

Chapter 1

Growth And Performance of UCBs in General

1. Introduction

Co-operative Banking was stated in this country to remedy the proverbial poverty of millions of small agriculturists. It was adopted as the most useful weapon for ending stagnation of the poor masses. While commercial banks cater to the requirement of the highly organized industries and commercial undertakings and organization, the co-operative banking in India, as elsewhere provide banking facilities to the highly disorganized agricultural sector of the country's economy. The task assumed by the co-operative bank is thus, the most difficult one. Notwithstanding the similarity between the functions, the two differ fundamentally from each other. Commercial credit is motivated by tangible security offered by the borrower and degree of ease and promptitude credit is guided by principles of mutual help and thrift and is accentuated by service rather than profit.

2. Co-operative Banking – Definition

Devine define a co-operative bank as “a mutual society formed, composed and governed by working people themselves for encouraging regular saving and granting small loan on easy terms of interest and repayment”.

A co-operative bank, thus must be essentially co-operative in character and must deal in credit which satisfies the requirement of ideal credit. A co-operative bank promotes economic activity and provides banking facilities and services to rural people. Thrift and saving is the fulcrum of working of co-operative banks. Co-operative lending is the means to promote thrift and saving and service and profit is not chief motto. Personalization of credit is a special feature of co-operative banking.

The significance role of co-operative banks is in agricultural economy. The co-operative banks facilitate the agriculturists to borrow at the right time and in right amount and for right purpose and to repay on the right dates; and they alone can facilitate him to save so that he may not have to borrow at all. Their organization has also led to Mahajans and Sahukars to reduce their lending rates. The co-operative banks do not hesitate in accepting non-members

as their customers and thus, they spread the message of co-operative principle and extend their benefit to wider section of population.

