Abstract

The Indian cooperative movement, which is primarily meant for the welfare of common people, is one of the largest voluntary movements in the world and the urban cooperative bank is one of its important constituents. There are many types of cooperative societies, among them cooperative banking sector forms an important segment of the cooperative movement. Agricultural and non-agricultural credit societies are the roots of cooperative banking sector. Urban Co-operative Banks (UCBs) works on the principles of cooperation, self-help and mutual-help, are playing a very crucial & key role in catering to the credit needs of persons’ of small means. These UCBs are striving relentlessly to address the issues of economic inequality and the concentration of wealth that are causing exploitation of weaker sections by the stronger. As such, Indian UCBs performs a significant developmental role by catering the needs of small depositors and borrowers, mainly in the urban informal sector that are deemed non-credit worthy by the commercial banks. In this paper an attempt has been made to identify the key aspects of Urban Co-operative Banks and also to review the historical development of urban cooperative banks in India. This paper also reveals the present status of Urban Co-operative Banks in modern India. The authors in this paper will also make an attempt to highlight the significance and the challenges of Urban Co-operative Banks. The focal point of this research study is to identify the key linkages between Urban Co-operative Banks and Growth of Co-operative Banking sector.

Keywords: Urban Co-operative Banks, Co-operative Banking, Co-operative Movement in India, Banking Reforms

1. INTRODUCTION

Initially, most of the urban cooperative banks in India were organized as credit cooperative societies and later converted into urban cooperative banks. Up to about 1939, the term 'bank' was loosely used by many societies and there was hardly any distinction made between the urban cooperative bank and the urban cooperative credit society. The Mehta-Bhansali Committee (1939) made an attempt for the first time, to define an urban cooperative bank. However, for the first time in the history of cooperative banking, a statutory definition of urban cooperative bank has been laid down in the Banking Regulation Act 1949, when it was made applicable to the cooperative banks from the 1st of March, 1966. As per the Banking Regulation Act 1949, an urban cooperative bank is called a 'Primary Cooperative Bank' and is defined as - ...a cooperative society, other than the primary agricultural credit society, whose primary object is the transaction of banking business, the paid up share capital and reserves of which are not less than one lac of Rupees and the byelaws of which do not permit admission of any other cooperative society as a member.
History of Urban Co-operative Banks In India

The Urban Co-operative Banks (UCBs) usually refer to primary co-operative banks operating in urban and semi-urban areas. They started in India close to the end of nineteenth century, inspired & motivated by the successful functioning of co-operative movements in Great Britain & Germany. They were based on the principles of co-operation, democratic decision making, mutual help and open membership. „Anyonya Sahakari Mandal”, the first known mutual aid society in India was started in 1889 in the Baroda under the guidance of Vithal Laxman. But the real push to the sector kicked off only after the Co-operative Credit Societies Act, 1904. The co-operative banks were allowed, till 1996, to lend money for non-agricultural purposes only. These urban banks were from the inception, centred on the lines of communities, localities and work place groups. They mostly lent money to small borrowers and small scale businesses. Presently, with the changing dynamics of banking, their scope of operations also expanded considerably. But, the real impetus and proliferation in the sector began after this sector was brought under the purview of Banking Regulation Act, 1949 w.e.f. 01.03.1960 and after implementation of recommendations of various committees like Varde Committee (1963), Banking Enquiry Committee (1972), Joglekar Committee (1976), Madhavadas Committee (1979), Narasimham Committee (1991), Marathe Committee (1991), Madhava Rao Committee (1999), YH Malegam Committee (2011), High powered Committee on UCBs (2015) etc.

A Brief Review Literature

An attempt has been made, to review the relevant literature on growth and working of urban cooperative banks in India.

