

CHAPTER IEVOLUTION OF URBAN COOPERATIVE BANK(A) Historical Development

Towards the end of the 19th century, the condition of rural masses in India was quite deplorable. The country side was studded with problems of poverty, ignorance, improvidence and ancestral debt and occasional outbreaks of natural calamities. The rural poor was being exploited by moneylenders, by way of charging usurious rates of interest. At some places of the country, peasants rose against the moneylending classes. With a view to save the peasants from the clutches of moneylenders, Provincial Government enacted several laws for relief, such as Deccan Agricultural Relief Act (1879), Land Improvement Loans Act (1883) and Agriculturists' Loan Act (1884). These measures however did not prove much of a success due to stringent and cumbersome official procedures.

In 1892, the Government of Madras Presidency deputed one of their senior officers, Sir Fredrick Nicholson to study the theory and practice of cooperative structure in England and Germany, and to examine the feasibility and modalities of their introduction in the situation. Nicholson in his report (1907) observed that "we must find" Raiffeisen in India". In 1901, the Government of India appointed a committee under the chairmanship of Sir Edward Law, to study the prevailing economic condition in the country. The Committee recommended the introduction of

co-operative credit societies on the Raiffeisen model. The Government accepted the recommendations. Accordingly, the cooperative credit societies Act came into force in 1904. The provision of appointment of Registrar of Cooperative Societies was also made in the Act of 1904.

With the enactment of this Act, many credit societies started coming up and till the end of 1909-10 there were 0.02 lakh societies with 1.60 lakh members and working capital of Rs.6.80 million. There was, however, no provision for the establishment of non-credit societies or central agencies. In order to rectify this shortcoming the Government passed a comprehensive cooperative societies Act 1912. It provided for registration of all types of societies-credit, non-credit and apex federations. In order to assess the quantitative and qualitative progress of the movement the Government of India appointed a committee on October 8, 1914, under the chairmanship of Sir Edward Maclagan. The committee recommended stoppage of further registration of societies and structural grouping of societies into three classes - primary societies, central banks at the district level and provincial banks and federations of societies as apex banks at the provincial level.

The Maclagan Committee (1915), Central Banking Enquiry Committee (1931), Co-operative Planning Committee (1946), Varde Committee (1961) have from time to time, made valuable recommendations for further growth and development of co-operatives on sound lines.

The usefulness of the organization of non-agricultural credit societies was recognized in 1911. The people living in urban area such as middle class people, traders, salary earners and labourers organised their own societies which in later years paved the way for formation of urban banks. The beginning of urban co-operative credit movement in India traced bank to the formation of mutual aid society by middle class Maharashtrian families in Baroda as far back as 1889.

The economic boom created by the second world war (1939-45) provided stimulus to the growth of urban banks in India.

After the emergence of the planned economy the emphasis was laid on improving productivity and increasing production in all the economic sectors of the country. Therefore, in 1966, the urban co-operative banks were brought within the purview of the Banking Regulation Act of 1949 (as applicable to the co-operative banks). It is, however, noticed that about 80 % of the urban banks are concentrated in Maharashtra, Gujarat, Karnataka and Tamil Nadu.

(B) Meaning, Objectives And Pattern of Loaning

Definition as given in Maharashtra Co-operative Societies Act, 1960, is as follows :

"Co-operative bank means a society which is doing the business of banking as defined in clause (b) of sub-section (1) of Section 5 of the Banking Companies Act, 1949, and includes any society which is functioning or

is to function as a Land Development Bank under Chapter XI".

Urban Co-operative Bank is a co-operative bank working normally in an urban or semi-urban area.

Objectives of Urban Co-operative Banks

The main objectives of urban co-operative banks are as follows :

- a) to attract deposits from members and non-members.
- b) to advance loans to members.
- c) to undertake collection of bills, accepted by members.
- d) to provide other facilities as provided by the commercial banks.
- e) to arrange for safe custody of valuable documents of members.

Pattern of Loaning of Urban Co-operative Bank

The urban co-operative banks are allowed by the Reserve Bank of India to enjoy the facility of adding 75 % of their paid up share capital and reserves to its total time and demand liabilities for the purpose of the directives issued by the Reserve Bank of India in connection with their loans and advances.

