
**REPORT OF THE
COMMITTEE ON
URBAN CO-OPERATIVE
BANKS**



RESERVE BANK OF INDIA

The Committee on Urban Co-operative Banks which was constituted by the Governor of the Reserve Bank of India in September 1977 submitted its unanimous report in September 1978.

The Committee has observed that, despite various limitations, urban banks have mobilised substantial local resources and striven to serve small borrowers. According to the Committee, there is scope and need for the development of urban banks in some states. These banks are eminently suitable for filling up the existing credit inadequacies in urban and semi-urban areas at comparatively lower cost of operations. However, the development of urban co-operative banking cannot be taken in isolation but should be viewed against the overall policies and structure of the banking system as a whole.

Some of the important recommendations made by the Committee are as follows:

(i) For the purpose of registration by the Co-operative Department and licensing by the Reserve Bank to commence banking business, a new urban bank should collect a minimum share capital of Rs 4 lakhs in metropolitan centres with population exceeding 10 lakhs, Rs 3 lakhs in urban centres with population ranging from 1 lakh to 10 lakhs and Rs 1.50 lakhs in semi-urban centres with a population below 1 lakh. The real or exchangeable value of share capital and reserves for purposes of section 11 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) should also be fixed at these levels in different centres.

(ii) A new urban bank should be viable within 5 years. It should attain a loan business of at least Rs 40 lakhs in

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BANKS**



**BOMBAY
RESERVE BANK OF INDIA
AGRICULTURAL CREDIT DEPARTMENT**

First Published April 1979

Printed by G. G. Pathare at the Popular Press (Bom.) Private Ltd.
35C Tardeo Road Bombay 400 034 and Published by V. P. Malhotra for
the Reserve Bank of India, Agricultural Credit Department, Bombay, India

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CHAPTER 1

INTRODUCTION

IN recent years, there has been a significant growth of urban co-operative banks in the country. They have grown not only in number, but also in size and complexity of their operations. A need has, therefore, arisen for reviewing the role of these banks in the banking system and for ensuring their future growth on sound lines. Further, certain problems have arisen in the context of the rapid growth of urban co-operative banks, particularly in regard to the registration and licensing of new banks from the point of their viability. The Governor of the Reserve Bank of India, therefore, constituted a Committee in September 1977 to study various aspects of the working of urban co-operative banks and to make recommendations.

Composition of the Committee

2. The Committee consisted of the following members:

- | | |
|--|----------|
| (1) Shri K. Madhava Das
Executive Director
Reserve Bank of India
Agricultural Credit Department
Bombay | Chairman |
| (2) Dr P. W. Rege
President
National Federation of
Urban Co-operative Banks
and Credit Societies
New Delhi | Member |
| (3) Shri Vithalbhai P. Amin
Chairman
Co-operative Bank of
Ahmedabad Ltd., and
President
Gujarat Urban Co-operative
Banks Federation
Ahmedabad | Member |

- | | | |
|------|---|------------------|
| (4) | Smt. L. Lobo Sardesai
Chairman
Women's Co-operative
Bank Ltd., Panaji
Goa, Daman and Diu | Member |
| (5) | Shri L. P. Bhargava
Chairman
All-India State Co-oper-
ative Banks Federation
Bombay | Member |
| (6) | Shri S. K. Chakraborty
Assistant General Manager ¹
Bank of India
Bombay | Member |
| (7) | Shri B. K. Sinha
Chief Director (Co-operation)
Ministry of Commerce,
Civil Supplies and Co-operation
Government of India
New Delhi | Member |
| (8) | Shri D. K. Ghosh
Registrar of Co-operative Societies
Government of West Bengal
Calcutta | Member |
| (9) | Shri Nripendra Misra
Registrar of Co-operative Societies ²
Government of Uttar Pradesh
Lucknow | Member |
| (10) | Shri H. Nagaraja Setty
Registrar of Co-operative Societies
Government of Karnataka
Bangalore | Member |
| (11) | Shri I. D'Souza
Deputy Chief Officer
Agricultural Credit Department
Reserve Bank of India
Central Office
Bombay | Member-Secretary |

¹ Later promoted as General Manager.

² Since appointed as Joint Secretary, Finance Department, Government of Uttar Pradesh.

Terms of Reference

3. The terms of reference of the Committee were as follows:
- (1) To evaluate the role of primary (urban) co-operative banks in the banking system.
 - (2) In the light of the above, to indicate their future role and, in particular, to assess whether any additional facilities or assistance are needed.
 - (3) To examine aspects such as viability, lending procedures and policies particularly from the point of serving the small borrowers.
 - (4) To assess the extent of professional management and adequacy of training facilities.
 - (5) To consider any other problem relevant to the above terms of reference and make recommendations.

METHOD OF ENQUIRY

Questionnaire

4. With a view to eliciting views on different aspects of the working of urban co-operative banks, a questionnaire was sent to all the state governments, Registrars of Co-operative Societies, state co-operative banks, selected central co-operative banks and urban co-operative banks and employees' co-operative credit societies, federations or associations of urban co-operative banks, the State Bank of India and its subsidiaries, nationalized and other commercial banks and certain other organizations and individuals. A copy of the questionnaire issued by the Committee is appended as Appendix I. The list of persons and institutions from whom replies were received is given in Appendix II.

Special Study

5. In connexion with the examination of the norms of viability and the subject of professional management, a special study of 38 urban co-operative banks was undertaken in 5 states, viz., Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal through the concerned regional offices of the Agricultural Credit Department of the Reserve Bank of India. The consolidated study reports on viability and staffing pattern of urban co-operative

banks are given as Appendixes IV and V. They are dealt with in detail in Chapters 5 and 9 respectively.

Meetings of the Committee

6. The Committee had in all six meetings as indicated below:

<i>Meeting</i>	<i>Place</i>	<i>Date</i>
First	Bombay	7 October 1977
Second	Calcutta	9 and 10 March 1978
Third	New Delhi	6 April 1978
Fourth	Bangalore	15 April 1978
Fifth	Ahmedabad	24 and 25 April 1978
Sixth	Bombay	10 and 11 July 1978

7. During the course of the meetings at Calcutta, New Delhi, Bangalore and Ahmedabad, the Committee had detailed discussions on the terms of reference and matters relating to the working of urban co-operative banks with the Registrars of Co-operative Societies and representatives of state co-operative banks and urban banks of various states. A list of persons who participated in the discussions is given in Appendix III.

Field Visits

8. With a view to gaining first hand knowledge of the working of urban banks in different regions, the Committee visited the following 9 banks and held discussions with their boards of management:

<i>Name of Urban Bank</i>	<i>Date of Visit</i>
Shibpur Co-operative Bank Ltd., Howrah	9 March 1978
Bally Co-operative Bank and Credit Society Ltd., Howrah	9 March 1978
Vaish Co-operative Adarsh Bank Ltd., New Delhi	6 April 1978
Khattri Co-operative Urban Bank Ltd., New Delhi	6 April 1978
Pragathi Co-operative Bank Ltd., Bangalore	15 April 1978

<i>Name of Urban Bank</i>	<i>Date of Visit</i>
Malleswaram Co-operative Bank Ltd., Bangalore	15 April 1978
Co-operative Bank of Ahmedabad Ltd., Ahmedabad	24 April 1978
Vijay Co-operative Bank Ltd., Ahmedabad	24 April 1978
Ahmedabad People's Co-operative Bank Ltd., Ahmedabad	24 April 1978

The views expressed at the aforesaid meetings and visits have been suitably incorporated in the Report.

9. The Committee also made considerable use of the data such as statistical statements, study reports and circulars available in the Agricultural Credit Department of the Reserve Bank in connexion with the preparation of the Report.

PATTERN OF THE REPORT

10. The pattern of the Report follows broadly the various items of the terms of reference and the Report contains the following Chapters:

Chapter No	Item of Terms of Reference	Subject
(1)	(2)	(3)
1	—	Introduction
2	—	Origin and Development of Urban Co-operative Banks
3	1	Evaluation of the Role of Urban Co-operative Banks in the Banking System
4	2	Future Role of Urban Co-operative Banks
5	3	Viability of Urban Co-operative Banks
6	2	Structure, Registration and Licensing

(1)	(2)	(3)
7	2	Assessment of Additional Facilities or Assistance Needed
8	3	Loan Policies and Procedures
9	4	Professional Management and Training
10	5	Inspection and Audit of Urban Banks
11	5	Role of the Government, Reserve Bank, National and State Federations and Others

11. The Report was finalized by the Committee at its sixth meeting held in Bombay on 10 and 11 July 1978.

ACKNOWLEDGEMENT

12. The Committee is grateful to the Reserve Bank of India for providing it with a Secretariat drawn from the staff of the Agricultural Credit Department and the Department of Banking Operations and Development. The members wish to thank Shri T. S. K. Chari and Shri K. Subba Reddy, Additional Chief Officers, Agricultural Credit Department, Reserve Bank of India, for their association with the deliberations of the Committee and also Kum. I. T. Vaz, Joint Chief Officer, Agricultural Credit Department, Reserve Bank of India, Bombay, who prepared the consolidated report on the study of viability of urban banks. The Committee should also like to acknowledge its gratitude to the institutions and the officials and non-officials who personally or through correspondence gave it the benefit of their views.

13. The Committee wishes to express its appreciation of the ungrudging and able assistance received from Shri P. S. Telang, Assistant Chief Officer; Shri K. V. Ans and Shri L. D. Kshetramade, Rural Credit Officers; and Shri B. A. Alawani and Shri R. Natarajan, Staff Officers; in the preparation of the Report.

14. Finally, the rest of the members place on record their appreciation of the excellent work put in by the Member-Secretary, Shri I. D'Souza, at all stages of the preparation of the Report.

CHAPTER 2

ORIGIN AND DEVELOPMENT OF URBAN CO-OPERATIVE BANKS

THE origin of the urban credit movement in India can be traced to the close of the nineteenth century. Following the success of the urban credit institutions organized by Hermann Schultze in Germany and Luigi Luzzatti in Italy during the period 1855-1885, some middle class Maharashtrian families settled in the erstwhile Baroda State started a mutual aid society in Baroda on 5 February 1889 under the guidance of Shri Vithal Laxman Kavthekar. When the Co-operative Credit Societies Act of 1904 conferred legal status on credit societies, the first urban co-operative credit society was registered in October 1904 at Conjeevaram in Madras Province. Subsequently, the Betegiri Co-operative Credit Society in Dharwar District in the undivided Bombay Province and the Bangalore City Co-operative Credit Society in the erstwhile Mysore State were registered in October 1905 and December 1905 respectively.

Historical Background

2. The development of urban co-operative credit societies did not receive much attention until 1915 when the Maclagan Committee referred to the potentialities for the organization of such societies as a means of training the upper and middle urban classes in ordinary banking principles. The failure of local joint-stock banks in the country at that time gave an impetus to the growth of urban co-operative credit societies. It was then realized that urban credit societies were eminently suitable institutional agencies for collecting local savings and to provide relief to those who were in the clutches of moneylenders by providing them with financial accommodation. Many urban credit co-operatives came to be organized in Bombay and Madras Provinces during this period (1919-38). The urban credit societies which came into being in Bombay confined their activities mostly to the members of particular communities and their lending operations were also

primarily with a view to meeting the consumption needs of their members. The great depression of the thirties did not have any visible impact on the development of urban co-operative credit movement in the country mainly because the fall in urban incomes was not as steep as the fall in rural incomes.

3. Later, the economic boom created by the Second World War (1939-45) provided a stimulus to the growth of urban banks in India. They grew not only in number but also in size, diversifying their activities considerably. Urban co-operative credit societies which had hitherto largely confined their loaning operations to provision of the consumption credit needs of the members were called upon to take up new avenues such as financing of artisans, small businessmen and small traders for productive purposes, in the context of the hesitancy of commercial banks at that time to meet the credit needs of these classes due to the high cost of servicing of loans.

4. The usefulness of urban banks in financing artisans, small traders, factory workers and urban middle classes was recognized by various committees and working groups such as the Central Banking Enquiry Committee (1931), the Co-operative Planning Committee (1946), the Study Group on Credit Co-operatives in the Non-Agricultural Sector (1963) and the Working Group on Industrial Financing through Co-operative Banks (1968). More particularly, the Working Group on Industrial Financing through Co-operative Banks (1968) set up by the Reserve Bank was of the view that urban banks were eminently suitable institutional agencies in the co-operative sector to cater for the credit needs of small-scale industries run by individuals, firms and joint-stock companies. A reference to the important recommendations of these committees and working groups has been made at appropriate places in the subsequent Chapters of this Report.

Survey of Urban Banks

5. An important development in urban co-operative banking was the survey undertaken by the Reserve Bank in 1958-9 with the object of studying the pattern of financial resources of urban banks, part played by urban banks in financing small-scale industries, the

outlets for their investments and the factors underlying the success or failure in their working. The Report on the Survey of Urban Co-operative Banks published by the Reserve Bank in 1961 observed that with the growth of planning and an increase in the tempo of economic development, steps had been taken to promote the development of various types of economic activities in the sphere of co-operation. But, while much attention had been paid to the promotion of agricultural co-operatives, industrial co-operatives and various other types of co-operative societies such as those for fisheries, dairying and housing societies, similar importance had, however, not been accorded to urban banks. No special provision was made for their development in the Five Year Plans. The Report stated that the approach in this sphere seemed to be one of *laissez faire*. The Survey Report observed that this may be the result to some extent of the generally satisfactory condition and fairly good rate of progress of urban credit co-operatives. But, mainly, it would appear to be the result of the relatively less active interest taken in the problems of middle classes including the smaller traders, professional men, salaried employees etc., and the lack of attention to the potentialities of development in the institutions catering for their needs. For the promotion and development of urban banks and the full utilization of their potentialities, the Survey Report made the following suggestions:

- (i) An assessment may be made of the scope for the establishment of urban banks in new centres and in different parts of existing cities and towns.
- (ii) Active efforts should be made by the management of urban banks to expand their membership.
- (iii) Urban banks should adopt a progressive attitude towards their functions and should try to diversify their activities and offer a wide range of facilities to their members than are now given.
- (iv) In their loan policy, urban banks should adopt a sufficiently wide and diversified system suiting the needs of the times and of different categories of members, keeping in view loans to small industries as an important line of future development.

- (v) The working of urban banks should be placed on sound and efficient lines, by elimination of non-credit activities of the trading type, improvement of the accounting and operational arrangements and reduction and avoidance of overdues.
- (vi) There should be continuous building up of member relations and publicity.¹

The Survey Report also emphasized the need for active support of the state governments in the development of urban co-operative banks by ensuring adequate arrangements for their audit, inspection and supervision.

Extension of the Banking Regulation Act 1949

6. The most significant development relating to urban co-operative banks in recent years has been the extension to co-operative banks of certain provisions of the Banking Regulation Act 1949 from 1 March 1966. Earlier, the Banking Companies Act 1949 which came into force from 16 March 1949 had specifically excluded co-operative banks, including urban co-operative banks, from the purview of the Act, as co-operative banks were registered under the Co-operative Societies Act of the respective states and as such could not be classified as 'companies'. However, with the passage of time, the operations of co-operative banks increased substantially and it was, therefore, considered anomalous to leave out co-operative banking institutions from the purview of the statutory control of the Reserve Bank. Moreover, there was a demand from certain quarters, particularly after the introduction of the Deposit Insurance Scheme to commercial banks in 1962, that co-operative banks should also get the benefit of this Scheme. This would not have been possible without co-operative banks being subjected to some degree of control by the Reserve Bank.

7. With the extension of the Banking Regulation Act 1949 to co-operative banks, the Reserve Bank acquired control over the functioning of urban co-operative banks with paid-up share capital and reserves of Rs 1 lakh and over termed as 'primary co-operative banks' in matters such as maintenance of cash reserves

¹ *Report on the Survey of Urban Co-operative Banks* (1961), published by the Reserve Bank of India, Statistics Department, Bombay, pp. 82-4.

and liquid assets, regulation of loans and advances, opening of new places of business, and publication of audited balance sheet and profit and loss account. Further, every urban co-operative bank existing as on 1 March 1966 or a new urban co-operative bank organized thereafter was required to apply to the Reserve Bank for a licence to carry on or commence banking business. The statutory power of inspection of urban co-operative banks was also vested in the Reserve Bank which could exercise it either directly or through the concerned state co-operative bank. Powers in regard to incorporation, management and winding up continued to be governed by the state co-operative societies acts concerned.

Definition

8. While dealing with the development of urban co-operative banks, a reference may be made to the definition of these banks adopted from time to time. Initially, most of the urban banks in India were organized as credit societies and later converted into urban banks. Up to about 1939, the term 'bank' was loosely used by many societies and there was hardly any distinction between an urban co-operative bank and an urban credit society. While some urban credit societies undertook banking functions without using the word 'bank' or 'banker', there were instances where many urban credit societies not engaged in any banking functions also used the word 'bank' or 'banker'. The Mehta-Bhansali Committee (1939) in Bombay made an attempt to define an urban co-operative bank. According to this Committee, all urban credit societies having paid-up share capital of Rs 20,000 and over and accepting deposits of money on current account or otherwise subject to withdrawal by cheque, draft or order came within the category of urban co-operative banks. In Madras Province, urban credit societies accepting deposits on current account and maintaining fluid resources according to the standards prescribed by the Registrar of Co-operative Societies were called urban banks. In many provinces, this term was used for credit societies working in urban areas irrespective of the size of share capital or the nature of deposits accepted by them.

9. According to the Co-operative Planning Committee (1946), urban banks receiving deposits on current account should have

(a) a paid-up share capital of at least Rs 20,000; (b) maintain fluid resources on the scale prescribed by the Registrar of Co-operative Societies; and (c) carry to the reserve fund at least one-third of their net profits till it equals the paid-up share capital and thereafter at least one-fourth of the net profits. The reserve fund should be invested in gilt-edged securities or deposited in banks approved by the Registrar and should not be used for the business of the bank.¹

10. Recognizing the need for adoption of a uniform definition of an urban bank in the context of the ability of the institution to employ qualified, trained and experienced staff, the Study Group on Credit Co-operatives in the Non-Agricultural Sector, appointed by the Government of India under the chairmanship of the late Shri V. P. Varde in 1963, suggested certain norms. The Group recommended that a co-operative credit society registered under the state co-operative societies act in urban and semi-urban areas having a minimum paid-up share capital of Rs 50,000 and undertaking the provision of banking facilities could be termed as an urban co-operative bank.

11. Following the extension of certain provisions of the Reserve Bank of India Act 1934 and the Banking Regulation Act 1949 to co-operative banks from 1 March 1966, an urban bank is called a primary co-operative bank and defined as a co-operative society, other than a primary agricultural credit society (i) the primary object of which is the transaction of banking business; (ii) the paid-up share capital and reserves of which are not less than Rs 1 lakh; and (iii) the by-laws of which do not permit admission of any other co-operative society as a member. The category of primary co-operative banks also includes salary earners' societies having paid-up share capital and reserves of Rs 1 lakh or more and the by-laws of which provide for acceptance of deposits from non-members.

12. In addition to primary co-operative banks, there is a separate category of 'primary credit societies' which are allowed to call themselves as banks, but are kept outside the Reserve Bank's

¹ *Report of the Co-operative Planning Committee (1946)*, published by the Government of India, Ministry of Agriculture, New Delhi, pp. 117-8.

control until their paid-up share capital and reserves come to a level of Rs 1 lakh or more. The difference between a primary co-operative bank and a primary credit society is thus only in respect of their share capital and reserves, the former having paid-up share capital and reserves of Rs 1 lakh and over and the latter less than Rs 1 lakh.

13. In the light of the findings of the studies on viability of urban banks, the Committee has come to the conclusion that the definition of a primary co-operative bank as given in the Reserve Bank of India Act 1934 and the Banking Regulation Act 1949 needs amendment in so far as it relates to minimum share capital and reserves requirements. Details are given in Chapters 5 and 6.

14. In this Report, the term 'urban co-operative bank' or 'urban bank' has been used, instead of 'primary co-operative bank', as the former is more popular in common parlance.

PROGRESS OF URBAN BANKS 1948-9 TO 1959-60

15. Data regarding the progress of urban banks are not available on an all-India basis for the period prior to 1948-9. Certain data on all-India basis are available in the Reserve Bank's Review of the Co-operative Movement for the years 1948-9 to 1959-60. Although these data suffer from various limitations as no uniform definition of an urban bank was adopted by the different states, these nevertheless provide an indication of the growth of urban banks. These data are furnished in Table 1.

16. It will be seen that there was a sizeable growth both in the number of urban banks and their operations from 1948-9 to 1959-60. While the number of urban banks had grown from 815 to 1,242, i.e., by 52 per cent, their membership and working capital increased nearly four-fold during the period. Deposits which formed the major portion of the working capital had also risen by more than three times. The total advances increased by 242 per cent from Rs 19 crores in 1948-9 to Rs 65 crores in 1959-60. The advances outstanding at the end of 1948-9 at Rs 12 crores rose by about 5 times to Rs 58 crores at the end of 1959-60. Though the amount of overdues showed an increase

TABLE 1
Operations of Urban Banks in India from 1948-9 to 1959-60

	Rs Crores						
	1948-9	1949-50	1951-2	1953-4	1955-6	1957-8	1959-60
Number of Urban Banks	815	776	930	716	1,585	826	1,242
Membership (in Thousands)	535	580	674	873	1,139	1,181	1,797
Owned Funds	4	5	6	7	9	8	17
Deposits	17	18	20	24	32	27	61
Working Capital	22	24	27	33	44	57	82
Advances During the Year	19	20	24	27	32	33	65
Advances Outstanding	12	13	15	20	23	24	58
Overdues	1	2	2	3	3	3	4

Source: Reviews of the Co-operative Movement in India, published by the Reserve Bank of India, Bombay.

from Rs 1 crore in 1948-9 to Rs 4 crores in 1959-60, as a percentage to the total loans outstanding, the overdues declined from 8.3 per cent to 7 per cent during the period.

Progress of Urban Banks from 1 March 1966

17. Data for the period 1960-1 to 1965-6 are not available separately for urban banks, either in the Statistical Statements Relating to the Co-operative Movement in India or in the Reviews of the Co-operative Movement in India, published by the Reserve Bank, as the statistics presented in these publications were for all non-agricultural credit societies together. Statistics relating to the growth and operations of urban banks from 1 March 1966 are, however, given in the following paragraphs.

18. As on 1 March 1966, i.e., the date of extension of the

Banking Regulation Act 1949 to co-operative banks, there were 1,091 primary co-operative banks in the country. This number is not strictly comparable with the number of banks in 1959-60 at 1,242, as it represented only those urban banks whose paid-up share capital and reserves were Rs 1 lakh and more which consequently came under the statutory control of the Reserve Bank. Of the 1,091 banks on 1 March 1966, 403 were urban banks and 688 were salary earners' societies classified as primary co-operative banks. Following the advice given by the Reserve Bank in 1966 to salary earners' societies classified as primary co-operative banks to go out of the purview of the Banking Regulation Act 1949 by restricting acceptance of deposits from members only, the number of primary co-operative banks in the category of salary earners' societies declined from 688 to 139 during the period 1 March 1966 to 30 June 1977. During the same period, the number of urban banks increased from 403 to 1,023. Of the increase of 620 urban banks, 96 were newly formed banks. As many as 567 urban banks had previously been classified as primary credit societies and they attained the status of primary co-operative banks as and when their paid-up capital and reserves reached a level of Rs 1 lakh or more. The details of the numerical growth of urban banks in different states from 1 March 1966 to 30 June 1977 are shown in Table 2.

19. The increase in the total number of urban banks other than salary earners' societies from 403 to 1,023 during 1 March 1966 to 30 June 1977 was sizeable. This increase has, however, been mainly in the states of Gujarat, Karnataka, Maharashtra and Tamil Nadu. Table 2 shows that 78 per cent of the total number of banks as on 30 June 1977 were concentrated in these 4 states. Of the remaining banks, 159 or 14 per cent were situated in Andhra Pradesh, Kerala, West Bengal and the union territory of Delhi. Only 8 per cent of the banks were distributed in the remaining 11 states and 2 union territories, viz., Assam, Bihar, Haryana, Himachal Pradesh, Madhya Pradesh, Manipur, Meghalaya, Orissa, Punjab, Rajasthan, Uttar Pradesh, Goa, Daman & Diu and Pondicherry. No urban co-operative bank existed in the states of Jammu and Kashmir, Nagaland, Sikkim and Tripura and in the union territories of Andaman and Nicobar Islands, Chandigarh and Laccadive and Minicoy Islands.

TABLE 2
Statement Showing the Number of Urban Banks in India

Name of the State/Union Territory	No. of Banks as on 1-3-66		No. of Urban Co-operative Banks as at the end of June									
			1971		1974		1975		1976		1977	
			UB	SE	UB	SE	UB	SE	UB	SE	UB	SE
Andhra Pradesh	34	16	39	4	40	5	40	4	40	3	43	3
Assam	—	2	2	—	2	—	2	—	2	—	2	—
Bihar	2	22	1	—	1	—	1	—	1	—	1	—
Gujarat	62	92	133	6	204	6	222	9	240	11	257	9
Haryana	—	—	1	2	1	2	1	2	1	3	1	3
Himachal Pradesh	—	1	—	—	2	—	2	—	3	—	3	—
Karnataka	64	34	128	20	145	18	156	22	165	24	166	18
Kerala	19	3	30	—	38	10	42	7	43	4	43	5
Madhya Pradesh	7	8	10	2	12	1	14	1	18	1	20	1

2	Maharashtra	84	298	198	67	235	45	261	44	274	43	292	38
	Manipur	—	—	2	—	2	—	2	—	2	—	3	—
	Meghalaya	—	—	—	—	—	—	—	—	1	—	1	—
	Orissa	5	2	8	1	8	2	8	2	8	1	8	1
	Punjab	4	2	4	—	5	—	5	—	5	—	4	1
	Rajasthan	4	5	5	5	6	4	10	4	10	4	10	5
	Tamil Nadu	87	59	100	11	110	9	111	8	114	9	117	10
	Uttar Pradesh	—	25	—	24	—	24	—	24	3	23	3	23
	West Bengal	21	102	24	81	25	43	25	34	27	17	27	11
	Delhi	8	17	8	—	13	15	15	14	15	12	16	11
	Goa, Daman & Diu	—	—	2	—	2	—	4	—	4	—	4	—
	Pondicherry	2	—	2	—	2	—	2	—	2	—	2	—
	Total	403	688	697	223	853	184	923	175	978	155	1023	139

N.B. UB: Urban Co-operative Bank

SE: Salary Earners/Employees Society classified as Primary Co-operative Bank.

20. Thus, the development of urban banks in the country is uneven. States such as Haryana, Punjab and Uttar Pradesh have very few urban banks, although there is a marked development of co-operative institutions in the agricultural sector in these states. Further, even in the states where there is concentration of urban banks, viz., Gujarat, Karnataka, Maharashtra and Tamil Nadu, there are also regional imbalances. For example, in Maharashtra, out of the 330 banks as on 30 June 1977, 267 or 81 per cent of the total were in 10 districts of Western Maharashtra and the remaining 19 per cent were distributed in 16 districts of the Konkan, Marathwada and Vidarbha regions. In Gujarat, out of 266 urban banks as at the end of June 1977, 135 banks were functioning in 4 districts of Ahmedabad, Baroda, Kaira and Surat, whereas 131 banks were located in the remaining 13 districts of the state. In Karnataka also, 103 out of the 184 urban banks were in the 4 districts which formed part of the undivided Bombay State and the remaining 81 banks were functioning in 15 other districts.

21. Apart from the increase in the number of urban banks in the country, there has been a substantial growth in the membership of these banks which increased from 36 lakhs as on 30 June 1967¹ to 47 lakhs as on 30 June 1976.² The average membership per bank increased from 3250 to 4100 during the period. The growth of membership is not only due to the increase in the number of banks, but also to the efforts to enrol new members made by some of the banks.

22. The coverage of the urban population by urban banks is, however, low. Assuming that each family consists, on an average of 5 persons, only one of whom becomes a member, the coverage was 23 per cent in 1966-7. It was less at 21.5 per cent in 1975-6 mainly due to the increase in the urban population from 79 millions (1961 Census) to 109 millions (1971 Census) during the period. A comparison of the state-wise position of coverage of urban population by urban banks given in Table 3 shows marked variations.

1 No. of reporting banks 1106.

2 No. of reporting banks 1142.

TABLE 3
Coverage of Urban Population by Urban Banks

Name of the State/ Union Territory	1966-7 Per Cent	1975-6 Per Cent
Andhra Pradesh	14.0	11.7
Assam	1.9	—@
Bihar	4.3	—@
Gujarat	31.0	40.5
Haryana	29.8	36.6
Himachal Pradesh	2.8	6.2
Karnataka	15.8	22.0
Kerala	23.5	37.1
Madhya Pradesh	4.5	4.8
Maharashtra	47.6	34.4
Manipur	—@	3.6
Orissa	14.9	13.3
Punjab	0.2	0.3
Rajasthan	3.8	4.4
Tamil Nadu	45.4	47.6
Uttar Pradesh	8.1	7.9
West Bengal	32.1	22.2
Delhi	3.8	2.7
Goa, Daman and Diu	10.0	46.7
Pondicherry	88.9	7.7

@ Membership figure is not available.

There are, however, certain limitations in comparing the data regarding the coverage, state-wise. The increase in the urban population was not uniform in all the states during the period 1961 to 1971. In states where the urban population increased at a faster rate, the coverage would be low in comparison with other states where the urban population remained more or less static or registered a marginal increase. While, in most of the states, the membership of urban banks has not kept pace with the rate of increase in urban population, in the case of West Bengal and the union territory of Pondicherry, the membership has declined sharply resulting in the decrease in the coverage of urban population by urban banks. The fall in membership in West Bengal could be attributed mainly to the decrease in the number of primary co-operative banks consequent upon a number of salary earners' societies going out of the purview of the Banking

Regulation Act. Similarly, in Andhra Pradesh and Maharashtra also, many salary earners' societies went out of the purview of the above Act. In spite of the aforesaid limitations, the data in Table 3 give a broad indication of the coverage of urban population by urban banks in different states.

23. The coverage of towns by offices of urban banks has also been limited. Out of the total number of 2643 towns and cities in India according to the 1971 Census, only 851 towns and cities representing 32 per cent of the total number were covered by 1738 offices of urban banks as on 30 June 1977. While this represented the all-India position, the position of coverage of towns and cities by offices of urban banks in individual states and union territories on 30 June 1977 is indicated in Table 4.

24. As in the case of the coverage of urban population, the coverage of towns also by urban banks shows a highly uneven spread. Although there were 1738 offices of urban banks as on 30 June 1977, they covered 851 towns only out of the total of 2643. This indicates concentration of offices of urban banks in some cities and towns. In fact, the cities of Ahmedabad and Bombay accounted for 274 offices constituting 16 per cent of the total urban bank offices as on 30 June 1977.

25. Various reasons could be adduced for the uneven development of urban banks in the country. Lack of initiative on the part of non-official co-operative leaders and of Co-operative Departments is an important factor which has contributed to the total absence or slow growth of urban banks. The state co-operative banks and central co-operative banks also paid little or no attention to the development of urban co-operative banking in their areas. The active involvement of the Reserve Bank in this sphere has come after the extension of the Banking Regulation Act 1949 to co-operative banks with effect from 1 March 1966. The Five Year Plans also did not envisage any programmes for the development of urban banks as in the case of co-operative credit institutions in the agricultural sector. Other factors which have inhibited the balanced development of urban banks are the opening of a large number of offices of commercial banks in urban and semi-urban centres and the poor image of the existing

TABLE 4

*Coverage of Towns and Cities by Offices of Urban Banks as on
30 June 1977*

Name of State/ Union Territory	No. of Towns and Cities (1971 Census)	No. of Towns and Cities covered by Offices of Urban Banks	Percentage of Coverage of Towns and Cities by Offices of Urban Banks
Andhra Pradesh	207	44	21.3
Assam	71	1	1.4
Bihar	161	2	1.2
Gujarat	200	166	83.0
Haryana	65	4	6.1
Himachal Pradesh	35	3	8.6
Jammu and Kashmir	43	—	—
Karnataka	230	116	50.0
Kerala	88	58	65.9
Madhya Pradesh	232	28	12.1
Maharashtra	257	221	86.0
Manipur	8	1	12.5
Meghalaya	3	1	33.3
Nagaland	3	—	—
Orissa	78	12	15.4
Punjab	106	6	5.7
Rajasthan	151	9	6.0
Sikkim	7	—	—
Tamil Nadu	241	104	43.1
Tripura	6	—	—
Uttar Pradesh	293	21	7.2
West Bengal	134	38	28.4
Andaman & Nicobar Islands	1	—	—
Arunachal Pradesh	4	—	—
Chandigarh	1	—	—
Delhi	1	1	100.0
Goa, Daman & Diu	13	13	100.0
Pondicherry	4	2	50.0
Total	2643	851	32.2

co-operatives in some states. With regard to regional imbalances in the growth of urban banks within a state, a reference may be made to the observations of the Committee on Problems of Urban Co-operative Banks in Maharashtra (1974) which has pointed

out that regional imbalances in the growth of urban banking in Marathwada and Vidarbha, when compared with other regions of Maharashtra, could not be ascribed to a single reason or circumstance. According to the Committee's findings, the absence of co-operative leadership might be one of the reasons, while the non-existence of co-operative environment might be the other reason.

26. The operations of urban banks have shown considerable progress during the past decade. The year-wise progress from 1966-7 to 1976-7 is presented in Table 5. It may be seen that the owned funds of urban banks, i.e., share capital and reserves have increased from Rs 58 crores as on 30 June 1967 to Rs 117 crores as on 30 June 1977. The deposits have also registered a significant increase from Rs 153 crores to Rs 519 crores. Similarly, the loans and advances have risen from Rs 167 crores to Rs 407 crores during the same period.

27. The state-wise details of urban banks as on 30 June 1977 are shown in Table 6 which reveals that the operations of urban banks in Gujarat and Maharashtra are quite impressive. The deposits of urban banks in Maharashtra at Rs 210 crores as on 30 June 1977 constituted about 40 per cent of the total deposits of urban banks in the country on that date. Similarly, the loans and advances of urban banks in Maharashtra at Rs 146 crores formed 36 per cent of the total loans and advances of all urban banks. In Gujarat, the deposits of banks at Rs 142 crores and the loans and advances at Rs 104 crores as on 30 June 1977 constituted 27 per cent and 26 per cent of the total deposits and loans and advances respectively, of the urban banks in the country on that date. The performance of urban banks in different spheres is referred to in some detail in the Chapter which follows.

TABLE 5
Urban Co-operative Banks: Membership and Financial Particulars from 1966-7 to 1976-7

Year	No. of Reporting Banks	Member-ship (in Thousands)	Paid-up Capital	Reser-ves	Owned Funds	Depo-sits	Borrow-ings	Working Capital	Invest-ments	Rs Crores	
										Loans Out-standing	Profit
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1966-7	1106	3632	41	17	58	153	11	222	38	167	4
1967-8	925	3147	32	18	50	156	8	214	39	157	3
1968-9	946	3602	36	19	55	183	9	248	47	176	4
1969-70	989@	3717	34	18	52	179	10	264	44	177	3
1970-1	946@	3550	36	20	56	217	12	307	58	197	3
1971-2	964@	3783	43	23	66	264	14	374	28	229	5
1972-3	967	3704	45	25	70	301	13	426	31	258	6
1973-4	1016	3899	53	28	81	343	21	492	35	305	7
1974-5	1123@	3333	63	33	96	386	24	578	44	354	13
1975-6	1142@	4659	68	40	108	468	20	662	42	393	12
1976-7	1105	N.A.	70	47	117	519	23	722	N.A.	407	19

@ Includes particulars for certain primary credit societies also which were not governed by the Banking Regulation Act 1949

TABLE 6

State-wise Details of Urban Banks as on 30 June 1977

Rs Crores														
Sr. No.	Name of State	No. of Banks **	No. of Reporting Banks	Paid-up Capital	Reserves	Owned Funds	Deposits	Borrowings	Working Capital	Investments in Government Securities	Fixed Deposits with Other Banks	Loans and Advances	Profit	Loss
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
1.	Andhra Pradesh*	43	43	2.02	1.14	3.16	13.09	0.55	18.31	0.28	3.29	12.23	0.63	0.06
2.	Assam	2	2	0.14	0.37	0.51	2.98	—	3.76	—	1.55	1.94	0.08	—
3.	Bihar	1	—	—	—	—	—	—	—	—	—	—	—	—
4.	Delhi*	26	11	0.69	0.25	0.94	2.90	0.42	4.81	0.02	1.05	2.46	0.28	—
5.	Goa, Daman & Diu*	4	4	0.52	0.41	0.93	7.52	0.38	9.40	0.01	1.96	6.03	0.05	—
6.	Gujarat*	261	261	14.34	12.31	26.65	141.76	10.34	195.60	2.40	61.90	104.48	4.79	0.11
7.	Haryana*	4	4	0.18	0.07	0.25	0.74	0.09	1.20	0.01	0.31	0.82	0.09	—
8.	Himachal Pradesh	3	3	0.06	0.02	0.08	0.24	0.04	0.38	—	0.07	0.25	0.01	—
9.	Karnataka*	184	177	6.35	5.31	11.66	41.57	3.18	61.27	1.45	9.29	33.88	1.44	0.02
10.	Kerala*	48	44	1.94	1.13	3.07	15.11	0.77	20.54	0.48	2.51	12.20	0.83	0.02

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
11.	Madhya Pradesh*	21	19	1.19	0.40	1.59	6.12	0.13	8.22	0.10	2.42	4.33	0.11	0.03
12.	Maha-rashtra*	321	321	28.44	15.01	43.45	209.99	3.38	277.48	8.66	78.83	145.89	8.20	0.06
13.	Manipur*	2	2	0.12	0.03	0.15	0.28	—	0.50	0.01	0.06	0.31	0.04	0.01
14.	Megha-laya*	1	1	0.04	—	0.04	0.03	0.01	0.08	—	—	0.07	—	—
15.	Orissa	9	8	0.40	0.29	0.69	2.73	0.04	4.06	0.07	0.65	2.48	0.05	—
16.	Pondi-cherry*	2	1	0.04	0.02	0.06	0.18	0.01	0.26	—	0.04	0.19	0.01	—
17.	Punjab*	5	4	0.06	0.04	0.10	0.11	0.02	0.25	0.01	0.04	0.14	0.03	0.02
18.	Rajas-than	15	13	0.69	0.19	0.88	4.95	0.02	6.62	0.04	1.83	3.80	0.11	—
19.	Tamil Nadu	127	127	5.32	4.62	9.94	40.84	3.29	58.25	0.37	2.73	38.94	1.26	0.04
20.	Uttar Pradesh*	26	25	3.11	1.21	4.32	9.09	0.32	15.25	0.11	0.52	11.63	0.31	0.01
21.	West Bengal*	38	35	4.27	3.97	8.24	18.42	0.25	35.30	0.44	6.82	24.46	1.32	—
Grand Total		1143	1105	69.92	46.79	116.71	518.65	23.24	721.54	14.46	175.87	406.53	19.64	0.38

PROGRESS OF URBAN BANKS

Position as on the last Friday of the month, i.e., 24 June 1977

** Excluding banks under liquidation and salary earners' societies intending to go out of the purview of the Banking Regulation Act 1949, numbering 14.

CHAPTER 3

EVALUATION OF THE ROLE OF URBAN CO-OPERATIVE BANKS IN THE BANKING SYSTEM

THE first item of the terms of reference requires the Committee to evaluate the role of urban co-operative banks in the banking system. Accordingly, this Chapter deals with this topic.

ROLE ENVISAGED

2. As mentioned in paragraph 2 of Chapter 2, the Maclagan Committee on Co-operation in India (1915) pointed out that 'urban credit societies might serve a useful purpose in training the upper and middle urban classes to understand ordinary banking principles'.¹

3. The Indian Central Banking Enquiry Committee (1931) observed as follows:

The duty of these urban banks should be to try to do for the small trader, the small merchant and the middle class population what the commercial banks are doing for the big trader and big merchant.²

4. Subsequently, the Co-operative Planning Committee (1946) stated as under:

Joint stock banks are not interested in developing the business of small loans, because the 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

¹ *Report of the Committee on Co-operation in India* (1915), published by the Government of India, Delhi, p. 11.

² *Report of the Indian Central Banking Enquiry Committee* (1931), Majority Report, published by the Government of India, Delhi, p. 255.

of persons of moderate means, they will not advance loans on personal security. On the other hand, there are, in urban areas, numerous persons of small means, like traders, merchants, artisans, factory workers, street hawkers, motor and gharry drivers, who resort to moneylenders and similar agencies for small loans and obtain them at high rates of interest. Ex-servicemen like technicians and skilled workmen like carpenters, blacksmiths, mechanics etc., will also require credit for setting up their own business in small workshops. Co-operative urban banks qualify by establishing personal and intimate relationship with people of this class as the most suitable agencies for serving their credit needs.¹

5. The Rural Banking Enquiry Committee (1950) also commented on the role that urban co-operative banks could play in providing banking facilities. The Committee observed that urban banks which were established in many towns in Bombay and Madras would be able to offer facilities both to urban people and to individuals in the nearby rural areas, and in view of their relatively low cost of establishment and operation can go up to places smaller than the taluka towns.

6. According to the Study Group on Credit Co-operatives in the Non-Agricultural Sector appointed by the Government of India under the chairmanship of the late Shri V. P. Varde in 1963, urban co-operative banks have an important role to play in several respects including the following:

- (a) First and foremost, they can organize and bring together middle and working classes in urban and semi-urban areas and inculcate in them the habits of thrift and self-help and acquaint them with the elements of ordinary banking principles.
- (b) The mobilization of savings by urban co-operative banks and the consequent drawing of urban resources into the

¹ *Report of the Co-operative Planning Committee* (1946), published by the Government of India, Ministry of Agriculture, New Delhi, p. 116.

apex and central co-operative banks which are in need of funds to finance the rural, industrial and other functional co-operatives, can contribute to general economic development.

- (c) By providing credit on reasonable terms to the middle classes, they can rescue them from the exploitation of moneylenders and other unscrupulous agencies, which is particularly important in the context of rising prices and cost of living. This has consequent effects also on non-co-operative lendings.
- (d) By financing individual industrialists and artisans working in urban areas, they can make a significant contribution to industrial development.
- (e) They can make certain essential banking facilities such as remittance of funds etc., available in areas which may not be considered suitable for commercial banking and to persons who may not be able to get such facilities from commercial banks.
- (f) They can provide intelligent, experienced and active leadership to the co-operative movement including the central and apex co-operative banks, which in view of their federal character, draw their directors from member institutions.¹

7. The Study Group on Credit Co-operatives in the Non-Agricultural Sector (1963) also recommended that the lending policy of urban banks should be more imaginative and in keeping with the general programmes of economic development. In other words, it should be production-oriented and related to the repaying capacity of the borrower rather than the security. The Study Group added that in view of the usefulness of urban banks to people of small means, these should be organized in all towns. In every town with a population of over 1 lakh, the possibility of organizing additional urban banks may be considered. By the end

¹ *Report of the Study Group on Credit Co-operatives in the Non-Agricultural Sector (1963)*, published by the Government of India. Ministry of Community Development and Co-operation, New Delhi, p. 67.

of Fourth Five Year Plan (1969-74), the Study Group hoped that non-agricultural credit societies, including urban banks and employees' credit societies, would cover 50 per cent of the urban population.¹

8. The Working Group on Industrial Financing through Co-operative Banks (1968) appointed by the Reserve Bank recognized the key role which urban banks could play in providing finance to cottage and small-scale industries and recommended that high priority should be given to the organization of such banks in areas where there was sufficient concentration of cottage and small-scale industries carried on by individuals as well as by firms and joint-stock companies.

9. Thus, while there is no change in the basic objectives of urban banks, i.e., promotion of thrift among members and non-members, provision of credit on reasonable terms to persons of limited means, and provision of banking services to customers, a new dimension has been given to the operations of these institutions in recent years with their recognition as appropriate agencies for financing cottage and small-scale industries carried on by individuals as well as firms and joint stock companies.

EVALUATION

10. In evaluating the role of urban co-operative banks in the banking system, it is relevant to quote the views expressed by some of the recent all-India Committees or Commissions as well as a few state Committees which had occasion to review their working. The Report on the Survey of Urban Co-operative Banks, published by the Reserve Bank of India in 1961, observed that 'the general picture of co-operative urban banking which emerges out of this study (survey conducted in 1958-9) is one of a fairly widespread, financially sound, expanding and useful framework of banking institutions which have their own place of importance in the banking structure of a large part of the country'.²

¹ Report of the Study Group on Credit Co-operatives in the Non-Agricultural Sector (1963), published by the Government of India, Ministry of Community Development and Co-operation, New Delhi, pp. 16, 34, 68.

² *Report on the Survey of Urban Co-operative Banks* (1961), published by the Reserve Bank of India, Department of Statistics, Bombay, p. 82.

11. The Banking Commission appointed by the Government of India in February 1969 under the chairmanship of Shri R. G. Saraiya has observed as follows:

Urban co-operative banks do useful work in mobilising deposits and financing the sector of small borrowers such as small-scale industries, professionals, retailers and so on. Another useful activity is financing of house construction and repairs for members of the banks. Also, this type of banking provides a useful avenue for those who have the necessary ability to set up a bank.¹

12. The committees on co-operation appointed by some of the state governments have also made similar observations about urban banks in their respective states. For example, the Committee on Co-operation appointed by the Government of Tamil Nadu in February 1968 under the chairmanship of Shri K. Santhanam has observed as follows:

The non-agricultural credit societies have been significantly successful in attracting deposits and promoting thrift. This sector of the movement has grown voluntarily without special encouragement from the State. The urban banks in the state have recorded a steady progress over the years. As observed by the Co-operative Planning Committee (1946), urban banks have proved to be the best suited agencies for meeting the credit needs of the people of small means in urban areas, in whom joint-stock banks are not generally interested.²

13. Similarly, the Committee on Problems of Urban Co-operative Banks in Maharashtra appointed by the Government of Maharashtra in December 1974 under the chairmanship of the late Shri V. M. Joglekar has commented on the performance of urban banks in Maharashtra in the following words:

¹ *Report of the Banking Commission* (1972), published by the Government of India, Ministry of Finance, New Delhi, p. 231.

² *Report of the Committee on Co-operation, Part I* (1969), published by the Government of Tamil Nadu, Madras, pp. 73-74.

The performance of the urban banks in Maharashtra, taken as a whole, is fairly satisfactory. The sustained growth over the years may be traced to the devoted and selfless management by non-officials. Not only the number of urban banks has increased, but membership, which is a measure of people's involvement, has also increased. Deposits have gone up considerably. The deposits from non-members are more than those of the members, which is a positive proof of the fact that the urban banks have secured the confidence of the depositing public of urban and semi-urban areas.¹

14. A brief account of the performance of urban banks in fulfilling their objectives, viz., (i) promotion of thrift, (ii) provision of credit facilities and (iii) extension of banking services to customers is given in the following paragraphs. Dealing first with the promotion of thrift, the achievement of urban banks may be assessed under two aspects, viz., (a) collection of share capital from members and (b) mobilization of deposits from members and non-members.

Share Capital

15. The paid-up share capital of urban banks increased from Rs 41 crores as on 30 June 1967 to Rs 70 crores as on 30 June 1977, i.e., by 71 per cent. The increase in share capital was mainly due to an expansion of the average membership from 3250 to 4100 per bank and to the linking, usually in the ratio of 2.5 per cent to 10 per cent, of the members' shareholdings to borrowings, the amount of members' borrowings having increased from Rs 167 crores to Rs 407 crores during the period 1967-77. The strengthening of the share capital base of some of the urban banks was also on account of the receipt of share capital from state governments which obtained loans for the purpose from the Reserve Bank's National Agricultural Credit (Long-term Operations) Fund. State participation in the share capital of urban banks was, however, insignificant as the total amount sanctioned

¹ *Report of the Committee on Problems of Urban Co-operative Banks in Maharashtra* (1976), published by the Maharashtra State Co-operative Bank Ltd., Bombay, p. 12.

by the Reserve Bank during the 9 years 1969-70 to 1977-8 amounted to Rs 1.24 crores only.

Reserves

16. In addition to the collection of share capital, urban banks also strengthened their reserves by appropriations from profits. There was substantial increase in the reserves from Rs 17 crores to Rs 47 crores during the period 1966-7 to 1976-7.

17. The owned funds comprising both share capital and reserves aggregating Rs 117 crores formed 16 per cent of the working capital and 23 per cent of deposits of urban banks as on 30 June 1977. The proportion of owned funds of urban banks in relation to their deposits is much higher when compared with the owned funds-deposits ratio of commercial banks which was 1.4 per cent as at the end of December 1975. This is mainly because the practice of linking of shareholding to borrowings is not in vogue in commercial banks. Besides, the borrowings of commercial banks by way of deposits and other borrowings need not be within any prescribed multiple of owned funds as in the case of urban banks.

Deposits

18. The deposits of urban banks increased from Rs 153 crores as on 30 June 1967 to Rs 519 crores as on 30 June 1977, or a rise of 239 per cent during the period. The growth in deposits can be attributed to some extent to the increase in the number of banks but, by and large, it reflected the ability of the banks to mobilize local resources and the confidence which these banks commanded with the public. The amount of average deposits per urban bank has also registered an increase during the period as may be seen from Table 7.

The average deposits per bank rose from Rs 14 lakhs as on 30 June 1967 to Rs 47 lakhs as at the end of June 1977. While this represented the all-India position, there were marked variations as between different states. The average deposits per bank at the end of June 1977 in Gujarat, Karnataka, Maharashtra and Tamil

Nadu, where there was concentration of urban banks, were as follows:

TABLE 7
Average Deposits per Urban Bank

			Rs Crores
Year	No. of Reporting Banks	Total Deposits	Average Deposits per Bank
1966-7	1106	153	0.14
1967-8	925	156	0.17
1968-9	946	183	0.19
1969-70	989	179	0.18
1970-1	946	217	0.23
1971-2	964	264	0.27
1972-3	967	301	0.31
1973-4	1016	343	0.34
1974-5	1123	386	0.34
1975-6	1142	468	0.41
1976-7	1105	519	0.47

		Rs Lakhs
State	Average Deposits per Bank	
		As on 30-6-77
Gujarat		54
Karnataka		23
Maharashtra		65
Tamil Nadu		32
All-India		47

19. The average annual growth rate in deposits in urban banks during the 10 years period ended June 1977 was 13.2 per cent. This was lower than the relative rate in scheduled commercial banks at 18.3 per cent. Nevertheless, the rate of growth at 13.2 per cent in the deposits of urban banks should be considered against the background of certain constraints with regard to mobilization of deposits in contrast to commercial banks. Commercial banks with a well-knit organizational set-up and wide geographical coverage stand in an advantageous position to explore potential areas and project a better image for tapping deposits. On the other hand, the scope for augmenting deposits of urban banks is relatively limited due to their restricted operational limits. Further, the deposit insurance cover, which is available to

depositors of commercial banks, has also not been extended to depositors of co-operative banks in all the states and union territories. This scheme has so far been extended to 10 states and 3 union territories and that too recently in some states. Moreover, many of the urban banks are not recognised for acceptance of deposits from trusts, quasi-governmental bodies etc.

20. The performance of urban banks in the mobilization of resources as compared with their counterparts in the agricultural sector is indicated below:

Item	Rs Crores		
	Urban Banks	Central Co-operative Banks	State Co-operative Banks
Deposits as on 30-6-1967	152	259 (144)	147 (52)
Deposits as on 30-6-1976	468	985 (613)	724 (166)
Percentage of increase	208	280 (326)	393 (219)

(The figures in brackets relate to deposits from individuals).

There are, however, certain limiting factors in comparing the growth of deposits in urban banks with that in state and central banks. The deposits of the state and central banks predominantly consist of those from the affiliated societies which are statutorily required to keep their reserve fund and a portion of liquid assets with the central and state co-operative banks. Even the reserve fund and a portion of the liquid assets of urban banks are required to be kept in deposit with the state or central banks. Further, the state and central banks functioning in different states and districts together cover the whole country, whereas urban banks cover only 32 per cent of the towns or cities in the country and that too mostly in a few states. Nevertheless, urban banks have not lagged far behind in mobilizing deposits. While the growth of deposits from individuals was to the extent of 326 per cent and 219 per cent respectively in central and state co-operative banks

during the 9 years period 1967-76, the relative growth in urban banks was 208 per cent.

21. The composition of deposits in urban banks showed preponderance of fixed and other deposits as shown below:

Composition of Deposits as on 30 June 1976

Rs Crores		
Type of Deposits	Amount	Percentage to Total Deposits
Current	47	10
Savings	113	24
Fixed	249	53
Others	59	13
Total	468	100

The percentage of fixed and other deposits to total deposits at 66 per cent in urban banks as on 30 June 1976 was higher than the corresponding percentage of 56 in commercial banks as on 31 December 1975.

Provision of Credit

22. With regard to the provision of credit, as mentioned in paragraph 5 of Chapter 2, the Report on the Survey of Urban Co-operative Banks (1961) had drawn pointed attention, *inter alia*, to the need on the part of urban banks to adopt a sufficiently wide and diversified loaning policy suited to the needs of the times and of different categories of members, keeping in view loans to small-scale industries as an important line of development. The Report of the Study Group on Credit Co-operatives in the Non-Agricultural Sector (1963) had also recommended that the lending policy of urban banks should be more imaginative and should be in keeping with the programmes of economic development. The need for adopting a sufficiently diversified lending system with liberal finance to cottage and small-scale industries was also urged in that Report. The Working Group on Industrial Financing through Co-operative Banks (1968) was of the view that urban banks were the ideal institutional agency

in the co-operative sector to cater for the credit needs of small-scale industries run by individuals, firms and joint stock companies. The Working Group observed that owing to regional imbalances in the growth of the urban co-operative banking movement in the country, a large number of industrial units not recognized as industrial societies might have perforce to remain outside the co-operative banking system and, therefore, in the absence of an appropriate institutional agency, the industrial units in this sector were compelled to obtain credit from private sources at prohibitive terms. In this context, the Working Group made the following suggestions:

- (i) High priority should be given to the organization of urban co-operative banks in areas where there is a sufficient concentration of cottage and small-scale industries carried on by individual units. The share capital of these banks should be strengthened by government contribution.
- (ii) Existing urban co-operative banks may be allowed to extend their area of operations so as to make it possible for them to have dealings with the individual units which are not too far away from an office of the bank to render supervision both costly and difficult.
- (iii) The banks should be permitted to open a branch office anywhere in the district or the state, where there are good prospects for business with industrial units and these are not being served by local urban co-operative banks.
- (iv) Wherever necessary, the by-laws of urban co-operative banks should be amended to enable these banks to provide loans to a single borrower up to a limit which will be adequate for the purposes of financing small-scale industries. Care will have to be taken, however, to ensure that the facilities are not monopolised by a few affluent individual members. The state governments should ensure wherever necessary, that the Co-operative Societies Acts and by-laws of urban co-operative banks are suitably

amended to remove such of those provisions, if any, which restrict the financing of small-scale industrial units regardless of whether they are individuals or partnership firms or joint-stock companies.

- (v) The by-laws of urban co-operative banks should contain a clear provision enabling them to provide block capital loans to small-scale industrial units. Existing restrictions, if any, which inhibit them from advancing block capital loans should also be removed.¹

23. In order to supplement the resources of urban banks to enable them to undertake industrial financing to a significant extent, the Working Group recommended that urban banks should have access to the Reserve Bank for obtaining refinance in respect of the industrial loans provided by them. Furthermore, with a view to reducing the risks involved in this type of financing and to enable lending at reduced margins, it was suggested that the Reserve Bank should frame suitable criteria for including urban banks in the approved list of institutions which could directly avail themselves of the Credit Guarantee Scheme for Small-Scale Industries even though they might not have been issued a licence by the Reserve Bank. The Working Group recommended that urban banks which could not be so approved, might be allowed to seek participation arrangements under the Scheme with the approved credit institutions other than the state or central co-operative banks. The Working Group further recommended that the Reserve Bank should provide loans from its National Agricultural Credit (Long-Term Operations) Fund to the state governments for enabling them to contribute to the share capital of urban banks.

24. The Reserve Bank, on its part, took prompt measures to implement the recommendations of the Working Group on Industrial Financing through Co-operative Banks (1968). In this direction, in June 1969, refinance facilities were offered to urban banks under section 17(2)(bb) read with section 17(4)(c) of

¹ *Report of the Working Group on Industrial Financing through Co-operative Banks* (1968), published by the Reserve Bank of India, Agricultural Credit Department, Bombay, p. 54.

the Reserve Bank of India Act 1934 for financing 22 broad groups of cottage and small-scale industries recognised for the purpose. The Reserve Bank also agreed to provide loans from the National Agricultural Credit (Long-Term Operations) Fund to state governments for contribution to the share capital of urban banks. In addition, suitable norms were framed by the Reserve Bank for recognition of unlicensed urban banks for facilities under the Credit Guarantee Scheme for Small-Scale Industries. Some details in this regard are given in the paragraphs that follow.

25. The outstanding loans and advances of urban banks rose from Rs 167 crores as on 30 June 1967 to Rs 407 crores as on 30 June 1977 representing an increase of 144 per cent during this period. The average loan outstanding per bank also recorded an increase from Rs 15 lakhs on 30 June 1967 to Rs 37 lakhs on 30 June 1977. By and large, urban banks have been making these loans and advances from their own resources without resorting to borrowings to any significant extent. Their borrowings which stood at Rs 11 crores as on 30 June 1967 increased to Rs 23 crores at the end of June 1977, but the percentage of borrowings to working capital declined from 5 to 3.2. The major portion, i.e., 44 per cent of the total borrowings of all urban banks as on 30 June 1977, was in respect of banks in Gujarat.

Purpose-wise Classification of Advances

26. Based on the information received by the Committee from 803 urban banks, the purpose-wise classification of loans and advances outstanding from them as on 30 June 1977 is presented in Table 8.

Most of the loans given by urban banks were in respect of small traders and shop-keepers which accounted for 31 per cent of the total loans and advances outstanding at the end of June 1977. Loans for consumption and ceremonial expenses formed 16 per cent, while those for construction of/and repairs to houses constituted 11 per cent. The advances to small-scale industries formed 7.4 per cent of the total loans and advances.

TABLE 8
Purpose-wise Classification of Advances as on 30 June 1977

Purpose	Loans and Advances Outstanding	Rs Crores
		Percentage to Total Loans and Advances Outstanding
Small-Scale Industries	21	7.4
Transport Operators	7	2.4
Education	2	0.9
Housing (Construction/Repairs)	31	11.0
Agricultural Purposes	12	4.2
Repayment of Old Debts	11	3.9
Ceremonial Expenses	9	3.4
Consumption Expenses	35	12.3
Small Traders, Small Shop-keepers etc.	87	31.0
Others	67	23.5
Total	282	100.0

Financing of Small-Scale Industries

27. The outstandings of advances made to small-scale industrial units by 803 reporting banks came to Rs 21 crores as on 30 June 1977 out of the total advances outstanding at Rs 282 crores. The poor performance of urban banks in this respect is also reflected in the meagre refinance facilities availed of from the Reserve Bank by urban banks, as shown in the following Table:

TABLE 9
*Refinance Facilities from Reserve Bank of India for Financing
 Small-Scale Industries*

Year April- March	Number of Banks	Limits Sanctioned	Drawals	Rs Lakhs
				Outstanding as on 31 March
1970-1	8	42.45	—	—
1971-2	9	81.69	55.82	29.69
1972-3	7	35.94	19.70	—
1973-4	9	71.12	41.51	22.43
1974-5	10	117.88	67.22	67.22
1975-6	12	265.37	167.30	167.30
1976-7	10	362.77	244.40	244.40
1977-8	9	394.15	303.65	303.65

The state-wise position of the utilization of the credit facilities sanctioned by the Reserve Bank is given in Table 10.

TABLE 10
State-wise Position of Refinance Facilities from RBI

Rs Lakhs					
Name of State/ Union Territory	Year April- March	No. of Banks	Limit San- ctioned	Drawals	Outstand- ings as on 31 March
Goa, Daman & Diu	1976-7	2	19.80	—	—
Gujarat	1970-1	7	40.65	—	—
	1971-2	7	46.54	50.82*	29.69
	1972-3	7	35.94	19.70	—
	1973-4	4	30.50	33.18*	14.10
	1974-5	1	9.20	6.20	6.20
Karnataka†	1973-4	1	8.33	8.33	8.33
	1974-5	1	16.49	16.49	16.49
	1975-6	1	119.27	110.94	110.94
	1976-7	2	244.40	244.40	244.40
	1977-8	2	305.20	303.65	303.65
Maharashtra	1971-2	2	35.15	5.00	—
	1973-4	4	32.29	—	—
	1974-5	8	92.19	44.53	44.53
	1975-6	11	146.10	56.36	56.36
	1976-7	6	98.57	—	—
	1977-8	7	88.95	—	—
Manipur	1970-1	1	1.80	—	—

* Includes drawals on credit limits sanctioned in the previous year.

† Includes Karnataka Industrial Co-operative Bank which is an urban bank with state-wide jurisdiction.

Only the urban banks in the states of Gujarat, Karnataka and Maharashtra have availed themselves of financial accommodation from the Reserve Bank since the scheme of refinance facility was introduced in 1969-70. Urban banks in the remaining states have not taken any assistance from the Reserve Bank for financing small-scale industries. Some of the problems faced by urban banks in availing themselves of refinance facilities from the Reserve Bank have been discussed in paragraph 51 of Chapter 7.

28. In view of the poor response of urban banks in financing small-scale industrial units, as a further inducement, the Reserve Bank reduced the rate of interest on the refinance facility which was originally fixed at the Bank Rate in 1970 to $1\frac{1}{2}$ per cent below the Bank Rate with effect from 1 July 1977. This rate has been reduced further to $2\frac{1}{2}$ per cent below the Bank Rate from 1 March 1978. In order that the benefit accruing from the reduced refinance rate is passed on to the ultimate borrower, the Reserve Bank has suggested in its circular No. ACD.Plan(IFS)-3815/HG.4-77/8 dated 23 March 1978 that institutions at various levels may not retain margins or charge rates of interest in excess of those indicated below:

Category of Banks	Margin to be Retained	Rate of Interest to be Charged
(i) State Co-operative Banks Lending to		
(a) Central Co-operative Banks	$\frac{1}{2}$ %	7%
(b) Urban Co-operative Banks	1%	$7\frac{1}{2}$ %
(ii) Central Co-operative Banks Lending to		
(a) Industrial Co-operative Societies	1%	8%
(b) Urban Co-operative Banks	1%	8%
(iii) Urban Co-operative Banks Lending to Individual Units Engaged in Cottage and Small-Scale Industrial Activities	2%	$9\frac{1}{2}$ %-10%

Thus, in respect of the refinance obtained by urban banks direct from the state co-operative banks, the rate of interest on loans charged to the ultimate borrower cannot exceed $9\frac{1}{2}$ per cent. In case, however, the refinance is routed through the central banks, the lending rate to the ultimate borrower can go up to 10 per cent.

29. The facilities under the Credit Guarantee Scheme for Small-Scale Industries operated by the Reserve Bank on behalf of the Government of India are available to licensed urban banks and also to unlicensed banks satisfying the prescribed norms. But, out of 261 urban banks included in the list of eligible institu-

tions for guarantee cover under the Scheme, only 70 banks have executed necessary agreements with the Guarantee Organization. There are, however, 26 other banks availing themselves of guarantee facilities by entering into participation arrangement with eligible institutions. The details are given below:

TABLE 11
*Number of Urban Banks under the Credit Guarantee Scheme
for Small-Scale Industries*

Sr. No.	Name of State	No. of Eligible Banks	As on 31-12-1977	
			Of which, No. of Banks which have entered into Agreement with the Guarantee Organization	No. of Banks availing themselves of Guarantee Facilities in Participation Arrangement
1.	Andhra Pradesh	6	2	—
2.	Assam	1	—	—
3.	Delhi	2	—	—
4.	Gujarat	66	21	3
5.	Goa, Daman & Diu	1	—	—
6.	Karnataka	33	10	—
7.	Kerala	7	2	—
8.	Madhya Pradesh	8	2	—
9.	Maharashtra	104	16	23
10.	Manipur	2	1	—
11.	Rajasthan	1	—	—
12.	Tamil Nadu	28	15	—
13.	Uttar Pradesh	1	—	—
14.	West Bengal	1	1	—
Total		261	70	26

State Participation in Share Capital

30. As an incentive to financing cottage and small-scale industries, the Reserve Bank has also been providing loans from the National Agricultural Credit (Long-Term Operations) Fund since 1969-70 to state governments for enabling them to contribute to the share capital of urban banks which have either financed or have a concrete programme of financing small-scale industries.

