

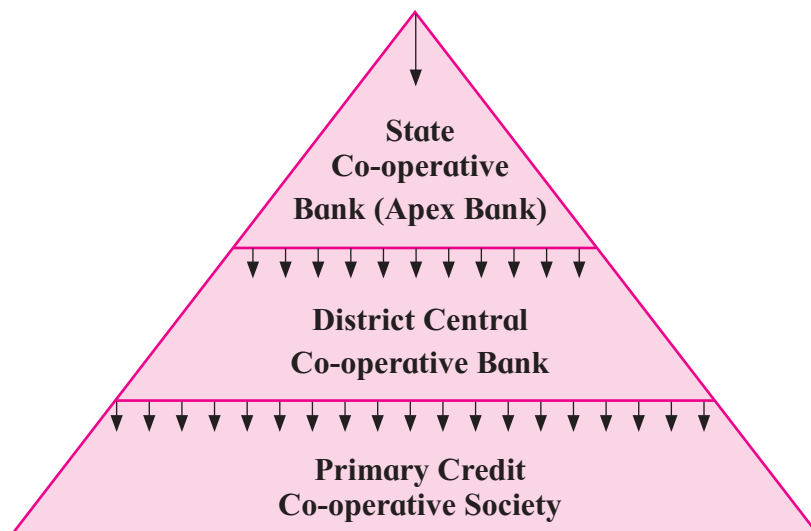
6. Urban Co-operative Bank

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6.1 Introduction

The Co-operative movement was started in India to improve the economic condition of poor people. The need was felt to start such institution to help the poor and middle-class people in urban and semi urban areas.

In India there is three- tier system of co-operative banking. At State level State Co-operative Bank, at District level District Central Co-operative Bank and at Village level Primary / Credit Co-operative Society.



The Urban co-operative bank was established to fulfill financial needs of urban peoples like labourers, artisans, small trader, craftsmen, salary earners, etc. To relieve them from the clutches of moneylenders, to provide personal loans and to increase the habit of saving and thrift such bank were established.

Urban co-operative banks are established in urban and semi-urban areas.

In India the first co-operative bank (credit society) was established in the princely State of Baroda on 5th February, 1889 under the guidance of Vithal Laxman Kavthekar also known as Bhausahab Kavthekar. The name of this co-operative bank was 'Anyonya Sahayakari Mandali Co-operative Bank Limited'. These co-operative banks were accepting deposits, providing loan and banking services.

6.2 Meaning and Definition of Urban co-operative bank

➤ **Meaning:**

The working area is restricted upto certain urban area and collect savings deposits as well as lend loan for different purposes and established to perform the banking functions is called as Urban co-operative Bank. The bank which is established to provide banking services and loan to the urban people like labourers, artisans, small trader, craftsmen, salary earners, etc. is called Urban co-operative bank.

The bank established on co-operative principles to provide loan in urban and semi-urban areas is known as Urban co-operative bank.

➤ **Definition:**

Banking Regulation Act 1949: ‘Those share capital and reserve fund is more than Rs.100000/- and perform general banking functions and not offer membership to any co-operative society is known as Primary credit co-operative society or Urban co-operative Bank.’

Banking Regulation Act 1949 was applicable to Urban Co-operative Banks from 1966 and accordingly. The salary earners, small traders, merchants, middle class people, artisans, etc. are the members of Urban co-operative Banks. The membership of Urban co-operative bank is open to all the people residing in the working area of the bank. Urban co-operative banks are the members of District Central Co-operative bank.

