

CHAPTER THREE

PROFILE OF URBAN CO-OPERATIVE BANK

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CHAPTER NO. 03

PROFILE OF URBAN CO-OPERATIVE BANK

3.0 INTRODUCTION:

In order to understand the contribution of Urban Co-operative Banks (UCBs), it is worthwhile to have a profile of urban co-operative banks in India. As these banks shoulder the social responsibility to fulfill the financial and investments needs of 'Common Man' of society.

3.1 HISTORICAL BACKGROUND:

The birthplace of urban co-operative credit movement in the world is Germany. The first co-operative credit society was established at Francis Haeck in Belgium, in 1848 mostly operating as an investment organization rather than cooperative society. With a view to inculcate the habit of thrift, Schulze Delitzsch, in 1850, started urban co-operative society. It granted them credit for variety of purposes on personal security and at lower rate of interest. The prime experiment of urban co-operative banking became successful in the year 1855 in Germany. Italy was next to adopt the concept of urban co-operative banking. Great efforts and dedication by Professor Luigi Luzzatti's proved useful in Italy. In India, in the year 1889, people of Vadodara formed their own credit society known as Kavathekar Mandali. This Mandali later on was known as 'The Anyonya Sahayakari Mandali Co-operative Bank Ltd. Vadodara got a historical significance by starting this bank. With this, Vadodara City earned the reputation of being the first city to have a co-operative credit society not only in the entire Indian sub-continent but also in Asia. Credit for this Historical contribution and achievement goes to Prof. V.L. Kavathekar, an eminent Professor of Economics in the princely State of Gaekwads. He could very well visualize and understand the financial difficulties faced by middle and lower income groups as well as economically and socially marginalized and neglected masses in the urban and rural areas for their day-to day basic needs. These people were easy and early prey in the hands of private moneylenders. Often these strata of people used to live a life long economic and social slavery under these private moneylenders popularly Known as "Sahukars".

In 1909, the Jambusar People's Co-operative Bank Ltd. in Bharuch district of Gujarat got the status of first UCB in the state of Gujarat. The idea of credit co-operative banks become an immanent objective need as big financial institution rather failed to fulfill the task of catering the needs of economically weaker sections of the society. The data of UCBs in Gujarat indicates a phenomenal growth of these banks. The success of credit co-operative movement lies in the fact that these banks have grown over the years and it is an indication of faith of the people at large expressed in UCBs.

The Urban Co-operative Movement started in India with the objective of helping small traders, artisans, factory workers and fixed income salaried masses. These Co-operative Banks served the two main purposes, first to free the large low income and poor population from the hands of "Sahukars" i.e. private moneylenders. Second, to inculcate the habit of thrift and saving.

The co-operative credit movement got strength in India, when Co-operative Credit Societies Act was passed in 1904, which laid the special emphasis on promotion and development of Agricultural co-operative credit societies. The fruits of the Act followed when initiative and efforts of local leadership resulted into registration of some urban co-operative societies. In the year 1904 at Kanjeevarm, Madras Urban Co-operative Credit Society was registered. Two co-operative credit societies were later on started in the year 1905.

1. The Bangalore city credit co-operative society at Mysore State.
2. The Betgiri credit co-operative society at Dharwar district in Bombay province.

In 1915, the committee on co-operation published a report to note, "Urban co-operative societies might serve a useful purpose in training the upper and middle urban classes to understand the ordinary banking principles." As per the report of the committee, Urban Co-operative Banks were operating in Assam, Bengal, Bihar, Orissa and Punjab. Later on, several Banking Inquiry committees also recommended for the development of urban co-operative banks. The importance of UCBs was brought into notice by Baroda state Banking Inquiry committee in 1930 and Bombay Provincial Banking Inquiry committee in 1931. These committees noticed that UCBs help in promoting banking habits among urban people and granting them credit on easy terms.

In the year 1931, the Indian Central banking Inquiry Committee published its report stating that, "The duty of these banks should be to try to do for small traders, the small merchants and the middle class population what commercial banks are doing for the big traders and the big merchants."

As an important development in the area of banking, the Reserve Bank of India was established in 1935. "Agriculture Credit" a department of RBI recognized the importance of UCBs in India and started publishing the important statistics relating to working and operations of UCBs.

Shri R.G. Saraiya, Chairman of the Committee on "Co-operative Planning" in 1946 has stated in his report, "Joint Stock Banks are not interested in developing the business of small loans because cost of advancing and recovering them is high. Further, as Joint Stock Banks are not likely to have, under ordinary circumstances, full and intimate knowledge of the standing and resources of a person of moderate means they will not advance loans on personal security. On the other hand, there are, in urban areas, number of persons with small means, like traders and merchants, artisans, factory workers, street hawkers, motor drivers who resort to money lenders and similar agencies for small loan and obtain them at high rate of interest. Ex-servicemen like technicians and skilled workmen like carpenter, blacksmith, and mechanics etc. will also require credit for setting up of there business in small shops. UCBs qualify by establishing personal and intimate relationship with people of this class as the most suitable agencies for serving their credit need".¹

RBI published a report in 1961, based on its survey and study of all aspects of Urban Co-operative Banks during the year 1957-58. This has contributed valuable suggestions for the development of Urban Co-operative Banks.

The report narrates, "The general picture of urban co-operative banking which emerges out of this study is one of a fairly widespread, financially sound, expanding useful framework of banking institution which have their own place of importance in banking structure of a large part of country".²

¹ Shri R G. Saraiya, the Committee report on "Co-operative Planning", 1946

² RBI survey and study of all aspects of Urban Co-operative Banks during the year 1957-58, published in 1961

The Reserve Bank of India published a review report in 1939-40 endorsing the prime role played by these credit Co-operatives Banks in serving the credit needs of urban peoples. The main functions of these banks remain to accept the deposits from the members and non-members as well as advancing loans to its members in need. However, timely reviews of progress of these banks have been undertaken in order to strengthen the functioning and also to make the services of these banks more socially relevant, thereby necessitating the reforming of the objective of these banks.

3.1.1 Varde Committee Recommendations

In 1963, Government of India appointed a study group on “The Co-operative Credit in the Non Agriculture Sector” popularly known as Varde Committee. The important recommendations of Varde committee are worth considering:

- 1.1.1 The committee suggested one bank for one area of operation; else there would be increased competition for the deposits. The study suggests restriction of the area of operation to certain ward of some categories of person so that there is no over lapping of jurisdiction of different banks.
- 1.1.2 These banks should have only one class of members and the practice of nominal membership should be abandoned. In case where a member is allowed for the nominal membership due to his inability to purchase shares in the initial stage, such type of members should be persuaded to become permanent members at the earliest by purchasing the required shares of the bank
- 1.1.3 The Board of Directors should be elected by adopting election once in a three-year or each year or by rotation for one third of the Board. The committee suggested the later system more suitable.
- 1.1.4 The Board of Directors should be persuaded to become members in order to have a higher confidence of the Board of Directors.
- 1.1.5 To strengthen the fund position of new banks or for the banks in need of funds, the state may contribute up to Rs. 25000 on a minimum level on a matching basis in order to make up a minimum level of share capital of Rs. 50000 per Urban Bank. This contribution should be recovered within

one year. To safeguard its financial interest the State Government may nominate up to three directors but not exceeding one third of the total strength of directors.