Only a few state governments have taken advantage of this facility as may be seen from the Table below:

TABLE 12
Loans from Reserve Bank for Share Capital of Urban Banks

Rs Lakhs			
Year	No. of States	No. of Urban Banks	Amount Sanctioned
1969-70	2	4	5.00
1970-1	4	19	10.30
1971-2	6	31	18.30
1972-3	4	34	16.21
1973-4	6	29	14.01
1974-5	5	11	14.62
1975-6	7	19	10.57
1976-7	8	26	15.92
1977-8	11	35	18.70
Total			123.63

A major share of the amount sanctioned was in respect of urban banks in the states of Andhra Pradesh, Karnataka, Maharashtra, Kerala and Tamil Nadu. The other state governments for which loans were sanctioned for contribution to the share capital of urban banks were Bihar, Madhya Pradesh, Manipur, Orissa, Rajasthan, Uttar Pradesh and West Bengal. The number of banks on whose behalf loans were sanctioned was very small and the quantum of loans sanctioned was also not significant.

Technical Guidance

31. One of the reasons for the slow progress made in the financing of cottage and small-scale industries by urban banks is the lack of expertise available with them. Financing of an industrial enterprise calls for a project approach and a knowledge of the techniques of project preparation and appraisal. With a view to providing guidance to co-operative banks in the sphere of industrial financing, the Working Group on Industrial Financing through Co-operative Banks (1968) suggested that the state co-operative bank in each state should constitute a Technical Group and an Industrial Section. The Technical Group is expected to

be headed by the chairman of the state co-operative bank and includes representatives of the Co-operative Department and the Industries Department with the chief executive officer of the state co-operative bank as its member-secretary. It may employ a panel of technical experts connected with different industries. The broad function of the Technical Group is to draw up sound and integrated plans for industries, to evaluate new proposals for industries and to render technical and managerial advice to industries which have been set up, but are experiencing difficulties in working profitably. The Industrial Section functioning as the secretariat of the Technical Group would specialise in the problems of financing and developing industrial units. The section would be manned by well-trained personnel—administrative, supervisory and technical—both for work at the headquarters and in the field. Following this recommendation, Industrial Sections have been set up by the apex banks in the states of Bihar, Gujarat, Karnataka, Maharashtra, Tamil Nadu, Uttar Pradesh and the Union Territory of Delhi. The state co-operative banks in the states of Andhra Pradesh, Madhya Pradesh and Punjab have agreed to form Industrial Sections. No concrete steps have been taken in other states to form Industrial Sections.

Financing of Firms and Companies

32. Another major hurdle in the financing of cottage and small-scale industries by urban banks is the restrictive provisions contained in the Co-operative Societies Acts or the by-laws of banks in certain states, where admission and financing of firms, companies etc., is not allowed. In pursuance of the recommendations made by the Working Group on Industrial Financing through Co-operative Banks (1968), the Reserve Bank had suggested in 1970 to the Registrars of Co-operative Societies certain amendments to the Co-operative Societies Acts for enabling urban banks to admit partnership firms, joint-stock companies and societies registered under the Societies Registration Act 1860 as their members so that they could avail themselves of credit facilities from urban banks. In the states of Andhra Pradesh, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Manipur, Orissa, Rajasthan and the Union Territories of Goa, Daman and Diu and Pondicherry, the Co-operative Societies Acts have been amended providing for the admission of firms, companies and the societies registered under

the Societies Registration Act 1860 as members of co-operative societies. In Karnataka, while the Co-operative Societies Act was amended to provide for admission of firms and the societies registered under the Societies Registration Act 1860 by urban banks as members, admission of joint-stock companies was not included in the amended Act. In Tamil Nadu, the State Government had taken action for amending the Co-operative Societies Act to provide for the admission of firms and joint-stock companies as members of urban banks, but there was no provision in the amended Act to admit societies registered under the Societies Registration Act 1860. Many states are yet to initiate action on the model by-law provisions incorporating the amendments which are necessary for implementing the recommendations made by the Working Group and forwarded to the Registrars of Co-operative Societies by the Reserve Bank in 1970.

Extension Work

33. While the failure to constitute the Technical Group and Industrial Section in the state co-operative banks and the absence of a provision to finance firms and companies could be some of the main reasons for the slow growth in industrial financing by urban banks, the general unawareness on the part of borrowers that credit facilities will be available from urban banks has also contributed to this situation. Most of the banks have not undertaken any surveys in potential areas to identify the intending borrowers and to formulate schemes suitable to them. The federations and associations of urban banks, either at the state or national level, have also not so far involved themselves actively in guiding urban banks in industrial financing. Further, adequate publicity has not been given to the schemes of financing wherever formulated by urban banks.

Security-wise Classification of Advances

34. A Table showing the security-wise classification of loans outstanding in respect of 803 reporting urban banks as on 30 June 1977 and in the states of Gujarat, Karnataka, Maharashtra and Tamil Nadu is given in Table 13. The figures given in the Table in brackets are the percentages to the total loans and advances outstanding.

TABLE 13
Security-wise Classification of Loans Outstanding

Security	Rs Crores					
	All-India	Gujarat	Karnataka	Maharashtra	Tamil Nadu	Other States
Fixed and Other Deposits	19 (6.7)	4 (5.7)	3 (8.3)	5 (6.8)	3 (7.5)	5 (8.1)
Government and Other Securities	1 (0.3)	—	—	1 (1.4)	—	1 (1.6)
Gold and Silver	43 (15.2)	3 (4.3)	5 (13.9)	6 (8.1)	19 (47.5)	10 (16.3)
Shares	1 (0.3)	1 (1.4)	—	1 (1.4)	—	—
Merchandise	54 (19.2)	24 (34.3)	7 (19.4)	19 (25.6)	—	3 (4.7)
Plant and Machinery	8 (2.8)	2 (2.9)	—	5 (6.8)	—	—
Real Estate	45 (16.0)	10 (14.3)	5 (13.9)	6 (8.1)	8 (20.0)	15 (24.2)
Other Security	17 (6.0)	8 (11.4)	3 (8.3)	4 (5.4)	—	2 (3.2)
Bills:						
(a) Documentary	8 (2.8)	4 (5.7)	2 (5.6)	3 (4.0)	—	—
(b) Clean	2 (0.7)	—	1 (2.8)	1 (1.4)	—	—
Surety Loans	73 (26.0)	10 (14.3)	8 (22.2)	20 (27.0)	10 (25.0)	25 (40.3)
Other Unsecured Loans	11 (4.0)	4 (5.7)	2 (5.6)	3 (4.0)	—	1 (1.6)
Total	282 (100.0)	70 (100.0)	36 (100.0)	74 (100.0)	40 (100.0)	62 (100.0)

Loans against real estate or immovable property were predominant in Tamil Nadu. The proportion of loans against gold and silver was also high in Tamil Nadu at 47.5 per cent, as against the all-India average of 15.2 per cent. Maharashtra

showed a relatively higher percentage of 32.4 in respect of loans against personal security and other unsecured advances when compared with the all-India average of 30.7.

Size-wise Distribution of Advances

35. About the distribution of loans and advances size-wise during 1976-7, the following is the position in respect of 792 urban banks for which information was received by the Committee.

TABLE 14
Size-wise Analysis of Loans and Advances

	No. of Accounts	Percentage to Total Accounts	Amount Rs Crores	Percentage to Total Advances
Below Rs 500	6,45,376	41.9	21	7.8
500-1000	3,85,561	25.0	32	11.4
1001-5000	4,37,137	28.4	101	37.2
5001-10000	46,879	3.0	30	11.0
10001-25000	16,928	1.0	23	8.6
25001-1 lakh	8,438	0.6	37	13.6
Above 1 lakh to 10 lakhs	1,222	0.1	23	8.6
Above 10 lakhs	20	—	5	1.8
Total	15,41,561	100.0	272	100.0

About 67 per cent of the borrowers had taken loans up to Rs 1,000 each, although their share of the borrowings formed 19 per cent of the total loans outstanding. Those who borrowed between Rs 1,001 and Rs 5,000 formed 28.4 per cent in number, but accounted for a sizeable portion at 37 per cent of the total loans of the reporting banks. About 2 per cent of those borrowing Rs 10,001 and above availed themselves of 33 per cent of the total loans and advances. Hardly 0.1 per cent of the borrowers who took loans exceeding Rs 1 lakh accounted for 10.4 per cent of the total loans. The grant of about 10 per cent of the total loans and advances to 0.1 per cent of the borrowers was mainly because of the demand for bigger loans from small-scale industrial units and other organizations for purposes of commerce and trade, although there were a few instances where large advances were given by urban banks to a small group of borrowers connected with the members of the board of directors.

36. In this context, it is relevant to compare the financing of small-scale and other units in the priority sector by commercial banks. The following particulars will show that the commercial banks' finance to small business formed 0.4 per cent of their total loans and advances at the end of June 1977. The finance to small-scale industries was to the extent of 10.8 per cent of the total bank credit provided by commercial banks.

TABLE 15
Advances to Priority Sector by Commercial Banks†

		Rs Crores		
Sr. No.	Purpose	No. of Account Units	Amount Outstanding as on 24-6-77	Percentage to Total Advances*
(i)	Small-Scale Industries	445921	1460	10.8
(ii)	Road and Water Transport Operators	180133	298	2.2
(iii)	Retail Trade	560247	203	1.5
(iv)	Small Businessmen	383723	57	0.4
(v)	Professional and Self-Employed Persons	524253	81	0.6
(vi)	Education	27083	6	0.04
Total		2121360	2105	15.6

* Total bank advances as on the last Friday of June 1977 were Rs 13485 crores including advances for financing food procurement operations at Rs 2536 crores.

† Excluding advances for agricultural purposes.

The responsibility devolved on the commercial banks to give credit facilities on a liberal scale to the priority sector and weaker sections of society since the nationalization of 14 of these banks in 1969 can be considered to be one of the factors which has contributed to this growth. Further, several commercial banks have the necessary expertise and resources to identify the potential borrowers in the small-scale sector and grant the necessary credit facilities. The guarantee cover available under the (Small Loans) Guarantee Scheme extended to commercial banks by the Credit Guarantee Corporation of India is also an added advantage. This facility has not so far been made applicable to urban banks.

Overdues

37. As at the end of June 1976, out of the loans outstanding at Rs 393 crores in respect of 1142 reporting urban banks, Rs. 31 crores or 7.8 per cent of the total loans outstanding were overdue. This compares favourably with the performance of other co-operative institutions in the agricultural sector where the percentage of overdues at the level of primary agricultural credit societies was 43 as on 30 June 1976. At the level of the central banks and the state co-operative banks, the relative percentages were 32 and 5. The state-wise position of overdues of urban banks as on 30 June 1976 is indicated in Table 16.

TABLE 16
Overdues of Urban Co-operative Banks as on 30 June 1976
Rs Crores

State	Loans Out- standing	Loans Overdue	Percentage of Overdues to Loans Out- standing
Andhra Pradesh	16.58	1.38	8.3
Assam	N.A.	N.A.	N.A.
Bihar	N.A.	N.A.	N.A.
Gujarat	90.06	4.86	5.4
Haryana	0.61	0.01	1.6
Himachal Pradesh	0.29	0.04	13.8
Karnataka	31.23	4.41	14.1
Kerala	9.91	1.44	14.5
Madhya Pradesh	3.78	0.65	17.2
Maharashtra	138.45	9.08	6.6
Manipur	0.23	0.08	34.8
Orissa	2.28	0.46	20.2
Punjab	0.12	0.02	16.7
Rajasthan	3.29	0.23	7.0
Tamil Nadu	35.15	3.72	10.6
Uttar Pradesh	10.70	1.97	18.4
West Bengal	42.91	1.58	3.7
Delhi	2.56	N.A.	N.A.
Goa, Daman & Diu	4.96	0.61	12.3
Pondicherry	0.21	0.05	23.8
Total	393.32	30.59	7.8

N.B.: Data relate to urban banks including salary earners societies.

Source: Statistical Statements Relating to the Co-operative Movement in India 1975-6, published by the Reserve Bank of India, Agricultural Credit Department, Bombay.

State-wise, the maximum percentage of overdues was 35 in Manipur, followed by 24 in Pondicherry, 20 in Orissa, 18 in Uttar Pradesh and 17 each in Madhya Pradesh and Punjab. In the states where urban banks are concentrated, the percentages of overdues to loans outstanding were 5.4 in Gujarat, 14.1 in Karnataka, 6.6 in Maharashtra and 10.6 in Tamil Nadu as on 30 June 1976.

BANKING FACILITIES

38. In addition to the mobilization of deposits and provision of credit, urban banks have also endeavoured to provide various banking and other subsidiary services to their customers. Among such services, special mention may be made of the remittances of funds by issue of drafts, mail transfer etc. Ordinarily urban banks, with their limited area of operation and lack of network of branches are handicapped in remitting funds from one place to another. But some urban banks have overcome this difficulty by joining the mutual arrangement scheme administered either at the state level by the state co-operative bank or on an all-India basis by the All India State Co-operative Banks Federation. In this context, it has been reported that the financial limits prescribed by some of the state co-operative banks for issue of drafts by urban banks under the mutual arrangement schemes in vogue in the states are low. For example, in Kerala, an urban bank irrespective of its size cannot issue drafts for amounts exceeding Rs 5,000 under the state mutual arrangement scheme. Similarly, the eligibility standards fixed for urban banks to join the All India Mutual Arrangement Scheme for Co-operative Banks are rather stringent. An urban bank is required to have a working capital of Rs 1 crore in order to be eligible to join the above Scheme. It has been recommended in Chapter 7 of this Report that these conditions need review to enable as many urban banks as possible to join the mutual arrangement schemes and be in a position to remit funds on behalf of their customers.

39. Other important facilities which urban banks have been able to provide to their customers include collection of cheques, renting out lockers in safe deposit vaults and collection of electricity bills. In connexion with the collection of cheques, some of the urban

banks have been able to secure direct membership of the clearing house managed by the Reserve Bank or the State Bank of India. Where they are not direct members of the clearing house, cheques are collected by them through the state co-operative bank or commercial banks which are full-fledged members of the clearing house.

40. One urban bank in Bombay had in the year 1975 obtained a licence from the Reserve Bank to deal in foreign exchange. This has not only helped the bank to increase its deposits and loan business, but also to give better service to customers.

41. While the main objective of urban banks has been to promote the economic well-being of the members and, in pursuit of this goal, these banks have been granting loans to needy members, there have been instances where banks have specifically evolved concrete schemes of integrated assistance to improve the economic condition of their members. For example, one urban bank in Ahmedabad which operates in a suburban centre of the city has advanced loans to a number of self-employed women engaged in handcart pulling, handprinting, making and selling of ready-made garments, vegetable vending, selling of milk, bamboo spinning and leather work. With the assistance from the bank, women members have been able to purchase equipment for their occupations or to secure the required working capital for their trade. The Women Welfare Officer in charge of the Ladies' Cell in the bank, along with other lady members of the staff, provide assistance to women borrowers by filling in loan application forms, effecting prompt recoveries etc. This has also helped in inculcating habits of thrift among the members who were hitherto outside the purview of the banking system. Further, one bank in Bombay has been organized mainly for the benefit of handcart pullers who have been enabled to own their carts with the assistance of the bank. The urban bank works in close collaboration with the Cloth Market and Shops Board for Greater Bombay which arranges for employment for workers. Loan repayments from these members are assured by deduction out of wages disbursed through the bank. There are similar other individual instances in different parts of the country where urban banks have striven to improve the economic condition of their members engaged in different occupa-

tions. Some of the urban banks, especially those established in big cities, are known for the help given by them for the purpose of acquiring flats or houses by middle class persons. Quite a few banks grant loans to drivers of taxis, auto rickshaws etc., to own their vehicles.

42. From the account given in the foregoing paragraphs and in the preceding Chapter, it will be observed that urban banks have grown not only in number but also in size. However, in numerical terms, the growth has not been even, but marked by glaring regional imbalances. The banks in general have increased their membership, although in some cases they have confined their membership to small groups of people. Operationally, they have endeavoured to function keeping in view their major objectives, viz., (i) promotion of thrift and mobilization of resources from the community they serve; (ii) provision of credit at reasonable rates to small borrowers; and (iii) provision of banking and other subsidiary services. Urban banks have generally registered good progress in their working, particularly during the past decade. Despite several limitations and constraints in their functioning, as discussed elsewhere in this Report, urban banks have by and large been able to mobilize local resources and augment their deposits at an average annual compounded rate of 13.2 per cent during the 10 years period 1967-77. In regard to dispensation of credit, there was an overall increase of 144 per cent in the outstanding loans and advances during the above 10 years period. While building up the loans portfolio, urban banks have, in general, been self-reliant, without recourse to borrowings from higher financing agencies to a significant extent. Urban banks have also endeavoured to serve small borrowers, particularly the weaker section of the community, as 67 per cent of the total borrowers as on 30 June 1977 were those who borrowed up to Rs 1,000 each, although the quantum of their borrowings formed 19 per cent of the total loans and advances. However, a qualitative assessment of the loans portfolio reveals that there has not been proper diversification of their lendings in terms of purposes and security. The level of financing of small-scale and cottage industries sector at 7.4 per cent of the total loans and advances outstanding as on 30 June 1977 was rather low when viewed in the context of high priority accorded for financing this sector. In respect of secured loans, there was a

tendency to concentrate on advances against real estate or gold in some states. The performance of urban banks in the matter of recovery of loans can be considered good, as the overdues at the end of June 1976 formed 7.8 per cent of the total loans and advances outstanding, as against the relative percentage of 43 and 32 in primary agricultural credit societies and central banks respectively. Urban banks have also endeavoured to provide banking and other subsidiary services to their clients generally on the lines of those extended by commercial banks. In the final analysis, one could, therefore, discern growing realization among urban banks of their new role and greater social responsibilities devolving on them.

CHAPTER 4

FUTURE ROLE OF URBAN CO-OPERATIVE BANKS

In the preceding Chapter, an assessment has been made of the role played by urban banks in the Indian banking system. In the light of this assessment, the future role of urban banks is discussed in this Chapter, as required in item 2 of the terms of reference of the Committee.

2. As mentioned in paragraphs 19 and 20 of Chapter 2, the growth of urban banks is marked by glaring regional imbalances. About 78 per cent of urban banks are concentrated in the four states of Gujarat, Karnataka, Maharashtra and Tamil Nadu. Further, the coverage of towns by urban banks' offices as on 30 June 1977 works out to 32 per cent. Out of the 2643 towns in the country according to the 1971 Census, only 851 towns have been covered by 1738 offices of urban banks. The position is even more unsatisfactory in regard to coverage of urban population by urban banks, the all-India percentage being 21.5 as on 30 June 1976. Among the states, the maximum coverage was reached at 47.6 per cent in Tamil Nadu, followed by Gujarat at 40.5 per cent and Kerala at 37.1 per cent. Even assuming that a sizeable number of persons in urban centres may not find it necessary to seek membership in urban banks, there is still scope for the development of these banks considering the poor coverage in some of the states, either by organization of new banks, wherever justified, or by opening of branches of existing urban banks in towns and semi-urban centres which are presently devoid of banking facilities. During the discussions held by the Committee with the official and non-official representatives of the various states, it was indicated that there was considerable scope for urban banks, particularly in the states of northern and eastern regions where the district and taluka headquarters provided potential for the organization of urban banks. Among the 1792 towns which are not served by urban banks, there are 44 towns with a population of 1 lakh and over as on 31 May 1978. The names

of these towns are given in the Annexure. It will be observed that in Bihar and Uttar Pradesh there are 10 and 12 towns respectively with population of more than 1 lakh where there is no urban bank. In addition, there are many blocks in certain states without any banking facilities. One of the first tasks to which the concerned authorities would have to address themselves would, therefore, be the consideration of measures which would ensure a rapid coverage of suitable unbanked centres by urban banks.

Co-ordinated Development

3. However, what has been said above is subject to the qualification that the expansion of urban banks should be according to a well-conceived and planned programme and will have to be considered in the light of the overall banking policies and the changing structure of the banking system as a whole. In other words, development of urban co-operative banking cannot be taken in isolation. It has to form part of the total banking development in the country. Recent thinking is also veering round strongly to the view that mere proliferation of banking institutions in direct competition with each other is not a desirable phenomenon and that there should be a well co-ordinated programme of development of banking facilities all over the country.

4. In this connexion, reference may be made to some of the important recent developments which have taken place in the Indian banking system as viewed against the observations of certain earlier Committees. As mentioned in paragraphs 4 and 5 of Chapter 3, the Co-operative Planning Committee (1946) had observed that joint-stock banks were not interested in developing the business of small loans, because the cost of advancing and recovering them was high. Further, as joint-stock banks were not likely to have, under ordinary circumstances, full and intimate knowledge of the standing and resources of persons of moderate means, they would not advance loans on personal security. The Co-operative Planning Committee had come to the conclusion that urban banks qualified by establishing personal and intimate relationship with people of moderate means as the most suitable agencies for serving their credit needs.¹ The Rural Banking

¹ *Report of the Co-operative Planning Committee (1946)*, published by the Government of India, Ministry of Agriculture, New Delhi, p. 116.

Enquiry Committee (1950) had also observed that urban banks which were established in many towns in Bombay and Madras would be able to offer facilities both to urban people and to individuals in the nearby rural areas and in view of the relatively low cost of establishment and operation can go up to places smaller than the taluka towns.¹

5. The situation has now changed remarkably. Commercial banks have penetrated into small towns and semi-urban centres or even further to rural places under the massive branch expansion programme, particularly after the nationalization of the 14 major scheduled commercial banks in July 1969. The number of offices opened by commercial banks increased from 8,262 as on 30 June 1969 to 24,802 as on 30 June 1977. The distribution of offices of commercial banks in different areas as on the above two dates is shown below:

Place	30-6-69		30-6-77	
	No. of Offices	Percentage to total	No. of Offices	Percentage to total
Rural Centres	1832	22.4	9533	38.4
Semi-Urban Centres	3322	40.1	7210	29.1
Urban Centres	1447	17.5	4263	17.2
Metropolitan Areas and Port Towns	1661	20.0	3796	15.3
Total	8262	100.0	24802	100.0

Rural Centres	—	Places with population up to 10,000
Semi-Urban Centres	—	Places with population over 10,000 and up to 1,00,000
Urban Centres	—	Places with population over 1,00,000 and up to 10,00,000
Metropolitan Centres	—	Places with population over 10,00,000

6. Prior to the nationalization of the 14 major scheduled commercial banks in July 1969, there were more bank offices in semi-urban centres with population between 10,001 and 1 lakh constituting 40.1 per cent of the total bank offices. The position

¹ Report of the Rural Banking Enquiry Committee (1950), published by the Reserve Bank of India, Bombay, pp. 54-5.

as on 30 June 1977 shows that the bank offices have now penetrated more into rural centres with population up to 10,000, the number of rural branches having increased from 1,832 or 22.4 per cent of total bank offices as on 30 June 1969 to 9,533 as on 30 June 1977 constituting 38.4 per cent of the total bank offices. The percentage of the number of offices in metropolitan areas and port towns has declined from 20 to 15.3 and that of offices in urban centres with population of over 1 lakh has remained more or less the same around 17. Thus, the number of offices of commercial banks operating in rural and semi-urban centres constitutes 67.5 per cent of the total number of offices as on 30 June 1977.

7. Further, as mentioned in paragraph 36 of Chapter 3, commercial banks have financed the categories of borrowers in the priority sector and small borrowers to a significant extent. The advances granted by commercial banks to about 4.5 lakh accounts of small-scale industries amounted to Rs 1460 crores representing 10.8 per cent of the total advances as on 24 June 1977. The number of small borrowers and professional and self-employed persons as well as those who borrowed for educational purposes at about 9.35 lakhs had borrowed Rs 144 crores representing about 1 per cent of the total advances. In addition, the commercial banks had also granted advances to about 1.80 lakh road and water transport operators to the extent of Rs 298 crores.

8. In the context of the vast changes which have taken place in the operations of commercial banks after the nationalization of 14 major commercial banks in July 1969, it has become imperative that the authorities concerned have to take into account these changes with regard to the future development of urban banks. No doubt, urban banks, wherever established, are eminently suitable to fill the existing gaps in banking and credit needs in urban and semi-urban areas at comparatively less cost of operation and, with their simplicity, close contacts, local feel and involvement, can also enjoy the confidence of local people. Yet, their future development should not be viewed in isolation, without taking into account the totality of the banking system. In this connexion, a reference may be made to the views expressed by two recent committees set up by the Reserve Bank of India, viz., the

Committee on Regional Rural Banks (1978) under the chairmanship of Prof. M. L. Dantwala and the Working Group to Study the Problems Arising out of the Adoption of Multi-Agency Approach in Agricultural Financing (1978) under the chairmanship of Shri C. E. Kamath. The general view held by these Committees is that there is an urgent need for proper co-ordination between various financing agencies. The Reserve Bank should, therefore, co-ordinate the development of commercial banks, regional rural banks and urban banks according to the needs of the different areas, while granting licences to these institutions to open branches or while dealing with the organization and licensing of new banks. Considering the special character of urban banks, they may be given due preference in opening branches in smaller towns or semi-urban centres within the area of their jurisdiction.

9. While due preference may be given by the Reserve Bank to urban banks to expand their branches in smaller towns or semi-urban centres under a co-ordinated programme of banking development, urban banks should not depend unduly upon the state government or other agencies for assistance. Local leadership should be the main foundation which should support the organization and development of urban banks. However, where there is a felt-need for organizing urban banks in centres which are devoid of any banking facilities and for catering for the weaker sections of the community, assistance from the state government in their initial stages of organization by way of share capital contribution and managerial subsidy is very necessary and justified. A further reference to this subject has been made in Chapter 6.

Mobilization of Resources

10. One of the major objectives of urban banks is the mopping up of surplus resources in the hands of the community they serve with the ultimate goal of canalization of such funds in productive investment. It has been stated in the previous Chapter that the performance of urban banks in this regard has been satisfactory, despite various limitations and constraints such as restricted area of operation and not being recognized for acceptance of deposits from trusts, local bodies etc., in many cases. Given the required facilities, urban banks should be able to mobilize savings in a larger

measure in urban and semi-urban centres. The aim of these banks should be to provide varied and innovative schemes of collecting deposits specially suited to the requirements of the local areas they serve. To the maximum extent possible, urban banks should strive to provide a wide range of banking and other ancillary services to their customers so that all needed facilities for remittance of funds, safe deposit of valuables etc., are available to the population in smaller centres also.

Industrial Finance

11. In their future role, a challenging field is thrown open to urban banks in respect of industrial financing. The major objective of national policy is the development of schemes which will have the great socio-economic benefits and will help in particular the weaker sections of society. Increasing emphasis is, therefore, now laid on the development of small-scale and cottage industries because of their relatively low capital cost and the considerable potential for generation of employment. An important role exists for urban banks in granting financial accommodation for small-scale and cottage industries. Those urban banks with their surplus resources can effectively canalize funds for this important activity if only they take the trouble to locate the eligible borrowers and build up the necessary expertise and field staff for the purpose. The present aim is to ensure the maximum dispersal of industries, and urban banks in smaller areas would find this a fruitful avenue for deployment of funds.

12. The Industrial Policy Resolution of the Government of India announced in December 1977 has emphasized the effective promotion of cottage and small-scale industries. The list of industries under the small-scale sector has been expanded and includes more than 500 items as compared with about 180 items earlier. While the definition of small-scale industry still remains the same, i.e., units with investment in plant and machinery not exceeding Rs 10 lakhs, a new concept of tiny sector has been conceived in the new Industrial Policy announced in December 1977 and special attention is required to be given to the development of this tiny sector, i.e., units with investment in machinery

and equipment up to Rs 1 lakh and situated in towns with a population of less than 50,000 according to 1971 Census.

13. Adequate data are not available to make an estimate of the credit gaps in the small-scale industrial sector and in financing small borrowers. With the adoption of a policy of social control and nationalization of 14 scheduled commercial banks, coupled with the guidelines issued by the Government of India and the Reserve Bank for augmenting the flow of institutional credit to priority sector including small-scale industries, it is expected that these credit gaps would have narrowed down to some extent during the last 10 years or so. Commercial banks' credit to small-scale industries which was hardly 7.7 per cent of the total bank credit (excluding food procurement advances) in 1969, now forms, i.e., as on 24 June 1977, about 13.3 per cent of the total bank credit. Despite this increase in the credit provided by commercial banks to small-scale industrial units, several of them, particularly cottage, village and tiny units, are still outside the scope of institutional credit. Thus, the existence of credit gaps in financing the borrowers in this sector offers wide scope and great potential for urban banks to grow and expand.

14. However, financing of small-scale industrial sector calls for considerable promotional activity. Hitherto, urban banks which had engaged themselves in financing industrial purposes had been content with the provision of credit as and when an approach had been made to them for the same. This policy will have to undergo a sea change and banks will have to initiate action to generate a demand for such credit. Vigorous pioneering work will be necessary and urban banks should identify the economic and industrial potential in their areas of operation and select suitable areas for financing and develop schemes for lending to industrial units. Moreover, it is a well known fact that the small-scale industrial sector, if it is to develop on sound lines and in a large way, will need arrangements for the regular supply of raw materials, technical guidance, marketing facilities etc. Any programme for development of small-scale industries will, therefore, have to ensure that a package of services is made available to the entrepreneurs, as provision of credit alone will not provide a solution. Financing of this activity, therefore, will have to be undertaken by urban

banks in close collaboration with all other interests concerned, particularly the state government departments dealing with small-scale industries.

Self-Employment Schemes

15. Further, urban banks should associate themselves in the efforts at solving the unemployment problem by financing the educated unemployed, self-employed persons and professionals such as doctors, lawyers, chartered accountants, architects and engineers. The assistance may be in the form of loans for purchase of equipment, furniture etc., for setting up their business. Urban banks can also extend assistance to small artisans like goldsmiths, blacksmiths, toy makers etc., to the extent they are not covered under the scheme for provision of finance to small artisans sponsored by the Khadi & Village Industries Board. Self-employed persons will include small shop-owners and stall holders like fruit and vegetable vendors, shoe-makers and shoe repairers, tailors, launderers, etc., and those engaged in low cost servicing activities. This category of borrowers who often obtain funds from money-lenders at exorbitant rates of interest can be rescued from their clutches by urban banks undertaking the financing of their business activities.

16. Provision of finance to small road transport operators is another avenue which affords scope for urban banks to expand their business. The small road transport operators cover pliers of cycles, scooters, motorcycles, rickshaws, taxis and delivery vans. The aid to the pliers of these vehicles could be in the form of loans for acquiring the vehicles which will be of much help to them as they generally hire the vehicles from big owners by paying daily charges at exorbitant rates.

Consumption Finance

17. Traditionally, urban banks have been providing credit for consumption purposes such as loans for household expenditure, medical expenses, religious and marriage ceremonies etc. With the steady growth of population on the one hand and the expansion of urban banks to increasingly cover the urban population on the

other, the total finance for consumption purposes will continue to increase. Further, following the recent legislation in several states seeking to place further curbs on private moneylending, urban banks can fill the vacuum created by the elimination of moneylenders or reduction in their business, particularly in financing the weaker section in urban areas. It is, however, desirable that the consumption finance, which is mostly unproductive and to some extent wasteful in nature, should be within reasonable limits.

Finance for Small Traders and Shop-keepers

18. Urban banks have been playing a prominent role in the financing of small traders and shop-keepers. The requirements of this sector are bound to increase with the growth of the national economy, and a greater involvement of urban banks in future in the financing of trade and commerce is envisaged. While in bigger areas they may supplement the efforts of commercial banks in this direction, in smaller centres which may not have adequate commercial banking facilities, urban banks will have to assume increasing responsibility for financing small traders and shop-keepers.

Housing Finance

19. Another important avenue for which funds of urban banks could be increasingly channelled is provision of loans to individuals, housing societies, housing boards, local bodies, slum clearance boards etc., for various types of housing schemes for low income groups, hostels etc. There is a vast unfilled gap in the provision of housing for various sections of the urban and semi-urban population. To the extent their long-term resources permit, urban banks can undertake financing of such socio-economic purposes.

Financing of Consumers Stores

20. Similarly, another urgent need is the development of a proper public distribution system and, towards this end, a chain of consumers stores has been set up all over the country, so that essential articles of daily consumption and other needs are provided, particularly to the weaker sections, at reasonable costs and by

elimination of various malpractices presently indulged in by private trade. Financing of consumers stores will constitute a fruitful avenue for flow of credit from urban banks.

Financing of Labour Contract Societies etc.

21. With the increasing urbanisation in recent years, a number of labour contract and construction societies, engineering societies, dairy and poultry societies etc., have sprung up in many cities and towns. Although the financing of these societies is the legitimate activity of the state co-operative banks and central co-operative banks, urban banks may also undertake their financing.

22. In conclusion, it may be stated that urban banks are eminently suitable for filling up the existing gaps in banking and credit needs in urban and semi-urban areas at comparatively less cost of operation. Considering the poor coverage of urban banks in some of the states and scope for financing the small-scale industrial sector, especially the tiny sector under the Industrial Policy Resolution of the Government of India announced in December 1977, there is adequate potential for the spread of urban banks. There are also other avenues affording scope for urban banks to expand their business such as the financing of the educated unemployed, self-employed persons and professionals, small road transport operators, consumers' co-operative stores, dairy and poultry societies, housing societies and labour contract societies. Provision of loans for consumption purposes to a limited extent is also another important activity of urban banks. However, as elaborated in paragraphs 3 to 9, the development of urban banks cannot be taken up in isolation. It has to form part of the total banking development in the country and should be according to a planned programme.

ANNEXURE

*List of Towns with population of more than 1 lakh having no
Urban Co-operative Bank as on 31 May 1978*

Andhra Pradesh	1. Kakinada
	2. Nizamabad
	3. Warangal
Bihar	4. Bhagalpur
	5. Bihar
	6. Bokaro Steel City
	7. Darbhanga
	8. Dhanbad
	9. Gaya
	10. Jamshedpur
	11. Monghyr
	12. Muzaffarpur
	13. Ranchi
Haryana	14. Rohtak
Jammu & Kashmir	15. Jammu
	16. Srinagar
Madhya Pradesh	17. Burhanpur
	18. Durg-Bhilainagar
	19. Gwalior
	20. Ratlam
	21. Sagar
Maharashtra	22. Ulhasnagar
Orissa	23. Rourkela
	24. Sambalpur
Punjab	25. Jullundur
	26. Ludhiana
	27. Patiala
Rajasthan	28. Alwar
Tamil Nadu	29. Cuddalore
Tripura	30. Agartala

ANNEXURE (Contd.)

Uttar Pradesh	31. Aligarh
	32. Bareilly
	33. Faizabad
	34. Farrukhabad-cum-Fatehgarh
	35. Firozabad
	36. Ghaziabad
	37. Mathura
	38. Mirzapur-cum-Vindhyanchal
	39. Muzaffarnagar
	40. Rampur
	41. Saharanpur
	42. Shahjahanpur
West Bengal	43. Kharagpur
Chandigarh	44. Chandigarh

CHAPTER 5

VIABILITY OF URBAN CO-OPERATIVE BANKS

In the previous Chapter, certain important aspects of the future role of urban banks have been discussed. It will be seen therefrom that urban banks have an important role to play in the provision of banking facilities in urban and semi-urban areas. Their development, of course, has to be on sound and systematic lines. This throws into focus the importance of urban banks functioning as viable units. In fact, item 3 of the terms of reference requires the Committee specifically to examine the aspect of viability.

2. The issue of viability of urban banks is not a new concept. Various committees which had examined the working of urban banks in earlier years have laid emphasis on ensuring their viability. The Reserve Bank had attempted the formulation of broad norms of viability for urban banks in 1971 which were generally endorsed at the First Seminar of Chief Executive Officers of Urban Co-operative Banks held at Pune in July 1971. According to these norms, a viable bank would require owned funds of Rs 5 lakhs, deposits and borrowings of Rs 20 lakhs, loaning business of Rs 18 lakhs and working capital of Rs 25 lakhs. In the light of the rise in the cost of management as well as that of servicing credit and deposits, the norms of viability were revised upwards by the Reserve Bank in 1974. It was then felt that the enhanced norms of owned funds of Rs 7.60 lakhs, deposits of Rs 40 lakhs, loaning business of Rs 32 lakhs and working capital of about Rs 50 lakhs would be required for a viable institution. More recently, the Committee on Problems of Urban Co-operative Banks in Maharashtra (1976) set up by the Government of Maharashtra had occasion to examine the issue of viability of urban banks. According to this Committee, the viability of urban banks was usually reached with owned funds between Rs 2 lakhs and 3 lakhs, deposits between Rs 6 lakhs and 7 lakhs and a loan business of Rs 7 lakhs to 8 lakhs. Such banks were found to have been established at places where the population was between

18,000 and 30,000. The committee concluded, therefore, that towns with the above level of population would offer adequate deposit and loan potential for sustaining a viable urban bank. Where there is a municipality, an industrial estate or regulated market, viability can be attained even with a lower population of 15,000 to 18,000. A period of 3 years to 8 years would be the period within which an urban bank would be able to attain the level of viability. However, in deciding upon these norms, the committee appears to have had in mind only institutions operating within the limits of a single town or city and catering to a population of less than 1 lakh.

Need for Fixing Norms

3. The question of viability has assumed added importance in the context of the rapid growth of urban banks in recent years. This has resulted in the emergence of a large number of small and uneconomic units whose working constitutes a drag on the progress of the urban co-operative banking movement inasmuch as the unsatisfactory financial position and poor operational efficiency of weak units have tended to reflect adversely on the movement as a whole. This is evident from the position regarding classification of urban banks on the basis of their working capital as on the last Friday of June 1977 given below:

Working Capital	No. of Banks
Below Rs 5 lakhs	40
Between Rs 5 lakhs and 10 lakhs	107
Between Rs 10 lakhs and 25 lakhs	313
Between Rs 25 lakhs and 50 lakhs	251
Between Rs 50 lakhs and 100 lakhs	175
Between Rs 100 lakhs and 500 lakhs	142
Above Rs 500 lakhs	14
Total	1042*

* Reporting banks out of 1162 urban banks.

While this represented the all-India position, the position in individual states is given in Table 17.

TABLE 17

Classification of Urban Banks according to Working Capital as on 24 June 1977

Name of State/ Union Territory	Total No. of Banks	Total No. of Reporting Banks	Working Capital						
			Below Rs 5 lakhs	Between Rs 5 lakhs & 10 lakhs	Between Rs 10 lakhs & 25 lakhs	Between Rs 25 lakhs & 50 lakhs	Between Rs 50 lakhs & 100 lakhs	Between Rs 100 lakhs & 500 lakhs	Above Rs 500 lakhs
Andhra Pradesh	46	43	1	6	12	12	6	6	—
Assam	2	2	—	—	1	—	—	1	—
Bihar	1	—	—	—	—	—	—	—	—
Delhi	27	11	1	—	4	2	2	2	—
Goa, Daman & Diu	4	4	—	—	1	—	1	1	1
Gujarat	266	244	7	16	65	61	54	38	3
Haryana	4	4	—	—	2	1	1	—	—
Himachal Pradesh	3	3	—	1	2	—	—	—	—
Karnataka	184	172	12	32	68	31	17	12	—
Kerala	48	44	—	2	18	9	10	5	—
Madhya Pradesh	21	19	1	4	7	3	2	2	—
Maharashtra	330	302	9	23	81	82	49	51	7
Manipur	3	2	1	—	—	1	—	—	—
Meghalaya	1	1	—	1	—	—	—	—	—
Orissa	9	9	1	1	1	2	3	1	—
Pondicherry	2	1	—	—	—	1	—	—	—
Punjab	5	4	1	3	—	—	—	—	—
Rajasthan	15	11	1	1	3	1	4	1	—
Tamil Nadu	127	120	3	8	38	39	20	12	—
Uttar Pradesh	26	11	—	4	2	—	3	1	1
West Bengal	38	35	2	5	8	6	3	9	2
Total	1162	1042	40	107	313	251	175	142	14

4. Several of the urban banks have been organized without due consideration to factors such as their financial viability or scope for their efficient functioning. In terms of section 11 of the Banking Regulation Act 1949 (As Applicable to Co-operative Societies), a bank should have paid-up share capital and reserves with real value of not less than Rs 1 lakh to commence or carry on banking business. While this is the statutory minimum, the Reserve Bank prompted by the need to ensure the healthy growth of urban banks has now been generally insisting on the collection of a minimum share capital of Rs 3 lakhs and enrolment of at least 1000 members prior to the issue of a licence for a bank. Depending on the area proposed to be served and the available banking facilities, relaxations are made on the merits of each case. Thus, where the area is backward or tribal or has inadequate banking facilities, these norms are suitably relaxed. Urban banks, however, differ widely in their coverage and location and the fixing of uniform norms for all urban banks will not be desirable. It is, therefore, necessary to review the norms of viability for urban banks and to fix graded scales of share capital for licensing of new banks, taking note of the proposed area of operation of the institution and its particular situation. There are, however, differing views regarding the basis for fixing norms of viability. Taking note of these and other relevant aspects, particularly those emerging from the study on viability, the Committee has made certain recommendations regarding the minimum paid-up share capital which may be prescribed for licensing of new urban banks. This is dealt with later in this Chapter in paragraphs 12 to 17. At this stage, however, a reference is made to some general aspects pertaining to viability.

Some General Aspects

5. Broadly, an institution can be deemed as viable if the income earned is adequate to cover its expenditure and leaves a certain amount of surplus to pay a reasonable return on capital. This is also the formula adopted by the Committee on Problems of Urban Co-operative Banks in Maharashtra (1976) referred to in paragraph 2 of this Chapter. While ability to earn profits is, no doubt, a basic requirement, merely because an institution is working at profit, it cannot be deemed as viable. It is a fact that several urban banks with a low level of transactions have kept the establishment and management expenditure low, enabling the institutions

to earn a surplus. The capacity to earn profit cannot, therefore, be taken as the sole criterion for deciding the viability of an institution. A more appropriate test of viability would lie in examining how far a unit is able to effectively and efficiently carry out the role assigned to it. An urban bank is expected to mobilize surplus resources in the hands of the community which it serves and to provide banking and credit needs of the small borrower in particular. A viable unit would, therefore, be one which is able to adequately tap the potential both by way of collection of deposits and lendings in its area of operation. To achieve this objective, an urban bank should have an efficient organizational set-up with sufficient staff not only quantitatively but also from the qualitative point of view. Viability, in other words, is closely linked to efficiency of operations and management.

6. As mentioned earlier in paragraph 4, urban banks are heterogeneous in nature and unlike central co-operative banks, which have a definite area of operation and where agricultural finance dominates the loaning portfolio, these institutions do not conform to any set pattern either in their jurisdiction or their field of operations. Thus, while some banks are located in urban centres with their area confined to the particular centre, there are others with an area of operation extending over a district and yet others with a state or, in a few instances, even inter-state or country-wide jurisdiction. Some banks are unit banks but there are others with a large network of branches. Business prospects would vary with the area of operation of the bank and also with the prosperity of the agricultural and industrial economy which it serves. Moreover, the managerial factor is of considerable significance in the development of an urban bank. In the light of the wide variations referred to above, it is felt that it would be inequitable to fix any single set of norms to be universally applied to all urban banks disregarding essential differences in their working. Strictly speaking, the norms of viability should take note of the more important factors influencing the working of urban banks, but there are obvious limitations in doing this. Since the area of operation and the location of a bank have an important bearing on its working, the norms of viability may be evolved taking into account the overall jurisdiction and the particular centre where a bank is functioning. Banks in the bigger centres will have a large potential

for mobilization of resources and for diversifying their lendings. Further, there is every likelihood that banks in bigger centres will have a wider organizational set-up. In such instances, the management and establishment expenditure will be of a correspondingly higher order. Viability standards could, therefore, be broadly worked out for three different categories of banks, viz., those operating in (i) metropolitan centres having a population of 10 lakhs and above; (ii) urban centres having a population of 1 lakh to 10 lakhs; and (iii) semi-urban centres with a population of less than 1 lakh. Urban banks have a varying number of branches. The size of business and expenditure will be related to the number of offices of the bank. Thus, norms of viability may be fixed for the head office of a bank and the economics of a branch separately worked out and the total business which a bank should command may be decided taking into account the number of offices and the norms of viability suggested for the head office and the branches.

Methodology

7. An appropriate course to arrive at norms of viability of an urban bank would be to work out the margin available to it on raising and deploying its resources, the management and other expenditure and, given the available margin, to calculate the quantum of loan business which will be needed to meet the expenditure. Management and other expenditure will comprise both fixed and variable costs. Fixed costs would represent the minimum expenditure which will, in any case, have to be incurred by a bank covering items such as salaries and allowances of key personnel and supporting staff, rent, rates, taxes and insurance. Variable expenditure will comprise items like salaries of staff, particularly at junior levels, stationery and postage, which will vary proportionate to the loaning business of the bank. In the light of the available data, it is possible to make a rough estimate of the quantum of expenditure, the margin retained by a bank and to determine the quantum of loaning business that will be necessary for a viable urban bank.

Studies

8. In order to assist the Committee in making its recommendations, a detailed study was made by the regional offices of the

Agricultural Credit Department of the Reserve Bank in the case of banks falling in each of the three categories, viz., metropolitan, urban and semi-urban centres in 5 states of Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal, in collaboration with the concerned state co-operative banks and the Registrars of Co-operative Societies. The findings of the study are given in Appendix IV. Some of the salient features of the study and the basis on which recommendations regarding viability have been made in this Report are summarised in the following paragraphs.

Estimates of Income and Expenditure

9. The study referred to above revealed wide variations in the amount and proportion of resources and investments of urban banks not only between banks in the three different categories but also between banks in the same category. However, broadly adopting the proportions of liabilities and assets in the case of banks surveyed and the costs and returns on resources, notional balance sheets for banks in the three different types of centres have been prepared and are given in pages 73 and 74

The cost of raising working capital and the return on the investment of funds may be broadly assumed as follows:

Cost	Per cent
Share Capital	10
Deposits	7
Borrowings	11
Return	
Current Account Balances	0.5
Investments	8.4
Loans and Advances	14
Shares in the Apex Bank/Central Bank	5

On the basis of the above, the margin that will be available to banks on a loaning business of Rs 100 in metropolitan and urban centres would be Rs 5.89 and in semi-urban centres Rs 6.07 or roughly about 6 per cent.

Staffing Pattern

10. According to the staffing pattern of the banks covered by the study, to run a bank in a metropolitan centre, taking into account the diversity of operations arising from the considerable

*Metropolitan (Population over 10 lakhs) Centres and Urban
(Population 1 lakh to 10 lakhs) Centres*

LIABILITIES				ASSETS			
	Amount Rs	Cost			Amount Rs	Return	
		Per cent Per Annum	Amount Rs			Per cent Per Annum	Amount Rs
Share Capital	15.00	10	1.50	Cash in Hand	3.30	—	—
Reserves	3.00	—	—	Balances with			
Deposits	110.00	7	7.70	Banks	3.30	0.5	0.02
Borrowings	15.00	11	1.65	Investments	31.90	8.4	2.68
				Apex Bank/ Central Bank Shares	0.75	5	0.04
				Loans and Advances	100.00	14	14.00
				Fixed Assets	3.75	—	—
Total	143.00		10.85	Total	143.00		16.74

Margin Earned: Rs 16.74 — Rs 10.85 = Rs 5.89.

Semi-Urban (Population less than 1 lakh) Centres

	LIABILITIES			ASSETS			
	Amount Rs	Cost		Amount Rs	Return		
		Per cent Per Annum	Amount Rs		Amount Rs	Per cent Per Annum	Amount Rs
Share Capital	15.00	10	1.50	Cash in Hand	3.54	—	—
Reserves	3.00	—	—	Balances with Banks	3.54	0.5	0.02
Deposits	118.00	7	8.26	Investments	34.42	8.4	2.89
Borrowings	10.00	11	1.10	Apex Bank/ Central Bank Shares	0.50	5	0.02
				Loans and Advances	100.00	14	14.00
				Fixed Assets	4.00	—	—
Total	146.00		10.86	Total	146.00		16.93

Margin Earned: Rs 16.93 — Rs 10.86 = Rs 6.07.

potential for lendings for trade, commerce and industry, the minimum staff (key personnel and supporting staff) that will be necessary for a viable unit will be as under:

Particulars	No.
Chief Executive Officer	1
Accountant (Banking)	1
Officer-in-Charge of Loans, Establishment, Development etc.	1
Cashier	1
Clerks	2
Peons	2

In an urban centre, with a population of 1 lakh to 10 lakhs, it may suffice if the key personnel of a bank consists of one officer, in addition to a Chief Executive Officer. The other complement of staff may be the same as in the case of a bank in a metropolitan centre with a population of 10 lakhs and over. For a bank located in a semi-urban centre with a population of less than 1 lakh, while the key personnel may be appointed on the same scale as in the case of an urban centre, viz., one officer in addition to Chief Executive Officer it may be possible to carry on work with a cashier and a clerk. This complement of staff is the minimum necessary for the functioning of an urban bank as a viable unit and the expenditure on this staff may be considered as fixed expenditure. Initially, in the first one or two years of its working, a bank may not perhaps appoint all the key personnel or may be in a position to operate with fewer junior staff, but at the end of the period of 5 years within which period a bank is expected to attain viability, this minimum staff will have to be in position. Although the expenditure on Chief Executive and key personnel is not easily variable, yet with the growth and expansion of a bank, the managerial staff will have to be suitably augmented. Thus, in order to efficiently cope with additional work as and when the staff at the junior level is increased, a larger number of supervisory staff will become necessary. With the opening of branches, staff will also have to be appointed for supervision of their working. Banks financing small-scale and cottage industries may find it useful to employ a technical officer. However, it has been assumed that such additional staff will be required only after a period of time. In other words, the staff recommended above is the minimum and not the optimum level of staff.

Variable Expenditure

11. In the banks studied, it has been observed that the average loan business handled per clerk roughly worked out to about Rs 4.00 lakhs. Expenditure on the staff for maintenance of deposit accounts has not been separately worked out and it has been assumed that a clerk will handle the deposit business also. Other variable expenditure such as that incurred on stationery, postage and audit fees constituted roughly 2 per cent of the loan business. The ratio of variable expenditure to loaning business thus formed 1:29, 1:30 and 1:32 in metropolitan, urban and semi-urban centres respectively.

Norms of Viability

12. On the basis of the margin available on raising and deployment of resources and in the light of the assumptions regarding staff requirements, cost of management and establishment, and the relationship between variable expenditure and loan business, the norms of viability have been worked out in the accompanying Table 18. It will be seen from it that the loaning business to be reached by a viable urban bank at the end of 5 years would be Rs 40 lakhs in metropolitan centres with a population of more than 10 lakhs, Rs 30 lakhs in urban centres with a population ranging from 1 lakh to 10 lakhs and Rs 15 lakhs in semi-urban centres with a population of less than 1 lakh. The requirements in regard to share capital, reserves, deposits, borrowings and working capital for the above level of loan business would be as under:

	Rs Lakhs		
	Metro- politan Centre (Popula- tion: Above 10 lakhs)	Urban Centre (Popula- tion: Be- tween 1 lakh & 10 lakhs)	Semi- Urban Centre (Popula- tion: Below 1 lakh)
Share Capital	6.00	4.50	2.25
Reserves	1.20	0.90	0.45
Deposits	44.00	33.00	17.70
Borrowings	6.00	4.50	1.50
Loans and Advances	40.00	30.00	15.00
Working Capital	57.00	43.00	22.00

TABLE 18

Loaning Business For an Urban Bank to Function as a Viable Unit

	Metropolitan Centre (Population over 10 lakhs)			Urban Centre (Population 1 lakh to 10 lakhs)			Semi-Urban Centre (Population less than 1 lakh)		
	No. of incumbents	Amount Rs	Amount Rs	No. of incumbents	Amount Rs	Amount Rs	No. of incumbents	Amount Rs	Amount Rs
A. Fixed Expenditure									
(i) Salary and allowances, including P.F. contribution									
Manager	1	16,000		1	14,000		1	9,000	
Accountant (Banking)	1	12,000		1	11,000		1	7,000	
Officer-in-charge of loans, establishment, development etc.	1	12,000							
Cashier	1	7,000		1	6,500		1	5,500	
Clerks-cum-typists	2	12,000		2	11,000		1	4,500	
Peons	2	8,000	67,000	2	7,000	49,500	2	6,000	32,000
(ii) Rent, rates, taxes lighting etc.			22,000			18,000			8,000

TABLE 18 (Contd.)

	Metropolitan Centre (Population over 10 lakhs)		Urban Centre (Population 1 lakh to 10 lakhs)			Semi-Urban Centre (Population less than 1 lakh)			
	No. of incum- bents	Amount Rs	Amount Rs	No. of incum- bents	Amount Rs	Amount Rs	No. of incum- bents	Amount Rs	Amount Rs
(iii) Others, includ- ing directors' fees and allow- ances			6,000		5,000			3,000	
			<u>95,000</u>		<u>72,500</u>			<u>43,000</u>	
B. Variable Expenditure									
Cost of one clerk handling loan busi- ness of about Rs 4 lakhs and corres- ponding deposit busi- ness		6,000		5,500			4,500		
Other variable ex- penditure at roughly 2% of loans for a loan business of Rs 4 lakhs		<u>8,000</u>	14,000	<u>8,000</u>	13,500		<u>8,000</u>	12,500	
Ratio of variable costs to loan busi- ness			1 : 29		1 : 30			1 : 32	
Loan Business			About Rs 40 lakhs		About Rs 30 lakhs			About Rs 15 lakhs	

13. The major items of the assets and liabilities of a bank when it reaches the level of viability would be as under:

Balance Sheet of a Viable Urban Bank

Rs Lakhs

Metropolitan Centre (Population over 10 lakhs)

LIABILITIES		ASSETS	
Share Capital	6.00	Cash	1.32
Reserves	1.20	Balances in Current Account	1.32
Deposits	44.00	Investments	12.76
Borrowings	6.00	Shares in Apex Bank/ Central Bank	0.30
		Loans	40.00
		Fixed and Other Assets	1.50
	<hr/>		<hr/>
	57.20		57.20
	<hr/>		<hr/>

Urban Centre (Population 1 lakh to 10 lakhs)

Share Capital	4.50	Cash	0.99
Reserves	0.90	Balances in Current Account	0.99
Deposits	33.00	Investments	9.57
Borrowings	4.50	Shares in Apex Bank/ Central Bank	0.22
		Loans	30.00
		Fixed and Other Assets	1.13
	<hr/>		<hr/>
	42.90		42.90
	<hr/>		<hr/>

		Rs Lakhs	
Semi-Urban Centre (Population less than 1 lakh)			
LIABILITIES		ASSETS	
Share Capital	2.25	Cash	0.53
Reserves	0.45	Balances in Current Account	0.53
Deposits	17.70	Investments	5.16
Borrowings	1.50	Shares in Apex Bank/ Central Bank	0.08
		Loans	15.00
		Fixed and Other Assets	0.60
	<hr/> 21.90 <hr/>		<hr/> 21.90 <hr/>

14. For an institution working with a reasonable amount of efficiency, it should be possible to reach the above norms of viability within a period of 5 years, as against 3 years fixed by the Reserve Bank in its circular dated 5 October 1974. Over this period of time, the bank should be able to meet not only the management and establishment cost of the order broadly envisaged above, but also earn a reasonable surplus so as to declare a dividend and make appropriations towards reserves. Hence, in the case of banks to be newly set up, there should be adequate potential for developing the business to this level within a period of 5 years.

Minimum Requirements of Share Capital

15. Having indicated the broad norms of viability, the next aspect to be considered is regarding the minimum share capital which would be required prior to licensing of a new bank. As mentioned in paragraph 4, the real value of the share capital and reserves for a bank to commence or carry on banking business as laid down in the Banking Regulation Act 1949 (As Applicable to Co-operative Societies) should not be less than Rs 1 lakh. However, in order to ensure the sound growth of urban banks, the Reserve Bank has been stipulating the collection of a minimum share capital of Rs 3 lakhs prior to licensing of a new bank. Depending on the

area proposed to be served and the banking facilities available in the area, suitable relaxations are made in this regard. However, it is essential to lay down certain definite norms which may be followed by the Reserve Bank.

16. As indicated in the projected balance sheets drawn up for urban banks operating in metropolitan, urban and semi-urban centres at the viability level to be reached at the end of 5 years of their organization, banks operating in these centres will have to reach a minimum loan business of Rs 40 lakhs, Rs 30 lakhs and Rs 15 lakhs respectively within a period of 5 years in order to enable them to meet the management and establishment expenditure. To sustain this level of lending, the minimum share capital needed by an urban bank operating in metropolitan centres (population more than 10 lakhs) is Rs 6.00 lakhs, urban centres (population between 1 lakh and 10 lakhs) is Rs 4.50 lakhs and semi-urban centres (population less than 1 lakh) is Rs 2.25 lakhs at the end of 5 years. Besides, the banks in each of these centres would be able to build up reserves of about Rs 1.20 lakhs, Rs 0.90 lakh and Rs 0.45 lakh respectively within a period of 5 years. But reserves would be built up only after a period of time when a bank earns profits.

17. While the minimum share capital needed for a viable urban bank operating in the three different centres can be built up over a period of 5 years, it is not necessary to insist on this minimum prior to licensing of a new bank. It appears reasonable to expect that a bank should, at the commencement of business, collect at least two-thirds of the share capital required for a viable unit to be attained over a period of 5 years. This will enable the bank to start with a satisfactory share capital base and attain viability within a period of 5 years. In the light of the foregoing, it is recommended that the minimum share capital requirement that may be prescribed for registration and licensing of a new urban bank may be Rs 4 lakhs in a metropolitan centre with population of over 10 lakhs, Rs 3 lakhs in an urban centre with population between 1 lakh and 10 lakhs and Rs 1.50 lakhs in a semi-urban centre with population of less than 1 lakh. This recommendation has been elaborated in Chapter 6 dealing with the registration and licensing of new urban banks.

Minimum Membership for New Banks

18. The number of members needed to contribute the initial share capital cannot be precisely assessed, as this would depend on the amount of contributions made by promoters and other members. At present, the Reserve Bank has stipulated a minimum membership of 2000 in metropolitan centres and 1000 in other centres. While the need for a sizeable membership is appreciated, to start with, it is felt that this requirement is rather high and it would be difficult for a bank at its inception to enrol this number of members. Further, in a small semi-urban centre, the insistence on an initial membership of 1000 appears difficult to achieve. The Committee is of the view that the requirement of initial membership may be fixed at 1000 in metropolitan centres, 700 in urban centres and 400 in semi-urban centres.

Economics of a Branch

19. According to the procedure laid down by the Reserve Bank, a licence for the opening of a branch by an urban co-operative bank is issued provided, among other things, a bank is able to establish that there is adequate potential both in the form of deposits and loaning to constitute the branch as an economic unit. The Reserve Bank has stipulated that the branch should be self-supporting from the first year itself unless there are special reasons for its not being able to do so. In addition, the following norms in terms of loaning business have been prescribed for eligibility for opening of a branch:

- (a) In the case of a bank operating in metropolitan centre, it should have attained an average loan business of not less than Rs 10 lakhs per existing branch, treating the head office also as a branch.
- (b) In the case of an urban centre, the average loan business per existing branch should not be less than Rs 5 lakhs.
- (c) For all other centres, loan business should not be less than Rs 2 lakhs.

20. While it is conceded that a branch should be self-supporting as early as possible, the Committee is of the opinion that the time

limit of one year within which a branch should become self-supporting, as presently stipulated by the Reserve Bank, is somewhat unrealistic. It is considered that this time limit should be related to the viability of a branch and, therefore, keeping in view the norms of viability fixed for the head office of a bank, an attempt has been made to evolve norms regarding the viability of a branch. For the purpose of this exercise, a similar margin on loan business as that assumed for head office of a bank has been taken. However, since key personnel will not be appointed in a branch, the level of management expenditure will be lower. Moreover, variable expenditure would also be of a lesser order as a larger share of expenditure on items such as printing, stationery, postage and legal expenses will be borne by the head office. Thus, taking into account the lower expenditure and consequently a lower loaning business that would be required at the viability level for branches, a relatively shorter period for attaining of viability of a branch may be fixed. It is recommended that a period of 3 years may be allowed to a branch to attain the viability level, as compared with a period of 5 years prescribed for the head office.

21. The norms of viability for branches have been worked out, taking into account the staff required and the fixed and variable expenditure of a branch in each of the 3 centres. According to these norms, a new branch operating in metropolitan, urban and semi-urban centres should attain a loan business of Rs 11 lakhs, Rs 9 lakhs and Rs 5.50 lakhs or deposit business of Rs 12 lakhs, Rs 10 lakhs and Rs 6.50 lakhs respectively as shown below:

	Metropolitan Centre		Urban Centre		Semi-Urban Centre	
	No.	Amount Rs	No.	Amount Rs	No.	Amount Rs
A. Fixed Expenditure						
1. Salaries and Allowances						
Manager	1	10,000	1	9,000	1	8,000
Clerks	2	12,000	2	11,000	1	4,800
Peons	1	4,000	1	3,500	1	3,200
Total		26,000		23,500		16,000

VIABILITY OF URBAN BANKS

	Metropolitan Centre	Urban Centre	Semi-Urban Centre
	Amount Rs	Amount Rs	Amount Rs
2. Rent, Rates, Taxes, Lighting etc.	8,000	6,500	5,000
Total Fixed Expenditure	34,000	30,000	21,000
B. Variable Expenditure			
1. Cost of one Clerk hand- ling Loan Business of Rs 4 lakhs	6,000	5,500	4,500
2. Other Variable Cost	5,000	5,000	5,000
Total	11,000	10,500	9,500

Minimum Loan
Business Requir-
ed to Become
Viable:

Rs 10.90 lakhs i.e. About Rs 11 lakhs	Rs 9.20 lakhs About Rs 9 lakhs	Rs 5.70 lakhs About Rs 5.50 lakhs
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Amount of
Deposits

Rs 12 lakhs	Rs 10 lakhs	Rs 6.70 lakhs (i.e. About Rs 6.50 lakhs)
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The norms regarding loan business and deposits as given above may be attained by a branch in a phased manner over 3 years. In other words, a newly opened branch should attain a business level indicated below at the end of every year during the 3 years period so as to become viable.

	Rs Lakhs					
	Metropolitan Centre		Urban Centre		Semi-Urban Centre	
	Loaning Business	Depo- sits	Loaning Business	Depo- sits	Loaning Business	Depo- sits
First year	2.00	2.20	1.50	1.65	1.00	1.20
Second year	6.00	6.60	4.50	6.00	3.00	3.50
Third year	11.00	12.00	9.00	10.00	5.50	6.50

Loaning and Deposit Centres

22. All branches may not, however, be self-balancing centres in the sense that the deposits collected may not invariably be in proportion to the lendings. On the other hand, a branch may be a mere deposit mobilization centre and may have little scope for lending in the area. On these grounds alone, a branch cannot be deemed as uneconomic. Regardless of whether it is a deposit or a loaning centre, each branch has a useful role to perform. Surplus funds raised at a branch can be usefully deployed elsewhere. Similarly, a branch, where there is a larger potential for providing loans, can draw on the pooled resources at the head office. The Committee is, therefore, of the view that a branch which is either able to attain the level of lending or the prescribed level of deposits may be deemed as an economic unit and should be considered as such for the purpose of branch licensing by the Reserve Bank.

