ABSTRACT

Urban Co-operative banks play a pivotal role not only in meeting the credit requirements of various sphere but also play a significant role in the development of Small & Medium industries in urban areas. The urban co-operative banking works on the basis of two tier system. This paper focuses on the current scenario of urban co-operative banking system in India, by mentioning its need, its brief history, its current structure among the co-operative credit society, improvement in financial position of UCBs, contribution of UCBs towards economic development of the country. At the same time this paper also highlights the challenges faced by the UCBs and its future prospects.

Keywords: UCBs; Urban Co-operative Banks

INTRODUCTION

Urban Co-operative Bank

Urban Co-operative banks play a pivotal role not only in meeting the credit requirements of various sphere but also play a significant role in the development of Small & Medium industries in urban areas. Although in bank dominated financial system, these institutions account for a small share in the total credit yet they hold a significant position in credit delivery as they cater to different geographic locations and demographic categories. The wide network of Urban Co-operative banks, has supplemented the commercial banking network for deepening financial intermediation by bringing a large number of depositors/borrowers under the formal banking network. Demographically, these institutions have enabled access to financial services to low and middle-income groups in urban areas.

The Urban Co-operative Banks (UCBs) have been divided on the basis of two tier system:

- Tier I
- Tier II.

Tier-I Urban Co-operative Banks (UCBs) are those Urban Co-operative Banks which have: Deposit base below `Rs. 100 crore operating in a single district. 2) Deposit base below `100 crore operating in more than one district provided the branches were in contiguous districts, and deposits and advances of branches in one district separately constituted at least 95 per cent of the total deposits and advances, respectively, of the bank. 3) Deposit base below `100 crore , whose branches were originally in a single district but subsequently became multi-district due to re-organization of the district.

All other UCBs except those mentioned above are defined as Tier-II UCBs. Presently there are 1606 urban co-operative banks in India with total asset base of Rs. 3,37,200 crores. Out of which 1194 falls
under the category of Tier I with asset base of Rs. 54500 crore & 412 falls under the category of tier II with asset base of Rs. 2,82,700 crores. (Source: data collected from RBI report on Co-operative bank).

Need of UCBs

The need for urban co-operative banking system felt in the early nineteenth century. Now a-days these UCBs have become the integral part of the economy system. The UCB helps in channelizing the idle savings of the society into a fruitful venture. Apart from channelizing the idle savings, these UCBs helps in the development of small & medium scale enterprises in urban areas by providing substantial credit facilities.

OBJECTIVE OF THE PAPER

1. To study the present situation of the urban co-operative banks in India.
2. To point out the exact role of Urban Co-operative banks in nations economic development.
3. To find out the challenges which the Urban –Co-operative banks are facing and also to suggest remedial measures to overcome those challenges.
4. To point out the future prospects of Urban Co-operative Banks in India.

History

The term Urban Co-operative Banks (UCBs), is not formally defined, but it refers to primary co-operative banks located in urban and semi-urban areas. Till 1996 these banks were allowed to lend money only for non-agricultural purposes. Presently this distinction has been wiped off. These banks were traditionally centered around communities, localities work place groups. They essentially lent to small borrowers and businesses.

At present these banks have been able to widen their scope of operation considerably. Basically the origin of urban co-operative banking system in India can be found out to the close of nineteenth century, inspired by the success of Co-operative movement in Britain and co-operative credit movement in Germany, numerous co-operative societies were established in India.

The general realization of importance of co-operative banks for economic development of the nation was asserted by host of committees. Impressed by the low cost of establishment and operation the Rural Banking Committee recommended the establishment of such banks in places smaller than talukas and towns. The first study of urban co-operative bank was taken up by RBI, in the year 1958-59. The report was published in 1961 which acknowledge the sound framework of urban co-operative banks.

Current Structure of UCBs: At present there are 95,156 Credit Co-operative institutions in India out of which there are 1606 urban co-operative banks. The following figure revealed that out of 1606 UCBs 51 are scheduled and 1555 are non-scheduled UCBs. As far as scheduled co-operative banks in the urban sector 25 are multi state. This indicates that with the growing importance of banking in the economic system, UBCs hold a prominent position in the banking sphere.

Source: Diagram from RBI report on Co-operative Banks
The Reserve Bank adopted a multi-layered regulatory and supervisory strategy aimed at the merger/amalgamation of viable UCBs and the exit of unviable ones for the revival of this sector. This initiative led to a gradual reduction in the number of UCBs. As a result, the total number of UCBs at end-March 2013 stood at 1,606 as against 1,618 at end-March 2012. The graph no 1. Indicates reduction in number of urban co-operative banks in India.

The reason behind the reduction in number of co-operative banks is the large scale mergers. By looking following graph no 2, in all the mergers that took place between end-March 2005 and 2013, Maharashtra accounted for 66 mergers, followed by Gujarat 21 and Andhra Pradesh 11. The state of Punjab has got only one merger of UCB.

**Graph No. 1**

**Graph No. 2**

**Source:** Graph from RBI report on Co-operative Banks

**Improvement in financial strength of UCBs:**

A steady growth in the balance sheets of UCBs has been noticed during the year. All UCBs were classified into Tier-I and Tier-II categories based on their deposit base, and a differentiated regulatory treatment was laid down for these two categories on the basis of Vision Document of 2005. In recent years, Tier-II banks, that have a larger deposit base and wider geographical presence, have grown in terms of both number and asset size. Table 1 below indicates the steady growth of Tier –II UCBS, in terms of advances, assets base, deposits etc.

