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Duality of Control on Urban Co-operative Banks inIndia: A Study

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Abstract

Concerns about urban cooperative banks' service quality prompted proposals for stronger regulation. Large cooperative banks in India with paid-up capital and reserves of Rs. 1 lakh were supervised by the Reserve Bank as of March 1, 1966.aThis began a new era in which financial organisations were subject to two regulating authorities at once. State governments administered, audited, and liquidated banks according on their regulations, while the RBI oversaw banking activities (such as licencing, operating area, interest rates, etc.). UCBS introduced this function in 1968. In the late 1960s, local company promotion was a hot topic. UCBs become relevant in this setting. "Damry Group" (Working Group on Industrial Financing via Co-operative Banks) worked in 1968 to have urban co-op banks lend to local enterprises. The Banking Commission confirmed this (1969). The Madhavdas Committee undertook a more in-depth assessment of urban co-operative banks in 1979, defining a plan for their future expansion by advocating that the RBI and the government help create such banks in impoverished regions and specifying criteria for their financial viability. The Hate Working Group fought for equity between these organisations and commercial banks in 1981. Marathe Committee (1992) reinterpreted viability standards and deregulated; Madhava Rao Committee (1999) tried to merge urban and commercial banks. The bulk of urban banks are in Gujarat, Karnataka, Maharashtra, and Tamil Nadu, highlighting their uneven geographical dispersal. Since multi-state banking was legalised in 1985, some of the largest banks have a foothold in a wide variety of jurisdictions, despite the fact that most banks continue to function as "unit banks" with no branches in other states. These banks include AFX Authorized Dealers.
Keywords: Cooperative movement, Cooperative banks, urban cooperative banks, Profitability, Deposits and advances

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Introduction

The earliest Indian mutual assistance organisation, AnyonyaSahakariMandali, was founded in 1889 in Baroda by VithalLaxman, better known as BhausahebKavthekar. When people in cities needed access to consumer credit, they teamed together to create co-operative credit organisations. Earnings "The development of the middle class and the division of labour were influenced by cultures that placed a premium on thrift and self-reliance. Since their establishment, UCBs have made loans to members on the lowest end of the economic spectrum in major cities. This movement was given a major boost by the Cooperative Credit Societies Act of 1904. Canjeevaram (Kanjivaram) in the province of Madras was the site of the first urban cooperative credit association, established in October 1904. One of the most well-known credit organisations in India was the Pioneer Urban Credit Society in Bombay, which opened on November 11, 1905. Another was the No. 1 Military Accounts Mutual Help Co-operative Credit Society in Poona (January 9, 1906). There was the Kanakavli-Math Co-Operative Credit Society, the Varavade Weavers, and the Poona issue of the Cosmos newspaper on January 18, 1906. There was also the Gokak Urban and Belgaum Pioneer in Belgaum "We are the Sindhudurg Urban Credit Society, previously of South Ratnagiri (March 13, 1906). On January 23, 1906, VithaldasThackersey and LallubhaiSamaldas founded the Bombay Urban Co-operative Credit Society. It wasn't until 1912 that the Cooperative Credit Societies Act was revised to incorporate non-credit cooperatives. In 1915, the work was reviewed by the Maclagan Committee who offered suggestions for improvements. According to the report, these clubs did a great job of helping those of little resources and teaching middle-class people about banking. The panel determined that credit cooperatives were more likely to thrive in metropolitan settings than in more remote locations. The Committee's suggestions have been essential in the growth of the cooperative credit movement in urban areas. People flocked to place their money in cooperative urban banks during the financial crisis of 1913-14, when 57 joint stock banks failed. The Maclagan Report concluded that The "distinction between the two classes of security was well appreciated and a preference given to the latter owing partly to the local character and publicity of cooperative institutions but mainly, we think, to the connection of Government with Cooperative movement," which led to the transfer of deposits from non-cooperatives to cooperative institutions in many provinces.

