

CHAPTER-3

*Urban Cooperative Banks and
Financial Inclusion*



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URBAN CO-OPERATIVE BANKS AND FINANCIAL INCLUSION

1. Introduction :

The Urban Co-operative banks in India have got unitary structure. It was based on the presumption that the urban banks would be affiliated to the district central co-operative banks. Therefore, there was no necessity of organizing separate district and apex institutions for such banks. In actual practice, most of the urban banks are self-sufficient. They do not approach central co-operative banks for assistance. Some of the urban banks are even stronger than central co-operative banks. The first urban co-operative bank was established on 5th February 1884 at Baroda. In Maharashtra, a District Central Urban Co-operative Bank has been established at Ahmednagar. It is a mixed type of federal structure in the field of urban banking in the country.

True that the Indian co-operative movement was originally ushered for the supply of rural credit. However, in course of time, the co-operative ideology began to find favors with the urban people, an important manifestation of which is the emergence of non-agricultural credit societies by names like urban co-operative banks, employee's credit societies etc. to cater to the financial needs of the people of the small means such as traders, small producers, artisans, salaried employees, transport operators, small businessmen, and so on. Over the years, this wave of establishing non-agricultural credit societies got a momentum and now they have become a vital part of the urban life of India. Importantly unlike the agricultural credit co-operatives in the country, the development of the urban credit societies has been entirely on its own and without any kind of government support. For them no targets are fixed, no subsidies are given, no training programmes are organized and no free managerial assistance is provided. Notwithstanding this, the urban credit societies have increased in numbers, swollen in membership, mobilized plenty of working capital themselves, grown through branch expansion programme, They do their business without targeting profit as prime motive while concomitantly honoring the co-operative principles. This work purports to fill up

this void by peeping into the nature and characteristics of the financial inclusion in the urban co-operative banks (UCBs) in Kolhapur district.

2. Connotation of co-operative banking :

'Banking' is defined by India's Banking Regulation Act, 1949 as accepting for the purpose of lending or investments, of deposits of money from the public repayable on demand or otherwise and withdraw – able by cheque, draft, order or otherwise, and a 'bank' is one which does the banking business. In this light, a co-operative bank is one which performs the banking functions on a co-operative basis. Applying this framework to the banking activity, in the words of Devine; "Co-operative bank is a mutual society formed, composed and governed by working people themselves for encouraging regular saving and granting small loans on easy forms of interest and repayment"¹.

3. Need for Urban Co-operative Banks in India :

To help the urban middle class and weaker sections, a strong need to organize urban co-operative banks (UCBs) was felt. There are, in urban areas, numerous, persons of small means like traders, merchants, artisans, factory workers, motor and lorry drivers etc. who need finance. To relieve these persons from the grip of moneylenders, UCBs are essential. The UCBs are basically the institutions of small persons. They are local organizations having democratic management and they are serving the persons of small means, ever since the days when the commercial banks were not prepared to look towards them.

Various committees stress the need for UCBs in India from time to time after the birth of the co-operative movement in India in the first decade of the last century.

3.1 The Central Banking Enquiry committee (1931) :

The duty of the urban banks should be to try, to do for the small trader, the small merchant and the middle class population.

¹B. N. Choubey (1968) Principles and Practice of Co-operative Banking in India, Asia Publishing House, Bombay. P.3

3.2 The Co-operative planning committee (1946) :

Joint -stock banks are not interested in developing business of small loans, because the cost of advancing and recovering them is high. Further, joint stock banks have no full and intimate knowledge of the standing and resources of persons of moderate means. Co-operative banks qualify, by establishing personal and intimate relationship with people, for reasons of small means class as the most suitable agencies for serving their credit needs.

3.3 - The Rural Banking Enquiry Committee (1950):

Urban co-operative banks are useful to cater to the credit needs of people residing at urban, semi-urban and Taluka places.