According to the recommendations of McLagan committee 1915, an atmosphere is emerged to set up the urban Co-operative Banks in India. Hence, In the year 1889 the first agricultural credit Co-operative society was set up at Baroda. The Co-operative Act of 1904 created the favorable environment to establish Co-operative credit Societies in India. The central Banking Enquiry committee of 1931 recommended to set-up urban Co-operative Banks in India. The Co-operative planning committee also made recommendation to establish UCB in each town by considering the utility of UCB in each town by considering the utility of UCB for urban poor’s. In order to regulate these banks, The Banking Regulation Act was made applicable to UCB’s on 1st March 1960 (Maclagan E. D: - Report of the committee of Co-operation in India 1915.).

V. Mehta and Bhansali Committee (1937), According to this committee. In the operation area of UCB or Co-operative society other financial institutes are not be allowed to run the same business UCB should decide the personal loan limit the Bills of exchange transaction should limited to themselves. Also UCB can’t operate in such area where the credit supply should not be under control of UCB. This committee firstly prepared the definition of UCB as “Those non Agricultural credit society has capital not less than Rs. 20000 and which accepts the deposits from public as it’s prime business is called urban Co-operative Bank (Mehta V.L :- The Joint Recogonization report and Bhansali on co-operative movement 1937).

R.G. Saraiya Committee (1946), This committee was set up under the Chairmanship of R.G. Saraiya for the review of Cooperative movement in India. This committee has made various recommendations. For UCB’s as UCB’s should accept the income tax return cheques also the collect the salary, providend fund, pensions etc. The states, where the UCB’s are economically
strong viable and progressive, their registrarial is transferred to the non political Institute. UCB’s are useful to urban low income group people, so UCB’s are to be set up in all towns in India but their working should be ensured according to the Cooperative principles. (Saraiya R.G. :- On cooperative planning committee 1946 GOI, PP 116.).

Varde Committee (1963)

A committee named Report of the study group on credit Co-operative In the non Agricultural sector, headed by Shri Warnarao Varde, Chairman of Sarasvat Co-op Bank Ltd. Mumbai. It is appointed by Government of India to study the importance of Salary Earners Co-op Societies and UCB in economic development of India, it has recommended as “ To set up UCB in a town where the population is more than 1 Lakhs, for that towns purpose state government should review to set up the new, UCB’s in new towns and municipal areas, UCB’s should try to increase their membership, no restriction on the size of UCB (Varde Wamanraw :- Report of the survey group on credit co-operatives in the non-Agricultural Sector 1963.).

Marathe Committee (1992)

It’s recommended as primary credit societies, which attended the revised entry point norms before 30 June 1993. It considered for Inclusion in the list of functioning primary Cooperative banks as a onetime measure. Such societies thereafter, be taken up for inspection and considered for issue of license based merits After the expiry of the cutoff date 30 June 1930. The primary credit societies which do not satisfy the revised entry point should discontinue banking business and the concerned state government should initiate necessary steps in this regard (Report of the High Powered Committee on Cooperatives- May 2009, Ministry of Agriculture Government of India PP 94.).

Dr. Ahmed, Minister of state for Finance, said in an interview that banks had lost credibility over the years because of poor and cumbersome procedures for securing loans. Efforts would be made to simply procedures and make banks more accountable A Ahmed, An Interview given to Economic Times on 15 Sep. 1993. (A Ahmed, An Interview given to Economic Times on 15 Sep. 1993.).

“Shri Shrimal in his book “Urban cooperative banks in India” has given stress on progress, problems and prospects of urban cooperative banks in India. This book covered historical background of urban cooperative banks, future outlook, and trend and progress of urban cooperative banks during the period form 1968 to 1976 the author observed that the progress of urban banks was quite impressive in India. They are also successful in extending facilities to the customers same as provided by commercial banks (Shrilshrimal W.C., Urban Co-operative Banks in India, progress, problems and prospects, shree Rajmudra, Bombay, 1977.)”.

“Gupta has attempted to examine the development of urban co-operative banks in Haryana. The main objective of this study was to examine the origin and growth performance of urban co operative banks in Haryana. The study has observed that, there has been a significant development in the urban co-operative banking movement in Haryana after the implementation of banking regulation act in 1949 (Gupta R.P., Development of Urban Co-operative Banks in Haryana, Urban Credit, Vol. XVIII, No.3 September, 1996.).”