6.3 Function of Urban co-operative bank

The Urban co-operative bank is established with an objective to fulfill financial need to urban and semi – urban areas. The urban co-operative bank has created important place in the mind of urban peoples. Due to easy operation and quick fulfillment of members and non – members need these banks have become popular in urban areas. Following are the functions of Urban co-operative bank:

Function of Urban co-operative bank

1. Accepting Deposits	6. Modern banking services
2. Granting Loan	7. Helping for self- employment
3. To act as an Agent	8. Quick banking services
4. Discounting bill of exchange	9. Financial management
5. To provide Safe Deposit Locker	10. Training to staff and officers

- 1. Accepting Deposits:** The main functions of Urban co-operative bank are accepting deposits from public. The deposits are collected from members and non-members of urban and semi-urban areas. This bank accepts deposits in the form of Saving deposit, Current deposit, Fixed deposit and Recurring deposit, Pygmy deposits, etc.
- 2. Granting Loan:** Urban co-operative banks provide short-term and medium-term loan to the members and non-members against security. The loan is provided to the businessmen, merchants, craftsmen, salary earners, etc. considering their needs. The loan is provided to the members for children education, housing, purchasing consumers product like television, refrigerator, computer, etc. Overdraft facility is also provided to the business on current account.

3. **To act as an Agent:** Urban co-operative bank provides all banking functions. As an agent of account holder, the bank makes payment of telephone bill, electric bill, LIC premium, children educational fees, house rent, housing loan installment, purchase and sale of shares and debentures, etc. for these functions nominal bank charges are charged by the bank. And also provides guidance to the members for proper investment.
4. **Discounting bill of exchange:** When the credit transaction takes place between two parties, the creditor draws bill of exchange for a specific period which is accepted by debtor this bill of exchange is discounted by the bank for this interest is charged which is known as discount.
5. **To provide Safe Deposit Locker:** Urban co-operative banks provide safe deposit lockers to its customers means depositors. The depositor can keep safely their valuables like gold and silver ornaments, important documents in such locker. This service or facility is provided by the bank for the safe custody of valuables of its customers. Bank charges rent, as per the size of lockers.
6. **Modern banking services:** Urban co-operative Banks also provides modern banking services like 24 hours ATM services to the members. This service is provided by the ATM centers located nearby market, railway station, bus stand, etc. The bank also provides other modern banking services like Electronic money transfer, core banking, e-banking, mobile banking, Credit card, Debit card, etc. In Telebanking system a specific phone number is allotted to the members through which they can get all information regarding their accounts like transaction, balance of their account, current rate of interest, foreign exchange rate, etc.
7. **Helping for self-employment:** Urban co-operative banks provide loan for self-employment in urban and semi-urban areas for the persons want to start their own business. Self-employed persons like work-shop owner, machinery repairer, tailor, weaver, truck transporter, auto rickshaw driver, etc. These persons get the financial help from Urban co-operative bank for self-employment which helps to solve the problem of unemployment.
8. **Quick banking services:** Due to globalization competition is increasing in all sector. The Urban co-operative society provides quick banking services as per the needs of the customers by charging reasonable charges. Members pay service charges to the bank. The bank maintains good relation with customers and provide quick services to the customers.
9. **Financial management:** Urban co-operative bank makes proper investment of funds. The bank invests surplus fund as per the provisions and instructions of Reserve Bank of India. After taking into consideration the cash requirement security (safety) and return on investment.
10. **Training to staff and officers:** The Urban co-operative bank provide professional training to the staff, officers and employees of the bank. For this they arrange various workshops to improve the quality of banking services. The success of bank is dependent on the services provided by the bank.

Activity:

- 1) Visit Urban co-operative bank and prepare report on its working.

6.4 Problems of Urban co-operative bank

Problems of Urban Co-operative Bank



1. Unproductive loan	2. Lack of training facility
3. Lack of fund	4. Inefficient management
5. Unbalanced development	6. Increasing over dues
7. Defective loan policy	8. Dual control
9. Political interference	10. Fail to provide Modern banking services

