
CHAPTER - II

DEVELOPMENT OF URBAN CO-OPERATIVE BANKS



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2.1 DEFINITIONS OF URBAN CO-OPERATIVE BANK :

There was no distinct definition of Urban Co-operative Bank in India till the year 1938. They formed part of non-agricultural credit societies. The distinguishing criterion between urban credit society and urban bank was mainly the volume of working capital. On the basis of the volume of working capital Metha-Bansali Committee (1937-1938) defined "An Urban Bank as a Co-operative Organisation, with a share capital of Rs. 20,000/- or more undertaking banking business as defined in section 277 (F) of the Indian Companies Act (1913) and amended in 1936.¹ "

According to a study group on credit co-operative in the non -agriculture 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 share capital of Rs. 20,000/- (3) provides banking facilities." ²

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 licence 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." ³

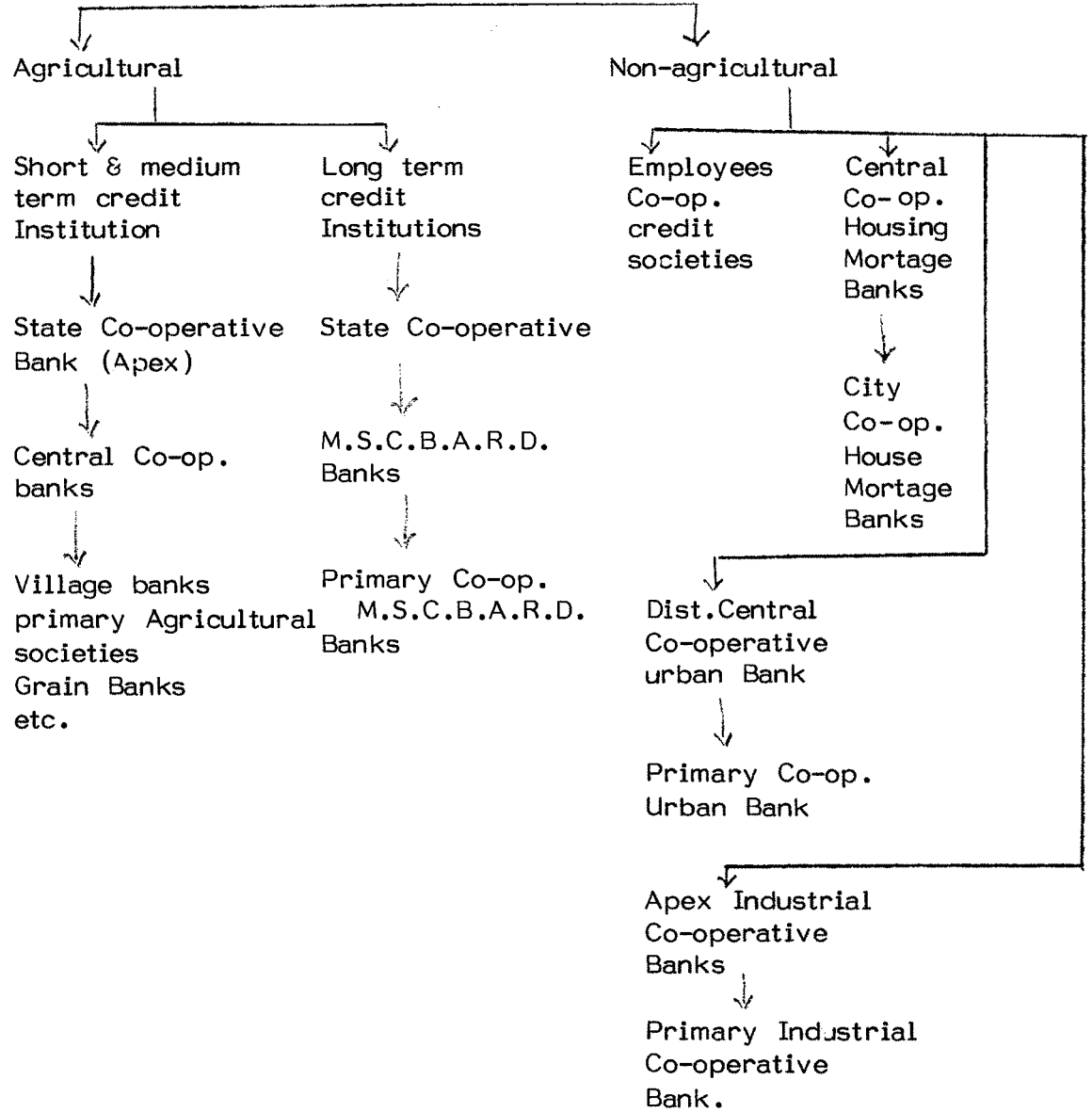
Madhav Das Committee (1973) appointed by RBI, defined "An Urban Bank as a primary co-operative bank and co-operative society other than primary agricultural credit society (1) the primary object of which is the transaction of banking business, (2) the paid up share capital and reserves of which are not less than Rs. 1 lakh and (3) the by-laws of which do not permit admission of any other co-operative society as member." ⁴