CHAPTER 6

STRUCTURE, REGISTRATION AND LICENSING

IN the previous Chapter, the aspect of viability of urban banks in the context of their registration and licensing in different centres, viz., metropolitan, urban and semi-urban has been examined. This Chapter deals with various issues connected with the structure, registration and licensing of urban banks and also with other related matters such as their area of operation and norms regarding opening of offices. While dealing with each of these matters, additional facilities or assistance, if any, needed by urban banks are discussed, as required by item 2 of the terms of reference of the Committee.

2. Urban co-operative banks are defined as primary co-operative banks in the Reserve Bank of India Act 1934 and the Banking Regulation Act 1949. They also include salary earners' co-operative societies having paid-up share capital and reserves of Rs 1 lakh or more and the by-laws of which contain a provision for acceptance of deposits from non-members. Apart from these urban banks, there is a separate category of primary credit societies which are allowed to call themselves as banks by accepting deposits from the public and using the word 'bank', 'banker' or 'banking' as part of their name, but are kept outside the Reserve Bank's control until their paid-up share capital and reserves come to a level of Rs 1 lakh or more. The question has arisen as to whether it is desirable to permit primary credit societies to accept deposits from the public, i.e., non-members and use as part of their name the word 'bank', 'banker' or 'banking'. This question is important because, until recently, the facility of registering a primary credit society with an initial share capital of less than Rs 1 lakh and allowing them to do banking business was misused in certain quarters to circumvent the provisions of the Banking Regulation Act 1949, in connexion with the obtaining of a licence from the Reserve Bank to commence banking business. Similarly, it is also necessary to examine the question of allowing salary earners' or employees' credit societies

to accept deposits from the public, i.e., from non-members. These subjects are dealt with in the sections immediately following:

PRIMARY CREDIT SOCIETIES

3. In terms of section 2(civ) of the Reserve Bank of India Act 1934, a primary credit society has been defined as a co-operative society, other than a primary agricultural credit society, the primary object or principal business of which is the transaction of banking business, the paid-up share capital and reserves of which are less than Rs 1 lakh, and the by-laws of which do not permit admission of any other co-operative society as a member. Primary credit societies include not only such societies located in urban and semi-urban areas which accept deposits from the public, but also salary earners' societies having a provision in their by-laws to accept deposits from non-members, the paid-up capital and reserves being less than Rs 1 lakh in both these categories of societies.

4. The category of primary credit societies does not come within the purview of the Banking Regulation Act 1949 and the Reserve Bank, therefore, does not exercise any control over the working of these societies. This is mainly because of the relatively insignificant volume of deposits held by these societies. As per the provisions of the State Co-operative Societies Act and Rules in force in various states, the authority for registering a primary credit society vests with the Registrar of Co-operative Societies. The Registrar also exercises control and supervision over the banking business of primary credit societies as per the provisions of the Co-operative Societies Act. Further, primary credit societies are not required to obtain a licence from the Reserve Bank for the commencement of banking business. However, as and when their share capital and reserves reach the level of Rs 1 lakh, these societies attain the status of primary co-operative banks and it is then obligatory on their part to apply for a licence from the Reserve Bank in order to continue to carry on banking business. Having applied for a licence, a society/bank can carry on banking business until it is refused a licence on grounds that (a) it is not in a position to pay its present and future depositors in full as and when their claims accrue; and (b) its affairs are being conducted in

a manner detrimental to the interests of the present and future depositors.

5. After coming into force of the Banking Regulation Act 1949 (As Applicable to Co-operative Societies) with effect from 1 March 1966, out of 663 primary co-operative banks which were included in the list of such banks, 567 or 85 per cent were those which were originally registered as primary credit societies and subsequently came into the category of primary co-operative banks on their share capital and reserves reaching the level of Rs 1 lakh. In these cases, the Reserve Bank did not have an opportunity to examine the business prospects of the institutions from the viability angle before allowing them to commence banking business, with a view to preventing proliferation of weak banks. Many primary credit societies which thus became primary co-operative banks merely by virtue of their share capital and reserves reaching the level of Rs 1 lakh, have been found incapable of functioning as strong units owing to inadequate resources and inefficient management. Although the legal status of these institutions is that of 'primary co-operative banks', some of them have been unable to comply with the essential provisions of the Banking Regulation Act such as section 11(1) which prescribes that the real or exchangeable value of paid-up share capital and reserves should not be less than Rs 1 lakh, sections 18 and 24 regarding the maintenance of a prescribed level of cash reserve and liquid assets, or to submit prescribed returns regularly. In this context, the Reserve Bank has introduced certain measures to arrest the unhealthy growth of such urban banks. In the circular issued by the Reserve Bank to the Registrars of Co-operative Societies on 5 October 1974 regarding the norms for registration of new urban banks, it has been indicated that a primary credit society or a primary co-operative bank should be registered by the Co-operative Department only if the share capital collected at the time of registration is not less than Rs 1 lakh in all centres.¹ This has helped to some extent in preventing the organization of new primary credit societies with an initial share capital of less than Rs 1 lakh.

¹ Circular Letter No. ACD.RBL. 384/J-74/5 dated 5 October 1974 issued by the Agricultural Credit Department of the Reserve Bank of India, Bombay.

6. From the replies to the questionnaire received by the Committee it is observed that the general opinion is not in favour of allowing registration of primary credit societies which can accept deposits from the public and use the word 'bank', 'banker' or 'banking' as part of their name. The main reasons adduced for this view are as follows:

- (i) The existing provisions in the Co-operative Societies Act/Rules in force in various states are inadequate to safeguard the interests of the depositors.
- (ii) The entry of commercial banks in all fields of business and their opening of branches on a mass scale have restricted the scope for business of primary credit societies.
- (iii) The depositors of primary credit societies do not get any protection under the deposit insurance scheme and the interest of non-member depositors will not be properly safeguarded.
- (iv) There will not be any effective implementation of the national monetary policy.
- (v) There is a need to stop the practice of commencing banking business before obtaining a licence from the Reserve Bank of India.
- (vi) The members of the public will hardly note the difference between a primary credit society and a primary co-operative bank.
- (vii) Except for the annual audit by the Co-operative Department, the societies are not regularly inspected by any authority.
- (viii) The advances of primary credit societies are mostly for unproductive purposes.

On the other hand, the registration of primary credit societies which can accept deposits from the public and use the word 'bank', 'banker' or 'banking' as part of their name has been favoured by a few on the ground that this would promote the growth of the urban co-operative credit movement. It has been pointed out that although, in recent years, commercial banks have taken steps to open branches in semi-urban and rural areas, there are still vast areas in the country which have no banking facilities. The character

and constitution of urban banks differ from that of a commercial bank and they render more personalised services particularly to the weaker sections of the community. Even in metropolitan centres, urban banks having their offices in localities where the population is predominantly working class have, it is claimed, in many cases, fared much better than the commercial banks in these localities. This is due to the fact that the co-operatives are more easily accessible to these classes of people. But it will not always be possible to collect the statutory minimum share capital, particularly when the bank is intended to serve the weaker sections. It is, therefore, suggested that there is a need to organize primary credit societies especially in small places where the non-agricultural population is large and where it is not possible to organize urban banks straightaway. Any restriction in the organization of primary credit societies, it is argued, may ultimately affect the growth of the urban co-operative credit movement and also lead to denial of banking facilities to people who are not presently served by commercial banks. Insistence on a statutory minimum share capital for an urban bank at the time of registration itself will hamper local initiative and leadership for opening of new urban banks. Further, share capital has a direct relationship not only with the membership but also with the quantum of loan business as the share capital can be gradually built up with a linking of shareholdings to borrowings. A primary credit society could thereby expect to strengthen its share capital structure only after it develops business. It has also been contended that a primary credit society is a potential urban bank. The initial registration as a primary credit society would afford a training ground for acquiring banking skills and familiarising the society with business practices for its subsequent functioning as a bank.

7. Considering the above viewpoints, the Committee is of the opinion that there is a need to stop the practice of primary credit societies commencing banking business, i.e., accepting deposits from non-members without first obtaining a licence from the Reserve Bank. This is necessary to promote the growth of the urban credit movement on healthy lines and to prevent the proliferation of weak urban banks. There is also the need to prevent primary credit societies using the word 'bank', 'banker' or 'banking' as part of their name so as to enable the public to

distinguish between a banking institution coming under the purview of the Banking Regulation Act 1949 and a co-operative credit society functioning outside the purview of the above Act. But, with a view to promoting the habit of thrift and meeting the credit requirements of people, the Registrars of Co-operative Societies may allow, after detailed investigation of each application, primary credit societies to be registered for collecting deposits from members only without, however, using the word 'bank', 'banker' or 'banking' as part of their name. For this purpose, the definition of a primary credit society in section 2 (civ) of the Reserve Bank of India Act 1934 will have to be amended. An amendment will also be necessary to section 49 A of the Banking Regulation Act 1949 which now permits primary credit societies to accept from the public deposits withdrawable by cheque. The nature of amendments required are indicated in the Annexure to this Chapter.

8. The question which will remain to be considered is regarding the existing primary credit societies. It is suggested that such societies may be allowed a maximum period of 4 years with effect from the date of coming into force of the amendment proposed in paragraph 7 to continue to carry on banking business. During this period, two alternatives may be open to them. They can increase their paid-up capital and reserves to Rs 4.00 lakhs, Rs 3.00 lakhs and Rs 1.50 lakhs, depending upon whether they are operating in metropolitan centres, urban centres or semi-urban centres, as the case may be, and apply for a licence to be classified as primary co-operative banks within a period of three months from the date of reaching the required level of share capital and reserves or before the expiry of the period of 4 years, whichever is earlier. Alternatively, they should refund the deposits from non-members fully and stop accepting deposits from non-members withdrawable by cheque, draft, order or otherwise. Suitable amendments should be made in the by-laws to give effect to the foregoing. The societies should also take steps to delete the word 'bank', 'banker' or 'banking' as part of their name at the expiry of the period of 4 years. This will also require amendments to the Banking Regulation Act 1949 and the Reserve Bank of India Act 1934, as indicated in the Annexure.

9. The Registrars of Co-operative Societies will have to ensure proper working of the existing primary credit societies where they are functioning or those to be set up in future without the word 'bank, 'banker' or 'banking' as part of their name and without the facility to accept deposits from non-members. A separate section should be set up in the office of the Registrar of Co-operative Societies to watch the working of primary credit societies, as part of the Cell for urban banks in the Co-operative Department, recommended in Chapter 11. Further, the inspection and audit staff should be strengthened to exercise effective control over the working of such societies.

SALARY EARNERS' SOCIETIES

10. With the commencement of the Banking Laws (Application to Co-operative Societies) Act 1965 extending certain provisions of the Reserve Bank of India Act 1934 and the Banking Companies Act 1949 to co-operative banks with effect from 1 March 1966, all salary earners' societies or employees' credit societies having paid-up share capital and reserves of Rs 1 lakh and more and having a provision in their by-laws for acceptance of deposits from non-members were classified as primary co-operative banks as defined in clause (ciii) of section 2 of the Reserve Bank of India Act 1934. The societies, whose membership was confined to persons employed in one establishment or under a common employer were, however, given an option by the Reserve Bank in 1966, to go out of the purview of the Banking Regulation Act 1949 by suitably amending their by-laws prohibiting acceptance of deposits from non-members and refunding all deposits belonging to non-members. The amendment to the by-laws should provide for the acceptance of deposits from members only, which term includes nominal/associate/sympathiser members and also provides that they are admitted in accordance with a specific provision to that effect under the by-laws of the society subject to and in conformity with the provisions of the Co-operative Societies Act/Rules of the state concerned. The Societies intending to go out of the purview of the Banking Regulation Act 1949 are required to make an application to the Reserve Bank and to satisfy the provisions of section 36 A(2) of the Banking Regulation Act 1949 (As Applicable to Co-

operative Societies) to go out of the said Act. On receipt of such an application, the Reserve Bank undertakes an inspection of the concerned society to satisfy itself as to whether (a) the required amendments to the by-laws have been passed and registered by the competent registering authority, (b) the deposits from non-members, if any, have been refunded or adequate provision therefor has been made and (c) the society is in a position to meet the liability towards deposits from its members as and when such liability arises before notifying the society as a non-banking institution under section 36 A(2) of the Act *ibid.* Accordingly, 669 salary earners' societies, which were classified as primary co-operative banks chose to go out of the purview of the Banking Regulation Act 1949 and, in the process, the number of salary earners' societies decreased from 688 as on 1 March 1966 to 139 as on 30 June 1977. There were also about 120 new societies which came within the purview of the Act during the same period, viz., 1 March 1966 to 30 June 1977. Of the 139 societies as on 30 June 1977, about 35 societies have requested the Reserve Bank for permission to come out of the purview of the Act, pending completion of the required formalities. In the case of the remaining 104 societies, several of them have neither complied with the essential provisions of the Banking Regulation Act 1949, nor have they taken steps to go out of the purview of the Act, as suggested by the Reserve Bank.

11. The respondents to the questionnaire issued by the Committee, who are not in favour of allowing salary earners' societies accepting deposits from non-members, have pointed out that (i) the societies hardly undertake any banking business on behalf of non-member depositors; (ii) they are formed with limited interest as they are concerned with the welfare of particular groups, as membership is restricted to employees of particular institution; (iii) deposits raised from non-members are advanced by salary earners' societies either for consumption purposes or for construction of houses; (iv) if the societies are permitted to raise non-member deposits, the very nomenclature of the institution is affected; (v) it will be very difficult for the societies to maintain cash reserve and liquid assets; (vi) the societies cannot satisfy the norms for lending fixed by the Reserve Bank from time to time; (vii) the societies do not provide credit facilities to the general public and that (viii) they are normally not managed by professionals, but instead by a group of their

members who do not possess the expertise required for running a bank. In many cases, the staff are part-time employees.

12. On the other hand, it has been represented to the Committee that salary earners' societies may be allowed to continue within the purview of the Banking Regulation Act 1949 and the Reserve Bank of India Act 1934 on the ground that these societies are mainly dependent on non-member deposits for lending and the scope to get finance from higher financing agencies is limited. Moreover, by accepting deposits from non-members, the societies are enabled to lend at a low rate to their members.

13. On a careful consideration of the above viewpoints, the Committee feels that, in the present context, no useful purpose will be served by keeping salary earners' societies within the ambit of the Reserve Bank's control. In fact, the earlier proposal to bring the salary earners' societies under the purview of the Reserve Bank appeared to have been mooted at a time when it was felt that the increasing operations of the societies might have a bearing on the currency and credit situation of the country. No doubt, there has since been a considerable increase in the operations of salary earners' societies both in terms of volume of deposits and in the quantum of loan business. But the operations of salary earners' societies have certain distinct characteristics which make them different from urban banks. First, they hardly undertake any banking function and yet they are classified as primary co-operative banks merely on account of the provision in their by-laws for acceptance of deposits from non-members. Second, their credit operations are restricted to members and are in the nature of surety loans issued mostly for consumption purposes. The regulatory or other credit control measures resorted to by the Reserve Bank with a view to enforcing monetary discipline and to ensure orderly economic activities have, therefore, no direct bearing on the operations of salary earners' societies. Third, the salary earners' societies do not enjoy any special advantages other than the acceptance of deposits from non-members. Unlike urban banks, which ordinarily utilise the resources raised from non-members by way of deposits in loans and advances to members for productive and, to some extent, consumption purposes, the advances of salary earners' societies are mostly for consumption purposes. Fourth, urban

banks have an important role in the economic development of the area where they are functioning which is not the case with the salary earners' societies as the membership of salary earners' societies is restricted to the employees of certain institutions. The Committee is, therefore, of the view that there is no valid reason for permitting salary earners' societies to accept deposits from non-members. Further, many of the salary earners' societies are found to be experiencing difficulties in complying with certain essential provisions of the Banking Regulation Act 1949, particularly sections 18 and 24. For the Reserve Bank, the continuance of salary earners' societies within the purview of the Banking Regulation Act 1949 (As Applicable to Co-operative Societies) only entails additional work to watch the compliance with statutory requirements, scrutiny of their returns as also to conduct periodical inspections of the societies, involving a great deal of expenditure with no particular purpose or need for controlling their operations from the angle of overall monetary and credit policy. In the circumstances, it is recommended that the salary earners' societies presently classified as primary co-operative banks should go out of the purview of the Banking Regulation Act 1949. Section 2 of the Reserve Bank of India Act 1934 and sections 7 and 49A of the Banking Regulation Act 1949 may be amended suitably to give effect to this recommendation as suggested in the Annexure. Amendments may also be necessary to State Co-operative Societies Acts.

14. There is no difficulty in prohibiting salary earners' societies to be organized in future from accepting deposits from non-members by incorporating suitable provisions in the by-laws. In the case of existing societies, however, they should refund non-member deposits in a phased manner or make adequate provision for repaying such deposits within a specified period, viz., within 4 years from the date of coming into force of the amendments to clause (ciii) of section 2 of the Reserve Bank of India Act 1934. They should also be required to delete the provisions in the by-laws which permit acceptance of non-member deposits and delete the word 'bank', 'banker' or 'banking', if any, from their name. In future, the Registrars of Co-operative Societies should not register salary earners' societies with a provision in their by-laws to accept deposits from non-members. Further, in order that the salary

earners' societies function on proper lines, the Registrars of Co-operative Societies should exercise proper control over them by regular inspections and audit. The total number of salary earners' societies not classified as primary co-operative banks comes to about 13,560. Wherever the number of salary earners' societies is sufficiently large, the staff in the separate section of the special cell in the Office of the Registrar of Co-operative Societies, looking after primary credit societies as suggested earlier in paragraph 9 of this Chapter, should be suitably strengthened to deal with salary earners' societies also in an intensive manner.

ORGANIZATION OF URBAN BANKS

15. In paragraph 2 of Chapter 4, it has been indicated that, considering the poor coverage of urban banks in some of the states and regions, there is scope for organization of new urban banks in towns and semi-urban centres which are presently devoid of banking facilities. It has also been mentioned in paragraph 8 of Chapter 4 that the future development of urban banks should not be viewed in isolation without taking into account the totality of the banking system. The slow growth of urban co-operative banking in certain states or regions has been attributed mainly to the lack of non-official leadership and absence of interest on the part of the state governments and others concerned. Since the main thrust of the government policy hitherto has been towards development of co-operative credit institutions engaged in the provision of credit for agriculture, the state governments or the state co-operative banks were not actively involved either in directing promotional efforts for the organization of urban banks or in rendering any active assistance with a view to making them function as strong and viable units. The question, therefore, arises as to what should be the role of the state government and others concerned in the promotion and organization of urban banks.

16. As a first step towards organization of urban banks, it is suggested that the Co-operative Department, and the state co-operative bank and central co-operative banks in each state should jointly survey local areas and identify the potential growth centres where urban banks could be organized. The lead in the matter can be taken either by the state co-operative bank or by the

Co-operative Department. Once such centres are located, prominent persons of the locality might be contacted to seek their assistance. Simultaneously, extension work may be undertaken by the Co-operative Department to create a climate for organizing new urban banks. This may take the form of an intensive public information programme regarding the benefits that would accrue from the organization of urban banks. Popular literature on the organization and objectives of urban banks, and various facilities proposed to be provided could be prepared for distribution.

17. Besides extension work required for the purpose, governmental assistance in the form of share capital contribution for new banks organized in backward areas or by the weaker sections of the community would hasten the pace of organization. The need for state government's contribution to the share capital of new banks in such circumstances arises on account of the fact that these banks may not be able to collect the initial minimum share capital required for obtaining a licence from the Reserve Bank to commence banking business. The amount of the government's contribution to the share capital of these banks may be equal to the amount collected by members. In backward areas as well as in respect of banks organized by weaker sections, it is further suggested that managerial subsidy may also be given to new urban banks in the initial period where the Registrar of Co-operative Societies finds that unless such assistance is rendered, prospects of the bank becoming viable are in doubt. This subsidy may be on a tapering scale for 5 years. In addition to the share capital contribution and subsidy for managerial staff in respect of new urban banks in backward areas or organized by the weaker sections, government may provide a subsidy towards rent of the bank's premises, furniture and fixtures etc.

18. Considering the various difficulties in the organization of new urban banks in the backward regions, the Committee feels that certain alternatives can also be thought of as interim arrangements. For instance, in backward areas, wherever necessary, well-established urban banks situated in other areas, with adequate financial and staff resources may be permitted to open branches outside their respective area of operations.

REGISTRATION

19. In terms of the provisions contained in the Co-operative Societies Acts in force in various states, the authority for registering an urban bank vests with the Registrar of Co-operative Societies. However, the control and supervision over the banking business of urban banks is conferred on the Reserve Bank of India consequent on the application of the Banking Regulation Act 1949 to co-operative banks with effect from 1 March 1966.

20. Until October 1974, the Reserve Bank did not lay down any specific norms for the registration of new urban banks or primary credit societies for the guidance of the Registrars of Co-operative Societies. The Registrars had the discretion to register a bank or society irrespective of the consideration of the quantum of initial share capital. Hence, primary credit societies were freely allowed to be organized with initial share capital of less than the statutory minimum of Rs 1 lakh for a primary co-operative bank. As a result, there was a mushroom growth of urban banks in the country after March 1966. The studies conducted by the Reserve Bank revealed that such proliferation of urban banks had taken place not by accident but by design. A number of new institutions deliberately kept their share capital below Rs 1 lakh so as to avoid the need for getting a licence from the Reserve Bank to commence banking business. As pointed out in paragraph 5 above, many such banks were later on found to be unable to comply with even the essential provisions of the Banking Regulation Act 1949. They could not also afford to employ competent staff and consequently the management tended to become weak. The need for countering these unhealthy trends of proliferation of weak urban banks by a suitable check at the time of registration itself was, therefore, felt and the Reserve Bank took steps towards evolving norms for the registration of new urban banks. For instance, a Study Team appointed by the Reserve Bank in 1973 had made various recommendations in regard to the conditions to be satisfied prior to registration of urban banks in Maharashtra. These recommendations were considered at the Second Seminar of Chief Executive Officers of urban banks held in Pune in March 1974 and at a meeting of the Registrars of Co-operative Societies of Gujarat, Karnataka, Maharashtra and Tamil Nadu convened by the Reserve

Bank in August 1974. As per the consensus arrived at the above seminar and meeting, certain norms were evolved for the registration of new urban banks which were later communicated to the Registrars of Co-operative Societies of all states under the Reserve Bank's circular letter No. ACD. RBL. 384/J. 74-5 dated 5 October 1974. These norms are enumerated below:

- (i) A primary credit society or a primary (urban) co-operative bank should be registered by the Co-operation Department only if the initial share capital collected at the time of registration is not less than Rs 1 lakh. This applies to both metropolitan centres and other centres.
- (ii) (a) Promoters of primary credit societies/primary (urban) co-operative banks should conduct a detailed study and survey regarding the population of the area to assess the prospects for deposit mobilization and scope for lending to small and medium-sized industries with special reference to the small-scale industries recognised by the Reserve Bank as eligible for refinance from it.
(b) It should also be ensured by the Co-operation Department that in connexion with the proposals for registration of primary credit societies/primary (urban) co-operative banks, the survey reports filed along with the application for registration, contain detailed schemes for deposit mobilization.
(c) The potential of the proposed area of operation should be clearly adequate to enable the society/bank to attain viability within a period of three years.
(d) The Co-operation Department may consult the state co-operative bank before considering the proposals for registration.
- (iii) A minimum membership of 500 should be insisted upon at the time of registration and it should be possible to increase the membership to 2000 within a period of 3 years.
- (iv) Normally, the area of operation of a primary credit society/primary (urban) co-operative bank should be confined to the town or city where it has its head office. Identical area or overlapping area of operation for the new primary credit society/primary (urban) co-operative bank should as far as possible be avoided. In metropolitan centres, the area

of operation should be confined to contiguous municipal wards or zones. In other urban or semi-urban centres covering municipal towns or tehsil headquarters without municipalities, the area may cover the whole of the municipal or tehsil limits as the case may be.

- (v) At the time of registration, the by-laws submitted by the promoters of a proposed primary credit society/primary (urban) co-operative bank should be carefully gone through by the Co-operation Department with a view to ensuring that they do not contain provisions which are defective or do contain provisions which are essential.

21. Further, with a view to preventing unscrupulous persons from promoting new urban banks for gaining undue advantage and utilising the resources of banks for their own selfish purposes in an irregular manner, the Reserve Bank in its circular letter ACD. ID. 4658/J. 21-76/7 dated 1 December 1977 advised the Registrars of Co-operative Societies that before proposals for registration of new urban banks were cleared by the departmental authorities, the antecedents of the promoters should be thoroughly checked.

22. In the context of the recommendations made elsewhere in this Report, some of the norms fixed by the Reserve Bank for the registration of urban banks require a review as indicated below:

(a) *Minimum Share Capital*

The condition regarding the initial share capital of Rs 1 lakh to be collected at the time of registration of an urban bank was stipulated by the Reserve Bank with a view to preventing the entry of primary credit societies as primary co-operative banks, i.e., primary credit societies initially registered with a share capital of less than Rs 1 lakh which subsequently attained the status of primary co-operative banks when the share capital and reserves reached the level of Rs 1 lakh. Under this condition, a new primary co-operative bank cannot commence banking business unless a licence is first obtained from the Reserve Bank in this behalf. This would give the Reserve Bank an opportunity to examine various aspects such as adequacy of its share capital base and potentialities of loan business before a licence is issued to

commence banking business. The need for revising the norm regarding minimum share capital and reserves has been voiced by many of the respondents to the questionnaire issued by the Committee. Several of them are of the view that the minimum owned funds may be fixed depending on the centres where the banks are operating. It is argued that in areas where the population is higher, there is greater scope for increasing membership and building up share capital and reserves. On the other hand, some parties have favoured the retention of the present standards in regard to the minimum share capital, on the ground that share capital is bound to increase automatically with increase in the volume of loan business as loans are linked to members' share-holdings. Considering the various viewpoints expressed in this connexion, the Committee is of the opinion that, on considerations of viability of banks, there is a case for fixing a higher level of minimum share capital for registration and licensing.

23. In Chapter 5, on viability of urban banks, it has been recommended that the minimum share capital for a viable bank would be of the order of Rs 2.25 lakhs, Rs 4.50 lakhs and Rs 6.00 lakhs in semi-urban, urban and metropolitan centres respectively, to be attained over a period of five years. Besides, the banks in each of the centres should be able to have reserves of about Rs 0.45 lakh, Rs 0.90 lakh and Rs 1.20 lakhs over a period of 5 years. The reserves could be built up after a period of 3 years when the bank may be expected to start earning profits. It has been assumed that a bank would be able to collect about two-thirds of the total share capital that would be required for attaining viability prior to the commencement of its business. The balance would be collected over a period of 5 years. It has, therefore, been recommended that at least Rs 1.50 lakhs, Rs 3.00 lakhs and Rs 4.00 lakhs should be collected as share capital by those desirous of promoting an urban bank in semi-urban, urban and metropolitan centres respectively. Based on the viability study and the conclusions arrived at, the Committee is convinced that the condition regarding initial share capital of not less than Rs 1.00 lakh for an urban bank at the time of registration, uniformly in metropolitan/urban/semi-urban centres, needs upward revision. Accordingly, it is recommended that an urban bank may be registered by the Co-operative Department only after the

initial share capital collected at the time of registration is not less than Rs 1.50 lakhs in a semi-urban centre with a population of less than 1 lakh, Rs 3.00 lakhs in an urban centre with a population of 1 lakh to 10 lakhs and Rs 4.00 lakhs in a metropolitan centre with a population of over 10 lakhs according to the latest Census. Consequently, the statutory minimum of share capital and reserves of Rs 1 lakh for a primary co-operative credit society to become a primary co-operative bank as indicated in clause (ciii) of section 2 of the Reserve Bank of India Act 1934 would require an upward revision depending upon the area referred to above. It is suggested that necessary amendments to the Act *ibid* and consequential amendments to the Banking Regulation Act 1949 may be made as indicated in the Annexure to this Chapter.

(b) *Attainment of Viability*

24. The Reserve Bank has stipulated in its circular letter No. ACD. RBL. 384/J-74/5 dated 5 October 1974 that the potential of the proposed area of operation should be clearly adequate to enable a new bank to attain viability within a period of 3 years. However, in keeping with the norms adopted for working out the viability of an urban bank as discussed in Chapter 5, it would suffice for an urban bank to attain viability within a period of 5 years, instead of 3 years fixed earlier.

(c) *Membership*

25. As per the norms indicated by the Reserve Bank, a minimum membership of 500 should be insisted upon at the time of registration and it should be possible to increase the membership to 2000 within a period of 3 years. Several representations from various quarters have been made to the Committee voicing difficulties in complying with this norm. The majority of the respondents to the questionnaire issued by the Committee have represented that the initial membership of 500 at the time of registration is already too high especially in urban and semi-urban areas and there is no need to insist upon a further increase in membership after registration. It is also pointed out in this connexion that the period of 3 years is too short for banks to achieve the increase in membership.

26. In paragraph 18 of Chapter 5, it has been indicated that the number of members necessary to contribute the initial share capital cannot be precisely assessed. However, considering the quantum of initial share capital proposed for licensing of a bank and even assuming that a sizeable amount will be contributed by promoters, it will be necessary to have a reasonably large number of members to subscribe the requisite amount of initial share capital. It is, therefore, recommended that the requirement of initial membership may be fixed at 1000 in a metropolitan centre, 700 in an urban centre and 400 in a semi-urban centre.

(d) *By-law Provisions*

27. Hitherto, the policy has been that the by-laws of banks should not contain any provisions regarding granting of loans to co-operative organizations (e.g. co-operative housing societies, consumers stores etc., which enjoy separate arrangements for provision of finance). This is also in consonance with the policy and legal requirement that co-operative societies cannot be admitted as members of urban banks. In recent years, urban banks are being called upon to provide finance for housing to housing boards and societies and other institutions engaged in the provision of housing facilities in urban and rural areas. Further, the financing of consumers stores is also a recommended activity. Therefore, there should not be any objection if the by-laws of new urban banks contain provisions for the granting of loans to housing societies, consumers stores, labour contract societies, transport workers societies, engineering societies, dairy and poultry societies etc., with the permission of the Registrar of Co-operative Societies concerned.

L I C E N S I N G O F B A N K S

28. On registration, a new urban bank cannot commence banking business without first obtaining a licence from the Reserve Bank under section 22 of the Banking Regulation Act 1949. Before granting a licence, the Reserve Bank examines the application of a new bank from the point of its attaining viable status within a reasonable period and also keeping in view other relevant considerations including the public interest that would be served by

establishment of a new bank in the area concerned and the capacity of the proposed bank's management to manage the affairs of the bank to safeguard the interests of depositors. Accordingly, the Reserve Bank has been insisting that every new urban bank should have a minimum share capital of Rs 3 lakhs before it can be granted a licence so as to satisfy the standards of viability. Some relaxations are made in the case of banks organized in undeveloped and underdeveloped areas.

29. Several representations have been made to the Committee that the condition of the Reserve Bank regarding the collection of a minimum paid-up share capital of Rs 3 lakhs is stringent, especially in the case of new urban banks organized in small semi-urban centres. There has been a strong view that the norms for minimum paid-up share capital for an urban bank may be fixed on a varying scale with reference to the economic development of the area, population, jurisdiction etc. The First All-India Conference convened by the National Federation of Urban Co-operative Banks and Credit Societies in Ahmedabad on 5 and 6 March 1978 recommended that the existing norms for registration and licensing of urban banks should be liberalised by the Reserve Bank.

30. In Chapter 5, in which the viability aspects of urban banks have been discussed, the loan business required for a viable urban bank is placed roughly at Rs 40.00 lakhs, Rs 30.00 lakhs and Rs 15.00 lakhs in metropolitan, urban and semi-urban centres respectively, at the end of 5 years after a new bank is established. On this basis, the respective share capital and reserves required for a viable bank at the end of 5 years has been arrived at Rs 7.20 lakhs, Rs 5.40 lakhs and Rs 2.70 lakhs. It has been further indicated that the initial share capital for a new urban bank should be Rs 4.00 lakhs in a metropolitan centre with a population of more than 10 lakhs, Rs 3.00 lakhs in an urban centre with a population between 1 lakh and 10 lakhs and Rs 1.50 lakhs in a semi-urban centre with a population of less than 1 lakh. This initial share capital should be collected by new urban banks before a licence can be granted by the Reserve Bank to commence banking business. They should maintain the real or exchangeable value of

share capital and reserves at the above level so as to carry on banking business.

Co-ordination Between Registration and Licensing

31. An important question that arises in this connexion is how best the registration and licensing of new urban banks could be complementary to each other and what measures should be taken to co-ordinate the functions of the Registrars of Co-operative Societies and the Reserve Bank. As per the practice in vogue at present, a new urban bank approaches the Reserve Bank for a licence to commence banking business only after it is registered as a co-operative bank by the Registrar of Co-operative Societies of the state concerned. There have been occasions, however, when the Reserve Bank could not grant licence to some of the registered banks to commence banking business, because according to the Reserve Bank, there were no prospects of these institutions becoming viable units. For remedying such unpleasant and sometimes embarrassing situations, registration and licensing should be complementary to each other, by a close co-ordination between the co-operative departments and the Reserve Bank. It is, therefore, recommended that proposals for registration of a new urban bank should first be studied in depth from the viability angle and other relevant requirements jointly by a team of officers of the Reserve Bank of India, the State Co-operative Department, the state co-operative bank and a representative of the promoters before a bank is registered by the Registrar of Co-operative Societies. The Reserve Bank of India Officer may act as the co-ordinator for such a joint study. The registration and licensing of urban banks should be dependent on the findings of the joint study. If the study reveals that the proposed institution has potentialities of becoming a viable unit as per the norms recommended in Chapter 5 of this Report and is in favour of the bank being organized, necessary action may be taken by the Registrar of Co-operative Societies for registering the proposed institution and by the Reserve Bank for issue of a licence.

32. In addition to the viability aspect, it is suggested that the joint study should examine the by-laws of the proposed bank, so as to obviate the need to examine the by-laws again in depth by the

Reserve Bank and to ensure that the licence is issued within as short a time as possible after registration. The joint study should also reveal whether there is genuine need for a new urban bank in the area and the bank's management is competent to carry on its affairs in such a manner as to safeguard the interests of members and depositors.

Licensing of Existing Banks

33. While new urban banks have to obtain a licence from the Reserve Bank before they commence banking business, those urban banks which existed at the time of extension of the Banking Regulation Act 1949 to co-operative banks on 1 March 1966, and primary credit societies which have subsequently become urban banks, have submitted applications to the Reserve Bank in terms of section 22(2) of the Act *ibid* for carrying on banking business. Having so applied, an urban bank can carry on banking business until it is refused a licence on grounds that (a) it is not in a position to pay its present and future depositors in full as and when their claims accrue, and (b) its affairs are being conducted in a manner detrimental to the interests of the present and future depositors. No urban bank which existed as on 1 March 1966, or a primary credit society which became an urban bank after the above date, has so far been issued a licence by the Reserve Bank to carry on banking business in India. The number of banks involved for licensing purposes is very large. As on 30 June 1977, there were 1162 urban banks in the country, of which only a small number, viz., 96 have been licensed, all of which being new banks. It needs hardly any mention that licensing confers certain distinct advantages and a status to a bank. It enhances the image of a bank in the eyes of the public including the depositors and other clients. Further, licensed urban banks automatically become eligible for the guarantee scheme for small-scale industries operated by the Reserve Bank, whereas an unlicensed bank has to satisfy certain norms before becoming eligible to avail itself of the guarantee cover in respect of its advances to small-scale industries. In this connexion, at the First All-India Conference convened by the National Federation of Urban Co-operative Banks and Credit Societies in Ahmedabad on 5 and 6 March 1978, it was urged that the Reserve Bank might issue expeditiously licences to the existing

urban banks. It is, therefore, recommended that the Reserve Bank should start issuing licences to the existing banks, without further delay, a beginning being made in regard to banks which *prima facie* satisfy the important requirements of the Banking Regulation Act such as sections 11, 22(3)(a) and 22(3)(b). In this connexion, it has been recommended separately in paragraph 10 of Chapter 11 that a separate cell may be created in the Agricultural Credit Department to look after the needs and problems of urban banks. One of the functions of this cell could be the issue of licences to the existing urban banks for carrying on banking business.

34. In paragraph 30, the requirements in regard to share capital and reserves, and loan business of an urban bank at the viability level, i.e., at the end of 5 years after its establishment, in semi-urban, urban and metropolitan centres have been indicated. It is recommended that these viability standards may be taken into account by the Reserve Bank while considering the licence applications of the existing urban banks under section 22 of the Banking Regulation Act. The Co-operative Department should ensure that the banks build up their share capital and reserves to the viability levels.

35. In view of the recommendations made in paragraphs 23 and 30 for upward revision of the minimum share capital and reserves of a new primary co-operative bank to start with, it is necessary that the existing primary co-operative banks not having the statutory minimum share capital and reserves recommended in this Report should be required to build up the real or exchangeable value of the minimum statutory share capital and reserves within a period of 3 years, or such extended period not exceeding 2 years as may be fixed by the Reserve Bank of India from the date of amending clause (ciii) of section 2 of the Reserve Bank of India Act, to a level of at least Rs 1.50 lakhs in a semi-urban centre, Rs 3 lakhs in an urban centre and Rs 4 lakhs in a metropolitan centre, so as to carry on banking business.

Nomenclature

36. While on the subject of organization and licensing of urban

banks, the Committee should like to consider whether any change in the nomenclature of 'Urban Co-operative Banks' is called for, especially in the context of these banks expanding to semi-urban and at times into rural areas. Some of the respondents to the questionnaire have suggested a change in the nomenclature of 'Urban Co-operative Bank'. The names proposed in this connexion are, (i) Rural Service Co-operative Bank, (ii) Co-operative Bank, (iii) Local Co-operative Bank, and (iv) Peoples/Janata Co-operative Bank. On the other hand, a majority of respondents are not in favour of a change in the nomenclature on the ground that (i) these banks should not function in rural areas which are to be served by thrift and credit societies, (ii) by and large, urban banks cater to the needs of middle and low income groups whose predominance is felt in urban and semi-urban areas, (iii) the semi-urban and rural centres where these banks are functioning may become urban centres gradually, (iv) these banks should function in urban centres only, to ensure mutual knowledge and cohesion among members and to be true to their name, and (v) the word 'urban' is a part of the image and goodwill built up by the old institutions. In the paragraphs relating to the area of operation which follow, the Committee has suggested that the operational area of an urban bank has to be restricted ordinarily to the municipal limits of a town or city. Extension of the area of operation beyond these limits will only be in exceptional cases and under special circumstances. The alternative terms as suggested above are, in the Committee's view, no better. Besides, statutorily these banks are called primary co-operative banks. The Committee is, therefore, of the view that no change in the nomenclature of urban co-operative banks is warranted for the present.

AREA OF OPERATION

37. The question of the area of operation of an urban bank has been examined by various committees in the past. Unlike commercial banks, the area of operation of an urban bank has an important bearing on its functioning, because a compact area of operation would ensure mutual knowledge and cohesion among its members, which is essential for maintaining the co-operative character of the institution. The Committee on Co-operation appointed by the Government of Madras (1968) held that there

should be ordinarily only one urban bank for a town. The Study Team appointed by the Reserve Bank in January 1973 to examine the working of some of the newly registered urban banks and to make suggestions regarding norms for registration of new banks in Maharashtra had observed that the area of operation of an urban bank should ordinarily be confined to the town or city where it has its head office. In metropolitan centres, it was suggested that the area of operation should be confined to contiguous municipal wards or zones, while in other urban or semi-urban centres covering municipal towns or tehsil headquarters without municipalities, the area should cover the whole of the municipality or tehsil limits as the case may be. The Committee on Problems of Urban Co-operative Banks in Maharashtra (1976) did not favour an urban bank having its area of operation beyond a district. An urban bank is normally not permitted by the Reserve Bank to open an office in a rural area falling within its area of operation. Requests for opening branches in rural areas are allowed only when there is a large non-agricultural population engaged in mining, cottage industries etc., and also keeping in view the possible effects on the business of primary agricultural credit societies functioning in these areas.

38. While this has been the approach so far for determining the area of operation of an urban bank, the massive branch expansion programme of commercial banks in recent years, with its emphasis on opening of offices in semi-urban and rural areas, has created a new situation warranting a reconsideration of the existing stipulations regarding the area of operation of an urban bank. It is, therefore, necessary to decide whether the changed context would call for a departure from the existing approach so as to make it more liberal and flexible, and whether it would be desirable for urban banks to extend their sphere of activity beyond the limits presently laid down. Replies to the questionnaire issued by the Committee have revealed that the opinion on the issue is divided. Those who hold the view that it is necessary to adopt a flexible approach so as to permit urban banks to operate over a district, state or even beyond a state, advance the following arguments in favour of the proposition:

- (i) Generally, the growth of an institution depends on the

pockets of influence it can command. Such pockets of influence which arise out of the character and constitution of the institution may spread to all over the country or to a particular part of the state or district. If any restriction is placed on the area of operation of such a bank, it would only hamper its growth. Unrestricted operations would help a bank to organize itself effectively by securing the patronage of the public.

- (ii) In view of the increased competition consequent on the massive branch expansion programme of nationalised banks and also on viability considerations, the area of operation should be made as flexible as possible depending upon the local circumstances. This is especially necessary when the size of the town, city, district and state and the density of population therein vary throughout the country.
- (iii) A wider area of operation will enable urban banks to cater to the credit needs of a large number of salary earners, artisans and small businessmen.
- (iv) The area should have relevance to financial stability of the institution, its turnover, its resources in men and material and the capacity of the bank to provide services to its far-flung clientele. Accordingly, the banks in metropolitan cities may extend their operations over the entire country while other urban banks may cover the entire state. Urban banks having deposits of Rs 10 crores and over may be permitted to open branches beyond a district or a state.
- (v) Bigger urban banks may be permitted to function on par with commercial banks without restricting their area of operation. In case of medium-sized banks, they should be allowed to work within the state as their area of operation.
- (vi) It is hardly possible to have mutual knowledge and cohesion among members in urban banks in a city or town having population in lakhs. A bank would not normally seek extension of its area of operation unless it can control effectively its far-flung activities.
- (vii) The co-operative form of organization has come into existence to form a base for some activity, and service is the main aim. Hence the area of operation should be

extended according to the progress achieved by the management and the strength and financial stability of the institution, and the requirements of the area. Normally, the area of operation of an urban bank should extend over a district. In centres where there are no urban banks or existing urban banks are unable to provide facilities, such banks may be organized having a larger area of operation. In unbanked areas, urban banks may be permitted to operate throughout the district.

39. The various viewpoints expressed in favour of relaxing the present operational limits of urban banks are based purely on considerations of expediency. They could perhaps marginally contribute to the betterment of urban banks. But they obscure the fundamental issue, viz., that urban banks are basically a co-operative form of organization wherein it is very essential that mutual knowledge and cohesion should prevail among members, and lack of this will, sooner or later, result in dilution of its co-operative character and ultimately in the loss of identity of the institution itself. So, any process of widening the area of operation beyond prescribed limits is bound to make the operations of an urban bank increasingly impersonal, and in the long run, will not be in the interests of the bank itself. While, therefore, the Committee is not in favour of suggesting any large-scale relaxation in the present limits prescribed for the operation of an urban bank, certain modifications are recommended keeping in view the emerging needs of the situation. Thus, urban banks having their area of operation confined to the municipal limits of the town may be permitted to extend the operational limits to the adjoining rural areas, i.e., up to the peripheral limits in conformity with the definition of 'urban agglomeration' as given in the Urban Land (Ceiling and Regulations) Act 1976. Again, the present restriction of the areas to contiguous wards/zones indicated by the Reserve Bank in metropolitan centres will need relaxation. In case the area of operation of an urban bank is restricted to a particular part of a city, problems may arise in regard to financing for productive purposes and especially to cottage and small-scale industries. This is especially when the area where the bank is functioning may provide ample scope for deposit mobilization, but difficulties may be experienced in regard to profitable employment of funds when

there is no scope for industrial advances and the people residing in the area are mostly wage earners. Conversely, there may exist adequate potential for loaning in the operational area of a bank, but from the point of view of mobilizing deposits, the prospects may be comparatively poor. Further, all the people residing in cities may not be permanently residing in a particular place. In view of the foregoing, there appears to be no particular advantage or ground for linking the area of operation of an urban bank to a contiguous zone or ward. It is desirable to permit banks in metropolitan centres to operate throughout the limits of the metropolitan area.

40. In this context, a view is also held that the operational area of a group of banks should not be the same as it may give rise to undue competition among them. This may not be a valid consideration, especially since urban banks in recent years have been facing competition from commercial banks in the same area. There would, therefore, appear to be no case for demarcating the area of operation only in respect of urban banks functioning in a city. Nevertheless, the tendency to organize more than one bank in the same area of a city without adequate scope is not desirable.

41. In the preceding paragraphs, the factors which should determine the area of operation of an urban bank in different areas have been discussed. While these may be the general norms, there could be also situations warranting a flexible approach, under certain circumstances. For instance, in areas where there is poor growth of the urban credit movement or existing urban banks are weak or the operational limits of a new bank to be registered in a town require a larger area of operation on viability considerations, suitable relaxations should be given in deserving cases, with adequate safeguards, while registering new urban banks, permitting their area of operation to be extended to the whole of a district.

BRANCH LICENSING

42. In terms of section 23 of the Banking Regulation Act 1949 (As Applicable to Co-operative Societies), no co-operative bank shall open a new place of business or change otherwise than within the same city, town or village, the location of an existing place of

business. An exception has, however, been made for opening of a branch for a period not exceeding one month in a temporary place of business within a city, town or village or environs thereof within which the co-operative bank has a place of business, for the purpose of affording banking facilities to the public on the occasion of a conference, a mela or any other like occasion. The Reserve Bank permits opening of an office/branch of an urban bank outside its area of operation in the following circumstances:

- (i) In an area where the new office is proposed to be opened, there is no prospect for an independent bank to come up at least for some time in the immediate future. The permission is given on the understanding that the business of the office permitted to be opened should be handed over to the separate bank when it is organized.
- (ii) In pursuance of the recommendations made by the Working Group on Industrial Financing through Co-operative Banks (1968), banks should be permitted (a) to open a branch office anywhere in the district or state where there are good prospects for business with industrial units and these are not being served by local urban banks, and (b) to extend the area of operation so as to make it possible for them to have dealings with the individual units which are not far away from an office of the bank to render supervision both costly and difficult.
- (iii) Permission to urban banks to open branches in states other than the one in which they are registered is not granted except in exceptional circumstances. Recently, the Reserve Bank has taken the view that the bank should prove that its existing membership has definite trade and commercial links in the places where the new branch is to be opened and the non-existence of its branch has resulted in the diversion of substantial business which otherwise would have accrued to it.
- (iv) Urban banks are not ordinarily allowed to extend the jurisdiction to cover an entire state and particularly beyond the boundaries of a state as these institutions are expected to function in geographically compact areas not usually extending beyond the municipal limit of the city or town

which can ensure close supervision as well as active participation by members in its management.

43. Applications of banks for opening offices within or outside their area of operation are considered by the Reserve Bank keeping in view the existing banking facilities of both commercial banks and other co-operative banks available in the area where the offices are proposed to be opened.

44. A view is held in this connexion that urban banks should be permitted to open offices anywhere within their area of operation without seeking permission from the Reserve Bank as is allowed to central co-operative banks. The central banks are specifically given this facility, keeping in view the responsibility devolving on them for the disbursement of agricultural loans and their obligation for serving the affiliated primary societies. If urban banks are allowed to open branches without restraint, there is every possibility that this will result in a multiplication of offices competing with each other in particular centres thus resulting in overbanking of the areas, wasteful duplication and resulting weaknesses. Further, this will result not merely in unhealthy competition with commercial banks but as between urban banks themselves. For a planned and systematic expansion of branches, it is necessary to ensure that licences are granted for opening of branches only after proper satisfaction that the needs and potential of any branch warrant the opening.

45. While, therefore, the Committee is in agreement with the present stipulation of obtaining a licence for the opening of a branch by urban banks, the exemption accorded to urban banks from obtaining a licence for opening a branch in a temporary place of business within their area of operation may be relaxed from one month to three months, since fairs, particularly organized on an international basis, last for more than one month. This would reduce administrative inconvenience both to co-operative banks concerned as well as to the Reserve Bank.

46. An important question which arises is whether there is any need for urban banks to open offices outside their area of operation. The majority of the respondents to whom the Committee had issued

the questionnaire are in favour of permitting banks to move out of their area of operation for opening offices on the ground that (i) every town has trading or mercantile relations with the adjoining towns or cities in the same district and urban banks have developed their own sphere of influence in such places; (ii) this may enable urban banks to finance artisans and small-scale industries in a wider area; (iii) expansion may be allowed in those areas which are not already served by urban banks; (iv) they may be allowed to expand to other areas for collecting deposits and issue of jewel loans and (v) any restriction on the area of operation would hamper the growth of an institution in the long-run. Some have opined that at least well-managed and financially sound urban banks may be allowed to move out of their area of operation.

47. The contrary view expressed in this connexion is that in order to maintain the co-operative character of the institution, urban banks should not be permitted to open offices to operate outside their area of operation. This alone will enable banks to utilise a greater portion of their resources for the economic development of the local community and building up integrated and balanced growth of the region. It will also be in keeping with the innate character of an urban bank as being primarily a service-oriented institution.

48. Considering the various views expressed in the matter, the most important and fundamental objective for which an urban bank comes into being should not be lost sight of. Basically, urban banks are institutions intended to serve the needs of small people in their area of operation. Identifying the problems and evolving schemes suited to the needs of members, assessment of credit-worthiness of the intending borrowers and their repaying capacity and supervision of credit extended to them will be possible and successful only if the area of operation of an urban bank is compact.

49. In view of the foregoing, the existing restrictions on urban banks in opening branches outside their area of operation may continue. In exceptional circumstances, the request of banks for opening offices outside the area of operation may be considered taking suitable safeguards with a view to preserving the co-operative

nature of the institution. While the existing relaxation in regard to opening of an office in an urban area or semi-urban area other than the town in which the urban bank is registered, in cases when the area where the new office is proposed to be opened cannot start an independent bank immediately may continue, the Committee is of the view that the condition being imposed by the Reserve Bank regarding the transfer of business of the branch to a new bank when it comes up is stringent. For one thing, this condition will stand in the way of the growth of the branch, since the bank will not feel enthused and totally committed to expand its business fully in view of the impending transfer of its interests. Such a transfer is also very difficult of implementation. It will, therefore, be in the interests of the area that the opening of branches in such areas is allowed without such a condition. The facility extended to urban banks to open offices anywhere in the district or state where there are good prospects for business with industrial units and these are not being served by local urban banks, in pursuance of the recommendations made by the Working Group on Industrial Financing through Co-operative Banks (1968), should also continue. Urban banks should not normally be permitted to open offices outside the state.

Co-ordination

50. Till April 1969, preferential treatment was given to co-operative banks in the matter of opening of branches at places with a population of 5,000 or less. The Department of Banking Operations and Development of the Reserve Bank which deals with the applications of commercial banks used to consult the Agricultural Credit Department on proposals of commercial banks for opening of branches at places with a population of 5000 or less. This was done with a view to giving assistance to co-operative banks serving or intending to serve small places. After nationalization of the major commercial banks, this policy has changed and a perspective rolling plan for three-year periods for opening of branches by commercial banks is called for from banks since 1972 by the Department of Banking Operations and Development, indicating in detail the names of centres where they propose to open their offices during the ensuing year and the quantitative state-wise plans for the next two years. While there are stipulations in regard to

population and distance criteria for opening of branches by different commercial banks, *inter se*, no cognisance is taken of the existence and operation of an urban bank in the same area. Ordinarily, not more than one bank office is allowed for every 10,000 of population. Where, however, the potentialities or any other special circumstances so warrant, opening of more offices is allowed. The population norm is 5000 in the case of metropolitan centres and such urban centres where there is high deposit potential. A commercial bank is also required to observe a special distance norm in the residential locality in the metropolitan/port towns. A minimum of 400 metres is normally required to be maintained in such centres. In other centres, a bank should not, as far as possible, open its offices in the same building or in the adjoining or opposite building where any of the commercial banks is already having an office. The Committee is, therefore, of the view that there is need for having an effective co-ordination at the level of the Reserve Bank between the Agricultural Credit Department and the Department of Banking Operations and Development, before granting permission to commercial banks and urban banks for opening offices, with a view to avoiding unhealthy trends in the opening of offices by these banks. Preference should be accorded to urban banks for opening offices in smaller centres.

51. The Committee's recommendations on the subject are as follows:

(a) In districts where the Lead Bank Scheme is in operation, the District Co-ordination Committee may allocate certain unbanked or under-banked areas to urban banks functioning in the district to open offices if that area falls within the area of operation of urban banks, and an urban bank is desirous and capable of opening branches at that centre.

(b) Urban banks may be requested to send perspective plans for opening offices during the ensuing year to the Agricultural Credit Department of the Reserve Bank. This would facilitate scrutiny and co-ordination at the level of the Reserve Bank before according sanction to the plans submitted by commercial banks.

No-Objection Certificate

52. According to the practice in vogue at present, an urban bank

is required to produce a no-objection certificate from the Registrar of Co-operative Societies when it approaches the Reserve Bank for permission to open a new branch. Ordinarily, there is a provision in the by-laws of co-operative banks that a branch office will be opened with the prior approval of the Registrar of Co-operative Societies. However, the West Bengal Co-operative Societies Act and the Rules framed thereunder do not stipulate that the Registrar's approval should be obtained for opening of a branch and, therefore, licences to urban banks in the state to open branches are issued without insisting on such a certificate. This raises the question whether it is desirable to dispense with the requirement for obtaining the no-objection certificate from the Registrar and allow urban banks to open branches without such a certificate. The majority opinion according to the replies to the Committee's questionnaire is in favour of obtaining no-objection certificates from the Registrar of Co-operative Societies on the ground that this would give an opportunity to the Registrar of Co-operative Societies to ensure that (i) the new branch would be viable enough to cater to the needs of members and to provide banking facilities to the depositors to a reasonable extent in the area, (ii) to examine its impact on the business of existing banks in that area and (iii) that the norms stipulated by the Reserve Bank are complied with. On the other hand, those who are in favour of doing away with the requirement argue that there is undue delay in the issue of no-objection certificates by the Registrars which comes in the way of the timely opening of the proposed branch by the bank and, to obviate this difficulty, it is suggested that in case the no-objection certificate is not issued within a period of 60 days, it may be deemed to have been issued. Some of the respondents to the questionnaire have also stated that the Co-operative Departments have no machinery to examine the proposals in depth and these certificates are issued in a routine way. Having examined the various viewpoints, the Committee is of the view that since powers regarding constitution and management of co-operative societies are vested with the Registrar of Co-operative Societies under the Co-operative Societies Act/Rules in force in various states, and as the question of opening of a branch is a matter having a bearing on its constitution, the clearance of the Registrar is necessary and cannot be dispensed with. The Registrar, with the assistance of his officers stationed

at district/taluka level, should be in a position to assess the potentialities of the branches proposed to be opened and ensure the compliance with the norms prescribed by the Reserve Bank for opening of branches before no-objection certificates are issued. It is, therefore, recommended that while the Reserve Bank of India may continue to insist on the production of no-objection certificate from the Registrar, the following guidelines may be followed by the Registrars of Co-operative Societies in order to make the no-objection certificate more purposeful and useful:

(i) The no-objection certificate may be issued by the Registrar early, within two months from the date of application by a bank.

(ii) The validity period of the no-objection certificate may be for one year.

(iii) The Registrar should ensure compliance with the norms prescribed by the Reserve Bank for opening of branches before a no-objection certificate is issued.

Other Conditions

53. Before granting any permission under section 23 of the Banking Regulation Act for opening of branches to urban banks, the Reserve Bank may satisfy itself by an inspection under section 35 or otherwise about (i) financial condition and history of the bank, (ii) general character of its management, (iii) adequacy of its capital structure and earning prospects and (iv) the public interest that will be served by the proposed branch. The Reserve Bank also insists on compliance with certain other conditions before permission is granted to urban banks for opening of branches as indicated below:

- (i) The membership in any bank should not be restricted to a particular class of people only, but should be open to all eligible persons irrespective of community, religion, caste, creed, language etc.
- (ii) The bank's by-laws should have a provision to admit partnership concerns, joint-stock companies etc., as its members.
- (iii) Normally, there should be only one class of regular membership for individuals.
- (iv) The face value of a share should not ordinarily be more

than Rs 25. However, in the case of existing urban banks where the face value of a share is not more than Rs 50 per share, such banks need not reduce the face value of a share to Rs 25/-.

- (v) Shares should not be sold at a premium.
- (vi) The bank's by-laws should not prescribe any minimum share qualification for ordinary membership.
- (vii) The bank's by-laws or election rules should not prescribe any minimum share qualification for a member to contest for a seat on the board of directors.
- (viii) There should be a provision in the bank's by-laws for representation on the board of directors to members of the branches outside the head office town. For this purpose, it would be necessary to form a representative general body of the members at these branches from which the director is to be elected.
- (ix) The bank should do away with the practice, if any, of admitting regular borrowers as nominal members. Nominal membership should be strictly confined to co-parceners, non-borrowing sureties and those who borrow occasionally for temporary periods against certain tangible securities only such as gold and silver ornaments, life insurance policies, fixed deposit receipts and government and other trustee securities.
- (x) Adequate control should be exercised over the working of the branches. Branch advisory committees with limited powers to sanction loans should be constituted for each and every branch outside the head office town.
- (xi) The bank should have declared a reasonable rate of dividend, i.e., at least 3 per cent.
- (xii) The bank should constitute various reserves etc., in accordance with the Co-operative Societies Act/Rules/by-laws.
- (xiii) The bank should have attained a reasonable level of loan business at the time of application for permission to open a branch.
- (xiv) There should be a provision in the bank's by-laws or loan rules for share linking to borrowings by a member.
- (xv) The financial position of the bank should be satisfactory. The percentage of overdues to demand for the year ended

30 June preceding the date of application should not be more than 20 unless the total amount of overdues is less than the bank's owned funds.

- (xvi) Irrespective of the provisions in the by-laws or the permission of the Registrar of Co-operative Societies, the total borrowings of the bank, including deposits, should not exceed 25 times of its paid-up share capital and reserves.
- (xvii) The bank should not have defaulted in the maintenance of adequate cash reserve and liquid assets as required under the Banking Regulation Act 1949 (As Applicable to Co-operative Societies) for a period of one year preceding the date of application for licence.
- (xviii) The bank should comply with the provisions of sections 11 and 22(3)(a) of the Banking Regulation Act 1949 (As Applicable to Co-operative Societies).
- (xix) The officer-in-charge of the proposed branch should have sufficient experience and ability to exercise control over the branch.
- (xx) The bank should under no circumstances take any preparatory steps which would amount to a commitment on its part in regard to the opening of a branch in a particular place without clearance from the Reserve Bank. In the same manner, collection of share capital or deposits from the residents of the proposed place of business should not be undertaken before clearance from the Reserve Bank.
- (xxi) The proposed branch should be self-supporting from the first year itself unless there are certain special reasons for the branch likely to become viable a few years later.

54. While the conditions stipulated by the Reserve Bank for granting permission under section 23 of the Banking Regulation Act for opening of offices of urban banks are intended to bring about an orderly and healthy growth of branch expansion programme of urban banks, some of the conditions would nevertheless require review as follows: (i) It has been indicated in paragraphs 19 and 20 of Chapter 5 that the time limit of one year within which a branch should become self-supporting, as presently stipulated by the Reserve Bank, is unrealistic and should be related

to the viability of the branch. Accordingly, it has been suggested that a period of 3 years should be allowed to the branch from the date of its opening to attain the viability level. (ii) It is not necessary that each of the present branches should have been in existence for a period of not less than 3 years and attained the prescribed level of viability before an application for an additional branch is considered. In other words, an urban bank can be eligible for a licence for opening of a new branch if the existing branches have attained the minimum loan or deposit business at the end of each year during the three year period as indicated in paragraph 21 of Chapter 5. (iii) In regard to share value, it is recommended that the existing urban banks where the value is already more than Rs 25 per share, need not be required to reduce the value to Rs 25 in view of the time and workload involved. It is also necessary to review in this context the conditions stipulated by the Reserve Bank with regard to representation to members of branches on the board of directors, and the constitution of branch committees.

Representation on the Board

55. The Reserve Bank requires that there should be a provision in the bank's by-laws for representation on the board of directors to members of branches outside the head office town. The idea underlying this requirement is to ensure adequate representation to members of the branches on the board who would otherwise have little or no voice in the management. This would help in eliminating perpetual control of the management of the banks by a handful of members from the Head Office. The majority of respondents to the questionnaire issued by the Committee are in favour of giving representation on the board of directors to members of the branches. It has been suggested by some respondents in this connexion that care has to be taken to ensure that the board does not become unwieldy and that the proportion of outside members in the board should not be more than one-third of total members of the board. Further, the period of such directorship may be kept at one year and an opportunity given to all branches for deputing members on the board by turn. There are also suggestions that the number of representatives on the board may be one or more from among the branch committees in a metropolitan city. In the case

of other towns, it is thought desirable to have constituencies for a group of branches on zonal/regional basis and their number of directors to be restricted to two. Another suggestion which has been made is that the representation should be in proportion to number of members in the area of branches. It has also been suggested that the chairman of the branch committee may be made the director of the board. On the other hand, those who do not favour the idea of giving representation on the board to members of the branch committees have pointed out that (i) it will entail enormous work and avoidable expenses on travelling and stay of branch representatives, (ii) the agent who is on the spot will be able to take care of the credit needs of local people more effectively than local influential people of the town, and (iii) the representation should be to members of the bank in the area of the branch but not to members of the branch committee as it would make the board unwieldy.

56 Representation on the board to members of the branch is, in the Committee's view, necessary with a view to involving them in the management of affairs of banks. However, in order to obviate any possible difficulties arising in the process, urban banks may group the branches according to the following categories for the purpose of election of directors on the board.

- (i) Branches within the limits of the head office town. The group may include only branches within about 25 kms. from the head office town.
- (ii) Branches falling outside the said limits but within the district, and
- (iii) Branches outside the district including those outside the state.

57. In this context, it is suggested that the following broad norms may be followed in giving representation to members of the branches on the board of management:

- (i) The representation may be based on membership and not on deposits or loan business of branches
- (ii) A certain number of seats on the board may be provided exclusively for the head office town.

- (iii) Every branch in a group may get representation by rotation.

Branch Committees

58. Urban banks are required to constitute branch committees in respect of branches situated outside the head office town, with limited powers to sanction loans. The main idea underlying the constitution of the branch committee is that local leaders will be in a position to advise on matters pertaining to a branch. The setting up of branch committees with limited powers to sanction loans is very necessary especially in view of the fact that the board of directors in the head office may not have all the local feel and mutual knowledge which is very necessary in the case of co-operative banks. The submission of all loan proposals to the board of directors would result in delay in the sanction of loans. Branch committees would be in a better position to make a proper assessment of the eligibility for loans with reference to the financial condition, standing of sureties and creditworthiness of the borrowers and also to ensure proper utilization and proper recovery.

59. Various views are held as to the necessity of constituting the branch committee and the extent of powers to be wielded by it. While some respondents have suggested that the branch committees may be advisory bodies without any power of sanctioning loans because branches may not be aware of the total funds position of the bank, some others hold the view that these committees should be constituted with powers of sanctioning loans up to certain limits for each category of borrowers/loans. The limits may vary depending on the size of the branch and the volume of its business. As a safeguard, a weekly statement containing the loan sanctions, security accepted, should be furnished to the head office. Another view held is that those branches situated at a distance of more than 25 kilometers from each other should have only advisory committees and a group of branches within a periphery of 25 kilometers can have a common branch committee. A view is also held that the constitution of branch committees will bring in local politics and may create situations when the branch manager would be pressurised for sanctioning loans. It has also been pointed out that as urban banks are expected to function

within a limited area of operation, there is no need for branch advisory committees.

60. The Committee is of the view that constitution of branch committees may not be insisted upon in respect of branches situated within a reasonable distance from the head office, say, 25 kilometers. The branch committees may be elected from amongst the members residing in the area of operation of the branch. The director representing the area on the board of directors may preferably be the chairman of the branch committee. The branch committee may also be delegated by the board of directors powers of sanctioning loans up to certain limits.