1. **Unproductive loan:** It is expected the Urban co-operative bank should provide loan for productive purpose. But at present, these banks provide loan for unproductive purpose likes to purchase furniture, television, refrigerator, festival loan, housing loan, etc. And this loan is also not recovered within given period of time.
2. **Lack of training facility:** Bank employees and staff are not trained. Most of the staff does not have sufficient knowledge of banking operation. They are not aware of the new changes in banking sector. But the banks did not arrange workshops, seminars for the training of the staff due to lack of funds which affects the day-to-day working of the bank.
3. **Lack of fund:** The area of Urban co-operative bank is limited upto particular city. Therefore, there are limited number of members in Urban co-operative bank. Due to which the share capital, deposits, membership fees, reserve fund is also very limited which is insufficient for the development of the bank. The District central co-operative bank also do not provide sufficient financial help to Urban co-operative bank. Due to limited capital the bank faces difficulty for its development.
4. **Inefficient management:** The management of Urban co-operative bank is inefficient. They lack in management abilities which effects the smooth and successful working of the society. The management is not professional and trained.
5. **Unbalanced development:** The Urban co-operative banks are developed in the state like Maharashtra, Gujarat, Tamil Nadu and Karnataka and remained undeveloped in remaining states. The progress of these banks from geographical point of view is unbalanced. So, the artisans and other people do not get financial help in those states.
6. **Increasing overdues:** There is large amount of overdues in Urban co-operative bank. The loan is given without taking proper care, loan to unproductive purpose, low control on use and recovery of loan due to which bank comes into financial problem. Due to inefficient management and political pressure there is difficulty in recovery of loan.
7. **Defective loan policy:** The loan policy of Urban co-operative bank is defective. The decision of granting loan is taken by managing committee. Loan demand, scrutiny of loan application, use of loan, ability to repay the loan such important factors are not observed and loan is given to the ineligible person under the influence of management. Provisions of loan security is not followed hence bank has come into economical problem.

8. **Dual control:** Reserve Bank of India and Co-operative department, has joint control over the Urban co-operative bank. Due to dual control there is problem in administration of bank. When the bank has to start new projects like establishment of new branch, investment of funds, recovery of loans, etc. bank finds difficulty in taking decision according to Reserve bank or Co-operative department. The dual control creates problems in their working.
9. **Political interference:** It is observed that a lot of political interference seen in the working of urban co-operative bank. There is political pressure for granting loans, recovery of loans, appointment of employees, etc. Due to which these banks have come into economical problems.
10. **Fail to provide Modern banking services:** Due to lack of capital the Urban co-operative bank has come into financial problems. Due to which they are not in the position to provide modern banking services to its customers like commercial and nationalized bank which results in decrease in number of customers.

Activity:

- 2) Visit an Urban co-operative bank and discuss the problems faced by the bank with the management.

6.5 Remedies on problems of Urban co-operative bank

Urban co-operative bank is the main bank for helping self-employment in urban areas. It provides financial help for various purposes in urban areas. If below given remedies are adopted by Urban co-operative bank their problems will be solve and this bank will be successful:

Remedies on problems of Urban co-operative bank



1. Emphasis on productive loan	2. Training to staff
3. Raising (Increasing) Capital	4. Efficient management
5. Balanced development	6. Recovery of loan (dues)
7. Easy loan distribution	8. Single control
9. Loyal Managing Committee / Board of Directors	10. Modern banking services

1. **Emphasis on productive loan:** The Urban co-operative society must provide loan for agriculture related businesses like milk business, fruits and vegetable business, horticulture, etc. The loan should be provided for productive purpose.
2. **Training to staff:** The Urban co-operative bank must provide training to staffs, employees and officers of the bank. They must conduct various training programs, workshops, seminars which will increase the ability of staff and officers.
3. **Raising (Increasing) Capital:** The Urban co-operative bank must encourage deposits from members and non-members. Efforts should be made to increase membership which will ultimately help to increase capital. The State Government must also provide financial help to this bank in initial stage.