If we consider above definitions 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. ⁵

2.2 CLASSIFICATION OF CO-OPERATIVE BANKS :

Mainly there are two types of co-operative credit institutions. One is agricultural credit institution and the other is non-agricultural credit institution. The following chart depicts the detailed classification of the various types of co-operative credit institutions.

CO-OPERATIVE BANKS



The bank under study falls under the non-agricultural credit institutions and particularly under the primary co-operative urban banks. At present there are two types of urban banks.

1) A co-operative society registered with a share capital as per the criteria in force at present and which begins banking business after getting licence under section 22(1) of the Banking Regulation Act 1949 from the Reserve Bank of India.

2) A co-operative society registered with a share capital as per the criteria in vogue and carrying on banking business as a primary credit society which obtains licence under section 22(1) of the Banking Regulation Act, 1949 from Reserve Bank of India after its share capital reaching the level prescribed for registration of urban banks.

2.3 GROWTH AND DEVELOPMENT OF URBAN CO-OPERATIVE BANKS IN INDIA :

2.3.1 GROWTH BEFORE INDEPENDENCE :

As stated earlier under the provision of the co-operative societies Act of 1904 all the urban credit societies including the urban banks were described as non-agricultural societies. Special encouragement was not given by the Government for the organisation of non-credit

societies. They were expected to grow themselves without assistance from the state. The Maclagan Committee (1915) recommended the extension of co-operation among the non-agricultural classes as a result of which a number of urban credit societies started coming into existence.

Further the economic depression of 1929-1930 severely affected the agricultural credit societies more than urban credit societies, but progress of urban societies was steady.⁶ During the period 1931-1937 the failure of commercial banks as an effect of great depression gave scope for the organisation of new urban credit societies. Another factor responsible for stability of movement in urban areas was the comparatively high standard of managerial efficiency available in urban areas. The second world war stimulated the growth of urban co-operative credit movement. It attracted large membership and deposits on account of the rise in money income.⁷

2.3.2 GROWTH OF URBAN CO-OPERATIVE BANKS(Before 1st March 1966)

Banking Regulation Act 1949 has some provisions in respect of urban co-operative banks. It helped quantitative as well as qualitative development of urban co-operative banks. The following table shows the growth of urban co-operative banks before 1st March 1966.

Table 2.1 : Growth of Urban Co-operative Banks
(Before 1.3.1966)

Sr. No.	Particulars	1948-49	1965-66	% change over 1948-49
1	No.of Urban Banks	815	936 .00	14.84
2	Membership (000)	535	2814.00	236.06
3	Owned fund(Rs.cr)	4	18.91	372.75
4	Deposits (Rs.Cr)	17	76.00	347.05
5	Working Capital(Rs.Cr)	22	100.61	357.31
6	Loans Outstanding (Rs.Cr)	12	66.97	458.08
7	Overdues(Rs.Cr)	1	5.51	N.A.
8	% of overdues to loans Outstanding	8.33	8.22	N.A.

Source : Ninth Indian Co-operative Congress NCUI
Background Papers 1982.

The above figures show that the No.of urban co-operative banks has increased. The number of membership, owned funds, deposits have also increased remarkably. Though the overdues increased from Rs. 1 crore to Rs. 5.51 crores the percentage of overdues to loans outstanding declined from 8.33% to 8.22%. It is clear from the above figures that the urban co-operative banks were on the right path of development by serving the credit needs of urban people.