ANNEXURE

Recommendations of the Committee	Sections of the Reserve Bank of India Act 1934, the Banking Regulation Act 1949 and the Deposit Insurance Corporation Act 1961 Requiring Amendments
1. The condition regarding initial share capital of not less than Rs 1 lakh for a primary co-operative bank at the time of registration uniformly in metropolitan, urban and semi-urban centres needs upward revision. A primary co-operative bank may be registered by the Co-operative Department only after the initial share capital collected at the time of registration is not less than Rs 1.50 lakhs in a semi-urban centre with a population of less than 1 lakh. Rs 3 lakhs in an urban centre with a population of 1 lakh to 10 lakhs and Rs 4 lakhs in a metropolitan centre with a population exceeding 10 lakhs according to the latest Census. This initial share capital should be collected by a new primary co-operative bank before a licence can be granted by the Reserve Bank to commence banking business. A new primary co-operative bank should maintain the real or exchangeable value of its paid-up share capital and reserves at the level mentioned above depending on its location in order to carry on banking business.	Reserve Bank of India Act 1934: Sections 2 and 45H Banking Regulation Act 1949: Sections 5, 7, 11, 22, 36A and 49A (involving amendments to clauses (c), (f), (h), (o), (z a) and (z f) of section 56) Deposit Insurance Corporation Act 1961: Sections 2 (kk) and 2 (q) and 13A

¹ Effective from 15 July 1978, the Act has been renamed as Deposit Insurance and Credit Guarantee Corporation Act 1961.

ANNEXURE (Contd.)

2. Existing primary co-operative banks not having the revised statutory minimum share capital and reserves specified in item 1 should build up the real or exchangeable value of their share capital and reserves within a period of 3 years or such extended period not exceeding 2 years as may be fixed by the Reserve Bank from the date of amending clause (ciii) of section 2 of the Reserve Bank of India Act 1934 to a level of at least Rs 1.50 lakhs in semi-urban centre with population of less than 1 lakh, Rs 3 lakhs in an urban centre with population of 1 lakh to 10 lakhs and Rs 4 lakhs in a metropolitan centre with population exceeding 10 lakhs as per the latest Census so as to carry on banking business.
- Banking Regulation Act 1949:
Sections 22 and 36A(3) (clauses (o) and (z a) of section 56)
3. The practice of primary credit societies commencing banking business, i.e., accepting deposits from non-members, without first obtaining a licence from the Reserve Bank should be stopped. New primary credit societies may therefore be registered for collecting deposits from members only, without using the word 'bank', 'banker' or 'banking' as part of their name.
- Banking Regulation Act 1949:
Section 7(2) (Clause (f) of section 56)
- Reserve Bank of India Act 1934:
Section 2 (To change the definition of a primary credit society)
4. The existing primary credit societies may, however, be allowed a maximum period of 4 years to continue to carry on banking business. During this period, two alternatives are
- Banking Regulation Act 1949:
Sections 22 and 49A (Clauses (o) and (z f) of section 56)

ANNEXURE (Contd.)

- open to them. They can increase their paid-up share capital and reserves to Rs 4 lakhs in metropolitan centres with population of more than 10 lakhs, to Rs 3 lakhs in urban centres with population of 1 lakh to 10 lakhs or to Rs 1.50 lakhs in semi urban centres with population of less than 1 lakh as per the latest Census. They may then apply for a licence to be classified as primary co-operative banks within a period of three months from the date of reaching the required level of share capital and reserves or before the expiry of the period of 4 years, whichever is earlier. Alternatively, they should refund the deposits from non-members fully and stop accepting deposits from non-members withdrawable by cheque, draft, order or otherwise. Suitable amendments should be made in the by-laws to give effect to this. On the expiry of the period of 4 years, they should delete the word 'bank', 'banker' or 'banking' as part of their name.
5. In future, Registrars of Co-operative Societies should not register any salary earners' society with a provision in its by-laws to accept deposits from non-members. In the case of the existing salary earners' societies, including those which come under the purview of the Banking Regulation Act, they should refund non-member deposits in a phased manner within a specified period of 4 years from the date of coming
- Reserve Bank of India Act 1934:
Section 2 (To define an existing primary credit society)
- Reserve Bank of India Act 1934:
Section 2 (To add the definition of a 'Salary Earners' Society)
- Banking Regulation Act 1949.
Sections 7 and 49A (involving amendments to clauses (f) and (z f) of section 56)
Also State Co-operative Societies Acts.

ANNEXURE (Contd.)

into force of the proposed amendment to clauses (ciii) and (civ) of section 2 of the Reserve Bank of India Act 1934 or should make adequate provision for paying non-member deposits. They should also within this period of 4 years delete the provisions in the by-laws which permit the acceptance of non-member deposits and delete the word 'bank', 'banker' or 'banking' from their name.

CHAPTER 7

ASSESSMENT OF ADDITIONAL FACILITIES OR ASSISTANCE NEEDED

IN the previous Chapter, while dealing with the subjects of registration, licensing, area of operation and opening of branches, certain additional facilities needed by urban banks have been referred to. An assessment of further facilities or assistance needed is made in this Chapter in connexion with the membership of urban banks, their owned funds (share capital and reserves), deposit mobilization, borrowings, investment of funds and rehabilitation of weak banks, as required by item 2 of the terms of reference of the Committee.

MEMBERSHIP

2. There is no uniformity in the strength of membership in urban banks. The total membership of 1142 reporting banks in the country as on 30 June 1976 was 46.59 lakhs which worked out to an average of about 4100 per bank. The average membership of urban banks in different states is shown in Table 19.

It may be observed from Table 19 that the average membership per bank is very high in Haryana at 43,184 and in Uttar Pradesh at 7806. This is mainly because of the large membership of certain salary earners' societies functioning in these states as primary co-operative banks. The average membership per bank in Kerala at 5142 and in Tamil Nadu at 9508, which is more than the all-India average, is largely due to the preponderance of nominal membership in urban banks in these states. Individually also, the membership differs widely from bank to bank. While in some banks, the membership has not exceeded 500, there are well developed urban banks in metropolitan cities like Ahmedabad and Bombay in which the membership exceeds 30,000. While the membership should not be too large to make a bank unwieldy, a broad-based membership is essential not only to ensure that the banks are co-operative in character and not the close preserve of a few, but also for strengthening the share capital base of banks

TABLE 19
Membership of Urban Banks as on 30 June 1976

State	No. of Reporting Banks	Membership (Thousands)	Average Membership per Bank
Andhra Pradesh	44	96	4455
Gujarat	251	607	2418
Haryana	3	130	43184
Himachal Pradesh	5	3	600
Karnataka	186	314	1686
Kerala	50	257	5142
Madhya Pradesh	20	65	3249
Maharashtra	306	1080	3259
Manipur	1	1	1212
Orissa	10	49	4861
Punjab	6	2	368
Rajasthan	14	40	2826
Tamil Nadu	125	1188	9508
Uttar Pradesh	25	195	7806
West Bengal	74	488	6598
Delhi	16	20	1264
Goa, Daman & Diu	4	21	5346
Pondicherry	2	3	1644
	1142*	4659	4100

* Including certain primary credit societies also.

as well as for diversification of their loans portfolio. On viability considerations, it has been suggested in paragraph 18 of Chapter 5 that the minimum initial membership for registration and licensing of banks may be 1000, 700 and 400 in metropolitan, urban and semi-urban centres respectively. Where, therefore, banks have membership of less than the number indicated above, steps should be taken to increase the membership early.

3. There are apprehensions in certain quarters that if the membership exceeds a prescribed level, it may not be possible to maintain cohesion among members. This difficulty can be obviated to a great extent, if the banks take steps to enable members to maintain mutual contact. For this purpose, where the membership is large, the concerned banks should divide the membership on an area basis, particularly where branches are set up. Such a division would help banks in appointing a representative general body for

different areas for the purpose of the general body meetings of the institution as a whole. To foster mutual knowledge among members of different areas, quarterly meetings of members area-wise may be held to discuss their problems in dealing with the bank and the progress made by the bank. Suggestions can also be called for from the members in improving the working of their institution. The banks, in turn, should apprise the members about developments in the various fields, through issue of circulars, bulletins etc.

4. The membership of urban banks consists predominantly of individuals. As mentioned in paragraph 32 of Chapter 3, many states have yet to initiate action for the admission of firms, companies and societies registered under the Societies Registration Act 1860 in pursuance of the suggestion made in the Reserve Bank's circulars Nos. ACD. Plan. 558/PR. 414(9)-69/70 dated 4 September 1969 and ACD. Plan. 2383/PR. 414(9)-69/70 dated 27 January 1970.

5. Open membership is a generally accepted co-operative principle. The Study Group on Credit Co-operatives in the Non-agricultural Sector (1963) had observed that the organization of some of the big urban banks in a few states was on a communal basis, and had observed that notwithstanding the advantages arising therefrom, viz., a fairly intimate knowledge of each other's character and resources, the establishment of banks on a communal basis should be actively discouraged. The Study Group had, therefore, recommended that economic interests rather than community or caste should be the bond between the members and accordingly banks might be organized for the benefit and promotion of the economic interests of a particular class of people belonging to the same profession such as fishermen, salary earners, traders etc. It is reiterated that the membership of an urban bank should not be confined to any particular community or caste but should be open to all eligible persons who wish to avail themselves of the services of the bank and abide by the obligations of membership and residing or employed in the area of operations of the bank.

Women Members

6. Recently, a few urban banks have been established by women. The membership of these banks is generally restricted to women. These banks can render a very useful service, especially in

promoting habits of thrift among women and providing credit facilities to them for purposes such as education, purchase of household articles and cottage industries. Besides, organization of separate urban banks by women would provide opportunities to them for coming together and fostering co-operative leadership. The Committee is, therefore, of the view that the organization of urban banks for women may be encouraged provided, however, such banks have potentialities of functioning as viable units. In case the scope for the organization of an urban bank exclusively for women is limited in any area, the existing urban banks may give representation to women members on the board of management and, wherever necessary, set up a separate section to cater for the needs of women members.

Nominal Membership

7. Most of the urban banks are having two classes of members, viz., regular members and nominal or associate members. Nominal membership was introduced with a view to enabling persons to borrow for a short or temporary period against readily realisable securities or self-liquidating securities like gold, trustee securities and LIC policies. They are admitted as nominal members on payment of an admission fee of a nominal amount. They do not subscribe to the share capital nor do they have the right of voting or participation in management. Nominal members are also not entitled to the distribution of profits and do not have any liability in the event of the bank being wound up. The need for nominal membership in urban banks also arises when a person is required by a regular borrower of the bank to stand surety for him or when a person is a co-parcener in a joint Hindu family, as membership of one type or other is essential to proceed against him under the co-operative law in case of default for the recovery of dues. While providing for nominal membership or associate membership, it was expected that it would constitute only a small percentage of the total membership. However, in most of the banks in Kerala and Tamil Nadu, there is generally a preponderance of nominal members over regular members. This is due to the common practice among banks in Kerala and Tamil Nadu to admit nominal or associate members for specific purposes such as issue of gold loans and for being accepted as co-executants in the mortgage deeds executed in favour of banks. Advances against gold are

popular in Kerala and Tamil Nadu and have become an important type of investment of funds of urban banks. Further, in Maharashtra, the by-laws of some of the urban banks provide for sanction of loans to nominal members against household articles. These provisions were made as a sequel to the instructions issued by the Government of Maharashtra in February 1976 to urban banks in the state in the context of providing finance to weaker sections of the society under the debt relief measures.

8. The provision for nominal membership has, however, given rise to certain abuses as some banks resort to the practice of enrolling borrowers as nominal members mainly to deny them voting rights, while at the same time providing them with all types of accommodation which only regular members should be entitled to. With this, only a minority of the total membership gains access to the board of directors and perpetuates its vested interest in management. Further, by admitting a large number of nominal members, the capital base of banks remains weak and outside borrowings get restricted. In view of this, the Reserve Bank has advised urban banks that normally there should be one class of regular membership in banks for individuals and banks should do away with the practice of admitting nominal members and that nominal membership should be strictly confined to co-parceners, non-borrowing sureties and those who borrow occasionally for temporary periods against certain tangible securities only such as gold and silver ornaments, life insurance policies and government or other trustee securities. A number of respondents who have replied the Committee's questionnaire have expressed the view that in addition to co-parceners, non-borrowing sureties and persons who borrow occasionally for temporary periods against tangible securities, nominal membership may also be allowed in certain circumstances, viz., (i) under specific instructions from the government for implementation of special schemes; (ii) after the regular membership has reached a high level; (iii) for sanction of clean limits up to Rs 5000/- and (iv) to chit fund subscribers. A view is also held in this connexion that nominal membership should not be more than 25 per cent of regular membership and that in urban banks it should be allowed for loans up to Rs 500 or less to weaker sections against tangible security. Considering the views expressed in this context by the various respondents to the questionnaire, the

Committee is of the opinion that nominal membership should be restricted to co-parceners, non-borrowing sureties and persons who borrow occasionally against tangible securities. In banks where nominal membership is already high, they should take concrete steps to reduce such membership by enrolling as regular members, persons other than those who are permitted to be nominal members, i.e., non-borrowing sureties, co-parceners or those who borrow occasionally against gold, government securities etc.

Dual Membership

9. Another question which requires consideration in this context is dual membership since there has been a concentration of urban banks in few cities and towns. There are instances where persons are members of more than one urban bank. This has given rise to problems of dual or even multiple financing. Although the Co-operative Societies Acts of most of the states and by-laws of urban banks do provide that no member shall be allowed to borrow at the same time from more than one co-operative credit society, it is very difficult to verify the borrowings of the members and enforce the legal provisions. Consequently, borrowers are, in some cases, indebted to more than one bank resulting in default in the repayment of dues to one or more institutions. With a view to curbing the tendency of borrowing from more than one urban bank, the Committee is of the opinion that the practice of dual membership in urban banks should be given up. The State Co-operative Societies Act/Rules may be amended to prevent membership in more than one urban co-operative bank.

OWNED FUNDS

10. The owned funds consist of paid-up share capital and reserves created out of profits. As on 30 June 1977, the owned funds of 1105 reporting urban banks totalled Rs 117 crores, of which paid-up share capital amounted to Rs 70 crores and reserves to Rs 47 crores. The owned funds formed 16 per cent and 28.7 per cent of the working capital and the total loans and advances of urban banks respectively on 30 June 1977. The classification of urban banks, including salary earners' societies, coming within the purview of the Banking Regulation Act 1949, on the basis of their owned funds in the states as on 30 June 1977 is shown in Table 20.

TABLE 20
Classification of Urban Banks according to Owned Funds

State	No. of Banks	No. of Reporting Banks	Less than Rs 2 Lakhs	Between Rs 2 Lakhs and Rs 3 Lakhs	Between Rs 3 Lakhs and Rs 5 Lakhs	Above Rs 5 Lakhs
Andhra Pradesh	46	43	3	9	5	26
Assam	2	2	—	—	—	2
Bihar	1	—	—	—	—	—
Gujarat	266	244	17	31	55	141
Haryana	4	4	—	2	—	2
Himachal Pradesh	3	3	2	1	—	—
Karnataka	184	172	14	35	55	68
Kerala	48	44	2	4	16	22
Madhya Pradesh	21	19	1	4	4	10
Maharashtra	330	302	21	50	59	172
Manipur	3	2	—	—	1	1
Meghalaya	1	1	—	—	1	—
Orissa	9	9	—	2	1	6
Punjab	5	4	2	2	—	—
Rajasthan	15	11	2	2	2	5
Tamil Nadu	127	120	5	20	30	65
Uttar Pradesh	26	11	2	3	—	6
West Bengal	38	35	4	7	7	17
Delhi	27	11	1	—	2	8
Goa, Daman & Diu	4	4	1	—	—	3
Pondicherry	2	1	—	—	—	1
Total	1162	1042*	77	172	238	555

* Of the 1105 reporting banks, information separately on owned funds was available for 1042 banks.

11. The all-India position is given below:

Owned Funds	No. of Banks	Percentage to Total Number of Banks
Below Rs 2 lakhs	77	7.4
Between Rs 2 lakhs and Rs 3 lakhs	172	16.5
Between Rs 3 lakhs and Rs 5 lakhs	238	22.8
Above Rs 5 lakhs	555	53.3
Total	1042	100.0

As many as 47 per cent of the total number of urban banks as on 30 June 1977 were having owned funds of less than Rs 5 lakhs. The need for augmenting the owned funds of urban banks assumes added urgency for more than one reason. Primarily, in the context of the revised viability standards, an upward revision in the minimum share capital and reserve requirements for urban banks operating in different centres has been recommended elsewhere in this Report. Further, the owned funds have also an important bearing on the maximum borrowing power of an urban bank, since the latter is fixed as a multiple of owned funds.

Share Linking

12. The owned funds of urban banks can be strengthened by increasing the share capital and reserves, which in turn, can be achieved by increasing membership, making it broad based to all eligible aspirants and by introducing a suitable linking of shareholding to borrowings. For augmenting reserves, however, there are certain limitations, as it is dependent on the banks earning net profits and the quantum of such profits. The Reserve Bank has suggested that the ratios of shareholding to borrowings may be 1:20 (5 per cent) in respect of unsecured advances and 1:40 (2.5 per cent) in respect of advances against tangible securities. In respect of advances for small-scale industries, the ratio of share linking to borrowings may be 1:100 (1 per cent) in the initial stages, to be raised to 1:40 (2.5 per cent) in the course of the next

two years. A uniform ratio of linking of shareholding to borrowings is not being enforced in all the states. In certain states, the provisions in the Co-operative Societies Act and Rules in this regard are rather stringent. In West Bengal, for example, the ratio of shareholdings to borrowings is as high as 1:10. While a number of respondents to the questionnaire have said that the ratios of share linking to borrowings prescribed by the Reserve Bank are reasonable, an almost equal number of other respondents are not in favour of the ratios prescribed by the Reserve Bank. It is contended by them that the ratios of share linking to borrowings prescribed by the Reserve Bank are on the high side considering the fact that urban banks are to compete with commercial banks for securing loan business and no such share linking is in vogue in commercial banks. It has, therefore, been suggested that the linking of shareholding to borrowings may be in the ratio of 1:100 (1 per cent) for secured loans and 1:50 (2 per cent) for unsecured loans subject to a maximum of Rs 5000 in any single case. It has also been suggested in this connexion that share linking should be insisted upon till banks obtain a sufficient level of owned funds and thereafter it should be left to the discretion of banks. Another view is that the ratios of share linking to borrowings suggested by the Reserve Bank are on the lower side and should be raised. Some respondents are not in favour of any share linking for secured loans such as those against gold, trade and industrial advances, particularly because the system of share linking to borrowings is not followed in commercial banks.

13. Considering the diverse views expressed by various respondents to the questionnaire, the Committee is of the opinion that while insistence on a high ratio of share linking to borrowings would increase the cost of borrowings to members and is also likely to wean away potential borrowers from co-operative banks, share linking in reasonable proportions is essential for strengthening the share capital base of an institution, which is also essential for providing borrowing power, as well as for inculcating in members a sense of belonging to the institution. The present ratios of share linking to borrowings prescribed by the Reserve Bank are, therefore, reasonable and adequate. It should not be difficult for a small-scale industrialist borrower to contribute 2.5 per cent towards share capital in a phased manner. The provisions in the

Co-operative Societies Act and Rules may be amended, where necessary, to give effect to these recommendations.

14. Some urban banks are found to be issuing more than one class of shares to be allotted according to the class of shareholders, i.e., traders, businessmen and others. The denominations of such shares also differ according to the class of shareholders. This militates against the co-operative character of an urban bank. Urban banks should, therefore, issue only one class of shares of one denomination, except perhaps the shares representing contribution from the state government.

State Participation in Share Capital

15. One of the ways to strengthen the equity base of urban banks is by way of state participation in their share capital. Following the recommendations made by the Working Group on Industrial Financing through Co-operative Banks (1968), the Reserve Bank has been providing loans from the year 1969-70 to state governments out of the National Agricultural Credit (Long-term Operations) Fund to enable them to contribute to the share capital of urban banks which have either financed or have a concrete programme of financing small-scale industries. However, this facility has not been availed of by state governments to any appreciable extent. The reasons mentioned in this connexion are that (i) there is no provision in the Co-operative Societies Act for government participation in urban banks; (ii) the scheme of share participation by state governments is confined only to banks undertaking industrial finance; and (iii) state participation is not popular due to nomination of persons on the boards of banks by the state government.

16. Considering the large number of urban banks functioning in the country and various other demands for assistance from the Reserve Bank's National Agricultural Credit (Long-term Operations) Fund, the present practice of restricting the grant of loans to state governments from the above Fund for the purpose of contributing to the share capital of only those urban banks which undertake financing or propose to finance small-scale and cottage industries is very appropriate. However, in case of some urban

banks working in the backward regions of the states which may not be in a position to collect the share capital to satisfy the viability norms, the state governments may contribute towards the share capital of these banks on a selective basis to bring them to the level of viability. Further, the state governments may contribute to the share capital of new urban banks organized especially in backward areas or by weaker sections of the community. In this connexion, state governments may also consider removing onerous conditions, if any, for share participation in urban banks so that banks can come forward to avail themselves of this facility. In particular, retirement of government's share capital should not be insisted upon until an urban bank becomes viable and builds up sufficient owned funds to sustain borrowings. The retirement of government share capital should not, in any case, start earlier than 7 years from the date of the receipt of the contribution and should be in a phased manner.

Share Value

17. The face value of shares of urban banks usually ranges between Rs 25 and Rs 100. Considering that urban banks are basically institutions for persons of small means, the fixing of a high share value will restrict persons, especially those belonging to the weaker sections, to become members of urban banks. The face value of a share should not also be too low, as this will increase the administrative expenses of banks. The Reserve Bank in its circular No. ACD. RBL. 384/J. 74-5 dated 5 October 1974 has suggested that the face value of share of an urban bank should normally be Rs 25 so that persons of small means are enabled to become members of an urban bank. But it has been observed that these suggestions are circumvented by keeping the value of shares low at Rs 10 and, at the same time, making it compulsory for members to buy a specified number of shares.

18. Based on the views expressed by the respondents to the questionnaire, as also during the discussions with representatives of different states, the Committee is of the opinion that the value of Rs 25 per share, as suggested by the Reserve Bank, is reasonably low. The Committee does not, however, favour the reduction of face value of a share below Rs 25 as this will increase administrative

expenses. Similarly, keeping the share value higher than Rs 25 may prevent persons of small means, especially those belonging to the weaker sections, from becoming members of banks. With regard to the practice followed by certain banks of keeping the value of share at a low figure, but all the same make it compulsory on members to buy a specified minimum number of shares, the Committee is of the view that there should be no compulsion on members to buy more than one share for membership.

Redemption of Shares

19. There is a tendency among some members of urban banks to resign from the bank after availing themselves of loans and obtain the refund of shares. This practice creates a strain on the resources of the banks. The members should not therefore be allowed to withdraw their share capital within 5 years of their becoming members of urban banks. Further, a bank may be permitted to refund in any year not more than 10 per cent of its total share capital as at the end of the preceding year.

Maximum Borrowing Power

20. As mentioned in paragraph 11 above, one of the purposes of building up the owned funds of an urban bank is to increase its borrowing power, because the maximum borrowing power is fixed as a multiple of owned funds. This multiple differs from state to state. In West Bengal, for example, the limit is only 10 times the paid-up share capital and reserve fund. Suitable relaxations are given by the Registrars of Co-operative Societies to individual banks for borrowing in excess of the maximum borrowing limits. In Maharashtra, a relaxation in the maximum borrowing power is granted by the Registrar subject to the condition that deposits accepted in excess of the maximum borrowing power limit should be invested in government and trustee securities. A majority of the respondents to the questionnaire issued by the Committee is of the view that the maximum limits fixed in the by-laws of banks in many states are inadequate and act as a constraint to the efforts at deposit mobilization. Other reasons put forth by the respondents in this connexion are as follows:

- (i) The provision for limiting the maximum borrowing power

was incorporated at a time when the Banking Regulation Act 1949 was not made applicable to urban banks. The purpose of fixing maximum borrowing power is to strengthen the owned funds of banks as well as to provide some security to creditors. In the changed context, when the urban banks are required to maintain cash reserve and liquid assets in terms of the provisions of the Banking Regulation Act, and the protection available to the depositors under the Deposit Insurance Scheme, this measure which was introduced as an abundant caution, has become redundant.

- (ii) The practice of fixing maximum borrowing power is not in vogue in commercial banks.
- (iii) Raising the maximum borrowing limit will avoid frequent representations to the Registrar of Co-operative Societies for relaxing the limits.
- (iv) As a banking institution, it is not desirable to refuse to accept deposits if the total borrowings exceed the maximum borrowing limit.
- (v) Difficulties are experienced by new banks which have not built up owned funds.

21. After considering the various aspects of the issue, the Committee is of the view that the practice of fixing maximum borrowing power may be continued in the interests of maintaining financial discipline. However, in order that this does not act as a constraint in the way of deposit mobilization of banks, it is recommended that the maximum borrowing power of an urban bank may be fixed at 25 times of the owned funds.

DEPOSITS

22. The deposits of urban banks increased from Rs 153 crores as on 30 June 1967 to Rs 519 crores as on 30 June 1977 representing a rise of 239 per cent during the period. The average annual growth rate in deposits in urban banks during the 10 years ended

June 1977 was 13.2 per cent which was relatively lower than that registered in scheduled commercial banks during the corresponding period at 18.3 per cent. As mentioned in paragraph 10 of Chapter 4, given the required facilities, urban banks will be able to show a better performance in deposit mobilization. The facilities which may be extended to urban banks are referred to below:

(i) *Deposits of Local Bodies, Trusts etc.*

23. At present, there are restrictions on local bodies, quasi-governmental institutions and trusts in many states to keep deposits with urban banks. Such restrictions have placed urban banks in a disadvantageous position in the matter of mobilization of deposits as compared to scheduled commercial banks. The Committee is of the view that state governments should permit local bodies, quasi-governmental institutions and public trusts to keep surplus funds with urban banks which have earned A or B class in audit.

(ii) *Deposit Insurance Scheme*

24. Allied to the efforts for mobilization of deposits is the need for extension of the Deposit Insurance Scheme to urban banks in all the states. It is the depositors of urban banks, who generally are men of small means and belong to the middle classes, who need the protection of the Deposit Insurance Scheme. However, as on 1 July 1978, the Deposit Insurance Scheme has been extended to only 10 states and 3 union territories, viz., Andhra Pradesh, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tripura, West Bengal, Delhi, Goa, Daman & Diu and Pondicherry. As a result, many urban banks functioning in other states are still outside the purview of the Deposit Insurance Scheme. Absence of protection to the depositors of urban banks will stand in the way of efforts of urban banks for deposit mobilization. The state governments of those states where the Deposit Insurance Scheme has not been extended should, therefore, initiate early action for making the Deposit Insurance Corporation Act 1961 applicable to co-operative banks in their states by amending their respective Co-operative Societies Act, so that urban banks are helped to augment their deposit resources and their

depositors get protection under the Deposit Insurance Scheme. @

(iii) *Clearing House Facilities*

25. Membership of clearing houses is another facility by which urban banks can be enabled to collect cheques and drafts on behalf of their customers speedily, raise their public image and help mobilise more deposits. But the rules and regulations of clearing houses managed both by the Reserve Bank of India and the State Bank of India usually restrict admission to clearing houses to scheduled commercial banks, post office savings bank and state co-operative banks. Some of the clearing houses have, however, amended their rules whereby a few urban banks, particularly in Ahmedabad and Bombay, have become direct members of the clearing houses. Such of those clearing houses as have not amended their rules and regulations should do so to enable co-operative banks other than state co-operative banks to become members, wherever they can satisfy the usual norms and conditions of clearing houses, i.e., tendering a minimum number of cheques, maintenance of a minimum daily balance with the Reserve Bank or State Bank.

(iv) *Bank Guarantee*

26. Issue of guarantee on behalf of their constituents is a function which urban banks will be increasingly called upon to perform as they expand their operations, especially in the context of the active role expected to be played by them for dispensation of credit to small-scale industrial units. Here again, as compared to commercial banks, urban banks have to function with a disability in that guarantees issued by them are not accepted by the central and state governments. Even fixed deposits kept with urban banks are not recognised by the central and state governments towards earnest money or security deposits payable by construction contractors. The Bank Guarantee Scheme, as revised by the Government of India in the Ministry of Finance, O.M. No. F. 9(5)-BC/67 dated 29 June 1972 and made applicable to

@ Effective from 15 July 1978, the Deposit Insurance Corporation Act 1961 has been renamed as Deposit Insurance and Credit Guarantee Corporation Act 1961.

scheduled commercial banks initially, was extended only to scheduled state co-operative banks from September 1974. Urban banks are still kept out of the purview of the scheme. The non-acceptance of guarantees of urban banks by government departments may create an atmosphere of suspicion in the minds of the depositing public about the financial stability of urban banks. Moreover, this acts as a handicap in the conduct of business and would not be conducive to the growth and development of urban co-operative banking. It is recommended that at least such of the bigger urban banks as have working capital of Rs 5 crores and over which are called upon to issue guarantees to central government departments may be made eligible under the Bank Guarantee Scheme of the Government of India. In the case of smaller urban banks, considering their limited area of operation and their clientele, there may not be many occasions for them to offer guarantees to the central government departments. Where, however, guarantees are required to be issued by any urban bank with a working capital of less than Rs 5 crores, such guarantees may be accepted by the Government of India if the scheduled state co-operative bank of the state concerned gives its counter-signature. This will greatly contribute to overcoming the difficulty which some urban banks face at present in regard to issue of bank guarantee.

27. Recently, the Government of India, Ministry of Finance (Department of Expenditure), in its circular No. F. 8(1)E. 11 (A)-77 dated 12 September 1977, has decided that the cheques or drafts issued by big urban banks, whose working capital exceeds Rs 5 crores and by A, B or C class central banks or non-scheduled state co-operative banks should be accepted as valid security for the purpose of entering into contracts by private contractors or suppliers to the various government work awarding agencies, subject to the condition that the cheques or drafts are to be encashed by the accepting authority as soon as they are received, and the contracts allotted only after the encashment of the cheques or drafts. As far as urban banks are concerned, since the eligibility criterion is quite high, i.e., only those banks having working capital exceeding Rs 5 crores are eligible, the facility is unlikely to help a majority of the urban banks. There is, therefore, a need for relaxing this condition to cover urban banks with working capital

of Rs 2 crores and above and which have been classified as A, B or C in audit, the latter, i.e., the audit classification being the same as that allowed in the case of central co-operative banks and non-scheduled state co-operative banks.

28. With regard to acceptance by the state governments of the guarantees issued by urban banks, the Reserve Bank has been advising all the state governments to extend the Bank Guarantee Scheme to all co-operative banks, including urban banks, which come under the purview of the Banking Regulation Act 1949. For this purpose, state governments were advised to work out certain norms on the basis of local conditions, requirements etc., that will have to be fulfilled by the banks for availing themselves of the facility under the Scheme. In pursuance of this advice, only the Government of Karnataka has so far recognised some selected urban banks as eligible institutions to issue guarantees or to issue fixed deposit receipts in lieu of cash security deposit to be tendered by contractors in favour of government departments. In this context, the governments in other states, particularly those where urban banking has already gained ground, should come forward to work out suitable norms for the purpose of accepting guarantees issued by urban banks.

(v) *Collection of LIC Premia etc.*

29. At present, urban banks have not been recognized for collection of LIC premia although such a facility is enjoyed by scheduled commercial banks. The Government of India may consider recognising in the initial stage at least some well managed urban banks with working capital exceeding Rs 5 crores to collect LIC premia. Urban banks may also be included in the list of approved banks for the purpose of payment of excise duty by cheques wherever cheque facility is extended to the assesseees for payment of central excise duty.

30. There are certain other areas where state governments could also be of much help to urban banks for expanding their activities. Collection of pension bills and sales tax bills presently being done by the nationalised commercial banks are functions which can be entrusted to well-managed urban banks. Similarly, State Electricity

Boards may consider permitting urban banks to collect electricity bills on their behalf. The above facilities, when extended to urban banks, will not only help them in augmenting their deposits, but will also enable them to offer a variety of banking facilities to their customers.

(vi) *Remittance Facilities*

31. Remittance of funds is another facility which is normally required by customers of a banking institution. But urban banks cannot at present transfer funds free from one place to another unless they have some arrangements with the state co-operative bank or commercial banks having offices at the centres where the funds are sought to be transferred. Entering into arrangements with commercial banks would render the business rather unremunerative for urban banks, because a substantial portion of the commission earned through such business would go to commercial banks. In this context, the need for extending remittance facilities to urban banks requires to be actively considered. According to the views received by the Committee from various parties to whom the questionnaire was issued, there is need for extending free remittance facilities under the Reserve Bank of India and the State Bank of India remittance facilities schemes. The reasons advanced for this are broadly as under:

- (i) The business of bill collection and issue of drafts at commercial centres has become an integral part of urban bank's activity. These operations have to be carried on by urban banks in competition with nationalised and other scheduled banks but on unequal footing since commercial banks are able to offer bill collection services and also issue drafts free of charge. Moreover, in order to attract big depositors and customers, these facilities are absolutely necessary.
- (ii) The extension of free remittance facilities will enable urban banks to issue demand drafts, effect mail and telegraphic transfers and in the process earn good revenue, which will be a positive encouragement for future expansion.

32. The question of remittance facilities to urban banks was

considered by a Committee appointed by the Reserve Bank in December 1973 for reviewing the remittance facilities schemes of the Reserve Bank and the State Bank. The Committee had observed that urban banks had not availed themselves of large-scale credit limits in the past under the Reserve Bank of India refinance scheme necessitating frequent transfer of funds and that these banks are either affiliated to central banks or state co-operative banks which generally take care of their needs for transfer of funds relating to advances granted to them. The Committee, therefore, felt that there was no need to extend free remittance facilities to them under the Reserve Bank of India Remittance Facilities Scheme for the present, and the position might be reviewed at a later stage. In regard to the transfer of funds arising out of their normal banking business to places outside their area of operation, the Committee was of the view that urban banks could avail themselves of the concessional remittance facilities under the Reserve Bank of India Remittance Facilities Scheme.

33. Considering various aspects of the matter, the time is not yet opportune for extending to urban banks free remittance facilities under the Reserve Bank Remittance Facilities Scheme. The extension of free remittance facilities to urban banks may be reviewed by the Reserve Bank when a reasonable number of urban banks avail themselves of refinance facilities from the Reserve Bank and the amount involved is sizeable.

34. In connexion with free remittance facilities, the Committee on Problems of Urban Co-operative Banks in Maharashtra (1976) had felt that the frequency of 15 free remittances in all in a week available to state co-operative banks for remittances to any of their branches and upcountry centres put together was very inadequate owing to the large number of urban banks, central banks and their branches functioning in the state. It had, therefore, recommended that the Reserve Bank might consider increasing the limit to at least 100 per week. Since this position is not common in all the states, it may not be possible to lay down a uniform norm for the country as a whole. The frequency limit may be considered for relaxation in individual cases on merits by the Reserve Bank.

35. Urban banks are not eligible for free remittance facilities

under the State Bank of India Remittance Facilities Scheme. However, a central bank as well as each of its branches is eligible for the facilities under the scheme, i.e., to send remittances free of charge once a week in multiples of Rs 100 with a minimum of Rs 1000 between the head office and a branch. In the context of the branch expansion programme launched by urban banks in recent years requiring transfer of funds between head office and branches frequently, there is justification for extending free remittance facilities under the State Bank of India Remittance Facilities Scheme, on the same lines as available to central co-operative banks.

Mutual Arrangement Schemes

36. As regards remittance facilities available to urban banks within the co-operative sector, there are two schemes presently in operation, viz., (i) Mutual Arrangement Scheme operated by state co-operative banks within their states concerned and (ii) All India Mutual Arrangement Scheme for Co-operative Banks introduced in 1967 by the All India State Co-operative Banks Federation which is operative throughout the country.

37. The Mutual Arrangements Scheme operated by state co-operative banks is intended to facilitate all co-operative banks including urban banks in a state to transfer funds within the state. Though the Scheme has been found useful to urban banks, some of the state co-operative banks have still to come forward to introduce the scheme in their respective states. As indicated in paragraph 38 of Chapter 3, in Kerala which is one of the states where the scheme is in operation, the limit for issue of drafts etc., is reported to be low at Rs 5000 irrespective of the size of banks in relation to their working capital. It is, therefore, recommended that the Mutual Arrangement Scheme should be introduced by all the state co-operative banks. Limits for issue of drafts may also be enhanced in states where these are low at present.

38. The All India Mutual Arrangement Scheme for Co-operative Banks is intended to facilitate transfer of funds throughout India. When the Scheme was first introduced in 1967, urban banks were excluded but subsequently, since July 1974, the Scheme has been

extended to cover some of the banks fulfilling certain norms and also to their branches from December 1977. Accordingly, urban banks with a working capital exceeding Rs 1 crore are permitted to participate in the Scheme provided the state co-operative bank to which they are affiliated recommends their participation and agrees to undertake the necessary obligation. As regards the branches of urban banks, there is a ceiling on the maximum number of branches of a bank that can participate in the Scheme. The ceiling is 5 branches in the case of banks with working capital exceeding Rs 1 crore and up to Rs 5 crores. Banks with working capital exceeding Rs 5 crores are allowed to admit a maximum number of 10 branches. The admission of branches of urban banks is also subject to the recommendation of the concerned state co-operative bank. At the end of April 1977, only 7 urban banks had joined the Scheme, of which 5 banks were from Gujarat and 2 from Tamil Nadu. None of the branches of urban banks has so far joined the Scheme. The All India State Co-operative Banks Federation should, therefore, ensure that the benefits of the mutual arrangement scheme are extended to as many urban banks as possible.

(vii) *Interest Rates*

39. Along with other facilities, interest rates also contribute to the growth of deposits. The present rates of interest on deposits of urban banks are governed by the directives issued by the Reserve Bank of India from time to time since August 1974. There have been demands for relaxing certain provisions of the Reserve Bank's directives to the effect that the margin of 1 per cent allowed to urban banks over and above the interest rates offered by scheduled commercial banks on savings and fixed deposits should be raised to at least 2 per cent and that the interest rate on call deposits should be more than $\frac{1}{2}$ per cent so as to attract surplus funds of the trading community, especially in big cities. Further, it has been suggested that non-banking companies should not be allowed to offer rates of interest more favourable than the rates offered by urban banks.

40. The raising of the margin of 1 per cent allowed to urban banks over and above the interest rate offered by scheduled

commercial banks may give rise to unhealthy competition. The underlying objective behind allowing urban banks to offer a higher rate of interest than commercial banks, up to a differential of 1 per cent, is to enable urban banks to overcome the possible inhibitions in the minds of the depositing public arising out of the small size of the banks, their limited sphere of activity and above all, lack of an image, as compared to commercial banks. Thus, urban banks are afforded a fair chance and scope in what would otherwise be an unequal race with commercial banks for competing for deposits from the public. The differential of 1 per cent is quite adequate and reasonable. Another important consideration to be borne in mind in this context is that with the higher interest rate on deposits, the average borrowing rate of urban banks will increase resulting in the need for increase in the lending rates on advances. There is, therefore, no specific reason for reconsideration of the present structure of deposit rates of urban banks.

41. The question of adequacy or otherwise of the regulatory measures over the acceptance of deposits by non-banking companies was reviewed by the Study Group appointed by the Reserve Bank of India under the chairmanship of Shri James S. Raj which submitted the report in July 1975. For a variety of reasons, the Study Group was not in favour of prescribing any ceiling on the interest rates offered by non-banking companies. The Committee also does not see any need for recommending any ceiling on interest rates that could be offered by non-banking companies, especially in view of the various restrictions imposed on these companies for accepting deposits from the public and the absence of deposit insurance facility for deposits accepted by them as well as the absence of tax exemption on the interest on these deposits.

42. In regard to call deposits, urban banks have been prohibited from offering an interest rate exceeding half per cent to the general public. This is in line with similar restrictions imposed on the central banks and state co-operative banks. Scheduled commercial banks, on the other hand, are not allowed to offer to the public any interest on call deposits. In the circumstances, there is no specific reason for permitting urban banks to offer higher interest rates on call deposits.

43. In the previous paragraphs, several facilities which may be extended to urban banks to enable them to mobilise more deposits have been referred to. Urban banks, on their part, should take the following steps, in particular, for augmentation of deposit resources:

- (a) Banks may offer competitive rates of interest on deposits subject, of course, to the ceiling fixed under the directives issued by the Reserve Bank of India.
- (b) Innovative deposit schemes, such as cumulative deposits, pigmy deposits, home safe deposits and recurring deposits suited to the habits and needs of the people of the area may be evolved to attract a larger quantum of deposits from members and non-members.
- (c) A system of fixing targets for deposit mobilization for every urban bank and for each of its branches may be introduced. The branch managers and other officers concerned with the mobilization of deposits should be actively involved in reaching the targets. There should be a periodical review of the targets fixed and steps should be taken to remove difficulties, if any, in attaining the target.
- (d) Banks may consider having their office timings before and after the normal office hours to enable people in their area to visit the bank at a time convenient to them.
- (e) Banks may provide normal banking facilities and customer services such as provision of locker facilities, issue of drafts and other remittance facilities.
- (f) Good premises and modern office arrangements may be introduced, as these will enhance the prestige of the institution and promote confidence in the depositing public.
- (g) Urban banks may study the potentialities for deposit mobilization in their respective areas and then embark upon branch expansion programme. It should, however, be kept in mind that the bank should have trained staff to head the branches.

- (h) Above all, to attract customers, urban banks should render efficient and courteous service to their customers.

Inclusion in the Second Schedule to the Reserve Bank of India Act 1934

43. There has been a persistent demand from urban banks that they should be included in the Second Schedule to the Reserve Bank of India Act 1934. The question of according scheduled status to urban banks had been considered in the past. The Banking Commission (1972), in particular, had recommended that the establishment of urban banks should be encouraged by the authorities by such means as according the status of a 'scheduled' bank to the well-managed urban banks if they so desire.¹ The majority of respondents who have replied the questionnaire are in favour of according scheduled status to urban banks because it is felt that scheduling confers certain positive advantages which most of the commercial banks enjoy. For example, it will enable them (i) to have direct access to the Reserve Bank of India for availing themselves of refinance facilities; (ii) extension of the facilities under the Refinance and Bills Rediscounting Schemes operated by the Industrial Development Bank of India; (iii) to accept deposits from local bodies, quasi-governmental organizations, religious and charitable institutions etc.; (iv) to issue guarantees to central and state government departments; (v) to become members of the Clearing Houses managed by the Reserve Bank and the State Bank of India; and (vi) to enter the call money market which provides an avenue for the investment of surplus funds at profitable rates for short-term periods.

45. On the other hand, scheduling also imposes certain conditions and obligations on the banks. Section 42(1) of the Reserve Bank of India Act requires each bank included in the Second Schedule to maintain with the Reserve Bank of India an average daily balance, the amount of which shall not be less than 3 per cent of the demand and time liabilities in India of such banks. The Reserve Bank has powers to increase the said rates to such higher rate as may be

¹ *Report of the Banking Commission (1972)*, published by the Government of India, Ministry of Finance, New Delhi, pp. 231-2.

specified in a notification subject to a maximum of 15 per cent of the total demand and time liabilities. In case of failure to maintain the required minimum balance, the penal interest from 3 to 5 per cent above the Bank Rate is recoverable from the banks depending on the length of the period for which there is shortfall in the prescribed minimum.

46. Further, scheduling of urban banks may affect the federal character of the co-operative credit structure. When urban banks which are primary institutions in the three-tier federal structure are included in the Second Schedule, this is likely to raise a similar demand from central banks which are at the intermediary level of the federal structure. Furthermore, some of the apex banks have also not been scheduled. On balance, therefore, the Committee is of the view that according scheduled status to great majority of urban banks in their present stage of development is neither desirable nor feasible. It will suffice if the constraints encountered by urban banks in the matter of deposit mobilization and seeking refinance and rediscounting facilities from the Industrial Development Bank of India are removed through initiation of measures other than scheduling, as discussed elsewhere in the Report. Scheduled status is not likely to confer any special advantage on urban banks.

Dealing in Foreign Exchange

47. As mentioned in paragraph 40 of Chapter 3, one of the urban banks in the country has so far been authorised by the Reserve Bank to deal in foreign exchange. Considering the limited area of operation and the clientele generally served by urban banks, most of them may not qualify for authorisation to deal in foreign exchange. Nevertheless, some of the bigger banks are reported to be carrying on foreign exchange business for the benefit of their customers through commercial banks which are authorised dealers in foreign exchange. There is also a demand from some banks to be authorised in their own right so as to be able to tap non-resident deposit accounts and deal in foreign exchange. Wherever urban banks have developed sizeable foreign exchange business through authorised dealers or have adequate scope to tap non-resident deposit accounts, and are also in a position to employ qualified

and experienced staff for the purpose, the Reserve Bank may consider authorising them to deal in foreign exchange.

BORROWINGS

48. The borrowings of an urban bank, in the strict sense of the term, represents its borrowings from the higher financing agencies although, in a broad context, the term would include different types of deposits received from members as well as non-members. It is noteworthy that in contrast to the central banks whose loaning operations are conducted primarily out of funds borrowed from the apex bank and the Reserve Bank, urban banks are mostly self-reliant institutions depending on their owned funds and deposits for their loaning operations. The reliance of urban banks on outside borrowings for loans and advances is very low. Though the borrowings increased from Rs 11 crores at the end of June 1967 to Rs 23 crores at the end of June 1977 representing an overall increase of 109 per cent during the period, the amount continued to constitute an insignificant proportion of the working capital. The percentage of borrowings to working capital was only 3.2 per cent on 30 June 1977. The low dependence of banks on outside borrowings is partly due to the comfortable position of deposits of urban banks. These banks have also not undertaken financing of cottage and small-scale industries on any significant scale and hence recourse to refinance facilities available from the Reserve Bank under section 17(2)(bb) of the Reserve Bank of India Act for this purpose has not been appreciable.

49. Source-wise data of borrowings of urban banks are not available. But these banks in keeping with co-operative discipline, are expected to borrow from the respective central banks, although in states like Gujarat and Maharashtra, they have direct recourse to the apex bank. The borrowings are usually in the form of overdraft facilities against pledge of government and other trustee securities or fixed deposit receipts, mainly for general banking operations or as a stand by arrangement, and at times to meet adverse clearing. Clean overdraft facilities are also availed of by some urban banks from higher financing agencies to meet the deficit in the liquid assets requirements. Another feature is that borrowings are resorted to more by banks in the metropolitan or

bigger urban centres where there is scope for financing of trade, commerce and small-scale industries and not by banks located in small semi-urban centres. In some states, urban banks, especially with branches in semi-urban areas, resort to overdraft facilities from commercial banks, mostly the State Bank of India, against government and other trustee securities or fixed deposit receipts. Urban banks find the facility from commercial banks more advantageous particularly because they can make convenient arrangements for availing themselves of overdraft facilities at various branches and make use of cheaper remittance facilities available.

50. Refinance facilities available to urban banks from the Reserve Bank are limited to advances made by them for financing cottage and small-scale industries under 22 broad groups of such industries. These refinance facilities were extended to them from the year 1969-70 onwards, following the recommendations made by the Working Group on Industrial Financing through Co-operative Banks (1968). Urban banks had the option to avail themselves of the facilities direct from the apex bank or through the concerned central bank if they had dealings with the latter. In the interest of enabling urban banks to come forward in greater measure towards taking up the financing of the small-scale industries, the Reserve Bank liberalised in stages some of the terms so as to include even book debts (comprising bills discounted and others) of small-scale industrial units as cover for the borrowings. Further, the facilities were also extended to service-type industries, i.e., where the raw material does not belong to the constituent borrower. As indicated in paragraph 28 of Chapter 3, in order to enable urban banks to increase their advances to this sector, the rate of interest was reduced from the Bank Rate to $1\frac{1}{2}$ per cent below the Bank Rate from 1 July 1977. Again, quite recently, i.e., from 1 March 1978, the interest rate has further been reduced to $2\frac{1}{2}$ per cent below the Bank Rate. The Reserve Bank has also suggested the margin of interest that may be retained at various levels in order that the interest burden on the ultimate borrower would not be unduly high.

51. Despite these measures, so far only a few urban banks have availed themselves of the refinance facilities from the Reserve Bank. Details of the refinance facilities availed of are given in

paragraph 27 of Chapter 3. The main reason that can be attributed for this situation is the failure of urban banks to come forward to finance small-scale and cottage industries in a big way. Most of the urban banks possess neither the expertise nor the competence to undertake the responsibility of successfully assisting industrial artisans and small-scale industrial units whose problems are not always basically that of credit, but of availability of raw material and finding ready and potential market for their products. The other reasons pointed out are (i) availability of surplus funds with urban banks in certain states, (ii) limited coverage of industries eligible for refinance and (iii) routing the finance through the apex bank and central bank which causes delay and raises the cost of borrowing.

52. With regard to banks having surplus investible resources, the Committee recommends that the Reserve Bank may take a liberal view and consider their loan applications for concessional refinance facilities under section 17(2)(bb) of the Reserve Bank of India Act 1934 in respect of advances made by them to small-scale industries. This will induce urban banks to take up industrial financing and grant loans to small-scale industrial sector at a lower rate than the normal lending rates applicable to other advances.

53. The list of 22 groups of industries approved by the Reserve Bank to be eligible for refinance is only a general classification and would cover a broad spectrum of industrial activity. In fact, item 22 of the list of 22 broad categories refers to any miscellaneous industry. There does not, therefore, appear to be any need for further defining the list of purposes to be covered.

54. With regard to arrangements for borrowings, the position is that in some states like Karnataka and Kerala, urban banks borrow through central banks, whereas in certain other states, viz., Gujarat and Maharashtra, urban banks have direct access to the state co-operative bank. It has been pointed out to the Committee that direct borrowings from the state co-operative bank would help in reducing the time involved for borrowing and would also reduce the cost of borrowing at the ultimate level. The Committee, however, should like to leave this matter to the state co-operative banks, central banks and urban banks in each state to decide, depending

upon the stage of development of banks at the intermediary and primary level, and also keeping in view the interest of the federal structure. Where funds are borrowed through central banks, the latter should keep only a reasonable margin.

55. Another related issue which arises in this context is the obtaining of refinance facilities for block capital assistance provided to small-scale industries. As per the existing provisions of the Reserve Bank of India Act 1934, no refinance is available from the Reserve Bank to urban banks for block capital loans given to small-scale industrial units. Urban banks are expected to provide such finance from their own resources up to a limit not exceeding 15 per cent of the total disposable long-term resources or 5 per cent of the total deposit resources whichever is more. However, the Reserve Bank has no objection if such advances are made in excess of the above ceiling to the extent of the refinance obtained for block capital loans from higher financing agencies. The Committee is of the opinion that there is no need for the Reserve Bank providing refinance for block capital requirements as other term-lending financial institutions are extending loans for the purpose. The extension of financial assistance to urban banks from the Industrial Development Bank of India is also suggested in the paragraph which follows.

56. Urban banks have not yet been recognized as 'eligible' institutions for the purpose of availing themselves of facilities under the refinance and bills rediscounting schemes of the Industrial Development Bank of India. Some of the urban banks which have been granting loans to small-scale industrial units for block capital have urged that they should be recognized as eligible institutions to avail themselves of these facilities. It is, therefore, recommended that selected urban banks which have entered the field of small-scale industrial financing in a sizeable manner and with a suitable organization and expertise at their command, should be recognized by the Industrial Development Bank of India as 'eligible institutions' for the purpose. Alternatively, urban banks may be permitted to avail themselves of these facilities through the state co-operative banks which are approved by the Industrial Development Bank of India. Once this is agreed to in principle, it should be possible for the Industrial Development Bank of India to work out the

eligibility criteria etc., for urban banks to avail themselves of the facilities under the Industrial Development Bank of India Bills Rediscounting and Refinance Schemes, in consultation with the Reserve Bank.

57. Representations have been made to the Committee that the present three-tier structure is devised and operated in such a way as to pay greater attention to agricultural credit and that urban banks which cater to the non-agricultural credit needs in urban and semi-urban areas are not able to receive as much care and attention from central banks and apex banks as they need and deserve. It is, therefore, urged that an apex agency exclusively for non-agricultural credit is a necessity. A majority of the respondents to the questionnaire issued by the Committee have favoured a separate apex institution for urban banks. The reasons given in this connexion are:

- (i) It will facilitate uniformity of credit flow for schemes of small borrowers.
- (ii) Apex banks are mainly concerned with the agricultural sector and it is not possible for them to look after the credit needs of urban banks.
- (iii) The specialised problems of urban banks need consideration by a specialised institution of their own.
- (iv) A separate agency will ensure supervision and control over urban banks and to conduct periodical inspections.
- (v) There is delay in financing by central banks.
- (vi) The urban banks are required to invest their bad debt reserve, reserve fund, staff provident fund deposits with the state and central banks. However, the state/central co-operative banks charge high rates of interest on loans provided to urban banks.
- (vii) Small urban banks can be guided in various fields to develop on sound lines and may be helped to get legal assistance and other allied facilities and their problems can be taken up with the state government and Reserve Bank.
- (viii) A separate apex bank can act as a balancing centre for the funds of urban banks.

- (ix) The present financing agencies have not been able to absorb profitably the surplus funds of urban banks.
- (x) The discipline of the three-tier structure of credit is no longer there, especially after the entrance of commercial banks in the field of agricultural financing.
- (xi) Representatives of the higher financing agencies do not evince adequate interest and do not attend the seminars and conferences of urban banks to study the problems of urban banks.
- (xii) The financing agencies are quite apathetic towards the growth and development of the urban credit movement.
- (xiii) In spite of the suggestion of the Reserve Bank of India, the apex banks in some states have not maintained a separate cell to provide guidance for urban banks to develop financing of industries with the result that there is no help available to urban banks in financing small-scale industries for which much importance is accorded.
- (xiv) In some states, apex banks do not even admit urban banks as members and do not also give representation on their board of directors.

58. On the other hand, a few respondents who are not in favour of a separate apex bank for urban banks have given the following reasons:

- (i) A separate union or federation on all-India basis would suffice to look into the grievances of urban banks.
- (ii) Apex banks should admit urban banks as members and extend direct refinance facility.
- (iii) The scope for a separate apex institution to render any service to urban banks is very limited.
- (iv) Organization of any apex bank for urban co-operative banks would prove harmful to the healthy growth of the co-operative movement. The central banks and apex banks act as balancing centres and also serve the needs of urban banks.
- (v) The apex banks should organize a special cell for urban co-operative banks by appointing qualified and technical staff conversant with banking operations and their procedures.

- (vi) What is required is a change in attitude on the part of the existing apex banks in regard to their dealings with urban banks.
- (vii) Normally, urban banks are expected to raise resources by way of mobilization of deposits. Any requirements for financing priority sectors could be easily arranged through existing central banks/apex banks.
- (viii) Urban banks have developed only in very few states.
- (ix) The proposed separate apex bank for urban banks will not be viable.
- (x) There may be unnecessary competition among apex institutions in the co-operative sector.

59. While there appears to be some substance in the contention of urban banks that they have so far received indifferent treatment from the state and central co-operative banks, the shortcomings have arisen not because of any defects or deficiencies in the basic structure of co-operative banking as such. A change in the attitude on the part of the apex bank is no doubt called for. Apex banks should recognize such claims of urban banks as are justified and see that they are given the necessary encouragement and assistance, whether financial, technical or otherwise. The Committee is of the opinion that it may not be necessary for the present to set up a separate apex bank for urban banks. The formation of one more agency for specially catering for the requirements of urban banks will result in diffusion of funds available to the co-operative movement and may also create a dearth of honorary and experienced workers to work for the various institutions. In the circumstances, the organization of one more apex institution will create more problems than it seeks to solve. Particularly, the viability of a separate apex institution will be in doubt. Therefore, instead of organizing a separate apex bank for urban banks, efforts should be directed further towards strengthening the relationship of urban banks and the present state co-operative banks which have to take the needed initiative in this matter. Reservation of one or two seats for representatives of urban banks on the board of directors of the state co-operative bank may go a long way towards providing them with a voice in the management and allaying the present misgivings of urban banks in this regard. The Committee is of the view that urban banks having working capital of Rs 1 crore and above

may be given membership in state co-operative banks. Urban banks with working capital of less than Rs 1 crore may become members of central banks. If the state co-operative banks do not realise their responsibility towards urban banks and continue to fail to take adequate interest in their development as would be evidenced by failure in constituting a Technical Group for giving guidance and to give representation to urban banks on the board of directors, the proposal for setting up of a separate apex bank may be reviewed at a later stage at least in the states where there is a sizeable number of urban banks.

INVESTMENTS

60. The provisions in the Co-operative Societies Acts and Rules in force in the states or instructions issued by the Registrars of Co-operative Societies require urban banks to keep surplus funds either with the state co-operative bank of the state concerned or with the central bank of the district concerned. In certain states, some of the central banks are financially weak. Further, urban banks are not admitted as members of the apex bank and no financial assistance is generally given to them by the latter. The apex banks do not provide the varied types of banking services available from commercial banks. The rates of interest offered by apex banks on call deposits kept by urban banks are normally restricted to the interest rate on such deposits that could be offered to the public stipulated in the directives issued by the Reserve Bank, although the deposits kept by a co-operative bank with other co-operative banks are exempted from the provisions of the Reserve Bank directives. It is contended by some urban banks that the deposits taken by the apex bank from them at a low rate of interest are reinvested by the apex bank in call deposits with commercial banks earning a higher return. As the cost of raising deposits in urban banks is comparatively higher, compelling them to keep their surplus funds with the state and central banks would make the investment uneconomic. The majority of the respondents who have replied the Committee's questionnaire have urged that the facility of keeping the surplus funds in call deposits with commercial banks may be extended to urban banks as a matter of course without seeking the permission of the Registrar. The reasons put forth in this behalf are (i) the Registrar gives the permission to

banks for keeping call deposits with commercial banks for nominal amounts only in special cases, and that too, after inordinate delay and in many cases the permission is refused; (ii) with the nationalisation of commercial banks and the new role assigned to them for financing agriculture and weaker sections, there is no justification to prohibit urban banks in keeping call deposits with commercial banks especially when the apex banks themselves are investing in call deposits with commercial banks; (iii) as the functions of urban banks are somewhat akin to those of commercial banks, the investment of funds with the commercial banks may be readily permitted.

61. Considering the views expressed by the various respondents, the Committee is of the opinion that in view of the close relationship envisaged between the central banks and state co-operative bank on the one hand and urban banks on the other and the promotional role expected to be played by the state and central banks in the development of urban banks, it is necessary that urban banks should, as far as possible, keep their surplus funds with the higher co-operative financing agencies. The apex bank and the central banks should however offer attractive rates of interest to urban banks. If the rates of interest offered by the state and central banks are not attractive, urban banks should be permitted to keep their surplus funds in call deposits with commercial banks. Since the surplus funds, in many cases, may be of a temporary phenomenon and may not be of a continuing nature, either the permission from the Registrar for keeping call deposits with commercial banks should be made available promptly or the Registrar should allow urban banks to keep call deposits with the State Bank of India and its subsidiaries and nationalised commercial banks up to, say, 3 per cent of the time and demand liabilities of each bank without requiring prior permission. Necessary administrative instructions may be issued in this regard by the Registrars. In this context, it is desirable that call deposits kept with commercial banks should not be of a continuing nature. If the banks are to keep call deposits with commercial banks for a period exceeding 3 months, the permission of the Registrar should be obtained.

62. There are representations from certain quarters that fixed and call deposits kept by urban banks with nationalised scheduled commercial banks and the State Bank of India and its subsidiaries

should be reckoned for the purpose of liquid assets in terms of section 24 of the Banking Regulation Act 1949 (As Applicable to Co-operative Societies). At present, balances in current accounts only kept with those banks are reckoned towards cash reserve and liquid assets required to be kept by urban banks in terms of sections 18 and 24 of the Act *ibid*. These provisions are also applicable to state and central banks. The question of permitting urban banks alone to reckon the fixed deposits/call deposits kept with nationalised scheduled commercial banks and the State Bank and its subsidiaries towards liquid assets requirements will have to be viewed in the wider context of co-operative discipline and cannot be considered in isolation. An important aspect which requires consideration in this context is the need for keeping fixed/call deposits with the nationalised commercial banks as well as the State Bank and its subsidiaries. Normally, urban banks are required to keep fixed deposits with commercial banks to avail themselves of overdraft facilities. However, the occasions for approaching commercial banks to make use of overdraft facilities arise only in places where there is no office of the central bank or state co-operative bank. The offices of apex and central banks are located in state capitals, district headquarters and most of the taluka headquarters. The majority of urban banks are functioning in these centres only. The number of urban banks operating in places other than those centres may be a few. It has been suggested in the preceding paragraph that apex banks and central banks should offer attractive rates of interest on call deposits. If permission is given to urban banks to reckon the fixed/call deposits in nationalised banks and State Bank of India towards liquid assets, it is feared that there will be large-scale diversion of funds from the co-operative banking sector to the commercial banking sector. The Committee is of the view that the status quo may be continued, i.e., the balances, if any kept by urban banks with nationalised commercial banks other than current account balances, need not be counted for purposes of liquid assets under section 24 of the Banking Regulation Act 1949 (As Applicable to Co-operative Societies).

REHABILITATION OF WEAK BANKS

63. In order to bring about a healthy growth of urban banks, it is necessary to identify weak banks and take timely action for their

rehabilitation or improvement. The weakness of urban banks is mainly reflected in a very high proportion of overdues to their outstanding advances and heavy erosion in the value of their assets on account of bad and doubtful debts and other unrealizable assets. According to the norms fixed by the Reserve Bank, such of the urban banks whose owned funds have eroded by more than 25 per cent of their bad and doubtful debts, other bad debts and accumulated losses, or whose overdues as on 30 June exceeded 50 per cent of the demand or loans outstanding, whichever is higher, are identified as weak and brought under the programme of rehabilitation. As it is not feasible to take up every weak urban bank for rehabilitation, the Reserve Bank suggested to the state governments in 1972 that, to begin with, only those urban banks be taken up for rehabilitation which are either viable or are potentially viable and can become viable within a period of 3 to 5 years. Such of the banks which are dormant and do not comply with the provisions of section 11 of the Banking Regulation Act 1949 (As Applicable to Co-operative Societies) are excluded from the ambit of the scheme. On the basis of the norms so laid down for identification of weak banks, 244 urban banks were classified as weak as on 30 June 1976. Of these, 120 banks satisfied the viability criteria. To facilitate the drawing up of proper rehabilitation programmes, the Reserve Bank had circulated in November 1972 detailed guidelines amongst the Registrars of Co-operative Societies, state co-operative banks and central banks. The state co-operative bank being the leader of the co-operative movement in the state, was requested to take initiative in drawing up comprehensive rehabilitation programme for each of the concerned weak urban banks, in conformity with the guidelines indicated. It was particularly emphasised by the Reserve Bank that the rehabilitation programme so drawn up should be implemented within a specified period and should not be allowed to drag on indefinitely. The progress in the rehabilitation of weak urban banks during the last six years has, however, been somewhat slow and tardy. This slow progress may be attributed to the lack of interest and seriousness in the efforts on the part of the respective urban banks to achieve distinct progress in their operational results. As envisaged under the scheme, some of the state co-operative banks had not constituted a separate rehabilitation cell for monitoring the programme and watching the progress. Annual

plans for rehabilitation have also not been drawn up in the case of the majority of weak urban banks. Review committees have not been set up in some states by the co-operative departments or apex banks for periodically assessing the progress achieved in the implementation or removing the impediments. Where such committees have been set up, no regular meetings are held. Absence of effective co-ordination between the weak urban banks and apex bank on the one hand, and the co-operative department on the other, in the implementation of the rehabilitation programmes is also another factor responsible for the slow pace of progress in this regard. Although investigation of overdues constitutes one of the vital aspects of the rehabilitation programme, many urban banks have not initiated any action in this regard. Inordinate delays in the matter of taking coercive/legal action for recovery of overdues have aggravated the position of overdues, thereby affecting the financial and operational efficiency of these banks. The state-wise study of the general working and the financial position of weak urban banks made by the Reserve Bank has revealed that there were still as many as 42 banks out of 120 banks whose progress in the implementation of the rehabilitation programme was not satisfactory.