4. **Efficient management:** There is need to give training to members of managing committee/ Directors, officers, staff and employees of co-operative society.
5. **Balanced development:** For balance development of Urban co-operative bank branches of urban co-operative bank must be opened in underdeveloped areas. Due to which there will be balanced development of Urban co-operative bank.
6. **Recovery of loan:** The Urban co-operative bank must increase the recovery of loan. while giving loan ability to repay the loan must be taken into consideration. Without taking political pressure loan recovery must be done in legal manner. Special bad debts reserve must be created.
7. **Easy loan distribution:** The Urban co-operative bank must properly verify the loan application form, timely sanction and distribute the loan taking into consideration the ability to repay loan and security loan procedure must be easy and transparent. To have control on use of loan amount. Loan must be distributed carefully to relatives and friends of managing committee.
8. **Single control:** There is dual control of Reserve Bank of India and Co-operative department on Urban co-operative bank. For development and independence to this bank government must make amendment in act and have single control. As per agreement the State government has given control of financial matters to the Reserve Bank of India.
9. **Loyal Managing Committee / Board of Directors:** The managing committee / Board of directors must be loyal. The managing committee must give loan to needy and eligible member and should not act under the political pressure while granting loan, appointing staff, recovery of loan. Co-operative principles and rules of reserve bank must be followed.
10. **Modern banking services:** Urban co-operative bank must accept the changes of the period. This bank must provide modern banking services like ATM, core banking, e-banking, mobile banking, Debit card, Credit card.

The Urban co-operative bank must use modern banking services to increase the trust of members, depositors and general public. The working hours of the bank must be kept as per the need of the customers.

Activity:

- 3) Discuss the remedies on problems of Urban co-operative bank.

6.6 SUMMARY

- Urban co-operative Bank was established to fulfill financial help to craftsmen, small businessmen, salary earners and small producers in urban areas. Urban co-operative bank has expanded their activities and they are providing all services like commercial bank. These banks create habit of saving among urban and semi-urban peoples.
- **Functions of Urban Co-operative Bank**
 1. Accepting Deposits
 2. Granting Loan
 3. To act as an Agent
 4. Discounting bill of exchange
 5. To provide Safe Deposit Locker
 6. Modern banking services

7. Helping for self-employment
8. Quick banking services
9. Financial management
10. Training to staff and officers

➤ **Problems of Urban co-operative bank**

1. Unproductive loan
2. Lack of training facility
3. Lack of fund
4. Inefficient management
5. Unbalanced development
6. Increasing over dues
7. Defective loan policy
8. Dual control
9. Political interference
10. Fail to provide Modern banking services

➤ **Remedies on problems of Urban co-operative bank**

1. Emphasis on productive loan
2. Training to staff
3. Raising (Increasing) Capital
4. Efficient management
5. Balanced development
6. Recovery of loan (dues)
7. Easy loan distribution
8. Single control
9. Loyal Managing Committee / Board of Directors
10. Modern banking services

6.7 KEY-TERMS

1. **A.T.M.** – 24 Hrs facility provided by the bank to deposit and withdraw the money.
2. **Safe deposit lockers** – Locker provided by the bank to keep valuables safely.
3. **Bank overdraft (O/D)** – The facility given by the bank to current account holder to withdraw excess amount than the balance in his account.
4. **Bill of Exchange** – The bill drawn by the creditor on debtor and accepted by debtor for credit transaction on certain amount to be paid in future date.

6.8 EXERCISE

Q.1 A) Select the proper option from the options given below and rewrite the sentences:

1. The first Urban co-operative Bank in India was started in the year _____.
(a) 1849 (b) 1879 (c) 1889
2. Urban co-operative Bank works in _____ areas.
(a) Urban (b) Rural (c) District
3. Banking Regulation Act, 1949 was applied to the Urban Co-operative Bank from the year _____.
(a) 1965 (b) 1966 (c) 1967
4. Urban Co-operative Bank are members of _____ bank.
(a) Primary Co-operative Bank (b) District Central Co-operative Bank
(c) Rural Co-operative Bank

5. The name of first Urban Co-operative Bank is '_____'.
 (a) Maharashtra State co-operative Bank
 (b) District Central co-operative Bank (c) Anyonya Sahayakari Mandali

B) Match the following:

Group 'A'	Group 'B'
a. Banking Regulation Act	1. Debentures
b. Urban Co-operative Bank	2. 24 hours money deposit and withdrawing facility
c. ATM service	3. To keep Valuables
d. Owned Fund	4. Rural area
e. Safe Deposit Lockers	5. 1949
	6. Share Capital
	7. 12 hours money deposit and withdrawing facility
	8. 1946
	9. Less valuables
	10. Urban area

C) Write a word or a phrase or a term which can substitute each one of the following:

- Name of first Urban co-operative Bank in India.
- The bank which provides loan to salary earners, small businessmen, artisans and craftsmen in urban area.
- The service provided by the Urban co-operative bank to keep valuable things safely.
- The 24 hours service provided by Urban co-operative bank for depositing or withdrawing money to the customers.
- The year from which Banking Regulation Act, 1949 was applicable to Urban co-operative bank.

D) State whether the following statements are True or False:

- Urban co-operative bank provide loan for large scale business.
- Urban co-operative bank works in rural area.
- There is balance development of Urban co-operative banks in Maharashtra.
- Urban co-operative bank acts as a representative of accountholders.
- There is no problem in the development of urban co-operative bank.

E) Complete the following sentences:

- Banking Regulations Act _____ was applied to the Urban co-operative bank from the year 1966.
- The first Urban co-operative bank in India was started in the year _____.
- The name of first Urban co-operative bank in India is _____.

4. Urban co-operative bank provides _____ facility to keep valuables.
5. Urban co-operative bank works in _____ area.

F) Select the correct option:

1. 24 hours Service	
2.	Banking Regulation Act
3. Establishment of Urban co-operative bank	
4.	Share capital
5. Safe Deposit Locker	

1949, ATM, To keep Valuables, 1889, Owned capital.

G) Answer in one sentence:

1. What do you mean by Urban co-operative Bank?
2. To whom membership of Urban co-operative bank is given?
3. Which functions are performed by Urban co-operative bank as representative of account holder?
4. Who regulates the Urban co-operative bank?
5. What do you mean by Discounting bill of exchange?

H) Correct the underline word and rewrite the following sentences:

1. Urban co-operative bank provides loan in Rural area.
2. In India, the first District co-operative bank was established in the year 1889.
3. Urban co-operative bank provides ATM services to deposit valuable things.
4. Urban co-operative bank works according to Banking Regulation Act 1960.
5. Urban co-operative bank is controlled by Reserve bank of India and Government department.

I) Find the odd one:

1. (a) Current deposit (b) Saving deposit
(c) Overdraft facility (d) Fixed deposit
2. (a) District Central Co-operative Bank (b) State bank of India
(c) Urban co-operative bank (d) State co-operative bank

J) Arrange in proper order:

1. Loan distribution, Loan sanction, Loan demand.
2. State level, Village level, District Level.

Q.2 Explain the following terms:

1. ATM
2. Safe deposit Locker

3. Overdraft facility
4. Urban co-operative bank

Q.3 Application based/ Self-opinion question:

1. Development of urban area depends on Urban co-operative bank.
2. Due to loan provided by Urban co-operative bank there is encouragement for self-employment.

Q.4 Write short notes:

1. Functions of Urban co-operative bank.
2. Problems of Urban co-operative bank.
3. Remedies on problems of Urban Co-operative bank.

Q.5 Give Reasons:

1. Urban co-operative bank plays an important role in development of urban area.
2. Urban co-operative bank functions as a representative of accountholders.
3. There are various problems in working of Urban co-operative bank.
4. The outstanding dues of Urban co-operative bank are increasing.
5. The Urban co-operative bank provides modern banking services to their accountholder.

Q.6 Answer in short:

1. Explain the functions of Urban co-operative bank.
2. Explain the problems of Urban co-operative bank.
3. Explain the remedies on problem of Urban co-operative bank.

Q.7 Long answers:

1. Explain the remedies on problems of Urban co-operative bank in detail.
2. Define Urban co-operative bank and explain its functions.
3. Explain the meaning and problems of Urban co-operative bank.

