 153 crores to Rs. 519 crores. The loans and advances rose from Rs. 167 crores to Rs. 407 crores during the same period.

During the period from 1978 to 1982, the deposits registered a three fold increase. The deposits in urban co-operative banks increased by 25.5% per annum from Rs. 626.69 crores in 1977-78 to Rs. 1650.06 in 1981-82. Whereas the deposits of commercial banks increased by 19.2% per annum during the same period.

The loans and advances also registered more than three fold rise during this period as the loans and advances of urban co-operative banks rapidly increased from Rs. 496.51 crores in 1977-78 to Rs. 1425.11 crores in 1981-82. Number of urban banks also showed an upward trend in that it continuously increased from 1187 to 1258 during the same period. Owned funds registered about two-fold increase in as much as owned funds increased from Rs. 143.23 crores to Rs. 281.8 crores during the same period. Three important features of their working were :

1) It is to be noted that the deposits of urban co-operative banks came from the people of small means as the deposits upto 10,000 each forming nearly 60% of the total deposits.

2) Major part of their advances are generally found to be for small amounts of Rs. 5,000/- and less.

3) Over 60% of their advances were made to priority sectors like small-scale industries, retail traders, small business, small transport operators, professionals and self-employed.

This growth pattern reveals two important facts :

- a) The urban-co-operative banks have shown that they are the successful business organisations.
- b) They belong to small people. The deposit structure and loan portfolio show that their deposits came from small people and their loans have gone to the small people.

Regional Imbalance :

Out of the total 1281 banks in the country, as many as 996 were found in only 4 States of Maharashtra, Gujarat, Karnataka and Tamilnadu. Further, another 158 banks are in Andhrapradesh, Kerala, West Bengal and only 127 are located in remaining 15 States and Union Territory. This shows that there is a heavy concentration of these institutions only in few packets. Only Maharashtra and Gujarat alone account for 50% of the total banks. Even for their operations also, urban co-operative banks show wide variations from region to region. Even among States having a sufficient good number of banks, it is only in Maharashtra and Gujarat that the average level of operations of urban banks could be seen fairly high. It is further observed that 85% of borrowers of these banks exist only in 7 States.

Thus there is need to check this regional imbalance in the growth of urban-cooperative banks so as to wide-spread their benefits to this 1 neglected areas.

Priority Sector Advances :

At the macro level 60.4% of total advance of all the urban co-operative banks in the country have gone to priority



sector. Thus the working of Urban Co-operative Banks reveals that they have shown an excellent performance in giving their support to the development of priority sector in the country. Among the leading States, Karnataka tops the list where urban co-operative banks, have advanced 75.2% of their total advances to priority sector. In Maharashtra their priority sector advances is 69.4%. The priority sector advances of urban co-operative banks in Gujarat lags behind in giving support the development of priority sectors as compared to other advanced States.

At macro level retail trade has the highest share that is 24.4% in the total advances of the urban co-operative banks to the priority sector. This is followed by small scale industries where the urban co-operative banks have advanced 23% of their total priority sector advances. The education professional and self-employed persons have not received much support as they have received only 1.1% and 4.4% of the financial assistance from the urban co-operative banks respectively.

Today, the urban co-operative banking sector is a very strong significant component of the Indian Co-operative Movement. They are self-reliant and are functioning with

their own resources. They have built sizeable funds. They have generated a fair amount of surplus in their business. Their main sources of funds are the share capital by the members, the reserves and deposits. They have topped the savings in urban and semi-urban areas successfully and have collected a good amount of deposits.

Initially, these institutions came to satisfy the requirements of middle classes and lower strata of the petty traders, salaried class, self-employed, artisans etc. The objectives and the activities were outlined in the bye-laws of the urban co-operative banks. In the beginning, their lending was mainly for the consumption purposes, against certain securities. However, as time passed, their lending activities were diverted towards productive purposes. As the number of banks increased significantly, their funds became sizeable and the magnitude of their business increased notably, the urban co-operative banks came under the purview of Banking Regulation Act in 1966.

### Section-III

#### Scheme of Dissertation

The topic entitled, "WORKING OF KOLHAPUR MAHILA CO-OPERATIVE BANK LTD., KOLHAPUR" is selected for research study owing to following reasons :

1. Mahila Co-operative Bank constitutes an important source of loans mainly for females belonging to weaker sections in Kolhapur city. It is, therefore, pertinent to study its performance.
2. It was convenient for researcher to collect data pertaining to Kolhapur city.

#### Objectives :

The present research study is undertaken mainly to judge the performance of Mahila Co-operative Bank and to analyse impact of its loans and advances on incomes of its borrowers belonging to weaker sections of the society. The objectives of the study are :



- 1) To evaluate the performance of Mahila Co-operative Bank, Kolhapur.
- 2) To examine expenditure, income and profits of Mahila Bank.
- 3) To ascertain financial feasibility of loans and advances supplied by Bank to the borrowers belonging to weaker sections and to measure impact of loans on incomes of borrowers belonging to weaker section.

Methodology :

The data on the subject have been obtained from record and reports of Mahila Co-operative Bank. Similarly relevant information and data have been collected by undertaking a small sample survey in order to measure impact of loans on incomes of weaker sections.

In this study, simple statistical techniques such as growth index, proportions, average rate etc. have been made use of to ascertain desired results.

REFERENCES

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- 11) During the period since 1966, total number of urban banks appeared to be comparatively small due to modification of definition by R.B.I.