Research Methodology

This article employs a standard research methodology based on a survey of the available academic articles on UCBs. This literature review draws from the a broad range of sources, including reports, journals, newspapers, and periodicals. Descriptive research was used since it was thought to be the most appropriate strategy for accomplishing the project's goals. This investigation mostly used secondary information.

Review of Literature

Bhaskaran and Josh (2000) Despite the introduction of prudential legislation, co-operative credit institutions' recovery performance is poor, which contributes to the growth of nonperforming assets (NPA). They advocated for legislative and regulatory changes that would bring cooperative credit institutions up to par with those of competitive commercial banking.

Jain (2001)performs a Among the three states that make up Western India's District Central Co-operative Banks (DCCBs), the ones in Rajasthan have fared the best in terms of profitability and liquidity. This is according to a comparative performance review of these institutions.

Singh and Singh (2006)research Research on financial margin, with a focus on its application to cash flow management at Punjab's District Central Co-Operative Banks (DCCBs). A larger provision for nonperforming assets was discovered at Central Co-operative Banks, with the increased margin being linked to an increase in the percentage of own funds and recovery issues. This was the result of banks setting aside more money to cover bad loans.

Pal and Malik (2007) For this analysis, we looked at 74 different banks around India and compared their financial stats. Profitability, liquidity, risk, and efficiency were some of the factors that showed diversity. It has been theorised that foreign banks have excelled beyond the other two types, particularly in terms of overall performance and resource exploitation.

Under State Purview

The responsibility of "Cooperation" was moved from the Government of India to the various Provincial Governments as a result of the constitutional changes that finally led to the passage of the Government of India Act in 1919. These reforms were ultimately responsible for the enactment of the act. The changes to the constitution included the completion of this task. In 1925, the government of Bombay was the first in India to pass a legislation that regulated state cooperative organisations. This achievement occurred in the year 1925. This law "not only gave the movement its size and structure, but also was a pace setter of cooperative activities and underlined the important ideals of thrift, self help, and mutual aid," as stated by the government of Bombay. Over the course of time, several more states eventually followed suit. The annals of the history of cooperative credit institutions were updated with a new chapter after this occurrence, which marked the beginning of the second phase. It marked a substantial change in direction. The general public is only now starting to understand how significant the role that urban banks play in the process of new economic activity being produced is; before, this was not the case. What a result of the fact that a number of committees have vouched for this, you should take their word for it and do as they say. The Indian Central Banking Enquiry Committee (1931) came to the conclusion that urban banks had a responsibility to assist people and businesses that were members of the middle class as part of their social commitment. This was stated in the report. The Mehta-Bhansali Committee in 1939 made the recommendation that those societies should be allowed to act as banks if they had satisfied the requirements of banking, as well as the recommendation that these banks should be a part of an Association. Both of these recommendations can be attributed to the Mehta-Bhansali Committee. The same calendar year saw the formulation of each of these suggestions. The words "Urban banks have been the finest agency for tiny people" were spoken publicly for the first time in 1946 by the Cooperative Planning Committee. This comment was made public as a result of the fact that joint stock banks do not often have an interest in the clients of smaller banks. The public may now see this message since it has been made accessible to them. Rural Banking Enquiry Committee (1950) recommended the establishment of additional such banks in communities with populations less than those of taluka towns due to the low cost of doing so. The Rural Banking Enquiry Committee reached this verdict after researching the low initial investment and ongoing maintenance requirements of rural banks. After researching the topic and learning of the relatively low costs involved, the Rural Banking Enquiry Committee decided to advocate for this strategy. During the 1958–1959 school year, the Reserve Bank of India (RBI) conducted its first investigation into urban cooperative banks. In addition to their sound financial foundation, the 1961 Report highlighted the substantial support system offered by urban co-operative banks. The results also advised that state governments aggressively aid in the formation of main urban cooperative banks in growing hubs, highlighting the importance of doing so. This need was highlighted in the report, which led to the suggested action. This proposal was prepared since it was realised that these banks need assistance. In 1963, the Varde Committee urged the establishment of such banks in all towns with a population of one lakh or more, with no preference given to any specific group or caste in organising them. Some even advocated for the establishment of equivalent banks in all cities with populations of one million or more. Based on this plan, these financial institutions would need to be set up in all cities with 100,000 or more residents. To establish which UCBs must be brought into the urban centre, the committee suggested employing a minimum capital threshold. This criterion would be in addition to the minimum population needed to define the central business district.