- 1.1.6 Banks showing promising progress and efficient management should be allowed to receive the investments of surplus funds of local bodies, educational bodies, etc.,
 - 1.1.7 Before permitting any branch of any of the Commercial Banks in the operational area of any Urban Credit Co-operative Banks, the capacity and the scope of development of the Urban Credit Co-operative Banks should be considered.
 - 1.1.8 The apex co-operative should finance the Urban C-operative Banks, as and when needed for their development. There should be a representation of these banks in the Board of Directors of Central Co-operative Banks.
 - 1.1.9 There should be a diversification of loans in order to widespread the financial market for these urban credit co-operative banks.
- 3.1.2 In 1966, these Urban Co-operative Banks were brought under the purview of Banking Regulation Act. Prior to this, these Co-operative Banks were considered as co-operative societies and were covered under the provisions of Co-operative Societies Acts of the respective states. Though these banks were required to apply to the RBI for license, the power of these banks regarding organization, registration, management and winding-up of the business remains under the provisions of Co-operative Societies Acts of the respective states.
 - 3.1.3 In 1968, RBI appointed the working group on Industrial Financing through co-operative banks. This working group assigned new role to these banks by asking them to provide financial assistance to small scale Industries.
 - 3.1.4 In 1971, RBI conducted a seminar of chief Executive of Urban Co-operative Banks for the first time. Seminar was convened at Banker Training Collage, Pune. The seminar made useful contribution to the development of Urban Co-operative Banks.

- 3.1.5** In 1973, an important organization, National Federation of Urban Co-operative Banks and Credit Societies was registered with a motive to organize the activities of UCBs and credit societies in India.
- 3.1.6** In 1975, another august body came in to existence known as Gujarat Urban Co-operative Banks Federation. This organization has taken active interest and initiation in development of UCBs in the state.
- 3.1.7** In 1978, a first All India Conference of Urban Co-operative Banks and Credit Society was organized at Ahmedabad. National Federation of Urban Co-operative Banks and Credit Societies and Gujarat Urban Co-operative Banks' Federation organized this jointly. Delegates from different States of India attended the Conference, which includes some of the top-level policy makers in the field of urban co-operative banking.
- 3.1.8** In 1980s we can observe tremendous development of activities of UCBs especially in order to cater the need of common man. In this decade UCBs played significant role the development of Small Scale Industries, as it was a priority from the point view of productive investment and providing employment opportunities to the urban masses.
- 3.1.9** In 1998-99 the recommendations of All India Rural Credit Survey Committee were adopted and implemented by the state/central governments under the guidelines of RBI. Eye-catching achievements were observed in the state of Maharashtra, Gujarat, Karnataka and Tamilnadu. The same pattern of development with little less intensity can be seen in the state of Andhra Pradesh, Kerala, West Bengal and Madhya Pradesh.

3.2 AREAS OF OPERATION:

The byelaws of UCBs states that they are expected to function within the municipal jurisdiction or in the town. The study group on credit co-operative has recommended, "Normally, it is advisable for the UCBs to restrict its areas of operations to the Municipality or Taluka town".³ However, there are multi state urban co-operative banks depending up on the need of people of a particular area living in the other state.

³ Based on the recommendations of Varde Committee Report 1963

3.3 STRUCTURE OF MANAGEMENT:

The members of an urban co-operative bank form a body for the regular routine work of the bank called Board of Directors. The members among themselves elect directors. As per the normal practice the directors are to be elected by holding elections every year by rotation of one third of the Board of Directors. The Varde Committee has made an observation that large number of directors gets themselves elected year after year in these banks. Thus, the standard advisory committee suggested, "No director should be allowed to contest for more than two consecutive terms".⁴ The committee also focused on the benefits of continuance of senior members in the board to ensure commitment to service and better management.

3.4 GROWTH OF URBAN CO-OPERATIVE BANKS IN INDIA:

During the period from the year 1994-95 to 2003-04 the number of UCBs has increased from 1400 to 1926, which is 526 banks, an average 52 banks per year. The increase in the year 2001-02 is 236 banks. There is also a year of decrease in such banks i.e., in the year 1999-2000 with 167 banks

Table No 3.1: Number of UCBs in India

Years	No. UCBs	Years	No. UCBs
1994-95	1400	1999-2000	1785
1995-96	1431	2000-2001	1618
1996-97	1501	2001-2002	1854
1996-97	1653	2002-2003	1941
1998-99	1587	2003-2004	1926

Source: Report on Trends and Progress of Banking in India, RBI publication.

There are 1926 UCBs at the end of March 31,2004, which includes 89 salary earners' banks and 133 mahila banks. Of these, 163 were under liquidation as at end of March 31,2003. The spatial pattern of UCBs remains uneven- largely concentrated in few states such as Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamilnadu. Maharashtra is the state with highest number of UCBs followed by Gujarat and Karnataka. The State of Jammu and Kashmir has the least number of UCBs.

⁴ Report of Standing Advisory Committee on Urban Co-operative Banks RBI-1984

**Table No. 3.2: Number of UCBs in India at the end of 31st March 2004
(A State wise distribution)**

Name of the States	No. of UCBs
Andhra Pradesh	133
Assam / Manipur / Meghalaya / Sikkim / Nagaland / Tripura / Arunachal Pradesh	19
Bihar / Jharkhand	05
Gujarat	328*
Jammu & Kashmir	04
Karnataka	300
Kerala	63
Madhya Pradesh	81
Maharashtra & Goa	639
New Delhi	16
Orissa	13
Punjab/Haryana/Himachal Pradesh	17
Rajasthan	42
Tamilnadu & Pondicherry	134
Uttar Pradesh & Uttaranchal	80
West Bengal	52
TOTAL	1926

Source: * Report on Trends and Progress of Banking in India, RBI. 2003-04.

Apart from a few large banks, most of the UCBs are very small in size, often with a single branch. There are 57 scheduled UCBs at the end of March 31,2003. They account for about 35 per cent of total deposit. Of this, 39 in Maharashtra, 11 in Gujarat, 3 in Andhra Pradesh, 2 in Goa and one each in Karnataka and Uttar Pradesh. The membership of Urban Co-operative Banks is limited to the persons residing in the city and town; who are predominantly persons of limited means like salaried employees, factory workers, artisans, self-employed small businessmen, retail traders, transport operators, persons running small industries and professionals.

Table No. 3.3: Number of UCBs and Membership in Gujarat (1960 to 2004)

YEARS	No. of Banks	YEARS	No. of Banks
30-06-60	41	30-06-98	321
30-06-74	208	30-06-99	330
30-06-88	288	31-03-00	341
31-03-93	288	31-03-01	350
30-06-94	288	31-03-02	351
30-06-95	292	31-03-03	351
30-06-96	298	31-03-04	352
30-06-97	316		

Source: Reports of Gujarat state Urban Co-operative Banks Federation

The table no.3.3 shows number wise progress of UCBs in Gujarat over a period of more than 40 years from 1960 to 2004 where the UCBs increased from 41 to 352 an increase of 311 UCBs. The number of UCBs from the year 2001 to 2004 has almost remained stable.

