

**CHAPTER 2**

**BANKING INDUSTRY IN INDIA : A REVIEW**

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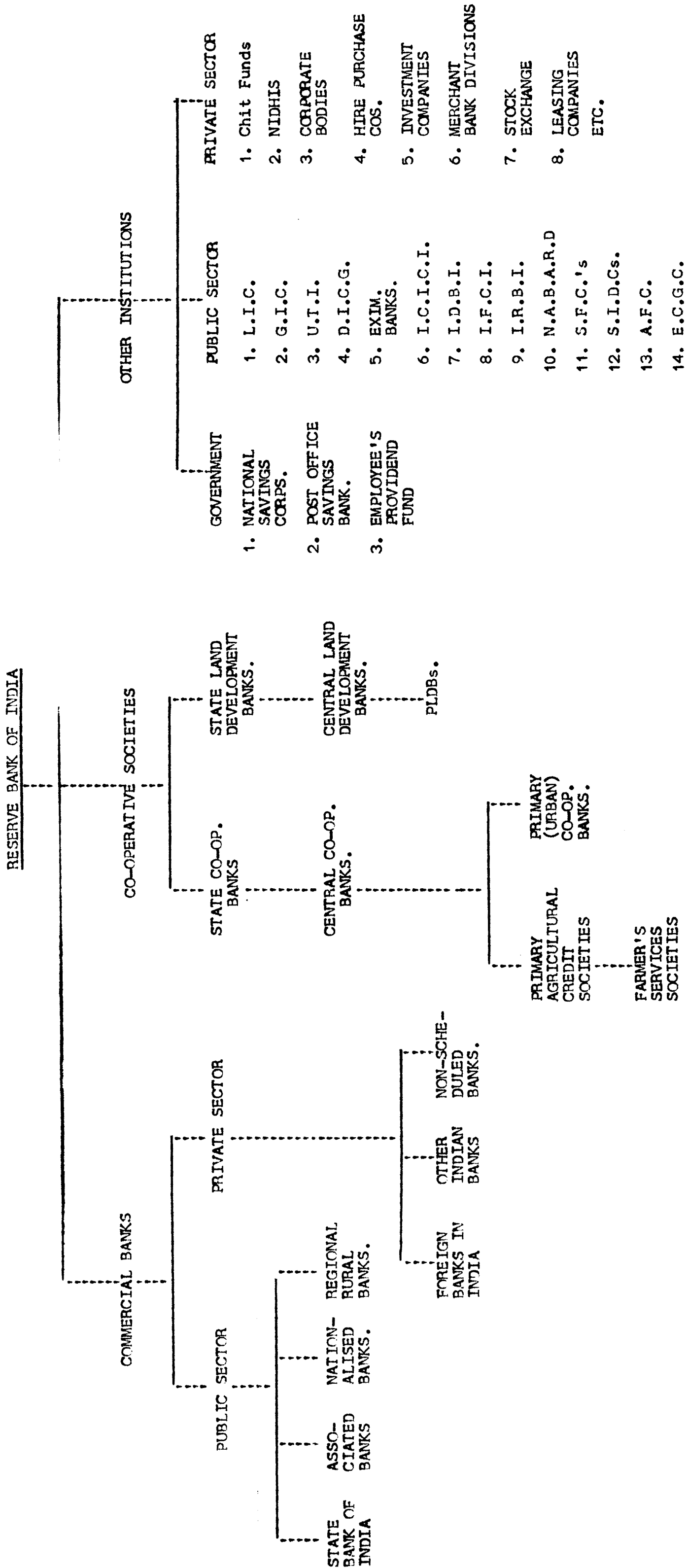
CHAPTER 2BANKING INDUSTRY IN INDIA : A REVIEW2.1 INTRODUCTION

Commercial Banks in India continue to remain in the forefront of our financial system. On the one hand, banks have been instrumental in inculcating the banking habits among the people from different strata of the society, mobilising and holding deposits of crores of people, business units and Government. They make funds available through their investing activities and lending to needy people, business units, Government and Government agencies. The banks are assisting millions of poor people with different schemes and enabling them to contribute their mite to country's around development. In the process of their activities they have facilitated flow of goods and services from producer to consumers in India and abroad and the financial activities of Central and State Governments. Thus Indian Banking System plays a vital role in the country's economy.

2.2 INDIAN BANKING SYSTEM

In India banking system has developed three areas State, Co-operative and Private. Rural and Urban area is well served by the co-operative sector as well as by corporate bodies and after nationalisation of major commercial banks they have also contributed significantly to the service of society. The structure of banking

**TAB. NO. 2.1 : STRUCTURE OF INDIAN BANKING SYSTEM**



SOURCE : INDIAN BANKING - NATURE AND PROBLEM, 1987

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institution is exhibited in following Chart No. 2.1

### 2.3 COMMERCIAL BANKING

Prof. Sayer gives a clear definition of Commercial banking :

"Banks are institutions whose debts - usually referred to as 'bank deposits' - are commonly accepted in final settlement of other people debts".

According to the Banking Regulation Act, 1949, "Banking means the accepting for the purpose of lending or investment of deposit of money from the Public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise".

The Business of Commercial Bank is primary to hold deposits and make loans and investment with the object of securing profits for its shareholders.

#### COMMERCIAL BANK AND ECONOMIC DEVELOPMENTS

Commercial Banks have come to play a significant role in the development of countries. In fact, without the evolution of Commercial Banking in the 18th and 19th Centuries. The important services provided by commercial banks and show how banks play a significant role in the economic development of the nation.

1. Banks are necessary for trade and industry. All economic progress in the last 200 years or so has been based on extensive trade and industrialisation, which could not

have taken place without the use of money. But money does not mean coins and currency notes only, since these form only a small proportion of the total volume of money supply it is the bank deposits on which cheques can be issued that constitute the important source of money, without the introduction of the bank cheque and the bank draft, it would be impossible to transact large scale trade between different countries.

2. Banks Encourage the right type of industries :

By giving loans and advances both for short and long periods, banks provide funds to the right type of industries to secure labour and other factors of production.

