

Chapter II
REVIEW OF LITERATURE

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2.1 Introduction

Review of Literature plays pivotal role in understanding the significance, background & present situation related to the subject selected for research work.

Co-operative banks are the banks for the masses. They are root level institutions for cultivating the habit of savings in common people. The urban co-operative banks are established to provide loans & advances to salaried persons. The performance of Urban Co-operative banks is related with day to day life of society. This chapter has been divided in the following three sections:

1. The recommendations of Commission, Committees & study groups related to the banking sector appointed by Central Government. State Government & Reserve Bank of India.
2. The introduction of various laws passed by the Central Government & State Govt. which affect, regulate & control the day to day working of urban co-operative banks.
3. Summary of research articles written by the experts in the field of co-operative credit & published in the various periodicals such as daily, weekly, quarterly, magazines etc.

2.2 Commissions, Committees & Study Groups

2.2.1 Introduction

In case of any problem related authority appoints one or more persons to study all related aspects of the problem. The appointed persons might be in the form of a committee a working group or a commission.

In the co-operative banking sector many study groups, committees & commissions have been appointed to study the

related matters by central government or state government or Reserve Bank of India. In this section committees relating to the Co-operative credit sector have been taken into account.

2.2.2 Study groups, Committees, Commissions before Independence

1. Maclegan Committee 1915:

This committee was established on 8th October 1914 under the chairmanship of Sir Edward Maclegan. This committee recommended three tier structure of co-operative societies. Co-operative Societies were started to establish speedily in the urban area. Maclegan Committee in its report had expressed the view that these societies can perform their dual role of collecting savings of local people through deposits & satisfying their financial needs. This committee facilitated the importance of general banking principles to the higher & middle class people. This committee facilitated the need of establishing District Central Co-operative Bank to help the primary co-operative credit societies. This committees suggested to establish state Co-operative bank on state level.

2. Report by Reserve Bank of India 1939-40:

At the time of Second World War there had been created shortage of essential commodities in our country. At the same time economic field was at the stage of prosperity. Middle class people were needed money for purchasing the commodities & there aroused the need of credit supply. This encouraged for the establishment of the urban co-operative credit societies & urban co-operative banks. Large number

of these societies & urban co-operative banks were established. Their progress can be evaluated by Reserve Bank of India in the preview of the co-operative movements in India in 1939-40. "Urban co-operative credit societies & urban co-operative banks are the most important features of urban co-operative movement in India & make up to some extent for the observe of Joint stock banking facilities in the smallest towns."

2.2.3 Committees, Study Groups & Commissions After Independence

1. Rural Banking Enquiry Committee

This committee was appointed in 1950 under the chairmanship of Mr. P. Das. This committee expressed in their report that urban co-operative banks can fulfill the credit requirement of not only the urban people but also the rural people. This committee suggested to make banking facilities available in rural areas to develop the banking business.

2. V.P. Varde Committee 1963

Urban co-operative banks are satisfying the economic needs of middle class people. Considering this factor central government appointed. Study Group on credit Co-operatives in the Non-Agricultural sector in 1963 under the chairmanship of Mr. V.P. Varde. This committee recommended as following:

1. The savings amount collected by the Urban Banks can be used for the industrial purposes.

2. The urban banks can develop general banking principles among the workers, middleman, & common people in the Urban & semi-urban areas through the encouragement of habit of savings.
3. These banks can give assistance for the industrial development of our country.
4. These banks can release the middle-man from the trap of money lender by giving loans at lowest interest rate.
5. This committee has given suggestions in respect of definition of minimum number of members, area of operation, minimum share capital, election of Board of Directors, training to the directors for the urban co-operative banks.

3. Committee on Urban Co-operative Banks 1979:

Reserve Bank of India appointed this committee in September 1977 to survey the urban co-operative banks & to suggest remedies to improve their efficiency under the chairmanship of Mr. Madhav Das. This committee presented report in April 1979. This recommendations of this committee are as follows:

1. To inspire the establishment of Urban Co-operative Banks at small towns like Taluka place.
2. The efficient urban co-operative credit banks.
3. These banks should give training to their employees.
4. The loans should be given for production functions and small entrepreneurs.

4. High Power Committee on Urban Co-op. Banks:

This committee was appointed in 1999 under the chairmanship of Mr. K. Madhav Rao. The recommendations of this committee are as under:

1. Licensing policy for new urban co-operative banks:

The regulator should prescribe the twin criteria for entry i.e. strong starting capital & requisite norms for promoters eligibility.