II. OBJECTIVE
1. To conceptualize the key aspects of Urban Co-operative Banks in modern India.
2. To review the historical development of Urban Co-operative Banks in India.
3. To Highlight the Importance, Limitation and Present Status of Urban Co-operative Banks in India.

4. To showcase the Key Linkages between Urban Co-operative Banks and Growth of Banking Sector.

Research Methodology

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports. Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type.

Keeping in view of the set objectives, this research design was adopted to have greater accuracy and in depth analysis of the research study. Available secondary data was extensively used for the study. In this research paper the investigator procures the required data through secondary survey method. Different news articles, Books and Web were used which were enumerated and recorded. An attempt has been made to conceptualize the key aspects related to “Urban Co-operative Banks” and also the role played by the Urban Co-operative Banks for sustainable and inclusive growth and development of the Co-operative Banking Sectors.

Position of Urban Co-operative Banks in India as on 31-3-2015

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Particulars of UCBs</th>
<th>Position ( in Nos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Credit Co-operatives</td>
<td>95757</td>
</tr>
<tr>
<td>2</td>
<td>No. of Urban Co-operative Banks</td>
<td>1579</td>
</tr>
<tr>
<td>3</td>
<td>Scheduled Urban Co-operative Banks</td>
<td>50</td>
</tr>
<tr>
<td>4</td>
<td>Multi State Scheduled Urban Co-operative Banks</td>
<td>29</td>
</tr>
<tr>
<td>5</td>
<td>Single State Scheduled Urban Co-operative Banks</td>
<td>21</td>
</tr>
<tr>
<td>6</td>
<td>Non-Scheduled Urban Co-operative Banks</td>
<td>1529</td>
</tr>
<tr>
<td>7</td>
<td>Multi State Scheduled Urban Co-operative Banks</td>
<td>22</td>
</tr>
<tr>
<td>8</td>
<td>Single State Scheduled Urban Co-operative Banks</td>
<td>1507</td>
</tr>
<tr>
<td>9</td>
<td>No. of Rural Co-operatives</td>
<td>94178</td>
</tr>
<tr>
<td>10</td>
<td>Long Term Rural Co-operatives</td>
<td>734</td>
</tr>
<tr>
<td>11</td>
<td>State Co-operative Agriculture and Rural Development Banks (SCARDBS)</td>
<td>20</td>
</tr>
<tr>
<td>12</td>
<td>Primary Co-operative Agriculture and Rural Development Banks (PCARDBS)</td>
<td>714</td>
</tr>
<tr>
<td>13</td>
<td>Short Term Rural Co-operatives</td>
<td>93444</td>
</tr>
<tr>
<td>14</td>
<td>Short-Term State Co-operative Banks (StCBs)</td>
<td>32</td>
</tr>
<tr>
<td>15</td>
<td>District Central Co-operative Banks (DCCBs)</td>
<td>370</td>
</tr>
<tr>
<td>16</td>
<td>Primary Agricultural Credit Societies (PACS)</td>
<td>93042</td>
</tr>
</tbody>
</table>


Note: For rural co-operatives data is for the year 2013-14 and for urban co-operative banks is for the year 2014-15