Table No 3.4: No. of UCBs in Gujarat at the end of 31st March 2004 (A District wise distribution)

Name of the Districts	No.of UCBs	Name of the Districts	No.of UCBs
Ahemdabad	74	Bharuch	10
Kheda	48	Junaghadh	10
Baroda	38	Banaskantha	09
Mehasana	35	Amreli	07
Surat	31	Surendranagar	06
Panchmahal	20	Jamnagar	06
Sabarkantha	16	Kutch	06
Bhavnagar	13	Valsad	05
Rajkot	13	Gandhinagar	05

Source: Report of Gujarat State Urban Co-operative Banks Federation 2004

The table no. 3.4 provides the district wise distribution of UCBs in Gujarat. The Ahemdabad district has the highest number of UCBs followed by Kheda, Baroda and Mehasana. The least number of UCBs are in Valsad and Gandhinagar district with 5 banks each.

Table No. 3.5: List of Scheduled Banks in Gujarat

Sr. No.	Name of Scheduled Banks
1.	The Kalupur Commercial Co-op. Bank Ltd. -Ahmedabad
2.	Co-operative Bank of Ahmedabad Ltd.- Ahmedabad
3.	The Industrial Co-op. Bank Ltd.- Ahmedabad
4.	The Ahmedabad Mercantile Co-op. Bank Ltd.- Ahmedabad (Multi State only)
5.	The Madhavpura Mercantile Co-operative Bank Ltd.- Ahmedabad
6.	Nutan Nagarik Sahakari Bank Ltd.- Ahmedabad
7.	The Rajkot Nagarik Sahakari Bank Ltd.-Rajkot
8.	The Su-TEX Co-operative Bank Ltd.-Surat (Multi State only)
9.	Charotar Nagarik Sahakari Bank Ltd.- Anand
10.	The Mehsana Urban Co-operative Bank Ltd. -Mehsana
11.	The Surat People's Co-operative Bank Ltd.- Surat
12.	Sardar Bhiladwala Pardi Peoples Co-operative Bank Ltd. – Killa-Pardi, Valsad.
13.	The Visnagar Nagarik Sahakari Bank Ltd.- Visnagar

Source: Report of Gujarat State Urban Co-operative Banks Federation 2004

The table no.3.5 gives the name of scheduled UCBs in Gujarat. There are 13 scheduled banks UCBs in Gujarat at the end of 31st March 2004 out of which two, The Ahmedabad Mercantile Co-op. Bank Ltd. and The Su-Tex Co-operative Bank Ltd.-Surat are Multi State UCBs. There are 5 Scheduled UCBs included in this study as well, that are The Kalupur Commercial Co-op. Bank Ltd. –Ahmedabad, The Rajkot Nagarik Sahakari Bank Ltd.-Rajkot, The Mehsana Urban Co-operative Bank Ltd. –Mehsana, The Surat People’s Co-operative Bank Ltd.- Surat and Sardar Bhiladwala Pardi People’s Co-operative Bank Ltd. – Kills-Pardi, Valsad.

Table No. 3.6: Progress of Urban Co-operative Banks in India (Rs. in crores) (1994-95 to 2003-04)

Particulars	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Own funds	2723	3312	3848	4541	7314	9314	10826	13797	9830	12348
Deposits	16769	20101	24165	29313	52617	71189	80840	93069	101546	110256
Advance	12172	14795	17908	20613	34172	45995	54389	62060	64995	67930
Borrowing	496	577	758	618	1040	1475	2069	N.A	1590	1484
W. Capital	19988	23990	28771	34472	66985	90301	103042	115596	111746	113671

Source: Trends and Progress of Banking in India. RBI publication.

The above data shows the progress of core items of assets and liability as well as workings in UCBs in India. The own fund increased from Rs. 2723 crores in 1994-95 to Rs. 12348 crores in 2003-04, an increase of 77.95 per cent in the period of ten years from 1994-95 to 2003-04. The deposits have gone up from Rs 16769 crores to Rs. 110256 crores with an increase of 84.80 per cent during the same period. The advances rise from Rs. 12172 crores to Rs 67930 crores under the period with an increase of 82.08 per cent. The borrowings have grown up slowly from Rs. 496 crores to Rs. 1484 crores with an increase of 66.58 per cent. The working capital has increased from Rs. 19988 crores to Rs. 113671 crores, an increase of 82.42 per cent. The above percentage clearly indicates the progress of UCBs in India during the period of study.

3.5 FINANCIAL CONSTITUENTS OF URBAN CO-OPERATIVE BANK:

An important feature of the Urban Co-operative Banks has been to depend on its internal resources. The source of fund of these banks comprises of the following types:

3.5.1 Owned funds

It comprises of share capital and reserves. A standing Advisory Committee formed by RBI for UCBs in 1983. The report of committee is based on the study of ten years data from 1983-84 to 1993-94, which reflects the proportion of own funds to working capital of UCBs. The data is extended to another ten

years up to the year 2003-04 to observe the proportion of Owned funds to Working capital given as under:

Table No 3.7: Proportion of Owned Funds to Working Capital of UCBs in India (1983-84 to 2003-04)

Sr. No.	Years	% of Own Funds to W.C.	Sr. No	Years	% of Own Funds to W.C.
1	1983-84	11.80	8	1998-99	10.92
2	1988-89	10.15	9	1999-2000	10.31
3	1993-94	13.62	10	2000-2001	10.51
4	1994-95	13.81	11	2001-2002	11.94
5	1995-96	13.37	12	2002-2003	08.80
6	1996-97	13.17	13	2003-2004	10.86
7	1997-98	12.98			

Source: Report of Standing Advisory Committee on UCBs RBI-1984 and Reports on Trends and Progress of Banking in India, RBI 1996-97 and 2003-04

It can be observed from the table no. 3.7 that the proportion of owned fund to working capital ranges from 8.80 per cent and 13.81 per cent; the trend of proportion of the own funds to working capital is continuously declining from 1994-95 to 1998-1999.

For the year 2003-04, the owned funds of UCBs is Rs.12348 crores, while working capital of UCBs is Rs.113671 crores. The proportion of owned funds to working capital has increased to 10.86 per cent in the last year of study.

3.5.2 Deposits

The deposits constitute a major source of loanable funds. The banking activity of UCBs has shown a promising growth ever since their inception. A look at the data from the year 1993-94 to 2003-2004 shows significant progress in over all pattern deposits.

Table No. 3.8: Proportion of Deposits to Working Capital of Urban Co-operative banks in India (1983-84 to 2003-04)

Sr. No.	Years	% of Deposits to W.C.	Sr. No.	Years	% of Deposits to W.C.
1	1983-84	73.56	8	1998-99	78.55
2	1988-89	76.77	9	1999-2000	78.84
3	1993-94	83.90	10	2000-2001	78.45
4	1994-95	83.79	11	2001-2002	80.51
5	1995-96	83.99	12	2002-2003	90.87
6	1996-97	85.03	13	2003-2004	96.99
7	1997-98	81.26			

Source: Report of Standing Advisory Committee on UCbs RBI-1984 and Reports on Trends and Progress of Banking in India RBI, 1996-97 and 2003-04

It can be observed from the data that the proportion of deposits to working capital ranges from 73.56 per cent to 96.99 per cent; the trend of proportion of the deposits to working capital shows a decline from 1997-98 to 2000-2001.