3. Co-operative Banking Structure

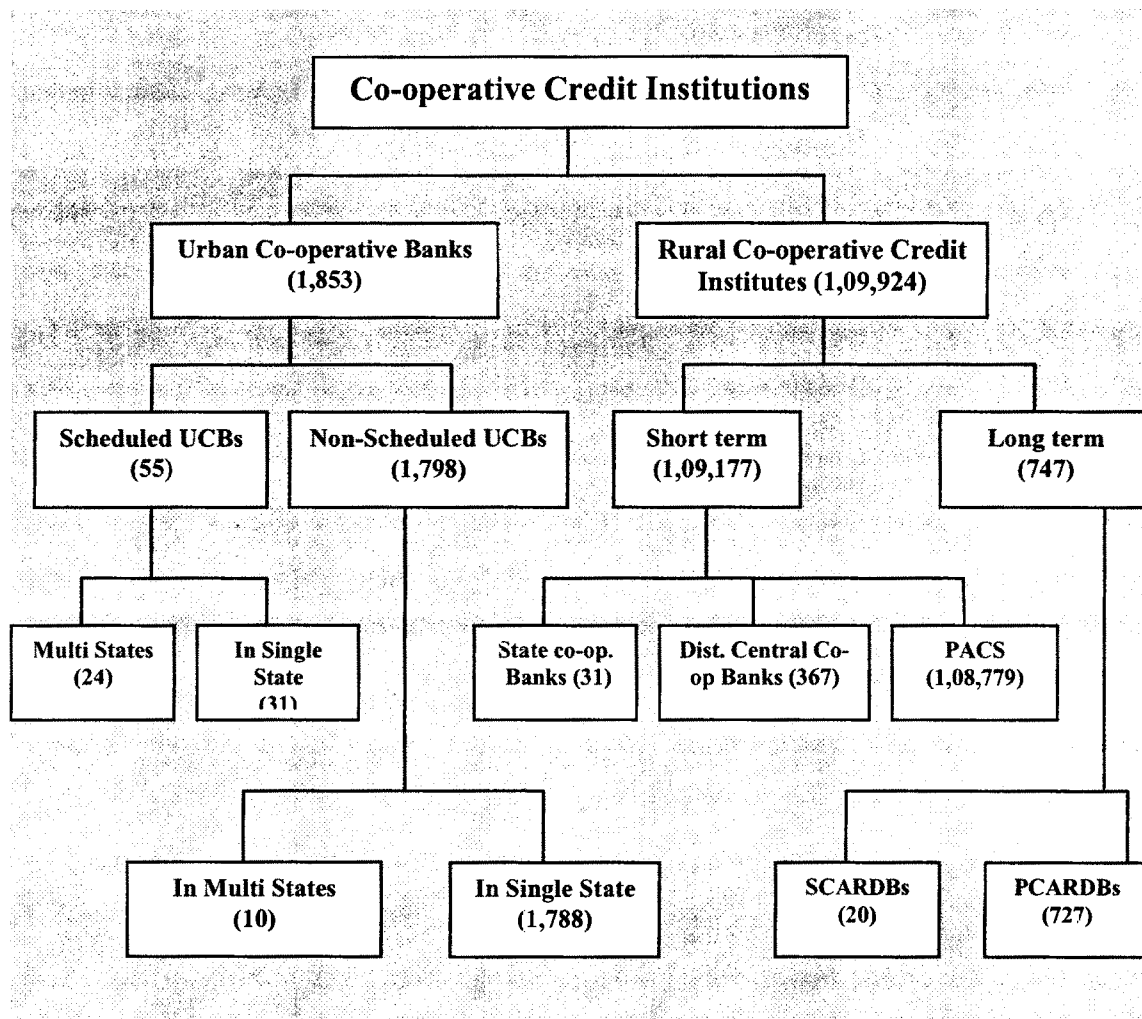


Chart I – Co-operative Banking Structure

In respect of co-operative banks there are two types i.e. UCBs and Rural co-operative banks. The UCBs is divide into Scheduled UCBs and Non-Scheduled Co-operative Banks. Further it divide into Multi-state banks and Single state banks. The Rural co-operative Banks have two main types i.e. Short Term and Long Term Banks. The Short Term Banks are State Co-operative banks, District Central Co-operative Banks and Primary Agricultural Credit Society. The Long Term Co-operative Banks are State Co-operative

Agricultural and Rural Development Banks and Primary Co-operative Agricultural and Rural Development Banks. Chart No. I shows the co-operative banking structure along with their numbers as at the year end March 2006.

4. What is Urban Co-operative Bank?

Among the non-agricultural credit societies Urban C-operative banks occupy an important place. They cater the credit needs of people residing in urban area. They advance loans mostly to small traders, artisans and salary earners on personal security as well as against gold, silver and produce. They accept deposit of various types and thereby afford facilities for investment to person of small means. Like the commercial banks and central banks, many of them provide banking facilities of various kinds to their members and customers.

Definition of UCB :

The study group on Credit Co-operative in the Non-Agricultural sector has recommended that the definition of an Urban Co-operative bank should include the following features ;

- a) a credit co-operative registered under the State Co-operative Act in Urban or Semi-urban areas,
- b) a minimum paid up capital of Rs. 50,000 and
- c) provision of banking facilities, e.g. accepting for the purpose of lending or investment of deposit from members and non-members repayable on demand or otherwise, and withdrawal by cheque, draft, order etc.

5. Objectives and Functions of UCBs:

The main objectives and functions of the UCBs are as follows

- i) To attract deposits from members as well as non-members.
- ii) To advance loan to members.

- iii) To act as the agent for the joint purchase of domestic and other requirement of the members.
- iv) To undertake collection of bills, accepted or endorsed by members.
- v) To arrange for the safe custody of valuable documents of members.
- vi) To provide other facilities as provided by commercial banks

6. Growth & Performance of UCBs in India:

6.1 Growth & Performance of UCBs in India during the year 1999 to 2000 .

Performance related to operation of UCBs in India from the period 30/06/1991 to 31/03/2000, covering decade of present study has been depicted in Table no. 1.1.