3. Banks help in Distribution of Funds between Region :

Another way by which commercial banks encourage production and enhance national income is by transference of surplus funds from regions where they are not wanted so much, to those regions where they can be more usefully and efficiently employed. This distribution of funds between regions has the effect of opening up backward regions and paving the way for their economic development.

4. Banks create Credit and help in Business Expansion :

Fluctuations in bank credit have an important bearing on the level of economic activity. Expansion of bank credit will provide more funds to entrepreneurs and hence, will lead to more investment.

5. Banks Monetise Debt :

A very important service the Bank render to the community is the creation of demand deposits, in exchange of debts of others. Commercial banks buy debts of other which are not generally acceptable as money, either because the debtors are not sufficiently known or because their debts are repayable only after a period of time.

6. Banks promote Capital Formation :

Commercial banks afford facilities for saving and thus encourage habits of thrift and industry among people. They mobilise the idle and dormant capital of the community and make it available for productive purposes. Economic development depend upon the diversion of economic resources from consumption to capital formation.

7. Banks influence Interest Rates :

Banks can influence economic activity in another way also. They can influence the role of interest in the money market through its supply of funds. By offering more or less funds it can exert a powerful influence upon interest rates.

8. Role of Banks in Developing Countries :

In a developing country like India banking facilities are highly inadequate. The vast number of people living in villages and towns do not have any banking facilities and consequently all their savings

are wasted. The opening Banks in this area and when<sup>17</sup> put in the hands of entrepreneurs, will now function to help the private sector industries.

This Bank have come to occupy an important place in the industrial and commercial life of nation. A developed Banking Organisation is necessary condition for the industrial development of a country.

### OBJECTIVES OF COMMERCIAL BANK

1. Registered under the Indian Banking Companies Act and the working and business is governed according to that Act, the regulator and controller of the Commercial Bank in India is the Reserve Bank of India in general.
2. Constitution and Area of Operation :  
Business is regulated further in accordance with the Memorandum and Article of Association, which are the two parts of the constitution.
3. No such structure or pattern exists amongst commercial banks. Each Bank is independent having its own branches spread over various states.
4. Profit Motive :  
Profit is the prime consideration. Share holders are interested only a securing the highest rate of dividend on their share amount.
5. Maximum Dividend share holders are only benefited out of the profits.



6. Money is more important than man. Tangible security is taken into consideration for granting a loan. Loans are mostly granted against Tangible security.
7. The advances are generally of large amounts but only to big few customers, for higher returns, more business less administrative cost, and good security.
8. No such aim exists Deposit are mostly tapped from outsiders.
9. Share is freely transferable it can be sold in open market.
10. Capitalistic management one share one vote.
11. Advances are granted to members as well as to the large number of non members.
12. The rate of interest charged on advances is comparatively high.
13. The objectives of the Banking Regulation Act are,
  - (i) Elimination of objectionable features in the working of commercial banks.
  - (ii) Ensuring observance by them of sound banking practices.
  - (iii) Promotion and development of commercial banking on sound and healthy lines.
14. Commercial banks cater to the needs of the urban people, Head offices and branches in cities and big towns.

15. The ultimate borrowers are mostly big manufactures business men and joint stock companies.
16. Unhealthy Competition.
17. No supervision is considered necessary.
18. In the event of liquidation surplus assets are distributed amongst the shareholders.
19. Large fluid resources are not required comparativey.
20. Co-operative Bank is immune from the unrest employees.

#### COMMERCIAL BANKS IN INDIA

Banking in India on Western lines had started from the beginning of the 19th Century. The First Joint Stock Bank was established in Calcutta entitled "Bank of Hindustan" and was under European management. But The Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) were started with the financial participation of the Government. These banks were called the presidency banks and were given the 'right of note issue' in their respective regions. The first purely Indian Joint Stock Bank was the oudh Commercial Bank which came into existence in 1889.

It was followed by the Punjab National Bank in 1894 and the People's Bank in 1901. The 'Swadeshi Movement of 1905' gave great stimulus to the starting of Indian Banks. Its growth was quite slow during the first half of the century. But after independence, the Indian Banking System recorded a

progress. This was due to planned economic growth, increase in money supply, growth of Banking habit, control and guidance by the Reserve Bank of India and the nationalisation of top banks etc.

### FUNCTIONS OF COMMERCIAL BANK

In modern days, commercial banks undertake various functions. The important functions are classified into two categories as under.

1. Primary functions and
2. Subsidiary functions

#### 1. Primary Functions :

Following are the primary functions of a bank.

- i) To receive deposits of money from the public repayable on demand or otherwise, and withdrawable by cheques drafts, order or otherwise, such deposits include -
  - a) Fixed Deposit
  - b) Saving Deposit
  - c) Current deposits and
  - d) Other deposits including seasonal, deposits called deposits.
- ii) To invest the funds and/or to grant loans and advances to customers. Loans and advances include the following.
  - a) Direct loans and advances
  - b) Cash Credit
  - c) Overdrafts
  - d) discounting of bills etc.

This function means an investment and employment of funds by a bank in profitable manner.

3) To issue currency notes. In India, the right of notes. - issue has been entrusted to the Reserve Bank of India, which is the central bank of our nation. In almost all countries, this function has been taken away from the commercial banks and entrusted solely to a central bank of the country concerned.

### SUBSIDIARY FUNCTIONS AND MISC. SERVICES

Apart from the above primary functions of linking up the lender and borrower of liquid capital, the commercial banks perform many other supplementary functions which are also of considerable significans and utility to their customers and public. Such functions may be grouped under two heads namely -

a) Agency services

a n d

b) General utility services.

#### AGENCY SERVICES

1. To collect cheques, bills of exchange, promisory notes etc., from the customers and make payment thereof.
2. To execute standing orders of the customers regarding payments and/or collection of regular nature for example -

- a) A bank may undertake the work of payment of insurance premium and subscription to club.
  - b) A bank may undertake the work of collection of dividends and interest on stocks and shares.
3. To act as a surety or guarantor.
  4. To purchases and or sell the securities and to manage the investment.
  5. To transfer the funds from one place to another.
  6. To act as a trustee or executor.
  7. To act as an agent, correspondent or representative of its customers.

