

Development of Urban Co-Operative Banks in India after Independence

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Abstract - It has been agreed that marketing of Bank services has been much neglected aspect of Banks and this has hindered the growth of Indian Banks in their role of assisting economic development. Banks need to change from 'account oriented' to 'customer oriented' approach. Today's customer's needs and expectations are changing very fast. To meet these needs and expectations a sensitively responsive Banking system is essential. The urban Co-Operative Banking sector is playing an important role. This sector is growing steadily year after year. It is providing helping hand for common man, middleclass people and small income groups.

Keywords: Development, Urban Co-Operative Banks, Marketing, Financial Resources

I. INTRODUCTION

It is said that money makes many things, when there was no money there was no king and emperor. It is also said that money is the life blood of modern business without money nothing can be done. Money is the lubricating oil which rotates the wheels of business. Money is required not only for the businessmen and trader but also for individual who is living in the society in order to meet their daily consumption and for agriculture purposes etc. various financial institutions are giving financial assistance to the needy persons among them urban co-operative sector is one. Generally they are formed by economically weaker sections of the society to protect themselves against economically stronger sections. We know that rural credit co-operative societies mainly lend to agriculturists in rural areas. Therefore they are called as agricultural credit societies. In order to solve the problems of urban people like middle class people, salary earners, industrial workers, small entrepreneurs, retail traders and professionals etc. urban co-operative Banks have been set up. The UCBS made good progress after the enactment of co-operative Act 1904 in terms of physical and financial resources.

II. OBJECTIVES OF THE STUDY

The following are the important objectives of the study.

1. To know the working of UCBs in India.
2. To study the methods of services given by UCBs in India.
3. To explore the weaknesses if any in rendering the services.
4. To suggest suitable remedies to improve them.

III. REVIEW OF LITERATURE

Various committees and working groups have recognized the importance and significance of the urban co-operative banks in India. Important among such committees are the Central Banking Enquiry Committee (1931), The Co-operative Planning Committee (1946), The Survey of the UCBs by Reserve Bank of India (1958-59). The Study Group on credit co-operative in the Non-Agricultural sector (1963), The Working group on Industrial Financing through Co-operative Banks (1968), Committee on Problems of Urban Co-Operative Banks in Maharashtra (1976). The Committee on Urban Co-Operative Banks popularly known as Madhav Das Committee (1978), Marathe Committee (1992) and the Madhav Rao Committee (1999), to review the performance of the UCBs. These committees and study groups have evaluated the performance of the UCBs form time to time and have recommended measures to strengthen UCBs.

IV. METHODOLOGY

The progress of UCBs over a period has been analyzed and comparative study has been made. Inter period comparison has been made and it is also expressed in terms of percentage of change over a period of time.

V. LIMITATIONS OF THE STUDY

The study period covers the progress of UCBs after independence. The data for the period of 1948-49 to 2009-10 have been collected and analyzed properly.

VI. DATA ANALYSIS AND INTERPRETATION

A. Progress of Urban Co-Operative Banks In India after Independence

In the section the attempt has been made to find out the progress of Urban Co-operative Banks after India's independence. The provisions of RBI Act of 1934 and the Banking Regulation Act of 1949 to the co-operative banks from 1st March 1966 necessitated the classification of the progress and growth of UCBs into two broad categories viz.

1. Progress of UCBs before 1st March 1966.
2. Progress of UCBs after 1st March 1966.

1. Progress before 1st March 1966

The first period covers 18 years from 1948-49 to 1965-66 (covering the first, second and third five year plans). During this period the performance of the UCBs was just satisfactory and there was only a marginal increase in number of urban co-operative banks. It was noticed that originally the banks were covered by Indian Companies Act only. A separate legislation for banks was passed in February 1949 and the Banking Companies Act 1949 came into force from 6-3-1949. At the beginning co-operative banks were not included. The development that took place in the period between 1951-52 and 1962-63 necessitated the inclusion of co-operative banks in the Banking Companies Act. Due to this, there have been spectacular developmental activities in UCBs. Total owned funds increased by seven times, deposits by four times and loan transactions by nine times [1].