It is evident from Table – 1. that at the end of March 2015, India’s co-operative banking sector comprised of 1,579 Urban Co-operative Banks (UCBs) and 94,178 Rural Co-operative Credit Institutions, including short-term and long-term credit institutions during 2014-15, the UCBs witnessed a moderation in their asset growth and an increase in their net profits. During 2013-14, the balance sheets of all rural cooperative banks, except the short-term State Co-operative Banks (SCBs), witnessed either deceleration or reversal in growth. The state level short term and long term rural co-operatives witnessed a decline in net profits. The consolidation of the UCBs continued as the number of UCBs came down from 1,606 in 2013 to 1,579 in 2015. The Reserve Bank had...
ordered closure of six UCBs in September 2014 on UCBs witnessed moderation during 2014-15 as compared to the previous year. Slowdown in growth of assets was led by lower growth in “other assets” of UCBs. Loan & advances grew by about 12 per cent and contributed significantly to the total increase in assets in 2014-15. DCCBs (370), PACS (93,042), PCARDBs (714). Urban Cooperatives (1,579) Scheduled UCBs (50) Multi State (29) Single State (21) Multi State (22) Single State (1,507) SCARDBs (20) StCBs (32) Non-Scheduled UCBs (1,529) Long Term (734) Short Term (93,444) Rural Cooperatives (94,178) Credit Cooperatives (95,757)

Present Status Of Urban Co-Operative Banks In India

Credit co-operatives, comprising of urban co-operative banks (UCBs) and rural co-operative credit institutions, were formed as exclusive

Role Of Urban Co-Operative Banks

Urban Co-operative Banks have an important role to play in several respects and some of them are listed below: First and foremost, they can organize and bring together middle and working classes in urban and semi-urban areas and inculcate in them the habits of thrift and self-help
and acquaint them with the elements of ordinary banking principles. The mobilization of savings by urban co-operative banks and the consequent drawing of urban resources into the apex and central co-operative banks which are in need of funds to finance the rural, industrial and other functional co-operatives can contribute to general economic development. They can make certain essential banking facilities such as remittance of funds and so on, available in areas which may not be considered suitable for commercial banking and to persons who may not be able to get such manners from commercial banks; and they can provide intelligent, experienced and active leadership to the cooperative movement including the central and apex cooperative banks, which in view of their federal character draw their directors from member's institutions.

**Reforms Of Urban Co-Operative Banks:**

The urban co-operative banking sector, being an integral part of financial system, RBI has brought in a series of reforms in it.

**Narasimham Committee Recommendations (High Powered Committee)**

The Committee suggested that RBI should review the entry norms in respect of UCBs and prescribe revised prudent minimum capital norms for them. To achieve an integrated system of supervision over the financial system, the Committee recommended that UCBs should also be brought within the ambit of the Board of Financial Supervision. In response to the recommendations of the Committee, the Reserve Bank set up a High Powered Committee on Urban Co-operative Banks under the Chairmanship of Shri K.Madhava Rao, Former Chief Secretary to Government of Andhra Pradesh, to review the performance of UCBs and suggest measures to strengthen them. The committee gives its views on important areas such as follows:

**Licensing Policy:**

In the new liberalized regime, licensing policy for new UCBs is expected to be not only transparent, but also precise and objective, based on established standards and procedures. Moreover, the procedures governing these licensing norms have to be simple and minimal.

**Dual Control:**

One of the problem areas in the supervision of UCBs is the duality in control by the State Government and the Reserve Bank. Since UCBs are primarily credit institutions meant to be run on commercial lines, the responsibility for their supervision devolves on the Reserve Bank. Therefore, while banking operations pertaining to branch licensing, expansion of areas of operations, interest fixation on deposits and advances, audit and investments are under the jurisdiction of the RBI, the managerial aspects of these banks relating to registration, constitution of management, administration and recruitment, are controlled by the State Governments under the provisions of the respective State Co-operative Societies Act. The Narasimham Committee (1998) recommended that this duality of control be done away with and the responsibility of regulation of UCBs be placed on the Board for Financial Supervision. This will require amendment of the Multi-State Co-operative Societies Act, 1984, State Co-operative Societies Act, and the Banking Regulation Act.

**Corporate Governance:**

Good corporate governance is essential for the effective functioning of any financial entity. To this end, the Madhava Rao Committee suggested that at least two directors with suitable professional qualification and experience should be present on the Boards of UCBs and that the promoters should not be defaulters to any financial institutions or banks and should not be associated with chit funds, NBFCs, co-operative banks, commercial banks as
Director on the Board of Directors. These recommendations would need to be examined intensively before formulating policy actions in this regard.