#### GENERAL UTILITY SERVICES

Now a days, a commercial bank performs many general utility or miscellaneous services, the important of which are as follows :

1. To issue personal and commercial letters of credit.
2. To transact foreign exchange business of its customers. Such services include discounting foreign bills, arranging transport, insurance etc.
3. To accept bills of exchange on behalf of customers.

4. To provide safe deposits vaults for the safe custody of valuable and securities.
5. To collect information about the customers and to act as a referee as to the respectability, reputation and financial position of the customers (in special cases only).
6. To supply statistics and information about banking, trade, commerce, industry etc. and provide advisory services etc.

#### 2.4 BANKING LEGISLATIONS IN INDIA

In our country the Government has been taking keen interest in the development of sound banking practices and meeting the genuine difficulties of depositors and the borrowers. Some of the important legislations which govern banking business in our country are as follows :

##### 1. THE BANKING REGULATION ACT 1949 :

The Act has been framed with the objective of regulating banking business in our country. Prior to the passing of this Act the banking companies were governed by the provisions contained in part XA of the Indian Companies Act 1913. But these provisions proved to be inadequate in regulating the rapidly growing business of banking institutions and hence a separate Act was passed.

2. THE COMPANIES ACT 1956 :

Though a separate Act for regulation of banking companies has been enacted, the general provisions of the companies Act are still applicable to banking companies because the provisions of the Act are in addition to and not in derogation of the companies Act, 1956.

3. THE STATE BANK OF INDIA ACT 1955 :

The Act governs the S.B.I. There is a separate Act for governing its seven subsidiaries.

4. THE BANKING COMPANIES ACT 1970 :

The Act has set up 14 "new banks" by Nationalising 14 "old banks" as given in the Act.

5. THE BANKING COMPANIES ACT 1980 :

The Act has come into effect from April 15, 1980. The Act has set up six 'new banks' by Nationalising six existing banks as given in the Act.

6. THE RESERVE BANK OF INDIA ACT 1934 :

The Act governs the working of the Reserve Bank of India which is the Central Bank of the country. It has to operate "the currency and credit system of the country to its advantage" and also administer the provisions of Banking Regulation Act 1949. The bank is vested with

supervisory authority and with power to enforce on all bank (including National Banks) monetary discipline.

#### 7. THE REGIONAL RURAL BANK ACT

The Act has been enacted for incorporation and regulation of the Regional Rural Banks. It has come into effect from 26th September, 1976.

#### 8. THE NEGOTIABLE INSTRUMENT ACT 1881 :

The Act is applicable to negotiable instruments, i.e. promissory notes, bills of exchange and cheques. These instruments are used to a great extent in the modern banking world.

Besides the above Acts the Interest Tax Act 1974. The Indian Contract Act, The Indian Stamp Act, The Bankers Books Evidence Act etc. also regulate the banking business. Though there are only two Acts namely (i) The Negotiable Instruments Act and (ii) The Banking Regulation Act, mainly governing and regulating the banking business.

#### 2.5 PROGRESS AND PROBLEMS OF BANKING

The banking sector has expanded in a phenomenal manner after the nationalisation.

The objective behind this nationalisation of Banks are briefed below :-

The objectives and operational implications of the Nationalisation of 21 major banks are as follows :-



- (a) Considerably spread their branch net work to all parts of the country and should not remain confined in urban and metropolitan areas.
- (b) Mobilise funds from all sections of the society by framing deposit schemes tailored to suit the different segments of the society.
- (c) Deploy funds in all productive endeavours big or small so that production effort becomes broad based.
- (d) Pay particular attention to the credit needs of hundreds of thousands of people engaged in agriculture and small business.
- (e) Through these measures, reduce regional and sectoral imbalances in economic development and standard of living.

The importance of these objectives and the efforts made by banks to achieve them in the North Eastern Region would be better appreciated, if we compare the present trend with situation which prevailed prior to Nationalisation.

TABLE NO. 2.2

NATIONALISATION OF MAJOR COMMERCIAL BANKS

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1.	Allahabad Bank	Calcutta H.O.
2.	Andhra Bank	Hyderabad
3.	Bank of Baroda	Baroda
4.	Bank of India	Bombay
5.	Bank of Maharashtra	Pune
6.	Canara Bank	Bangalore

7. Central Bank of India Bombay
  8. Corporation Bank Mangalore
  9. Dena Bank Bombay
  10. Indian Bank, Madras
  11. Indian Overseas Bank Madras
  12. New Bank of India, New Delhi
  13. Oriental Bank of Commerce, New Delhi
  14. Punjab National Bank, New Delhi
  15. Punjab & Sindicate Bank, New Delhi
  16. Syndicate Bank, Manipur (K)
  17. Union Bank of India, Bombay
  18. United Bank of India, Calcutta
  19. United Commercial Bank, Calcutta
  20. Vijaya Bank Bangalore
  21. State Bank of India Bombay
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#### PHENOMENAL PROGRESS OF BANKING

As on 31st December 1988 the aggregate deposits of Banks were at Rs. 1318230 million and the gross bank credit stood at Rs. 877450 million. At this level, there has been an increase of 19.2 percent in deposits and 20.9 percent in credit over the levels of previous year. The banking system may achieve a deposit level of Rs. 1,600,000 million to Rs.1650,000 million by March 1990, implying an annual growth rate of around 17 percent in 1989 and 1990.

The banking sector has made significant progress in the rural sector. During the period July 1969 to March 1987.

While the number of banking offices grew from 8321 to 53565, those serving the rural areas increased from 1860 to 29,920. By 1990-91 the country may have more than 30,000 rural branches of commercial banks, 196 regional rural banks with their own branch network and some 890 co-operative banks.

The report on trend and progress of banking in India for 1987-88 shows that the deposit growth during 1987-88 was 16.1 percent compared to 17.5 percent in the previous year. Deposits in rural branches went up from Rs. 1450 million in 1969 to Rs. 173820 million in 1988, reflecting a 119 fold rise. Deposit with the semi rural branches rose from 10240 million to Rs. 258,220 million in the period. The share of rural deposit went up from 3.1 percent to 14.5 percent.

The share of agricultural and allied activities in the institutional finance has been significant. During 1980-86 loan outstanding for the scheduled commercial banks in this sector increased more than three times from Rs. 24,550 million to Rs. 81170 million, while the total amount of direct finance from all the institutional sources grew from Rs. 62,130 million to more than Rs.158.000 million.

