Volume : 2 | Issue : 8 | Aug 2013 ISSN - 2250-1991

Research Paper Commerce

Urban Co-Operative Banks in India – an Overview

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Keywords :

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 (UCBSs) 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.

HISTORUY 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 Vithal 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 (Januarty 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 Vithaldas Thackersey and Lallubhai Samaldas established on January 23,1906. The Co-operative Credit Societies Act, 1904 was amended in 1912, with a view to broad basing it to enable organisation 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 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.

SUPERVISION 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 almost negligible as compared to those of Agricultural Credit Societies. The Urban Banks generally borrowed from Central Co-operative Banks, While al few borrower from the Apex Bank. The study group has suggested that these banks should be affiliated with Central Co-operative Bank and the Apex Bank should not finance them directly.

LOAN OPERATIONS

Loan operations of UCBs consist of granting fixed loans or cash credit loans to their members against mortgage of unencumbered immovable property, or as the surety of one or more persons who are also members or as the pledge of agricultural produce, industrial goods, gold and silver ornaments, government securities or as the security of the fixed deposits and insurance policies.

BANKING AND OTHER FACILITIES

Apart from advancing loan to their members, most of the UCBs provide them with various other Banking facilities. Several Banks provide the facility of withdrawal by ATM, cheques and arrange for the remittance of funds by Mail Transfer, E-mail, Telegraphic Transfer etc. Some UCBs collect money due to their customer such as Pay and pensions of government servants and local bodies and undertake regular payment of insurance premium, rent etc. Certain UCBs discount bills and hundies and a few run chit funds.

BANKING SECTOR REFORMS AND UCBs

The reform measures as applicable to UCB sector may be classified into three broad categories. First, while recognizing the differences between commercial and urban co-operative banks, a majority of the prudential norms introduced for commercial banks are being extended to UCBs, albeit in a phased manner. Second, policy initiatives have been introduced (through Monetary & Credit Policies) to contain the systemic risk emanating from co-operative sector, in particular from UCB sector. Lastly, duality/multiplicity of control has been recognized as an irritant to their effective regulation and supervision. Although, the focal point of the reforms has been prudential norms, steps are also being initiated to professionalize the management and manpower of UCBs.

NEED OF UCBs

The urban co-operative credit movements started in India with the chief object of catering to the banking and credit requirements of the urban middle class, e.g., the small traders or businessmen, the artisans or factory workers, the salaried people with a limited fixed income in urban or semi-urban areas. Besides protecting the middle classes and men of modest means from the clutches of the moneylenders, the movement is also expected to inculcate the habit of thrifts and savings amongst them. The movement provides the frugal section of the community an opportunity of investing then savings and people tide over the period of stress and strain.

CONCLUSION

Co-operative occupies an important position in the Indian financial system. Co-operatives were the first formal institutions to be conceived and developed to purvey credit to rural India. Thus far co-operatives have been a key instrument of financial inclusion in reaching out to the last mile in rural areas. The urban counterparts of rural co-operatives the Urban Co-operative Banks (UCBs) too have traditionally been an important channel of financial inclusion for the middle and low income sections in the semi-urban and urban area. The state and central Governments could recognize that the UCBs are not just co-operative societies but they are essentially banking entities whose management structure is that of a co-operative. Recently, the UCBs have increasingly started adopting the three-pronged financial inclusion strategies used by commercial banks – Banking Correspondents (BC), "no-frill" accounts and promoting microfinance activities. Once again, their local nature gives them an advantage over their national rivals in executing these moves better. UCBs enjoy an undeniable edge in the area of relationship banking.

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