Duality of Control

However, concerns about the professionalism of urban cooperative banks led to the idea that they should be subject to stronger regulation. Following the passage of the Banking Regulation Act 1949 on March 1, 1966, the Reserve Bank assumed authority over large cooperative banks in India with paid-up share capital and reserves of one lakh rupees or more. Additionally, the Reserve Bank was given authority over these cooperative banks by the Banking Regulation Act of 1949. This event ushered in a new age in which competing authorities would seek influence on these bodies. During that time frame, this control would be put into effect. The

Reserve Bank of India (RBI) was given responsibility for regulating the banking industry as a whole (including licencing, operational area, interest rates, and more), while the State Governments were given responsibility for regulating registration, management, audit, and liquidation of banks in accordance with the provisions of respective State Acts. RBI was supposed to regulate banking procedures (such as licencing, area of operations, interest rates, etc.). Since 1968, UCBS has been able to take use of the protections afforded by the Federal Deposit Insurance Corporation. When it came to supporting local companies, many people had strong opinions throughout the latter half of the 1960s. The UCBs eventually gained recognition as leading figures in the discipline. The Damry Group, or Working Group on Industrial Financing through Co-operative Banks, was established in 1968 to increase the variety of services provided by urban co-operative financial institutions. The group proposed that urban co-operative banks provide funding to micro- and small-scale businesses as part of this effort. The Banking Commission earlier today reiterated the importance of this topic (1969). The greater level of information allowed the Madhavdas Committee (1979) to provide a more thorough study of the role that urban co-operative banks performed. They also devised a strategy for the future function of these institutions, including calling for the Reserve Bank of India and the government to aid in the establishment of such banks in underdeveloped areas and establishing measures to ensure their financial stability. Additionally, a map was created. The Hate Working Group (1981) advocated for the gradual convergence of the percentages of the CRR and SLR of savings and loan associations to those of commercial banks. Both objectives have to be reached gradually. Neither of these goals can be deemed accomplished unless the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR) are met (SLR). The Madhava Rao Committee (1999) intended to link the urban banking movement with commercial banks via its emphasis on consolidation, the management of illness, and improved professional standards in urban co-operative banks. Madhava Rao Committee (1999) tried to link the urban banking movement with commercial banks, whereas the Marathe Committee (1992) revised viability requirements and ushered in the period of liberalisation. Both committees were established in response to the work of the Marathe Committee (1992), which altered the viability standards and ushered in the age of liberalisation. The majority of banks are centred in the states of Gujarat, Karnataka, Maharashtra, and Tamil Nadu, illustrating the movement's diverse nature and unequal geographical distribution. More urban banks are located in these states than in any others. This is an essential part of the movement, and it must not be forgotten. Most banks are unit banks, which don't have branch networks, but since multi-state banking became a possibility in 1985, a select handful of the bigger financial institutions have been able to build a presence in a number of states. This is so even though unit banks make up the overwhelming bulk of the banking industry. Some of these financial organisations may act as Licensed Participants in the forex market.