For the year 2003-04, the deposit of UCBs is Rs.110256 crores while working capital of UCBs is Rs.1136 Crores. The proportion of deposits to working capital has increased to 96.99 per cent in the last year of study.

3.5.3 Borrowings

The Borrowings of Urban Co-operative Banks are very small in proportion to their working capital. The percentage of borrowings to working capital has remained between 1.31 and 2.63 per cent during the period of ten years from 1994-95 to 2003-04. This indicates that borrowings were never a big source for UCBs in the business.

Table No. 3.9: Proportion of Borrowings to Working Capital of Urban Co-operative banks in India (1994-95 to 2003-04)

Sr. No.	Years	% of Borrowings to W.C.	Sr. No.	Years	% of Borrowings to W.C.
1	1994-95	2.48	6	1999-2000	1.63
2	1995-96	2.41	7	2000-2001	2.00
3	1996-97	2.63	8	2001-2002	N.A.
4	1997-98	1.79	9	2002-2003	1.42
5	1998-99	1.55	10	2003-2004	1.31

Source: Report on Trends and Progress of Banking in India. RBI publication.

3.5.4 Advances

It is one of the important constituents of assets for UCBs. It includes short term, medium term and long term loans. The advances are major source of income in form of interest to UCBs. Loan asset quality determines the level of earnings. Banks should recognize that there is nothing called zero risk in lending.

Table No. 3.10: Proportion of Advances to Working Capital of UCBs in India (1994-95 to 2003-04)

Sr. No.	Years	% of Advances to W.C.	Sr. No.	Years	% of Advances to W.C.
1	1994-95	60.70	6	1999-2000	50.94
2	1995-96	61.67	7	2000-2001	52.73
3	1996-97	62.24	8	2001-2002	53.69
4	1997-98	59.80	9	2002-2003	58.16
5	1998-99	51.01	10	2003-2004	59.76

Source: Report on Trends and Progress of Banking in India. RBI publication.

The table 3.10 of Proportion of Advances to Working Capital of UCBs in India indicates that the proportion of credit to working capital ranges from 50.94 per cent to 62.24 per cent; the trend of proportion of the advances to working capital is continuously rising from 1999-2000 to 2003-2004.

For the year 2003-04, the advances of Urban Co-operative Banks is Rs.67930 crores while working capital of UCBs is Rs.113671 crores. The proportion of advances to working capital was highest in the year 1996-97 i.e., 62.24 percent.

3.6 CREDIT-DEPOSIT RATIO:

The Credit-Deposit ratio is an important parameter to assess the functioning of the banking business. It shows the proportion of deposits that are provided as credit by the banks. It is calculated as total advances divided by total deposits.

Table No. 3.11: Credit-Deposit Ratio of Urban Co-operative banks in India (1994-95 to 2003-04)

Sr. No.	Years	C/D Ratio	Sr. No	Years	C/D Ratio
1	1994-95	0.73	6	1999-2000	0.65
2	1995-96	0.74	7	2000-2001	0.67
3	1996-97	0.74	8	2001-2002	0.67
4	1997-98	0.70	9	2002-2003	0.64
5	1998-99	0.65	10	2003-2004	0.62

Source: Report on Trends and Progress of Banking in India. RBI publication

The above table provides the Credit-Deposit Ratio of Urban Co-operative banks in India. This ratio ranges from to 0.62 to 0.73 during the period of study from 1994-95 to 2003-04. The C/D ratio is continuously falling down except for the years 2000-01 and 2001-02. The decrease in C/D ratio is not a good indication. However, it is because of low rate of increase in advances as well as deposits.

3.7 PROGRESS OF URBAN CO-OPERATIVE BANKS IN GUJARAT:

The present state of Gujarat was formed as a result of Bombay Reorganization Act, 1960. The state is situated on the west coast of India and is located between 20.1 and 24.7-degree north latitude and 68.4 and 74.4 degree east longitude. The tropic of cancer passes through the northern border of Gujarat. The state of Gujarat occupies an area of 196024 square kilometers with 19.66 lakh hectares of land under cultivation. As per the 2001 census the total population of Gujarat is over 5 crores which is around 5 per cent of all India level population. At present the state of Gujarat has 25 district that are divided in to three regions:

Saurashtra Region: Consisting of Amreli, Bhavnagar, Jamnagar, Junagadh, Kutch, Porbandar Rajkot, Surendranagar, and Norda (Rajpipla).

North Gujarat: Consisting of Ahmedabad, Banaskantha, Dahod, Gandhinagar, Kheda, Mehsana, Panchmahals, Patan and Sabarkantha.

South Gujarat: Consisting of Bharuch, Dang, Narmada, Navasari, Surat, Vadodara and. Valsad.

Gujarat is the main producer of cotton, groundnuts and tobacco. It is one of the states heading in Industries like textile, pharmaceuticals, cement, petro-chemicals, sugar etc. In procurement of milk it has first position in India and nearly 63 per cent of total production is in the state of Gujarat.

Gujarat has a pride of starting the first Co-operative credit society known as Kavathekar Mandali. This Mandali now named as The Anyonya Co-operative Bank. Established in 1889 it is one of the oldest urban co-operative bank in Asia, which is also a UCB in this study.

Table No. 3.12(a): Progress of Urban Co-operative Banks in Gujarat in last 45 years (1960 to 2004)

Particulars	30-06-60	30-06-74	30-06-88	30-06-95	30-06-97	30-06-98	30-06-99	31-03-00	31-03-01	31-03-02	31-03-03	31-03-04
No. of Banks	41	208	288	292	316	321	330	341	350	351	351	352
No. of Branches	18	68	283	382	418	615	708	728	800	762	779	736
No of Members	131219	412110	1833722	2439059	2685616	2812687	2998011	3242829	3303662	3245699	3321357	3251276
No of Depositors	58256	5143312	4494426	6482648	7081836	N A	9746161	11009558	11634435	10998814	10641234	10287650
No of Borrowers	17259	114218	701594	903732	943688	N.A.	926804	997619	1091005	1006030	935198	804860
No of Staff Members	667	2913	10797	14219	16528	N A	16457	17393	17473	17190	16692	15538

Source: Reports of Gujarat State Urban Co-operative Banks Federation (1989 to 2004)

As per the above table at the formation of state of Gujarat in 1960-61 there were 41 UCBs, which has increased to 352 at the end of March 2004 (except in the year 2003). The number of branches of UCBs has also rose from 18 to 736 during the period of last 45 years. This is an increase of more than 40 times (the down of branches in 2002 is overcome in the year 2003) Similarly, the membership of UCBs has also gone up from 1.31 lakhs to 32.51 lakhs an increase of almost 25 times (the down trend in membership in 2001 is overcome in the year 2002). Depositors are one of the important constituents of

banking business. The UCBs are the banks deeply rooted with the local people, which are represented by the above figures of depositors. The number of depositors increased from just 58 thousands to more than 1 crores in the period of last 45 years i.e., an increase of 172 times. The numbers of depositors are decreasing 2002 but the rate of decrease is declining. It is not only the depositors but also the borrowers play an important role in banking business. The number of borrowers has gone up from just 17 thousands to nearly 11 lakhs till the year 2001 i.e., an increase of 65 times. However, during last three years there is a decline in the number of borrowers but the pace of decline is decreasing. The staff of the UCBs, which is a critical element of fixed cost and needs to be kept under control. UCBs in Gujarat have done a good job as the number of staff members' shows comparatively small increase of 23 times as compared to number of depositors and borrowers.