3.4 The Report of the Study Group on Credit Co-operative in the Non-agricultural Sector(1963):

The urban co-operative banks have an important role to play in several respects including the following:

- (1) First and foremost, they can organize and bring together middle and working classes in urban and semi urban areas.
- (2) By providing credit on reasonable terms to the middle classes, they can rescue them from the exploitation of money-lenders.
- (3) By financing individual industrialists and artisans in urban areas, they can make a significant contribution to industrial development.
- (4) They can provide intelligent, experienced and active leadership to the co-operative movement including the central and the Apex co-operative Banks, which in view of their federal character draw their directors from member-institutions.

3.5 The Banking Commission(1972):

Urban co-operative banks do useful work in mobilizing deposit and financing the sector of small borrowers. Another useful activity is financing of house construction and

repairs for members of the banks. This type of banking provides a useful avenue for those who have the necessary ability to set up a bank.

3.6 The Committee on problems of UCBs in Maharashtra, appointed by Government of Maharashtra(1974):

The performance of urban banks in Maharashtra, taken as a whole is fairly satisfactory. The sustained growth over the years may be traced to the devoted and selfless management by non-officials. Not only the number of urban banks has increased, but membership, which is a measure of people's involvement, has also increased. Deposits have gone up considerably; the deposits from non-members are more than those of the members, which is positive proof of the fact that the urban banks have secured the confidence of the depositing public of urban and semi-urban areas.

3.7 The Madhava Das Committee(1978):

Despite various limitations, urban banks have mobilized substantial local resources and striven to serve small borrowers. According to the committee, there is scope and need for the development of urban banks in some states. These banks are most suitable for filling up the existing credit inadequacies in urban and semi-urban areas at comparatively lower cost of operation.

3.8 The Marathe Committee (1992):

The committee noted that there is a widespread feeling amongst those connected with the urban co-operative movement that the UCBs will be able to play a much more significant role in the financial system if the present restrictive policies are amended.

3.9 The Madhava Rao Committee (1999):

“It is necessary to recognize the strengths and weakness of urban co-operative banks in the field of much needed micro credit and how best to foster and encourage UCBs in rendering this service to the small borrower who is not as welcome at the doors of commercial banks, as at the hands of UCBs. The representatives of UCBs and their federation constantly claim that they have a distinct role in the banking sector as they and

small borrowers are made for each other and that any amount of expansion of branch network of commercial banks, including the RRBs, will not solve the problem of the small borrowers without the presence of UCBs.”

4. Financial Inclusion for an Inclusive Growth :

Traditionally, we have seen and observed that the poor have not been welcomed to the banking fold by the banks and financial institutions with a misconception that they are not bankable and there is no business opportunity in offering services to the under – privileged and poor people in the semi – urban, rural and slum – dwellers in the metropolitan cities. Banks and financial institutions had been till recent times financially excluding these people on the pretext that;

- They have no or few assets,
- They have nothing to offer as collateral,
- They have no business experiences,
- They cannot be trained for availing financial services,
- They have no credit history, and
- They cannot understand the nuances of banking due to illiteracy or less education.

5. Financial inclusion and urban co-operative bank :

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general, and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost and in a fair and transparent manner by regulated mainstream institutional players. Co-operative banks being local level institutions are well suited for achieving financial inclusion.

Co-operative bank is one of the oldest banks in the country and has recently completed 100 years of services. While nurturing the traditional values it has inherited, of serving the small customer the bank has also moved with times and has prepared itself for

the future, by adopting new technologies and advanced banking tools to add value to its services.

In spite of being present in 25 states, much (almost 80%) of the action happens in the five states of Gujarat, Maharashtra, Andhra Pradesh, Karnataka, and Tamil Nadu – with the lion's share going to Maharashtra as on March 31, 2010 the state accounted for over a third of all UCBs almost half of all UCB branches, around 60% of total extension counters of UCBs and more than 85% of all its automated teller machines (ATMs). Accordingly, more than 60% of the total banking business of the urban co-operative banking sector was concentrated there but their numbers have been dwindling in recent years. UCBs in India can play a critical role in this area. They have traditionally played an important role in mobilizing resources from lower and middle – income groups and in providing direct finance to small entrepreneurs and traders. UCBs with their deep – rooted connections with specific communities can easily inspire the trust of small savers and borrowers.