Cooperative Banks

Customers of a co-operative bank are also owners of the company, which makes the bank a kind of financial institution known as a "co-operative bank." Typically, the neighbourhoods and business areas nearby are where these types of financial institutions concentrate their attention. They are often modest institutions that were built via cooperative efforts and may be found in both urban and rural settings. Customers of these institutions have access to a wide variety of financial services, including bank accounts, loans, deposits, and other options. In most countries, shareholder banks are held to a separate set of laws when it comes to how they are constituted, what they prioritise, and who controls the show. These banks, on the other hand, are often subject to their own unique restrictions. On the other hand, in contrast to shareholder banks, these financial institutions are subject to the scrutiny and supervision of banking authorities and are required to comply to reasonable banking standards. It is possible for the government of a country to directly exert control and supervision, or it is possible for the government to delegate this responsibility to a central organisation or a cooperative federation. In all honesty, that depends on the country. The retail banking services offered by cooperatives, mutual savings and loan organisations, building societies, and credit unions are sometimes referred to as "cooperative banking," which is a word that is frequently used to characterise such services. Additionally included are commercial banking services offered by organisations that are not-for-profit to cooperative businesses (such as co-operativefederations).

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Urban Co-operative Banks

Urban Co-operative Banks (UCBs for short) are a kind of cooperative bank found mostly in urban and semi-urban regions. When it comes to cooperatives in a given state, it is up to the State Registrars of Co-operative Societies (or the Central Registrar of Co-operative Societies in the case of multistate co-operative banks) to keep an eye on things and make sure everyone is following the regulations. They are also keenly watched by India's central bank, the Reserve Bank (RBI). This state's registrar of cooperative societies is responsible for enforcing the rights of cooperatives established under the Cooperative Societies Act. Included in this provision is the power to create cooperative organisations, register them, govern them, combine them, reorganise them, or dissolve them. However, these powers are exercised by the Central Registrar of Cooperative Societies in New Delhi for UCBs that have a presence in many states. At the same time, the Reserve Bank of India (RBI) exerts its jurisdiction over the financial and banking activities of these UCBs. Customers, whether they be individuals or businesses, are welcome to use the services that the banks have to offer, which may include checking and savings accounts, safe deposit boxes, loans, and mortgages. For members of the middle class, a bank is primarily a secure location in which to keep their cash; other banking services, such as banking via the internet or over the phone, are not as vital. Through its function as a complement to commercial banks, urban co-operative banks have contributed to the expansion of financial intermediation. In order to accomplish this goal, a large number of fresh depositors and borrowers have been integrated into the conventional banking system. In terms of the socioeconomic make-up of metropolitan regions, the pool of individuals who have the financial means to make use of these institutions has grown as a result of the establishment of these institutions.

Role of urban co-operative banks

Urban and semi-urban Indians now enjoy a far higher standard of living than they did before the advent of cooperative banking, one of the cooperative movement's most effective components. To a large extent, this is due to the success of the cooperative movement in India. In both rural and urban areas, banks play a crucial role by pooling local surplus resources and lending it to the middle class and small enterprises engaged in industries other than agriculture. This happens in both suburban and city neighbourhoods. With regard to deposit mobilisation and loan dispersal, urban cooperative banks have come a long way in comparison to their commercial banking counterparts. There has been a rise in the amount of loans made available via urban cooperative banks. There are additional financial institutions besides cooperative banks that provide banking services and loans to borrowers with modest incomes in metropolitan areas. Banking services and loans are now mostly provided by cooperative banks in metropolitan areas. Rural locations with cooperative banking are still uncommon. They are reliable in the services they give and are dedicated to doing things the right way, which leads to positive outcomes. They sprung out in response to a need that was unmet when traditional financial institutions refused to meet the credit needs of low-income city dwellers. The reluctance of commercial banks was a major factor in the emergence of this requirement. Cooperative banks in metropolitan areas exist primarily to aid the poor and those without access to essential services. Cooperative banking in India emerged in the wake of government mandates and grew rapidly in the decades after India's independence. The adoption of the Cooperative Societies Act in 1904 broadened the scope of work done by cooperative financial institutions and strengthened the local links that had been their basis for success. They accomplished this through expanding access to banking services in both urban and rural locations and by promoting consistent banking among the poor, a group often overlooked by larger financial organisations. They helped broaden the availability of institutional finance by doing so. For the first time in human history, these institutions have united to shield low-income individuals from predatory lenders charging exorbitant interest rates. Class banks was a term used to describe commercial banks that excluded the poor from the financial system due to their conservative lending practises.