Table 2.2 : Growth of Urban Co-operative Banks
(After 1.3.1966)

Sr No.	Particulars	1967-68	1977-78	1987-88
1	No.of banks	1127	1206 (7.00)	1371 (13.68)
2	No.of membership(000)	2714	5312 (95.72)	11372 (114.08)
3	Owned funds(Rs.Cr)	27.70	143.22 (417.03)	273.09 (90.67)
4	Deposits(Rs.Cr)	110.0	626.63 (469.66)	4986.65 (695.78)
5	Working Capital(Rs.Cr)	143.99	889.43 (517.70)	6926.46 (678.75)
6	Loan Outstanding(Rs.Cr)	92.84	377.72 (308.85)	4562.24 (1107.61)
7	Overdues	9.45	46.41 (391.11)	381.69 (722.43)

Source : (1) Data from 1967-68 to 1977-88 have been taken from RBI Report on Currency and Finance Annual Reports.

(2) Data for 1987-88 have been taken from NABARD Annual Report of 1987-88.

If we consider the quantitative growth of urban banks in terms of number of banks, number of membership and so on it would be seen from the above table, that

- 1) The number of urban co-operative banks has increased by 7% from 1967-68 to 1977-88. But in the next decade i.e. 1977-78 to 1987-88 it has been increased by 13.68%.

- 2) The number of membership has increased by 95.72% in the first decade but in the second decade it has increased by 114.08%.
- 3) In the case of owned fund from 1967-68 to 1977-78 the increase is 143.22% but in the next decade i.e. from 1977-78 to 1987-88 it has increased by only 90.67%. It means the owned funds have increased at a decreasing rate.
- 4) In the case of deposits and working capital there is an increasing trend with increasing rate. But loans outstanding increased at decreasing rate in the decade 1977-78 to 1987-88.
- 5) The figures in the case of overdues show increasing trend. That means it has increased by 722.43% in the decade compared with the previous decade, by 391.11%. Overall progress of the urban co-operative bank is satisfactory.

2.4 IMBALANCES IN THE DEVELOPMENT OF URBAN CO-OPERATIVE BANKS IN INDIA :

Despite the satisfactory growth of urban co-operative banks, certain regional imbalances seem to have occurred. The urban banks are concentrated in the states like Maharashtra, Gujrat, Kerala, Andhra Pradesh, Karnataka and Tamil Nadu . These six states account for 82.71% of total number of urban co-operative banks in India. The sixth Indian Co-operative Congress said that,

The development of existing urban banks is uneven; the states like Maharashtra, Gujarat, Madras, Andhra, Mysore and Madhya Pradesh have made progress in the development of urban banks. In certain large regions including states like U.P. the progress of urban banks was insignificant.⁸

The following table shows the regional imbalances in co-operative banks in India.

Table 2.3 : Imbalances in the Development of Urban Co-operative Banks in India (on 30th June 1988)

Sr. No.	State	No. of urban Co-op. banks	% to total
1	Maharashtra	380	33.51
2	Gujarath	292	25.75
3	Karnataka	214	18.88
4	Tamil Nadu	136	11.99
5	Kerala	57	5.20
6	Andhra Pradesh	55	4.85
7	Other state & Union territories	257	17.29
8	Total of six states	1134	82.71
9	Grand Total	1371	100.00

Source : Compiled from Annual Report Published by NABARD.

