Urban Co-Operative Banks in India – an Overview

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INTRODUCTION
Urban Co-operative Banks (UCBs) occupies an important place among the Non-Agricultural Credit Society. They cater to the credit needs of people residing in Urban areas. They advance loans mostly to the small traders, Assistant and monthly income group people. They also advance against gold, silver and produce. Urban Co-operative Bank accept deposit and thereby afford facilities for investment to persons of small means. These banks provide various kinds of Banking facilities like Commercial and Nationalized Bank to their members and customers. Urban Co-operative Banks (UCBs) are an important part of the financial system in India. It is, therefore, necessary that the UCBs emerge as a sound and healthy network of jointly owned, democratically controlled and ethically managed banking institution providing need based quality banking services, essentially to the middle and lower middle classes and marginalized sections of the society.

DEFINITION
The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centred around communities, localities and work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably.

HISTORY OF UCBs
The first known mutual aid society in India was probably the ‘Anyonya Sahakari Mandali’ organized in the erstwhile princely State of Baroda in 1889 under the guidance of Vitthal Laxman also known as Bhausaheb Kavthekar. Urban co-operative credit societies, in their formative phase came to be organized on community basis to meet the consumption oriented credit needs of their members. Salary earners’ societies inculcating habits of thrift and self help played a significant role in popularizing the movement, especially amongst the middle class as well as organized labour. From its origins then to today, the thrust of UCBs, historically, has been to mobilize savings from the middle and low income urban groups and purvey credit to their members – many of which belonged to weaker sections. The enactment of Co-operative Credit Societies Act 1904, however gave the real impetus to the movement. The first urban co-operative credit society was registered in Kanjivaram in the erstwhile Madras province in October 1904. Amongst the prominent credit societies were the Pioneer Urban in Bombay (November 11, 1905). The No.1 Military Accounts Mutual Help Co-operative Society in Poona (January 9, 1906).Cosmos in Poona (January 18, 1906), Gokak Urban (February 15, 1906) and Belgaum Pioneer (February 23, 1906) in the Belgaum district, the Kanakavli-Math Co-operative Credit Society and the Varavade Weavers’ Urban Credit Society (March 13, 1906) in the south Ratnagiri (now Sindhudurg) district. The most prominent amongst the early credit societies was the Bombay Urban Co-operative Credit Society, sponsored by Vitthaldas Thackersey and Lalubhai Samaldas established on January 23, 1906. The Co-operative Credit Societies Act, 1904 was amended in 1912, with a view to broaden the scope of organization of non-credit societies. The Maclagan committee of 1915 was appointed to review their performance and suggest measures for strengthening them. The committee observed that such institutions were eminently suited to cater to the needs of the lower and middle income strata of society and would inculcate the principles of banking amongst the middle classes. The committee also felt that the urban co-operative credit movement was more viable than agricultural credit societies. The recommendations of the committee went a long way in establishing the urban cooperative credit movement in its own right.

OPERATING ENVIRONMENT
The area of operation is visually restricted by its bye-laws to a municipal area or town. In some cases, it exceeds this area. The Urban Co-operative Bank in New Delhi for instance, had in 1963 the whole of the Union territory of Delhi as their area of operation. The speedy Group on credit Co-operatives in Non-Agricultural sector has recommended that normally, it would be advisable for an Urban Co-operative Banks to restrict its area of operation to the Municipality or the Taluk where it operates.

OBJECTIVES
The main objectives of the UCBs are:

(i) To attract deposits from members as well as non-members
(ii) To advance loan to Members
(iii) To act as the age for the joint purchase of domestic and other requirements of the members.
(iv) To undertake collection of bills, accepted or endorsed by the member
(v) To arrange for the safe custody of valuable documents of members
(vi) To provide other facilities as provided by commercial banks.

FUNCTIONS OF URBAN CO-OPERATIVE BANKS
The main functions of the urban co-operative banks are to accept deposits from the members and non-members. Deposits from the members are given reference to deposits from...
non-members. The second main function is to lend to members for useful purposes. Loans are also given to non-members on the security of their deposits. Third important function of these banks and the societies is to undertake purchase and supply of essential consumers’ goods on an agency basis. But this is not generally done. To conclude, the principal functions of urban co-operative banks are to promote thrift, to advance loans on personal security or on mortgage of house property, on pledge of gold and silver, produce, merchandise, Government securities, fixed deposit receipts, life insurance policies, land mortgage and bank debentures.

SUPERVISON AND REGULATION
At present in India, urban credit co-operatives/banks are subjected to duality of control, meaning that the administration related aspects are being supervised and regulated by State Government and the banking operations are supervised and regulated by the central bank of the country. This has, understandably resulted in overlapping jurisdiction of the state Government and the central bank of the country. Moreover, a clear-cut demarcation of the financial and administrative areas for regulation is almost impossible and even if it is possible it surely acts as an impediment in effective supervision. While the central bank of the country has the wherewithal under the Banking Regulation Act for dealing with crucial aspects of functioning of commercial banks, in the case of co-operative banks it requires the intervention of the Registrar of Co-operative Societies (state Government). Given the number of urban credit cooperatives/banks, the central bank of the country is not in a position to effectively supervising them. Thus, the duality of control not only affects the quality of supervision and regulations, but also the functioning of the urban co-operative banking sector.

MEMBERSHIP
Members of the Urban Co-operative Banks are composed of Traders, Merchants, Salaried and Professional people etc. The Study group recommended that generally membership of Urban Co-operative Banks should be open to all persons competent to contract and residing in the area of operation.

MANAGEMENT
Management of UCBs vests in a Board of Directors, who are elected by the general body consisting of all the members. The final authority in all matters rests with the general body but the actual conduct of affairs of the bank rests with the board of directors and the secretary of the Bank.

The tenure of office of the Board of Directors varies in the states. The usual practices are to hold elections

(a) each year
(b) Once in three years and
(c) each year by rotation of one-third of the board.

The history of elections every year has not found favour with the study Group as the same is expensive, takes up time and energy and the directors have hardly any time to get themselves acquainted with the functioning of the institution before fresh elections are held.

RESOURCES
Sources of finance of the UCBs consist of their owned funds and borrowed funds. Owned fund consist of paid up share capital and accumulated reserves created out of appropriation from profits. Borrowed fund consists mainly different types of deposits received from Members and Non-members as well as borrowings from the Central Co-operative Bank. The face value of the shares issued by these banks varies from Rs.10 to Rs.100. The bye-law of most of the UCBs provide that every borrowing member must contribute to the share capital in a definite proportion, which is normally 10% of the amount borrowed in case of the personal loan.

BORROWINGS
Borrowings of UCBs from other financing agencies are all-
REFERENCES