While a large section of the financially excluded population inhabits rural areas, financial exclusion is widespread in urban and semi – urban areas as well. Generally farmers, small vendors, agricultural and industrial labourers, people engaged in unorganized sectors, the unemployed, women, older and physically challenged people are the most commonly excluded segments. These segments are best addressed by the UCBs. The key advantage that UCBs enjoy over commercial banks is derived from their cost structure. The Labour costs of UCBs are considerably less than that of commercial banks and generally the operating costs are also minimal.

Equally important is the local nature and the consequent informational advantages of the UCBs. Being an integral part of the community, UCBs have an advantage over their commercial rivals in terms of having information both about upcoming business opportunities as well as borrower quality, which national – level banks have a hard time gathering.

Finally, the advantages of the local nature of the UCBs also manifest themselves in the flexibility that these banks can provide to their local clientele. Unlike their

commercial counterparts, who need to adhere to national and global policies to change in order to alter their practices, UCBs can be far more responsive to the needs of the local community and the changes there once again, that provides a massive competitive advantage.

Recently, the UCBs have increasingly started adopting the three – pronged financial inclusion strategies used by commercial banks – Banking correspondents (BC), “no frill” accounts and promoting microfinance activities once again, their local nature gives them an advantage over their national rivals in executing these moves better. UCBs enjoy an undeniable edge in the area of relationship banking.

6. Untapped potential of the UCBs for Financial Inclusion :

The client profile of UCBs today predominantly consists of priority sector segments viz. small business establishments, small scale industries (SSI), retail traders, self – employed etc. who would not, normally, find it easy to access commercial banks. The priority sector loans of the UCBs are today at 46% as against the prescribed target of 40%. Nearly 90% of the loan accounts are less than Rs. Five lakh in value. To this extent, UCBs are already contributing to financial inclusion. However, there remains a huge hidden potential waiting to be tapped. Given the large number of urban co-operative banks and with 271 districts not having any presence of UCBs, there exists a huge potential for UCBs to increase their spread and business and also participate in the national mission of financial inclusion.

It is also important to keep in mind that the service provided should be at an affordable cost and in this regard, technology, will play a big part with the wide reach of mobiles, mobile banking as an avenue for furthering financial inclusion has to be explored. Adoption of appropriate and effective technology, therefore, could be the key for financial inclusion efforts to succeed.