Commercial banks required to reach, by March 1985, a target of 40 percent of total advances to priority sectors which include agriculture and a target of 16 percent of direct finance to agriculture. By December 1987 the actual levels reached were 45.4 percent and 16.8 percent respectively.

TABLE NO. 2.3

TABLE SHOWING COMPOSITION OF INDIAN BANKING  
IN INDIA (1987)

Types of Banks	No.of Banks
1. Public Sector Banks	28
(a) State Bank Group	8
(b) Nationalised Bank	20
2. Private Sector Banks	51
(a) Foreign Banks	21
(b) Other Private Banks	30
3. Regional Rural Banks	196
4. Licenced co-operative Banks	889
Including eight State Co-operative Banks.	
5. District Central Co-operative Banks	36
6. Primary Co-operative Banks	845
Total	<u>2,045</u>

Source : Facts for you, June 1989.

Foreign banks and Regional Rural Banks experience rapid growth in deposits of 30 percent during 1988, while the nationalised banks reported a growth rate of only 19.3 percent and SBI and its associates a growth rate of 16.9 percent. Regarding advances Foreign Banks have topped with

a credit growth of 35.4 percent followed by RRBs at 26.3 percent. SBI and its associates 22.5 percent and Nationalised banks 18.7 percent. Five RRB came into being in 1975 with the specific objectives of serving the rural poor. Their number increased to 194 by 1986 with 12,838 branches covering 351 district in 1986, their overdues as percentage to outstanding advances stood at 24.48 as against 17.04 in 1980. The credit deposit ratio in 1985 stood at 1.31.

Most RRBs are in the red because in increased establishment cost, low income yielding investment, limitations of deposit mobilisation and inadequate training and lower salary structure. The total deposits of 12,838 branches of RRBs in 1986-87 stood at only Rs. 17,150 millions as compared to those of the 17,000 rural branches of commercial banks amounting to Rs. 126,600 million. The government has taken the decision to form a National Housing Banks which will be the apex body for providing refinancing facilities to lending institutions against housing loans. It is hoped that by making available fairly long term credit on reasonable terms, housing activity would be intensified.

#### PROBLEMS

Banks capacity to recycle their funds has been crippled by mounting overdues and locking up of funds. Indeed, about 20 percent of banks credit has been locked up in sick units. The agricultural overdues in rural areas now stand at 50 percent. A number of factors have contributed to the obnoxious phenomenon of mounting overdues. These include

crop failure, wilful default, misutilisation of loans and laxity in supervision. As on June 30, 1987, the total overdues of public sector banks stood at around Rs. 97,330 million constituting 16.8 percent of the total outstanding overdues.

The priority sector lending has crossed the target of 40 percent (45.8 percent by March 1988) of total bank credit in the country. Yet, there are marked regional inequalities in such lending by commercial banks. Banks have been asked to achieve a credit deposit ratio of 60 percent. In the case of rural branches, the target achieved was 64.4 percent in 1988, but in the case of semi rural areas, the performance was poor at 51.8 percent in semi urban areas, the percentage stood at 53.9 in 1986. It is only the southern region that could achieve a credit deposit ratio of 60 percent other regions are lagging behind the target.

## 2.6 CO-OPERATIVE BANKING IN INDIA

England is the birth place of consumers co-operation started by Rochdale pioneers, Co-operative Banking, originated first in Germany, and its Pioneers were Herr Schulze, and Herr F.W. Raiffersich. After their retirement from the government service, both started social work in their native places. Schulze found that the greatest need of the poor people was the provision of credit, but at the same time came to the conclusion that no one could help them unless they tried to stand on their own legs and by self help organise them selves to obtain it. So in 1860 he founded

his first loan society in his own native town.

In 1904, the co-operative movement was started in this country largely with a view to provide agriculturists with finance required for agricultural operations at reasonable rates of interest. The co-operative society has to take the place of the money lenders and provide cheap loans to the farmers for productive purposes. Even though many types of co-operative societies have since, been started, particularly for the artisans and others, the most common form of such societies deal in rural credit and therefore, we shall be dealing with the history and the present position of such societies.

Co-operation was started in India as a remedy of the proverbial ? Poverty of the millions of small peasants. It was found that inspite of the rapid growth commerce and industry the economic condition of the peasants had not been progressing.

It is on the basis of the recommendations of this committee that the co-operative credit societies Act 1904 was passed and societies were classified as rural and urban. Since then several committees were set up and their recommendations have been given effect to, now almost all the states have passed their own Acts regarding the co-operative Banks except the centerly administered territories, and a variety of co-operative banks have been established all over the country.

### CO-OPERATIVE BANK

Banking is defined in the Indian Banking Companies Act as accepting for the purpose of lending or investments, deposit of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft order or otherwise, and a bank is one which does the banking business.

According to Hart "A banker is one who, in the ordinary course of his business honours cheques drawn upon himself by persons from and for whom he receives money in current account.

A co-operative bank is one which performs the above functions on a co-operative basis. Co-operative as a "Which is in position to deal with the small man on his own terms accepting the security he has and without drawing on the protection of the rich.

Co-operative means working together, since, the dawn of human society co-operation has been born, social structure and the very existence of society is impossible without co-operation. In co-operation human qualities are important. Man is more important than money. People join a co-operative bank as human beings and not as providers co-operative banks also are helpful in the development of national economy. The co-operative banks are trying to meet the requirements of persons of small means.