More attention was paid on expansion of UCBs branches. Attention was also paid for mobilization of deposits and diversification of the responsibilities. "The increasing dimensions of the financial operations of the Co-operative Credit Societies, the growing quantum of their deposits, diversification of their responsibilities and the important role expected to be played by them in financing of increased agricultural production made it operative that they may be brought under the common discipline with the rest of the banking system" [2]. Another milestone during this period was that the RBI had put rigid rules on working of co-operative credit in the country. Accordingly, banking laws bill of 1965 was passed to extend the operation of certain provisions of RBI Act 1934 and BR Act of 1949 to the Co-operative Banks. This Act came into force from 1st March

1966, which has vested the RBI with various statutory powers at control and supervision over the co-operative banks. All UCBs paid up capital and reserves of Rs. 1 lakh and more are covered under this Act. This is the time when the UCBs came under the duality of control and supervision. The functions related to banking such as licensing, branch licensing, interest rates, area of operation and other norms were all governed by RBI's directives and regulations and controls. Now the RBI has given freedom to fix the interest rates to the UCBs. But mere registration of Co-operative Banks, audit classification, management, liquidation and closing the bank or amalgamation of the banks or branches etc. are entirely governed by state government. This was much tough time for UCBs and this duality control became most irritant issue before the UCBs as well as co-operatives. Due to these policies, there has been qualitative progress of UCBs in India. The following table I shows the progressive development of UCBs in India.

The table I indicates the growth of UCBs in India. The total number of UCBs increased from 815 in 1948-49 to 936 in 1965-66 representing. An increase of 14.84 percent during 18 years, the increase is not uniform among the states. Another striking feature of this aspect is that the membership of these UCBs has been considerably increased. It increased from 535 thousand in 1948-49 to 2814 thousands in 1965-66, showing an increase by 05 times over a period of 18 years. The same is true in case of owned funds of these banks. It has increased from Rs. 4 crores to 18.91 crores during the said period. It is interesting to note that these banks have succeeded in attracting and mobilizing the deposits from urban people.

TABLE I PROGRESS OF UCBs BEFORE 1966

S. No.	Particulars	1948-49	1965-66	% Over 1948-49
1.	No. of urban banks	815	936	14.84
2.	Membership (in '000)	535	2814	425.98
3.	Owned funds (Rs. in crores)	4	18.91	372.75
4.	Deposits (Rs. in crores)	17	76.00	347.05
5.	Working capital (Rs. in crores)	22	100.61	357.31
6.	Loans outstanding (Rs. in crores)	12	66.97	458.08
7.	Over dues (Rs. in crores)	1	5.51	451.0
8.	Percentage of overdue to loans outstanding	8.33	8.22	-1.32

Source: 9th Indian Co-operative Congress NCUI Background Papers 1982

The deposits have increased from Rs. 17 crores in 1948-49 to Rs. 76 crores in 1965-66, revealing an increase by 4 times. It is noted that the main strength of the banking industry is the working capital. The working capital of UCBs in India has also considerably increased. It is found from the table that the working capital of UCBs has increased from Rs. 22 crores to Rs. 100.61 crores during the said period, showing an increase by 5 times. The Indian UCBs have also fulfilled the credit needs of the urban

people. The loans advanced by these banks increased from Rs. 12 crores to Rs. 66.97 crores in the above said period. It is observed from the table that loans outstanding amount was Rs. 12 crores and the same has been increased to Rs. 66.97 crores during 1965-66. An interesting observation can be made from the table no.1 regarding the problem of over dues of UCBs. It is found from the table that the over dues of these banks in 1948-49 is Rs. 1 crore which increased to Rs. 5.51 crores in 1965-66. The main causes for this

increase in over dues are lack of follow-up measures, negligence on the part of officials of UCBs, illiteracy and lack of awareness among borrowers. Another important reason might be the mis-utilisation of credit by borrower. However, it is worth to note that UCBs have extended credit to the needy. These have also succeeded in attracting deposits and mobilizing financial resources from urban areas.

2. Progress of UCBs after 1st March 1966 and before Reforms (1992): The second period covers 26 years from 1965-66 to 1991-92 during this period both central and state governments encouraged and adopted positive policies towards development of co-operatives in particular and UCBs in general. The following table II shows the details.

TABLE II PROGRESS OF UCBs AFTER 1966

S. No.	Particulars	1965-66	1991-92	% over 1965-66
1.	No. of urban banks	936.00	1311	40.06
2.	Membership (in '000)	2814.00	11221	298.75
3.	Owned funds (Rs. in crore)	018.91	1765	9233.68
4.	Deposits (Rs. In crore)	76.00	11108	14515.78
5.	Working capital (Rs. In crore)	100.61	NA*	NC
6.	Loans outstanding (Rs. in crore)	66.97	8713	12910.30
7.	Over dues (Rs. in crores)	5.51	NA*	NC*
8.	Percentage of overdue to loans outstanding	8.22	NA*	NC*

Source: 1. Report of the High Power Committee on UCBs. 2. The Diary of the Karnataka State Co-operation, p.174. Urban Banks Federation Ltd., Bangalore, pp. 81-83.

NA * - Not available NC* - Not computed.