7. The Profile of Kolhapur District:

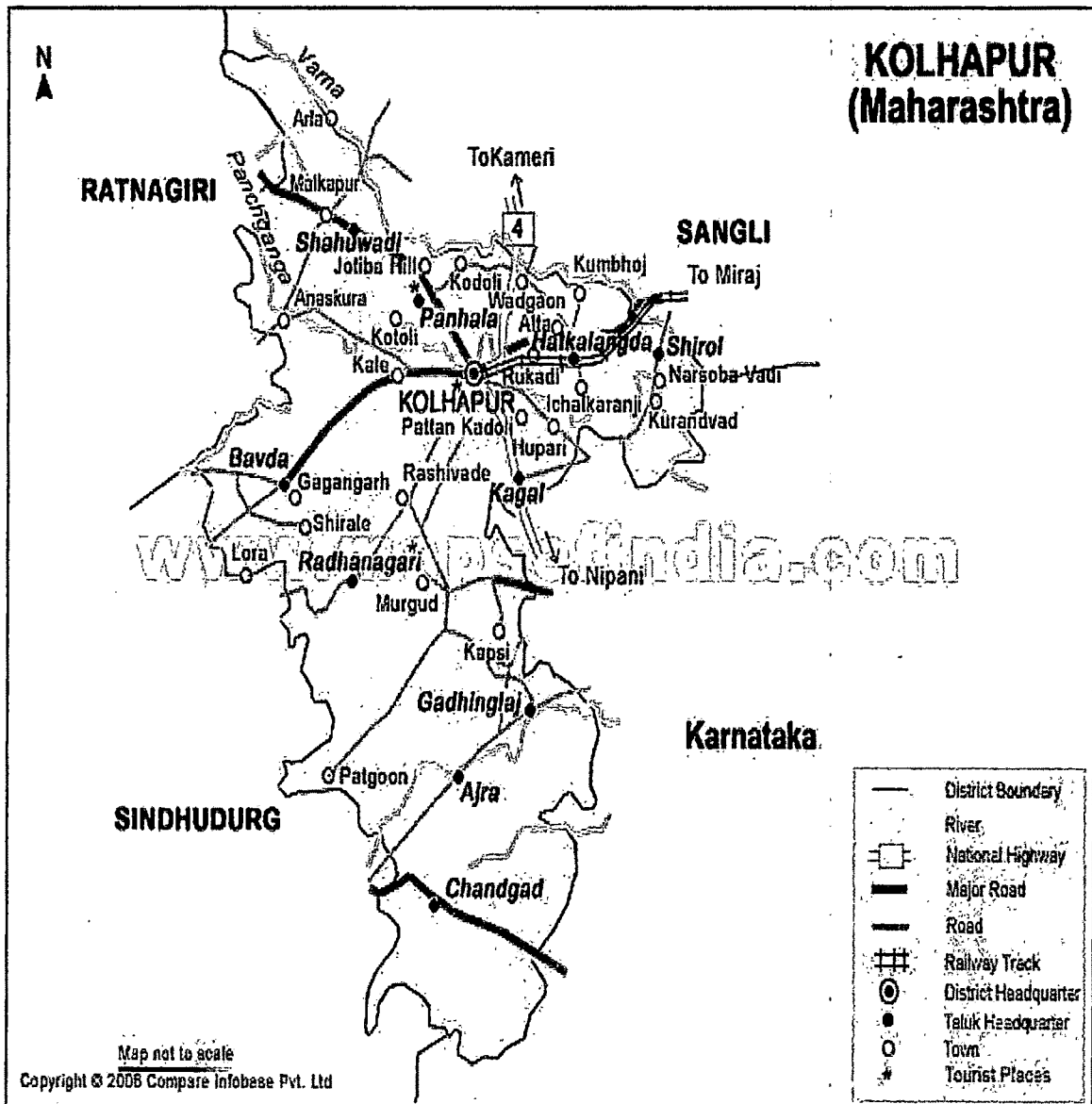
Kolhapur District is located between 15° and 17° North latitude and 73° and 74° East longitude. The district is bounded by Sangli district on the North, Belgaum district from Karnataka state on the southeast and Ratnagiri district on the west. Kolhapur district is situated at the far end of Maharashtra state on the southern side. The area of the district is 7685 sq. km. population, according to 2011 census, stood at 3874015 out of which, the urban population is 1229896 forming 31.75 percent of the total population of the district and the rural population is 2644119 forming 68.25 percent of the total population of the district. The district comprises 12 Taluka.

Kolhapur city is known as Dakshina Kashi. It is famous for Jaggery, Chappals and golden as well as silver ornaments. The district is endowed with three major economic resources, viz. agricultural land, abundance of mineral deposits and industrial infrastructure. It has excelled in co-operative activity which is manifest especially through sugar mills, milk dairies, spinning mills, urban banks, industrial units, industrial estates, housing etc. It has a well- established long – standing tradition in the areas of sports, fine arts, education, motion pictures, engineering industry, trade and commerce.

