

## **URBAN CO-OPERATIVE BANKS – PAST, PRESENT & FUTURE SCENARIO**

**Jagdish Deshmukh<sup>1</sup> and Dr. Prakash Somalkar<sup>2</sup>**

<sup>1</sup>Research Scholar, R.T.M. Nagpur University, Nagpur

Email: [deshmukhjr@yahoo.co.in](mailto:deshmukhjr@yahoo.co.in)

<sup>2</sup>Guide, Department of Commerce, Sardar Patel Mahavidyalaya, Chandrapur

Email: [somalkar\\_prakash@rediffmail.com](mailto:somalkar_prakash@rediffmail.com)

### **ABSTRACT**

*Urban Co-operative Banks were giving banking facility to grass root persons. The concept of “Financial Inclusion” is inbuilt in the structure of Urban Co-operative Bank. As Urban Co-operative Banks are mostly working in the rural and semi-urban areas they understand the genuine commercial needs of the local population in their area of operation. Urban Co-operative Banks help small and medium sized traders, entrepreneurs, artisans and farmers who are deprived of banking facility as private sector and commercial banks tap only high profile and successful entrepreneurs. The Urban Co-operative Banks play an important role in economic construction. They are the back bone of banking system and contribute for growth of the nation and hence this sector need special attention in the years to come, from the government and also from the Reserve Bank of India.*

**Keywords:** UCBs – Urban Co-Operative Banks, Financial Inclusion, Government, Reserve Bank of India, Banking System, Banking Regulation Act, 1949.

### **History of Urban Co-operative Banks in India**

Initially the Urban Co-operative credit societies were organized on a community basis to meet the credit needs of their members. Salary earners’ societies played a significant role in popularizing the movement, especially amongst the middle class as well as organized workers. So, from the beginning of UCBs its thrust has been to mobilize saving from the middle and low income urban groups and giving credit to their members, many of which belonged to weaker sections.

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 were traditionally centred around communities, localities and work place groups but today, their scope of operations has widened considerably. There was a general realization that urban banks have an important role to play in economic construction.

**Recent Developments**

Over the years, Urban Co-operative Banks have registered a significant growth in number, size and volume of business handled.

As on March 31, 2011 there were 1645 UCBs all over India and there total deposits were Rs.209949 crore, indicating faith of common man in the UCBs. At the same time some banks were closed during last five years and depositors lost their hard earned money. To save this peoples movement, it is very essential to understand their problems, their expectations from Government and Apex Bank and their limitations. It is also necessary to find some remedies that will boost the UCBs to survive in the present world of competition.

Urban co-operative banks were giving banking facility to grass root persons. UCBs have played key role in developing rural, semi urban areas in the area of their operations. "Financial Inclusion" is launched with much fanfare by Govt. and RBI. This concept is inbuilt in the structure of UCBs. They are the backbone of state economy having the touch of local soil. Every UCB takes genuine commercial needs of local population in their service area. As they know the local scenario, they easily spot and support budding entrepreneurs. Private Sector banks and PSUs tap High Profile and successful entrepreneurs. UCBs are the one who help small and medium sized traders and entrepreneurs who generally have no balance sheets or poor balance sheets to support their genuine trade / business requirements. UCB function over the length and breadth of the state. Since they function in all parts of the states they do contribute for equitable growth in all the regions.

With the passage of time, the size and operations of the urban co-operative societies increased significantly and, therefore, it was considered necessary to bring them under the purview of the Banking Regulation Act, 1949. Besides, with the introduction of the Deposit Insurance Scheme for commercial banks in 1962, a need was felt to extend the benefit to the cooperative banks also. In view of these factors, effective 1 March 1966, certain provisions of the Banking Regulation Act, 1949 were made applicable to primary (urban) co-operative banks also by insertion of section 56 in the Banking Regulation Act, 1949. With the extension of the provisions of the Banking Regulation Act, 1949 to primary [urban] co-operative banks, they came under the dual control of respective State Governments and Reserve Bank of India.