Co-operative banks in India may be divided into two distinct types. The latter are banks in true sense of the

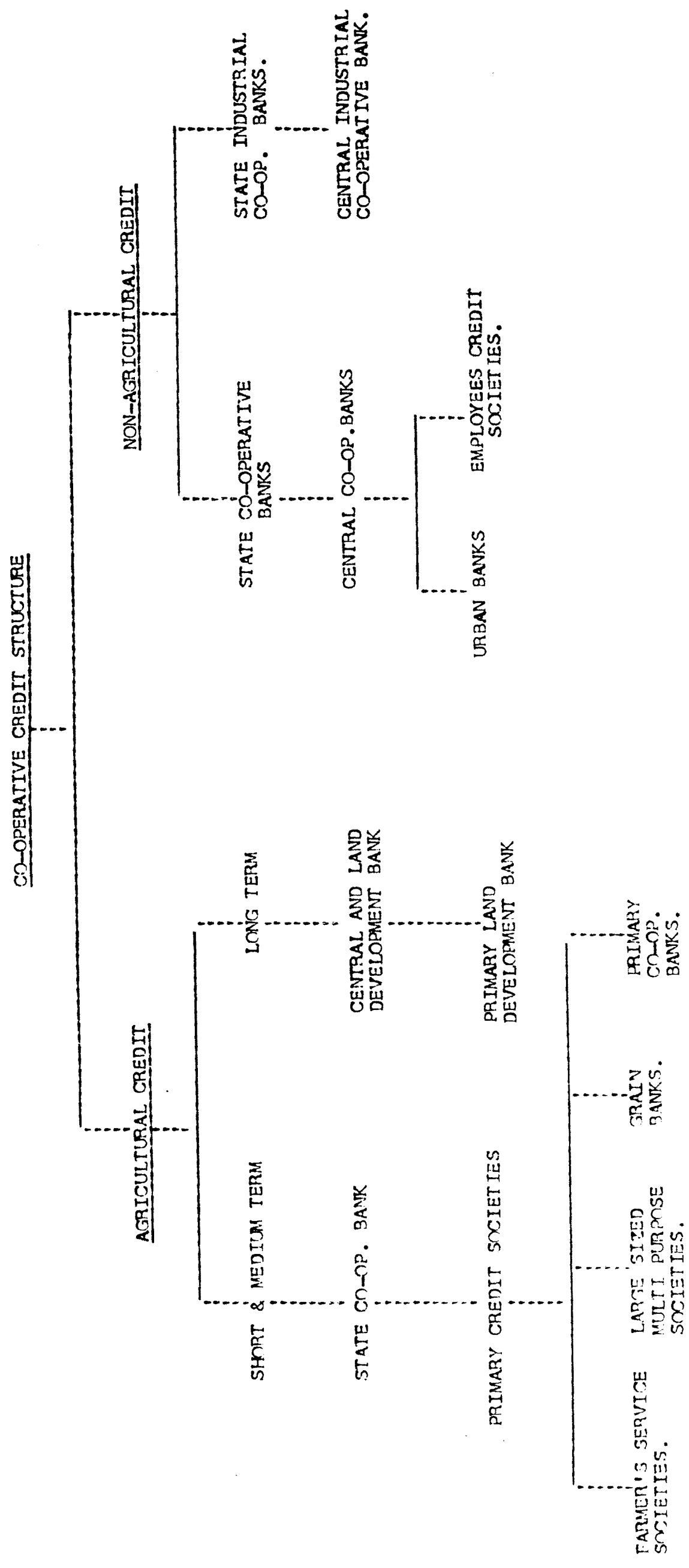


term, since they conform to the definition of a bank given in the Banking Companies Act. Primaries do not strictly conform to the definition of Bank. But since they partly perform the function of a bank i.e. lending money they have been regarded as miniature banks for villages by the Rural Banking Enquiry Committee (1950). Many are convinced that they are the most appropriate institutions through whom institutional credit and banking facilities can reach the millions of villagers. The following is the detailed classification of the various types of co-operative credit institutions.

Co-operative Banking in India can be divided in two important areas namely agricultural and Non-agricultural banks. Among the agricultural co-operative banks - two separate structures exist for short term credit. At the lower level primary agricultural credit societies exist. They have formed the district central co-operative bank and as the state level co-operative bank exist. The Central and agricultural societies serve non-agricultural societies also. Such financial functions are undertaken to the central co-operative banks themselves.

On the other hand a separate two tier system serves in lending long term credit to farmer. The central land development banks have been organised in all States in India. In some states they have the branches of the Central Land Development Bank. They have organised a national unit called "All India Central Land Development Banks Federation".

**TABLE NO. 2.4 : CO-OPERATIVE CREDIT STRUCTURE IN INDIA**



SOURCE : INDIAN BANKING - NATURE AND PROBLEM, 1987

PAGE NO. 60.

Likewise all State Co-operative Banks have organised of their own "All India State Co-operative Banks Federation".

Co-operative bankers is to offer service to the customers at a reasonable cost. As profit motive is eliminated, a co-operative banker can be offered to render services at a reasonable cost. Co-operative Banks have also been providing modern banking services comparable to those offered by Commercial Banks.

Mr. N. Barou has laid down five main principles on which the work of a co-operative bank is based. They are

- (a) Co-operative character of activities and trust of mutual aid of credit granted.
- (b) Catering for collective organisation and their members.
- (c) Restrictions on the number of individual votes.
- (d) Aiming at high rates on deposits and low rates of lending.
- (e) Limitation of dividends out of profit and bonus to depositors and borrower or grants to cultural or co-operative endeavours.

The co-operative Banks are registered under the co-operative societies Acts of the States by the Registrar of Co-operative Societies and are governed by the acts and rules of the State Government or by the Central Act. Since the passing of the Banking Regulation Act, the co-operative banks are also being governed by the Banking Regulation Act and Reserve Bank of India Act.

## DEFINITION

Healvert has defined the co-operative as ' A form of organisation where persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interests of themselves.

According to Henry Wolff, co-operative banking is an agency "Which is in a position to deal with the small man on his own terms accepting the security he has and without drawing on the protection of the rich".

Devine defines co-operative bank as "A mutual society formed, composed and governed by working people themselves for encouraging regular saving and granting small loans on easy terms of interest and repayment".

From the above definitions it is quite clear that a bank must have co-operative character and must deal in credit which satisfied all the requirements of an ideal credit, discussed above, only then it can be called a co-operative bank.

N. Bureu in his book 'Co-operative Banking defined a co-operative as "A bank formed by co-operative and labour organisation for the purpose of accumulating their collective funds and savings of their individual members. It manages their financial interest, grants credit to co-operatives and labour enterprises and helps to satisfy their needs for personal credit of their individual members, the bank surplus are distributed between share holders, depositors and place in reserves".