64. The Reserve Bank has taken certain other steps for rehabilitation of weak banks. If the inspection of an urban bank reveals that there are weaknesses in its working such as high proportion of overdues to the outstanding advances and heavy erosion in the value of its assets on account of bad and doubtful debts and other unrealisable assets, the chairman and other directors of the concerned bank are invited for discussions either by the Officer-in-charge of the Regional Office of the Agricultural Credit Department of the Reserve Bank of India, or the Chief Officer, to bring home to them the gravity of the situation and the need for taking concrete steps to put the bank's working on sound footing. A special rehabilitation programme is drawn up involving a definite plan for the recovery of dues, mobilisation of resources by way of deposits and share capital, rectification of defective policies and procedures and diversification of their loaning operations. Thereafter, the banks are required to send periodical progress reports to the Reserve Bank so as to keep a close watch on the implementation of the programme.

65. With the revised standards of viability and proposal for raising of the minimum share capital required for an urban bank to carry on banking business in India, as discussed elsewhere in this Report, it is quite likely that some of the existing urban banks may not be in a position to reach the revised levels within the time limit suggested, viz., five years from the date of coming into force of the amendments to the Reserve Bank of India Act 1934 and the Banking Regulation Act 1949. In this context, the Reserve Bank may take urgent action in close association with the Registrars of Co-operative Societies and the state co-operative banks to identify the banks which are not likely to reach this level within the prescribed time limit. An action programme should be drawn up by the co-operative departments for rehabilitating this category of banks with a view to toning up their working, improving their operational efficiency and increasing their share capital base as well as deposits and loans portfolio. This measure will enable some of these banks to come up to the standards of viability. Urban banks which are not likely to become viable should be persuaded to amalgamate with a neighbouring viable urban bank. Compulsory amalgamation could be resorted to wherever banks are recalcitrant in regard to improving their position or refuse to heed the advice of the Reserve Bank or State Co-operative Department in this behalf. For this purpose, a provision for compulsory amalgamation of banks should be made in the State Co-operative Societies Act and Rules broadly on the lines of section 18A of the Maharashtra Co-operative Societies Act 1960 introduced in the year 1976. It is also desirable for the state government to appoint a standing committee consisting of the representative each of the state government, state co-operative bank and the Reserve Bank, to decide on the appropriate steps to be taken in implementing the scheme of compulsory amalgamation of individual weak urban banks. Such a committee has been set up by the Government of Maharashtra in October 1977. A bank may be taken into liquidation only as a last resort if amalgamation is not possible.

66. Where the financial position of any bank is found to have suddenly been impaired to such an extent as to create an apprehension of a run on the bank or heavy withdrawals of deposits by the depositors, the Reserve Bank usually takes steps to move

the Government of India to impose a moratorium on the bank. During the period of moratorium, efforts should be made to revive the working of the bank concerned. It is only when these efforts prove infructuous, that the bank may be taken into liquidation or licence refused.

67. The state co-operative departments, federations of urban co-operative banks and state co-operative banks should take active interest in the rehabilitation of weak urban banks. The state co-operative bank should, wherever possible, provide managerial subsidy to the small or weak urban banks or provide staff free of cost to improve the working of weak urban banks and help in the process of their rehabilitation. Wherever necessary, the state government may also contribute to the share capital of urban banks to speed the process of rehabilitation. In this context, long-term loans either from the state government or from the apex bank are considered necessary to improve the liquidity of weak urban banks. In other words, the programme of rehabilitation of urban banks should envisage a package of measures for improving their financial position and operational efficiency of these banks to bring them to the standards of viability.

CHAPTER 8

LOAN POLICIES AND PROCEDURES

IN the previous Chapter, the assistance needed by urban banks in connexion with their efforts for deposit mobilization, increase of owned funds, borrowings, investments etc., has been discussed. This Chapter deals with the loan policies and procedures followed by urban banks with a view to examining whether any departure in the existing policies and procedures is called for, particularly from the point of serving small borrowers, as required in item 3 of the terms of reference of the Committee.

LENDING POLICY

Extent of Advances

2. The loanable funds of an urban bank is a proportion of the total resources available with it comprising deposits, share capital and reserves. The extent of funds actually available for loaning operations is limited by various factors such as the statutory pre-emptions for maintenance of cash reserve and liquid assets under sections 18 and 24 of the Banking Regulation Act 1949 at a level not less than 28 per cent of the total demand and time liabilities, the need to comply with the stipulation in the Co-operative Societies Act/Rules for investment of reserve fund and provident fund of staff outside the business of the bank, and investment of a part of its paid-up capital and reserves in fixed assets like land and buildings, furniture and shares of higher financing institutions. Only the balance, after making the above allocations, is available for loaning operations.

3. Although from a theoretical standpoint, it would appear that after making the above allocations, an urban bank would be in a position to utilize the balance of resources for maximum lending operations, in practice, it is difficult for a bank to strike a proper balance and arrive at the level of loanable funds, because the amount to be pre-empted for maintenance of cash reserve

and liquid assets is variable on a day-to-day basis depending on the daily position of its demand and time liabilities. In order that a bank may not incur any deficit in the maintenance of cash reserve and liquid assets, it is necessary that it keeps a safe margin over and above the statutory minimum required which would diminish the amount of loanable resources. The question, therefore, arises as to how best an urban bank can deploy its resources, endeavouring in the process to achieve maximum profitability through optimum employment of funds. In this connexion, a case study conducted by the Agricultural Credit Department of the Reserve Bank in 1970 has revealed that an optimum level of the loans and advances of urban banks is reached at 75 per cent of the owned funds (excluding statutory reserves), 70 per cent of deposits and 100 per cent of borrowings. When, therefore, the loans and advances of any bank deviate from the above norms, the Reserve Bank advises the bank concerned to take corrective steps. The norms fixed by the Reserve Bank for optimum level of advances are salutary and are recommended for adoption.

4. The extent of loans and advances granted by urban banks in relation to their resources and borrowings is given in Table 21.

It may be observed that the deposits of urban banks had increased by 239 per cent from Rs 153 crores to Rs 519 crores in the course of 10 years from 1966-7 to 1976-7, but the loans and advances increased by 144 per cent only from Rs 167 crores to Rs 407 crores. It may also be seen that the credit-deposit ratio of urban banks (excluding credit extended out of borrowings) was more than 70 per cent during the 10 years period 1966-7 to 1976-7. However, this ratio has been declining since 1970-71. Further, the aggregate loans and advances of urban banks have been less than the optimum level, particularly after 1970-71. The gap between the optimum level of advances and the actual advances at the end of 1976-7 was sizeable at Rs 67 crores or about 13 per cent of the deposits. From this, it may be inferred that urban banks have not been as aggressive in increasing their loans and advances as they have been increasing their deposit resources.

TABLE 21
Optimum Level of Loans and Advances of Urban Banks

Rs Crores						
Year	Loans & Advances	Owned Funds	Deposits	Borrowings	Credit-Deposit Ratio (% of 2 to 4)*	Optimum level of Loans and Advances@
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1966-7	167	58	153	11	102	162
1967-8	157	50	156	8	95	155
1968-9	176	55	183	9	91	179
1969-70	177	52	179	10	93	174
1970-1	197	56	217	12	85	206
1971-2	229	66	264	14	81	249
1972-3	258	70	301	13	81	276
1973-4	305	81	343	21	83	322
1974-5	354	96	386	24	85	366
1975-6	393	108	468	20	80	428
1976-7	407	117	519	23	74	474

* In working out the percentage, the amount of borrowings has been reduced from loans and advances.

@ The optimum amount is calculated at 75 per cent of owned funds + 70 per cent of deposit resources + 100 per cent of the borrowings.

5. With a view, therefore, to making optimum use of their resources in loans and advances, which would also improve the profits of urban banks, it is necessary that they should actively explore possibilities of increasing their advances. For this purpose, urban banks would do well to conduct a survey within their respective areas of operation to identify the scope for and the purposes of lending. It needs hardly to be emphasized that in the efforts to build up the loans portfolio, the initiative should come from the Board of Management and the chief executive officer of the banks. If necessary, the assistance of the lead bank of the area and the Industries Department of the state government may be taken.

Quantum-wise Distribution of Advances

6. As explained earlier in paragraph 35 of Chapter 3, the

extension of credit to small borrowers in urban banks is by and large satisfactory. About 67 per cent of the total borrowers of banks were those who borrowed loans up to Rs 1000 each in 1976-7 among 792 banks from which the required information had been received by the Committee. About 28.4 per cent of the members borrowed amounts ranging between Rs 1001 and Rs 5000. The members who borrowed up to Rs 5000, therefore, constituted 95 per cent of the total members. In terms of the quantum of total credit, these borrowers had taken about 56.4 per cent of the total loans and advances of banks. Members who had borrowed loan amounts exceeding Rs 1 lakh formed 0.1 per cent of the aggregate number of borrowers. These borrowers had taken about 10 per cent of the total advances. While many of these big advances were given to small-scale industrial units and for commerce and trade, there have been individual cases of banks where big advances to a few parties dominated their loans portfolio. Further, there have also been cases where big advances gravitated towards firms and companies connected with members of the board of directors. The concentration of a bank's advances in the hands of a few big borrowers is not a desirable feature. As urban banks are meant to cater for the needs mainly of persons of moderate and small means, every urban bank should attempt at maximum dispersal of its loans and advances among small borrowers.

7. In this connexion, it has been suggested in some quarters that, in order to enforce greater discipline on the part of urban banks to lend a fair share to the small borrowers and weaker sections, the Reserve Bank should lay down some stipulations as it has done for compelling central banks to finance small and marginal and economically weak farmers in the agricultural sector, and also commercial banks for financing selected low-income groups under the Scheme of Differential Rates of Interest. The Reserve Bank has imposed certain disciplines from the year 1971-2 under which each central bank is required to advance loans up to a prescribed level to primary agricultural societies for financing small farmers/marginal farmers/economically weak farmers. Unless the central banks satisfy this condition, they are not allowed to draw further against the concessional credit limits sanctioned by the Reserve Bank. Similarly, under the

Scheme of Differential Rates of Interest, the public sector banks and three lead banks in the private sector have been required from March 1972 to lend a prescribed level of their aggregate advances in the previous year to selected low income groups for productive purposes at 4 per cent interest. From July 1977, apart from the public sector banks and the non-nationalised banks having lead responsibilities which would continue to implement the scheme, the other non-nationalised banks were also advised to implement the scheme on a voluntary basis. While the need for urban banks to adequately discharge their responsibility in this behalf is imperative, it is doubtful whether, in the present context, it will be possible or necessary to enforce the proposed discipline. The Reserve Bank has issued since January 1975 statutory directives to urban banks fixing the maximum limit for secured or unsecured advances which can be made to any single party or to the directors put together. In addition, the Reserve Bank has stipulated in respect of certain banks the limits of aggregate advances which can be given to big parties in relation to their total loans and advances. Considering these measures taken by the Reserve Bank and the fact that a fair proportion of the total credit is already disbursed by urban banks for financing members who borrowed up to Rs 5,000, there is no need, for the time being, to stipulate any minimum share of advances to be advanced by urban banks to small borrowers.

8. Allied to the question of advances to small borrowers is also the question of the maximum limit of advances which an individual member of an urban bank can borrow. The Reserve Bank in its directives has prescribed the maximum limit of advances to be granted to a single party on secured or unsecured basis, details of which are given in subsequent paragraphs. It may be mentioned here that some urban banks have fixed, in their by-laws, limits of advances to members which are considerably lower than the limits prescribed in the Reserve Bank's directives. For example, in certain banks in Kerala and Tamil Nadu, the maximum limit for surety loan is Rs 1,000 only and for jewel loans it is Rs 2,000. The aggregate individual borrowing power fixed in the by-laws is also low in many cases at Rs 3,000 or Rs 5,000 for all types of loans. The effect of these low limits is that banks are not enabled to grant loans to their

members even up to the limits prescribed in the Reserve Bank's directives without obtaining permission from the Registrar of Co-operative Societies. Moreover, the low limits may not in all cases satisfy the genuine requirements of borrowers. Possibly, the limits in the by-laws had been fixed by banks several years ago and there is need for revising them upwards. It is, therefore, recommended that the individual borrowing limits fixed in the by-laws of urban banks should be flexible enough so that banks may be enabled to grant loans to their members to meet their genuine credit requirements at least up to the limits prescribed in the Reserve Bank's directives, without having to approach the Registrar of Co-operative Societies in individual cases for permission to enhance the limits prescribed in the by-laws.

Purposes

9. In Table 8 given in paragraph 26 of Chapter 3, the purpose-wise classification of advances of urban banks outstanding on 30 June 1977 has been indicated. It will be observed therefrom that a sizeable portion of the advances, i.e., 31 per cent of the total outstandings were for financing small shop-keepers and small traders. Loans for consumption and ceremonial purposes constituted 15.7 per cent of the total loans and advances, while 23.5 per cent were against unclassified purposes. The proportion of advances made by urban banks for small-scale industries was 7.4 per cent. Urban banks are traditionally inclined to grant loans for certain limited purposes and to particular classes of borrowers. Unless, therefore, there is a bold endeavour to depart from the orthodox lines of financing and venture into new fields and there is also a change in the outlook and approach to the whole question of financing, the loaning operations of urban banks cannot be expected to undergo a change. Depending upon the felt-needs of the area in which banks operate, they may decide on the priorities for financing. Broadly, it is suggested that the funds from urban banks may flow in the following broad order of priorities:

- (i) Small-scale and cottage industries
- (ii) Schemes for gainful employment of educated unemployed

- (iii) Self-employed persons and professionals
- (iv) Small road and water transport operators
- (v) Trade and commerce
- (vi) Housing schemes
- (vii) Consumption loans
- (viii) Consumers' co-operative societies

These are discussed in the paragraphs that follow.

Loans for Small-Scale and Cottage Industries

10. Among the various purposes for which urban banks can lend, much emphasis has been laid on small-scale and cottage industries, as this sector, with a relatively lower capital outlay, has large employment potential. Further, the national policy is in favour of dispersal of industry and of rural development. As indicated in paragraph 11 of Chapter 4, this constitutes a most fruitful avenue for grant of credit by urban banks.

11. The units engaged in small-scale and cottage industries fall into two broad categories, i.e., those which have been organized into co-operative societies and those run by individuals, firms and companies. The Reserve Bank had set up a Working Group in 1967 under the chairmanship of the then Deputy Governor in charge of the Agricultural Credit Department to examine the financial resources available to industrial units organized on co-operative basis or run by individuals and to make recommendations regarding the institutional arrangements for adequate flow of credit to these units. For the units organized on co-operative basis, the Working Group recognized the existing channel of credit, viz., the district central co-operative banks assisted by the state co-operative banks and recommended various measures for smooth flow of credit to them. With regard to the provision of finance to units other than co-operatives but run by individuals, firms and companies, the Working Group observed that urban banks constituted the most suitable agency for providing finance to such units. The recommendations made by the Working Group in this behalf have been referred to in paragraph 22 of Chapter 3.

12. As stated in paragraph 9 above, the advances of urban banks outstanding as at the end of June 1977 for small-scale and cottage industries formed 7.4 per cent of the total advances. The reasons for the unsatisfactory progress in this direction could be several, but more prominently the following may be referred to:

- (i) Competition from commercial banks
- (ii) Insufficient interest on the part of urban banks to provide finance
- (iii) Lack of expertise for undertaking such financing
- (iv) Lack of assistance from state co-operative banks
- (v) Legal impediments in the way of admitting firms and companies
- (vi) Lack of potential for growth of small-scale industries in certain areas.

13. In paragraphs 11 to 14 of Chapter 4, attention has been drawn to the challenging role open to urban banks in the field of financing small-scale industries. Even with vigorous efforts, commercial banks alone will not be able to bridge the credit gaps of all the small-scale and cottage industries. Urban banks with their local knowledge and roots will have a crucial role to play in financing of this sector.

14. Financing of the small-scale industrial sector in an active manner calls for changes in the attitudes and operations of urban banks which have traditionally been geared to particular types of financing. Sustained propaganda and publicity are called for to impress upon them the need for flow of funds for these sectors and the socio-economic benefits that would be derived therefrom. Urban co-operative banks are hesitant to venture into a field which is comparatively new to them and in which they lack the necessary expertise. In order to promote financing of small-scale and cottage industries, it is necessary to educate urban banks with regard to the identification of worthwhile schemes of financing, appraisal of projects and sanction and servicing of loans. The Reserve Bank has of late been attempting to interest urban banks in this type of financing and to disseminate this information by sponsoring regional conferences of urban banks. Some of these conferences have been held in states like Gujarat

and Maharashtra. It would be helpful if regional conferences of urban banks are held in all the states where there is a sizeable number of urban banks to explain to them the need for and methodology of financing small-scale and cottage industries. The Federations or Associations of urban banks may take a lead in this direction. The Reserve Bank, the Registrar of Co-operative Societies and the state co-operative bank may render assistance at such regional conferences. The Reserve Bank, through its College of Agricultural Banking, Pune, may also conduct special courses exclusively for the staff of urban banks to train them in project appraisal and other related matters in regard to financing of cottage and small-scale industries.

15. In paragraph 31 of Chapter 3, the need for constituting an industrial section in the state co-operative bank as recommended by the Working Group on Industrial Financing through Co-operative Banks (1968) and the actual position regarding the constitution of such a Section in the state co-operative banks have been mentioned. It is necessary that the state co-operative banks of all the states where urban banks exist in a sizeable number should set up Industrial Sections and Technical Group to give guidance to urban banks. The bigger urban banks which make a significant progress in making advances to small-scale and cottage industries may perhaps set up their own technical cells.

16. In identifying the areas of industrial financing, urban banks may, wherever necessary, take the assistance of the lead bank of the area, the State Financial Corporation, the State Industries Department, the Co-operation Department and the state co-operative bank. Once the areas of finance are identified, it would be advantageous if banks issued pamphlets explaining in brief the system of financing for the benefit of the intending borrowers on the lines of the pamphlets issued by the State Bank of India. In these efforts of urban banks, the Federations or Associations of urban banks should also assist actively.

17. Some of the bigger urban banks are reported to have given loans for the block capital needs of small-scale industries. The Reserve Bank had been advising urban banks that they might

give term loans up to 15 per cent of their disposable long-term resources or 5 per cent of total deposits, whichever is more, in addition to loans granted out of borrowings. There are representations to the committee that the limit prescribed by the Reserve Bank is rather low and should be raised and some of the banks have suggested that the upper limit should be 25 per cent of the owned funds and 15 per cent of the deposits for over 3 years. It would be rather difficult to suggest a general relaxation of the norms stipulated by the Reserve Bank, since locking up of a major portion of the long-term resources of a bank is not desirable. The Committee does not, therefore, view with favour any general relaxation of the limits fixed by the Reserve Bank for term loans, but suggests that those banks as are in need of any relaxation may approach the Reserve Bank which might consider the requests of banks in the light of the disposable long-term resources available with the banks concerned.

18. Some urban banks have mentioned to this Committee that in order to facilitate granting of loans at a lower rate of interest, they should be eligible for refinance at concessional rates either from the Reserve Bank or from the Industrial Development Bank of India. It has been recommended in paragraph 56 of Chapter 7 that facilities under the Industrial Development Bank of India's refinancing and rediscounting schemes may be extended to selected urban banks. In view of this, there is no need for refinance facilities from the Reserve Bank for term loans to urban banks.

Participation (Consortium) Finance

19. In the context of urban banks being increasingly called upon to finance small-scale and cottage industries, it is necessary to consider whether participation or consortium arrangements would be suitable to them. Already, some of the bigger urban banks in Bombay have entered into consortium arrangements with commercial banks in certain cases, by which a part of the credit needs of the borrowing institutions either for working capital or block capital requirements are met by them as mutually agreed upon. This arrangement will be useful to urban banks particularly for those which have surplus funds with them.

Apart from being able to make use of their surplus resources, urban banks may also acquire under these arrangements technical expertise from commercial banks. It should, however, be noted that the consortium arrangement to be entered into by urban banks should be in regard to small-scale or medium-sized industrial units and not big ventures so that concentration of advances in a few borrowers is avoided. It is also desirable that the terms and conditions of the advances under consortium arrangement are broadly similar as between urban banks and commercial banks. For instance, if the commercial bank is insisting upon a certain margin for pledge or hypothecation advance, it may not be proper for an urban bank to stipulate either a reduced or a higher margin for that part of the finance provided by it. Similarly, the rate of interest charged by the consortium banks for identical purposes and period may be the same. Further, urban banks may gradually extend the consortium arrangement among themselves when sufficient experience is gained. In such an event, the bigger or the experienced bank should function as the leader of the consortium arrangement.

Credit Information Scheme

20. Since urban banks are called upon to finance small-scale and cottage industries, it is necessary to consider whether the Credit Information Scheme introduced in 1962 which is presently applicable only to banking companies should be extended to urban banks. In fact, some urban banks have suggested to the Reserve Bank the extension of the scheme to them. Under the Credit Information Scheme, banking companies collect credit information regarding their clients who have been sanctioned secured limits of Rs 10 lakhs and over and unsecured limits of Rs 2 lakhs and over, on a quarterly basis. Information regarding clients who have been sanctioned secured limits of Rs 5 lakhs and over and unsecured limits of Rs 1 lakh and over is also collected on a half-yearly basis. The information so collected in a prescribed form is transmitted to the Reserve Bank's Department of Banking Operations and Development under section 45 C(1) of the Reserve Bank of India Act 1934. The information collected and codified by the Reserve Bank is particularly useful when borrowers with an unsatisfactory past

record attempt to shift their dealings to other banks. While the scheme may not be of any particular advantage to state co-operative banks or central banks in view of their clientele being mainly co-operative societies, it may be of interest to urban banks which finance individuals, firms and companies. However, under the directive issued by the Reserve Bank, no single party can be given an unsecured loan exceeding Rs 10,000 for purposes of business, trade, industry etc. The maximum limit of unsecured loans to a single party in respect of other unsecured advances is Rs 5,000. Hence, the Credit Information Scheme, under which credit information on clients borrowing unsecured loans of Rs 1 lakh and above is collected, cannot be of any use to urban banks in so far as unsecured loans are concerned. In the case of secured loans or both secured and unsecured together, the maximum limit up to which an urban bank can advance to a single party is 5 per cent of its time and demand liabilities or Rs 10 lakhs whichever is lower. In other words, the maximum limit to a single party can be Rs 5 lakhs or more in the case of only such banks as have time and demand liabilities of Rs 1 crore and above. As on 30 June 1977, the number of urban banks having time and demand liabilities of Rs 1 crore and above was about 150. Therefore, if at all the Credit Information Scheme is extended to urban banks, it will be useful for about 150 banks only which have time and demand liabilities of Rs 1 crore or more and that too in respect of secured loans.

21. Further, according to section 45A of the Reserve Bank of India Act 1934, the Credit Information Scheme is not enforceable on co-operative banks, unless the Central Government notifies co-operative banks as 'banking companies' for the purpose of the Scheme. Extension of the Scheme to a small group of urban banks as mentioned above may not be necessary. Moreover, urban banks provide finance mostly to their members who are expected to be known to the bank's directors. Therefore, the need to obtain credit information on borrowing members of an urban bank from other banks can hardly arise. The Committee is, therefore, of the view that the extension of the Credit Information Scheme to urban banks is not necessary for the present.

Agricultural Loans

22. In paragraph 26 of Chapter 3, it has been indicated that urban banks had provided finance for agricultural purposes to the extent of 4.2 per cent of the total advances outstanding on 30 June 1977. There is a demand from certain quarters that there should be no constraints on urban banks lending for agricultural activities. According to the existing policy of the Reserve Bank, urban banks should not normally provide finance for agricultural activities as these activities, which are carried on in rural areas, are generally financed by primary agricultural credit societies. However, the Reserve Bank has no objection if urban banks finance the activities connected with agriculture, such as dairy, poultry and piggery etc., undertaken by their members, and the borrowers are not members of agricultural credit societies. The Committee does not favour any departure from the policy of the Reserve Bank in this regard, because if urban banks are also allowed to make advances for agricultural operations, it might lead to competition between the existing primary agricultural credit societies and urban banks affecting the viability of the agricultural credit societies. Duplication of finance in such cases cannot also be ruled out. Further, urban banks do not generally possess the technical knowledge for financing agricultural purposes, especially the scales of finance based on the crop loan system and seasonality. Verification of the utilization of loans for agriculture is also difficult for an urban bank if the finance is provided at a distant rural area.

23. Another aspect which requires consideration in this context is whether urban banks may grant loans for agricultural purposes to persons who have agricultural lands in villages but live in urban centres and are not members of any agricultural credit society. The Committee is of the view that such loans are difficult of supervision and may also disturb co-operative discipline. In the circumstances, it would be preferable for the person concerned to become a member of the primary agricultural credit society serving the area for availing himself of the required finance rather than having recourse to an urban bank.

Financing of Marketing and Processing

24. Urban banks are not generally called upon to finance processing and marketing activities in respect of agricultural produce. Further, several urban banks have emphasized that the processing and marketing activities undertaken by co-operative societies should not be financed by them as it is linked with production finance and should, therefore, be left to be financed by the state and central co-operative banks. The Committee endorses this view. However, urban banks may finance these activities of marketing and processing of agricultural produce when they are undertaken by individuals or firms.

Finance to Consumers Stores

25. Urban banks normally do not lend to consumers co-operative store societies, as under the Co-operative Societies Act, they can lend only to their members and consumers co-operative stores cannot become members of urban banks. It is only with the permission of the Registrar of Co-operative Societies that urban banks can provide finance to consumers stores. The Conference of the Registrars of Co-operative Societies and of the State Ministers of Co-operation held in September 1975 in New Delhi considered the question of utilization of the resources of urban banks and recommended that consumers co-operatives should be enabled to have access to the loanable resources of urban banks. For this purpose, it was recommended that, under the normal provisions of the Co-operative Societies Act, the state Registrars might consider giving general or special permission for enabling urban banks to provide loans to consumers co-operatives. Subsequently, having regard to the urgent need for providing an adequate flow of credit to consumers co-operatives for expanding their business in essential commodities, the Government of India issued a circular No. R. 16011/4/75-CPDR dated 26 May 1976 to the state Registrars of Co-operative Societies communicating the broad guidelines for extension of credit to consumers stores. The need for urban banks providing finance to consumers stores has been discussed already in paragraph 20 of Chapter 4. The Committee is of the view that urban banks with surplus resources may, subject to necessary safeguards, provide credit to co-operative consumers stores.

Finance for House Construction

26. Till 1 March 1966, urban banks could enrol co-operative housing societies as their members and grant loans to them for construction of houses. In fact, a number of housing societies were being financed by certain urban banks particularly in Bombay and Ahmedabad. Later, however, when the Banking Regulation Act 1949 was extended to co-operative banks with effect from 1 March 1966, enrolment of any societies by urban banks as their members was prohibited. Urban banks could, therefore, grant loans to housing societies only as non-members after obtaining special or general permission from the Registrar of Co-operative Societies. It may be seen from Table 8 in paragraph 26 of Chapter 3 that the outstanding loans of 803 reporting urban banks as on 30 June 1977 for construction and major repairs to properties aggregated about Rs 31 crores forming 11 per cent of the total loans and advances as on that date. Recently, in the context of giving loans for housing accommodation to weaker sections of the community, urban banks were allowed by the Reserve Bank to grant loans for house construction from their own resources, but a ceiling was fixed on the aggregate amount of loans for such purposes, the ceiling being 5 per cent of the total deposits of the financing bank or 15 per cent of its disposable long-term resources whichever is more.¹ With regard to the limit of loan to a single individual, an urban bank can advance in all, together by way of secured and unsecured loans, up to 5 per cent of the bank's time and demand liabilities or Rs 10 lakhs, whichever is less. Under the directive dated 25 May 1977 issued by the Reserve Bank, the limit for unsecured portion of the loan to any single party for purposes of housing cannot, however, exceed Rs 10,000. This limit was previously up to Rs 5,000 only, but was enhanced to Rs 10,000 considering that a number of individuals who took flats in co-operative housing societies required finance to cover the gap between the cost of flats and loan facilities available to them from the apex house financing society, their employers or other outside agency. The Working Group which was appointed by the Reserve Bank in January 1977 under the chairmanship of Shri R. C. Shah

¹ Reserve Bank of India's circular No. ACD. Plan. 781/PR. 338-76/7 dated 24 August 1976 issued by the Agricultural Credit Department, Bombay.

to examine the role of the banking system in providing finance for housing schemes, has recommended that the restrictions with regard to obtaining of permission from the Registrar for financing each society and the ceiling fixed by the Reserve Bank for aggregate loans may be reconsidered in order to enable urban banks to continue to play their role in providing housing finance and also to provide such loans more expeditiously. The Committee is of the view that the instructions of the Reserve Bank issued in August 1976 that urban banks may provide loans to housing societies up to a prescribed level each year with the general permission of the Registrar of Co-operative Societies referred to earlier in this paragraph are adequate.

Production-Oriented Lending

27. Having considered the desirability and the extent of advances for certain important purposes, it is now necessary to consider the broad norms which may be followed by urban banks for issue of productive and non-productive loans. As mentioned in paragraph 26 in Chapter 3, loans provided by urban banks for consumption and ceremonial purposes formed 15.7 per cent of the total loans and advances outstanding on 30 June 1977. Such loans can be taken broadly as unproductive. In addition, 23.5 per cent of the loans outstanding on the above date represented those which were granted for unclassified purposes and it cannot be said whether these were for productive or unproductive use. In this connexion, one has to note that urban banks are meant to cater for the needs of small and middle class persons where a certain proportion of advances has to be given for purposes such as marriages or other items of domestic expenditure. It has, however, to be conceded that banking institutions, including urban banks, collect deposits from the public and utilize these funds for advancing loans. Therefore, they are expected to make the best use of the funds collected from the public on trust for serving public interest. Grant of more finance for consumption expenditure would not serve this objective. In other words, loans should be increasingly directed for the economic growth of the areas and of the local people. On the other hand, if finance for unproductive purposes is given without observing any checks, this would encourage wasteful expenditure, aiding inflationary pressures. Urban banks, in consonance with their

social obligations should, therefore, observe self-discipline in regard to the grant of unproductive loans for consumption and ceremonial expenditure and ensure that such loans do not constitute more than 25 per cent of their total advances.

Security

28. In general, urban banks grant loans against security like mortgage of immovable properties, pledge or hypothecation of merchandise, gold and silver ornaments, fixed deposits, government and other trustee securities. Unsecured loans are also granted by them in the form of surety loans, clean cash credits and clean overdrafts. Usually, the by-laws or loan rules of banks prescribe the limits of loans to be granted against each type of security. The security-wise classification of loans outstanding at the end of 1976-7 in respect of 803 reporting banks in the country and for a few states where urban banks are concentrated is given in Table 13, in paragraph 34 of Chapter 3. It will be seen that out of the total outstanding loans and advances of Rs 282 crores on 30 June 1977, surety loans and other unsecured advances of urban banks aggregated Rs 84 crores and formed 30 per cent of the total loans and advances. This level of unsecured advances in urban banks is relatively high when compared with the unsecured advances of commercial banks at 3.2 per cent of the total loans and advances as on 31 December 1975. The proportion of unsecured advances of urban banks was the highest in Maharashtra, i.e., 31 per cent of the total advances outstanding as on 30 June 1977. The relative percentage in Karnataka was 28. Considering the special character of urban banks, it is evident that a sizeable number of members can borrow only against personal security. The Committee is, therefore, of the view that while there is need to grant loans to individuals against personal security to some extent, care should be taken to see that the unsecured loans are kept within a reasonable proportion of the total loans and advances, i.e., not more than 33-1/3 per cent of the time and demand liabilities of each bank, as prescribed in the Reserve Bank's directive issued in January 1975.

29. It has been observed during the inspections conducted by the Reserve Bank that some urban banks dispense with security even

while granting of loans and advances for business. There should not be any difficulty in taking proper security when advances are made for business purposes. Clean advances are likely to be used as ways and means finance. It cannot also be ruled out that advances taken on clean basis for business purposes are used as margin money against secured borrowings from other financial institutions. Urban banks should be cautious in giving unsecured loans or clean cash credits/overdrafts for business purposes. It is, therefore, suggested that financial accommodation for business should normally be secured by pledge or hypothecation of raw materials, finished goods, tools and implements. Similarly, in the case of traders, hypothecation of goods in trade should form the security for the accommodation.

30. It is also observed that in some cases there is no balanced distribution of the loans and advances against different types of tangible securities. For example, in Tamil Nadu, a large block of loans constituting 67.5 per cent of the total is against gold and silver and immovable properties. While there cannot be any rigid rule regarding the proportion of loans and advances against different types of securities, in order to minimise risks, banks should exercise caution and adopt a policy of diversification of loans in terms of security.

31. With regard to loans against mortgage of property, it has been represented to the Committee that urban banks are experiencing difficulty on account of certain restrictions placed in the Urban Land (Ceiling and Regulation) Act 1976. Urban banks are, therefore, not free to accept either vacant urban lands or urban lands with buildings as security for advances unless the requirements specified in the Act are complied with, i.e., giving notice in writing of the intended transfer, by way of mortgage, to the competent authority or obtaining the prior written permission of the competent authority, as the case may be. Further, urban banks holding vacant land or land with buildings in excess of the ceiling limit are required to file a statement before the competent authority giving particulars specified therein. The term 'holder' includes also those who possess such lands as mortgagees. While vacant lands held by commercial banks, co-operative land development banks or co-operative housing societies are exempted from the provisions

of Chapter III of the Urban Land (Ceiling and Regulation) Act 1976, similar exemption has not been extended to co-operative banks, including urban banks. It is understood that the Reserve Bank has taken up the matter of exempting co-operative banks with the Government of India in June 1976. It is urged that the Government of India take early action on the proposal made by the Reserve Bank to exempt co-operative banks, including urban banks, from the provisions of the Urban Land (Ceiling and Regulation) Act 1976 at least to the extent commercial banks have been exempted.

Diversification of Loans

32. As indicated in the preceding paragraphs, urban banks have still to adopt a sufficiently broad based and diversified system of lending. While a large number of banks in Karnataka, Kerala and Tamil Nadu have a high proportion of secured advances against gold and real estate, unsecured advances dominate the loan portfolio in several other banks, notably in Gujarat and Maharashtra. Similarly, there is still a bias in favour of unproductive loans for consumption purposes and ceremonial expenses. Despite several incentives offered by the Reserve Bank, urban banks have not made any noticeable progress with regard to advances for small-scale and cottage industries. It is imperative, therefore, that urban banks should adopt proper credit planning and determine the order of priorities for grant of loans. While they should avoid concentration of loans for certain purpose or against certain security only, they should venture into new fields depending upon the needs of the clientele and the composition of their resources.

Credit Guarantee Scheme

(a) Credit Guarantee Scheme for Small-Scale Industries

33. While dealing with the loans and advances of urban banks, it is necessary to refer to the credit guarantee available to them. As observed in paragraph 29 of Chapter 3, the response of urban banks to join the Credit Guarantee Scheme operated by the Guarantee Organization of the Reserve Bank has been poor. The low level of financing for small-scale industries is the main reason

for the feeble response of urban banks to join the Scheme. When financing for this purpose picks up, urban banks should take advantage of the guarantee scheme.

(b) *Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971*

34. It is understood that the Credit Guarantee Corporation of India is considering the question of extension of its guarantee cover to co-operative banks at the state, central or primary level which are already covered by the scheme for insurance of deposits by the Deposits Insurance Corporation, in respect of credit facilities granted by these banks to transport operators, traders in fertilizers and other goods, professional and self-employed persons, business enterprises and undertakings, i.e., excluding advances granted to farmers and agriculturists on terms and conditions similar to those applicable to advances granted by commercial banks. It is also learnt that the Reserve Bank has been enquiring about the willingness or otherwise of urban banks which are not yet covered by the deposit insurance scheme to join the guarantee scheme of the Credit Guarantee Corporation of India but the response from the banks has been very poor. It has been recommended in paragraphs 15 and 16 of Chapter 4 that urban banks should undertake financing of self-employed persons, professionals, small road transport operators etc., on a larger scale. It hardly, therefore, needs any emphasis that banks should join the Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971 to cover the risks involved in financing this category of borrowers. @

LENDING PROCEDURES

35. Having discussed the lending policies of urban banks in some detail, it is necessary to examine the procedures followed by these banks with regard to loans and advances, viz., the nature of loans, period, loan appraisal and sanction, documentation, rates of interest etc.

@ Effective from 15 July 1978, the Credit Guarantee Corporation of India has been taken over by the Deposit Insurance Corporation which has been renamed as the Deposit Insurance and Credit Guarantee Corporation (DICGC).

Nature of Loans

36. Urban banks usually sanction fixed loans, cash credits and overdrafts to their member borrowers. Fixed loans are either long-term or short-term loans depending upon the period. In practice, loans up to one year are termed as short-term loans and those for 1 to 5 years are medium-term loans. Such loans as are advanced for a period exceeding 5 years are classified as long-term loans. The Committee is of the opinion that loans for purposes other than business may be granted in the form of fixed loans. However, members with fixed income such as those belonging to professional classes, salaried persons etc., availing themselves of loans, should be able to repay the loans in monthly instalments from the income earned by them. In such cases, loans should not be made repayable in one lump-sum, but repayments should be spread over a specified period, say, 1 year, 2 years etc., and collected in instalments on a monthly basis. Cash credit limits are generally sanctioned for accommodating merchants, traders, artisans, small-scale industrialists etc., to meet their working capital requirements. Overdrafts, on the other hand, are allowed to members for meeting unforeseen contingencies of a temporary nature. There is a practice among some urban banks to grant fixed loans even for business, trade etc., where the accommodation is meant to be used for working capital purposes. In the case of business, trade and industry, the borrower requires a certain flexibility in operations and, therefore, prefers a type of credit which would enable frequent drawals and repayments. Hence, it is necessary that the accommodation to be provided to such borrowers should be in the form of cash credits, which may be allowed usually for a period not exceeding one year depending upon the nature of business, the creditworthiness of the party, security offered and the genuineness of the credit requirements. The limits should be renewed at the end of the period of sanction provided certain conditions are fulfilled, namely, a satisfactory turnover in the account with 3 to 5 times of the limit being represented by credit summations and the sale proceeds being usually credited to the account. When the limit is not renewed for any reason, the outstanding unrenewed limit should be treated as overdue from the date of expiry of the limit.

Period of Loans

37. Urban banks should also consider the appropriateness of the period when they advance fixed loans. Usually, the by-laws of urban banks specify the period up to which loans can be given. The restriction of duration of the loan arises from the general pattern of the deposit resources of banks. While a preponderance of short-term loans is noticed in the case of banks operating in some states, the bulk of the advances is in the form of medium-term advances in other states. However, the preponderance of short-term or medium-term advances in the loan portfolio of a bank cannot, in itself, be considered defective, and the matter has to be viewed mainly with reference to the relative resources and the need for such advances. One of the unsatisfactory features observed in urban banks is that some banks grant medium-term loans much in excess of their disposable medium-term resources, thus resulting in an over-extended position. A continuous diversion of short-term resources for medium-term loans may eventually affect the ability of a bank to meet the claims of its depositors. Another feature observed in urban banks in some states is that they have been advancing loans for longer periods extending beyond 5 years, usually for acquisition of immovable property or for enabling persons of meagre repaying capacity to repay loans in instalments of smaller amounts spread over a longer duration. Long-term loans are also advanced by urban banks for meeting block capital requirements of industrial units. There can be no objection to grant loans for a longer duration provided however banks have adequate long-term resources for the purpose, and where loans are given for block capital, the banks should have the necessary expertise to appraise the repaying capacity of the borrowing units and adequate machinery for the follow-up of advances.

Scrutiny and Sanction of Loans

38. There is no uniformity in the loan application forms adopted by urban banks. It would be useful if the Federations or Associations of urban banks standardise the application forms taking into account local conditions. Considering the clientele of these banks, the forms should be as simple as possible to be easily understood

by the borrower-members. Insistence on highly sophisticated particulars and too many technicalities is a deterrent to prospective borrowers, particularly those engaged in small-scale and cottage industries from approaching the banks for finance.

39. The scrutiny of applications should also deserve special attention. At present, it is the experience that, by and large, urban banks do not have proper arrangements for the scrutiny of loan proposals. Credit appraisal is a complex exercise. Each proposal is required to be gone through from the point of credit requirements, repaying capacity of the borrower and security offered. Most of the banks which have replied to the questionnaire issued by the Committee have indicated that special guidance would be required by them for appraisal of applications in respect of advances for small-scale and cottage industries. The Technical Group at the state co-operative bank or the Technical Cell of bigger urban banks recommended in paragraph 15, will be of immense help to urban banks for appraisal of loan applications from small-scale and cottage industries. As suggested earlier in paragraph 14, the Reserve Bank should conduct special courses for personnel of urban banks for appraisal of loan applications from cottage and small-scale industrial units. These measures should help urban banks to gradually build up expertise for financing cottage and small-scale industries. These banks should ensure that a scrutiny note is prepared by the office on every loan proposal for recommendation by the Chief Executive Officer and sanction by the Loan Committee or the Board of Directors, with view to fixing appropriate responsibility at each level.

Documentation

40. Another aspect which should merit attention of urban banks is documentation. Scant attention is given by these banks in the matter of obtaining necessary documents from the borrowers. Different types of documents are required to be taken from borrowers depending upon the nature of accommodation. It is not possible to detail here the various requirements in respect of each kind of loan or advance, but a reference may be made to the Manual on Advances by Co-operative Banks, prepared and circulated among urban banks by the Reserve Bank in

November 1977 in which a separate Chapter has been devoted to urban banks indicating, among other things, the essential documents required to be taken against various kinds of loan accounts and the precautions to be observed in respect of such accounts. In this connexion it is recommended that arrangements should be made by the Federations or Associations of urban banks and the state co-operative banks to explain the instructions given in the Manual to the concerned staff of urban banks at special training programmes. It will be very useful if the Federations or Associations of urban banks and the state co-operative banks also translate the instructions given in the Manual in local languages.

Supervision

41. Many of the urban banks do not have an adequate machinery for supervision over the use of credit and recovery. A great deal of reliance is placed on the local directors for the recovery of loans. It is necessary that each bank should have supervisory staff for follow-up of loans granted and for timely recovery. The strength of supervisory staff may be decided upon with reference to the number and nature of the borrowing units. While personal loans may not require close attention unless defaulted, it should be the endeavour of the supervisors to meet other borrowers specially merchants, traders, small-scale industrialists etc., at least once in 2 months. The Committee is of the view that there may not be more than 50 borrowing units, besides personal loan accounts, under the charge of each supervisor, in the interest of his discharging the duties efficiently. In the case of industrial units enjoying regular credit facilities, it would be necessary to inspect them periodically, say, once in 3 months. The reports on these inspections should be prepared in a prescribed proforma and submitted to the board of directors through the chief executive officer.

Lending Rates

42. The fixing of an appropriate rate of interest on loans is another matter which needs the attention of urban banks. The range of lending rates of urban banks on loans and advances in certain states for which information is available on 30 June 1976 or 30 June 1977 is shown in the following Table:

TABLE 22
Lending Rates of Urban Banks as on 30-6-77

State/Union Territory	Rate of Interest %	
	Short-term Loan	Medium-term Loan
Assam	14	14
Andhra Pradesh	16	16
Gujarat	14-16	14
Karnataka	16	16
Kerala+	12-18	11-18½
Madhya Pradesh	15	15
Maharashtra	16	15
Orissa	9	9
Rajasthan+	20	20
Tamil Nadu	16	16
Uttar Pradesh@	12	—
West Bengal	14	15
Goa, Daman & Diu+	16	—
Pondicherry+	11-15	13-15

+ Data relate to 1975-6.

@ Data relate to 1974-5.

The above Table shows that there is no uniformity in the rates of interest charged by urban banks on their lendings. One of the reasons which could be attributed to the wide disparity in the lending rates of urban banks is that the Reserve Bank has not regulated the lending rates of urban banks for different purposes by issue of any directive. Lending rates are allowed to be fixed by individual banks depending upon the cost of raising resources, purposes and other relevant factors. However, in respect of advances against cotton and kapas and essential commodities, minimum rates have been specified by the Reserve Bank. From the replies received to the Committee's questionnaire, it is seen that banks have not adopted any rational policy in regard to charging of interest on loans and advances. For instance, in the case of banks in Kerala and Tamil Nadu, they charge a higher rate of interest on gold loans at 16 per cent per annum as against 13-14 per cent on unsecured advances. Similarly, in the case of advances against hypothecation of stock, the rates of interest charged by certain urban banks in Gujarat and Maharashtra are more than the

rates on unsecured personal loans. Urban banks should, therefore, bring about rationalization in rates of interest on different types of loans depending upon the nature of advances, purpose, period of loans and the security taken against them.

Differential Rates of Interest

43. A reference has been made to the Scheme of Differential Rates of Interest in paragraph 7 of this Chapter. Under the Scheme which has been made applicable to public sector banks and three lead banks in the private sector, loans to selected low income groups are required to be made by these banks at 4 per cent interest for productive purposes. Non-nationalized commercial banks are to implement the scheme on a voluntary basis. Since the urban banks are meant to finance mainly small borrowers, it is relevant to consider whether the Scheme of Differential Rates of Interest requires to be extended to urban banks. Most of the respondents to the questionnaire are not in favour of extending the Scheme of Differential Rates of Interest to urban banks. A few banks have suggested that the Scheme may be extended to cover urban banks also but with a subsidy from government against losses which they may incur by giving loans at a lower rate to small borrowers. It has also been mentioned by some urban banks that they fulfil their social obligation and charge lower rate of interest on small loans voluntarily. According to them, the losses if any, arising out of the grant of small loans at lower rate of interest are offset by the interest earned on other advances. As pointed out in paragraph 35 of Chapter 3, most of the advances given by urban banks are to small borrowers borrowing up to Rs 5,000 and, therefore, the need to extend the Scheme of Differential Rates of Interest to urban banks does not arise. Further, most of the urban banks with their meagre resources will not be able to offset the losses arising out of lower rate on small loans. Another aspect which has to be taken into account is the fact that the loans issued by many urban banks are for unproductive purposes to a significant extent and the question of subsidy from government cannot be considered. No subsidy is also available to commercial banks under the Scheme. The Committee is, therefore, of the view, that there is no need to extend the Scheme of Differential Rates of Interest to urban banks.

Penal Interest

44. Another point which requires consideration with regard to interest rates is the extent up to which penal interest may be charged by urban banks on defaulted loans. It has come to the notice of the Committee that exorbitant penal rates are being levied by some banks. For example, in Delhi, one urban bank was charging penal rate of interest at $6\frac{1}{4}$ per cent over and above the normal rate of 14 per cent on loans. In another bank in Delhi, the penal rate was as much as 3 paise per rupee per month, i.e., 36 per cent per annum. This is very harsh and burdensome to borrowers. The Committee recommends that urban banks should not charge penal interest at more than 2 per cent per annum over and above the normal rate from the date of default.

Stamp Duty

45. It is relevant in this connexion to examine the concessions available to urban banks with regard to stamp duty and registration of loan documents. The exemption enjoyed by urban banks in this respect in a few states is given in the Table below:

TABLE 23
Exemption from Stamp Duty and Registration Fee

State	Exemption from Stamp Duty	Exemption from Registration Fee
Delhi	Full exemption	
Gujarat	Advances up to Rs 2000	
Himachal Pradesh	Full exemption	
Karnataka	Advances up to Rs 5000	
Kerala	Full exemption	50% of registration fee for instruments of the value up to Rs 5000
Maharashtra	Advances up to Rs 2000	
Tamil Nadu	Full exemption	50% of fee for advances up to Rs 5000
West Bengal	Full exemption	Full exemption
Goa, Daman & Diu	Full exemption	Full exemption

The exemption enjoyed by urban banks in different states is not uniform. In some states like Maharashtra, the instruments exempted for the purpose of stamp duty are of the value of less than Rs 2,000 only. The limit of Rs 2,000 might have been fixed several years ago under the conditions prevailing then and would now call for reconsideration on the part of the state government. Considering that most of the advances given by urban banks are to small borrowers, it is recommended that the state governments of all states should review the existing exemptions from stamp duty and registration charges and revise the limits upwards, wherever necessary.

Overdues

46. The overdues of urban banks at the end of June 1976 constituted about 8 per cent of the total loans and advances as indicated in Table 16 of paragraph 37 in the Chapter 3. The percentage is not high when compared with the overdues of the agricultural credit societies which was 43 per cent as on 30 June 1976. However, there is no room for complacency. While the overdues on an average are low, they constitute a high proportion in certain banks. A major disadvantage of accumulated overdues is that monies lent to defaulters get blocked and unless the banks are in a position to mobilize further resources sufficient enough to cater for the needs of new members, such new members may not be able to get loans on account of defaults committed by others. The causes for overdues are mainly (i) faulty policy of lending without assessing the repaying capacity of the borrowers; (ii) lack of supervision over the utilization of loans; and (iii) inadequate recovery machinery. Urban banks being local institutions should not find it difficult to recover their dues from members with whom they should have intimate contacts. Directors of the locality concerned should assist in recovery of the advances from the defaulting borrowers by persuasive measures prior to following coercive procedures. It has been represented to the Committee by a number of banks that the machinery in the Co-operative Departments for coercive recovery of overdues is not adequate inasmuch as the number of staff in the Co-operative Departments to attend to arbitration and execution work is very low. Urban banks have also mentioned that the process of execution of decrees through

the Collectors is dilatory. In the case of default of advances against house property, usually complicated and lengthy litigation procedures have to be undergone before the loan is recovered. The Committee is, therefore, of the opinion that where coercive action is necessary, the Co-operative Departments should lend active support to urban banks for recovery of overdues. For this purpose, the Co-operative Departments should maintain adequate staff. In the case of the bigger urban banks where the overdues are fairly high, they may take the services of Recovery Officers or Sale Officers from the Co-operative Departments on deputation basis for a specified period.

REGULATION OF ADVANCES

47. As mentioned in paragraph 6 of this Chapter, advances of urban banks are, by and large, distributed over a majority of small borrowers, although concentration has been found in certain cases. In the first seminar of the chief executive officers of urban banks convened by the Reserve Bank in Pune in July 1971, it was felt that some restrictions on the loan limits of urban banks were necessary to check concentration of loans and advances in the hands of a few parties, wherever it existed. Taking note of this view, the Reserve Bank advised the Registrars of Co-operative Societies of all states, in terms of its circular No. ACD. ID. 3195/A. 3-71/2 dated 11 February 1972, that a ceiling might be fixed on the total loans to be given to a single party which might be in relation to either the total outstanding loans, say, not exceeding 10 per cent, or in relation to total demand and time liabilities say, not exceeding 5 per cent, whichever was considered advisable. Accordingly, urban banks were expected to fix suitable ceilings in their by-laws depending upon the volume of their resources, the size of their membership and the nature of business operation of the clientele served by them. It was, however, found that though some of the banks prescribed certain ceilings, these were either not effective as the banks were not strictly observing them or there were certain lacunae in their application, with the result the concentration of advances among a few individuals and a few directors continued in some banks.

48. In view of the foregoing, a directive No. ACD. 4151/J.

33-74/5 dated 31 January 1975 was issued by the Reserve Bank stipulating certain maximum limits on the advances by urban banks. The limits so prescribed are indicated in Table 24:

TABLE 24
Maximum Limit on Advances

Category of Advance	Maximum Limit on Advances of an Urban Bank whose Total Time and Demand Liabilities (TDL) are		
	Less than Rs 1 lakh	Rs 1 lakh and above but below Rs 200 lakhs	Rs 200 lakhs and above
(1) All types of advances, including unsecured advances to a director or to any other single party	Rs 5000	5% of TDL	Rs 10 lakhs
(2) Unsecured advances, inclusive of clean bills or multani hundies discounted and cheques purchased, to a director or to any other single party	Rs 5000	Rs 5000	Rs 5000
(3) Advances of all types including unsecured advances to all the directors put together	10 per cent of TDL	10 per cent of TDL	10 per cent of TDL
(4) Unsecured advances to all directors put together	Rs 10000	Rs 10000	Rs 10000
(5) Total unsecured advances to the members as a whole	33-1/3 per cent of TDL	33-1/3 per cent of TDL	33-1/3 per cent of TDL

49. On a review of the operation of the directive dated 31 January 1975 in May 1977, the Reserve Bank issued an amending directive No. ACD. ID. 10691/R. 1-76/7 dated 25 May 1977 by which the limit of unsecured advances, including clean bills purchased,

to a single party was increased from Rs 5,000 to Rs 10,000 in case advances were given for purposes of trade, commerce, cottage and small-scale industries, housing and education. The amount of unsecured advances for other purposes, viz., for ceremonial and consumption purposes, remained unchanged at Rs 5,000 to each single party. Further, the limit of unsecured advances to all directors put together which was previously Rs 10,000 in all banks irrespective of their TDL was also revised. Under this revision, banks with TDL of less than Rs 1 crore could give unsecured advances to all directors put together up to Rs 50,000 or 10 per cent of TDL whichever is lower, and banks with TDL above Rs 1 crore could give loans on unsecured basis to all directors put together up to a maximum limit of Rs 1 lakh. Certain other relaxations made in the Reserve Bank's revised directive dated 25 May 1977 were that new banks could add 75 per cent of their paid-up capital and reserves to the total of time and demand liabilities, while working out the maximum limit of advances, for a period of 3 years from the date of becoming a primary co-operative bank. Further, whereas according to the earlier directive, no director could stand guarantee for unsecured loans, the revised directive allowed advances against the security/guarantee of any of the directors of an urban bank to not more than 2 individual borrowing members, subject however to the by-laws of the bank, the Co-operative Societies Act and the Rules framed thereunder. In other words, a director may stand surety for not more than 2 members or for advances up to Rs 20,000 if they are given for purposes of trade, commerce, cottage and small-scale industry or up to Rs 10,000 if the advances are for consumption or ceremonial purposes.

50. Representations have been made by urban banks that the limit for unsecured advances at 33-1/3 per cent is rather restrictive and should be raised to at least 50 per cent. The Reserve Bank has, however, been of the view that urban banks collect deposits from the public, which should not be used mainly for consumption purposes as it might contribute to inflationary pressures. A large proportion of unsecured advances might also jeopardise the financial position of the banks concerned. Considering that out of the total time and demand liabilities, banks have to set apart about 33-1/3 per cent for their cash reserve and liquid assets, only about

66-2/3 per cent would be available for lending. Thus, the limit of 33-1/3 per cent of the time and demand liabilities of any bank for unsecured advances would work out to about 50 per cent of the total loans and advances. It would, therefore, be unwise to increase this proportion of unsecured advances. The Reserve Bank has already given several concessions with regard to computation of unsecured advances. For example, certain types of unsecured advances can be excluded from the total unsecured advances for the purpose of the directive, i.e., (i) advances backed by guarantees of the Central or State Governments, public sector financial institutions, banks, the Credit Guarantee Organization and the Credit Guarantee Corporation of India Ltd., (ii) advances against supply bills drawn on the Central or State Governments or State owned undertakings which are accompanied by duly authorised inspection notes or receipted challans, (iii) advances against trust receipts, (iv) advances against inland D/A bills drawn under letters of credit, (v) advances granted to salaried employees against personal security, provided that the Co-operative Societies Act of the State concerned contains an obligatory provision for deduction of periodical loan instalments by the employer out of the employee's salary/wages to meet the bank's claims and provided further that the bank has taken advantage of this provision in respect of each of such advances, (vi) advances against supply bills drawn on private parties of repute and receipted challans of public limited companies and concerns of repute and not outstanding for more than 90 days, (vii) advances against book debts which are not outstanding for more than 90 days, (viii) cheques issued by governments, public corporations and local self-governing institutions, (ix) advance in the form of packing credit for exports, (x) demand drafts purchased, (xi) the secured portion of a partly secured advance, and (xii) advances against legal assignment of contract moneys due or to become due. In addition, the Reserve Bank has permitted urban banks having less than Rs 25 lakhs of TDL to maintain the level of unsecured advances up to the actual amount outstanding as on the date of the directive, i.e., 31 January 1975 or 33-1/3 per cent of the existing TDL, whichever is higher. In respect of other banks also, time had been allowed to banks having TDL up to Rs 50 lakhs to reduce their total unsecured advances to the prescribed level of 33-1/3 per cent in a phased manner. The

Committee is, therefore, of the view that it would not be advisable to increase the existing ceiling in respect of unsecured advances, viz., 33-1/3 per cent of TDL. However, considering that number of urban banks have a comfortable owned funds position and a substantial portion of these owned funds may be available for lending after investment of the statutory reserve fund etc., outside the bank's business, it is felt that a portion of the owned funds should be permitted to be added to TDL by all banks while calculating maximum limits under different heads, instead of restricting such a concession to new banks only for a period of 3 years. The Committee, therefore, recommends that the Reserve Bank may permit all urban banks to add 75 per cent of their owned funds to time and demand liabilities while calculating maximum limit of advances to a single party or to members as a whole.

51. Another plea of urban banks in this connexion has been that many of the employers are reluctant to deduct instalments of loans from the salaries of their employees who are members of urban banks on the ground that their administrative work will increase. Certain banks have represented to this Committee that some of the senior officers, especially in the military service, do not like the position of their loans to be intimated to the employers for the purpose of deductions from the salary as that may be taken as undesirable. The banks have, therefore, urged that advances made to salary earners or employees should be treated as secured even though regular instalments are not recovered through the employer, but if an agreement to have recourse to such an action is taken by the bank concerned. The Committee has examined this question in some detail and has come to the conclusion that it is not feasible to treat surety loans to salaried employees as secured for the purpose of the directive of the Reserve Bank unless an agreement from the borrower has been taken as per the provisions in the Co-operative Societies Act and the loan instalments are recovered regularly through the employer.

52. Some of the bigger banks have represented to this Committee that the maximum limit of advances to a single party should be related to their time and demand liabilities (TDL). The present limit is 5 per cent of TDL or Rs 10 lakhs, whichever is lower. On account of the above limit in absolute figure, i.e., Rs 10 lakhs, it

is pointed out that there is no difference between a bank with a TDL of Rs 2 crores and another with TDL of Rs 30 crores, as the maximum limit of advances to a single party is uniform at Rs 10 lakhs. In other words, if an urban bank with TDL exceeding Rs 2 crores wants to finance a single party with more than Rs 10 lakhs it has to approach the Reserve Bank each time for authorization. While granting that there should be limit on large advances to any single party and there is need to eliminate concentration of advances in the hands of a few borrowers, the Committee recommends that the Reserve Bank may examine whether the maximum limit on advances to a single party in the case of bigger urban banks, i.e., those having TDL exceeding Rs 2 crores, should be revised upwards in relation to their TDL, instead of restricting the limit to Rs 10 lakhs only for all banks.

CHAPTER 9

PROFESSIONAL MANAGEMENT AND TRAINING FACILITIES

IN the preceding Chapter, as well as in Chapter 7, the need for competent staff in urban banks has been indicated. As required in item 4 of the terms of reference of the Committee, this Chapter deals with the extent of professional management and adequacy of training facilities in urban banks. Since the term 'management' is often used in its wider sense and includes (i) the general body, (ii) board of management and (iii) the chief executive and other managerial staff, the role of each category as well as the staffing pattern and training facilities are discussed in the ensuing paragraphs.

2. With a view to assessing the extent of professional management and studying the staffing pattern in urban banks, the Committee arranged for a study of 38 urban banks in Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal through the respective regional offices of the Agricultural Credit Department, Reserve Bank of India, and in collaboration with the concerned state co-operative banks and Registrars of Co-operative Societies. This study was combined with the study on viability of urban banks because of the interrelationship of the two subjects. A consolidated study report on the staffing pattern is given in Appendix V.

GENERAL BODY

3. A vigilant general body of members can contribute substantially to the sound management of an urban bank, and if it is conscious of its rights as well as responsibilities. Generally, the first step in the process of establishing an enlightened management for a bank consists in the general body electing to the board of directors the right type of persons at the helm of affairs who can inspire confidence in members and the public. In this context, it is necessary that the members of a bank are sufficiently imbued with the importance of their participation in the bank's working, as well

as their rights and obligations. The National Co-operative Union of India and the state co-operative unions are the appropriate agencies to undertake the responsibility of educating the members of urban banks, in association with the National Federation of Urban Co-operative Banks and Credit Societies and the Federations or Associations of urban banks at the state level. Such education could be imparted by organizing meetings, seminars etc. The essential elements of co-operative ideology, the lending programmes of banks, the need for the promotion of thrift, proper utilization of loans and prompt repayments may be some of the subjects for discussions at periodical meetings or seminars.

4. Closely related to the programme of member-education is the programme for promoting contacts among members and dissemination of information among them. For this purpose, the Federations or Associations of urban banks at the national and state levels may publish suitable literature. The bigger urban banks may also attempt house magazines for circulation among members and others interested. It is through such means that the new local leadership can and must be fostered in the urban credit movement.

BOARD OF MANAGEMENT

5. The board of management of a bank should give proper direction to the functioning of the bank. It is the board of management which undertakes the main task of planning for the future and gearing the institution to achieve the goals outlined for it. Thus, all important policy decisions such as those concerning diversification of loans to cover small-scale and cottage industries, establishing technical sections and recruiting and training of personnel devolve on the board. Apart from these developmental aspects, the board has also to chalk out plans for deployment of funds, approval of the annual budget for the bank and initiate action for compliance with inspection and audit reports.

6. In order that the board of management is in a position to carry out its functions effectively, the board should be endowed with the required knowledge and skills. For example, it should have (i) proper understanding and appreciation of the scope of work for the institution, of the constraints under which it operates and

how best these can be removed; (ii) knowledge of the lines along which the bank can develop and the avenues open to it for such development; (iii) competence to evaluate the implementation of policies from time to time in the light of its experience and apply correctives whenever necessary, and (iv) ability to guide the chief executive in carrying out the bank's policies effectively without interfering with his administrative functions.

7. Since one of the cardinal features of a co-operative bank is its democratic management, it is necessary that the board of management should be as representative in character as possible. In this context, the Reserve Bank has been advising urban banks that there should not be any restrictive provision in the by-laws or election rules prescribing a minimum share qualification for a member to contest for a seat on the board of management. The stipulation of a high share qualification would preclude members of small means from contesting elections to the board of management. To ensure that such restrictive practices are eliminated, as a precondition to granting licences to new urban banks or for existing banks to open branches, the Reserve Bank has stipulated that the restriction based on the minimum shares required to be held by a prospective director should be deleted from the by-laws of the concerned bank. However, it is contended by some that directors should have a financial stake in the institution and that prescription of a share qualification ensures that people of proper standing are inducted in the board. In the Committee's view, the extent of shareholding should not be a determining factor in regard to eligibility to hold office and a director should be elected by virtue of the confidence he commands among the members. The Committee, therefore, is of the view that the existing stipulation of the Reserve Bank that minimum share qualification for a membership to the Board should not be insisted upon is salutary.

8. Certain urban banks have also incorporated a provision in their by-laws to the effect that a member should have a bank account for a specified period to become eligible to contest for directorship on the ground that only those having continued association with the bank should be eligible to seek election. There is a great deal to be said in favour of the directors having some stake in the working of the bank. However, the provision should

be reasonable. The Committee suggests that those contesting for directorship should be members for a minimum period of 2 years and is of the view that it is appropriate to stipulate that a member contesting for election to the board should have had a minimum deposit of any type of Rs 500 in the urban bank for a minimum period of 2 years continuously.