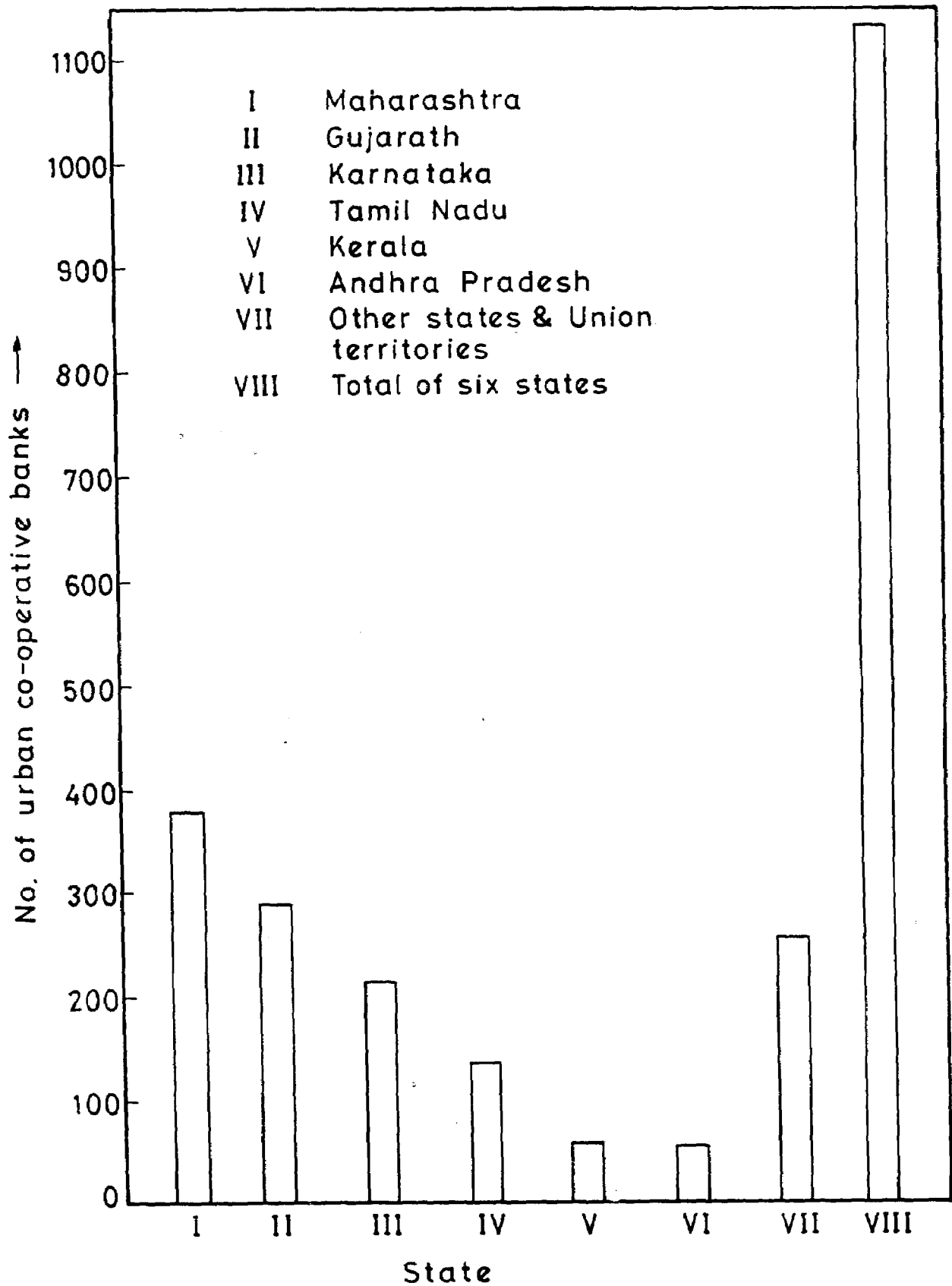


Fig. 1 Imbalances in the development of urban co-operative banks in India (on 13th June 1988)

There are various socio-economic and political reasons for the imbalances in the growth of urban banks. One general cause is that the economically advanced states are able to develop the co-operative sector. The leadership and official support were also responsible for the imbalances. Whenever the industrial development had taken place, the urban banks had grown rapidly.

2.5 GROWTH 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 took birth and were dispersed in the districts like Bombay, 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 the Bombay province and second the growth of urban banks in Maharashtra. The following table shows progress of urban co-operative banks in Bombay State..

The progress of urban co-operative banks in Maharashtra is depicted in following table No.2.5 from 1961 to 1988 there was an increase in all the figures of urban co-operative. If we consider the recent development of banks during the last 7 years i.e. 1981 to 1988 it shows that there was slight increase in the number of banks and the banks in profit. However, there was a significant growth in share capital (197.24%), membership (88.55%), owned capital (334.34%), Loans disbursed

Table 2.4 : Progress of Urban Co-operative Banks in
Bombay State
(1938-1939 to 1951-1952)

Sr. No.	Particulars	1938-39	1948-49	1951-52
1	No.of urban banks	52	140	184
2	No.of Memberships	59988	144701	219781
3	Share capital (Rs.lakhs)	29.16	104.83	158.82
4	Reserve & other funds (Rs.lakhs)	34.74	79.35	127.62
5	Working capital(Rs.lakhs)	242.52	1180.67	1588.36
6	Members Deposits(Rs.lack)	96.87	463.95	631.57
7	Non members deposits (Rs. lakhs)	75.87	485.50	563.94
8	Loans from central Banks(Rs.lakhs)	4.33	34.72	N.A.
9	Profits(Rs.lakhs)	3.36	12.99	20.24
10	Loans due(Rs.lakhs)	120.28	470.05	717.62
11	Overdues(Rs.lakhs)	36.20	28.29	77.69
12	Percentage of overdues	30.1	6.00	10.8

Source : (1) Naik K.N.-The Co-operative Movement in
Bombay State, The Popular Depot, Bombay
1953,P.151.
(2) Fifty years of Co-operation, The Bombay
Provincial Co-operative Institute 1954
P.167.