8. Urban Co-operative Banks in Kolhapur District :

The history of the co-operative movement in Kolhapur district is similar in many respects to that in the rest of the country yet; it has a special touch of the administration of the princely state. Co-operative movement in Kolhapur region was initially sponsored by the government officials of the erstwhile Kolhapur state and a few prominent social workers. The movement had taken inspiration from the trends of co-operative movement in the old Bombay presidency. After the passing of the co-operative societies Act of 1912, it was made applicable to Kolhapur state in 1913 and the first co-operative society, namely the urban co-operative credit society, was registered in that year. The co-operative mutual help associations, in the form of chit funds or paisa funds were already in operation very actively throughout the Kolhapur state. The saving habit and mutual co-operation, therefore, helped a great deal in organizing urban co-operative banks during the subsequent years.

Kolhapur District



The progress of the urban co-operative banks since 1911 is shown in Table 3.1.

Table No.3.1: Decade wise Establishment of Number of UCBs in Kolhapur District.

Sr. No.	Period	Number of banks Established	Percentage to Total
1	1911-20	4	6.35
2	1921-30	2	3.17
3	1931-40	4	6.35
4	1941-50	4	6.35
5	1951-60	5	7.94
6	1961-70	9	14.29
7	1971-80	11	17.46
8	1981-90	2	3.17
9	1991-2000	22	34.92
10	2001-2010	0	0
	Total	63	100 %

Source: Kolhapur District Urban Co-operative Banks Association Ltd. Kolhapur – Annual report (2000-01).

It is clear from Table 3.1 that UCBs up to 1960 was rather a slow activity. The period 1961 to 2000 presents a picture of phenomenal progress of the banks except the period 1981-90. 22 out of 63 banks were established during the decade 1991-2000. During the period of 2001-2010, no newbanks were established.

8.1 Financial Performance of the Urban Co-operative Banks in Kolhapur District:

The role of co-operative is very important in the financial inclusion. Financial inclusion scheme plays a very vital role in providing finance to urban and rural poor through small loan, no frill accounts, SHGs, priority sector, micro finance etc. since 1994-95 to 2010-11. The scheme provides timely and adequate banking facility to the urban and rural people. In urban areas numerous, persons of small means, like traders, merchants, artisans, factory workers, motor and lorry drivers are getting the benefits from UCBs. At present minimum documents are required to gain the benefits of the banking facilities under Know Your Customer(KYC) norms.

Following section deals with performance of urban co-operative banks in Kolhapur district. There are 50 banks in the district, having more than 5 Lac members.

Table No.3.2: Financial Performance of All Urban Co-operative Banks in Kolhapur District (Rs. In Lakh)

Years	Particulars					
	Total No. of Banks	Member	Deposits	Loan & Advances	Working Capital	Paid up Capital
1994-95	42	529623	59859.05	45037.5	73365.1	2225.87
1997-98	57	563601	90392	68416.8	110596	3319.62
2000-01	63	706449	182267.96	123851	217275	4757.12
2003-04	62	706828	274060.92	178405	326768	6609.93
2006-07	62	681056	361478.08	228196	405174	9256.7
2010-11	50	580819	435534.1	273852	522912	13310.7
CGR	3.2	3	51.3	45	49.7	42.3

Source: Kolhapur District Urban Co-operative Banks Association Ltd. Kolhapur – Annual reports (1994-95 to 2010-11)

The table 3.2 illustrates performance of UCBs in Kolhapur District. From 1997-98 to 2010-11 only 50 banks survived. Members of all UCBs shows increased from 1994-95 to 2003-04 and then after decreased, its CGR is 3 per cent. There is perfect balance between working capital and loans and advances in the respective units. As the working capital and loan and advances are increased, its CGR is 45 per cent and 49.7 per cent respectively. Even though number of banks decreased, but totals all UCBs CGR is 3.2 per cent. The deposit amounts indicate upward trend, its CGR is 51.3 per cent. It shows the goodwill of the banks helped them to survive in economic crisis.

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