The above table II shows the progress of UCBs in India after 1st March 1966. It covers 26 years from 1965-66 to 1991-92. During this period the performance of UCBs was highly satisfactory and there was considerable increase in major financial indicators of UCBs. This was mainly due to positive policies and encouragement given by Central and state governments. Popular schemes adopted by Governments for healthy development of co-operative credit institutions. The total number of UCBs has increased from 936 in 1965-66 to 1311 in 1991-92. The membership has also considerably increased from 2814 thousands to 11221 thousands during the said period. This shows that importance attached by UCBs towards urban areas and urban people in the country. It is also observed from the Table that the owned funds of UCBs increased from Rs. 18.91 crores to Rs. 1765.00 crores during the said period.

Further, it is also found form the table II that there is considerable increase in the mobilization of deposits by UCBs. The total deposits increased from Rs. 76.00 crores in 1965-66 to Rs. 11,108.00 crores in 1991-92. This increase is mainly due to positive policies adopted by both central and state governments towards co-operative sector, particularly

during this period. This conclusion is also supported by number of studies made by Anand [3] Dharmpalan [4] and others. Due to success in attracting deposits and positive policies the advances made by these UCBs has also increased. It is observed from the table that the total advances increased from Rs. 66.97 crores in 1965-66 to Rs. 8713 crores in 1991-92. This may be the other reasons for the progress which could be the attractive rate of interest, close intimacy, cordial relation between board of directors and the members, increase in the literacy, urbanization and development of new urban economic activities. The above discussion clearly shows that the healthy growth of the banks was mainly due to the ability of the banks to provide timely, useful, better credit services to the customers and the good recovery measures. In short the overall progress of UCBs in respect of number of banks, their membership, deposit quantum, loans and disbursements etc. seems steady and satisfactory during the 26 years period form 1965-66 to 1991-92. The present section also makes an attempt to throw light on the progress of UCBs during reform period. A study of this type would be of great help to the policy makers for suggesting suitable measures in future.

TABLE III PROGRESS OF UCBs FROM 1991-92 TO 2004-05

S. No.	Particulars	1991-92	2004-05	% over 1991-92
1.	No. of urban banks	1311	1872	42.79
2.	Membership (in '000)	11221	26530	136.44
3.	Owned funds (Rs. In crore.) c crore)	1765.00	12314.00	597.67
4.	Deposits (Rs. in crore)	11108.00	110255.00	892.57
5.	Working capital (Rs. in crore)	NA*	116023.00	NC*
6.	Loans outstanding (Rs. in crore)	8713.00	67932.00	679.66

Source: 1. The weekly new bulletin of the Karnataka State Co-operative Urban Banks Federation Ltd., November 2005 p.3.
2. Report of the High Power Committee on UCBs p. 174. * As on March 2002, NA * - Not available, NC* - Not Computed.

An observation of the table III throws light on the progress and growth of UCBs in India after Globalization and privatization. For example, the total number of UCBs increased from 1311 in 1991-92 to 1872 in 2004-05. Similarly the member of these UCBs has increased from 11221 thousands in 1991-92 to 26530 thousands in 2002. It speaks that after globalization, these UCBs have succeeded in setting up new banks and attracting members towards these institutions. Many financial institutions agencies [5] after globalization have also succeeded in these aspects. It is also observed from the table that the owned funds of UCBs increased from Rs. 1765 crores to Rs. 12314 crores during the said period. Further, there has been tremendous growth of deposits during this period and which has increased from

Rs. 11,108 crores in 1991-92 to 1,10,255 crores in 2004-05. During the year 2004-05 the bank witnessed a land mark in attracting huge deposits from the urban people. On account of high rate of interest and the dedicated work of UCBs officials, these banks were able to make this achievement. It is also found from the table that advance made by UCBs have increased from, Rs. 8713 crores in 1991-92 to Rs. 67932 crores in 2004-05. It is interesting to note from the above discussion that the performance of UCBs in all financial indicators is quite satisfactory after privatization and globalization. From the above discussion, it is clear that the overall progress of UCBs after 1948-49 is quite satisfactory.