Further it has been noticed that there has been an increase in asset concentration within the UCB sector in 2012-13, partly as an outcome of consolidation. The number of UCBs with an asset size of more than `10 billion increased sharply between 2008 and 2013. It can be notice that the percentage share of such UCBs in the total assets of the Urban Co-operative Banking sector increased from about 37 to 50 per cent during this period. The UCBS with a deposit base of over `10 billion accounted for 47 per cent of the total deposits at end-March 2013. These institutions with a credit size of over `10 billion also accounted for almost 40 per cent of total UCBs advances. (Table:2)

**Table 2.**

<table>
<thead>
<tr>
<th>Deposits (<code>billion</code>)</th>
<th>Number of UCBs</th>
<th>Amount of Deposits</th>
<th>Advances (<code>billion</code>)</th>
<th>Number of UCBs</th>
<th>Amount of Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>% share</td>
<td>Amount. % share</td>
<td>No.</td>
<td>% share</td>
</tr>
<tr>
<td>0.10</td>
<td>2</td>
<td>50.0</td>
<td>50.0</td>
<td>6</td>
<td>33.3</td>
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<tr>
<td>0.10-0.20</td>
<td>200</td>
<td>22.3</td>
<td>22.3</td>
<td>419</td>
<td>28.1</td>
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<tr>
<td>0.25-0.50</td>
<td>240</td>
<td>21.1</td>
<td>4.4</td>
<td>269</td>
<td>14.7</td>
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<tr>
<td>0.75-1.00</td>
<td>283</td>
<td>19.6</td>
<td>39.9</td>
<td>299</td>
<td>14.0</td>
</tr>
<tr>
<td>1.00-1.50</td>
<td>341</td>
<td>15.0</td>
<td>27.7</td>
<td>378</td>
<td>14.0</td>
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<tr>
<td>1.50-2.00</td>
<td>113</td>
<td>7.0</td>
<td>14.4</td>
<td>163</td>
<td>6.5</td>
</tr>
<tr>
<td>2.00-2.50</td>
<td>47</td>
<td>2.9</td>
<td>23.6</td>
<td>51</td>
<td>1.6</td>
</tr>
<tr>
<td>2.50-3.00</td>
<td>43</td>
<td>2.7</td>
<td>14.0</td>
<td>55</td>
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</tr>
<tr>
<td>3.00-3.50</td>
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<td>0.1</td>
<td>1.8</td>
<td>10</td>
<td>0.5</td>
</tr>
<tr>
<td>Total</td>
<td>1,606</td>
<td>100.0</td>
<td>1,606</td>
<td>1,606</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Notes:**
1. Data are provisional.
2. Components may not add up to the total due to rounding off.

**Source:** Data of the above table taken from RBI report on co-operative banks

**VOL. 3, ISSUE 6 (June 2014)**
Contribution towards Economic & Social Development

Credit to small enterprises and housing dominated priority sector advance by UCBS:

UCBS over the years have been playing a huge role for the development of small and medium enterprises. The housing sector alone accounted for over one third of the total credit of these institutions in 2012-2013. These institutions primarily cater to the requirements of urban consumers which explains the predominance of these two sectors in the UCBS’ credit portfolio, these can be clearly determined by looking at the following pie chart. Of 2012-2013.

Source: RBI report on co-operative Banks

Graph 3.

Increase in the provision of credit to weaker sections by UCBS: Small enterprises, housing loans and micro credit, are the three major constituents in terms of priority in providing credit to weaker sections by UCBS. The graph no.5 shows that the aggregate credit to weaker sections has increased in 2012-13 reflecting improved financial inclusion efforts by UCBS.

Credit to Agricultural sector:

Out of the total credit of UCBS to the priority sector 3.8 % has been given to agricultural sector out of which 1.4% has been registered as direct agricultural credit & 2.4% as indirect agricultural credit. (Source Data collected from RBI report; ww.rbi.org.in). These functions of the UCBS indicate its immense contribution towards the nation’s economic growth and development.

Challenges of UCBS

Despite the fact that the business and asset base of UCBS has grown over the years, but these institutions have been facing numerous challenges for its development and sustainability. First of all the market competition and the need to retain good clientele are affecting the UCBS too. Secondly the larger private sector commercial banks, with their ability to invest more in technology and offer better remuneration to attract skilled persons, are better off in this competitive era. Most of the problems faced by the UCBS are due to governance issues and connected lending. Unlike the case of other institutions the shares of which can be listed in a stock exchange and can change hands without affecting the capital base, in case of UCBS, the shareholders can withdraw their contribution to capital resulting into shrinkage of capital of the bank.
Future Prospects of UCBs

Reserve Bank has brought in a series of reforms for UCBs. The Madhava Rao Committee on UCBs, has dwelt extensively on certain regulatory issues related to UCBs. The Reserve Bank has accepted these recommendations and implemented them. In the backdrop of the present scenario, future agenda for reforms in urban co-operative banking sector are, as follows:
1. Ailing of UCB sector with rest of the financial system.
2. Unlike the other segments of cooperative credit sector, UCBs today undertake multifarious banking activities. Some of them have also been permitted to undertake forex and merchant banking activities.
3. In the recent past there has been an emerging view that UCBs, being members of payment system, beneficiaries of deposit insurance scheme and enjoying unlimited access to public deposits, it is an imperative necessity to apply exactly the same regulatory rigors to UCBs as applicable to commercial banks.

CONCLUSION

Urban co-operative banking sector has come to occupy a formidable place in the Indian financial system. However, sustenance of its growth is attendant to Professionalization of its management, inculcating good corporate governance, technology absorption and scrupulous adherence to regulatory framework. We can expect that the sector will learn from its past mistakes and shortcomings quickly and will provide a sound network in the banking system for sustainable growth and development of the economy.

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