From above definitions it is clear that co-operative banks are organised voluntarily by people who could save their money with the bank. The primary motive of a co-operative bank is to encourage saving and individual joint a co-operative bank to get small loans. Such loans are given out of the savings collected from among the members.

In other words the basis of Bank co-operation namely. Thrift and self help' is the motto of co-operative banks. If we analyse the important definitions - We get the following important features of 'co-operation' that is, a co-operative society.

- (a) It is a voluntary organisation.
- (b) It is an economic organisation.
- (b) All for each and each for all is the method of working
- (d) It is self help as well as mutual help.
- (e) It works on the basis of equality etc.

Co-operative bank means a state co-operative bank, a central co-operative bank and a primary co-operative bank.

Mr. Sonnichsen in his book "consumers" the co-operation is defined as "Mutual or co-operative credit as its name indicates consists of a number of individual who join together to pool their surplus savings with the purpose of with the purpose of eliminating the profits of the banker or money lender".

The statutory definition :

The passing of the Banking Law's ( Application to co-operative societies ) Act 1963 was an epoch ( period ) making event in the annuals of co-operative banking system in India. This has enabled to extend some of the important provisions of the former Banking Companies Act 1949 ( now Banking Regulation Act ) and the Reserve Bank of India Act 1934 to the co-operative banks as well.

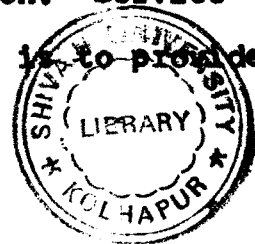
According to the Banking Regulation Act 1956 ( As applicable to co-operative societies ) a co-operative institution with share capital and reserve of Rs. 1 Lakh and above is eligible to become a co-operative bank.

### OBJECTIVES

1. Object of creating a co-operative Bank is to meet the credit requirement of local persons or/and to meet the requirement of co-operative societies engaged in providing agricultural and other finance and therefore a concrete structure and pattern is being evolved amongst co-operative banks, for example there is a three tier structure of co-operative banks for providing short term, medium term and long term loans to agriculture. In a word, co-operative banks have a federal structure more or less.

2. No Profit Motive :

Profit is the sub-ordinate consideration. Service motives is the main consideration. Main object is to provide



credit and other facilities at lower costs to members, for which they come together on co-operative basis.

3.           Distributive Justice :

Minimum dividend is given on shares portion of profits is also distributable amongst all contributories such as depositors, borrowers, consumers, employees in the shape of bonus, auditor rebate.

4.           Co-operative banking has shown the path of success of co-operative credit. Above all the co-operative banks teach the peasants to borrow at the right time and in right amounts and for right ends.

5.           Co-operative banks being democratic institution, following the principles of 'One Man One Vote' provide a training ground for many a layman to learn and practice democracy in all walks of life and to acquire the practical knowledge of managing various types of business in the larger interest of the community.

6.           The object of joint stock banks, is to earn maximum possible profit subject to the limitation dictated by the safety of funds. But 'Service' rather than 'Profit' is the motto of the co-operative banks. The whole structure of co-operative banks is based on the principles of mutual service and democratic management.



7. The Co-operative banks do not hesitate in accepting even the non members as their customers by receiving money in different kinds of deposit and also extend various banking facilities.
8. Human analitics are important. Man is more important than money. People join a co-operative bank as human beings and not as providers of capital, leans and mostly granted on unsecured basis.
9. Small amounts are given as loans. The requirements of target number of members are met ( large number of borrowers with small loans ).
10. Further, co-operative banks encourage thrift and savings amongst members. Deposits from members are tapped.
11. Ristricted membership person residing in the area of operation of the bank and fulfilling certain conditions is only eligible for admission as a member.
12. Transfer of shares is restricted.
13. Restriction regarding interest in the capital ( limited interest ).
14. Democratic management one member one vote.
15. Advances are granted only to members. Non-members can get loans only against their fixed deposits.

16. One of the important objectives of co-operative banking is to assist financially those of its members who need such help either against securities or advance unsecured loans. While lending money the co-operative banks should normally ensure that it is properly used.
17. Another object of co-operative banker is to offer service to the customers at a reasonable cost.
18. The rate of interest charges on advances is low.
19. Co-operative banks cater to the needs of the rural people in general. Head offices and branches in small villages and towns.
20. The ultimate borrowers are agriculturists, artisans, small traders and merchants, co-operatives banks of such persons seek financial accommodation from the Federal Society.
21. No competition.
22. Supervision as regards utilisation of loans granted to members is considered necessary.
23. In the event of liquidation of a bank, the surplus assets are to be disposed of in the manner prescribed in the Act. Surplus can be utilised for co-operative and/or local purpose.

24. They adopt co-operative principles and co-operative discipline.
25. Large fluid resources are not required comparatively.
26. Co-operative bank is immune from unrest of employees.

These are the objectives of co-operative bank.

### STRUCTURE

The co-operative banking in India has grown in size and volume. When the movement was started in 1904 only agricultural co-operatives were popular. At present co-operative banks have been organised in many sectors. A special feature of co-operative bank in India is that they have federal structure, the units ranging from primary level to national level.

### PROGRESS OF CO-OPERATIVE BANKING

The primary co-operative banks (PCBS), commonly called Urban Co-Operative Banks, are small sized co-operatively organised banking units which operates in metropolitan, urban and semi-urban centres to cater mainly to the needs of small borrowers, viz. owners of small scale industrial units, retail traders, professionals and salaried classes. The RBI is the licencing authority to existing/new banks and branches. The RBI also sanctions credit limits to SCBS on behalf of PCBS for financing the SSI units and conducts their statutory inspections.

TABLE NO. 2.5

TABLE SHOWING THE PROGRESS OF PRIMARY (URBAN)  
CO-OPERATIVE SOCIETIES

Items	1984-85	1985-86	1986-87	1987-88
Total number of primary co-operative banks.	1,331 (102)	1,346 (99)	1,359 (97)	1,371 (95)
Total number of offices of primary co-operatives.	2,897	3,031	3,077	3,141
Deposits	3,255	3,939	4,838	5,326
Loans outstanding	2,524	3,046	3,693	4,249

SOURCES - Report on currency and finance - 1987-88.