A director may, subject to the provisions of byelaws of the bank and co-operative societies Act of the State concerned

and rules framed thereunder, stand surety for not more than two persons upto the extent such members are eligible for the loan as per the Reserve Bank's directive.

Apart from loans and advances, the other credit facilities to be taken into account for arriving at various ceilings stipulated in the RBI directive are :

- a) bills purchased/discounted.
- b) pre-shipment and post-shipment facilities.
- c) deferred payment grantee limits extended for any purpose and
- d) guarantees by issue of which a bank undertakes financial obligation to enable its constituent to acquire capital assets.

The following credit facilities are outside the purview of the directive.

- a) Advances/credit limits sanctioned against fixed deposits.
- b) Advances sanctioned against the security of Government and other trustee securities.

For the purpose of the directive, unsecured advances shall include clean overdrafts, loans against personal security, clean bills or multani hundies purchased or discounted and cheque purchased.

Secured Advances

- i) advances backed by guarantees of the central or state Governments, Public Sector Financial Institutions, Banks and Deposit Insurance and Credit Guarantee Corporation.
- ii) advances against supply bills drawn on the Central or State Governments.
- iii) advances against trust receipts.
- iv) advances to salaried employees subject to the condition that instalments are actually recovered from the employee's salary.
- v) advances against book debts which are not outstanding for more than 90 days.
- vi) cheques issued by Government and Public Corporations and Local Self-governing institutions.
- vii) advances in the form of packing credit for exports.
- viii) demand drafts purchased.
- ix) advances against legal assignment on contract moneys due or to become due.

Maximum Limit on Advances

As per Reserve Bank's directive the maximum limits on advances that may be granted by urban banks are as follows :

Category of advance	Maximum limits in case of banks whose total time and demand liability are		

	Less than	: Rs.1 crore	: Rs.10
	1 crore	: and above	: crores
		: but less	: and above
		: than Rs.10	:
		: crores	:
i) All types of advances (secured and unsecured) to any single party/connected group or to a director (including relatives).	5 % of TDL or Rs.5 lakhs whichever is less	5 % of TDL or Rs. 20 lakhs whichever is less	Rs.40 lakhs
ii) Unsecured advances inclusive of clean bills or Multani hundies and cheques purchased to a director (including relatives) or to any other single party/connected group.			
a) For trade, commerce, cottage and Small Scale industries, poultry, bee keeping, dairying etc.	Rs.15000/- or 5 % of TDL whichever is less	Rs.20000/-	Rs.25000/-
b) For housing (including additions/repairs) and education.	Rs.15000/-	Rs.20000/-	Rs.25000/-
c) Other purposes.	Rs.5000/-	Rs.5000/-	Rs.5000/-
iii) Advances of all types to all directors and their relatives and to concerns in which directors or their relatives are interested in the aggregate.	10 % of TDL	10 % of TDL	10 % of TDL

Category of advance	Maximum limits in case of banks whose total time and demand liability are		

	Less than : Rs.1 crore	: Rs.10	
	1 crore	: and above	: crores
		: but less	: and above
		: than Rs.10	:
		: crores	:
iv) Unsecured advances to all directors and their relatives and to concerns in which its directors are interested in the aggregate.	Rs.5000/- or 10 % of TDL whichever is less.	Rs.1 lakhs	Rs.2 lakhs
v) Total unsecured advances to the members as a whole.	33.33 % of TDL	33.33 % of TDL	33.33 % of TDL

Interest Rates on Advances

According to the Reserve Bank's directive the interest rates of urban banks are fixed with effect from 1-4-1987 as under :

Particulars	Rate of interest (p.a.)
1) <u>Small Scale Industry</u>	
<u>Composite loans upto Rs.25000/-</u>	
a) Backward areas	Not exceeding 11.00
b) Other areas	Fixed rate 12.00
<u>Short Term advances</u>	
a) Limits upto and inclusive of Rs.2 lakhs.	Upto 14.00
b) Limits over Rs.2 lakhs and upto Rs.25 lakhs.	Upto 15.50
c) Limits above Rs.25 lakhs	Fixed rate 16.50