**Capital Adequacy:**

The Narasimham Committee (1998) had raised the issue of extending capital adequacy prescription for co-operative banks. Accordingly, the Committee recommended that the co-operative banks should reach a minimum 8 per cent CRAR over a period of five years. The findings of the Madhava Rao Committee on UCBs also reiterated that a majority of the UCBs was in favour of extending the CRAR discipline to UCBs. However, the ability of the UCBs to raise additional capital for the purpose has been limited by certain features viz., inability to make public issue of capital and that, they can raise capital only from members, subject to an overall ceiling and restrictions imposed by the various Acts (State Co-operative Societies Act and Multi-State Co-operative Societies Act, 1984) which constrains the number of shares that an individual can hold.

**Legislative Reforms:**

The Narasimham Committee in its Report had rightly observed that a legal framework that clearly defines the rights and liabilities of the parties to contract and provide speedy resolution of disputes is the essential bedrock of the process of financial intermediation and UCBs are no exceptions. Accordingly, the Government had appointed an Expert Group under the Chairmanship of Shri T.R. Andhyarujina, Former Solicitor General of India, to suggest appropriate amendments in the legal framework affecting the banking sector. The Committee would address amendments in the various external Acts affecting banking sector such as, the Transfer of Property Act, foreclosure laws, Stamp Act, Indian Contract Act, DRT Act, etc. The Committee, in its Report submitted in April, 2000, recommended the inclusion of a new law for granting statutory powers directly to banks (and financial institutions) for possession and sale of securities aid a loan, enabling framework for securitization of receivables and strengthening recovery mechanism.

**Unlicensed and Weak banks**

The existence of a large number of unlicensed banks has become a serious cause for concern to regulators. The main reason for proliferation of such banks has been a mild screening process in the past. In view of the regulatory discomfiture that such banks impose on the system as a whole, it has been suggested that these banks be licensed, provided they satisfy the quadruple criteria of (a) minimum prescribed CRAR, (b) net NPA ratio not exceeding 10 per cent, (c) have made profits continually for the last three years, and (d) have complied with the RBI regulatory directions. One issue of serious concern regarding UCBs is the delay/ non-submission of returns within the stipulated time frame. In particular, UCBs are required to submit two types of returns (statutory returns and control returns) to the Reserve Bank with a view to exercise adequate supervision over them. Unfortunately, there is often a serious delay in the submission of these returns by individual banks. Non-availability of adequate and timely data would no doubt have serious effect on timely policy action. In this context, UCBs have to improve their statistical reporting system and bridge the wide gap in data availability as compared to that of commercial banks (ibid).

**Key Linkages Between Urban Co-Operative Banks And Growth of Co-Operative Banking Sector**

Urban Co-operative banking sector occupies a formidable place in Indian banking system. Though UCBs started in India on the principles of co-operation, more than 100 years ago...
with a mission to reach the persons of small means and unbanked territories, it has gone through a lot of turmoil over the years and with a series of regulatory measures undertaken by RBI and after implementation of recommendations of various committees, the sector is looking forward with a positive note in respect of various parameters to regain the confidence of common man and to fulfil the objectives of its Origin. The Growth and progress of the Urban Co-operative Banks only depends upon the various Government Policies aimed for the development of co-operative banking sectors. Thus the role of government continues to play a crucial role in integration of these entire Co-operative Credit Structure so as to create a unified impact in long term sustainable inclusive growth and development. The current model and policy framework of Co-operative Credit System will continue to foster the Indian Banking Sector to the next level as we usher in the new millennium.

**Major Challenges in Urban Co-Operative Banks In India:**

UCBs are pioneers in acknowledging the common man as their client who has to be serviced and have managed to create a niche among the lower and middle-income groups. This institutional network has indeed succeeded in facilitating banking service in a more user-friendly environment. The major policy developments of UCBs have been effective from the year 1992-93 i.e. post prudential norms era. The sudden changes in the policy environment of both state and central governments concerning the operations of urban banking system have direct and indirect implications on the performance of UCBs. The following are some of the major issues of UCBs in India.