9. Apart from having elected members of the board of management of an urban bank to represent members at the head office and branches, it is necessary to consider whether there should be any earmarking of seats on the board of directors for a bank's depositors, women shareholders and the state government. With regard to the directors representing depositors, the Committee on Problems of Urban Co-operative Banks in Maharashtra (1976) had recommended one seat on the board to a shareholder having a minimum fixed deposit of Rs 5,000. A considerable number of parties who have replied to the Committee's questionnaire have opined that the depositors in urban banks may be given a voice in the management of banks with a view to infusing confidence among the depositors. Some suggestions advanced in this connexion are that (i) members having deposits of not less than Rs 5,000 in fixed deposits may be given representation on the Board by reserving one or two seats for them, and that (ii) one-third of the total strength of the board may be representatives of the depositors. A view is also held that non-member depositors may be invited to attend board meetings or annual general meetings and that if this is not possible, a small committee of non-member depositors may be formed to protect their interests. Alternatively, it has been suggested that representation may be given to depositors on advisory committees constituted by the bank.

10. The reasons advanced by the respondents who have urged that it is not advisable to give direct participation to depositors in management of banks are that (i) interests of depositors are safeguarded by the availability of deposit insurance cover, and that (ii) the rates of interest on deposits are governed by the directives issued by the Reserve Bank. Considering the views advanced by various respondents, the Committee is of the opinion that representatives, if any, of the depositors on the board of management will no doubt aim at safeguarding the interests of depositors,

by advising on the judicious use of deposit resources, customer service etc., but the presence of the representatives of members who are owners, and those of depositors who are creditors may lead to conflict of interest. Besides, representation to depositors in the board of management seems to be redundant in the context of the statutory control of the Reserve Bank of India and also the protection up to Rs 20,000 given to depositors under the deposit insurance scheme under the aegis of the Deposit Insurance Corporation. If at all depositors want to have a voice in the management, they may enrol themselves as members of the bank and contest for a seat in the board. In regard to representation of women members in the board of management, the Committee on Problems of Urban Co-operative Banks in Maharashtra (1976) had recommended that one seat for women shareholder-members may be reserved on the board of management. The Committee would endorse this recommendation.

11. As regards directors representing the state government, this question arises if the state government is contributing to the share capital of urban banks. However, in such instances, the state government may nominate up to three directors but not exceeding one-third of the total number of directors on the board. A similar recommendation was made by the Study Group on Credit Co-operatives in the Non-Agricultural Sector (1963). Further, the directors nominated by the state government should preferably be competent non-officials rather than officers from the Co-operative Department.

Training of Directors

12. The ability to formulate right policies, to participate successfully in decision making and to appraise performance is not a skill that a member of the board of management comes to acquire as soon as he is elected to the board of management. These abilities are developed over a period of time through active association and participation. The by-laws of some of the urban banks provide for election of the members of the board by rotation so that the new board benefits from the experience of existing members and continuity in policies is ensured. This is a laudable practice. Even so, it would appear that in several cases both old

and new members evince no more than a casual interest in the working of banks. One reason for this seems to be lack of awareness on the part of board members of their responsibilities under the by-laws, the Co-operative Societies Act etc., and of their obligations to the bank's clientele and the community. It is also possible that the directors are often handicapped not for lack of any initiative and desire to participate actively in the management of their institutions but for want of a proper briefing and inability to interpret the information to their best advantage. The Committee is, therefore, of the opinion that the board members need regular programmes to develop themselves into a competent policy and decision making body. These programmes may include exposing the board members to short-term orientation courses, workshops, seminars and visits to other banks. Such training for the non-official leaders, particularly of the smaller banks, will be helpful to them to play their role effectively as policy makers. Some of the directors may not be aware of the useful work which can be done in regard to developmental activities by urban banks. Certain tasks should, therefore, be allotted to the directors, e.g., locating worthwhile sectors of activity and creating a climate for recovery of loans in time. Suitable manuals prepared by the banks themselves or Federations or Associations of urban banks may be one of the methods of familiarising the directors with their duties under the by-laws. It is therefore, recommended that the National Co-operative Union, in collaboration with the National Federation of Urban Co-operative Banks and Credit Societies, and state Federations/Associations of urban banks should apply itself to this task of educating and training the boards of management of urban banks and draw up co-ordinated programmes in this behalf.

CHIEF EXECUTIVE

13. One factor which marks the working of successful urban banks is that these are manned by competent chief executives who keep the board of management fully informed about the activities of the bank, the difficulties of various types encountered in achieving progress on various fronts and the practical measures which can be taken to meet them. For example, urban banks are required to interest themselves increasingly in the financing of small-scale and cottage industries and in order to make this possible,

they have been required to amend their by-laws to admit as members joint-stock companies, partnership firms etc. They are also advised to identify areas where there is potential for financing this type of activity. Clearly, all these are sectors where it is the chief executive who has to take the initiative and place before the board from time to time the action taken in the matter and the difficulties faced, and seek the board's guidance. The chief executive ought to know that for financing of small-scale and cottage industries, the techniques employed should be different from those employed for financing against real estate or for consumption purposes. Therefore, he has to take steps to acquire the requisite expertise for the purpose. In this context, he has to impress upon the board of management the need for building up technical expertise and skills in the bank, the type of skills necessary and the manner in which these can be acquired. Likewise, the chief executive should also analyse for the benefit of the board how the major defects in the working of a bank brought out in the inspection reports of the Reserve Bank, the Co-operative Department and the financing banks are attributable to defective policies and procedures being pursued by it and what concrete measures are required to be taken to rectify them.

14. The chief executive's role in technical operations relates mainly to the management of resources covering mobilization of resources and their deployment. It should be the concern of the chief executive to impress on the board of management the need to build up the image of the bank by rendering efficient and courteous service. The chief executive should also maintain proper balance among different forms of resources, viz., share capital, reserves and short-term and long-term deposits, with reference to the cost of raising these resources and the margin of profit that the bank may be able to get. With regard to the deployment of resources, one of the main tasks of the chief executive is to maintain the requisite cash reserves and liquid assets as prescribed in the Banking Regulation Act 1949 (As Applicable to Co-operative Societies) and to make a balanced distribution of the available resources in different investments and loans and advances of diverse categories so as to earn the maximum return at minimum risk.

15. An equally important part of the work of the chief executive relates to the formulation of appropriate policies for the recruitment and development of staff. He should ensure a rational distribution of work among staff and delegation of authority among officers and staff so that they are motivated to assume responsibilities and acquire skills of value to the bank.

16. The study on the staffing pattern in urban banks conducted in Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal revealed that, except in West Bengal, in other states, full-time paid chief executives had been appointed by the banks although designated differently as Managing Director, General Manager, Secretary, Manager etc. In West Bengal, out of 6 banks visited, in 4 banks chief executives were honorary secretaries elected by the managing committees of the concerned banks. The post of chief executive was normally held by the banks' own officers. In a few cases, the incumbents were officers taken on deputation either from the Co-operative Department or from the higher financing agencies. The position about this in respect of the 38 banks visited for the study was as follows:

Post of Chief Executive held by	No. of banks
Bank's Own Officers	29*
Officers from Higher Financing Agencies (i.e. State Co-operative Bank or Central Co-operative Bank)	3
Departmental Officers	6
Total	38

* The incumbents in 4 banks were holding honorary posts.

The banks which had chief executive officers on deputation were in Karnataka (1), Maharashtra (3), Tamil Nadu (4) and West Bengal (1). In the case of banks which had taken officers on deputation to hold the post of chief executive, it was noticed that they had resorted to this practice not as an interim measure, until the posting of an incumbent from amongst the ranks or from outside by direct recruitment, but as a long-term

arrangement. Urban banks should have a full-time paid chief executive and not a honorary non-official to work as chief executive. If a chief executive is taken on deputation, it should be purely a transitional arrangement, i.e., if the banks cannot immediately find a suitable person to be promoted from their staff or cannot find an appropriate person from the open market. While taking officers from the Co-operative Department, little or no consideration was given by the banks concerned to their suitability with reference to educational qualifications and practical experience in banking. There were also frequent changes in the incumbents to the post whenever these were held by deputationists. The Committee is of the view that frequent transfers of chief executives will handicap the banks in their smooth functioning as financial institutions inasmuch as the incumbents will not have either sufficient time or interest to improve the operational and administrative efficiency of the banks in their charge.

17. In regard to the recruitment of candidates to the post of chief executive, no uniform practice was followed by the banks. While some banks filled the post of the chief executive by promoting persons from amongst the staff, others resorted to open recruitment. The power of appointment of the chief executive was generally vested in the board of directors. Whenever direct recruitment was resorted to, the banks in Karnataka advertised the vacancies in the local newspapers. Selection was made after interview by the board of directors. There was, however, no system of calling for confidential reports in respect of new appointees from their previous employers before appointment. In Maharashtra, some banks were found to be filling the vacancies to the posts of chief executives from outside, generally from persons known to the directors, possessing banking experience. These direct recruits in Maharashtra were usually retired officers of commercial or co-operative banks and there was no system of advertising the posts in the local newspapers.

18. Regarding the minimum qualifications of the chief executive, these were laid down in the Co-operative Societies Rules in Karnataka and in the special by-laws in Tamil Nadu. There were no such provisions in Gujarat, Maharashtra and West Bengal. Each individual bank prescribed the minimum qualifications. It

is recommended that urban banks should normally insist upon at least graduation in commerce or economics and 5 years of banking experience for the post of chief executive. Matriculates may be considered only if they are exceptionally capable and have long experience of value to the bank. In the case of direct recruitment to the posts of chief executives, the posts should be advertised in local newspapers and interviews should be held by a Recruitment Committee headed by the Chairman of the urban bank. It would be preferable if the Recruitment Committee included a senior representative of the Registrar of Co-operative Societies and of the state/central co-operative bank. There should be no objection, as an interim measure, to the recruitment of retired officers of commercial or co-operative banks with useful experience and who can put in hard work, including field work, but confidential reports in respect of these persons should be invariably obtained from the previous employers and scrutinised by the Recruitment Committee. There have been instances when some banks had recruited persons working with other banks without checking their antecedents. Thus, persons having bad records came to be appointed as chief executives. In such cases, it was noticed that confidential reports from the previous employers were not obtained by banks. The screening of persons with reference to confidential records obtained from the previous employers would help in preventing the appointment of persons as chief executives with unsatisfactory past records.

19. The study in 5 states has shown that the duties and powers of the chief executives were laid down either in the Co-operative Societies Act or the Rules framed thereunder or in the by-laws of banks. Additional powers other than those laid down in the Act/Rules/by-laws were delegated to the chief executives in terms of resolutions passed by the board of directors from time to time. Normally, the chief executives were empowered to grant loans against fixed deposits, government securities, LIC policies etc., either as per the provisions in the by-laws or by board resolutions. In certain cases, these powers were not delegated to the chief executives. There was also no proper division between the management and executive functions and, in some cases, there was interference by non-official office-bearers in the day-to-day administration of banks. The chief executive in some cases had

no power to incur even petty expenditure pending sanction by the Chairman or Vice-Chairman. It is, therefore, recommended that the powers of the chief executives should include powers for sanctioning loans up to certain limits and for incurring expenditure up to certain prescribed limits. These powers should be defined clearly in the by-laws of banks and except for an overall supervision over the functions of the chief executive, the non-official office-bearers should not interfere in the day-to-day administration of banks. A clear-cut demarcation between management and executive functions is necessary for the purpose. In this connexion, the Committee is strongly of the view that the chief executive should be a member of the board of directors, i.e., he should be a Managing Director.

STAFFING PATTERN

20. There was no uniform pattern of organizational set-up in the banks visited in connexion with the study. While the work in the head office of bigger banks was divided into various sections or departments, there were no such sections in smaller banks even in metropolitan centres. In banks where there were no divisions or sections, the work was entrusted to the staff in an *ad hoc* manner. In certain banks, the strength of the staff at various levels was not large enough to permit banks to divide the organization into divisions or sections each under the control of an officer. In banks where the work was divided on the basis of sections and divisions, a middle level executive in the category of either accountant or deputy manager or assistant manager or an officer belonging to the intermediate level was looking after each section. In certain banks, the sections were put under the charge of clerks who were directly responsible to the chief executive officer. The banks had not followed any rational pattern in fixing the staff requirements in each section/division in the head office especially at the clerical level with reference to workload. The staff requirements were fixed on an *ad hoc* basis.

21. Since urban banks are of different sizes with varying volume of work and operations, it is not practicable to suggest any uniform norm either in the organizational set-up or in the staffing pattern both at the head office and the branches of urban banks. However,

on the basis of the study of the staffing pattern in urban banks and the norms of viability, the Committee has considered the minimum staff necessary for a viable bank operating in metropolitan, urban and semi-urban areas. The Committee is of the view that each bank should place the items of work in the head office under two broad divisions, viz., (i) Accounts and Banking and (ii) Loans. While these are the minimum Divisions necessary for an urban bank, the number of divisions/sections may be increased depending upon the size of each bank and the volume and diversity of its operations. Each of these two divisions may be placed under the charge of an officer, e.g., Accountant or Assistant Manager. Each division may further be subdivided into sections and may be placed under the charge of an officer belonging to the supervisory cadre. These supervisory officers may be assisted by clerks, cashiers etc. The minimum staff considered necessary in metropolitan, urban and semi-urban centres will be as under:

Designation	Centre		
	Metro-politan	Urban	Semi-urban
Chief Executive Officer	1	1	1
Accountant (Banking)	1	1	1
Officer-in-Charge of Loans, Establishment, Development etc.	1	-	-
Cashier	1	1	1
Clerks	2	2	1
Peons	2	2	2

In urban and semi-urban centres, it would suffice if the key personnel of a bank comprised one officer other than the chief executive officer, in the initial years. This officer may be in charge of both the divisions referred to above and work under the overall control of the chief executive officer. While the other complement of staff may be the same for a bank in an urban centre as in the case of a metropolitan centre, it may be possible to have only one clerk in a bank in a semi-urban centre. Additional clerks and other staff will have to be appointed commensurate with the loaning operations. In the banks visited, it was observed that the average loan business handled by a clerk worked out roughly to Rs 4 lakhs.

This clerk could handle the corresponding deposit business required for the loaning operations. In other words, in addition to the minimum staff shown above, a bank may employ additional staff in proportion to its loaning business based on a specific review of the workload by the chief executive officer and approval of the specific proposal for additional staff by the board of directors. This requirement of staff has been determined on the assumption that the bank has a single office only.

22. The above complement of staff is the minimum necessary for functioning of a viable unit. Initially, in the first one or two years of its working, a bank need not necessarily appoint all the key personnel or may be in a position to operate with fewer clerks than that envisaged at the level of viability, but at the end of the period of 5 years within which period a bank is expected to attain viability, this minimum staff will be necessary and should be in position. With the growth and expansion of a bank, the managerial staff will have to be correspondingly augmented. Accordingly, appointment of a development officer to attend to promotional functions will have to be considered. Banks financing cottage and small-scale industries on a sizeable scale should have one or two technical officers in their employment. The development officer and the technical officer will belong to the key personnel cadre. With the opening of branches, it will also be essential to appoint staff to supervise their working.

Key Personnel

23. The study undertaken in Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal revealed that while there was no staff representing the key personnel in some banks, there was no uniformity in the number of key personnel employed by other banks. The number varied from bank to bank. Where key personnel posts had been created, they were ordinarily in charge of one section or department only and were not assigned any developmental function such as mobilization of deposits, identification of new lines of business and exploring possibilities of financing small-scale and cottage industries. In the majority of the banks covered by the study, these promotional functions were attended to by the chief executive.

24. The procedure for recruitment of key personnel also varied from bank to bank. While some banks covered by the study recruited key personnel directly, others generally promoted the junior level staff to the higher post. Some banks had laid down a policy according to which 50 per cent of the vacancies of the bank's posts were reserved for staff candidates. Further, there was no uniformity either in the mode of recruitment or in the minimum educational qualifications in the appointment of key personnel. While some banks insisted upon the minimum educational qualification of graduation and other pre-service training requirement for the post of key personnel as per the provisions in the Co-operative Societies Act/Rules or by-laws of banks, in many banks the minimum educational qualifications had not been prescribed. The Committee recommends that 25 per cent of the posts representing the key personnel may be filled by open recruitment and the balance of posts may be reserved for promotions from the lower cadre of qualified and experienced staff. In the case of direct recruitment, minimum qualification of a high second class degree in economics or commerce should be insisted upon. The posts in this cadre should be advertised in the newspapers and interviews should be held by a Recruitment Committee referred to in paragraph 18 above. The chief executive officer of the bank should also be associated with this Committee for the purpose of recruiting key personnel.

Branch Staff

25. The study in Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal also revealed that there was no uniformity in the staffing pattern even in the branches of urban banks. The banks had not also followed any norm in deciding upon the staff requirements in branches with reference to the workload, e.g., the volume of deposits and loan business and the average number of vouchers/receipts to be attended to by the staff in a day. Moreover, there was no uniform pattern of posting officers in the rank of accountant to assist the branch managers in bigger branches, with the result the branch managers were kept busy with the day-to-day office work giving them practically no time to attend to developmental and promotional functions for increasing deposits and loan business of the branches.

26. In the Chapter on viability (Chapter 5), the minimum staff considered necessary for a viable branch operating in metropolitan, urban and semi-urban centres is as under:

Designation	Centre		
	Metropolitan	Urban	Semi-urban
Manager	1	1	1
Clerks	2	2	1
Peons	1	1	1

While the staffing pattern for a viable branch in metropolitan and urban centres could be the same, in semi-urban centre there need be only 1 clerk. The proposed staffing pattern is the minimum necessary for a viable branch and not the optimum level of staff. With the growth of business of the branch, the staff strength has to be augmented to cope with the increased workload. In the bigger branches, the branch managers may have to be assisted by an officer of the rank of Assistant Accountant. This will enable the branch manager to devote attention to matters relating to deposit mobilization, increasing the loan business and promotional and developmental functions. The determination of the staff requirements at the clerical level in the branches should be normally based on the total number of vouchers attended to in the branch. Generally, a clerk may deal with 35/40 vouchers/receipts a day. This is only a rough and ready norm. The banks should take into account such other aspects as are relevant for the determination of the workload per clerk having regard to the actual situation obtaining in each branch so as to avoid overstaffing and to get the maximum work from the existing staff.

27. The branches in some cases did not function as full-fledged units. There were instances where the branch managers were not authorised even to open deposit accounts. The account opening forms of depositors of the branch were required to be sent to the head office for signature by the Chairman/Vice-Chairman. Similarly, in regard to sanction of loans, the branch managers of the banks covered by the study were not given adequate powers which were restricted to sanction of loans against fixed deposits and in some

cases against gold ornaments. Further, branch managers had no powers to sanction petty expenditure which was to be incurred only with the prior sanction of the head office. The Committee is of the view that there should be appropriate delegation of authority to the branch managers if the branches are to function as full-fledged units for business development. They should be authorised, among other items, to sign/issue fixed deposit receipts, advance loans against the security of fixed deposits, grant loans against tangible securities like gold and silver, government securities and insurance policies up to a suitable specified limit, to disburse loans against the sanctioned limits and to incur petty expenditure up to a specified level.

28. The control exercised by the head office over the branches was also, in general, not effective in the banks covered by the study. There was no systematic and periodical inspection of branches. Whenever branches were inspected, proper follow-up action was not taken by the head office promptly. The branch inspection reports were not even placed before the board of directors for their consideration. There should be a system of inspection of branches at periodic intervals by the head office and of proper follow-up action, after placing the matter before the board of directors.

Recruitment of Staff

29. There was no uniform procedure for recruitment of staff in urban co-operative banks visited for the purpose of the study. In Karnataka, Rule 17(3) of the Karnataka Co-operative Societies Rules 1960 specifies that no recruitment should be made without calling for applications from eligible candidates or by notifying the vacancies. Rule 17(1) empowers the managing committee of a co-operative society to determine the staff strength and scales of pay with the approval of the Registrar of Co-operative Societies. In West Bengal, the provisions in Rules 53(b) and (c) of the West Bengal Co-operative Societies Rules 1974 require that every co-operative society should fill up 50 per cent of posts (excluding those of grade IV staff) of each category or class by promotions from officers or staff in the lower rank. The remaining 50 per cent of the posts of each category or class are required to be filled up

by the apex or central society to which such society is affiliated. The Rules in both the states also prescribe the educational qualifications for various posts. In Tamil Nadu, the Registrar of Co-operative Societies issued instructions on 17 September 1977 stipulating that appointments to any post in a co-operative institution shall be made only through the employment exchange by calling for candidates with the required qualifications. If the employment exchange issues a non-availability certificate, appointments can be made by obtaining a list of qualified candidates from the Tamil Nadu Co-operative Union and/or by advertisement in the leading dailies approved by the government. The instructions further prescribe the minimum educational qualifications in addition to basic training requirements. As per the provisions in the special by-laws relating to service conditions of employees of urban co-operative banks in Tamil Nadu, the Board of Directors is competent to prescribe from time to time, the strength of establishment of the bank and the scales of pay admissible to each member of the staff. The procedure for recruitment varies from bank to bank in Gujarat and Maharashtra. While some banks notify the vacancies to the employment exchange, and some others advertise in the local newspapers, some straightaway call candidates who have applied for posts.

30. The minimum educational qualification prescribed for clerks in many banks visited for the purpose of the study was generally a secondary school certificate, and graduation for posts of officers. A few banks insisted on graduation even for clerical posts. There was no system of written tests in most of the banks visited for the study. A few big banks conducted both written tests and interviews for clerical posts. Appointments were made in Gujarat and Karnataka generally by a Staff Committee or Board of Directors. In some banks in Maharashtra, interviews were held by the chief executive or the bank's chairman. The candidates called for interview in certain cases in Maharashtra were not necessarily those who had applied in response to advertisements.

31. In Tamil Nadu, the members of the establishment shall be appointed by the President or the Board of Management as the case may be in accordance with subsidiary rules framed for the purpose. Normally, appointments to the clerical posts and other categories

of staff except the chief executive, were made by the President. Appointments were made after conducting an interview and there was no system of written test for the candidates before they were called for interview.

32. The need for standardisation of the procedure regarding recruitment of various categories of staff, therefore, hardly needs emphasis. Elsewhere in this Chapter, reference has been made to the procedure for recruitment of chief executive officers and other key level personnel, and the minimum educational qualifications required for those posts. Since urban banks are at varying stages of development and their capacity to pay salaries to staff differs from bank to bank, it is considered impracticable to have centralised recruitment of clerical staff required for urban banks. Such recruitment may be continued to be done by the individual banks. The Committee, however, recommends that all vacancies at the level of clerical staff should be advertised, listing the qualifications necessary. Selection should be made after conducting written tests and interviews. The minimum educational qualifications necessary for the post of clerks may be graduation. In this context, the State Co-operative Departments may issue necessary instructions to urban banks to incorporate provisions relating to recruitment of staff in their by-laws broadly on the lines recommended by the Committee.

Pay Scales

33. The staffing pattern study has revealed that there is no uniformity in the pay scales of staff or in their dearness allowance. These differed from bank to bank even within the same state. In West Bengal, although a pay committee had been appointed by the state government to recommend pay scales and scales of dearness allowance, its recommendations have not been accepted by the urban banks. There is also no uniformity in the banks for provision of other benefits to their staff. Two banks visited in Karnataka did not provide for provident fund benefit. Where such benefit was given in Karnataka, the quantum was not uniform. The Committee recommends that the state federations or associations of urban banks may fix scales of pay and other service conditions for various categories of staff of urban banks keeping in

view the size of banks in relation to their working capital and places of their location.

34. No uniformity was observed by the banks covered by the study in service conditions as well. While some banks had framed service conditions for their staff, others had not done so. In some banks, although service conditions were prescribed, they were not got approved by the Co-operative Department. In this context, the Karnataka State Urban Co-operative Banks Association has taken a lead in fixing the cadre strength and pay scales of staff in the urban co-operative banks in the state. The sub-committee appointed by the Association has examined the question of fixing the cadre strength in each category of banks and pay scales of staff working therein. The Committee considers that the involvement of federations or associations of urban banks in other states also in this sphere may help remove the unsatisfactory situation prevailing in urban banks in regard to cadre strength and pay scales.

Promotions

35. The Committee holds the view that seniority consistent with efficiency should be the main consideration for promotion to the higher cadres. Where direct recruitment at the level of key personnel is found necessary, as stated earlier in paragraph 24, the proportion should be restricted to, say, 25 per cent of the posts arising in that cadre. Appointment of chief executive officers from outside should be resorted to in cases when adequately qualified and experienced candidates from the staff are not available in banks. In the bigger urban banks, they may recruit young and qualified persons of exceptional ability as management trainees who, after intensive training, may be groomed to take up top management posts, including the posts of the chief executive officer.

Common Cadre

36. While dealing with the subject of professional management, it is necessary to consider the feasibility or otherwise of creating a common pool or cadre of officers to be appointed to the posts of the chief executive and of other managerial posts in urban banks.

There are some advantages in creating a common cadre. First, an officer appointed in a small bank in a managerial capacity can aspire to move into bigger banks either on promotion or at higher emoluments. Second, the experience of good officers will be available to more than one bank and the officer can also avoid the monotony of working in the same institution and possibly in the same capacity year after year. Third, common cadre can help in professionalising the management of urban banks. Lastly, common cadre will be useful for small and weak urban banks as these banks will not be able to give training in depth to the managers in all aspects of banking. On the other hand, there are certain practical difficulties with regard to the common cadre system, e.g., (i) reluctance of officers to be shifted from one place to another and to work in different environments; (ii) problems of management of the common cadre and the sharing of expenditure; (iii) dislocation of work which may result from frequent shifting of officers where a large number of banks exists; and (iv) inability on the part of small banks to pay high salaries to managers appointed under the common cadre system unless they are given financial aid for this purpose. The experience of the common cadre maintained by the apex banks in some of the states has not been encouraging. Considering all aspects of the matter, the Committee recommends a common cadre system at the level of chief executives only in some selected urban banks, say, banks having working capital exceeding Rs 50 lakhs in states where there is concentration of urban banks. The state federations or associations of urban banks or the state co-operative banks may assess the requirements in this behalf and maintain such a common cadre.

TRAINING OF STAFF

37. Urban banks are exposed to pressures of competition and cannot remain static. They can no longer await customers to approach them, but have to reach to sections of the urban or the semi-urban people in need of assistance, identify their needs and assist them in a constructive way. In order to mobilise more deposits, they have to offer schemes suitable to the people in their area and provide ancillary services. With a view to maximising the margin of profit, urban banks have also to find avenues for proper deployment of resources collected by them. In the matter

of providing credit, emphasis has to be on loans for productive purposes especially for small-scale and cottage industries and loans to the weaker sections. There is thus an urgent need to build up necessary skills and expertise by the banks. In this context, there is the keen need for training of staff of urban banks.

Training Needs

38. While attempts have been made to assess the training requirements in other sectors of the co-operative movement, particularly in the agricultural sector, no such assessment has been made in respect of the urban credit sector. There were in all 1162 primary co-operative banks comprising 1023 urban banks and 139 salary earners' societies on 30 June 1977. These banks should offer sufficient scope for organizing training programmes exclusively for their staff. The training could be for staff at different levels, i.e., chief executive, key personnel, junior officers and clerical staff. It should be also of different types, such as basic courses on co-operative banking and book-keeping, and orientation courses on resource mobilization, deployment of funds, diversification of loans portfolio, industrial financing, Banking Regulation Act etc.

39. The staffing pattern study conducted on behalf of the Committee in 38 urban banks has revealed that the aspect of training was generally neglected in urban banks. The number of untrained staff at various levels in 16 banks visited in Gujarat and Maharashtra is shown below:

State	Category of Staff	Total No. of Staff	No. of Staff Untrained
Maharashtra	Chief Executives	8	5
	Officers	35	24
	Other Staff*	135	104
Gujarat	Chief Executives	8	4
	Officers	72	52
	Other Staff*	206	185

*Jun or staff other than peons.

The position was also not satisfactory in Karnataka and West Bengal. In Tamil Nadu, the staff in 8 banks visited had generally

received pre-service training as this was a condition attached to appointment as per the special by-laws relating to the service conditions of the employees. Although pre-service training was prescribed in the West Bengal Co-operative Societies Rules 1974, it was observed in the banks visited in the course of the study that a number of staff belonging to different categories had not received the stipulated pre-service training.

Present Arrangements for Training

40. In West Bengal, Rule 53(d) of the West Bengal Co-operative Societies Rules 1974 stipulates that the apex or the central society should introduce a training scheme under which candidates with requisite qualifications, after selection, might be trained under the supervision of any co-operative institution for at least one year. They are to be absorbed subsequently after successful completion of training as direct recruits in the service of the affiliated societies. At least 25 per cent of direct recruits for each category or class of posts of each such society are to be filled up by such trainees who, during their training period, receive as stipend half of the minimum basic pay of the post to which they are eligible for appointment. However, no arrangements were made by the Federation of West Bengal Urban Credit Co-operative Societies for pre-service training of staff of urban banks as stipulated in the Rules. The state co-operative bank had also not played any role in this regard.

41. The arrangements for in-service training of staff of urban banks are also not satisfactory. The study showed that the newly recruited staff is not normally sent for any training. A large number of staff at the supervisory level did not receive any orientation training. Very few members of staff had received special training in courses such as industrial finance, deposit mobilization and the Banking Regulation Act. The role played by state co-operative banks in imparting training to the staff of urban banks was very limited. The Federations of urban banks in Gujarat and West Bengal evinced some interest in this respect. The Federation of West Bengal Urban Credit Co-operative Societies conducted short-term courses with the assistance of the Reserve Bank's College of Agricultural Banking, at Calcutta in 1976-7, and 2 training courses for 6 months each at Calcutta under the sponsor-

ship of the National Co-operative Union of India during the period from 5 April 1976 to 18 September 1976 and 15 May 1977 to 31 October 1977. Similarly, the Gujarat Urban Co-operative Banks Federation organized courses at different centres with the assistance of the College of Agricultural Banking, Pune during the years 1975-6, 1976-7 and 1977-8. While no integrated approach to the training programmes of personnel in urban co-operative banks exists, certain *ad hoc* courses are conducted by some of the training institutions either exclusively or along with the staff of other co-operative organizations. The details available in this behalf are given below:

Co-operative Training Colleges

42. A Diploma Course in Co-operative Banking of 16 weeks' duration for the intermediate category of personnel is conducted at 4 different co-operative training colleges, i.e., at Madras, Patna, Nagpur and Trivandrum. These colleges are functioning under the aegis of the National Council for Co-operative Training. The participants of this course are drawn not only from the bigger urban banks but also from state and central co-operative banks. The course provides for the teaching of subjects such as (a) latest developments in co-operative practice and co-operative laws; (b) principles and practice of co-operative banking; (c) practical banking; and (d) co-operative accounts and audit. The practical training of 6 weeks provided in this course is in two parts, i.e., 2 weeks of observation tour and 4 weeks on-the-job training, including attachment to commercial banks. A total number of 94 personnel from urban banks were trained at these courses in the Co-operative Training Colleges at Madras, Nagpur and Trivandrum during the period 1972-3 to 1977-8. There were no participants from urban banks in the courses conducted at the Co-operative Training College at Patna.

43. Recently, the National Council for Co-operative Training has evolved a diploma course in Urban Co-operative Banking of 12 weeks' duration for implementation from 1977-8 (April-March). This diploma course to be conducted at certain selected colleges run by the National Council for Co-operative Training provides for teaching of the following 3 theory subjects with suitable practical training arrangements for 4 weeks:

			No. of Periods
Subject I	Urban Co-operative Banking— Principles and Organization		50
Subject II	Urban Co-operative Banking— Operations and Management		50
Subject III	Urban Co-operative Banking— Administration and Accounts		50
Total			150

44. Short-term (Evening) Course of 24 weeks' duration for the employees of credit co-operatives in the non-agricultural sector has been devised by the National Council for Co-operative Training to facilitate urban co-operative banks to depute their candidates for training without much dislocation of work at their end. Two to three class room sessions daily provide instructions to the trainees on the subjects of (a) Theory and Practice of Co-operation; (b) Co-operative Law and Other Laws; (c) Co-operative Accounts and Audit; and (d) Law and Practice of Banking (including Urban Co-operative Banking). So far, 8 sessions of this course have been conducted since its inception in 1968-9 up to 1977-8 and at these courses, training has been imparted to 201 persons. The places where these programmes have been organized by the National Council for Co-operative Training and the number of participants are shown in the following Table:

TABLE 25
Evening Courses for Employees of Non-Agricultural Credit Co-operatives

Year	Place	Period	No. of Parti- cipants
1968-9	Delhi	7.10.1968 to 23. 3.1969	21
1969-70	Madras	15. 4.1968 to 28. 9.1968	34
1971-2	Madras	15.12.1970 to 14. 6.1971	36
1972-3	Bombay	8. 3.1972 to 22. 9.1972	23
	Indore	18.10.1972 to 3. 4.1973	24
1975-6	Bangalore	2. 4.1975 to 15. 9.1975	10
1976-7	Kalyani	5. 4.1976 to 18. 9.1976	25
1977-8	Kalyani	15. 5.1977 to 31.10.1977	28
Total			201

45. The National Council for Co-operative Training also conducts, from time to time, various short-term programmes for personnel working in urban banks. These short-term programmes, in the recent past, have been organized in the areas of industrial financing, trends and techniques of audit in urban banks, concepts of urban banking, deposit mobilization etc. During the years 1975-6 and 1976-7, 11 such programmes had been organized in which 196 persons participated. A separate programme was also organized by the National Council for Co-operative Training in Vallabh Vidya Nagar for the personnel of urban co-operative banks in January 1978, in which 26 persons participated. Details of these programmes are furnished in Table 26.

Vaikunth Mehta National Institute of Co-operative Management

46. Some of the key personnel of urban banks have participated in certain training programmes such as the programme in financial management, programme in credit appraisal and financial management for co-operative bank executives, management accounting and programme in co-operative banking for cadre officers conducted by the Vaikunth Mehta National Institute of Co-operative Management, Pune. The Institute expects in the near future to be able to make a beginning in regard to planning and executing training programmes for urban banks and also to secure adequate participation of the employees of these banks. The Committee recommends that the Vaikunth Mehta National Institute of Co-operative Management should equip itself to cater for the training of the managerial staff of urban banks with special reference to co-operative laws, accounts and financial management.

College of Agricultural Banking

47. The College of Agricultural Banking (CAB), Pune, formerly known as the Co-operative Bankers Training College of the Reserve Bank of India, is mainly intended to conduct training programmes for in-service officer staff of co-operative banks, including urban banks, in all aspects of banking and for officers of the Reserve Bank and commercial banks in agricultural finance. Before the College was set up in Pune in 1969, the

TABLE 26
Short-term Course in the Sector of Non-Agricultural Credit Societies—1975-6 to 1977-78

Year	Particulars	Duration in Week/s	Place	Period		No. of Persons Trained
				From	To	
1975-6	Seminar on Urban Co-operative Banks	$\frac{1}{2}$	Indore	8-10-1975	10-10-1975	21
	Short-term Functional Course in Industrial Financing for Urban Co-operative Banks' Personnel	2	Madras	(a) 26- 8-1975	8- 9-1975	15
				(b) 16-10-1975	29-10-1975	16
	Urban Co-operative Banks (Seminar)	$\frac{1}{2}$	Nagpur	24-11-1975	26-11-1975	34
	Seminar on Co-operative Audit; Trends and Techniques of the Audit of Urban Co-operative Banks and Salary Earners' Societies	4 days	Nagpur	15-12-1975	18-12-1975	15
	Short-term Programme in the Concept of Urban Co-operative Banking and Consumers Co-operative Societies for Women, Legislators, and Co-operators	1	Nagpur	8-12-1975	12-12-1975	20
	Short-term Course for the Personnel of Urban Co-operative Banks	2	Vallabh Vidya Nagar	7- 4-1975	19- 4-1975	15
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TABLE 26 (Contd.)

Year	Particulars	Duration in Week/s	Place	Period		No. of Persons Trained
				From	To	
1976-7	Short-term Course for the Personnel of Urban Co-operative Banks	2	Vallabh Vidya Nagar	5- 4-1976	17- 4-1976	12
	Short-term Functional Course in Industrial Financing for Urban Co-operative Banks' Personnel	2	Madras	(a) 20- 7-1976	2- 8-1976	18
(b) 14-12-1976				27-12-1976	19	
			Nagpur	7- 2-1977	19- 2-1977	11
					Total	60
1977-8	Short-term Course for Urban Co-operative Banks	2	Vallabh Vidya Nagar	2- 1-1978	13- 1-1978	26
				Grand Total		222

Reserve Bank was conducting courses to train the managerial staff of urban banks at the Bankers Training College, Bombay, where 5 courses were conducted from 1967 to 1969. The College of Agricultural Banking, Pune, organizes the (a) Development programme, (b) Refresher Programme, and (c) Outstation Programme, on a regular basis exclusively for the managerial staff of urban banks.

48. For want of physical facilities, the College has not been able to conduct the first two programmes in its campus since November 1976. They are now being held at the Reserve Bank's Staff College, Madras. But it is proposed to conduct these programmes as a separate channel in Pune from November 1978 when the construction work for the enlargement of the hostel and the College building is expected to be completed.

(i) The main objective of the Development Programme for managerial staff of urban banks is to impart knowledge to the participants in banking theory, practices and techniques, financial management, maintenance of books of account etc. and acquaint them with the latest developments in the field of urban co-operative banking. The programme lays considerable stress on the role of urban banks in the financing of small industrial units and introduction of the production-oriented system of lending. The programme is intended for the managerial staff of urban banks who are graduates and holding senior positions, e.g., Manager, Secretary, Deputy Manager, Assistant Manager, or Chief Accountant. Persons with lower academic qualifications are considered for the programme provided they have sufficient experience in urban banks. Candidates should ordinarily be less than 50 years of age so that their services will be available to the sponsoring institutions for a period of at least 5 years after receiving training. The duration of the programme is 6 weeks covering subjects on (a) economic background and environment for banking industry; (b) sources of funds; (c) banking law and practice; (d) book-keeping and accounting system; (e) investments; (f) advances; (g) law relating to banking and (h) management and inspection of banks.

Till the end of December 1977, the programmes conducted by the College of Agricultural Banking, inclusive of the 5 programmes conducted at the Bankers Training College, Bombay before 1969, numbered 33 in which 930 trainees from 18 states had undergone training as per the details given below:

Course	Total number of classes held	Total number of trainees
Development Course	24	689
Refresher Course	9	241
Total	33	930

(ii) The Refresher Programme for the managerial staff of urban banks is for the benefit of those who had attended the Development Programme earlier in the Bankers Training College, Bombay, or the College of Agricultural Banking, Pune. This programme is of one week's duration and its main objective is to help the participants to refresh their memory of what they had learnt earlier and also to acquaint them with the latest thinking, policies, practices and developments in the field of co-operative banking.

(iii) Since 1971, the College of Agricultural Banking, Pune has also been conducting out-station training programmes of short duration on subjects like the Banking Regulation Act, industrial financing, banking law and practice, deposit mobilization etc., at various centres for the benefit of the staff of urban banks. This activity has enabled banks situated away from Pune to get the benefit of the training nearer to the place of work, to save time and money involved in deputation of officers to the College and to meet specific demands of training felt by them. This activity which started on an experimental basis in the year 1971 has been found to be very useful. The College devises syllabus suited to the needs of the sponsoring banks. During the last 3 years the College conducted the out-station training programmes for urban banks as per details given below:

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Year	Programme	Duration (days)	No. of Trainees	State
1975-6	Industrial Finance and Banking Regulation Act 1949	10	34	Gujarat
	Banking Regulation Act 1949 and Deposit Mobilization	10	33	„
1976-7	Deposit Mobilization	10	30	„
	Banking Law and Practice (Two Programmes)	6 (each)	65	Goa, Daman and Diu
	Industrial Financing and Banking Regulation Act 1949	10	30	West Bengal
1977-8	Industrial Financing and Management of Advances Portfolio	10	33	Gujarat

49. In addition to the above courses exclusively for the staff of urban banks, the College of Agricultural Banking conducts the Industrial Finance Course to which the managerial staff of urban banks are also admitted along with the managerial staff of central banks. The duration of this course is 6 weeks. The objectives of the programme are (a) to give to the managerial staff of banks a working knowledge of the operational problems of small-scale and cottage industries to be financed by them and (b) to explain the loaning policies and procedures required to be followed in this behalf. At 5 such programmes conducted by the College, since the year 1970, 64 officers of urban banks received the training. The programme was, however suspended from January 1975 due to lack of proper response from banks. In fact, in each of these programmes the number of officers reporting for training was far below 30.

Other Training Programmes

50. Of late, some of the bigger urban banks, especially in Bombay, have started their own institutes for the training of their staff or are conducting training classes with the assistance of certain outside agencies. For example, the Saraswat Co-operative Bank has made

arrangements with the Indian Society for Training and Development, Bombay, for holding regular programmes for its new recruits or internal promotees in batches of 15 to 20 participants.

51. Recently, in August 1977, at the instance of the Reserve Bank of India, the North India Banks' Staff Training College, Delhi, and the Staff Training College of the Punjab and Sind Bank Ltd., provided facilities to hold a training course for the staff of urban banks functioning in Delhi. The Federation of Urban Co-operative Banks, Delhi was associated with this training programme.

Utilisation of Training Facilities

52. It may be observed from the foregoing that the institutional arrangements for training of personnel of urban banks are inadequate, particularly for training the staff at lower levels. Paradoxically, the response to the various programmes undertaken by the existing training institutions has also been poor. This is attributed to a variety of reasons. The staff employed by the majority of the banks is very limited in number, making it difficult for banks to depute their candidates for training although they realise the importance of training. Some of the urban banks are so small that they cannot relieve their chief executive or any other senior officer for training unless they find a suitable substitute. Small urban banks are also not able to bear the cost of training, paying at the same time the salary for the substitute. In certain other cases, banks do not feel the need of training as their activities are not diversified. Nevertheless, there cannot be two opinions that development of staff of urban banks by giving them necessary training facilities is imperative, particularly for the chief executive and the middle level functionaries.

53. Taking into account the various factors mentioned above, the Committee recommends that the National Federation of Urban Co-operative Banks and Credit Societies should assess the training needs of the personnel at all levels of urban banks in association with the state Federations/Associations, the National Council for Co-operative Training and the Reserve Bank. In the light of the

above assessment, suitable arrangements should be made for training at different centres.

54. Considering the nature of operations of urban banks in contrast to central or state co-operative banks, it is suggested that the training programmes exclusively for staff of urban banks should be organized instead of being combined with the training courses meant for the staff of central or state co-operative banks. The broad contents of the training programmes to be organized exclusively for urban banks in different training institutions may be drawn up by the National Council for Co-operative Training in consultation with the Reserve Bank and the National Federation of Urban Co-operative Banks and Credit Societies.

55. There is some overlapping in the existing training programmes for urban banks. For example, short-term courses on Industrial Financing, Banking Regulation Act and Deposit Mobilization are conducted both by the Co-operative Training Colleges at Madras, Nagpur, Indore and Vallabh Vidya Nagar functioning under the auspices of the National Council for Co-operative Training, and the College of Agricultural Banking, at Pune. It is necessary to evolve co-ordination in this regard. The National Council for Co-operative Training and the Reserve Bank, in collaboration with the National Federation of Urban Co-operative Banks and Credit Societies, may study this aspect and suggest measures to bring about co-ordination.

56. The training arrangements for clerical and supervisory staff of urban banks available at present are inadequate. The Committee recommends that the Cooperative Training Schools under the aegis of the State Co-operative Unions particularly in the states of Gujarat, Karnataka, Maharashtra and Tamil Nadu where there is concentration of urban banks may organize special programmes exclusively for the junior level staff of urban banks. In this context, it is desirable to conduct a large number of evening courses, the need for which arises mainly on two considerations. First, the small and medium-sized urban banks are unable to depute their staff for training for want of substitutes. Second, some of these banks may not be able to meet the additional expenditure to be incurred for appointing substitutes for those who are to be sent for

training. The evening training courses serve the twin purpose of preventing dislocation in the work of urban banks as well as saving additional expenditure for substitute staff. There is scope for conducting evening training courses particularly in metropolitan centres where there is a large number of urban banks. Further, the state Federations/Associations of urban banks should take the lead in conducting out-station training programmes nearer to the centres where banks are located.

57. On-the-job programmes for clerical and supervisory staff of urban banks are very necessary. These may be undertaken by the banks themselves, wherever possible, particularly in the case of bigger banks. In the case of medium or small-sized urban banks, a group of banks may organize such programmes jointly. Where it may not be possible for the medium-sized and small banks to organize on-the-job training programmes for their clerical or supervisory staff, it is suggested that the state co-operative bank or the state Federation/Association of urban banks may take up this responsibility. The state co-operative bank or the state Federation/Association of urban banks may seek the assistance of the colleges of commercial banks for conducting short job-training courses as was done in August 1977 for the staff of urban banks functioning in Delhi.

58. For teaching the subjects of Law and Practice of Banking and Accounting Procedure in banks, the Committee suggests that the training institutions may secure the services of experienced persons, i.e., those who have worked in commercial or co-operative banks for some years. The Co-operative Department and the state co-operative bank of each state, where urban banks exist in sizeable numbers should render all possible help for the training of staff of urban co-operative banks. The state co-operative banks, wherever possible, may provide physical facilities for conducting training programmes for urban banks. It is also suggested that, whenever small or medium sized banks require substitutes for their officers sent on training, the state co-operative bank may lend its staff temporarily.

59. The Federations or Associations of urban banks should actively involve themselves in the development of staff and training

facilities for the staff of the affiliated urban banks. Their help would be specially required when out-station courses are held by the College of Agricultural Banking or the Co-operative Training Colleges. The Federations should collect information on a regular basis from urban banks regarding the number of staff trained, and to be trained etc., at different levels for transmission to the Reserve Bank of India, State Co-operative Department and the National Council for Co-operative Training.

60. In order that the cost of training may not be burdensome to banks, especially to small and medium-sized banks, it is necessary to provide suitable subsidy to such banks. This subsidy may be provided by the Government of India and state governments.

61. Since the working of urban banks is somewhat akin in certain respects to those of commercial banks, it would be useful if the chief executive officers and other key personnel of urban banks are given practical training in commercial banks. The Committee, therefore, suggests that bigger urban banks having working capital exceeding Rs 1 crore may take necessary initiative for giving such training to their chief executives and other key personnel. The Reserve Bank may assist urban banks in arranging for such practical training in commercial banks.

62. In order that work may not suffer due to the deputation of staff for training, urban banks, particularly the bigger among them, may maintain adequate number of training reserves to take the place of those deputed for training. Small banks may not be able to maintain training reserves in all cases. The bigger urban banks may help the small banks by lending their training reserves, wherever possible.

63. In view of the importance of providing adequate training facilities to the staff of urban banks, it is desirable that a representative of urban banks is included in the National Council for Co-operative Training on a permanent basis. This will facilitate closer co-ordination in regard to the training arrangements for urban banks organized or to be organized by the National Council for Co-operative Training.

CHAPTER 10

INSPECTION AND AUDIT OF URBAN BANKS

In the previous Chapters, a reference has been made to the main organizational and operational aspects of the working of urban banks. This Chapter deals with the inspection and audit of urban banks. These topics have been included under item 5 of the terms of reference of the Committee, viz., any other item considered necessary.

INSPECTION OF URBAN BANKS

2. The inspections of urban banks are undertaken by different agencies, viz., the Reserve Bank of India, the Co-operative Department and the financing bank. The purposes for which the inspections are conducted by these three agencies are somewhat different. While the Reserve Bank inspects urban banks statutorily under the Banking Regulation Act 1949 (As Applicable to Co-operative Societies) to ensure their sound financial position, satisfactory conduct of affairs and generally to tone up the whole organization, the objectives underlying the inspections of the Co-operative Department are to ensure proper observance of the provisions of the Co-operative Societies Act and Rules, to guide the management regarding the development of business on sound lines and to infuse a sense of responsibility and integrity among the members of the staff. The financing bank, on the other hand, inspects urban banks mainly to ensure the safety of the funds lent to them and to verify the fulfilment of the terms and conditions attached to the sanction of the credit limits, including proper utilization of credit. In the replies received to the questionnaire issued by the Committee, several respondents have indicated that it is not necessary for the Co-operative Department and the financing bank to inspect urban banks, since the statutory inspections of the Reserve Bank are comprehensive. But other respondents have stressed that these inspections should be carried out by all the three agencies. Considering the different objectives of the inspections and the

interval between the statutory inspections by the Reserve Bank which is normally more than 18 months, the Committee holds the view that the inspections of urban banks should be undertaken by the Co-operative Department as well as the financing bank, in addition to the statutory inspections of the Reserve Bank.

3. The inspections of the Reserve Bank cover a detailed examination of the liabilities and assets of banks, including evaluation of the assets from the point of view of their realisability, policies and procedures followed by banks, systems of internal checks, book-keeping, management and personnel and also developmental aspects. The position regarding compliance with the directives issued by the Reserve Bank and accuracy of the statutory returns submitted to the Reserve Bank are also verified during the inspections. The important findings of the inspection highlighting the operational and other weaknesses in the working of banks and specific suggestions for improvement in the systems and procedures are communicated to banks in the inspection reports, copies of which are also forwarded to the Registrar of Co-operative Societies and the state co-operative bank concerned. The common major defects observed in the working of urban banks, as revealed by the inspection reports of the Reserve Bank include (i) inadequate scrutiny of loan applications with reference to the purpose of the loan, credit-worthiness of the borrower and operations of the earlier loan account; (ii) failure to take adequate safeguards while granting loans against immovable property, merchandise, and gold and silver ornaments in regard to valuation, insurance, verification of stocks etc; (iii) sanction of surety loans without taking into account the total liability of borrowers and sureties; (iv) failure to take prompt action against defaulters; (v) deficits in the maintenance of cash reserve and liquid assets as prescribed in the Banking Regulation Act 1949 or prevalence of large surplus liquid assets, and (vi) unsatisfactory maintenance of books of account and inadequacy of internal checks.

4. An important point which arises out of the Reserve Bank's inspection is the submission of compliance reports by the urban banks inspected indicating the progress of rectification of defects and compliance with the suggestions offered by the Reserve Bank. According to the Reserve Bank, the compliance reports are in many

cases delayed by urban banks beyond the required period of three months from the date of supplying a copy of the inspection report and adequate attention is not being paid to the rectification of defects. In this connexion, the Reserve Bank had suggested to the Registrars of Co-operative Societies in its circular No. ACD.ID. 1230/J. 1-75/6 dated 28 July 1975 the setting up of a committee consisting of the Registrar of Co-operative Societies, chief executive officer of the state co-operative bank and the officer-in-charge of the regional office of the Agricultural Credit Department of the Reserve Bank to review, on a quarterly basis, issues concerning satisfactory compliance by co-operative banks. Such a committee has been set up only in a few states such as Karnataka, Kerala and Madhya Pradesh. The Committee recommends that a committee to review the compliance on inspection reports should be constituted by the Registrars of Co-operative Societies in all the states where there is a sizeable number of urban banks. The officers of the Co-operative Department as well as of the Reserve Bank may make periodical visits to urban banks for the purpose of guiding them with regard to the rectification of defects and generally for toning up their operational efficiency.

AUDIT OF URBAN BANKS

5. Besides inspection, annual audit of urban banks is carried out by the Co-operative Department to ensure that proper accounts are maintained to disclose their true financial position. It has been observed that the annual statutory audit of urban banks is delayed in a number of cases requiring urban banks to approach the Reserve Bank for extension of time for submission of the audited balance sheet and profit and loss account under section 31 of the Banking Regulation Act 1949 by the end of 31 December each year, and also to publish the audited balance sheet in the newspapers or magazines by 31 March of the following year. Owing to the delay in the conduct of audit, banks are also not able to discuss the audited balance sheet at their annual general body meetings required to be held within 3 months after the close of the co-operative year, and consequently to make appropriations of their profits towards reserve fund, other reserves and dividend. The delay in audit is caused mainly due to the paucity of staff in the Co-operative Department or the auditing staff being utilised for

work other than audit. The Committee, therefore, recommends that the Co-operative Department should recruit adequate number of staff for the audit of urban banks so as to complete the final audit soon after close of the co-operative year, to enable urban banks to discuss the audited balance sheet in their general body meetings and also to submit the statutory returns to the Reserve Bank in time by 31 December. With a view to facilitating completion of audit in time as one of the objects, bigger urban banks, such as those having working capital of over Rs 2 crores should arrange for concurrent audit of their accounts.

6. Considering the different sizes of urban banks, it is difficult to suggest a uniform standard for appointment of audit staff. The Report of the Study Group on Credit Co-operatives in the Non-Agricultural Sector (1963)¹ had reiterated the recommendations of the Committee on Co-operative Administration (1963)² that a senior auditor might be provided to audit 25 urban banks and employees' credit societies. Since 1963, when this recommendation was made, urban banks have grown in size and also in diversity of operations and, therefore, it is recommended that, ordinarily, the charge for an auditor should not be more than 15 urban banks and employees' credit societies.

7. Another aspect concerning audit of urban banks is the need to build up competent and trained audit staff with a view to improving the quality of audit. In this context, it is recommended that the Co-operative Department in each state should not only recruit the staff for audit with necessary qualifications, but also evolve suitable training programmes for the audit staff before placing them in charge of independent audit of urban banks. Periodical re-orientation courses should also be arranged for the audit staff.

8. Since the statutory audit of urban banks should bring out not only a correct financial assessment but should also ensure that the

¹ *Report of the Study Group on Credit Co-operatives in the Non-Agricultural Sector* (1963), published by the Government of India, Ministry of Community Development & Co-operation (Department of Co-operation), New Delhi, p. 43.

² *Report of the Committee on Co-operative Administration* (1963), published by the National Co-operative Development Corporation, New Delhi, p. 65.

business of these banks is carried on according to co-operative principles, the Committee favours statutory audit of urban banks being conducted by the Co-operative Department. But, in the case of bigger urban banks, e.g., those having working capital of over Rs 2 crores or so, there is no objection if statutory audit is entrusted to Chartered Accountants appointed by the concerned banks with the prior approval of the Registrar of Co-operative Societies. But these Chartered Accountants should be given some basic training in co-operative banking. This may be arranged by the Co-operative Department.

Norms for Audit Classification

9. At present, no uniform norms have been laid down for the audit classification of urban banks. Appropriate uniform norms are helpful in connexion with matters such as the recognition of urban banks for acceptance of trust deposits and deposits of local bodies, consideration of refinance facility from the Reserve Bank under section 17(2)(bb) of the Reserve Bank of India Act for financing small-scale and cottage industries, and examination of proposals for share capital contribution from the Reserve Bank's National Agricultural Credit (Long-term Operations) Fund. The Committee recommends that the Reserve Bank may suggest uniform standards for audit classification of urban banks for adoption by the Registrars of Co-operative Societies, as has been done for central co-operative banks and primary agricultural credit societies.

CHAPTER 11

ROLE OF THE GOVERNMENT, RESERVE BANK, NATIONAL AND STATE FEDERATIONS AND OTHERS

THE subject of inspection and audit of urban banks has been dealt with in the previous Chapter. This Chapter deals briefly with the important subject of the role of the Government of India, state governments, Reserve Bank of India, state and central co-operative banks and federations of urban banks in the development of urban banks, as part of item 5 of the terms of reference of the Committee.

Government of India

2. In the Report of the Study Group on Credit Co-operatives in the Non-Agricultural Sector, appointed by the Government of India in 1963, several recommendations have been made to help urban banks to come into their own as important agencies in the economic development of urban and semi-urban areas. Considering the useful role which urban banks can play in the banking system, particularly in under-developed and backward areas, the Government of India may actively involve itself in the development of urban banks in different states to cater for the needs of urban middle classes and persons of low incomes. For this purpose, there might be specific provisions in the Five Year Plans for the development of urban co-operative banking movement, particularly in spheres such as having a strong capital base, competent staff, their training, and development of industrial financing. The Government of India may particularly ensure that the state governments set up a special cell in the Co-operative Departments to look after the needs and problems of urban banks. It is further recommended that the Government of India may establish a special cell in the Department of Civil Supplies and Co-operation in the Ministry of Commerce, Civil Supplies and Co-operation, to look after the development of urban banks which number about 1200 at present.

State Governments

3. The care and attention of the state governments is absolutely necessary for the growth and development of urban banks. In states, particularly where a sizeable number of urban banks exists, the state governments should set up a special cell under a senior officer of the rank of at least a Joint Registrar of Co-operative Societies to attend to the needs and problems of urban banks, including examination of proposals of new urban banks for registration, issue of no-objection certificates for opening of branches, review of the compliance on the Reserve Bank's inspection reports, attending to work connected with the rehabilitation of non-viable banks and checking of malpractices and taking deterrent action where such malpractices have been noticed. Some special staff will have to be posted in districts or regions wherever there is a concentration of urban banks, controlled by a senior officer from the headquarters.

4. It has been suggested in paragraph 9 of Chapter 4 that the state governments may assist urban banks organized in backward areas or for weaker sections of the community, with share capital contribution and subsidy for managerial staff. The state governments may make necessary provisions for this purpose as well as for purposes like rehabilitation of non-viable banks in their annual plans.

5. It is also urged that state governments should take early action on other items suggested by the Committee elsewhere in this Report, such as appointment of the required staff for audit, arbitration and execution and recognition of eligible urban banks for acceptance of deposits from local bodies, trusts etc. In particular, it should be ensured that the State Industries Department is actively involved in providing technical guidance to urban banks in regard to their financing of small-scale and cottage industries.

Model By-laws

6. In most of the states, model by-laws have not been prescribed by the Registrars of Co-operative Societies for adoption by urban banks. A majority of the respondents to the questionnaire issued

by the Committee has stressed the need for prescribing model by-laws. Broadly on the lines of the model by-laws prepared by the Committee on Problems of Urban Co-operative Banks in Maharashtra (1976) and also on the pattern of the model by-laws drawn up by the Federation/Association of urban banks in Gujarat and Karnataka, as well as keeping in view the recommendations made in this Report, the Committee has prepared model by-laws for urban banks. A copy of these model by-laws is given as Appendix VI. The Registrars of Co-operative Societies in different states may prescribe these model by-laws for adoption in their respective states with suitable modifications, if necessary, to suit local conditions.

Role of the Reserve Bank

7. The role of the Reserve Bank in the development of urban banks has been more noticeable from 1 March 1966 after the application of the Banking Regulation Act 1949 to co-operative banks. Earlier, the Reserve Bank used to collect and publish statistical information of urban banks in its *Statistical Statements relating to the Co-operative Movement in India*, from the year 1948-9. In the year 1958-9, the Reserve Bank conducted a survey of urban co-operative banks mainly for the purpose of studying the pattern of financial resources of urban banks, the outlets for their investments and factors underlying the success or failure in their working. The Report on the survey was published in 1961. After March 1966, when certain provisions of the Banking Regulation Act 1949 were extended to co-operative banks, including urban banks, the Reserve Bank, by virtue of the powers conferred upon it, started inspecting urban banks either directly or through the concerned state co-operative banks. It also started receiving statutory returns prescribed under the Banking Regulation Act and the Rules framed thereunder. In the wake of urban banks coming under the purview of the Reserve Bank from 1 March 1966, the Bank arranged for the training of the managerial staff of urban banks in banking principles and practices from 1967 at its Bankers Training College, Bombay. The training programmes for the staff of urban banks are now being held by the Reserve Bank in its College of Agricultural Banking, Pune. In 1967, the Reserve Bank appointed a Working Group on Industrial Financing through

Co-operative Banks under the chairmanship of the then Deputy Governor in charge of Agricultural Credit. This Working Group submitted its Report in 1968. In pursuance of the recommendations made in that Report, the Reserve Bank sanctioned loans to state governments from 1969-70 from its National Agricultural Credit (Long-term Operations) Fund for contribution to the share capital of urban banks. The Reserve Bank also extended to urban banks refinance facility for the working capital of small-scale and cottage industries under section 17(2)(bb) of the Reserve Bank of India Act in respect of the 22 approved categories of industries from the year 1969-70.

8. More recently, i.e., in 1977, the Reserve Bank has issued a Manual on Advances by Co-operative Banks for the guidance of all co-operative banks in which a separate chapter has been devoted for urban banks. It is understood that the Reserve Bank is now preparing a comprehensive manual exclusively for urban banks containing guidelines on different aspects of their working such as deposits, borrowings, loans and advances and investments. This should be of considerable help to urban banks. The publication may be brought out early.

9. Another promotional role of the Reserve Bank is its assistance to national and state federations of urban banks, state co-operative banks or Co-operative Departments in conducting conferences and seminars for urban banks, particularly those organized at regional levels for discussing common problems of urban banks and seeking practical solutions to them. Such conferences have also provided a forum to the authorities concerned to explain their policies pertaining to urban banks.

10. In this context, the Committee should like to point out that, presently, the work relating to urban banks is looked after by the Reserve Bank in its Agricultural Credit Department in different sections along with the similar work relating to state and central co-operative banks. There is no separate section or division to deal exclusively with matters regarding urban banks. A large number of respondents to the Committee's questionnaire as well as the First All-India Conference convened by the National Federation of Urban Co-operative Banks and Credit Societies in Ahmedabad

on 5 and 6 March 1978 have urged that there must be a separate section to look after the affairs of urban banks in the Reserve Bank's Central Agricultural Credit Department and also at the regional offices in those states where there is concentration of urban banks. The Committee, therefore, recommends that the Reserve Bank may set up, as early as possible, a special division in the Agricultural Credit Department headed by a very senior officer to concentrate attention on the problems and needs of urban banks.

11. The *Statistical Statements relating to the Co-operative Movement in India* published by the Reserve Bank annually and its biennial publication *Review of the Co-operative Movement in India* do not contain detailed data relating to the working of urban banks classified as primary co-operative banks. The data in Table No. 41 of the *Statistical Statements relating to the Co-operative Movement in India*, may be published separately for urban banks and salary earners' societies coming within the purview of the Banking Regulation Act 1949. In respect of urban banks, the Reserve Bank may also publish additional data relating to nominal membership, quantum-wise, security-wise and purpose-wise classification of loans and also about audit classification.

Role of State and Central Co-operative Banks

12. In the federal structure of co-operative banking, state co-operative banks, as apex institutions, have a crucial role to play in the development of urban banks. But the attitude of most of the state co-operative banks towards urban banks has been lukewarm. Despite the suggestion made by the Reserve Bank in 1970, many of the state co-operative banks have not set up technical cells and industrial sections to guide urban banks in the matter of financing of small-scale and cottage industries. In some states, urban banks are not even enrolled as members of state co-operative banks, let alone the provision of representation to urban banks on the board of directors of state co-operative banks. Further, where urban banks need finance, some state co-operative banks either refuse to give finance or grant it only against a higher rate of interest. This indifferent attitude on the part of state co-operative banks will have to be shed completely if urban banks are to be developed. The state co-operative bank, as the leader

of the co-operative movement in each state, should play a prominent promotional role in regard to the growth and development of urban banks. Some of the spheres in which a state co-operative bank can help urban banks are undertaking surveys of the potential for the organization of new urban banks and the different purposes for which loans and advances can be provided by them in their respective areas of operation and staff development and training.

13. It has been indicated in paragraph 7 above that the Reserve Bank can carry out statutory inspections of urban banks through state co-operative banks. This provision was made in the Banking Regulation Act 1949 to facilitate maintenance of close contacts by state co-operative banks with urban banks and to preserve the federal character of the co-operative movement. However, only a few state co-operative banks, viz., Karnataka, Kerala and Maharashtra have been inspecting urban banks on behalf of the Reserve Bank. The Committee recommends that all state co-operative banks should actively assist the Reserve Bank in inspecting urban banks.

14. In the case of non-viable urban banks, it has been recommended in Chapter 7 that state co-operative banks should associate themselves actively either in reviving them or by helping them to amalgamate with a viable neighbouring urban bank. Similarly, in paragraph 58 of Chapter 9, a reference has been made to the assistance which may be rendered by state co-operative banks for the training of staff of urban banks. In this connexion, the Committee should like to reiterate the need for state co-operative banks to set up separate cells wherever they have not been established to deal exclusively with matters regarding urban banks. Suitable representation may also be given to urban banks on the board of directors of state co-operative banks so as to ensure that matters connected with the needs and problems of urban banks are given due consideration.

15. Where urban banks are affiliated to central co-operative banks, the latter should take active interest in the promotion and growth of urban banks in their respective areas broadly in the same manner as has been suggested for state co-operative banks including giving representation to urban banks on the board of central banks.