Particulars	Rate of interest (p.a.)
2) <u>Other categories</u>	
<u>Retail trade advances</u>	
a) Limits upto and inclusive of Rs.5000/-	Upto 14.00
b) Limits over Rs.5000/- and upto Rs.25000/-	Upto 15.00
c) Limits above Rs.25000/-	Upto 16.50
<u>Educational advances</u>	
a) Indigent students for purpose of higher education in India	Not less than bank rate.
b) Other educational advances	Upto 14.00-15.50
<u>All other advances</u>	
	Upto 16.50
3) <u>Term loans</u>	
<u>Small Scale Industry</u>	
a) Backward areas	Upto 13.50
b) Other areas	Fixed rate 13.50
<u>All other term loans</u>	
	Upto 15.00
4) Public procurement and Distribution Agencies for procurement of cotton	
a) to co-operative institutions	13.50
b) to institutions other than cooperative	15.50
5) Advances to Agencies entrusted by the Government with the procurement and distribution of commodities for the sale on commercial basis.	
	16.50
6) Advances against commodities subject to selective credit control measures.	
	16.50
7) <u>Exports</u>	
<u>Preshipment credit</u>	
i) upto 180 days	9.50
ii) beyond 180 days and upto 270 days	11.50

Particulars	Rates of interest (p.a.)
<u>Postshipment credit</u>	
i) Demand bills for transit period	9.50
ii) Usance bills upto 180 days	9.50
iii) Cash incentives, duty drawback etc.	9.50
<u>Deferred credit</u>	
Beyond one year	8.65
<u>Duty-draw back credit scheme</u>	
Upto 90 days	No interest
<u>Export Credit not otherwise stated.</u>	14.00 - 15.50

Lending To Priority Sectors

Priority sector advances are those which may be given to weaker sections of the community.

Reserve Bank of India (RBI) gave specific directive with regard to advances to priority sector by the urban co-operative bank in September, 1983. RBI advised the urban co-operative banks to achieve the following targets.

i) The urban co-operative banks should achieve the target of 60 % of their total advances for priority sector lending by 30th June, 1985;

ii) In the case of banks with priority sector lendings at less than 40 % of their total advances as on 30th June 1983, they should raise the same by 10 % each year over the next two years;

iii) Of the total priority sector advances atleast 25 % (or 15 % of the total loans and advances) should have been advanced to weaker section by the above date i.e. 30th June, 1985;

iv) Banks should maintain separate record for compiling information relating to credit to priority sector and to weaker section;

v) The performance of priority sector advances by the bigger urban co-operative banks with working capital exceeding Rs.5 crores will be monitored by the RBI. The performance of smaller banks will be monitored by the local association of urban co-operative banks;

vi) The stipulations regarding priority sector lending will not be applicable to the salary earners type of primary co-operative banks for the purpose.

Further details regarding RBI directive pertaining to lending to priority sector are as follows :

	<u>Upto 30th June 1985</u>	<u>After 30th June 1986</u>
i) Advances to individuals for activities allied to agriculture	Persons with borrowal limits not exceeding Rs.10,000/-	Persons with borrowal limits not exceeding Rs.10,000/-
ii) Loans and advances to cottage and small scale industries and equipment/systems for the development of new and renewable sources of energy	Advances upto Rs.25,000/-	Advances upto Rs.25,000/-
iii) Advances to road and water transport operators for purchase of one vehicle	Advances upto Rs.25,000/- for purchase of cycle rickshaws, auto rickshaws, small boats etc.	Advances upto Rs.30,000/- for purchase of cycle rickshaws, auto rickshaws, small boats etc.
iv) a) Private retail traders dealing in essential commodities	Advance upto Rs.10,000/-	Advance upto Rs.20,000/-
b) Other private retail traders with credit limits not exceeding Rs.50,000/-	Advance upto Rs.10,000/-	Advance upto Rs.20,000/-
v) Small business enterprises	Advance upto Rs.10,000/-	Advance upto Rs.20,000/-
vi) Professional and self-employed persons	Advance upto Rs.10,000/-	Advance upto Rs.20,000/-
vii) Educational loans	Advance to persons having annual income not exceeding Rs.3500/-	Advances to persons having annual income not exceeding Rs.600/-
viii) Housing loans upto Rs.25,000/-	All advances under this category to scheduled castes/scheduled tribes and women	All advances under this category to scheduled castes/scheduled tribes and women
ix) Consumption loans upto Rs.500/- per individual	All advances under this category to scheduled castes/scheduled tribes and women.	All advances under this category to scheduled castes/scheduled tribes and women.