**Competition**

Nationalization of major commercial banks in 1969 with the introduction of social control created a competitive environment for the UCBs, breaking its monopoly in the sphere of micro-credit. Subsequently, the introduction of financial sector reforms in 1991 and the opening up of the economy exposed the inherent adversities in the functioning of the UCBs. The UCBs operate in a highly competitive market, on a level playing field with commercial banks. They do so, by successfully applying the cooperative principle underlying their business model. Owned by its members, their primary mission is to offer them the best services, as opposed to maximizing profit for shareholders.

**Political interference**

There are instances of gross misuse of cooperative finds for political ends, which has landed a good number of institutions in dire straits. Very often, elected boards and managements are superseded not for reasons of mismanagement or violation of law but on political considerations. These observations confirm that political interference in the cooperative sector always exists. The tendency of politicians to misuse the UCBs for their personal gains has many times landed the UCBs in trouble.

**Poor credit management**

The gross NPAs of reporting UCBs (1853) in India have increased from INR 3,306 crores in 1999 to INR 13,871 crores in 2006, registering 4.2 times increase. The percentage of gross NPAs to total advances of UCBs, which was 11.07 percent in 1999 rose to 23.40 percent in 2005 and slightly fell to 19.70 percent in 2006. However percentage of NPAs to total advances of UCBs at 19.70 percent as on 31st March 2006 was quite high compared to the percentage as on 31st March 1999 and also in comparison to that of commercial banks (3.3 percent). The high level of gross NPAs of UCBs was on account of burdensome procedure of write-off of loans as also their inadequate profits to
absorb such losses due to write-offs. High level of NPAs is an indication of poor credit management. This is a major cause of failure of UCBs in India.

Absence of professional management and governance:

Professional management is essential for any banking system and hence the RBI insists on it. But on many occasions, the state governments dissolve the elected boards of UCBs and depute government officials to manage the affairs of these banks. As the government officials do not possess adequate expertise in banking, the efficiency of the UCBs suffers.

Absence of human resource management:

Human resource management (HRM) is one of the key factors defining the characteristics of a successful banking institution. Improving managerial skills within this sector is now a permanent challenge. Many UCBs are also seeking new ways to allow the involvement in the provision and governance of personal services. Employing and retaining skilled workers and specialists, retraining the existing workforce and promoting a culture of continuous learning are challenges for the UCBs.

Lack of technology based products:

The number of customers unhappy with banking service in India is on the rise. This is brought out by the fact that the number of complaints received by banking ombudsman shot up from 5,399 in 2002-03 to 8,246 in 2003-04, marking an increase of 52 percent. The process of globalization requires banks to move towards global standards of customer service so as to effectively meet the growing demands by their customers. E-banking services offered by many banking institutions can be a strategic weapon against UCBs, threatening their very existence).

III. CONCLUDING REMARKS:

Thus the review of the co-operative movement published by the RBI indicated that there was a steady growth both in the member of urban banks and their operation from 1948 -49. Higher interest rate is the most important factor for mobilizing deposits. The progress of urban co operative banks was steady in four states VIZ Maharashtra, Gujarat, Karnataka and Tamilnadu. The urban co operative banks in India have developed slowly, with a separate identify and quality. The growth of urban co-operative banks has been uneven in all parts of the country. The UCB’s have made a significant progress in the state of Maharashtra. However, there are intrastate imbalances in the growth of these banks in the Maharashtra state. Mumbai and western Maharashtra regions of this state have made a big headway. In the field of urban co-operative banking most of the studies review above has indicated that the financial management of the urban banks has been quite satisfactory and they are fulfilling the norm of 60 percent lending to priority sector. However, they have not fulfilled the norm of providing 25 percent loans to weaker sections but still the Urban Co-operative Banks Playing a vital role in Co-operative Banking Sectors.

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