Table No 3.12(b): Progress of Urban Co-operative Banks in Gujarat -1960 to 2004 (Rs. in crores)

Particulars	30-06-60	30-06-74	30-06-88	30-06-95	30-06-97	30-06-98	30-06-99	31-03-00	31-03-01	31-03-02	31-03-03	31-03-04
Share Capital	0.73	9.15	70	137	166	251	304	363	418	436	451	425
Reserves	0.37	5.15	203	845	1129	1486	1832	2271	2487	2968	3332	5053
Deposits	5.67	91.02	1561	4260	6653	9984	13276	16703	17791	16506	16345	15894
Borrowings	NA	NA	NA	577	618	1494	1494	1049	1475	2069	2112	2226
Advances	3.75	72.79	1253	3063	3803	6623	8446	10468	11864	11004	11304	9825
Profit	0.07	2.06	38	70	92	221	238	294	273	241	213	201
W.Capital	7.53	122.54	2132	6374	9177	13179	17218	21120	23520	21633	22833	22087

Source: Reports of Gujarat state Urban Co-operative Banks Federation (1989 to 2004).

The above table shows the progress of UCBs from 1960 to 2004. The share capital increased from Rs. 0.73 crores to Rs. 425 crores during this period. However, the share capital is increasing at a declining rate. Similarly, the amount of reserves have also increased from Rs. 0.37 crores to Rs. 5053 crores. The reserves were increasing at a decline rate till 1999 but there after it has increased with an increasing rate in the year 2000, 2002 and 2004. Banks are more concern with deposits which shows a rise from Rs.5.67 crores to Rs. 15894 crores. It is an increase of 2863 times. But the effect of liberalization in form of prudential norms and the incidence of The Madhavpura Mercantile Co-operative Bank Ltd.- Ahmedabad in which nearly 125 co-operative banks were affected in Gujarat directly and almost all of them indirectly. After the year 2001

the deposits have decreased with the UCBs in Gujarat. But the good signal is that the rate of fall is at decline. The borrowings do not form significant part of total liabilities. However, there is a continuous rise in the amount of borrowings during the period of study. Advances are another important fundamental. It has shown the same growth pattern as for the deposits, which is an indication of efficiency of UCBs to meet the loan needs of the urban masses. However, prudential norms of Asset Classification and problems of recovery have reduced the amount of advances for UCBs since last two years. But here also there is a sign of improvement in the position of advances in the year 2003. The working capital is indicating a healthy growth till 2001 with small decline in the years 2002 and 2004 but fair indication of increase in the year 2003.

3.8 FINANCIAL CONSTITUENTS OF URBAN CO-OPERATIVE BANKS IN GUJARAT:

An important feature of the Urban Co-operative Banks is to depend on its internal resources. The source of fund of these banks comprises of the following types:

3.8.1 Owned funds

Sources of funds of urban co-operative banks in Gujarat are increasing continuously during past four decades. Owned funds, which comprise of share capital and reserves, were Rs.1.1 crores as in the year 1960 has grown up to Rs.5478 crores in the year 2004. The table no. 3.13 given below shows the proportion of owned funds to working capital of UCBs in Gujarat. It has increased from 1993 to 1996. It declines from the year 1997 to 1999 and again increases except in the year 2001 till the year 2004. In the year 2004 the proportion of owned funds to working capital is the highest in the period of study from 1993 to 2004 i.e., 24.80 per cent.

Table 3.13 Proportion of Owned Funds to Working Capital of UCBs in Gujarat (1993 to 2004)

Sr. No.	Years	% of Owned Funds to W.C.	Sr. No.	Years	% of Owned Funds to W.C.
1	31-03-93	15.18	7	30-06-99	12.41
2	30-06-94	15.61	8	31-03-00	12.47
3	30-06-95	15.41	9	31-03-01	12.35
4	30-06-96	15.02	10	31-03-02	15.74
5	30-06-97	14.11	11	31-03-03	16.57
6	30-06-98	13.18	12	31-03-04	24.80

Source: Reports of Gujarat state Urban Co-operative Banks Federation 1993 to 2004.

3.8.2 Deposits

Contribution of deposits to sources of funds to UCBs at all India as well as Gujarat level ranges from 70 percent to 80 per cent. The proportion of deposits to working capital of Urban Co-operative banks in Gujarat is highest in the year 2000 and lowest in the year 1995. The average proportion of deposits to working capital for the 12 years from 1993 to 2004 as calculated from the table no. 3.14 given below is 73.72 per cent.

Table No. 3.14: Proportion of Deposits to Working Capital of Urban Co-operative banks in Gujarat (1993 to 2004)

Sr. No.	Years	% of Deposits to W.C.	Sr. No.	Years	% of Deposits to W.C.
1	31-03-93	72.72	7	30-06-99	77.11
2	30-06-94	72.66	8	31-03-00	79.09
3	30-06-95	66.83	9	31-03-01	75.64
4	30-06-96	72.49	10	31-03-02	76.30
5	30-06-97	72.50	11	31-03-03	71.58
6	30-06-98	75.76	12	31-03-04	72.00

Source: Reports of Gujarat State Urban Co-operative Banks Federation (1993 to 2004)

3.8.3 Borrowings

The table no 3.15 given below provides the details regarding the proportion of working capital to borrowings of UCBs in Gujarat. The borrowing during the period of study from 1993 to 2004 shows unequal pattern as compare to own funds and deposits. It ranges from 4.97 per cent to 12.12 per cent. However, since the year 2000 it is continuously rising

Table 3.15: Proportion of Borrowings to Working Capital of Urban Co-operative banks in Gujarat (1993 to 2004)

Sr. No.	Years	% of Borrowings to W.C.	Sr. No.	Years	% of Borrowings to W.C.
1	31-03-93	12.12	7	30-06-99	8.68
2	30-06-94	9.34	8	31-03-00	4.97
3	30-06-95	9.05	9	31-03-01	6.27
4	30-06-96	9.91	10	31-03-02	9.56
5	30-06-97	6.73	11	31-03-03	9.25
6	30-06-98	11.34	12	31-03-04	10.08

Source: Reports of Gujarat state Urban Co-operative Banks Federation 1993 to 2004.