While the managerial aspects of these banks namely registration, constitution of management, administration and recruitment, amalgamation, liquidation etc. are controlled by the State Governments under the provisions of the respective State Co-operative Societies Act, the matters related to banking are governed by the directives/guidelines issued by the Reserve Bank of India.

UCBs in India are mostly concentrated in 5 states viz., Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu. Together they account for almost 80% of the total number of banks, 89% of the deposits resources and 89.8% of the credit deployment by all cooperative banks in the country. State of Maharastra alone has 25% of total UCBs and accounts for 65.4 % of deposits and 67.8% of advances of the co-operative sector.

As regards UCBs, the issues of governance come under the purview of the respective State Governments and the Reserve Bank of India takes care of the prudential aspects of these banks. However, in practice, because of various reasons such as personal vested interests,

political interference, financial irregularities and dual control, many UCBs have become breeding grounds for financial indiscipline and mismanagement resulting into huge losses and failure of banks.

UCBs in general were suffering from issues like, sharp increase in number of banks and branches, large number of financially unsound banks, Steep increase in interest expenses on deposits consequent to deregulation, high rate of interest on deposits and advances, adverse selection of borrowers, low capital base, dual control, high exposure to real estate and other sensitive sectors, lack of professionalism, political interference, unlicensed UCBs, low level of computerization, faulty recruitment system / excess staff / poor skill up gradation, low level of operational efficiency, high operating costs etc.,.

## **Future Scenario**

The Govt. and RBI should consider primarily the Co-operative banks as essential factor in the overall banking and the credit environment of the society. These banks are the most competent tool for financial inclusion & over the time has proven their ability to provide credit at the grass root level effectively. Only thing is that they need proper cushioning, guidance, advice and support.

With the growing networking of UCBs and their utility in financial upliftment and financial inclusion, which is need of the hour, it is felt necessary that a separate umbrella organization exclusively for urban co-op. banks may be design on the similar lines of NABARD. UCBs with their unique and exclusive organizational set up will be the most effective tool for the financial inclusion of urban poor and hence this sector need special attention in the years to come.

The RBI has appointed a committee on licensing of new UCBs under the chairmanship of Shri Y H Malegam which recommended that:

- UCBs play a useful role and there is need for a greater presence of UCBs in unbanked districts and in centres having population less than 5 lakh. It is necessary to encourage new entrants to open banks and branches in States and Districts which are unbanked or inadequately banked. It is equally necessary to discourage new entrants from opening branches in Districts and population centres which are already adequately banked.
- The existing well managed co-operative credit societies meeting certain financial criteria like profits, capital adequacy, NPAs' proportion etc. should be given priority for granting licenses as urban co-operative banks particularly in unbanked or inadequately banked centres.
- The committee also recommended an umbrella organisation that will provide temporary liquidity to the member UCBs. The funds required for providing temporary liquidity shall be mobilised from member UCBs who shall be permitted to keep their CRRs with this Umbrella Organisation bank. All the non-scheduled urban co-operative banks in India shall be the compulsory members of this Umbrella Organisation.

If these recommendations are accepted by RBI, it will definitely boost the urban cooperative banks and new UCBs with sound financial position & well professional staff will come into existence. This will also be beneficial to existing UCBs as the umbrella organisation will solve their temporary liquidity problem.

## CONCLUSION

Co-operation is a better choice as compared to the Corporate Sector if run on trust, honesty and confidence. The Government and Reserve Bank should sponsor this field in the interest of the common man.

The UCBs should bring in mind that they should firstly survive in the present world of competition and then grow. They should accept the challenge and succeed by giving better customer service at a competitive cost. UCBs should diversify its activity in non-interest income sector also to increase their profitability and expand their customer base. There is a need for exchange of information and experience between the various UCBs working in the area.

No doubt the future of UCBs is bright but at the same time it is challenging. For every UCB coordination between management, customers and regulators is an important aspect. The experienced and enlightened Board of Directors will make the management efficient. The future is a capacity building exercise, characterized by conversation, consolidation, competition, cost consciousness and customer orientation.

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