As suggested in paragraph 59 of Chapter 7, there should be no objection if urban banks with working capital of Rs 1 crore and above become direct members of the state co-operative banks.

State Federations or Associations of Urban Banks

16. With the growth of urban banks, their Federations or Associations have been organized in some of the states, viz., Gujarat, Karnataka, Madhya Pradesh, Maharashtra, West Bengal and the union territory of Delhi. It is also understood that efforts are being made to organize Federations of urban banks in Andhra Pradesh and Kerala. With a view to helping the development of urban banks in their respective states, the Committee suggests that Federations of urban banks may be set up where the need is felt and time is ripe to organize such a federation, keeping however in view the viability of the Federations.

17. Among the various functions which can be undertaken by the State Federations or Associations, one of the important functions relates to the publication of data on the working of urban banks at periodical intervals. At present, the statistics available on urban banks are scanty and generally out-dated. Some of the Federations notably the Urban Banks Federation in Gujarat have published useful data on urban banks. The Committee recommends that relevant data on urban banks such as composition of membership, deposits and purpose-wise, security-wise and quantum-wise classification of loans and advances are collected and published by the Federations or Associations.

18. The state level Federation may also, in collaboration with the state co-operative bank and Co-operative Department, convene regional or state level seminars or conferences of urban banks to discuss the problems faced by banks and to suggest appropriate remedial measures. A very useful beginning in this regard has already been made in Gujarat, Karnataka, Kerala and Maharashtra and also in West Bengal. The Committee suggests that similar steps may be taken in other states as well.

19. The state Federations of urban banks should also play an active role in regard to staff development, by indicating norms for

recruitment of staff at all levels, evolving procedures for recruitment, selection and training of staff, including orientation training. The Federations or Associations of urban banks in Gujarat and West Bengal have evinced interest in regard to the training of staff. It is recommended that other Federations or Associations may also take suitable action for organization of training programmes for the staff of urban banks in collaboration with the Reserve Bank's College of Agricultural Banking, Pune, the National Council for Co-operative Training and State Co-operative Unions.

20. Another field in which the Federations or Associations of urban banks can help in the development of urban co-operative banking is building up of the managerial staff. For this purpose, the Federations may create cadre of chief executives for urban banks, and manage such cadres. The Karnataka State Co-operative Urban Banks Association has recently taken a lead in fixing the cadre strength and pay scales of staff in urban banks in the state. The sub-committee appointed by the Association had examined in June 1977 the question of fixing cadre strength in each category of banks and pay scales of staff by grouping urban banks into six categories, depending on the working capital of banks. Action on similar lines may be taken by other state Federations also. In all these efforts, of course, the state Federations or Associations should be assisted by the National Federation of Urban Co-operative Banks and Credit Societies.

National Federation

21. The National Federation of Urban Co-operative Banks and Credit Societies which has started functioning actually since February 1977 is a composite Federation with state Federations as well as individual urban banks as its members. The forum of the National Federation is sought to be utilised in more than one ways in activising, stimulating and, at the same time, regulating the urban banking movement in the country. In the first place, it can act as a consultative body and can, by associating itself with the authorities of the Reserve Bank, central and state governments and the various state co-operative banks, look after and contribute to the task of controlling, channelising and streamlining the movement with a view to putting it on a path of healthy growth.

22. In the second place, in connexion with banks to remove regional imbalances in the urban banking sector, the National Federation can arrange for talks, seminars, conferences etc., in the co-operatively weaker regions of the country and thus indirectly help in promoting and eventually strengthening the non-official local leadership which still continues to be the backbone of the urban banking movement. The National Federation can also, by resorting to a phased programme, provide inspiration for establishing state Federations in the regions in which they do not exist at present with the hope and expectation that the latter would carefully plan for the spread of the movement within their own respective spheres in due course of time.

23. Thirdly, the National Federation can actively associate itself with bodies like the National Council for Co-operative Training, the National Co-operative Union of India, the Vaikunth Mehta National Institute of Co-operative Management, Pune, the Reserve Bank's College of Agricultural Banking and similar other institutions and carefully devise training programmes which would satisfy urban banks from the standpoint of their utility as well as their costs. These programmes may be arranged to suit the training needs of the urban banks' personnel at various levels.

24. In addition, the National Federation can periodically collect, process and publish data, particularly about the functional aspects of urban banks and can also serve as an organ through which urban banks can ventilate their grievances, demands, difficulties and aspirations from time to time. The National Federation can thus play a great role in the expansion, intensification and healthy growth of the urban banking movement.

Co-ordination among Different Agencies

25. As stated in the previous paragraphs, several agencies look after the needs and problems of urban banks, viz., the Government of India, State Governments, Reserve Bank, state co-operative bank, central co-operative banks and Federations or Associations of urban co-operative banks. It is, therefore, imperative that there should be proper co-ordination among all these agencies in their functioning so as to avoid any conflict in their functioning. The

Committee, therefore, suggests that there should be mutual consultation among these different agencies, particularly on important matters of policy regarding urban banks.

26. In this connexion, it is often pointed out that there is dual control over urban banks by the state governments and the Reserve Bank. Several respondents to the questionnaire issued by the Committee have said that dual control on urban banks is one of the reasons for slow growth of banks as they have to comply with different directives from two authorities. On the other hand, other respondents have observed that there is no problem of dual control as there is constant liaison between the Reserve Bank and the Registrar of Co-operative Societies. At the First All-India Seminar convened by the National Federation of Urban Co-operative Banks and Credit Societies in Ahmedabad on 5 and 6 March 1978 there was a recommendation that dual control on urban banks should be eliminated. It may be pointed out here that the Registrar of Co-operative Societies is concerned with the registration, management and winding up of urban banks by virtue of the provisions in the Co-operative Societies Act, while the Reserve Bank deals with matters connected with the banking business of these banks under the Banking Regulation Act 1949. However, a precise demarcation of the functions may be difficult as banking business sometimes involves management aspects also. It is for this reason that there should be close co-ordination between the Reserve Bank and the Registrars of Co-operative Societies and important policy decisions concerning the working of urban banks should be taken only after mutual consultation.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Chapter 3: Evaluation of the Role of Urban Co-operative Banks in the Banking System

1. Urban banks have generally registered good progress, particularly after the extension of certain provisions of the Banking Regulation Act 1949 to them on 1 March 1966. They have grown not only in number but also in size. However, the growth has not been even and is marked by glaring regional imbalances. (No. 42)¹

2. Operationally, urban banks have endeavoured to function keeping in view their major objectives, viz., (i) promotion of thrift and mobilization of resources from the community they serve, (ii) provision of credit at reasonable rates to small borrowers and (iii) provision of banking and other subsidiary services. One can discern a growing realisation among urban banks of their new role and greater social responsibilities devolving on them. (No. 42)

3. Urban banks in general have increased their membership, although in some cases they have confined their membership to small groups of people. Despite several limitations and constraints in their functioning, they have, by and large, been able to mobilize local resources and augment their deposits. While building up the loan portfolio, they have, in general, been self-reliant without recourse to borrowings from higher financing agencies to a significant extent. Urban banks have also endeavoured to serve small borrowers, particularly the weaker section of the community. Their recovery performance has been good inasmuch as overdue at the end of June 1976 formed 7.8 per cent of the total outstanding loans and advances. (No. 42)

¹ The numbers in brackets given at the end of the Conclusions and Recommendations refer to the paragraph numbers of the respective Chapters in the Report.

Chapter 4: Future Role of Urban Co-operative Banks

4. Considering the coverage by urban banks of only 32 per cent of the towns and 21.5 per cent of the urban population in the country, there is scope for their development in some of the states either by organization of new urban banks, wherever justified, or by opening of branches of the existing urban banks. The existence of credit gaps in financing the borrowers in the small-scale industrial sector, particularly after introduction of the concept of the tiny sector under the Industrial Policy Resolution of the Government of India announced in December 1977, offers wide scope and great potential for urban banks to grow and expand their loan operations. One of the first tasks to which the concerned authorities have to address themselves would, therefore, be the consideration of measures which would ensure a rapid coverage of unbanked centres by urban banks. (Nos. 2 and 13)

5. Expansion of urban banks should be according to a well-conceived and planned programme and should be considered in the light of the overall banking policies and the changing structure of the banking system as a whole. In other words, development of urban co-operative banking cannot be taken in isolation. It has to form part of the total banking development in the country. The Reserve Bank should co-ordinate the development of commercial banks, regional rural banks and urban banks according to the needs of the different areas while granting licences to these institutions to open branches or while considering the organization and licensing of new banks. (Nos. 3 and 8)

6. Urban banks, wherever established, are eminently suitable to fill the existing gaps in banking and credit needs in urban and semi-urban areas at comparatively less cost of operation and, with their simplicity, close contact, local feel and involvement, can also enjoy the confidence of local people. Considering, therefore, the special character of urban banks, they may be given due preference by the Reserve Bank in granting licences to open branches in smaller towns or semi-urban centres within their jurisdiction. (No. 8)

7. While due preference may be given to urban banks to expand

their branches in smaller towns or semi-urban centres under a co-ordinated programme of banking development, urban banks should not depend unduly upon the state government or other agencies for assistance. Local leadership should be the main foundation which should support the organization and development of urban banks. Where, however, there is a felt-need for organizing urban banks in centres which are devoid of any banking facilities and for catering for the weaker sections of the community, assistance from the state government in the initial stages of organization of urban banks by way of share capital contribution and managerial subsidy is necessary and justified. (No. 9)

8. As a part of their future role, the aim of urban banks should be to provide varied and innovative schemes of collecting deposits specially suited to the requirements of the local areas they serve. To the maximum extent possible, urban banks should strive to provide a wide range of banking services to their customers so that all needed facilities for remittance of funds, safe deposit of valuables etc., are available to the population in smaller centres also. (No. 10)

9. An important role exists for urban banks in granting financial accommodation for small-scale and cottage industries. Urban banks should associate themselves in the efforts for solving the problem of unemployment by financing the educated unemployed and professionals for purchase of equipment and setting up their business. Provision of finance to self-employed persons, small road transport operators and financing of housing schemes, consumers co-operative stores, labour contract and construction societies, dairy and poultry societies are other avenues affording scope for urban banks to expand their business. Urban banks will have to assume increasing responsibility for financing small traders and shopkeepers. Urban banks, by providing credit for consumption purposes, can also to some extent fill the vacuum created by the elimination of moneylenders or reduction in their business. But the consumption finance, which is mostly unproductive and to some extent wasteful in nature, should be within reasonable limits. (Nos. 11, 15, 17 to 21)

Chapter 5: Viability of Urban Co-operative Banks

10. The norms of viability of urban banks should be evolved taking into account the overall jurisdiction and the particular centre where a bank is functioning, i.e., (a) metropolitan centre with population exceeding 10 lakhs, (b) urban centre with population ranging from 1 lakh to 10 lakhs and (c) semi-urban centre with population of less than 1 lakh. (No. 6)

11. It should be possible for a new urban bank to reach the norms of viability within a period of 5 years within which it should be able to meet not only the management and establishment cost but also earn a reasonable surplus so as to declare a dividend and make appropriations towards reserves. (No. 14)

12. The minimum requirements in regard to share capital reserves, deposits, working capital and loan business of an urban bank in the initial stage and within a period of 5 years of establishment in 3 different categories of centres, i.e. metropolitan, urban and semi-urban are as follows (Nos. 12 and 13).

	Rs lakhs					
	Initial stage			By the end of 5 years		
	Metro- politan Centre	Urban Centre	Semi- urban Centre	Metro- politan Centre	Urban Centre	Semi- urban Centre
Share Capital	4.00	3.00	1.50	6.00	4.50	2.25
Reserves	—	—	—	1.20	0.90	0.45
Deposits	—	—	—	44.00	33.00	17.70
Borrowings	—	—	—	6.00	4.50	1.50
Working Capital	—	—	—	57.00	43.00	22.00
Loan Business	—	—	—	40.00	30.00	15.00

13. The minimum share capital that should be prescribed for registration and licensing of a new urban bank is Rs 4 lakhs in a

metropolitan centre with a population of more than 10 lakhs, Rs 3 lakhs in an urban centre with a population between 1 lakh and 10 lakhs, and Rs 1.50 lakhs in a semi-urban centre with a population of less than 1 lakh. (No. 17)

14. The initial membership of an urban bank may be fixed at 1000 in metropolitan centres with population exceeding 10 lakhs, 700 in urban centres with population between 1 lakh and 10 lakhs, and 400 in semi-urban centres with population of less than 1 lakh. (No. 18)

15. In view of the lower management as well as variable expenditure at the branch level, the loaning business required to reach viability level would be less for branches. A relatively shorter period of 3 years may be allowed to a new branch to attain the viability level as against the period of 5 years for the head office. (No. 20)

16. In order to be viable, a new branch operating in metropolitan, urban and semi-urban centres should attain a loan business of Rs 11.00 lakhs, Rs 9.00 lakhs and Rs 5.50 lakhs, or deposit business of Rs 12 lakhs, Rs 10 lakhs and Rs 6.50 lakhs respectively at the end of 3 years. (No. 21)

17. While the viability of a new branch can be attained at the end of 3 years of its opening, the branch should attain a business level of loans or deposits at the end of each year, as indicated below (No. 20).

	Rs Lakhs					
	Metropolitan Centre		Urban Centre		Semi-urban Centre	
	Loan Business	Deposits	Loan Business	Deposits	Loan Business	Deposits
First year	2.00	2.20	1.50	1.65	1.00	1.20
Second year	6.00	6.60	4.50	6.00	3.00	3.50
Third year	11.00	12.00	9.00	10.00	5.50	6.50

Chapter 6: Structure, Registration and Licensing

18. With a view to preventing the proliferation of weak urban banks and to promote the growth of urban co-operative banking on healthy lines, the practice of primary credit societies commencing banking business, i.e., accepting deposits from non-members, without first obtaining a licence from the Reserve Bank should be stopped. The primary credit societies should not be allowed to use the word 'bank', 'banker' or 'banking' as part of their name. The Registrars of Co-operative Societies may however allow, after detailed investigation of each application, the registration of primary credit societies for collecting deposits from members only, without using the word 'bank', 'banker' or 'banking' as part of their name. For this purpose, the definition of a primary credit society in section 2(civ) of the Reserve Bank of India Act 1934 requires amendment. Amendments are also necessary to sections 7(2) [clause (f) of section 56] and 49A of the Banking Regulation Act. (No. 7)

19. Existing primary credit societies may be allowed to continue to carry on banking business for a maximum period of 4 years with effect from the date of coming into force of the amendment proposed to section 2(civ) of the Reserve Bank of India Act 1934. During this period, two alternatives may be open to them. They can increase their paid-up capital and reserves to Rs 4.00 lakhs, Rs 3.00 lakhs and Rs 1.50 lakhs depending upon whether they are operating in metropolitan, urban and semi-urban centres as the case may be, and apply for a licence to carry on banking business within a period of 3 months from the date when their share capital and reserves reach the above level or before the expiry of the period of 4 years, whichever is earlier. Alternatively, they should refund the deposits from non-members and stop accepting deposits from non-members withdrawable by cheque, draft, order or otherwise. Suitable amendments should be made in the by-laws to give effect to the foregoing. The societies should also take steps to delete the word 'bank', 'banker' or 'banking' as part of their name at the expiry of the period of 4 years. This will require amendments to the Banking Regulation Act 1949 and the Reserve Bank of India Act 1934. (No. 8)

20. The Registrars of Co-operative Societies should ensure proper working of the existing primary credit societies where they are functioning or those to be set up in future without the word 'bank', 'banker' or 'banking' as part of their name and without the facility to accept deposits from non-members. A separate section should be set up to watch the working of primary credit societies as part of the Cell for urban banks in the Co-operative Department. The inspection and audit staff should be strengthened to exercise effective control over the working of such societies. (No. 9)

21. No useful purpose will be served by keeping salary earners' societies within the ambit of the Reserve Bank's control. There is also no valid reason for permitting salary earners' societies to accept deposits from non-members. Salary earners' societies, presently classified as 'primary co-operative banks', should therefore be asked to go out of the purview of the Banking Regulation Act 1949. Section 2 of the Reserve Bank of India Act 1934 and Sections 7(2) and 49A of the Banking Regulation Act 1949 may be amended suitably. Amendments may also be necessary to State Co-operative Societies Acts. (No. 13)

22. The existing salary earners' societies should refund non-member deposits in a phased manner or make adequate provision for repaying such deposits within a specified period, viz., 4 years from the date of coming into force of the amendments proposed to the Reserve Bank of India Act, referred to in the recommendations under serial No. 21. They should also delete the provisions in the by-laws which permit acceptance of non-member deposits and delete the word 'bank', 'banker' or 'banking', if any, from their name. (No. 14)

23. In future, Registrars of Co-operative Societies should not register any salary earners' society with a provision in its by-laws to accept deposits from non-members. (No. 14)

24. The Registrars of Co-operative Societies should exercise effective control over the working of salary earners' societies by regular inspections and audit. Wherever the number of salary earners' societies is large, the staff in the separate section of the special Cell in the Co-operative Department to look after primary

credit societies should be suitably strengthened to deal with salary earners' societies also in an intensive manner. (No. 14)

25. There should be active involvement of the state government and others concerned in the promotion and organization of urban banks. As a first step towards organization of urban banks, the Co-operative Department, the state co-operative bank and the central co-operative banks in each state should jointly survey local areas and identify the potential growth centres where urban banks could be organized. The lead in the matter can be taken either by the State Co-operative Bank or the Co-operative Department. Once such centres are located, prominent persons of the locality might be contacted to seek their assistance. Simultaneously, extension work may be undertaken by the Co-operative Department to create a climate for organizing new urban banks. This may take the form of intensive public information programmes regarding the benefits that would accrue from the organization of urban banks. Popular literature on the organization and objectives of urban banks and various facilities proposed to be provided could be prepared for distribution. (No. 16)

26. New banks to be organized in backward areas or by weaker sections of the community may not be able to collect the initial minimum share capital required for obtaining a licence from the Reserve Bank to commence banking business. Governmental assistance in the form of share capital contribution for such new banks would therefore hasten the pace of organization of urban banks. The amount of government contribution to the share capital of these banks may be equal to that collected by members. (No. 17)

27. In backward areas as well as in respect of banks organized by weaker sections, managerial subsidy may be given by the government to new urban banks in the initial period where the Registrar of Co-operative Societies finds that unless such assistance is rendered, the prospects of the bank becoming viable are in doubt. This subsidy may be on a tapering scale for 5 years. In addition to the share capital contribution and subsidy for managerial staff in respect of new urban banks in backward areas or organized by the weaker sections, government may also provide a subsidy

towards rent of the bank's premises, furniture and fixtures etc. (No. 17)

28. Considering the various difficulties in the organization of new urban banks in the undeveloped and backward regions, certain alternatives can also be thought of as interim arrangements. For instance, in backward areas, wherever necessary, well-established urban banks situated in other areas with adequate staff and financial resources may be permitted to open branches outside their respective areas of operation. (No. 18)

29. Consequent upon the upward revision in the initial share capital for registration and licensing of a new urban bank, it is necessary that an urban bank should maintain the real or exchangeable value of the share capital and reserves at Rs 4 lakhs in metropolitan centres with population exceeding 10 lakhs, Rs 3 lakhs in urban centres with population ranging from 1 lakh to 10 lakhs and Rs 1.50 lakhs in semi-urban centres with population of less than 1 lakh so as to carry on banking business. Necessary amendments may be made to the Reserve Bank of India Act 1934 and the Banking Regulation Act 1949. (Nos. 23 and 30)

30. There should not be any objection to the by-laws of new urban banks containing provisions for the granting of loans to housing societies, consumers stores, labour contract societies, transport workers' societies, engineering societies, dairy and poultry societies etc., with the permission of the Registrar of Co-operative Societies concerned. (No. 27)

31. The registration and licensing of urban banks should be complementary to each other by a close co-ordination between the Co-operative Department of the state government and the Reserve Bank. For this purpose, proposals for registration of a new urban bank should first be studied in depth from the viability angle and other relevant considerations jointly by a team of officers of the Reserve Bank, the State Co-operative Department, the state co-operative bank and a representative of the promoters before a bank is registered by the Registrar of Co-operative Societies. The Reserve Bank of India officer may act as the co-ordinator for such

a joint study. The registration and licensing of urban banks should be dependent on the findings of the joint study. If the study reveals that the proposed institution has potentialities of becoming a viable unit, necessary action may be taken by the Registrar of Co-operative Societies for registering the proposed institution and by the Reserve Bank for issue of a licence. (No. 31)

32. In addition to the viability aspect, the joint study team should examine the by-laws of the proposed bank so as to obviate the need to examine the by-laws again in depth by the Reserve Bank and to ensure that the licence is issued by the Reserve Bank within as short a time as possible after registration. The joint study should also reveal whether there is genuine need for a new urban bank in the area and the bank's management is competent to carry on its affairs in such a manner as to safeguard the interests of members and depositors. (No. 32)

33. The Reserve Bank should start issuing licences to the existing urban banks without further delay, a beginning being made in regard to banks which *prima facie* satisfy the important requirements of the Banking Regulation Act such as sections 11, 22(3)(a) and 22(3)(b). (No. 33)

34. The requirements in regard to share capital and reserves and loan business indicated for an urban bank at the viability level, i.e., at the end of 5 years after its establishment in metropolitan, urban and semi-urban centres may be taken into account by the Reserve Bank for granting licence to the existing urban banks under section 22 of the Banking Regulation Act 1949. The Co-operative Department should ensure that the banks build up their share capital and reserves to the viability level. (No. 34)

35. Existing urban banks not having the new level of statutory minimum share capital and reserves should be required to build up the real or exchangeable value of the minimum statutory share capital and reserves within a period of 3 years or such extended period not exceeding 2 years as may be fixed by the Reserve Bank from the date of amending clause (ciii) of section 2 of the Reserve Bank of India Act to a level of at least Rs 4 lakhs in metropolitan centres, Rs 3 lakhs in urban centres and Rs 1.50 lakhs

in semi-urban centres so as to carry on banking business. (No. 35)

36. No change in the nomenclature of urban banks is considered necessary for the present. (No. 36)

37. Urban banks having their area of operations confined to the municipal limits of a town may be permitted to extend the operational limits to the adjoining areas, i.e., up to the peripheral limits in conformity with the definition of urban agglomeration as given in the Urban Land (Ceiling and Regulation) Act 1976. (No. 39)

38. In metropolitan centres, the present restriction of the area of operation of urban banks to contiguous municipal wards or zones will need relaxation. The banks may be permitted to operate throughout the limits of the metropolitan area. (No. 39)

39. The tendency to organize more than one bank in the same area of a city without adequate scope is not desirable. (No. 40)

40. In areas where there is poor growth of the urban credit movement or existing urban banks are weak or the operational limits of a new bank to be registered in a town require a larger area of operation on viability considerations, suitable relaxations should be given in deserving cases, with adequate safeguards, while registering new urban banks, permitting their area of operation to be extended to the whole of a district, (No. 41)

41. Since fairs, particularly organized on international basis, last for more than a month, the exemption accorded to urban banks for obtaining a licence for opening a branch in a temporary place of business within their area of operations may be relaxed from one month to three months. (No. 45)

42. The existing restrictions on urban banks in opening branches outside their area of operation may continue. In exceptional circumstances, the request of banks for opening offices outside the area of operation may be considered by taking suitable safeguards with a view to preserving the co-operative nature of the institution.

Urban banks should not normally be permitted to open offices outside the state. (No. 49)

43. In a centre where a new urban bank cannot be started immediately, the Reserve Bank allows an existing urban bank operating in other area to open a branch in such a centre but imposes a condition that the business of the branch should be transferred to the new bank, when set up. This condition is rather stringent and will stand in the way of the growth of the branch since the bank will not feel enthused and totally committed to expand its business fully in view of the impending transfer of its interests. Such a transfer is also very difficult of implementation. The opening of branches under the circumstances may therefore be allowed without such a condition. (No. 49)

44. The facility allowed to urban banks to open offices anywhere in the district or state where there are good prospects for business with industrial units and these are not being served by local urban banks, should continue. (No. 49)

45. There is need for having an effective co-ordination at the level of the Reserve Bank between the Department of Banking Operations and Development and the Agricultural Credit Department before granting permission to commercial banks and urban banks for opening offices, with a view to avoiding unhealthy trends in the opening of offices by these banks. Preference should be accorded to urban banks for opening offices in smaller centres. (No. 50)

46. In districts where the Lead Bank Scheme is in operation, the District Co-ordination Committee may allocate certain unbanked or under-banked areas to urban banks functioning in the district to open offices if those areas fall within the area of operation of urban banks and the urban banks are desirous and capable of opening branches at those centres. (No. 51)

47. Urban banks may be requested to send perspective plans for opening offices during the ensuing year to the Agricultural Credit Department of the Reserve Bank. This would facilitate scrutiny

and co-ordination at the level of the Reserve Bank before according sanction to the plans submitted by commercial banks. (No. 51)

48. While the Reserve Bank may continue to insist on the production of no-objection certificate from the Registrar before according permission to urban banks to open branches, the following guidelines may be followed by the Registrars of Co-operative Societies, in order to make the no-objection certificate more purposeful and useful:

- (i) The no-objection certificate may be issued by the Registrar early, within two months from the date of application by the bank.
- (ii) The validity period of the no-objection certificate may be for one year.
- (iii) The Registrar of Co-operative Societies should ensure compliance with the norms prescribed by the Reserve Bank for opening of branches before a no-objection certificate is issued. (No. 52)

49. It is not necessary that all the existing branches of an urban bank should have completed a minimum period of working of 3 years before the proposal for a new branch is considered by the Reserve Bank. Such a proposal can be considered if the existing branches have attained a minimum loan or deposit business at the end of each year during the 3 years from the date of their opening as indicated under recommendation 17. (No. 54)

50. In existing urban banks, where the value of a share is already more than Rs 25, there should be no stipulation to reduce the value to Rs 25 in view of the time and work involved. (No. 54)

51. Representation on the board of directors to members of branches is necessary with a view to involving them in the management of the affairs of urban banks. The branches may be grouped according to the following categories for the purpose of election of directors on the board:

- (i) Branches within the limits of the head office, including only the branches within about 25 Kms. from the head office town.

- (ii) Branches falling outside the above limits but within the district.
- (iii) Branches outside the district including those outside the state.

The representation may be based on membership and not on deposits or loan business of branches. Certain number of seats on the board may be provided exclusively for the head office town and every branch in a group may get representation by rotation. (No. 56)

52. Constitution of branch committees may not be insisted upon in respect of branches situated within reasonable distance from the head office, say, 25 Kms. The branch committees may be elected from amongst the members residing in the area of operation of the branches concerned. The director representing the area on the board of directors of the bank may preferably be the chairman of the branch committee. The branch committee may also be delegated by the board of directors with powers of sanctioning loans up to certain limits. (No. 60)

Chapter 7: Assessment of Additional Facilities or Assistance Needed

53. While the membership of urban banks should not be too large to make them unwieldy, a broad-based membership is essential not only to ensure that the banks are co-operative in character and not the close preserve of a few, but also for strengthening the share capital base of the banks as well as for the diversification of their loans portfolio. Where banks have a membership of less than 1,000 in metropolitan centres, 700 in urban centres and 400 in semi-urban centres, they should take early steps to increase the membership. (No. 2)

54. Where the membership is large, the concerned urban banks should divide the membership on an area basis particularly where branches have been set up. Such a division would help the banks to appoint representative general body for different areas for the purpose of general body meetings of the institution as a whole.

In order to foster mutual knowledge among members, quarterly meetings of members of different areas may be held to discuss their problems in dealing with the bank and the progress made by the bank. Suggestions can also be called for from members in improving the working of their institution. The banks, in turn, should apprise the members about developments in various fields through issue of circulars, bulletins etc. (No. 3)

55. States which have yet to initiate action for the admission of firms, companies and societies registered under the Societies Registration Act 1860, in pursuance of the suggestion made by the Reserve Bank in its circulars Nos. ACD. Plan. 558/PR 414(9)-69/70 dated 4 September 1969 and ACD. Plan. 2383/PR 414(9)-69-70 dated 27 January 1970 issued to the Registrars of Co-operative Societies, may take necessary action in the matter. (No. 4)

56. Membership of an urban bank should not be confined to any particular community or caste but should be open to all eligible persons who wish to avail themselves of the services of the bank and abide by the obligations of membership and residing or employed in the area of operation of the bank. (No. 5)

57. Urban banks organized by women can render a very useful service, especially in promoting habits of thrift among women and providing credit facilities to them for purposes such as education, purchase of household articles and for cottage industries. Besides, organization of separate urban banks by women would provide opportunities to them for coming together and fostering co-operative leadership. Organization of urban banks for women may therefore be encouraged provided, however, such banks have potentialities of functioning as viable units. In case the scope for the organization of an urban bank exclusively for women is limited in any area, the existing urban banks may give representation to women members on the board of management and, wherever necessary, set up a separate section to cater for the needs of women members. (No. 6)

58. Nominal membership in urban banks should be restricted to co-partners, non-borrowing sureties and persons who borrow occasionally against tangible securities. In banks where nominal

membership is already high, they should take concrete steps to reduce such membership by enrolling nominal members other than the non-borrowing sureties, co-parceners or those who borrow occasionally against gold, government securities etc., as regular members. (No. 8)

59. With a view to curbing the tendency of borrowing from more than one urban bank, the practice of dual membership in urban banks should be given up. The State Co-operative Societies Act/Rules should be amended for the purpose. (No. 9)

60. While insistence on a high ratio of share linking to borrowing would increase the cost of borrowings to members and is also likely to wean away potential borrowers from co-operative banks, share linking in reasonable proportions is essential for strengthening the share capital base of an institution which is also essential for providing borrowing power as well as for inculcating in members a sense of belonging to the institution. (No. 13)

61. The present ratios of share linking to borrowings prescribed by the Reserve Bank, i.e., 5 per cent of unsecured borrowings, 2.5 per cent of secured borrowings and 1 per cent as initial share capital to be raised to 2.5 per cent in next 2 years in the case of loans for small-scale industries, are reasonable and adequate. The provisions in the Co-operative Societies Act/Rules may be amended wherever necessary to secure this share linking. (No. 13)

62. Urban banks should issue only one class of shares of one denomination except, perhaps, the shares representing the contribution from the state government. (No. 14)

63. The present practice of restricting the grant of loans to state governments from the Reserve Bank's National Agricultural Credit (Long Term Operations) Fund for the purpose of contributing to the share capital of only those urban banks which undertake financing or propose to finance small-scale and cottage industries is a desirable one. However, the state governments may also contribute on a selective basis towards the share capital of urban banks working in backward regions which may not be in a position to collect share capital to satisfy the viability norms. In addition,

the state governments may contribute to the share capital of new urban banks organized especially in backward areas or by weaker section of the community. (No. 16)

64. State governments may remove onerous conditions, if any, for share participation in urban banks. In particular, retirement of government's share capital should not be insisted upon until an urban bank becomes viable and builds up sufficient owned funds to sustain borrowings. The retirement of government share capital should not, in any case, start earlier than 7 years from the date of the receipt of the contribution and should be in a phased manner. (No. 16)

65. The value of Rs 25 per share as suggested by the Reserve Bank is reasonable. There should be no compulsion on members to buy more than one share for membership. (No. 18)

66. Members should not be allowed to withdraw share capital within 5 years of their becoming members of urban banks. A bank may be permitted to refund in any year not more than 10 per cent of its total share capital as at the end of the preceding co-operative year. (No. 19)

67. The fixing of maximum borrowing power in urban banks may be continued in the interest of maintaining financial discipline throughout the co-operative sector. However, in order that this does not act as a constraint in the way of deposit mobilization by banks, the maximum borrowing power of an urban bank may be fixed at 25 times of the owned funds. (No. 21)

68. Given certain facilities, urban banks will be able to show a better performance in deposit mobilization. The state government should permit local bodies, quasi-government institutions and public trusts to keep surplus funds with urban banks which have earned A or B class in audit. (Nos. 22 and 23)

69. The state governments in those states where the Deposit Insurance Scheme has not been extended should initiate early action for making the Deposit Insurance Corporation Act 1961 applicable to co-operative banks in their states by amending their respective

Co-operative Societies Act so that urban banks are helped to augment their deposit resources and their depositors get protection under the deposit insurance scheme. (No. 24)

70. Such of those clearing houses as have not amended their rules and regulations should do so now to enable co-operative banks other than state co-operative banks to become members wherever they can satisfy the usual norms and conditions of clearing houses i.e., tendering a minimum number of cheques, and maintenance of a minimum daily balance with the Reserve Bank or the State Bank of India. (No. 25)

71. Such of the bigger urban banks as have working capital of Rs 5 crores and over which are called upon to issue guarantees to central government departments may be made eligible under the Bank Guarantee Scheme of the Government of India. The guarantees issued by other urban banks having working capital of less than Rs 5 crores may be accepted by the Government of India if scheduled state co-operative bank of the state concerned gives a counter-signature. (No. 26)

72. Cheques/drafts issued by urban banks having working capital exceeding Rs 5 crores are accepted as valid security for the purpose of entering into contracts by private contractors or suppliers to various government work awarding agencies. The Government of India may relax this condition to cover urban banks with working capital of Rs 2 crores and above. The government may stipulate that these banks should have been classified as A, B or C in audit, as in the case of central co-operative banks and non-scheduled state co-operative banks. (No. 27)

73. The state governments, notably of those states where urban banking has already gained ground, should come forward to work out suitable norms for the purpose of accepting guarantees issued by urban banks in favour of government departments. (No. 28)

74. The Government of India may consider recognizing, in the initial stage, at least some well managed urban banks with working capital exceeding Rs 5 crores for collecting LIC premia. (No. 29)

75. Urban banks may be included in the list of approved banks by the Government of India for the purpose of payment of excise duty by cheques wherever cheque facility is extended to the assesseees for payment of central excise duty. (No. 29)

76. Well managed urban banks may also be entrusted with the work of collection of pension bills and sales tax bills presently being done by nationalised commercial banks. (No. 30)

77. The state electricity boards may consider permitting urban banks to collect electricity bills on their behalf. (No. 30)

78. The question of extending free remittance facilities to urban banks under the Reserve Bank of India Remittance Facilities Scheme may be reviewed by the Reserve Bank when a reasonable number of urban banks avail themselves of refinance facilities from the Reserve Bank and the quantum of credit limits availed of is sizeable. (No. 33)

79. The frequency of 15 free remittances in all in a week available to a state co-operative bank under the Reserve Bank of India Remittance Facilities Scheme for remittances to any of its branches and upcountry centres put together was considered inadequate by the Committee on Problems of Urban Co-operative Banks in Maharashtra (1976). Since this position is not common in all the states, it may not be possible to lay down a uniform norm for the country as a whole. The frequency limit may be considered for relaxation in individual cases on merits by the Reserve Bank. (No. 34)

80. Free remittance facilities under the State Bank of India Remittance Facilities Scheme may be extended to urban banks on the lines of the facilities available to central co-operative banks. (No. 35)

81. The Mutual Arrangement Scheme for transfer of funds within a state operated by the state co-operative bank is in operation in certain states only. This may be introduced in the remaining states also. This will obviate the difficulties faced by urban banks for transfer of funds within the state. Limits for issue of drafts fixed

by the state co-operative bank under the Mutual Arrangement Scheme in states where the scheme is in operation may be enhanced suitably if these are low at present. The All India State Co-operative Banks Federation should ensure that the benefits of the All India Mutual Arrangement Scheme managed by it are extended to as many urban banks as possible by liberalising eligibility criteria for urban banks to join the scheme. (Nos. 37 and 38)

82. The margin of 1 per cent presently allowed to urban banks under the directives issued by the Reserve Bank over and above the interest rates offered by scheduled commercial banks on savings and fixed deposits is quite adequate and reasonable with a view to enabling them to mobilize more deposits. (No. 40)

83. It is not necessary to stipulate any ceiling on interest rates on deposits that can be offered by non-banking companies as urged by certain urban banks, especially in view of the various restrictions imposed on these companies for accepting deposits from the public and the absence of deposit insurance facility for such deposits as well as the absence of tax exemption on the interest on these deposits. (No. 41)

84. There is no justification for permitting urban banks for the time being to offer higher interest rates on call deposits accepted from the public than stipulated in the directives issued by the Reserve Bank. (No. 42)

85. Urban banks, on their part, should take the following steps for augmentation of deposit resources:

(a) They may offer competitive rates of interest on deposits, subject of course to the ceiling fixed under the directives issued by the Reserve Bank.

(b) Suitable deposit schemes such as cumulative deposits, pigmy deposits, home safe deposits and recurring deposits suited to the habits and needs of the people of the area may be evolved to attract a larger quantum of deposits.

(c) A system of fixing targets for deposit mobilization for the bank as a whole, and for each of its branches, may be introduced. The branch managers and other officers concerned with the mobilization of deposits should be actively involved in

reaching the targets. There should be a periodical review of the targets fixed and steps should be taken by the banks to remove difficulties, if any, in reaching the target.

(d) Banks may consider, wherever necessary, having their office timings before and after the normal office hours to enable people in their area to visit them at a convenient time.

(e) Banks may provide normal banking facilities and customer services such as provision of locker facilities, issue of drafts and other remittance facilities.

(f) Good premises and modern office arrangements may be ensured, as these will enhance the prestige of the institution and promote confidence in the depositing public.

(g) Urban banks may study the potentialities for deposit mobilization in their respective areas and embark upon branch expansion programme, wherever possible. It should, however, be kept in mind that the bank has trained staff to work in the branches.

(h) To attract customers, urban banks should render efficient and courteous service to their customers. (No. 43)

86. According scheduled status by Reserve Bank to urban banks in their present stage of development is not feasible. Such scheduling is not likely to confer any special advantages on urban banks. It will suffice if the constraints encountered by urban banks in regard to deposit mobilization and securing refinance and rediscounting facilities from the Industrial Development Bank of India are removed. (No. 46)

87. Wherever urban banks have developed sizeable foreign exchange business through authorized dealers or have adequate scope to tap non-resident deposit accounts, and are also in a position to employ qualified and experienced staff for the purpose, the Reserve Bank may consider authorising them to deal in foreign exchange. (No. 47)

88. Urban banks having surplus investible resources may not be availing themselves of the concessional refinance facilities from the Reserve Bank in respect of advances made by them to small-scale and cottage industries. Consequently, they may not be able to lend to small-scale industries at a rate lower than the normal lending rates applicable to other advances. With a view to inducing

such banks to grant advances to small-scale and cottage industries at a lower rate of interest, the Reserve Bank may take a liberal view and consider their loan applications for concessional refinance facilities in respect of advances made by them to small-scale industries. (No. 52)

89. The list of 22 broad groups of industries approved by the Reserve Bank to be eligible for refinance from the Reserve Bank covers a broad spectrum of industrial activity. There is, therefore, no need for further defining the list of purposes to be covered. (No. 53)

90. Depending upon local conditions, the state co-operative banks, central co-operative banks and urban banks in each state may decide whether it is necessary for urban banks to have direct borrowings from the state co-operative bank or the finance should be routed through the central bank in keeping with the federal co-operative structure. Where funds are borrowed through central co-operative banks, the latter should keep only a reasonable margin. (No. 54)

91. Since there are existing term lending financial institutions, viz., Industrial Development Bank of India and the State Financial Corporations, there is no need for the Reserve Bank to provide refinance to urban banks for block capital as urged by urban banks. (No. 55)

92. Selected urban banks, which have entered the field of small-scale industrial financing in a sizeable manner and with a suitable organization and expertise at their command, should be recognised by the Industrial Development Bank of India as "eligible institutions" for the purpose of refinance and bills rediscounting facilities. Alternatively, urban banks may be permitted to avail themselves of these facilities through the state co-operative banks which are approved by the Industrial Development Bank of India. Once this is agreed in principle, it should be possible for the Industrial Development Bank of India to work out the eligibility criteria etc., for urban banks to avail themselves of the facilities under the Industrial Development Bank of India Bills Rediscounting and Refinance Schemes, in consultation with the Reserve Bank. (No. 56)

93. It may not be necessary for the present to set up a separate apex bank for urban banks. The organization of one more apex institution will create more problems than it seeks to solve. Particularly, the viability of a separate apex institution will be in doubt. Therefore, instead of organizing a separate apex bank for urban banks, efforts should be directed towards strengthening the relationship of urban banks and the state co-operative banks. State co-operative banks should take the needed initiative in this matter. Reservation of one or two seats for representatives of urban banks on the board of directors of the state co-operative bank may go a long way towards providing them with a voice in the management in the state co-operative bank and allaying the present misgivings. If the state co-operative banks do not realise their responsibilities towards urban banks and continue to fail to take adequate interest in their development as would be evidenced by the failure to constitute Technical Groups for giving guidance to urban banks and also to give representation to urban banks on the board of directors, the proposal for setting up of a separate apex bank for urban banks may be reviewed at a later stage, at least in the states where there is a sizeable number of urban banks. (No. 59)

94. Urban banks having working capital of Rs 1 crore and above may be given membership in state co-operative banks. Urban banks with working capital of less than Rs 1 crore may become members of central co-operative banks. (No. 59)

95. Urban banks should, as far as possible, keep their surplus funds with the higher co-operative financing agencies. The state co-operative banks and the central co-operative banks should, however, offer attractive rates of interest to urban banks. If the rates of interest offered by state co-operative banks and central co-operative banks are not attractive, urban banks should be permitted to keep their surplus funds with commercial banks. Since the surplus funds in many cases may be temporary, either the permission from the Registrar for keeping deposits with the commercial banks should be made available promptly or the Registrar may permit urban banks to keep call deposits with the State Bank of India and its subsidiaries and nationalised commercial banks up to, say, 3 per cent of the time and demand

liabilities of each urban bank without requiring prior permission. Necessary administrative instructions may be issued in this regard by the Registrars of Co-operative Societies. It is desirable that call deposits kept with commercial banks should not be of a continuing nature. If the urban banks are to keep call deposits with commercial banks for a period exceeding 3 months, the permission of the Registrar should be obtained. (No. 61)

96. The question of reckoning the fixed deposits/call deposits kept by urban banks with nationalised scheduled commercial banks and the State Bank and its subsidiaries towards liquid assets requirements will have to be reviewed in the wider context of co-operative discipline and cannot be considered in isolation. In the circumstances, urban banks should not be permitted to reckon the balances, if any, kept by them with nationalised commercial banks and the State Bank of India and its subsidiaries other than current account balances for purposes of liquid assets under section 24 of the Banking Regulation Act 1949 (As Applicable to Co-operative Societies). (No. 62)

97. With the revised standards of viability and increase in the minimum share capital required for an urban bank to commence or carry on banking business, it is quite likely that some of the existing urban banks may not be in a position to reach the required levels within the time limit prescribed, viz., 3 years or such extended period not exceeding 2 years as may be fixed by the Reserve Bank from the date of amending clause (ciii) of section 2 of the Reserve Bank of India Act 1934. In this connexion, the Reserve Bank may take urgent action in close association with the Registrars of Co-operative Societies and the state co-operative banks to identify the banks which are not likely to reach the required levels within the prescribed time limit. An action programme should be drawn up by the Co-operative Department for rehabilitating the urban banks in this category with a view to toning up their working, improving their operational efficiency and increasing their share capital base as well as deposits and loans portfolio. Urban banks which are not likely to become viable should be persuaded to amalgamate with a neighbouring viable urban bank. Compulsory amalgamation could be resorted to wherever banks are recalcitrant and do not improve their position

or refuse to heed the advice of the Reserve Bank or the state government in this behalf. For this purpose, a provision for compulsory amalgamation of banks should be made in the State Co-operative Societies Act and Rules wherever a similar provision has not been made, on the lines of section 18A of the Maharashtra Co-operative Societies Act 1960. (No. 65)

98. It is desirable for the state government to appoint a standing committee consisting of a representative each of the state government, the state co-operative bank and the Reserve Bank to decide on the appropriate steps to be taken in implementing the scheme of compulsory amalgamation of individual weak urban banks. A bank may be taken into liquidation only as a last resort if amalgamation is not possible. (No. 65)

99. During the period of moratorium, imposed on urban banks which are in a very bad way, all efforts should be made to revive the working of the banks concerned. It is only when these efforts prove infructuous, that the banks may be taken into liquidation. (No. 66)

100. The State Co-operative Departments, Federations or Associations of urban banks and state co-operative banks should take active interest in the rehabilitation of weak urban banks. The state co-operative bank should, wherever possible, provide managerial subsidy to the small or weak urban banks or provide staff free of cost to improve the working of such urban banks and help in the process of their rehabilitation. (No. 67)

101. Wherever necessary, the state government may contribute to the share capital of urban banks to speed the process of rehabilitation. Long-term loans either from the state government or from the state co-operative bank will help in improving the liquidity of weak urban banks. The programme of rehabilitation of urban banks should envisage a package of measures for improving their financial position and operational efficiency to bring them to the recommended standards of viability. (No. 67)

Chapter 8: Loan Policies and Procedures

102. The norms for optimum level of advances at 75 per cent of the owned funds (excluding statutory reserve), 70 per cent of

deposits and 100 per cent of borrowings as fixed by the Reserve Bank do not require any change for the present. (No. 3)

103. Urban banks have not been as aggressive in increasing their loans and advances as they have been in augmenting the deposit resources. Urban banks should actively explore possibilities of increasing their advances by conducting surveys within their respective area of operation to identify the scope for and purposes of lending. The initiative for building up the loans portfolio should come from the board of management and the chief executive officer. The assistance of the Lead Bank of the area, state co-operative bank, the Industries and Co-operative Departments of the state government and the State Financial Corporation may be taken, if necessary. (Nos. 4, 5 and 16)

104. As urban banks are meant to cater for the needs mainly of persons of moderate and small means, every urban bank should attempt at maximum dispersal of its loans and advances among small borrowers. (No. 6)

105. Considering the fact that a sizeable proportion to the extent of 56.4 per cent of the total credit disbursed by urban banks is for financing small borrowers, i.e., those who borrowed loan amounts up to Rs 5,000, and the measures taken by the Reserve Bank to limit the extent of advances to a single party, there is no need, for the time being, to stipulate any minimum share of advances to be provided by urban banks to small borrowers. (No. 7)

106. The individual borrowing limits fixed in the by-laws of urban banks should be flexible, so that banks may be enabled to grant loans to their members to meet their genuine credit requirements at least up to the limits prescribed in the Reserve Bank's directives, without having to approach the Registrar of Co-operative Societies in individual cases for permission to enhance the limit prescribed in the by-laws. (No. 8)

107. Unless there is a bold endeavour by urban banks to depart from orthodox lines of financing and venture into new fields, and there is also a change in the outlook and approach to the whole

question of financing, the loaning operations of urban banks cannot be expected to undergo a change. Depending upon the felt need of the area in which banks operate, they should decide on the priorities of purposes for financing. Broadly, the order of priorities may be as follows:

- (i) Small-scale and cottage industries.
- (ii) Schemes for gainful employment of educated unemployed.
- (iii) Self-employed persons and professionals.
- (iv) Small road and water transport operators.
- (v) Trade and commerce.
- (vi) Housing schemes.
- (vii) Consumption loans.
- (viii) Consumers co-operative societies. (No. 9)

108. Urban banks with their local knowledge have a crucial role to play in the financing of small-scale and cottage industries, particularly the tiny sector. Financing of this sector in an active manner calls for a change in the attitude and operations of urban banks which have traditionally been geared to particular types of financing. Sustained propaganda and publicity are called for to impress upon urban banks the need for flow of funds for small-scale and cottage industries and the socio-economic benefits that would be derived therefrom. (No. 14)

109. In order to promote financing of small-scale and cottage industries it is necessary to educate urban banks with regard to the identification of worthwhile schemes of financing, appraisal of projects and sanction and servicing of loans. It would be helpful if regional conferences of urban banks are held in all the states to explain to them the need for and methodology of financing small-scale and cottage industries. The Federations or Associations of urban banks should take a lead in this direction. The Reserve Bank acting with the Registrars of Co-operative Societies and the state co-operative banks may render assistance in holding such regional conferences. (No. 14)

110. The Reserve Bank, through its College of Agricultural Banking at Pune, may conduct special courses exclusively for the

staff of urban banks to train them in project appraisal and other related matters in regard to financing of cottage and small-scale industries. (No. 14)

111. It is necessary that the state co-operative banks of all the states where urban banks exist in sizeable number should set up Industrial Sections and Technical Groups to give guidance to urban banks in the matter of industrial financing. (No. 15)

112. The bigger urban banks which have made a significant progress in making advances to cottage and small-scale industrial units may set up their own technical cells. (No. 15)

113. According to the norms stipulated by the Reserve Bank, urban banks may provide block capital loans up to 15 per cent of the disposable long-term resources or 5 per cent of total deposits, whichever is more, in addition to the refinance obtained for block capital loans from higher financing agencies. A general relaxation of these norms is not warranted. Individual urban banks which are in need of any relaxation may approach the Reserve Bank in the matter. (No. 17)

114. Urban banks may enter into participation or consortium arrangements for financing small-scale and cottage industries with commercial banks. This arrangement will be useful to urban banks, particularly for those which have surplus funds with them. Such consortium arrangement should be in regard to financing of small-scale or medium-sized industrial units and not big ventures, so as to avoid concentration of advances in the hands of a few borrowers. It is also desirable that the terms and conditions of the advances under the consortium arrangements are broadly similar between the urban banks and the commercial banks, especially in regard to margins and the rate of interest. (No. 19)

115. Urban banks may gradually extend the consortium arrangement for financing small-scale and cottage industries among themselves when sufficient experience is gained. In such an event, the bigger or experienced bank should function as the leader of the consortium arrangement. (No. 19).

116. The Credit Information Scheme operated by the Reserve Bank in respect of commercial banks may not be extended to urban banks for the present, because the scheme, if extended in its present form, can be useful only to a small group of urban banks, i.e., banks having time and demand liabilities of Rs 1 crore and above numbering about 150. Further, urban banks provide finance mostly to their members who are expected to be known to the bank's directors. Therefore, the need to obtain credit information on borrowing members of an urban bank can hardly arise. (No. 21)

117. In order to avoid competition with agricultural credit societies and duplication of finance, urban banks should not advance loans for agricultural purposes. They may, however, finance activities connected with agriculture such as dairy, poultry and piggery undertaken by their members who are not members of primary agricultural credit societies. (No. 22)

118. While urban banks can finance marketing and processing activities carried on by individuals or firms, they should not finance the activities carried on by co-operative marketing or processing societies which is a function of the state co-operative banks and central co-operative banks. (No. 24)

119. Urban banks with surplus resources may, subject to necessary safeguards, provide loans to co-operative consumers stores. (No. 24)

120. Urban banks have been allowed by the Reserve Bank to grant loans for housing purposes out of their own resources subject to the ceiling that the aggregate amount of loans for such purposes should not exceed 5 per cent of the total deposits of the financing bank or 15 per cent of its disposable long-term resources, whichever is more. The ceiling prescribed by the Reserve Bank is reasonable. The Registrar of Co-operative Societies may grant general permission to urban banks for providing loans for housing purposes up to this level. (No. 26)

121. If loans for unproductive purposes are given without observing any checks, this would encourage wasteful expenditure

aiding inflationary pressures. Urban banks should, therefore, in consonance with their social obligations, observe self-discipline in regard to granting of unproductive loans for consumption and ceremonial expenditure and ensure that such loans do not constitute more than 25 per cent of their total advances. (No. 27)

122. While there is need to grant loans to individuals against personal security to some extent, urban banks should take care to see that the unsecured loans are kept within a reasonable proportion of the total loans and advances, i.e., not more than 33 1/3 per cent as prescribed in the Reserve Bank's directives. (Nos. 28 and 50)

123. Financial accommodation for business purposes should normally be secured by pledge or hypothecation of raw material, finished goods, tools and implements and not in the form of unsecured loans, clean cash credits and overdrafts. (No. 29)

124. Urban banks should adopt a policy of diversification of loans in terms of security and purposes. (Nos. 30 and 32)

125. The Government of India may take early action on the proposal made by the Reserve Bank in June 1976 to exempt urban banks from the provisions of the Urban Land (Ceiling and Regulation) Act 1976 at least to the extent commercial banks have been exempted. (No. 31)

126. When the financing for small-scale and cottage industries picks up, urban banks should take advantage of the Credit Guarantee Scheme for Small-Scale Industries. (No. 33)

127. The Credit Guarantee Corporation of India is considering the question of extension of its guarantee to co-operative banks at the state, central or primary level which are already covered by the scheme for the insurance of deposits by the Deposits Insurance Corporation. In respect of banks which are not covered by the deposit insurance scheme the Reserve Bank has been enquiring the willingness or otherwise of urban banks to join the said guarantee scheme. The response from the urban banks has, however, been very poor. Urban banks should join the Credit

Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971 to cover the risks involved in financing self-employed persons, professionals, small road transport operators etc. (No. 34)

128. Loans granted by banks to salaried persons, professionals etc. should not be made repayable in one lump sum. The repayment should be spread over a specified period and collected in instalments on a monthly basis. (No. 36)

129. Accommodation granted to business men, traders and small-scale industrialists should be in the form of cash credits which may be allowed usually for a period not exceeding one year depending upon the nature of business, credit-worthiness of the party, security offered and genuineness of the credit requirements. The limits may be renewed at the end of the period of sanction provided certain conditions are fulfilled, viz., a satisfactory turnover in the account with 3 to 5 times of the limit being represented by credit summations and the sale proceeds being usually credited to the cash credit account. When the limit is not renewed for any reason, the unrenewed portion should be treated as overdue from the date of expiry of the limit. (No. 36)

130. Urban banks should also consider the appropriateness of the period when they advance fixed loans. A continuous diversion of short-term resources for medium-term loans may eventually affect the ability of a bank to meet the claims of its depositors. Urban banks should, therefore, give medium-term and long-term loans provided their medium-term and long-term resources permit. The banks should also have the necessary expertise to appraise the repaying capacity of the borrowing units and adequate machinery for the follow-up of utilization of the advances. (No. 37)

131. It would be useful if the Federations or Associations of urban banks standardise application forms for loans, taking into account local conditions. The application forms should be as simple as possible to be easily understood by the borrower members. Insistence on highly sophisticated particulars and too many technicalities should be avoided, particularly in respect of

entrepreneurs engaged in small-scale and cottage industries. (No. 38)

132. Scrutiny of applications needs special attention by urban banks. The technical group in the state co-operative bank or the technical cell suggested for bigger urban banks will be of help for appraisal of loan applications from small-scale and cottage industries. (No. 39)

133. Urban banks should ensure that a scrutiny note is prepared by the office on every loan proposal for recommendation by the Chief Executive Officer and sanction by the Loan Committee or the Board of Directors with a view to fixing appropriate responsibility at each level. (No. 39)

134. The Federations or Associations of urban banks and the state co-operative banks should make arrangements to explain the instructions contained in the Manual on Advances by Co-operative Banks prepared and circulated by the Reserve Bank in November 1977 to the concerned staff of urban banks at special training programmes. If considered necessary, the Federations of urban banks and the state co-operative banks should translate the instructions contained in the Manual in local languages. (No. 40)

135. Each urban bank should have adequate supervisory staff for follow-up of the utilization of the loans granted and for the timely recovery. The strength of the supervisory staff should be decided upon with reference to the number and nature of the borrowing units. Ordinarily, there may not be more than 50 borrowing units, besides personal loan accounts under the charge of each supervisor. In the case of industrial units enjoying regular credit facilities, it is necessary to inspect them periodically, say, once in 3 months. Reports on these inspections should be prepared in a prescribed proforma and submitted to the Board of Directors through the Chief Executive Officer. (No. 41)

136. Urban banks should bring about rationalisation in rates of interest on different types of loans depending upon the nature of advances, purpose, period of loans and the security taken against them. (No. 42)

137. Urban banks have already been granting a sizeable portion of their advances to small borrowers borrowing up to Rs 5,000. The extension of the Scheme of Differential Rates of Interest to urban banks is therefore considered not necessary. Further, if the above Scheme is extended to urban banks, most of them, with their meagre resources, will not be able to offset the losses arising out of lower rate on small loans under the Scheme. (No. 43)

138. Urban banks should not charge penal rate of interest on advances at more than 2 per cent over and above the normal rate from the date of default. (No. 44)

139. State governments should review the existing exemptions from stamp duty and registration charges granted to urban banks and revise the limits upwards wherever necessary. (No. 45)

140. Where coercive action for recovery of loans is necessary, the Co-operative Departments should lend active support to urban banks for recovery of overdues. For this purpose, the Co-operative Departments should maintain adequate staff for arbitration and execution. In the case of bigger banks where the overdues are fairly high, they may take the services of Recovery Officers from the Co-operative Departments, on deputation basis for a specified period. (No. 46)

141. The Reserve Bank may permit all urban banks to add 75 per cent of their owned funds to time and demand liabilities while calculating maximum limit on advances to a single party or to members as a whole prescribed under the directives. (No. 50)

142. It is not feasible to treat surety loans granted to salaried employees as secured for the purpose of the directives of the Reserve Bank unless an agreement from the borrower has been taken as per the provisions in the Co-operative Societies Act and the loan instalments are recovered regularly through the employer. (No. 51)

143. In the case of bigger urban banks, with TDL of more

than Rs 2 crores, the Reserve Bank may examine if the maximum limit on advances to a single party can be fixed in relation to the time and demand liabilities of banks, instead of restricting the limit to Rs 10 lakhs only for all banks. (No. 52)

Chapter 9: Professional Management and Training Facilities

144. Members of urban banks should be keenly aware of the need for their participation in the banks' working as well as of their rights and obligations. The National Co-operative Union of India and the state co-operative unions are the appropriate agencies to undertake the responsibility of educating members of urban banks, in association with the National Federation of Urban Co-operative Banks and Credit Societies and the Federations or Associations of urban banks at the state level. Such education could be imparted by organizing meetings, seminars etc. The essential elements of the co-operative ideology, the lending programmes of banks, the need for staff development plans, proper utilization of loans and prompt repayments may be some of the subjects for discussion at periodical meetings or seminars. (No. 3)

145. The Federations or Associations of urban banks at the national and state levels may publish suitable literature for promoting contacts and dissemination of information among members of urban banks. The bigger urban banks may also publish house magazines for circulation among members and others interested. It is through such means that new local leadership can and must be fostered in the urban credit movement. (No. 4)

146. The extent of shareholding should not be the determining factor in regard to eligibility to hold office as director in an urban bank. A director should be elected by virtue of the confidence he commands among the members. The existing stipulation that minimum share qualification for membership of the Board should not be insisted upon is, therefore, salutary. (No. 7)

147. Those contesting for directorship in urban banks should have been members for a minimum period of two years. Similarly, members contesting for election to the Board should have

had a minimum deposit of any type of Rs 500 in the urban bank concerned for a minimum period of two years continuously. (No. 8)

148. Representatives of the depositors of an urban bank on its Board of Directors will no doubt help in safeguarding the interests of depositors but the presence of the representatives of members who are owners, and those of depositors who are creditors may lead to conflict of interests. Besides, representation to depositors on the Board of Directors of an urban bank to safeguard their interests is not called for in the context of the statutory control of the Reserve Bank over these banks and also the protection, up to Rs 20,000, given to each depositor under the Deposit Insurance Scheme. If at all depositors want to have a voice in the management, they may enrol themselves as members and contest for a seat on the Board. (No. 10)

149. One seat for women shareholders may be reserved on the Board of Directors of an urban bank. (No. 10)

150. State governments may nominate their representatives on the Board of Directors of urban banks which are state partnered in regard to share capital. The number of such representatives should not exceed one-third of the total number of directors or three, whichever is less. Further, the directors nominated by the government should preferably be competent non-officials rather than officers from the Co-operative Department. (No. 11)

151. The members of the Board of Directors need regular programmes to develop themselves into a competent policy and decision making body. These programmes may include exposing the board members to short-term orientation courses, workshops, seminars and visits to other banks. Suitable manuals prepared by banks themselves or Federations or Associations of urban banks may be one of the methods of familiarising the directors with their duties under the by-laws. The National Co-operative Union, in collaboration with the National Federation of Urban Co-operative Banks and Credit Societies, and the State Federations or Associations of urban banks, should apply itself to this very important task of educating and training the boards of

management of urban banks and draw up co-ordinated programmes for the purpose. (No. 12)

152. Urban banks are required to interest themselves increasingly in the financing of small-scale and cottage industries and, in order to make this possible, they have been required to amend the by-laws to admit as members, joint stock companies, partnership firms etc. They have also to identify areas where there is potential for financing this kind of activity. Clearly, all these are sectors where it is the chief executive who has to take the initiative and place before the Board from time to time the action taken in the matter and the difficulties, if any, faced and seek the Board's guidance. He has also to apprise the board of management regarding the need for building up technical expertise in the bank, the type of skills necessary and the manner in which these can be acquired. Likewise, the chief executive should also analyse for the benefit of the Board how the major defects in the working of a bank brought out in the inspection reports of the Reserve Bank, the Co-operative Department and the financing bank are attributable to defective policies and procedures being pursued by the bank and what concrete measures are required to be taken to rectify them. (No. 13)

153. The chief executive of an urban bank should maintain proper balance among different forms of resources, viz., share capital, reserves and short-term and long-term deposits with reference to the cost of raising these resources and the margin of profit that the bank may be able to get. Besides ensuring maintenance of the requisite cash reserve and liquid assets, he should also ensure a rational distribution of the available resources in different investments and loans and advances of diverse categories. (No. 14)

154. An important part of the work of the chief executive relates to the formulation of appropriate policies for the recruitment and development of staff. He should ensure a rational distribution of work among staff and delegation of authority among officers and other staff, so that they are motivated to assume responsibilities and acquire skills of value to the bank. (No. 15)

155. Urban banks should have a full time paid chief executive, and not an honorary non-official, to work as chief executive. If a chief executive is taken on deputation, it should be purely a transitional arrangement. (No. 16)

156. When the post of a chief executive in an urban bank is held by persons on deputation, there should not be frequent changes which will handicap the banks in their smooth functioning. (No. 16)

157. Urban banks should normally insist upon at least graduation in commerce or economics and five years of banking experience for the post of chief executive. Matriculates may be considered only if they are exceptionally capable and have long experience of value to the bank. (No. 18)

158. In the case of direct recruitment to the posts of chief executives in urban banks, the posts should be advertised in local newspapers and interviews should be held by a Recruitment Committee. It would be preferable if the Recruitment Committee included representatives of the Registrar of Co-operative Societies, the state co-operative bank and the central co-operative bank. (Nos. 18 and 35)

159. There should be no objection as an interim measure, to the recruitment of retired officers of commercial or co-operative banks with useful experience and who can put in hard work, as chief executives of urban banks, but confidential reports in respect of these persons should be obtained from the previous employers and scrutinised by the Recruitment Committee. (No. 18)

160. A common cadre system at the level of chief executives may be introduced in some selected urban banks, say, banks having working capital exceeding Rs 50 lakhs in states where there is concentration of urban banks. The state Federations or Associations of urban banks or the state co-operative banks may assess the requirements in regard to this category of senior personnel and maintain a common cadre of chief executives for selected urban banks. (No. 36)

161. The powers of the chief executives of urban banks should

include powers for sanctioning loans up to certain limits and for incurring expenditure up to a prescribed amount. These powers should be defined clearly in the by-laws of the banks. (No. 19)

162. Except for overall supervision over the functions of the chief executive, the non-official office bearers of an urban bank should not interfere in the day-to-day administration of the bank. A clear-cut demarcation between management and executive functions is necessary for the purpose. (No. 19)

163. The chief executive of an urban bank should preferably be a member of the Board of Directors, i.e., he should be a Managing Director. (No. 19)

164. Each urban bank should place the items of work in the head office under two broad divisions, viz., (i) Accounts and Banking and (ii) Loans. While these are the minimum divisions necessary, the number of divisions and sections may be increased depending upon the size of each division which may be placed under the charge of an officer, viz., Accountant or Assistant Manager. The divisions may further be sub-divided into sections and may be placed under the charge of officers belonging to the supervisory cadre. The supervisory officers may be assisted by clerks, cashiers etc. (No. 21)

165. The minimum staff considered necessary in urban banks operating in metropolitan, urban and semi-urban centres at the viability level and having a single office will be as under:

Designation	Metropolitan Centre	Urban Centre	Semi-urban Centre
Chief Executive Officer	1	1	1
Accountant (Banking)	1	1	1
Officer in-Charge of Loans, Establishment, Development etc.	1	—	—
Cashier	1	1	1
Clerks	2	2	1
Peons	2	2	2

In addition to the minimum staff shown above, a bank may

subject to sanction by the Board of Directors, employ additional staff in proportion to its loaning business based on a specific review of the workload by the chief executive officer. (No. 21)

166. In the initial stage, i.e., first one or two years of its working, an urban bank need not necessarily appoint all the key personnel or may be in a position to operate with fewer clerks than envisaged at the level of viability, but at the end of 5 years, within which period a bank is expected to attain viability, the minimum staff mentioned in Recommendation No. 165 should be in position. (No. 22)

167. With the growth and expansion of business of an urban bank, the managerial staff should be correspondingly augmented. Accordingly, appointment of a Development Officer to attend to promotional functions will have to be considered. Banks financing cottage and small-scale industries on a sizeable scale should have one or two technical officers in their employment. With the opening of branches it will also be essential to appoint staff to supervise the working of the branches. (No. 22)

168. Twentyfive per cent of the posts representing the key level personnel may be filled by open recruitment and the balance of posts filled up by promotion of qualified and experienced staff from the lower cadre. Seniority, consistent with efficiency, should be the main consideration for promotion to the higher cadres. In the case of direct recruitment, a minimum qualification of a high second class degree in economics or commerce should be insisted upon. The posts in this category should be advertised in the newspapers and interviews should be held by the Recruitment Committee referred to in Recommendation No. 158. The chief executive officer should also be associated with this Committee for recruiting key personnel. (Nos. 24 and 35)

169. Bigger urban banks may select young and qualified persons of exceptional ability as management trainees who, after intensive training, may be groomed to take up top management posts, including the post of the chief executive officer. (No. 35)

170. The minimum staff for a viable branch operating in metropolitan, urban and semi-urban centres may be as under:

Designation	Centre		
	Metropolitan	Urban	Semi-urban
Manager	1	1	1
Clerks	2	2	1
Peons	1	1	1

With the growth of business of the branch, the staff strength may be augmented to cope with the increased workload. In the bigger branches, the branch managers may be assisted by an officer of the rank of Assistant Accountant. (No. 26).