2. Corporate Governance:

At least two directors with banking experience or relevant professional background should be present on the Board of urban Co-op. Banks

3. Extension of area of operation:

New urban Co-operative banks can extend their area of operation to the entire district of their registration & adjoining district.

4. Branch Licensing policy:

The RBI should extend same freedom as applicable to commercial banks in opening branches for urban Co-op. banks. It is necessary for urban co-op. banks that it complies with the board norms relating to capital adequacy provision for NPA; profitability & priority sector advances.

5. Policy and unlicensed banks:

According to section 5 of Banking Regulation Act. A primary credit society with paid up capital & reserve of Rs. 1 Lakh & with the main objective of carrying banking business automatically secures status

of Urban Bank. The Committee recommended amendment to the Act , so as to prevent such automatic transformation of primary credit societies into urban co-operative banks.

2.3 Laws Relating to the Co-operative Credit & Banking sector

Introduction of related laws passed by the central & state Government has been played crucial role in regulation & control of day to day working of banks & credit societies.

1. Banking Regulation Act 1949:

The Banking Regulation Act was passed in 1949 with the object of overall development of banking sector. This act is applicable to all types banks in the country.

This act included provisions about establishment of banks, their organization management functions, raising of capital, investment of funds deposits, loans, statements, distribution of profit, accounting, meetings, voting rights, branch audit report etc.

This act has been applicable to the Co-operative banks from 1st March 1966. Rule No. 10 & 17 in this act are not applicable to the co-operative banks.

2. The Maharashtra State Co-operative Societies Act 1960:

This act includes provisions and rules about the working of co-operative credit societies, duties and responsibilities of the members. This act has been applicable form 26th Jan 1960 to the whole Maharashtra State.

Objectives of this Act:

1. To give a legal status to the co-operative credit societies.
 2. To facilitate the day-to-day working of co-operative credit societies according to Laws.
 3. To facilitate to work as per accepted principles of co-operation like open & voluntary membership, democratic control, service motive.
3. Reserve Bank of India Act 1934:

RBI Act has been passed in 1934, and RBI came into existence on 1st April 1935 as a Central Bank of India. RBI performs various functions such as currency regulation, Government Bank, Banker's Bank, fixation of bank rate working as clearing house, data collection & research.

4. Sale of Goods Act 1930:

Banks offer loans on the mortgage of properties & goods. If the loan is not returned the bank has to sell mortgage goods. The bank must take into account provisions of sale of goods act.

2.4 Review of Research Articles

2.4.1 Articles published in periodicals

The articles written by experts in the field of co-operative credit and in the field of co-operative banking as well as published in periodicals such as newspaper, magazines, special issues have been selected for this purpose.

1. B.G. Bhatnagar's Article on Urban Bank.

B.G. Bhatnagar stated that, the name 'Urban Bank' neither implies that urban banks are in no way to supply a rural credit nor does it means that agriculturists cannot be

members of such societies. There is no hard and fast rule that urban bank should be composed exclusively of non-agriculturists, though in practical life they do generally consists exclusively of non-agriculturists. And as these societies are found mainly to serve the interests on non-agriculturists, they naturally differs in their general policy and aims, in business methods and organizatoin and even in spirit, from those organised mainly for agriculturists.

2. Pandit P.T. – Article on "Implication and impact of co-operative Law".

Pandit P.T. has attempted "to examine the implication and impact of Co-operative Law in respect of urban co-operative banks in Maharashtra". The main objective of this study was to examine that, what are the implication and impact of co-operative law which are applicable to the urban co-operative banks in Maharashtra.

The study has concluded that, all the provisions in the Co-operative Act are applicable to urban co-operative banks. The concluding remark of this study was that the urban co-operative banks basically and primarily are co-operative organisations and therefore not only the provisions of co-operative law but also principles of co-operation and philosophy have also implications and impact on urban co-operative banks.

3. Mr. Deshpande R.S. Article in "Customer Services in Bank".

Mr. Deshpande R.S. in his article "Customer Services in Banks" state that "Banking is a service industry. Banks

should change their attitude towards their customers and the bank employees and officers should change their behaviour. For this purpose the training and personality development programme should be arranged. To survive in the competition, the urban co-operative banks have no option except providing excellent services to the customers.