Table No. 1.1

Growth & Performance of UCBs in India during the year 1999 to 2000

(Rs. In Crores)

Year ended	No of Banks Reported	% increased	Deposits	% increased	Advances	% increased
1991	1,306	(00.50)	10,157	17.29	8,003	17.66
1992	1,401	07.27	11,108	09.36	8,713	08.87
1993	1,399	(00.14)	13,531	21.81	10,132	16.29
1994	1,400	00.71	16,769	23.93	12,172	20.13
1995	1,431	02.21	19,711	17.54	14,520	19.29
1996	1,501	04.89	24,165	22.60	17,908	23.33
1997	1,653	10.13	30,714	27.10	21,550	20.30
1998	1,502	(09.13)	40,692	32.49	27,807	29.03
1999	1,587	05.66	52,617	29.31	34,172	22.89
2000	1,781	12.22	71,183	32.29	45,993	34.59

Source : 1.Statistical Statement Relating to the Co-operative movement in India RBI
2.Supplement to RBI Bulletin Dec. 2000.

It indicates that UCBs in India were continue to register a steady growth in respect different variables i.e. no. of banks, deposits,

advances. The reported no. of the UCBs is increased from 1,306 as at the year end March 1991 to 1,781 as at the year end March 2000, showing 1.47 times growth.

The deposits of UCBs are increased form Rs. 10,157 crores as at the year end March 1991 to Rs. 71,183 crores as at the year end March 2000. There is continuous increase in every year. The average annual growth rate is 23.37 % and it is satisfactory. Similarly loans and advances are increased form Rs. 8,003 crores as at the year end March 1991 to Rs. 45,993 crores as at the year end March 2000. The annual growth rate of deposits is ranged between 9.36 % to 32.49 %. And that of loans and advances are ranged between 8.87 % to 34.59%.

The growth profile of the UCBs is quite impressive. The deposits and advances are far outstrip that of commercial banking sector. The growth of deposits of UCBs during the year 1998-1999 and 1999-2000 stood at 29.31 % and 32.29 % against 19.3 % and 13.9 % of commercial banks respectively. Similarly, advances registered 22.89 % and 34.59 % growth during the year 1998-1999 and 1999-2000 respectively, as against 13.8 % and 18.2 % growth by commercial banking sector for that year.

6.2 Growth & Performance of UCBs in India during the year

2001 to 2006.

The overview of the growth of the UCBs since year 2001 to 2006 is given in the Table no. 1.2. As at year end March 2001 there were 1618 banks. Upto 2003 the no. of banks were indicated increasing trend. From the end of the year 2003 to 2006 there were decline in respect of no. of banks and it stood at 1853 as on year end March 2006.

Table No. 1.2

Growth & Performance of UCBs in India during the year 2001 to 2006.

(Rs. In Crores)

Year ended	No of UCBs	% increased	Deposits	% increased	Advances	% increased
2001	1618	7.7	80840	13.57	54389	18.25
2002	1854	14.6	93069	15.10	62060	14.10
2003	1941	4.7	101546	09.10	64880	04.50
2004	1926	(6.8)	110256	08.60	67930	04.70
2005	1872	(2.8)	105021	(04.70)	66874	(01.60)
2006	1853	(1.1)	112237	06.90	70379	05.20

Source: 1. Statistical Statement Relating to the Co-operative Movement in India RBI
2. Supplement to RBI Bulletin Dec. 2000.
3. Dr. Roy P.P. "Management of UCBs"

As at year end March 2001 the deposits were Rs. 80,840 crores it were increased to Rs. 1,12,237 crores as at year end March 2006. Similarly the advances were Rs. 54,389 crores as at year end March 2001 and it were increased upto Rs. 70,379 crores as at year end March 2006. Though there was increase of deposits and loans in absolute term the growth rate was declining form year to year.

The decline in no. of the UCBs might be due to decline in public confidence in respect of UCBs, which is due to crisis in the Gujarat and Andhra Pradesh. The position of UCBs generally deteriorated as, on June 30, 2004, 732 out of 1919 UCBs were categorized in Grade III or IV signifying weakness and sickness. Recognizing the risk, RBI reviewed the entire legislative, regulatory and supervisory framework for banks and in March 2005, brought out a Draft Vision Document for UCBs.