C) Position of Urban Co-operative Banks

Position of urban co-operative banks in India at the national level is shown in Table No.1.1 given below.

Table No.1.1

Statement showing the Position of Urban Co-operative Banks in India during 1983-84 to 1985-86

S. No.	Particulars	1983-84	1984-85	1985-86
1.	Total number of urban banks	1310	1331	1346
2.	Total number of offices of urban banks	2751	2897	3031
3.	Deposits (Rs.crores)	2659	3255	3939
4.	Loans outstanding (Rs.crores)	2103	2524	3046

Source - R.B.I. Report (Vol.1) 1986-87.

The number of urban banks as at the end of June 1986, stood at 1346. There were 3031 offices of the urban banks operating in the country. The deposits mobilised by the urban co-operative banks rose from Rs.3255 crores to Rs.3939 crores, showing an increase of 21 % over the year as compared to 22.4 % increase during the previous year. Over the year, the loans outstanding of urban banks rose by 20.7 % to Rs.3046 crores.

Position in the State of Maharashtra

Out of 1346 banks in the country as of 30th June, 1986, 378 (28 %) banks were in the state of Maharashtra. The position of the urban co-operative banks in Maharashtra is shown in the following two tables.

Table No.1.2

Statement showing Key figures Relating to Urban Co-operative Banks in Maharashtra as On 30th June, 1986

S. No.	Particulars	Position as on 30-6-1986
1.	Number of urban banks	378
2.	Number of Branches (including H.O.)	1037
3.	Total number of members (including nominal members)(In lakhs)	39.62
4.	Share capital (Rs. in crores)	96.65
5.	Reserve and other funds (Rs. in crores)	135.44
6.	Total deposits (Rs. in crores)	2011.56
7.	Total loans outstanding (Rs. in crores)	1435.70
8.	Overdues (Rs. in crores)	145.42
9.	Total working capital (Rs. in crores)	2591.26
10.	Total profit in year (Rs. in crores)	28.37

Source - Statistical statements relating to operations of Urban Co-operative Banks in Maharashtra (1985-86) published by The Maharashtra State Co-operative Banks Association Ltd., Bombay.

Following Table shows the position of urban co-operative banks in respect of their advances as of 30th June, 1986.

Table No.1.3

Statement showing the Position of Urban Co-operative Banks in Maharashtra with reference to their Loans and Advances as on 30th June, 1986.

S. No.	Purpose	No. of borrowers (In lakhs)	Loan amount (Rs. in crores)
1.	Small Scale Industries	0.40	244.71
2.	Professional and self-employed	0.46	52.51
3.	Small Transport Operators	0.51	132.41
4.	Retail Traders	1.42	197.27
5.	Wholesale Traders	0.29	149.56
6.	Agricultural and Allied activities	0.56	28.32
7.	Educational purpose	0.28	14.11
8.	House purpose	1.76	162.27
9.	Other domestic purpose	7.65	439.16
		13.33	1420.32

Source - Statistical statements relating to operations of Urban Co-operative Banks in Maharashtra published by the Maharashtra State Co-operative Banks' Association Ltd., Bombay.

As per the data published in the above mentioned statistical statements published by the Maharashtra State Co-operative Banks' Association Ltd., Bombay and also per the records of District Deputy Registrar, Co-operative Societies, Kolhapur there were 42 urban co-operative Banks in Kolhapur District as on 30th June, 1986. Shri Balbhim Co-operative Bank Ltd., Kolhapur is one of these 42 urban banks in the district.