STATE CO-OPERATIVE BANKS (SCBS)

Following table shows the performance of co-operative credit institutions during the years 1984-85 to 1986-87. It is indicated from the table that the number of State Co-Op. Banks (SCB) is increased from by one i.e. from 28 to 29. Deposits with SCBS rose from Rs. 2,966 Crores to Rs. 3,818 Crores at the end of June 1987, registering an increase of 16 percent as compared with 1984. Total amount of loans issued by SCBS during 1986-87 at Rs. 7,278 Crores showed an appreciable increase of Rs. 2,861 Crores. The percentage of overdues to loans outstanding was slightly higher at 9 percent at the end of 1986. The percentage of overdues to demand increased to 12 percent at the end of June 1986 from 10.5 percent in June 1984-85.

TABLE NO. 2.6

TABLE SHOWING PROGRESS OF CO-OPERATIVE CREDIT  
MOVEMENT STATE CO-OPERATIVE BANKS IN INDIA

Sr. No.	I t e m	1984-85	1985-86	1986-87
1.	Number	28	29	29
2.	Owned funds	553	616	655
3.	Deposits	2,966	3,385	3,818
4.	Borrowings from RBI/National Bank	791	923	992
5.	Of which for : Short term agricultural purpose.	446	550	660
6.	Working capital	4,853	5,547	6,239
7.	Loans issued	4,417	5,516	7,278
8.	Loans outstanding	3,150	3,852	4,066
9.	Loans overdue	245	292	366
	P. of overdues to :			
	a) Loans outstanding	7.8	7.6	9.0
	b) Demand	10.5	9.2	12.1

SOURCE : Report on Trend and Progress of Banking  
in India 1987-88 ( Nuly - June ).

CENTRAL CO-OPERATIVE BANK ( CCBS )

During the year 1986-87 the number of Central Co-Operative Banks ( CCBS ) increased to 353 as compared to 350 in 1984-85. Deposits with CCBS increased by 20.2% with a growth of 14.1 percent recorded during the year 1985-86. The total amounts of loan issued by CCBS at Rs. 6,343 Crores showed a decline as compared to previous year. The percentage of overdues to loans outstanding increased from 28.8 percent in the year 1984-85 to 30.3 percent at the end of June 1986. The Table shown below substantiate the above conclusion.

TABLE NO. 2.7TABLE SHOWING PROGRESS OF CENTRAL CO-OP. BANKS (CCBS)

<u>I t e m</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Number	350	352	353
Owned funds	955	1,007	1,119
Deposits Borrowings	4,322	4,932	5,928
National Banks/Apex Bank	2,303	2,351	2,685
Working Capital	7,926	8,663	10,221
Loans issued	6,476	7,333	6,343
Loans outstanding	5,075	5,444	6,217
Loans overdue	1,463	1,696	1,883
Percentage of overdues to Loans outstanding.	28.8	31.2	30.3
Demand	36.9	37.8	39.0

SOURCE : Report on trend and progress of banking in India  
1987-88 ( July - June ).

## STATE/CENTRAL LAND DEVELOPMENT BANK

During the year 1986-87 the long terms loans issued by State/Central Land Development Banks increased to Rs. 552 Crores which is 18.5% as compared to the long term loans issued in the year 1984-85 ( Rs. 461 Crores ). The total amount of loans outstanding went up from Rs. 2,586 Crores to Rs. 2,829 Crores registering an increasing of 3.1 percent as compared 1984-85. The table shown below supports the fact.

TABLE SHOWING THE PROGRESS OF CENTRAL LAND  
DEVELOPMENT BANKS.

Item	1984-85	1985-86	1986-87
Number	19	19	19
Owned funds	428	473	514
Debenture outstanding	-	-	-
Working Capital	3,360	3,532	3,901
Loans issued	461	533	552
Loans overdue	268	323	405
P. of overdues to			
a) Loans outstanding	11.2	12.3	14.3
b) Demand	42.8	45.0	48.1

SOURCE : Report on Trend and Progress of Banking in India  
1987-88.

PRIMARY AGRICULTURAL CREDIT SOCIETY (PAC'S)

It is surprising to note in case of PAC's that the number of total PAC's decreased from 92430 in the year 1986-87. On account of reorganisation into viable units. The membership of PAC's increased from 69,182 in the year 1984-85 to 71963 in 1986-87. The deposits of PAC's increased from Rs. 524 Crores as at the end of June 1984-85 to 709 Crores at the end of June 1987. During 1986-87 loans aggregating Rs. 3,149 Crores were disbursed by PAC's. Overdues of PAC'S showed a rising trend and increased from Rs. 1,690 Crores as at the end of June 1984-85 to 1,895 Crores as at the end of 1986-87 and formed 40.9% of loans outstanding. Following table supports the fact.



TABLE NO. 2.9TABLE SHOWING PRIMARY AGRICULTURAL CREDIT SOCIETIES

Item	1985-86	1986-87	1987-88
Number ( 000's)	92	92	89
Membership (00's)	61,182	72,118	71,963
Owned funds	1,035	1,128	1,194
Deposits	524	572	709
Borrowings	3,743	3,927	4,326
Total Loans issued	2,693	3,140	3,149
Total Loans outstanding	3,981	4,324	4,635
Total Loans overdue	1,630	1,807	1,895
% of overdues to Loans Outstanding	40.9	41.8	40.9
Demand	42.1	44.1	41.1

SOURCE : Report on trend and progress of banking in India  
1987-88.

PRIMARY (URBAN) CO-OPERATIVE BANKS (PCB'S)

During 1986, 13 Primary Co-operative Banks were established, raising total number of PCB's to 1359 as at June 1987. The deposits mobilised by them rose by 1583 Crores registering an increase of 49 percent as compared 1984-85. Following table substantiate the discussion performance of PCB's.

TABLE NO. 2.10TABLE SHOWING PRIMARY CO-OPERATIVE BANKS

ITEM	1984-85	1985-86	1986-87
Number	1,331	1,346	1,359
Owned funds	511	612	734
Deposits	3,255	3,939	4,838
Borrowings	210	214	238
Loans Outstanding	2,524	3,046	3,693

SOURCE : Report on Trend and Progress of Banking in India  
1987-88.