3.8.4 Advances

They are the sources of income in form of interest for banks. The proportion of Advances to Working Capital of UCBs in Gujarat ranges from 57.16 per cent to 74.66 per cent, which is more than the range of advances to working capital of UCBs at all India level ie.50.94 per cent to 62.24 per cent. This reveals the edge of UCBs in Gujarat over the UCBs at all India level in term of providing loan. The above analysis is the outcomes of the table no. 3.10 and 3.16.

Table No. 3.16: Proportion of Advances to Working Capital of Urban Co-operative banks in Gujarat (1993 to 2004)

Sr. No.	Years	% of Advances to W.C.	Sr. No	Years	% of Advances to W.C.
1	31-03-93	74.66	7	30-06-99	63.62
2	30-06-94	72.14	8	31-03-00	62.67
3	30-06-95	71.90	9	31-03-01	66.69
4	30-06-96	60.71	10	31-03-02	66.67
5	30-06-97	57.16	11	31-03-03	49.51
6	30-06-98	66.34	12	31-03-04	44.48

Source: Reports of Gujarat State Urban Co-operative Banks Federation 1993 to 2004.

3.9 CREDIT-DEPOSIT RATIO OF URBAN CO-OPERATIVE BANKS IN GUJARAT:

The C/D ratio is one of the important indicators of banks efficiency. The table no 3.17 given below shows C/D ratio of UCBs in Gujarat ranges from 57 per cent to 75 per cent but it looks more stable from 1998 to 2004 where it ranges from 62 per cent to 69 per cent. The C/D ratio of UCBs at all India level also remains under the same range for the same period.

Table No. 3.17: Credit-Deposit Ratio of Urban Co-operative banks in Gujarat (1993 to 2004)

Sr. No.	Years	C/D Ratio	Sr. No.	Years	C/D Ratio
1	31-03-93	0.75	7	30-06-99	0.64
2	30-06-94	0.72	8	31-03-00	0.63
3	30-06-95	0.72	9	31-03-01	0.67
4	30-06-96	0.61	10	31-03-02	0.67
5	30-06-97	0.57	11	31-03-03	0.69
6	30-06-98	0.66	12	31-03-04	0.62

Source: Reports of Gujarat state Urban Co-operative Banks Federation 1993 to 2004.

The C/D ratio for UCBs at all India level as well at Gujarat level is also same in the year 2004.

3.10 COMPARISON OF PROGRESS OF URBAN CO-OPERATIVE BANKS FOR INDIA AND GUJARAT:

It is worthwhile to make a comparative study of Progress of UCBs in Gujarat with all India figures of UCBs. The table no 3.18 gives percentage of progress made by UCBs in Gujarat over UCBs in India in terms of Number of Banks-Branches, Share Capital, Reserves, Deposits, Advances and Working Capital. The figures of percentage of progress for the years 1988 and 1993 does not show much difference, however the decrease in the rate of progress in the year 2004 is a matter of concern for UCBs in Gujarat.

Table No. 3.18: Comparative Statement of Progress of Urban Co-operative Banks for India and Gujarat (1988 to 2004) Rs. in crores

Particulars	All India 1988	Gujarat 1988	% of progress as to India	All India 1993	Gujarat 1993	% of progress as to India	All India 2004	Gujarat 2004	% of progress as to India
No of banks	1275	288	22	1309	288	22	1926	352	18
No of Branches	1693	283	17	1875	340	17	8166	736	09
Share capital	243	70	28	373	109	26	3267	425	13
Total Reserves	539	203	37	1240	550	36	9082	5053	56
Deposits	5500	1561	28	10674	3160	24	110256	15894	14
Advances	4242	1253	29	8123	2360	26	67930	9825	15
W. Capital	7223	2132	29	13935	4346	26	113671	22087	19

Source: Report on Trends and Progress of Banking in India RBI and Reports of Gujarat state Urban Co-operative Banks Federation.

3.11 COMPARISON OF URBAN CO-OPERATIVE BANKS WITH PUBLIC SECTOR BANKS, PRIVATE SECTORS BANKS AND FOREIGN BANKS IN INDIA

It is not worthy to make a comparative study of deposits and advances of Urban Co-operative Banks with Public Sector banks, Private Sectors Banks and Foreign Banks because the purpose, objectives and cliental of UCBs are different from these banks. Gulabrao Shelke, chairman of The Maharashtra State Co-operative Bank, Arvind Deshpande, chief executive and secretary of The Maharashtra Urban Co-operative Federation, Parthiv Adhyaru, chairman of Nutan Nagarik Co-operative Bank and so

many other co-operative bankers and experts believe that, “ The Co-operative Movement started more than 100 years back when there was no Banking Regulation Act or even Co-operative Societies Act. If the ‘proposed amendments’ of banking regulations are passed, it will not be possible for co-operative banks to observe the principles laid down by the International Co-operative Alliance”.⁵ The basic principles of co-operative banking cannot be practiced. Can an elephant be compared with dog or cat? But Reserve Bank of India says, “ a bank is a bank, whether it is in the public sector, private sector or co-operative sector as regulation are applicable to all equally”. So, comparative statements of deposits and advances of banks are given below. Here we also take in to consideration hypothesis No-1 for discussion.

Table No. 3.19: Comparative Statement of Deposits for Banks (1994-95 to 2003-04)

Years	Rs. in Crores			
	Public sector Banks	Private Sector Banks	Foreign Banks	Urban Co-operative Banks
1994-95	348938	26406	28079	16769
1995-96	390820	36151	30466	20101
1996-97	449340	51035	37182	24165
1997-98	531729	69516	42873	29313
1998-99	636810	86855	47464	52617
1999-2000	737313	113670	49324	71189
2000-2001	859462	136635	59289	80840
2001-2002	968624	168171	64511	93069
2002-2003	1079167	207174	69313	101546
2003-2004	1226838	268549	79756	110256

Source: Report on Trends and Progress of Banking in India RBI and Reports of GUCBF and IBA Bulletin special issue, January 2005.

Even though UCBs are very small in terms of structure, workings and other practices, the above table clearly shows that UCBs still have an edge over the foreign banks in terms of deposits over the period of study from 1998-99 to 2003-04. The public sector banks maintain a growth or decline rate from 11.41 to 19.76 per cent during the period of study. However, there is a competition between private sector banks and urban co-operative banks. In the year 1998 when private banks shows a increase in the rate of deposits by 24.94 per cent the UCBs shows an increase of 79.50 per cent. However, all the banks are facing a decline in the growth of deposits baring some exceptions.

⁵ We are special, please- K Ram Kumar, Banking Annual, Business Standard, October 2003, p 45

Table No. 3.20: Comparative Statement of Advances for Banks (1994-95 to 2003-04)
Rs. in Crores

Years	Public sector banks	Private Sector Banks	Foreign Banks	Urban co-operative Banks
1994-95	177781	13970	15446	12172
1995-96	207533	22365	22421	14795
1996-97	220258	28681	26794	17908
1997-98	259903	35449	29290	20613
1998-99	296959	42789	29523	34172
1999-2000	352109	55742	35617	45995
2000-2001	414989	68111	43051	54389
2001-2002	480118	117075	48632	62060
2002-2003	548437	138949	52168	64995
2003-2004	632740	170896	60507	67930

Source: Report on Trends and Progress of Banking in India RBI and Reports of GUCBF and IBA Bulletin special issue January 2005

The table no 3.20 show comparative analysis of advances of banks. In this analysis also the public sector banks reveals pattern of growth or decline rate ranging from 14.23 per cent to 18.57 per cent. Urban co-operative banks are winning the race with foreign banks. There are years of competitions UCBs with private banks. Like in the year 1998 when the growth rate of advances of private banks is 20.71 per cent the growth rate of UCBs is 65.78 per cent.