TABLE IV PROGRESS OF UCBs IN INDIA FROM 2005-06 TO 2009-10 (RS. IN CRORES)

	No. of UCBs	Share capital	Deposits	Loans and Advances	Investments	Net NPA	Net NPA as a Percentage to Total Advances
2005-06	1853	3479	112237	70379	48472	6718	9.6
2006-07	1813	3884	120983	78660	47316	6044	7.7
2007-08	1770	4658	138496	88981	60123	6685	7.5
2008-09	1721	5261	158733	97918	64171	5318	5.4
2009-10	1674	5647	182862	110304	85347	4724	4.3

Source: www.rbi.org.in,- Report on Trend and progress of banking in India, 2006 to 2010

From the Table IV it is clear that the total number of UCBs in India came down from 1853 in 2005-06 to 1674 in 2009-10 and thereby showing a net decrease of 179 UCBs during a period of five years. Share capital is one of the important sources of funds for the UCBs. The share capital of the UCBs in India was Rs. 3479 crores in the year 2005-06 and it has been increased to Rs. 5647 crores in 2009-10 and thereby showing 62.32 per cent increase in share capital during the period of five years from 2005-06 to 2009-10. Deposits constitute one of the important sources of working capital. The deposits of the UCBs in India was Rs. 1,12,237 crores in 2005-06 and it rose to Rs. 1,82,862 crores in 2009-10 during a period of five years. During the period of five years 62.92 percent of deposits increased. The earnings of the UCBs mainly depend upon the loans and advances and investments.

The loans and advances of the UCBs have been increased from Rs. 70379 crores in 2005-06 to Rs. 1,10,304 crores in 2009-10 and thereby showing a net increase of Rs. 39,925 crores during a period of five years from 2005-06 to 2009-10. During a period of five years 56.73 percent of loans and advances have been increased by the UCBs in India. The investments of the UCBs in India during the year 2005-06 was Rs. 48472 crores and it has been raised to Rs. 85347 crores in 2009-10 and thereby showing a net increase of Rs. 36875 crores during a period of five years.

During a period of five years 76 per cent of investments have been increased by the UCBs in India. The net NPAs and percentage of net NPA to total advances has been decreased from 2005-06 to 2009-10, The net NPA of the UCBs was Rs. 6718 crores in 2005-06 and it has been

declined to Rs. 4724 crores in 2009-10. The percentage of net NPAs to total advances has also been declined continuously from 2005-06 to 2009-10. The percentage of net NPAs to total advances has been declined from 9.6 per cent in 2005-06 to 4.3 percent in 2009-10. From the above analysis it is clear that though there is decline in number of UCBs in quantitative terms from 2005-06 to 2009-10 but it has improved in qualitative aspects.

During this period the performance of the UCBs was highly satisfactory and there was considerable increase in major financial indicators of UCBs. The share capital, deposits, loans and advances and investments of the UCBs have been increased and at the same time net NPA and percentage of net NPA has declined continuously from 2005-06 to 2009-10 which indicates that the funds of the UCBs are managed efficiently. In conclusion the overall progress of UCBs from 2005-06 to 2009-10 is satisfactory.

VII. FINDINGS OF THE STUDY

1. From the study it reveals that development of co-operatives up to 1996 was not satisfactory unfortunately, these have failed to provide sufficient credit to the poor and small traders.
2. The overall progress of UCBs in respect of number of banks, their membership, deposit, quantum, loans & disbursements etc. seems steady and satisfactory during the 26 year period from 1965-66 to 1991-92.
3. From the study it is clear that there is decline in number of UCBs in quantitative terms from 2005-06 to 2009-10.

4. The same capital, deposits, loans and advances and investments of the UCBs have been increased during the period 2005-06 to 2009-10.
5. The net NPA and percentage of net NPA has declined continuously from 2005-06 to 2009-10 which indicates that the funds of the UCBs are managed efficiently.

VIII. SUGGESTIONS

1. The share of institutional savings and deposits of the UCBs is very meager therefore it should be improved.
2. The urban co-operative banks should find new avenues and expand existing areas where commercial banks may not like to enter particularly financing weaker section.
3. Urban co-operative banks can devise innovative schemes for cottage and small scale industries.
4. The UCBs have to inculcate the habit of savings and thrift among the public.
5. Need based deposit policy should be introduced by the urban co-operative banks.
6. The urban co-operative banks should shift their emphasis from security oriented to purpose oriented while lending.
7. The UCBs should reduce unproductive loans gradually.
8. The UCBs should simplify the lending procedure.

IX. CONCLUSION

There has been spectacular progress made by UCBs in India after independence. UCBs in India have succeeded in mobilizing deposits in urban India. The UCBs in India have also extended financial support for the development of urban based activities. As compared with increase in the urban population, the membership to these UCBs is insignificant. There has been a negative trend in the growth of membership to UCBs. The progress made by the UCBs in India is uneven and regional disparity has taken place. Though there are certain limitations of UCBs we cannot deny the importance of UCBs in the development of a nation. We have nurtured the UCBs if they are weak, we have to further develop if they are strong enough, for which active co-operation & support from all the angles like RBI, Government, Registrar of co-operatives, Management, and general public is necessary.

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