## 2.7 CO-OPERATIVE MOVEMENT IN MAHARASHTRA

Co-operation in Maharashtra has been pioneering sectore of the co-operative movement in the country. It has remained in the forefront since beginning. It has always been a source of inspiration to similar movements in the country. Intrastructure and organization of the co-op. institutions in Maharashtra has been considered as a model for the many other states in India.

### REVIEW CO-OP.MOVEMENT IN MAHARASHTRA

( 1969 - 1989 )

In the period from 1969 to 1989 co-operative sector has registered a speedy growth in terms of number, involvement of people, capital investment and operating performance. Almost three times growth in the number of societies 5.48 times growth in membersuip, 25 times increase in capital investment, 48 times in case of working capital and 51 times growth in case of loans and advance to needy people and industries. A tiny and small in nature is the glimpse of co-operative movement in Maharashtra. The table shown below supports the fact -

TABLE NO. 2.11

**INDEX NUMBER OF CO-OPERATIVE ACTIVITIES IN MAHARASHTRA STATE (BASE 1960-61)**

Sr. No.	Year	No. of Societies	Membership	Share Capital	Working capital	Net loans & Advances
1	2	3	4	5	6	7
1.	1960-61	100 (31565)	100 (42)	100 (53)	100 (326)	100 (95)
2.	1965-66	119	162	226	218	176
3.	1970-71	135	205	449	457	366
4.	1975-76	157	276	668	855	568
5.	1980-81	192	357	1,132	1,598	1,175
6.	1985-86	251	478	2,058	3,390	2,883
7.	1986-87	264	502	2,238	3,933	3,615
8.	1987-88	278	526	2,336	4,344	4,475
9.	1988-89	293	548	2,472	4,807	5,105

Source : Co-operative movement at a glance in Maharashtra State 1989.

**TABLE SHOWING INDEX NUMBER OF CO-OPERATIVE ACTIVITIES IN**

**MAHARASHTRA STATE (Base : 1980-81)**

Sr. No.	Year	No. of Societies	Membership	Share Capital	Working Capital	Net Loans & Advances
1	2	3	4	5	6	7
1.	1980-81	100 (60,747)	100 (148)	100 (600)	100 (5,210)	100 (1,116)
2.	1985-86	131	136	182	212	245
3.	1986-87	137	142	198	246	308
4.	1987-88	144	149	206	272	381
5.	1988-89	152	155	218	301	435

\* (Members in lakh)  
\* (Rs. in Crore)

SOURCE : Co-operative Movement at a glance, in Maharashtra State 1989.

CO-OPERATIVE MOVEMENT IN MAHARASHTRA  
AND INDIA

As compared to co-operative movement of Maharashtra with that of India as a whole following conclusions are drawn.

- (1) The total number of co-operative societies in India comes to 3,48,156 out of 87,676 aggregating 25% of the total is established in Maharashtra state along.
- (2) The membership of Maharashtra occupies 15% of the total membership of Indian Co-operative Sector.
- (3) Out of total capital investment (i.e. 4876 lakh) of India 25% of the investment is made in Maharashtra.
- (4) As regards to working capital investment in co-operative sector 27% of the working capital of the nation is in circulation in Maharashtra.
- (5) In case of co-operative societies Maharashtra State ranks at the top in India. Following tables support the conclusions drawn.

TABLE NO. 2.12

TABLE SHOWING COMPARATIVE POSITION OF CO-OPERATIVE SOCIETIES

Sr. No.	Item	Maharashtra			India		
		A	B	C	A	B	C
1.	No. of Societies	26,914	60,762	87,676 (25%)	1,20,416	2,27,740	3,48,156 (100%)
2.	Membership	147	77	224 (15%)	1,109	395	1,504 (100)
3.	Paid-up capital (in lakhs)	776	457	1,233 (25)	3,013	1,863	4,876 (100)
	of which from Government	22	250	272 (-)	460	N.A.	N.A. (-)
4.	Working capital (in Crore Rs.)	10,820	3,540	14,360 (27)	43,235	10,646	53,881 (100)

NOTE : 1. A = All Credit Societies  
 2. B = All Non-Credit societies  
 3. C = Total Societies (A+B)

SOURCE : Co-operative movement at a glance, in Maharashtra State - 1989

**TABLE NO. 2.13**

**ALL CO-OPERATIVE CREDIT SOCIETIES : A COMPARATIVE POSITION**

Sr.No.	State	No. of Societies	Membership	Share Capital	Working Capital
1	2	3	4	5	6
1.	Maharashtra	26,914	14,670	776	10,820
2.	Andhra Pradesh	9,739	11,692	203	2,303
3.	West Bengal	10,224	498	96	1,183
4.	Utter Pradesh	10,245	14,762	238	3,155
5.	Gujarat	9,947	5,612	247	4,536
6.	Karnataka	7,397	8,353	199	2,829
7.	Biher	7,044	6,445	147	1,485
8.	Tamil Nadu	6,555	11,759	232	3,620
9.	Madhya Pradesh	6,550	7,194	212	2,761
10.	Rajastan	6,124	5,392	154	1,842
11.	All other States/ Union Territories	19,677	20,096	509	8,701
		1,20,416	1,10,912	3,013	43,235

SOURCE : Co-operative movement at a glance, in Maharashtra State, 1989.



PERFORMANCE OF PRIMARY CO-OPERATIVE BANKS  
IN MAHARASHTRA

Primary co-operative Banks have made a significant progress in Maharashtra. The number of banks has increased from 265 in the year 1971 to 377 in the year 1989. Membership for the same period increased from 883 to 3600, Capital Investment for the period shot up to Rs. 13700 lakhs from Rs. 987 lakhs. Deposits increased up to Rs. 331000 lakhs from Rs. 6832 lakhs. As regards to loans advanced it has increased up to Rs. 510000 lakhs from Rs. 12381 in the year 1989. (see. Annexure No.8) which is evidence of the successful leadership and operating style of co-operative movement in Maharashtra.

The financing of co-operative banks has not confined to only agriculture sector but other sectors too. Major financing is made to trade and commerce 30% and other categories 33%, 18% to small industries, 5% to constructions and 13% to consumption purposes. Thus the co-operative sectors of Maharashtra touches to all facts of the economy.

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