6.3 Region-wise distribution of UCBs in India as on 31March, 2006

The distribution of UCBs across the country is skewed, with significant concentration in southern and western regions. Only western region cover almost 50 % of the UCBs and the deposits and loans and advance are 78 % of

the total deposits and loans of UCBs. East and North region has vary minimum growth in respect of UCBs. Table No.1.3 gives the region wise distribution of number of UCBs and share of deposits of each region for the period ended on 31 March, 2006

Table No 1.3

Region-wise distribution of UCBs in India as on 31March, 2006

Region	No of Banks	% Share in Total	Deposits (In Crores)	% Share In Total	Advances (In Crores)	% Share in Total
West	926	49.97	87,063	77.57	54,726	77.76
South	613	33.08	16,003	14.26	10,429	14.82
North	231	12.47	6,389	05.69	3,544	05.04
East	83	04.48	2,781	02.48	1,679	02.39
Total	1853	100.00	1,12,237	100	70,379	100
Source: Evaluation of the banks, current issues in Corporate Governance & Challenges In their Regulation & Supervision (Late Shri R.N. Godbole Memorial Lecture 2006)						

6.4 Grade wise distribution of UCBs in India as on 31March, 2006

Table No. 1.4

Grade wise distribution of UCBs in India as on 31March, 2006

Grade	No of banks	% Share in Total	Deposits (Rs. In Crores)	% Share in Total
I	716	39	64,941	57.86
II	460	25	18,580	16.54
I+II	1,176	63	83,521	74.40
III	407	22	13,879	12.38
IV	270	15	14,838	13.22
III+IV	677	37	28,717	25.60
I+II+III+IV	1,853	100	1,12,237	100
Source: Evaluation of the banks, current issues in Corporate Governance & Challenges In their Regulation & Supervision (Late Shri R.N. Godbole Memorial Lecture 2006)				

As part of its on-site inspection exercise RBI has a system of categorizing banks into four grades based on objective parameters, compliance with CRR/SLR, requirement and adherence to RBI guidelines and directives. While Grade I covers banks with no major supervisory concerns, the other three grades would indicate existence of supervisory concerns in increasing degree. Table No 1.4 gives the grading wise distribution of the banks as on 31 March 2006. (as per provisional data). It is seen that 37 % of UCBs in the country, accounting for 25.60 % of total deposits, were in Grade III and VI signifying weakness/ and sickness. While the remaining major portion (63%) of UCBs, accounting for 74.40% of total deposits, were in Grade I and II indicating good / satisfactory performance.

7. Growth & Performance of UCBs in Maharashtra during the year 1999 to 2000

Historically Maharashtra has always been in the forefront of the co-operative movement in India. It was the leadership provided by eminent men like shri Vaikunthalal Mehta, Professor Dr. Gadgil and Prof. D.G.Karve which was largely responsible for such a remarkable progress made by co-operative movement. Table No. 1.5 for the period from 1991 to 2000 indicates growth/operation of UCBs in Maharashtra. It can be seen that, number of reporting UCBs in Maharashtra is decreased in the years 1992, 1993 and 1995 but there is continuous increase in every other years. The total reporting UCBs in Maharashtra in 1991 is 381 and it is increased to 528 to the year ended on March 2000. So there is 1.38 times increase in no. of reporting UCBs.

Table No.1.5**Growth & Performance of UCBs in Maharashtra during 1999-2000.****(Rs. In Crores)**

Year ended	No of Banks Reported	% increased	Deposits	% increased	Advances	% increased
1991	381	--	5,794		4,371	--
1992	371	(2.62)	6,363	09.82	4,740	08.44
1993	386	(0.81)	7,607	19.55	5,296	11.73
1994	371	(0.82)	9,826	29.17	6,686	26.25
1995	370	(0.27)	11,304	15.04	7,943	18.80
1996	402	8.65	14,092	24.66	10,070	26.78
1997	459	14.18	17,871	26.82	12,263	21.78
1998	482	05.01	22,215	24.31	14,975	22.12
1999	510	05.81	25,499	14.78	16,688	11.43
2000	528	03.53	22,769	28.51	21,300	27.64
AAGR				21.41		17.15

Source : Statistical Statement Relating to Operation of UCBs in Maharashtra.
The Maharashtra State Co-operative Bank Association Ltd. Mumbai.