Table 2.5 : Urban Co-operative Banks At a Glance in Maharashtra (1961-1988)

Sr. No.	Particular	1961	1971	1981	1988
1	No.of Banks	149	265	345	380 (10.14)
2	Membership(000)	433	883	1614	3050 (88.55)
3	Share Captial(Rs.lakhs)	294	947	4201	15500 (197.25)
4	Owned Capital(Rs.lakhs)	511	1502	8530	37050 (334.34)
5	Deposits(Rs.lakhs)	1243	6852	65779	293050 (345.50)
6	Borrowings(Rs.lakhs)	N.A.	308	1666	10150 (509.24)
7	Working Capital (Rs.lakhs)	N.A.	9260	88704	395020 (3478.09)
8	Loans disbursed (Rs.lakhs)	N.A.	12381	87343	409050 (368.32)
9	Loans outstanding (Rs.lakhs)	1671	5007	48008	192010 (300.00)
10	Overdues(Rs.lakhs)	133	364	3732	18050 (383.63)
11	No.of Bank in Profit	N.A.	N.A.	338	36 (6.50)
12	Amounts of profit (Rs.lakhs)	25	N.A.	4652	4700 (301.70)
13	No.of Banks in loss	N.A.	N.A.	20	20 (185.71)
14	Amount of Loss (Rs. lakhs)	N.A.	N.A.	73	73

Source : Govt. of Maharashtra at a Glance in Maharashtra Cooperative Movement 1988 P.53.

N.B. 1) N.A. : Not Available

2) Figures in bracket indicate % growth in 1988 over the year 1981

3) Members in thousand.

(368.32%), deposit (345.50%), working capital (3478.09%) and loan outstanding (300.00%). It is important to state that the amounts of Government share capital in these banks were totally absent and hence the progress seems self-reliant and satisfactory. At the same time it is serious to note that the number of banks in loss has increased about twice and the amount of loss 11 times. Hence, the banks have to take proper measures for the recovery of overdues.

2.6 UNEVEN DEVELOPMENT OF URBAN CO-OPERATIVE BANKS IN MAHARASHTRA :

Though the urban co-operative banks have been developed during the recent period i.e. 1961-1988 the development is uneven. The regional imbalances are not restricted only to the macro level, they are also visible at the micro level. For example if we consider the position of urban co-operative banks in Maharashtra it would be seen from following Table No 2.6 that there are significant differences in development of urban co-operative banks in different regions of the state.

As shown in the following table No.2.6 as 30th June 1988 there were 380 urban co-operative banks in Maharashtra, out of which the highest number of banks (36.31%) were in five districts of Pune region, followed by Bombay, Nasik, Amaravati, Aurangabad, and Nagpur

Table 2.6 : Regionwise Number of Urban Co-operative
Banks in Maharashtra
(As on 30th June 1988)

Sr. No.	Region	No. of banks in district	No. of Dist. in Region	No. of Banks in the region	% in total
1	Pune	Pune(41)Kolhapur(38) Sangli(23)Solapur(20) Satara (15)	05	137	36.31
2	Bombay	Bombay(94)Thane(18) Raigad(7)Ratnagiri(4) Sindhugurg (2)	05	125	32.39
3	Nasik	Nasik(24)Jalgaon(14) Ahmednagar(15) Dhule(13)	04	60	17.36
4	Amaravati	Buldhana(7)Akola(4) Amravati(6)Yavatmal(2)	04	19	5.00
5	Aurangabad	Aurangabad(4)Beed(3) Parbhani(3)Jalana(2) Nanded (2) Latur(2)	06	17	4.47
6	Nagpur	Nagpur(10)Wardha(3) Bhandara (2) Chandrapur(1) Gadchiroli(0)	05	16	4.21
7	Total District		30	380	100.0

Source : (1) Commissioner, Co-operative and Registrar of
Co-operative for Societies Maharashtra State,
Pune.