4. Dr. Bhosale Sanjaykumar – Article on "The Banks will be successful, if the employees are trained".

Dr. Bhosale Sanjaykumar in his article, "The Banks will be successful, if the employees are trained" writes that, "Employees of the co-operative banks are the basic element of the bank. The trained and efficient staff, selfless directors are essential for the progress of the bank. In the co-operative banking business, trained employee is the need of time. Training is a widely accepted practice. Training makes employees more effective and productive. Training is an organised procedure by which employees learn knowledge and acquire the skills they need for a definite purpose".

Training is a continuous process and it increases success rate of the bank. The excellent customer services will be possible with the help of trained employees. Thus the trained employees make a better economic use of materials and equipments.

2.4.2 M.Phil Dissertations

- 1. Mr. Wadate Vijay Janardhan** in his M.Phil Dissertation titled as "A analysis of working of Rayat Sevak Co-operative

Bank Ltd., Satara” submitted to Shivaji University, Kolhapur mentioned that “Co-operative Credit is guided by the principles of mutual help and thrift and is actuated by the service rather than profit.”

The object of the study was to analyse the performance of Rayat Sevek Co-operative Bank Ltd., Satara. He suggested that every co-operative bank should arrange a co-operative week and celebrate by way of conducting various lectured, work-shops, get-together and exhibitions.

2. **Miss. Jadhav S.S.** in her M.Phil Dissertation titled as, “Comparative Study of Kolhapur Mahila Urban Co-operative Bank and Kolhapur Janata Urban Co-operative Bank” submitted to Shivaji University, Kolhapur, writes that “Organisation and growth of Mahila Bank has now become one of the thrust areas of urban co-operative banking. The moment which is gaining momentum in the state like Gujarat, Maharashtra, Karnataka has become a vehicle of women. Some states like Karnataka, Madhya Pradesh have provided incentives for the establishments of Mahila Banks.

2.4.3 Ph.D. Theses

1. **Mr. Zadesh Hessam Hedayat** – in his Ph.D. Thesis titled as, “A Study of the Urban Co-operative Banks in Maharashtra with Special Reference to the urban Co-operative Banks in Pune City” submitted to Pune University, Pune in May, 1993 writes that,

“The co-operative movement in Maharashtra provides a model to the country in respect of qualitative and quantitative aspect. Maharashtra is leading in urban co-

operative banks among other states in the country. In Maharashtra, old 'Bombay Province' is the pioneer among all other states in the development of urban banks. The urban banks in Maharashtra compete with commercial banks and they are also able to attract more customers.

2. **Mr. P.S. Sahasrabudhe** has carried research on "Role of Urban Co-operative Banks in Maharashtra State" for Ph.D. thesis submitted to Dr. Babasaheb Ambedkar Marathwada University, Aurangabad in 1993.

The object of the study was, "to study the regionwise growth and development of urban co-operative banks in Maharashtra State."

He had concluded that, there is inter state imbalance in the development of urban co-operative banks in Maharashtra. The urban co-operative banks in Maharashtra had significant growth rate of deposit mobilization, as the annual rise in the deposit was about 20 to 22 per cent. He observed in his study that many of the older banks do not satisfy certain viability norms laid down by Reserve bank of India. He has also observed that most of the urban co-operative banks in Maharashtra are earning profits.

3. **Mr. Jagtap S.N.** in his Ph.D. Thesis titled as, "A Study of Working on Non-Agriculture Co-operative Credit Societies in Satara District" submitted to Shivaji University, Kolhapur in December 2002 writes that,

"In order to take active interest in the meetings by the members, it is necessary to circulate the notice and agenda of the meeting to the members well in advance and state them

the importance of attending the meetings. Efforts should be made by Board of Directors to attend the meetings by all the members. And members should have attention towards the progress of their organization. Some minimum criteria should be fixed for the qualification of Directors. The care should be taken to elect devoted members on the "Board of Directors"

4. **Mr. Shalgaonkar H.D.** in his Ph.D. Thesis titled as, "A Study of working of Urban Co-operative Banks in Satara Districts" submitted to Shivaji University, Kolhapur in May, 1995 writes that,

"A Co-operative Bank is modern phenomenon which was first witnessed in Germany and therefore it is held that Germany is the birth place of co-operative credit movement in the world. Basically, number of the urban co-operative banks in India were organized as credit co-operative societies and later converted into urban co-operative banks."

Reference:

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- 3) Deshpande R.S., Customer Services in Bank, Management Development Programme Documentation organized by VAMNICOM, Pune, January 1993
- 4) Pandit P.T., Implication and Impact of Co-operative Laws in respect of Urban Co-operative Banks, The Maharashtra Co-operative Quarterly Vol. LXXIV, No. 2 October 1990