The deposits is raised form Rs. 5794 crores at the year end March 1991 to Rs. 32,769 crores as at the year end March 2000, showing an annual average growth rate of 21.41 % and an increased of 5.66 times. This shows the confidence of public on UCBs. On the other hand total advances outstanding is increased form Rs. 4371 crores as at the year end March, 1991 to Rs. 21,300 crores as at the year end March, 2000 showing an annual average growth rate of 17.15 % and increase of 4.87 times.

8. Growth & Performance of UCBs in Kolhapur District During the year 1999-2000

The Kolhapur is known as Dakshin Kashi, is an ancient land. The population of district as per 2001 census stood at 35,15,413. Table No.1.6 is related to analysis of performance of UCBs in Kolhapur district for the period from 30/06/1991 to 31/03/2000

The position of co-operative movement in Kolhapur district revealed that, there were 8,937 co-operative societies serving 36.81 lakhs members as at year end March, 1999. Out of total co-operative societies 0.69% belong to UCBs i.e. 62 as at year end March, 1999 having 6.57 lakhs members. Further Urban co-operative societies and bhishies were 1,984 and Salary earners co-operative societies were 274, which means 26 % i.e. 2320 of total co-operatives belongs to Urban co-operative movement including UCBs. The first UCB in Kolhapur district was registered as on 24/05/1913.

Table No. 1.6
Growth & Performance of UCBs in Kolhapur district during 1991-2000

Rs. In Lakhs

Year ended	No of Banks	Total Members	% increased	Deposits	% increased	Advances	% increased
1991	42	4.79	--	40,200	--	32180	--
1992	42	4.64	(3.13)	40,182	(00.04)	33391	03.76
1993	42	4.93	6.25	44,385	10.46	35094	05.10
1994	42	5.30	7.51	59,859	34.86	45037	28.33
1995	43	5.33	0.57	65,206	08.93	53360	18.48
1996	44	5.32	(0.19)	74,307	13.96	60830	14.00
1997	57	5.64	6.02	90,392	21.65	68417	12.47
1998	61	5.99	6.21	1,14,693	26.88	82270	20.25
1999	61	6.57	9.68	1,52,492	32.96	99983	21.53
2000	63	7.06	7.46	1,82,268	19.53	123851	23.87

Source : Statistical Statement Relating to Operation of UCBs in Maharashtra.

The Maharashtra State Co-operative Bank Association Ltd. Mumbai.

There was no increase or decrease in UCBs in 1991 to 1994. But thereafter UCBs in the district is increased considerably i.e. from 43 in 1995 to 63 by the year ended on March 2000. Due to liberalized licensing policy after 1996 about 20 UCBs have been established upto the year ended on March 2000. Similarly total no. of member of bank has grown from 4.79 lakhs to 7.06 lakhs in year ended on March 2000.

There have been remarkable growth in deposits of UCBs in Kolhapur district from 1991 to 2000. During this period deposit is grown from Rs. 40,200 lakhs to Rs. 182,268 lakhs. The average range is between 8.93% to 34.86 % except decrease of 0.04% as at year end March, 1993. The AAGR of deposits of UCBs in Kolhapur district is 25 %, which has attained by these banks in 3 out of 10 years of study.

In respect of loans and advances, it indicated that there was continuous growth in every year under study. The advance have been increased from Rs. 32,180 lakhs in year ended on March 1991 to 123,851 lakhs as at year end March, 2000. the average of advances of UCBs in Kolhapur district is ranged from 3.76% to 28.33% and AAGR is 16.42 %.

The remarkable growth in deposits and loans and advances of UCBs in Kolhapur district, reflect their success of them in winning confidence of people at a large.