Table No. 3.21: Comparative Statement of Credit-Deposit Ratio (1994-95 to 2003-04)

Years	Public sector banks	Private Sector Banks	Foreign Banks	Urban co-operative Banks
1994-95	0.51	0.53	0.55	0.73
1995-96	0.53	0.62	0.74	0.74
1996-97	0.49	0.56	0.72	0.74
1997-98	0.49	0.51	0.68	0.70
1998-99	0.47	0.49	0.62	0.65
1999-2000	0.48	0.49	0.72	0.65
2000-2001	0.48	0.50	0.73	0.67
2001-2002	0.50	0.70	0.75	0.67
2002-2003	0.51	0.67	0.75	0.64
2003-2004	0.52	0.64	0.76	0.62

Source: Trends and Progress of Banking in India RBI and Reports of Gujarat state Urban Co-operative Banks Federation. IBA Bulletin special issue January 2005

The table no. 3.21 shows that public sectors banks have a C/D ratio from 0.47 to 53, private banks from 0.49 to 070, foreign banks from 0.55 to 0.76 and UCBs from 0.62 to 0.74. It is clear that the UCBs maintain good and the most stable C/D ratio.

From the above discussion it can be foreseen that the UCBs are not going to fall out but there is an alarming bell for UCBs banks. These Co-operative banks have been caught in the contradiction of social responsibility and global market economy.

Urban co-operative banks are not operating for maximization of profits. Till 1995 these banks were allowed to pay more interest on deposits and to charge less interest on loans and advances. Urban banks are protected under RBI regulated structure of interest rates. With the change in rules of financial market, these banks now have to work out definite strategy to fulfill their social commitments.

Under the changed market scenario, to attract the deposits, these co-operative banks also have to adopt a similar interest payment strategy as compared with the other banks. In other words, in order to survive in the market, these banks have to be like commercial banks. There are many difficulties in the way of co-operative banks in achieving these market goals but still they have to face them and they are doing well.

“Indian banking is now on the threshold of a major transformation and much of its success in meeting the challenges of change would depend on how the individual banking institution gear and brace themselves up organizationally, operationally and functionally with desired degree of operational and competitive efficiencies”.⁶

Banking is a very different type of business. A high measure of conservatism is involved, bears very high risks, and cannot be considered to earn high profit. That is why, at no time in the history of our country or even else where, have banks become high profit earners.

3.12 RECENT DEVELOPMENTS:

The co-operative banks having extensive networks, with reach in remote areas, play a significant role in the Indian economy, especially in creating banking habits among the lower and middle-income group and in rural credit delivery. While many co-operative banks are healthy and conduct their business efficiently within the confines of the regulatory norms, some others are confronted with many constraints. Major concerns facing the co-operative sector, include high levels of loan delinquency, erosion of capital base, paucity of funds for fresh deployment, high level of dependence on other agencies

⁶ A K Roy, Chief Manager, Dena Bank, Head office, Mumbai. IBA bulletin vol XV Sept 1993 p 66

for management, inadequate internal controls and governance structure and non-adherence to norms and regulations.

Several committees in the recent past explored the possibilities for rejuvenation of co-operative banks through appropriate initiatives and suitable reforms. Some issues have surfaced from the deliberations of such committees.

- There is an existence of a large number of weak banks in this sector does not argue well for the healthy growth of the financial sector.
- For institutional and systemic viability, it is essential that such banks adhere to prudential discipline and guidelines framed, keeping in view the specific characteristics of the sector.
- Effective and co-coordinated regulation and supervision is required for improvement of these institutions.

There are, however, different regulatory controls of multiple authorities like State Governments, RBI, NABARD, and also in certain cases Central Government. Such multiplicity of control, regulatory overlap and lack of coordination are impediments to the revitalization of the sector. Addressing the issue of dual control thus, assumes paramount importance for reforming co-operative banks.

Several steps have been taken to recast the co-operative system and place it on a viable and sustainable path. These can be classified in to three broad categories:

- While recognizing the difference between commercial banks and co-operative banks, it has been emphasized that some of the prudential norms introduced for commercial banks should be extended to co-operative banks as well in a phased manner. That is to say, efforts have been made to improve the capital base of co-operative banks.
- The policies have been framed to counter the risk emerging from the co-operative banking sector.
- The multiplicity of control of co-operative banks has been recognized as an irritant to their effective regulation and supervision and measures have been initiated to address this issue.

3.12.1 Regulation and supervision of UCBs

Regulation and supervision of UCBs is performed by the Urban Cooperative Department of the Reserve Bank in co-ordination with the Registrars of Co-

operatives Societies of the State Government and the Central Registrar of Co-operative Societies. The UCBs are subject to dual control, one by State Government under the Co-operative Societies Act of the respective State and another by the Reserve bank under the Banking Regulation Act. While the registration, administration, amalgamation and liquidation of UCBs are governed by the provisions of the State Co-operative Societies Act, the Reserve Banks exercises regulation and supervision over their banking related functions, by virtue of the powers conferred on it by the Banking Regulation Act, 1949.

Urban co-operative banks have been going through a difficult phase since early 2001 with intermittent cases of irregularities. With a view to examining their problems and suggesting solutions, a Committee was constituted under the chairmanship of Shri Amant G. Geete⁷, the then Minister of State for Finance Government of India. In formulating its recommendations, keeping in view the need for protecting the interest of depositors and the integrity of the country's payment system, the Committee was guided by two considerations:

1. Removing the avoidable irritants facing the sector.
2. Bringing UCBs under a robust regulatory framework.

Based on the recommendations of the Committee, the Reserve bank undertook several measures during 2002-03, which are as follows:

12.1.1 The norms of classifying UCBs as 'weak' and 'sick' were modified with effect from March 31, 2002. A new system of grading of banks based on their level of CRAR, level of net NPAs, record of losses and compliance with certain regulatory requirements has been introduced.

12.1.2 Non-scheduled UCBs have been allowed to place their surplus funds with strong scheduled UCBs, subject to certain conditions.

12.1.3 The ceiling on unsecured advances granted to any single borrower / connected group has been enhanced for sound UCBs. The revised limits are Rs. 50000 for non-scheduled UCBs with demand and time liabilities

⁷ Committee report under the chairmanship of Shri Amant G. Geete, the then Minister of State for Finance Government of India, Reports on Trends and Progress of Banking in India RBI, 2001-02

(DTL) of less than Rs. 10crore, Rs. 1 lakh for non-scheduled UCBs with DTL for more than Rs. 10 crore and Rs. 2 lakh for scheduled UCBs.