(2) Co-operative Movement at a Glance in
Maharashtra 1988.

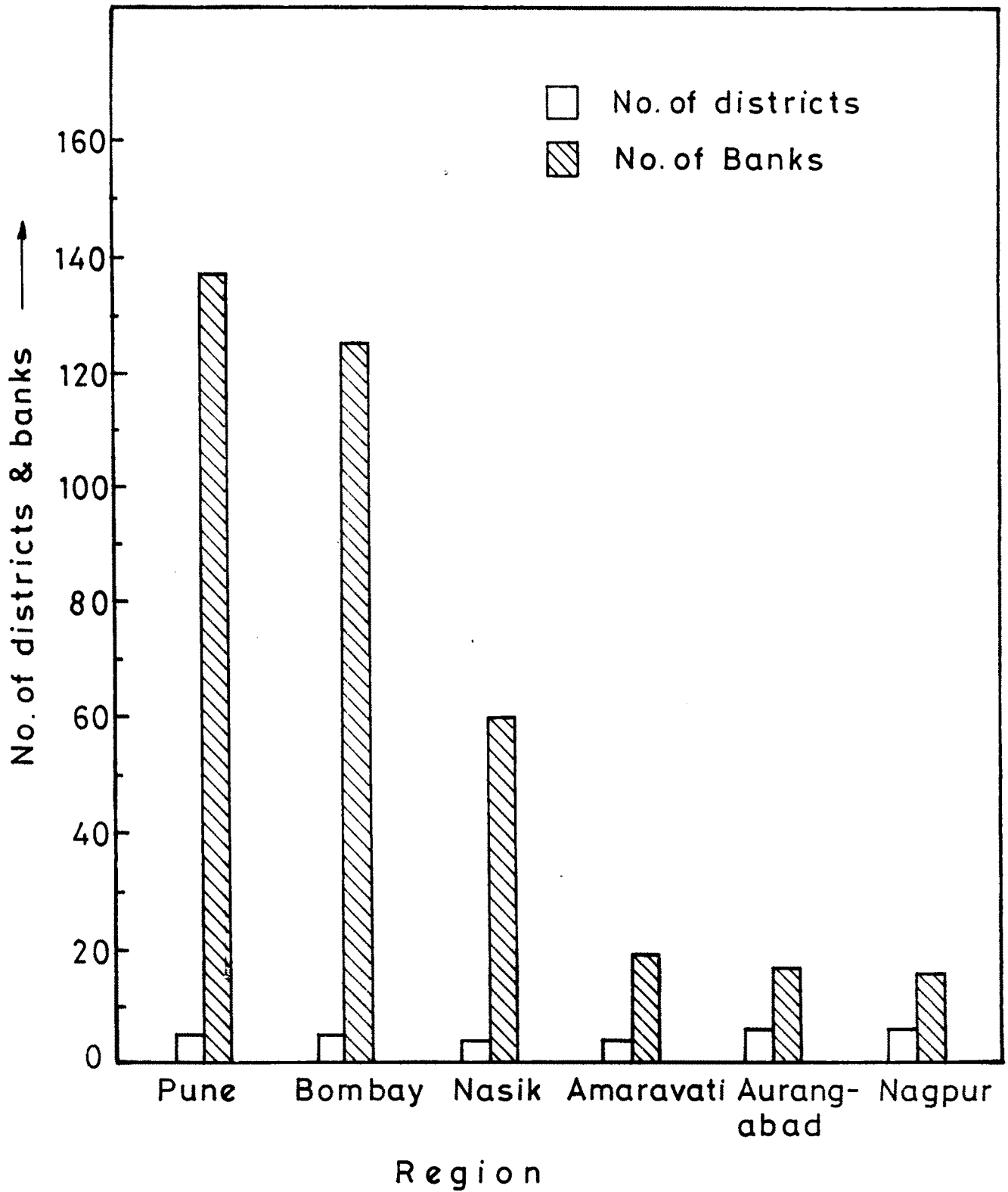


Fig. 2 Regionwise number of co-operative banks in Maharashtra (as on 30 th June 1988).

regions. The regional differences were due to the development of agriculture and industry in the concerned districts. The Western Maharashtra and Bombay region are industrially more developed as compared with Amaravati, Aurangabad and Nagpur regions. Among the region also, there were imbalances in the number of banks in various districts.

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