Current Structure of UCBS

Credit co-operatives, which include both urban (UCBs) and rural co-operative credit institutions in India, came into being as separate organisations in order to accomplish certain developmental objectives, such as the provision of official financial products to smaller cities and villages in the country. More people can get the credit and financial services they need because to their extensive geographic and demographic reach. However, these businesses have a negligible impact on India's monetary system at best. As of March 2016, 10.6 percent of all assets were owned by SCBs. That criterion applied to both city and country cooperatives. In March 2017, India has a total of 95,946 Credit Co-operative institutions, with 1,562 being urban co-operative banks and 94,384 being rural cooperatives. These sums include both short-term and long-term cooperatives. The planned cooperative banks in the metropolitan area include 31 national or regional institutions. The rising significance of banking to the economy as a whole has likely contributed to the rise of UBCs within the banking sector. There were 1,562 UCBs and 94,384 rural co-ops in March of 2016. 10.6 percent of all assets were held by cooperatives in both rural and urban areas. Through encouraging successful universal credit banks (UCBs) to merge or amalgamate and encouraging the withdrawal of unsuccessful UCBs, the Reserve Bank has devised a multi-tiered regulatory and supervisory strategy with the goal of revitalising the sector. As a result of this initiative, the total number of UCBs has been continuously declining. As a result, as of the end of March 2017, just 1,562 UCBs were active.

Challenges of UCBs

UCBs have been facing a number of challenges for a considerable amount of time, some of which include high transaction costs, a low degree of recovery, a limited ability to mobilise resources, and a structure of administered interest rates. Despite the growth of their businesses and asset bases, UCBs have been confronted with a number of difficulties for quite some time. In order to achieve their goals, UCBs have been had to prevail over a number of obstacles. There is a possibility that problems with governance and connectedlending are at the root of the challenges that the UCBs are now facing. When it comes to UCBs, shareholders have the option of withdrawing their contribution to the bank's capital, which eventually results in a decrease in the bank's total capital. Other institutions, on the other hand, such as those whose shares may be exchanged on a stock market and can change hands without having an impact on the capital base, are not subject to this restriction. The government often meddles in the operations of cooperatives on a day-to-day basis. This is due to the fact that cooperatives are governed by specific regulations and are held in very high esteem as an institution. The ability of the government to appoint board members and consciously manage cooperatives means that in order for cooperatives to be successful, they are required to surmount challenges such as the need to maintain strong relationships with their customers and the competition that exists within their respective markets. Larger private sector commercial banks that have the financial capacity to spend more in technology and pay higher compensation to recruit competent people would do better in the challenging economic environment that prevails in the present day.

Conclusion

More than a century ago, ucbs were founded in india on the principle of collaboration to provide banking services to those in low-income communities and locations without traditional banks. Furthermore, these organisations now play a significant role in the indian financial sector. One of the most important problems facing cooperatives as we enter the new millennium is how to restructure their internal operations and administration. Based on the findings, a convincing action programme outlining concrete steps for cooperative banks to take in order to raise their professional standards and make better use of cutting-edge technology is required. Methodical instruction based on the synergistic interaction of the whole cooperative partnership, resource mobilisation, and member participation in decision making. As a large number of banks have shown signs of vulnerability, rbi has taken a series of regulatory steps. A number of factors have worked against the industry's development, despite the fact that its continued expansion depends on things like the professionalisation of its management, the inculcation of good corporate governance, the adoption of innovative technologies, and the strict observance of a well-established regulatory framework. It's impossible to treat the failure of certain cooperative banks to meet their goals as an isolated incident. It's clear that this underlying trend affects the cooperative movement as a whole, and that pacs and other marketing organisations that are key actors in the cooperative movement have special challenges. The rising cost of dues is causing major problems for cooperative banks. The sector is optimistic about its future prospects after implementing the suggestions provided by a number of different committees in order to regain the public's trust and fulfil the objectives it set out to achieve when it was first founded.

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