12.1.4 As announced in the Monetary and Credit Policy for 2003-04, both 'gold' loans and small loans up to Rs. 1 lakh shall continue to be governed by the 180 days norm.

12.1.5 UCBs will be eligible to apply for opening extension counters in residential colonies. The condition of having accounts of at least 500 direct beneficiaries for extension counters has been withdrawn.

3.12.2 Licensing

The high power committee on UCBs (Chairman: Shri K.Madhava Rao), 1999 recommended revisions in the entry point norms for UCBs. "Accordingly, entry point norms for UCBs were revised linking the minimum capital requirements to the population of the place of incorporation and membership. Depending on the parameters, the minimum start-up capital requirement for UCBs has been fixed between Rs. 25 lakhs to Rs. 4 crore. Granting license to UCBs is also contingent upon fulfillment of specific qualification by Board of Director and the Chief Executive Officer. The RBI has constituted an advisory Screening Committee comprising of eminent experts for overseeing the individual applications for licensing of UCBs".⁸

3.12.3 Inspection

The on-site inspection cycle for scheduled UCBs and weak UCBs is once a year, while well manage non-scheduled UCBs are inspected once in three years. All other UCBs are inspected once in two years. The mechanism of evaluating performance on the basis of supervisory rations based on CAMELS (capital adequacy, asset quality, management, earnings, liquidity and systems) parameters are already in place for commercial banks. A similar rating system has been finalized for UCBs. Initially, such supervisory rations would be made applicable for scheduled UCBs and the same would be extended to other UCBs in a phased manner. This is implemented on trial basis for scheduled UCBs from March 2003.

⁸ Committee Report on UCBs under the Chairmanship of Shri K Madhava Rao, 1999

3.12.4 Prudential Norms

In order to maintain financial stability at both micro and systemic level, it would necessary to extend some of the prudential measures introduced for commercial banks to co-operative banks as well, notwithstanding the recognition of various differences in terms of operations and culture of commercial and co-operative banks. Accordingly, importance policy changes are initiated for UCBs in areas such as assets classification, income recognition, capital adequacy etc.

As a move towards international best practices on asset classification, the current arrangement of recognizing assets as Non-performing Assets if income and or principal remain overdue for 180 days is being replaced by the 90 days norm. Though the norm would be effective from March 31, 2005, in order to ensure smooth transition, UCBs were advised to make additional provisions for such loans starting from March 31, 2002. Banks are advised to move over to a system of charging interests on monthly basis.

A definite time frame is worked out for introduction of Capital to Risk-Weighted Assets Ratio (CRAR) for UCBs. The time schedule is as under:

Table No. 3.22: Capital to Risk-Weighted Assets Ratio (CRAR) for UCBs

Date	CRAR for Scheduled	CRAR for Non-Scheduled UCBs
March 31, 2002	8 per cent	6 per cent
March 31, 2003	9 per cent	7 per cent
March 31, 2004	As applicable for commercial banks	9 per cent
March 31, 2005	As applicable for commercial banks	As applicable for commercial banks

Source: Report on Trends and Progress of Banking in India RBI 2003-04

3.12.5 Asset Classification

As per the recommendations of the Narsimham committee an asset which has remained in the sub- standard category for 12 months will be treated as 'doubtful' with effect from March 31,2005. UCBs are permitted to phase the consequent additional provisioning, over a four-year period commencing from the year ending March 31, 2005, with a minimum of 20 per cent each year.

Guidelines for recovery of dues relating to NPAs

In the view of the increasing trend in NPAs of UCBs, the RBI has issued guidelines to the State Government for one time settlement applicable to all NPAs, which have become 'doubtful' or 'loss' as on March 31, 2000 with outstanding balance of Rs. 10 crore and below on the cut off date, and NPAs classified as 'sub-standard' as on March 31, 2000 which have subsequently turned 'doubtful' or 'loss'. The guidelines will also cover cases in which UCBs have initiated action under the SARFAESI Act 2002.

Taking in to account recent developments in the area of financial frauds, related to money laundering and terrorist activities RBI has advised to UCBs that they should invariably be report all cases of frauds to the investigating agencies after the bank has concluded that a fraud has been committed. Detailed instructions have been issued to all UCBs in this regard under the instruction on "know your customer" norms.

3.12.6 Priority Sector Lending

As per the RBI guidelines the UCBs are required to extend 60 per cent of total loans and advances for lending to the priority sector and of the priority sector advances, at least 25 per cent should be extended to weaker sections. In order to ensure that credit is available to all segments of the Small-scale industry (SSI) sector. Certain sub-targets are given in the table below.

Table No. 3.23: Sub-Targets for Priority Sector Lending by UCBs

	Category	Investment in Plant and Machinery	% to total SSI advances
1.	Cottage Industries, Khadi and village industries, artisans and tiny industries	Upto Rs. 5 lakh	40
2.	Cottage Industries, Khadi and village industries, artisans and tiny industries	Between Rs. 5 lakh and Rs. 25 lakh	20
3.	Other SSI units	Between Rs.25 lakh and Rs. 100 lakh	40

Source: Trends and Progress of Banking in India RBI 2003-04

3.12.7 Professional Approach to Management:

All UCBs are required to appoint at least two directors on the board with suitable banking experience or a chartered accountant with bank audit experience in order

to attain professionalisation in the management. It is also been advised by RBI that the Audit committee of their Board of Directors should review the internal audit / statutory audit the Reserve Bank inspection reports and monitor the action taken to rectify the deficiencies pointed out in such reports.

The detailed guidelines are issued with respect to introduction of Electronic Data Processing (EDP) audit system to computerize their operations in UCBs. An EDP cell is to be constituted which has an independent Inspection and Audit department.

The Reserve Bank has set in motion a Technical Assistance Programme to strengthen the Management Information system (MIS) in co-operative banks the programme are put into operation on the direction of the Board for Financial Supervision and implemented in association with the National Institute of Bank Management, Pune and the College of Agriculture Banking, Pune. Further, it is decided to introduce a system of rating of UCBs in to four grades and implement a system of 'corrective' action depending on the grade assigned to the financial position of the banks. The system of classifying UCBs as weak or sick which was introduced with effect from March 31, 2002 has thus, been replaced by a new system of grading of banks based in their level of CRAR, net NPAs, record of losses and compliance with liquidity requirement.

A system of supervisory rating for UCBs under the Capital Adequacy, Asset Quality and Management, Earnings, Liquidity and Systems (CAMELS) model has been introduced. The rating system is initially being implemented for scheduled UCBs commenced from the year ending March 31, 2003

A simplified rating system is also available to non-scheduled UCBs from 1st April 2004. With a view to enhancing transparency in the disclosures made in the balance sheets, all UCBs with deposits of Rs. 100 crore and above have been advised to disclose specified information on CRAR, investments, advances against real estate, shares and debentures, advances made to directors, cost of deposits, level of NPAs, profitability and movement of provision against NPAs. They are also required to indicate their record to payment of deposit insurance to the Deposit Insurance and Credit Guarantee Corporation (DICGC).