171. The determination of the staff requirements at the clerical level in the branches of urban banks should be normally based on the total number of vouchers attended to in the branch. Roughly, a clerk may deal with 35/40 vouchers or receipts a day. The banks may take into account such other aspects as are relevant for the determination of the workload per clerk having regard to the actual situation obtaining in each branch so as to avoid overstaffing and to get the maximum work from the existing staff. (No. 26)

172. There should be appropriate delegation of authority to the branch managers if the branches are to function, as full-fledged units for business development. They should be authorised, among other items, to sign and issue fixed deposit receipts, advance loans against the security of fixed deposits, tangible securities like gold and silver, government securities and insurance policies up to specified limits to disburse loans against the sanctioned limits and to incur petty expenditure up to certain levels. (No. 27)

173. There should be a system of inspection of branches at periodic intervals by the head office and of proper follow-up action. Inspection reports and action to be taken thereon should be placed before the Board of Directors. (No. 28)

174. There is need for standardisation of the procedure regarding

recruitment of various categories of staff. It is impracticable to have centralised recruitment of clerical staff either by the Federations of urban banks or by the state co-operative banks and central co-operative banks. Such recruitment may be continued to be made by individual urban banks. (No. 32)

175. All vacancies at the level of clerical staff should be advertised, listing the qualifications necessary. Selection should be made after conducting written tests and interviews. The minimum educational qualifications necessary for the post of clerks may be graduation. The State Co-operative Departments may issue necessary instructions to urban banks to incorporate provisions relating to recruitment of staff in their by-laws. (No. 32)

176. The state Federations or Associations of urban banks may fix scales of pay and other service conditions for various categories of staff of urban banks keeping in view the size of banks in relation to their working capital and places of their location. (No. 33)

177. There is an urgent need to build up necessary skills and expertise by urban banks. In this context, there is a keen need for effective arrangements for the training of staff of urban banks. (No. 37)

178. The number of urban banks stood at 1162 as on 30 June 1977. This should offer sufficient scope for organizing training programmes exclusively for the staff of urban banks. The training could be for staff at different levels, i.e., chief executives, key personnel, junior officers and clerical staff. It should be also of different types, such as basic courses on co-operative banking and book-keeping and orientation courses on resource mobilization, employment of funds, diversification of loans, industrial financing and Banking Regulation Act. (No. 38)

179. The Vaikunth Mehta National Institute of Co-operative Management should equip itself to cater for the training of managerial staff of urban banks with special reference to co-operative laws, accounts and financial management. (No. 46)

180. The National Federation of Urban Banks and Credit

Societies should assess the training needs of the personnel at all levels of urban banks, in association with the state Federations or Associations, the National Council for Co-operative Training and the Reserve Bank. In the light of the above assessment, suitable arrangements should be made for training at different centres. (No. 53)

181. Training programmes for staff of urban banks should be organized exclusively instead of being combined with the training courses for the staff of state co-operative banks and central co-operative banks in view of the nature of operations of urban banks which, in many aspects, are different from those of the state and central banks. The broad contents of the training programmes to be organized exclusively for urban banks in different training institutions may be drawn up by the National Council for Co-operative Training in consultation with the National Federation of Urban Banks and Credit Societies and the Reserve Bank of India. (No. 54)

182. There is some overlapping in the present training programmes for urban banks. The National Council for Co-operative Training and the Reserve Bank in collaboration with the National Federation of Urban Banks and Credit Societies, may study this aspect and suggest measures to bring about proper co-ordination. (No. 55)

183. The training arrangements for clerical and supervisory staff of urban banks available at present are inadequate. The Co-operative Training Schools under the aegis of the State Co-operative Unions, particularly in the states of Gujarat, Karnataka, Maharashtra and Tamil Nadu where there is concentration of urban banks may organize special programmes exclusively for the junior level staff of urban banks. In this context, there is scope for conducting evening training courses, particularly in metropolitan centres where there is a large number of urban banks. Further, the state Federations or Associations of urban banks should take the lead in conducting out-station training programmes nearer to the centres where urban banks are located. (No. 56)

184. On-the-job training programmes for clerical and supervisory

staff of urban banks are very necessary. These may be undertaken by the banks themselves, wherever possible, particularly in the case of bigger banks. In regard to medium or small-sized urban banks, a group of these banks may organize such programmes jointly. (No. 57)

185. The state co-operative bank or the state Federations or Associations of urban banks may take up the responsibility to organize on-the-job training programmes for the clerical and supervisory staff of urban banks. The assistance of the colleges run by commercial banks may also be sought for conducting short job-training courses. (No. 57)

186. For teaching the subjects of the Law and Practice of Banking and Accounting Procedures to the staff of urban banks, co-operative training institutions may secure the services of those who have worked in commercial or co-operative banks for some years. (No. 58)

187. The Co-operative Department and the state co-operative bank of each state, where urban banks exist in sizeable numbers, should render all possible help for the training of staff of urban banks. The state co-operative banks, wherever possible, may provide physical facilities for conducting training programmes for urban banks. Whenever small or medium-sized banks require substitutes for their staff sent on training, the state co-operative bank may lend its staff temporarily. (No. 58)

188. The Federations or Associations of urban banks should actively involve themselves in the development of staff and training facilities for the staff of the affiliated urban banks. Their help would be specially required when out-station courses are held by the College of Agricultural Banking of the Reserve Bank or by the Regional Co-operative Training Colleges. (No. 59)

189. The state Federations or Associations of urban banks should collect information on a regular basis from urban banks regarding the number of staff trained and to be trained at different levels for transmission to the Reserve Bank, State Co-operative Department and the National Council for Co-operative Training. (No. 59)

190. In order that the cost of training may not be burdensome to urban banks, especially to small and medium-sized banks, it is necessary to provide suitable subsidy to such banks. This subsidy may be provided by the Government of India and state governments. (No. 60)

191. It would be useful if bigger urban banks having working capital exceeding Rs 1 crore take necessary initiative for giving practical training to their chief executives and key personnel in commercial banks. The Reserve Bank may assist urban banks in arranging for such practical training in commercial banks. (No. 61)

192. Urban banks, particularly the bigger among them, may maintain adequate number of training reserves to take the place of those deputed for training. The bigger urban banks may also help small banks by lending to them their training reserves, wherever possible. (No. 62)

193. A representative of urban banks may be included in the National Council for Co-operative Training on a permanent basis so as to facilitate closer co-ordination in regard to the training arrangements for urban banks organized or to be organized by the National Council for Co-operative Training. (No. 63)

Chapter 10: Inspection and Audit of Urban Banks

194. Inspections of urban banks should be undertaken by the Co-operative Department as well as the financing bank, in addition to the statutory inspections of the Reserve Bank. (No. 2)

195. For the purpose of reviewing the compliance on inspection reports, a committee consisting of the Registrar of Co-operative Societies, the chief executive officer of the state co-operative bank and the officer-in-charge of the regional office of the Agricultural Credit Department of the Reserve Bank should be constituted by the Registrars of Co-operative Societies in all the states where there is a sizeable number of urban banks. The officers of the Co-operative Department as well as of the Reserve Bank may make

periodical visits to urban banks for the purpose of guiding them in rectifying defects and generally for toning up their operational efficiency. (No. 4)

196. The Co-operative Departments should recruit adequate number of staff for the audit of urban banks so as to complete the final audit soon after the close of the co-operative year, to enable urban banks to discuss the audited balance sheet in their general body meetings and also to submit the statutory returns to the Reserve Bank in time. (No. 5)

197. With a view to completion of audit in time, the bigger urban banks such as those having working capital of over Rs. 2 crores should arrange for concurrent audit of their accounts. (No. 5)

198. Ordinarily, the charge for an auditor should not be more than 15 urban banks and employees' credit societies. (No. 6)

199. The Co-operative Department in each state should not only recruit the staff for audit with necessary qualifications, but also evolve suitable training programmes for the audit staff before placing them in charge of independent audit of urban banks. Periodical re-orientation courses should also be arranged for the audit staff. (No. 7)

200. Since the statutory audit of urban banks should bring out not only a correct financial assessment but should also ensure that the business of these banks is carried on according to co-operative principles, statutory audit of urban banks should be conducted by the Co-operative Department. But, in the case of bigger urban banks, e.g., those having working capital of over Rs 2 crores, statutory audit may be entrusted to chartered accountants appointed by the concerned banks with the prior approval of the Registrar of Co-operative Societies. But these chartered accountants should be given some basic training in co-operative banking. This may be arranged by the Co-operative Department. (No. 8)

201. At present, no uniform norms have been laid down for the audit classification of urban banks. The Reserve Bank may suggest uniform standards for audit classification of urban banks for

adoption by Registrars of Co-operative Societies as has been done for central co-operative banks and primary agricultural credit societies. (No. 9)

Chapter 11: Role of the Government, the Reserve Bank, National and State Federations and Others

202. Considering the useful role which urban banks can play in the banking system, particularly in under-developed and backward areas, the Government of India may actively involve itself in the development of urban banks in different states to cater for the needs of urban middle classes and persons of low incomes. For this purpose, there might be specific provisions in the Five Year Plans for the development of the urban co-operative banking movement, particularly in spheres such as having a strong capital base, competent staff, their training, and development of industrial financing. The Government of India may particularly ensure that the state governments set up separate cells in the Co-operative Departments to look after the needs and problems of urban co-operative banks. The Government of India may establish a Special Cell in the Department of Civil Supplies and Co-operation in the Ministry of Commerce, Civil Supplies and Co-operation to look after the development of urban banks which number about 1200 at present. (No. 2)

203. In states, particularly those having a sizeable number of urban banks, the state governments should set up a separate cell under a senior officer of the rank of at least a Joint Registrar of Co-operative Societies to attend to the needs and problems of urban banks, including examination of proposals of new urban banks for registration, issue of no-objection certificates for opening of branches, review of the compliance on the Reserve Bank's inspection reports, attending to work connected with the rehabilitation of non-viable banks and checking of mal-practices and taking deterrent action where such mal-practices have been noticed. Some special staff may be posted in districts or regions wherever there is a concentration of urban banks, controlled by a senior officer from the headquarters. (No. 3)

204. The state governments may make necessary provisions in

their annual plans for share capital assistance to urban banks and subsidy for managerial staff as well as for rehabilitation of non-viable urban banks. (No. 4)

205. The Registrars of Co-operative Societies in different states may prescribe the model by-laws prepared by the Committee (Appendix VI) for adoption in their respective states with suitable modifications, if necessary, to suit local condition. (No. 6)

206. The Reserve Bank may bring out, at an early date, the Manual which is being prepared by it exclusively for urban banks containing guidelines on different aspects of their working. (No. 8)

207. The Reserve Bank may set up, as early as possible, a special division in the Agricultural Credit Department headed by a very senior officer to concentrate attention on the problems and needs of urban banks. One of the functions of this Division could be the issue of licences to existing urban banks for carrying on banking business. (No. 10 of Chapter 11 and No. 33 of Chapter 6)

208. The Reserve Bank may publish in Table No. 41 of the *Statistical Statements relating to the Co-operative Movement in India* separate data relating to urban banks and salary earners' societies coming within the purview of the Banking Regulation Act 1949. The Reserve Bank may also publish additional data relating to nominal membership; quantum-wise, security-wise and purpose-wise classification of loans of urban banks and also about their audit classification. (No. 11)

209. The state co-operative bank, as the leader of the co-operative movement in each state, should play a prominent promotional role in regard to the growth and development of urban banks. (No. 12)

210. All state co-operative banks should actively assist the Reserve Bank in inspecting urban banks. (No. 13)

211. There is need for setting up of a separate cell in the state co-operative banks, wherever it has not been set up, to deal exclusively with matters regarding urban banks. (No. 14)

212. Central co-operative banks should take an active interest in the promotion and growth of urban banks in their respective areas broadly in the same manner as has been suggested for state co-operative banks, including giving representation to urban banks on the Board of Directors of central banks. (No. 15)

213. With a view to helping the development of urban banks in their respective states, Federations or Associations of urban banks may be set up where the need is felt and the time is ripe to organize such Federations or Associations, keeping, however, in view the viability of the Federations or Associations. The National Federation of Urban Co-operative Banks and Credit Societies may also, by resorting to a phased programme, provide inspiration for establishing state Federations or Associations in the regions in which they do not exist at present. (Nos. 16 and 22)

214. Among the various functions which can be undertaken by the Federations or Associations of urban banks are the collection and publication of data on the working of urban banks. (No. 17)

215. The state Federations or Associations of urban banks should also, in collaboration with the state co-operative banks and Co-operative Departments, convene regional or state level seminars or conferences of urban banks to discuss problems faced by banks and to suggest appropriate remedial measures. (No. 18)

216. The state Federations or Associations of urban banks should also play an active role in regard to staff development, by indicating norms for recruitment of staff at all levels, evolving procedures for recruitment, selection and training of staff, including orientation training. They may take suitable action for organization of training programmes for the staff of urban banks in collaboration with the Reserve Bank's College of Agricultural Banking, the National Council for Co-operative Training and State Co-operative Unions. (No. 19)

217. The National Federation of Urban Co-operative Banks and Credit Societies may specially arrange for talks, seminars, conferences etc., in the co-operatively weaker regions of the country in connexion with the efforts to remove regional imbalances in the urban banking sector. (No. 22)

218. The National Federation of Urban Co-operative Banks and Credit Societies may act as a consultative body and, by associating itself with the authorities of the central and state governments, of the Reserve Bank and the state co-operative banks may contribute to the task of controlling, channelising and streamlining the urban co-operative banking movement. (No. 21)

219. The National Federation of Urban Co-operative Banks and Credit Societies may periodically collect, process and publish data, particularly about the functional aspects of urban banks and also serve as an organ through which urban banks can ventilate their grievances, demands, difficulties and aspirations from time to time. (No. 24)

220. There should be proper co-ordination among all the agencies connected with the working of urban banks so as to avoid any conflict in their functioning. Mutual consultation should be held among these agencies. There should be close co-ordination between the Reserve Bank and the Registrars of Co-operative Societies and important policy decisions concerning the working of urban banks should be taken only after mutual consultation. (Nos. 25 and 26)

Chairman

K. Madhava Das

Members

P. W. Rege
Vithalbhai P. Amin*
Smt. L. Lobo Sardesai
L. P. Bhargava
S. K. Chakraborty
B. K. Sinha
D. K. Ghosh
Nripendra Misra
H. Nagaraja Setty

Member-Secretary

I. D'Souza

Bombay
11 July 1978

* Signed on 30 August 1978

APPENDIXES

APPENDIX I

QUESTIONNAIRE ON URBAN CO-OPERATIVE BANKS

Note: In case space is not enough for answers, the same may be furnished in an Annexure

1. ORGANIZATION

At present, there are 3 types of non-agricultural credit societies doing banking business, viz.,

(i) Non-agricultural credit societies with paid-up share capital and reserves of *less than Rs 1 lakh* which are outside the purview of the Banking Regulation Act, 1949 but which can use the word 'bank', 'banker' or 'banking' as part of their name. These are defined as 'primary credit societies'.

(ii) Non-agricultural credit societies with paid-up share capital and reserves *exceeding Rs 1 lakh*. These are defined as 'primary co-operative banks' and are under the statutory control of the Reserve Bank.

(iii) Salary earners' or employees' credit societies. If these societies accept deposits from their members only who are usually employees of an organization, they do not come under the purview of the Banking Regulation Act, 1949. But if they accept deposits from non-members also and have a paid-up share capital and reserves exceeding Rs 1 lakh, they come under the definition of 'primary co-operative bank' and, therefore, within the purview of the Banking Regulation Act, 1949 and the statutory control of the Reserve Bank of India.

When the societies under (i) and those under (iii) which accept deposits from non-members attain a level of paid-up share capital and reserves of Rs 1 lakh, they have to apply to the Reserve Bank for a licence to carry on banking business within 3 months of their so attaining that level. Thereafter, they can continue to carry on banking business until the Reserve Bank informs them that a licence cannot be granted. On the other hand, a new co-operative bank which is registered with a paid-up share capital of Rs 1 lakh or more cannot commence banking business unless it first obtains a licence for the purpose from the Reserve Bank. The existing provisions in the Banking Regulation Act, 1949 have given rise to certain problems which are not in the interest of depositors. Several banks which were originally primary credit societies have also not been able to comply with the provisions of the Banking Regulation Act, 1949. Therefore—

1.1 Is it desirable to continue the registration of 'primary credit societies' which can accept deposits from public and use the word 'bank', 'banker' or 'banking' as part of their name, but remain outside the purview of the Reserve Bank? If it is felt that they should continue, are you satisfied

that there are adequate measures to safeguard the interests of depositors? If so, specify these measures. Do you suggest any further measures to regulate their business on sound lines through the Registrar of Co-operative Societies or any other appropriate authority? Is it necessary to fix a ceiling on the deposits that they may collect from the public?

1.2 Or, are you of the view that only 'primary co-operative banks' with paid-up share capital and reserves of a prescribed minimum should be registered hereafter and that they should commence banking business only after obtaining a licence from the Reserve Bank?

1.3 If you consider that there should be only 'primary co-operative banks' hereafter, do you suggest that the existing primary credit societies also should increase their paid-up share capital and reserves to the required level or a limit should be put on the total deposits they may collect from public, i.e., non-members?

1.4 The minimum paid-up share capital and reserves of Rs 1 lakh for a primary co-operative bank was fixed in the Reserve Bank of India Act and the Banking Regulation Act more than a decade ago. In the context of the viability of a primary co-operative bank, are you of the view that the level of owned funds (paid-up share capital and reserves) should be raised in relation to the location and area of operation of a bank? In this connexion, in your view, what should be the minimum paid-up share capital and reserves for banks operating in a metropolitan city having population of 10 lakhs and over, for banks in other urban centres with population of between 1-10 lakhs and for banks operating in centres with population of less than 1 lakh, including semi-urban centres?

1.5 The Reserve Bank generally insists on a minimum membership of 500 at the time of registration of a new urban co-operative bank. The membership is expected to increase to 2000 within a period of 3 years. Have you any comments on this?

1.6 While the registration of a new co-operative bank is done by the Co-operative Department, the licence to commence banking business will have to be issued by the Reserve Bank. What steps would you suggest to ensure that the registration and licensing procedures are complementary to each other? In other words, what steps would be required to avoid the possibility of refusal of licence by the Reserve Bank after the bank is registered?

1.7 Out of 13700 salary earners' or employees' societies in the country as on 30 June 1976, about 135 are classified as primary co-operative banks, because they accept deposits from non-members also (i.e. persons other than the employees of the concerned institutions). Once these societies are classified as primary co-operative banks, they have to maintain the required cash reserve and liquid assets and comply with the other provisions

of the Banking Regulation Act, 1949. Do you consider that salary earners' or employees' societies should accept deposits from public (i.e. non-members) or confine their activities only among the employees of the concerned institutions and thus remain under the control of the Registrar of Co-operative Societies?

1.8 Primary co-operative banks are popularly known as urban co-operative banks. In the context of these banks extending to semi-urban and rural areas, should their nomenclature be changed? Or should these banks operate only in urban centres to be true to their name?

[N.B. According to the Urban Land (Ceiling and Regulation) Act, 1976, an urban agglomeration is made up of main town together with the adjoining areas of urban growth and is treated as one urban spread. The population covered by such spreads is categorised as urban. The urban centres and the area of their agglomeration are specified in Schedule I of the above Act. The Act also provides that the state governments may notify other areas having population of more than 1 lakh as urban agglomeration. In such cases, the peripheral area shall be 1 k.m.]

1.9 What should be the area of operation of a primary (urban) co-operative bank? With a view to ensuring mutual knowledge and cohesion among members, do you think that its area should be restricted to a single town or city, and in big metropolitan centre to a municipal ward or a contiguous zone? Or, should primary (urban) co-operative banks be allowed to operate over a district, a state or even beyond state? If so, under what circumstances?

1.10 When urban co-operative banks are organized with jurisdiction of more than a state, are there any problems of administration under the Multi-Unit Co-operative Societies Act? Please comment.

1.11 The enclosed statement (Annexure I) will show that there is concentration of primary co-operative banks in a few states. Have you any comments to offer on this uneven development of urban co-operative banks in different states with special reference to the specific steps to be taken to ensure a more even growth of the banks?

1.12 Do you think that any special assistance from state government or other agencies is necessary to organize urban co-operative banks in backward areas? If so, please specify the type of special assistance to be provided.

1.13 Do you think that chit fund business should be carried on exclusively by separate organisations? If so, please give reasons. Could chit funds be eventually converted into urban banks?

1.14 In certain instances, there is overlapping of jurisdiction of urban co-operative banks, leading to dual membership and duplication of finance.

Are the existing provisions in the Co-operative Societies Act sufficient to guard against duplication of finance, or do you suggest any further measures?

1.15 At present, urban co-operative banks are at the primary level of the three-tier federal structure of the co-operative credit system which is common to both agricultural and non-agricultural credit functions. The central co-operative banks are at the intermediary level and the state co-operative bank at the apex level. There are demands from certain quarters that there should be a separate apex institution for primary (urban) co-operative banks. Please offer your comments in this behalf with specific reasons if you feel that such an apex bank is necessary.

2. OBJECTIVES AND FUNCTIONS

2.1 The urban co-operative banks were conceived with the objective of catering to the banking and credit requirements of the lower income groups in the urban population, e.g., small traders or businessmen, artisans or factory workers, the wage earners or salaried employees who could not normally be assisted by commercial banks. Do you consider that the urban co-operative banks have fulfilled these objectives effectively?

2.2 In the context of commercial banks opening branches in different parts of bigger cities and towns and also in semi-urban centres, as well as the emphasis now laid on their catering to the needs of small borrowers, do you consider that the scope for urban co-operative banks to make business is limited? If so, please make specific suggestions in this regard.

2.3 Do you consider that an urban co-operative bank should open its branches only within the city or town where its head office is located or can it be allowed to open branches outside the town or city as and when it develops its business? In the latter case, how can the co-operative character of the bank be ensured?

2.4 What measures would you suggest to avoid undue competition among commercial banks, state/central co-operative banks and urban co-operative banks in opening branches?

2.5 Considering that urban co-operative banks are meant to cater to the needs of small borrowers, do you feel that any protection or incentive is needed in the matter of their opening branches? If so, please specify the measures of protection/incentives necessary.

2.6 For opening a new branch by an urban co-operative bank, the Reserve Bank generally insists that it should have an average loan business of Rs 10 lakhs per branch for banks operating in metropolitan centres (population of over 10 lakhs), loan business of at least Rs 5 lakhs per branch for urban centres (population of 1-10 lakhs) and loan business of

not less than Rs 2 lakhs for all other centres. What are your comments on the suitability of these norms?

2.7 If an urban co-operative bank not belonging to an area is allowed to open a branch in that area presently devoid of urban banking facility, should there be a condition that it will transfer its business to an urban bank as and when organized in that area?

2.8 The Registrar of Co-operative Societies has to issue a no-objection certificate before an urban bank approaches the Reserve Bank for licence to open a new branch. What are the factors taken into account by the Registrar of Co-operative Societies before such a certificate is issued?

2.9 Should the system of nominal membership be allowed in urban co-operative banks except for co-parceners, non-borrowing sureties and persons who borrow occasionally for temporary periods against tangible securities, such as gold, silver, life insurance policies and government securities?

2.10 Are there provisions in your Co-operative Societies Act/Rules/By-laws for admission of proprietary concerns, partnership firms and companies as members of urban co-operative banks? If not, are you in favour of such provisions being made?

2.11 What is the ceiling for dividend in your state as prescribed in the Co-operative Societies Act? Can the entire amount of dividend be paid in cash? Do you have any suggestions in this regard?

3. RESOURCES

Share capital

3.1 What should be the minimum value of a share to be issued to members other than the government? Should it be kept low, say Rs 25, so as to avoid hardship to weaker section of the community? What measures would you suggest where the share value is already high?

3.2 Is there a scheme of state participation in the share capital of urban co-operative banks in your state? If not, what are the impediments in the way of such participation? How can these be overcome?

3.3 Have you any other suggestions in regard to item 3.2 above, particularly from the point of view of the terms and conditions of government share capital participation and its eventual retirement?

3.4 The Reserve Bank of India has recommended the linking of share holdings to borrowings in urban co-operative banks in the proportion of 5 per cent in respect of unsecured advances, 2.5 per cent in respect of secured advances and, in the case of loans or advances for small scale

industries, the linking is recommended at 1 per cent in the initial stage to be raised to 2.5 per cent in the course of next two years. Have you any comments in this regard?

3.5 In the case of agricultural loans given by primary agricultural credit societies, there is concession in share linking in respect of small and marginal farmers. They are allowed to contribute up to 5 per cent only for short-term and medium-term loans as against 10 per cent in respect of others. For long-term loans, the initial contribution of 2 per cent is to be raised in subsequent 3 years to 5 per cent. Do you advocate such concession in respect of small borrowers in urban co-operative banks also? If so, how would you define a small borrower?

3.6 Is there any provision in the Co-operative Societies Act/Rules/By-laws regarding redemption of shares in urban co-operative banks? In order to avoid sudden withdrawal of share capital and also to inculcate in the members the spirit of belonging to the institution, is it not desirable to impose restrictions on withdrawal of shares within a specified period? Please give your suggestions.

Deposits

3.7 Are urban co-operative banks in your area able to tap substantial deposits? If so, give details for the last three years, i.e., total deposits as at the end of last 3 co-operative years and the percentage of increase in each year.

3.8 Mention if there are any restraints or impediments in the matter of mobilisation of deposits. How these can be overcome?

3.9 Is the scheme of deposit insurance applicable to co-operative banks in your state? If not, is its absence felt as a handicap?

3.10 Has the state government permitted selected urban co-operative banks to accept deposits from charitable trusts and local bodies and to extend guarantee to government contractors etc.? If not, does the absence of these facilities affect the efforts of deposit mobilisation? What measures would you suggest to remedy the situation?

3.11 There is a demand from certain quarters that urban co-operative banks should also be included in the Second Schedule to the Reserve Bank of India Act. Is it desirable to include urban co-operative banks in the Second Schedule to the Reserve Bank of India Act when the higher financing agencies in the federal structure like the central co-operative banks are not eligible? Will it not disrupt the co-operative federal structure? Further, what are the specific advantages to be gained by such inclusion?

3.12 Will not the objective of inclusion in the Second Schedule to the RBI Act be achieved by the recognition of urban banks for purposes mentioned in question Nos. 3.9 & 3.10 above?

3.13 If urban co-operative banks are included in the Second Schedule, will they be able to fulfil their duties and obligations including the maintenance of the minimum balance with the Reserve Bank of India under Section 42 of the Reserve Bank of India Act?

3.14 Do you feel that the existing urban co-operative banks suffer from any disadvantages due to non-receipt of licence from the Reserve Bank to carry on banking business?

3.15 What are the facilities available to urban banks in your state for remittance of funds between the Head Office and branches, and between urban co-operative banks and central or state co-operative banks? Do you consider whether any further facilities are required?

3.16 If concessional remittance facilities or free remittance facilities are considered necessary, give reasons indicating the specific purposes for which such concession is required.

Borrowings

3.17 What is the maximum borrowing power fixed in the by-laws of urban co-operative banks in your state? Do you think any changes are necessary in this regard?

3.18 What are the arrangements in your state for borrowing by urban co-operative banks from higher financing agencies? Do they borrow from central co-operative banks or from the State Co-operative Bank direct? If so, give details especially of the purpose and terms and conditions.

3.19 Do urban banks borrow from the State Bank of India or other commercial banks? If so, for what purposes and under what conditions?

3.20 Do urban banks borrow funds from the State Government for financing small-scale industries or for other purposes? Does the State Government channel the funds to industrial units through urban banks? If so, under what conditions?

3.21 Do urban banks borrow from the Reserve Bank for financing small-scale and cottage industries? If not, mention the specific difficulties in the way of seeking refinance from Reserve Bank of India.

3.22 Do you feel there is need for extending rediscounting facilities to urban banks from the Industrial Development Bank of India under its existing rules and regulations? If so, to what extent, do you consider it necessary?

3.23 Do urban co-operative banks need any assistance from the National Co-operative Development Corporation (NCDC) for the purpose of assisting agro-industries such as poultry, dairy, fisheries, fruit processing etc? If so, indicate the assistance needed and the role envisaged for NCDC in the development of urban banks.

3.24 Do urban banks have any refinancing arrangements with State Financial Corporation? If so, give details.

4. INVESTMENT OF FUNDS

4.1 Do urban banks maintain cash reserve and liquid assets on a day-to-day basis in the manner prescribed in the Banking Regulation Act, 1949 and report the position as on each Friday at the end of the month? If not, what are the specific problems being faced?

4.2 Where do the urban banks invest their surplus funds when available? Do they find it difficult to invest surplus funds with the central co-operative bank or the state co-operative bank? If so, please give reasons.

4.3 Co-operative institutions are normally required to invest their surplus funds within the co-operative movement itself. In this context, why do many urban banks seek to invest their surplus funds in commercial banks? Have you any suggestions regarding investment of surplus funds of urban banks within the co-operative movement?

4.4 If it is found necessary for urban co-operative banks to invest surplus funds in commercial banks, do they obtain permission from the Registrar of Co-operative Societies? Are there any difficulties in obtaining such permission?

4.5 Do you suggest any other mode of profitable investment of surplus funds of urban banks? If there are restraints for any other investment, please explain and suggest measures for removal of difficulties.

Loans and advances

4.6 What are the different purposes for which urban co-operative banks in your area generally give loans? Is there any scope for diversification of purposes? Elaborate.

4.7 Is there demand for agricultural loans to be given by urban co-operative banks? Are you in favour of urban banks giving loans for agricultural purposes, i.e., for raising of crops, particularly in peripheral areas of towns? If so, under what circumstances and terms and conditions, particularly from the point of view of ensuring that the business of primary agricultural credit societies which are working well in the area is not affected?

4.8 Is there any demand for loans for purposes connected with agriculture such as for dairy, poultry, piggery etc? Are urban banks in a position to give such loans? Do they have technical competence in this respect? Elaborate.

4.9 If loans for agricultural purposes or for purposes connected with agriculture are advanced, is it possible for urban co-operative banks to obtain proper security and supervise such loans?

4.10 Is there demand for loans from urban co-operative banks for purposes of marketing of crops and processing activities? Would you favour urban banks giving loans for such purposes? Mention the circumstances and terms and conditions under which such loaning may be undertaken by urban co-operative banks and the assistance they may require in this connexion.

4.11 Are there any difficulties in urban co-operative banks providing finance to artisans, small-scale industries, small traders etc? If so, explain and suggest measures how these difficulties can be overcome.

4.12 Are urban co-operative banks in your area called upon to provide term loans for block capital in the industrial sector? Can banks meet this demand out of their own resources within the ceiling stipulated by the Reserve Bank of India, i.e., up to 15 per cent of the disposable long-term resources or 5 per cent of total deposits whichever is more? From where do they get refinance facility for block capital loans?

4.13 Do urban co-operative banks need any assistance from the State Government, State Financial Corporation, Small Industries Service Institute etc., for guidance and technical advice? If so, suggest how this can be arranged effectively.

4.14 What is the security for working capital and block capital loans generally taken by urban co-operative banks? Is there any difficulty in obtaining the required security by way of mortgage, pledge and hypothecation? Explain.

4.15 Do urban banks enjoy any exemption from stamp duty in connexion with the execution of documents? Please give details.

4.16 Are any loans given by urban co-operative banks in kind? If so, for what purposes and under what terms and conditions?

4.17 What is the maximum limit of advances which can be given to an individual under the Co-operative Societies Act/Rules/by-laws for different purposes, i.e., for consumption finance; for productive loans such as loans to artisans and small-scale industries; jewel loans and mortgage

loans? Explain if any revision in the individual maximum borrowing power fixed in the Act/Rules/by-laws is considered necessary.

4.18 Is there any prescribed form of application for loans? Indicate the arrangements for scrutiny of loan applications and mention the normal time taken by banks to advance loans from the date of application.

4.19 What are the arrangements for supervision over the utilization of loans advanced to members? How are they working in practice? Please suggest specific norms as to the number of units/volume of business which can be entrusted to a supervisor.

4.20 Are there adequate arrangements for recovery of loans from members under normal as well as coercive procedures? Is any further assistance required from the Co-operative Department for recovery of overdues?

4.21 What are the usual rates of interest on loans for different types of advances, secured or unsecured? What is the margin normally available to urban banks between borrowing and lending rates? Give details.

4.22 Do you favour differential rates of interest for advances to big and small borrowers and for what purposes? Will urban co-operative banks be able to provide such assistance in the form of differential rates? How will they get the necessary aid for the purpose?

5. RESERVE BANK'S DIRECTIVES

N.B. A summary of the directives issued by the Reserve Bank on interest rates on deposits and maximum limit on advances as well as circular instructions regarding advances against selected commodities is given in Annexure II.

5.1 Have you any specific comments on the interest rates permitted to be allowed by primary co-operative banks and other provisions of the directives on interest rates?

5.2 Have you any specific comments on the various limits fixed in regard to the advances which can be given by urban co-operative banks to any single party, to any single director, to all directors put together and on total unsecured advances? Give specific reasons if any modifications in the directives are considered necessary.

5.3 Under the directives, urban co-operative banks are required to take personal security of at least another member in respect of an unsecured loan or advance. Mention if there is difficulty in this regard (e.g. bill discounting or cheque purchase limit).

5.4 A loan to an employee or salaried person against personal security can be excluded from the bank's unsecured advances for purposes of direc-

tives if an agreement from the employee is taken in accordance with the provisions of the Co-operative Societies Act and the financing bank actually recovers loan instalments on a regular basis. Have you any specific comments in this regard, including modification of the provisions in the Co-operative Societies Act?

5.5 Under the directives, the Reserve Bank has a system of authorisation in respect of advances over and above the maximum prescribed limit, where required. Have you any comments to make or specific suggestions to offer in regard to the working of this system?

5.6 Keeping in mind the objectives of the Reserve Bank's directives and instructions regarding advances against selective commodities, please offer your comments with regard to the aggregate limit, margin to be maintained and the rate of interest to be charged.

5.7 What safeguards or precautions have banks taken for proper compliance with the directive provisions and other instructions of the Reserve Bank? Please give your suggestions.

6. *MANAGEMENT AND STAFF*

6.1 Who constitutes the present non-official leadership in the urban credit movement in your area? Are there any plans for developing such leadership in the urban credit movement?

6.2 Should an effective voice be given to depositors in the management of urban co-operative banks? In what way can it be given?

6.3 When urban banks open branches, should there be a branch committee for each of the branches with powers to sanction loans up to certain amounts and subject to suitable safeguards? Please comment in detail.

6.4 Should there be representation on the bank's board of directors to members of the branch committees outside the head office town or city? If so, to what extent?

6.5 Under the Banking Regulation Act, 1949, the Reserve Bank of India has control over the banking business of urban banks. Matters connected with registration, management, amalgamation etc. rest with the Registrar of Co-operative Societies. Do you consider that this has given rise to any difficulty? Explain and suggest measures, if any, needed to rectify the position.

6.6 Mention the organizational set up of urban co-operative banks in your area with the number of staff of different categories in each Department.

6.7 Do urban banks still depend on honorary workers for day-to-day work? If so, why and to what extent is such help available? Are there

problems in this regard? Are there difficulties in getting qualified and competent staff?

6.8 Do urban banks take staff on deputation from Co-operative Department, state/central co-operative banks etc.? Mention if staff taken on deputation is under the administrative control of banks or the deputing authority?

6.9 What are the methods of recruitment of staff at different levels in urban banks? Is it by advertisement, tests and interviews etc.? Elaborate,

6.10 What is the arrangement for appointment of Chief Executive Officer of the bank? Is it by direct recruitment or promotion from the existing staff? If it is by direct recruitment, are confidential reports obtained in respect of the incumbent from the institutions where he had served earlier?

6.11 Are you in favour of a common cadre of managers to be maintained by the state co-operative bank or the federation of urban banks for appointment in different banks, particularly the small and the weaker ones? Explain.

6.12 Are there uniform service conditions and rules on promotions to higher positions, provident fund, gratuity fund etc.? Explain.

6.13 What are the arrangements for training of staff, pre-service and in-service? Mention the number of staff trained and untrained.

6.14 Mention specifically the nature of training which the staff in urban banks would require so as to be useful in the discharge of their duties? Keeping this in view, are the present arrangements satisfactory? Suggest measures required to be taken to improve training arrangements.

6.15 What assistance would urban banks require from the State Government, National or State Co-operative Union, State Co-operative Bank, Federations of Urban Banks, commercial banks and the Reserve Bank for suitable and adequate training of staff?

7. *AUDIT AND INSPECTION*

7.1 What are the arrangements for the audit of urban co-operative banks? Is it by Co-operative Department or by Chartered Accountants approved by the Department? If the latter arrangement exists, is it working satisfactorily in objectively assessing the working of the banks in the various fields and highlighting the deficiencies for the benefit of the management?

7.2 For purposes of audit of member banks, should the federations or associations of urban co-operative banks have a pool of chartered accountants, instead of leaving to urban banks to select chartered accountants individually?

7.3 Are there delays in the submission of audit reports? If so, offer suggestions to avoid delay.

7.4 Is there any system of a concurrent audit in urban co-operative banks? Do you prefer such an arrangement and at what stage of development of a bank?

7.5 Do Co-operative Departments and the financing banks inspect urban banks? If so, how often? What are the aspects of the banks' working particularly seen during these inspections? Do you consider that the inspections by the Co-operative Department and the financing bank are necessary in addition to the statutory inspections of the Reserve Bank?

7.6 Have you any suggestions to offer regarding the arrangements for statutory inspection by the Reserve Bank either by itself or through the state co-operative bank?

7.7 What are the administrative arrangements in the Co-operative Department for supervision over the working of urban co-operative banks particularly with regard to the rectification of defects pointed out in the inspection and audit reports, checking misutilization, preventing embezzlement, fraud, rehabilitation of weak banks etc.? Is there a separate cell in the Co-operative Department for the purpose? Please give details of staff in the Cell. Is it adequate?

7.8 If there is a separate cell to look after urban co-operative banks in the state co-operative bank, mention the categories of staff and the functions undertaken by them.

7.9 What steps do you suggest for the rehabilitation of weak urban banks where they exist?

7.10 Where urban banks have branches, mention the arrangements which exist for the control and inspection of branches.

7.11 If branches submit any returns to the head offices, mention the different returns and the arrangements for scrutiny of these returns.

8. CO-ORDINATION

8.1 Indicate the arrangements, if any, for periodical review of the working of urban banks and to discuss their common problems at regional or state level.

8.2 Is there any association or federation of urban co-operative banks in your region or state? If not, is it not desirable to have such a federation/association to look after the interests of urban co-operative banks?

8.3 Where federations/associations exist, have you any suggestions to make them more effective and purposeful? In other words, what functions would you suggest that the federation/association of urban co-operative banks should undertake for the development of member-banks?

8.4 Are you satisfied with the statistical information presently available on urban co-operative banks? Would you recommend collection and publication of more statistics? Who should undertake this work?

8.5 Is there any uniformity in procedures and systems followed by urban co-operative banks in your area? If not, is it not desirable for the federations or associations of urban banks or the all-India state co-operative banks federation to bring about such uniformity?

8.6 Is there any detailed manual on different aspects of working of urban co-operative banks? If so, who has prepared such a manual? Have you any suggestions in this behalf?

8.7 There have been suggestions that there should be a separate section in the Reserve Bank's Agricultural Credit Department to deal with urban banks. Please give your views on the suggestion.

9. *LEGAL ASPECTS*

9.1 Has the Co-operative Department prescribed any model by-laws for urban co-operative banks in your state? If not, do you feel any need therefor? If model by-laws exist, are you satisfied with them; or do you suggest any modifications?

9.2 Do you think any legislative changes are required in connexion with the registration, licensing, branch licensing, investment of funds, amalgamation, liquidation etc. of urban banks? If so, give details. In particular, suggest measures for appointment and functioning of liquidators so that liquidation proceedings, whenever taken up, are completed within a short period.

10. *MISCELLANEOUS*

Have you any other specific suggestions to make on the problems affecting the growth and working of urban co-operative banks? If so, indicate them in detail.

ANNEXURE I

Statement showing the number of primary co-operative banks in India

Sr. No.	Name of the State/ Union Territory	No. of banks as on 1-3-66		No. of primary co-operative banks as at the end of June									
				1971		1974		1975		1976		1977	
		UB	SE	UB	SE	UB	SE	UB	SE	UB	SE	UB	SE
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.	Andhra Pradesh	34	16	39	4	40	5	40	4	40	3	43	3
2.	Assam	—	2	2	—	2	—	2	—	2	—	2	—
3.	Bihar	2	22	1	—	1	—	1	—	1	—	1	—
4.	Gujarat	62	92	133	6	204	6	222	9	240	11	257	9
5.	Haryana	—	—	1	2	1	2	1	2	1	3	1	3
6.	Himachal Pradesh	—	1	—	—	2	—	2	—	3	—	3	—
7.	Karnataka	64	34	128	20	145	18	156	22	165	24	166	18
8.	Madhya Pradesh	7	8	10	2	12	1	14	1	18	1	20	1
9.	Kerala	19	3	30	—	38	10	42	7	43	4	43	5

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1	2	3	4	5	6	7	8	9	10	11	12	13	14
10.	Maharashtra	84	298	198	67	235	45	261	44	274	43	292	38
11.	Manipur	—	—	2	—	2	—	2	—	2	—	3	—
12.	Meghalaya	—	—	—	—	—	—	—	—	1	—	1	—
13.	Orissa	5	2	8	1	8	2	8	2	8	1	8	1
14.	Punjab	4	2	4	—	5	—	5	—	5	—	4	1
15.	Rajasthan	4	5	5	5	6	4	10	4	10	4	10	5
16.	Tamil Nadu	87	59	100	11	110	9	111	8	114	9	117	10
17.	Uttar Pradesh	—	25	—	24	—	24	—	24	3	23	3	23
18.	West Bengal	21	102	24	81	25	43	25	34	27	17	27	11
19.	Delhi	8	17	8	—	13	15	15	14	15	12	16	11
20.	Goa, Daman and Diu	—	—	2	—	2	—	4	—	4	—	4	—
21.	Pondicherry	2	—	2	—	2	—	2	—	2	—	2	—
	Total	403	688	697	223	853	184	923	175	978	155	1023	139

N.B. (1) UB—Urban co-operative bank.

SE—Salary Earners'/Employees' Society classified as primary co-operative bank.

(2) No primary (urban) co-operative banks in the State/Union Territory of Jammu and Kashmir, Nagaland, Sikkim, Tripura, Andaman and Nicobar Islands, Chandigarh and Laccadiv Minicoy Islands.

ANNEXURE II

I. DIRECTIVES ON INTEREST RATES ON DEPOSITS

The directives on interest rates on deposits were considered necessary to bring about some measure of regulation. The minimum and the maximum rates of interest payable by primary (urban) co-operative banks on deposits with effect from 1 June 1977 in terms of Reserve Bank's directives No. ACD.ID 935/J. 32-74/5 dated 16 August 1974, No. ACD.ID 4141/J. 32-74/5 dated 31 January 1975 and No. ACD.ID 10844/V. 1-76/7 dated 31 May 1977 are shown below:

Nature of deposits	Minimum rate of interest (% per annum)	Maximum rate of interest (% per annum)
1. Current accounts, deposits up to 14 days and deposits subject to withdrawal or repayment by notice for a period of 14 days or less	—	0.5
2. (a) Savings Accounts with cheque facility	3	4
(b) Savings Accounts without cheque facility	5	6
3. (a) Deposits for 15 days to 45 days and deposits subject to withdrawal or repayment by notice for a period not exceeding 45 days	3	4
(b) Deposits for 46 days to 90 days and deposits subject to withdrawal or repayment by notice for a period exceeding 45 days but not exceeding 90 days	3.5	4.5
(c) Deposits for 91 days and above but less than 6 months	4	5
(d) Deposits for 6 months and above but less than 9 months	4.5	5.5
(e) Deposits for 9 months and above but less than one year	5	6
(f) Deposits for one year and above but up to and inclusive of 3 years	6	7
(g) Deposits over 3 years but up to and inclusive of 5 years	8	9
(h) Deposits above 5 years (i.e. 61 months and above)	10	11

2. In terms of the directive No. ACD.ID 12504/J. 32-75/6 dated 21 June 1976, primary co-operative banks are permitted to allow interest up to 1 per cent more than the interest fixed for deposits from public, in respect of such deposits as are received from members of staff, ex-members of staff or an association or a fund all members of which are bank's staff.

3. The directives on interest rates on deposits issued to co-operative banks are not applicable in respect of deposits made by a banking institution or a co-operative bank or any other co-operative society.

4. Certain other important provisions of the directives on interest rates on deposits applicable to co-operative banks are indicated below:

(a) *Interest on loans against deposits*

Whenever an advance or loan is made against a deposit, the interest chargeable on such a loan or advance shall be (i) at least 2 per cent higher than the interest payable on the deposit if the deposit stands in the name of the borrower himself and (ii) not less than 2½ per cent per annum higher than the interest payable on the deposit if the deposit stands in the name of a person other than the borrower.

(b) *Margin on loans against deposits*

A margin of not less than 15 per cent of the amount of deposit is required to be maintained by co-operative banks.

(c) *Premature withdrawal of deposits*

When a deposit is repaid before expiry of the period of contract, the interest payable on such deposit shall be at least 2 per cent less than the rate of interest applicable to the period for which the deposit had remained with the bank.

(d) *Overdue deposits*

The banks may in their discretion allow interest for the overdue period provided:

- (i) The deposit is renewed with effect from the day on which it matured for payment, and
- (ii) The rate of interest allowed does not exceed the appropriate rate applicable to the period for which the deposit is proposed to be renewed as ruling on the date of maturity of the deposit.

(e) *Deceased depositors*

In the case of a deposit standing in the name of a deceased depositor, interest may be paid for the period from the date of maturity of the deposit to the date on which the deposit is actually repaid to the heir or heirs of the deceased depositor.

(f) *Prohibitions*

(i) No co-operative bank shall discriminate in the matter of rate of interest paid between one deposit and another accepted on the same date and for the same maturity, whether such deposits are accepted at the same office or at different offices of the bank.

(ii) No co-operative bank can pay interest on savings accounts opened in the names of any trading or business concern whether such concerns are proprietary or partnership firms or companies/associations.

(iii) No co-operative bank can pay brokerage on deposit in any form to any individual/firm, company/association, institutions or any other person except to individuals employed as agents for collecting from door to door deposits under any special scheme.

II. *LIMITS ON ADVANCES OF URBAN CO-OPERATIVE BANKS*(i) *Directives on maximum limit on advances*

5. The Reserve Bank's directive stipulating maximum limit on advances of primary (urban) co-operative banks was first issued in January 1975 with a view to preventing concentration of advances in the hands of a few parties and members of the board of directors, as also to restrict the amount of unsecured advances. On receipt of representations from some quarters, certain stipulations made in the directive No. ACD.ID 4151/J. 33-74/5 dated 31 January 1975 were relaxed. A summary of the stipulations of the amended directive No. ACD.ID 10690/R. 1-76/7 dated 25 May 1977 is given below:

Category of advances	Maximum limit in the case of primary co-operative bank whose total time and demand liabilities (TDL) is		
	less than Rs 1 lakh	Rs 1 lakh and above but below Rs 200 lakhs	Rs 200 lakhs and above
(i) All types of advances including unsecured advances to a director or to any other single party	Rs 5,000	5% of TDL	Rs 10 lakhs
(ii) Unsecured advances inclusive of clean bills or Multani hundies discounted and cheques purchased to a director or to any other single party			

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(a) For trade, commerce, cottage and small-scale industry, housing and education	Rs 5,000	Rs 10,000 or 5% of TDL whichever is lower	Rs 10,000
(b) For other purposes	Rs 5,000	Rs 5,000	Rs 5,000
(iii) Advances of all types including unsecured advances to all directors put together	10% of TDL	10% of TDL	10% of TDL
(iv) Unsecured advances to all directors put together	TDL less than Rs 1 lakh	TDL Rs 1 lakh to Rs 100 lakhs	TDL above Rs 100 lakhs
	10% of TDL	Rs 50,000 or 10% of TDL whichever is lower	Rs 1 lakh
(v) Total unsecured advances to the members as a whole	33-1/3% of TDL	33-1/3% of TDL	33-1/3% of TDL

6. For purposes of the directive, several types of advances are excluded from unsecured advances. For example, advances backed by guarantees of governments, public sector institutions, banks, Credit Guarantee Organization and Credit Guarantee Corporation of India as well as advances against supply bills drawn on governments and state owned undertakings and those drawn on private parties of repute and not outstanding for more than 90 days may be excluded from unsecured advances. Similarly, advances given to salary earners where recoveries are made through employers on a regular basis in terms of the specific provisions of the Co-operative Societies Act, advances against book debts which are not outstanding for more than 90 days etc. need not be reckoned as unsecured.

7. Where banks want to make advances in excess of the stipulated limits, they are required to obtain Reserve Bank's prior approval in the matter.

(ii) *Advances against selective commodities*

8. The advances granted by urban co-operative banks in Gujarat, Maharashtra and Karnataka against foodgrains, oil seeds, oil (including vanaspati), sugar, gur and khandsari were earlier being governed by Reserve Bank's circulars Nos. ACD.Plan (IFS) 2015/PR 474/74-5 dated 14 January 1975 and ACD.Plan (IFS) 2827/PR 474/74-5 dated 15 March 1975. In terms of circular No. ACD.Plan (IFS) 3055/PR 474/75-6 dated 24 January 1976, the advances against cotton textiles including yarn were also considered as advances against essential commodities. In terms of these circulars, no advance against any of the above commodities could

exceed 100 per cent of the highest outstanding against the member in any of the three preceding years ending November-October. The advance to a new borrower should not exceed Rs 25,000 (the limit was increased to Rs 1 lakh on 23 July 1977) and minimum interest should be 15 per cent. Margin on advances was to be 40 per cent in respect of advances against pledge/hypothecation of the relative stocks of any of these commodities. In terms of circular dated 30 July 1976, the margin required to be maintained in respect of advances against oilseeds and sugar was enhanced to 50 per cent of the value of stock. In terms of circular dated 21 June 1977, the margin in respect of the advances against groundnut, mustardseed/rapeseed, castorseed, cottonseed, linseed and oils thereof including vanaspati was further enhanced to 60 per cent.

(iii) *Advances against cotton and kapas*

9. The directive on advances against cotton and kapas was issued in December 1975 to some urban co-operative banks in Gujarat (18 banks) and Karnataka (8 banks) i.e. only to those banks whose advances against cotton and kapas reached the level of Rs 5 lakhs and above. This directive was not issued to urban banks in Maharashtra then, on account of the introduction of the scheme of monopoly procurement of cotton and kapas by the Government of Maharashtra. The banks covered by the directive of 29 December 1975 were required to maintain the aggregate level of credit below Rs 25 lakhs and charge interest at not less than 15 per cent per annum. The margin requirements were fixed at 50 per cent of the value of stock irrespective of whether the stocks were pledged or hypothecated to the bank. Besides the restriction of the aggregate level, the level of maximum outstanding reached of such advances was to be brought down to a stipulated level on a tapering basis, within the period fixed, based on the seasonality pattern obtaining in these states. Further, in individual cases, the advances were not to exceed the limit stipulated in the directive No. ACD.ID 4151/J. 33-74/5 dated 31 January 1975.

10. The directive on cotton and kapas issued to certain banks in Gujarat and Karnataka in December 1975 was modified on 11 February 1977; a fresh directive to certain banks in Maharashtra was issued on 7 November 1977, i.e., on the temporary suspension of the monopoly procurement scheme.

APPENDIX II

PERSONS AND INSTITUTIONS FROM WHOM REPLIES TO THE QUESTIONNAIRE WERE RECEIVED

I. Registrars of Co-operative Societies of the States of:

1. Assam
2. Bihar
3. Gujarat
4. Himachal Pradesh
5. Karnataka
6. Kerala
7. Maharashtra
8. Madhya Pradesh
9. Uttar Pradesh
10. West Bengal

II. State Co-operative Banks

11. Bihar State Co-operative Bank Ltd., Patna
12. Gujarat State Co-operative Bank Ltd., Ahmedabad
13. Maharashtra State Co-operative Bank Ltd., Bombay
14. Madhya Pradesh Rajya Sahakari Bank Maryadit, Bhopal
15. Manipur State Co-operative Bank Ltd., Imphal
16. Tamil Nadu State Co-operative Bank Ltd., Madras
17. West Bengal State Co-operative Bank Ltd., Calcutta

III. Central Co-operative Banks

Gujarat

18. Ahmedabad District Co-operative Bank Ltd., Ahmedabad
19. Surat District Co-operative Bank Ltd., Surat

Haryana

20. Karnal Central Co-operative Bank Ltd., Karnal

Himachal Pradesh

21. Jogindra Central Co-operative Bank Ltd., Nalagarh

Karnataka

22. Mysore District Co-operative Central Bank Ltd., Mysore

Madhya Pradesh

23. Dewas Central Co-operative Bank Ltd., Dewas

Maharashtra

24. Sholapur Zilla Audyogik Sahakari Bank Niyamit, Sholapur¹

Rajasthan

25. Ajmer Central Co-operative Bank Ltd., Ajmer
 26. Jaipur Central Co-operative Bank Ltd., Jaipur
 27. Sawai Madhopur Kendriya Sahakari Bank Ltd., Sawai Madhopur

Tamil Nadu

28. Madurai District Central Co-operative Bank Ltd., Madurai

IV. *Urban Co-operative Banks**Assam*

29. Gauhati Co-operative Urban Bank Ltd., Gauhati
 30. Industrial Co-operative Bank Ltd., Gauhati

Delhi

31. Delhi Nagrik Sahakari Bank Ltd., Delhi
 32. Vaish Co-operative Commercial Bank Ltd., Delhi
 33. Vaish Co-operative New Bank Ltd., New Delhi

Goa, Daman & Diu

34. Goa Urban Co-operative Bank Ltd., Panaji

Gujarat

35. Ahmedabad People's Co-operative Bank Ltd., Ahmedabad
 36. Mehsana Nagrik Sahakari Bank Ltd., Mehsana
 37. Rajkot Nagrik Sahakari Bank Ltd., Rajkot
 38. Surat People's Co-operative Bank Ltd., Surat
 39. Veraval People's Co-operative Bank Ltd., Veraval

Haryana

40. Sonapat Urban Co-operative Bank Ltd., Sonapat

Himachal Pradesh

41. Simla Urban Co-operative Bank Ltd., Simla

Karnataka

42. Hiriyur Urban Co-operative Bank Ltd., Hiriyur, District Chitradurga
 43. Honavar Urban Co-operative Bank Ltd., Honavar

¹ Industrial co-operative bank classified as central co-operative bank.

44. Malleswaram Co-operative Bank Ltd., Bangalore
45. Shimoga Arcanant Mandy Merchants Co-operative Bank Ltd., Shimoga
46. Shri Basaveshwar Urban Co-operative Bank Ltd., Bagalkot
47. Sirsi Urban Co-operative Bank Ltd., Sirsi
48. Sri Gokarnanath Co-operative Bank Ltd., Mangalore
49. Sri Kanyakaparnameswari Co-operative Bank Ltd., Mysore

Kerala

50. Calicut Co-operative Urban Bank Ltd., Calicut
51. Cherpalcheri Co-operative Urban Bank Ltd., Cherpalcheri, Palghat District
52. Cranganore Town Co-operative Bank Ltd., Kodungallur
53. Karamana Co-operative Bank Ltd., Trivandrum
54. Koduvayur Co-operative Urban Bank Ltd., Koduvayur
55. Kottakkal Co-operative Urban Bank Ltd., Kottakkal, District Malappuram
56. Manjeri Co-operative Urban Bank Ltd., Manjeri, District Malappuram
57. Nemmara Co-operative Urban Bank Ltd., Nemmara, Palghat District
58. Ottapalam Co-operative Urban Bank Ltd., Ottapalam
59. Palghat Co-operative Urban Bank Ltd., Palghat
60. Quilon Taluk Coastal Development Co-operative Bank Ltd., Quilon
61. Tiruvalla East Co-operative Bank Ltd., Eraniperoor

Manipur

62. Imphal Urban Co-operative Bank Ltd., Imphal

Madhya Pradesh

63. Dubey Co-operative Commercial Bank Ltd., Bilaspur
64. Indore Paraspara Sahakari Bank Ltd., Indore
65. Mandi Urban Co-operative Bank Ltd., Mandi

Maharashtra

66. Abhyudaya Co-operative Bank Ltd., Bombay
67. Bhusawal People's Co-operative Bank Ltd., Bhusawal
68. Bombay Mercantile Co-operative Bank Ltd., Bombay
69. Janira Sahakari Bank Ltd., Bombay
70. Janata Sahakari Bank Ltd., Pune
71. Nagar District Urban Central Co-operative Bank Ltd., Ahmednagar¹
72. Nagpur Nagrik Sahakari Bank Ltd., Itwari, Nagpur
73. Nasik Merchants' Co-operative Bank Ltd., Nasik
74. North Kanara Goud Saraswat Brahmin Co-operative Bank Ltd., Bombay

¹ Presently classified as central financing agency.

75. Sangli Urban Co-operative Bank Ltd., Sangli
76. Saraswat Co-operative Bank Ltd., Bombay
77. Wardha Nagari Sahakari Adhikosh Maryadit, Wardha

Meghalaya

78. Shillong Co-operative Urban Bank Ltd., Shillong

Punjab

79. Kurali Urban Co-operative Bank Ltd., Kurali

Rajasthan

80. Ajmer Urban Co-operative Bank Ltd., Ajmer
81. Nagrik Sahakari Bank Ltd., Kota

Tamil Nadu

82. Big Kancheepuram Co-operative Town Bank Ltd., Kancheepuram
83. Chintadripet Co-operative Bank Ltd., Madras
84. Coimbatore City Co-operative Bank Ltd., Coimbatore
85. George Town Co-operative Bank Ltd., Madras
86. Gobichettipalayam Co-operative Urban Bank Ltd., Gobichettipalayam
87. Kumbakonam Co-operative Urban Bank Ltd., Kumbakonam
88. Salem Urban Co-operative Bank Ltd., Salem
89. Sholavandan Urban Co-operative Bank Ltd., Sholavandan, Madurai District
90. Tiruchirapalli City Co-operative Bank Ltd., Tiruchirapalli

West Bengal

91. Bantra Co-operative Bank Ltd., Howrah
92. Shibpur Co-operative Bank Ltd., Howrah

V. Salary Earners' Societies

93. Bombay Municipal Education Department Co-operative Bank Ltd., Bombay
94. Hindustan Shipyard Staff Co-operative Bank Ltd., Visakhapatnam
95. Kolhapur Zilla Government Servants' Co-operative Bank Ltd., Kolhapur
96. Life Insurance Corporation of India Bombay Employees' Co-operative Bank Ltd., Bombay
97. Municipal Co-operative Bank Ltd., Bombay
98. Nagpur Mahanagarpalika Karmachari Sahakari Adhikosh Maryadit, Nagpur
99. Nasik Zilla Sahakari and Parishad Karmachari Sahakari Bank Niyamit, Nasik
100. National Machinery Manufacturers Employees' Co-operative Bank Ltd., Thana

101. Poona Municipal Corporation Servants' Co-operative Urban Bank Ltd., Poona
102. Premier Automobiles Employees' Co-operative Bank Ltd., Bombay
103. Satara Zilla Parishad (North) Primary Teachers' Co-operative Bank Ltd., Satara
104. Sholapur District Revenue Department Staff Primary Co-operative Bank Ltd., Sholapur
105. State Transport Co-operative Bank Ltd., Bombay
106. Walchandnagar Sahakari Bank Ltd., Walchandnagar

VI. *Banks Federations/Associations*

107. All India State Co-operative Banks' Federation Ltd., Bombay
108. Federation of West Bengal Urban Credit Co-operative Societies Ltd., Calcutta
109. Gujarat Urban Co-operative Banks' Federation, Ahmedabad
110. Gujarat State Co-operative Banks' Association Ltd., Ahmedabad
111. Karnataka State Urban Co-operative Banks' Association Ltd., Davangere
112. Maharashtra Employees' Co-operative Banks' Association, Pune

VII. *Commercial Banks*

113. Allahabad Bank, Calcutta
114. Andhra Bank Ltd., Hyderabad
115. Bank of India, Bombay
116. Bank of Madura Ltd., Madurai
117. Central Bank of India, Bombay
118. Corporation Bank Ltd., Udupi
119. Dena Bank, Bombay
120. Federal Bank Ltd., Alwaye (Kerala)
121. Indian Bank, Madras
122. Karur Vysya Bank Ltd., Karur
123. State Bank of India, Bombay
124. State Bank of Hyderabad, Hyderabad
125. South Indian Bank Ltd., Trichur
126. South India Bank Ltd., Tirunelveli
127. Syndicate Bank, Manipal
128. United Commercial Bank, Calcutta
129. United Western Bank Ltd., Satara
130. Vijaya Bank Ltd., Mangalore

VIII. *Non-Official Co-operators*

Delhi

131. Shri S. K. Khanna, Patron
Khattri Co-operative Urban Bank Ltd., New Delhi

Gujarat

132. Shri Jethalal S. Desai, Manager
Shri Bhavnagar Nagarik Sahakari Bank Ltd., Bhavnagar
133. Shri D. J. Naik
Panchmahal District Co-operative Bank Ltd., Godhra

Karnataka

134. Dr N. R. Rao, Principal
Dr A. V. Baliga College of Commerce, Kumta, North Kanara
135. Shri A. G. Anegundi, Legal Adviser
Karnataka State Urban Co-operative Banks' Association Ltd.,
Davangere
136. Shri G. R. Dodwad, Director
Mulgund Urban Co-operative Credit Bank Ltd., Mulgund, Dharwar
District
137. Shri Y. V. Keshava Murthy, Honorary Secretary
National Co-operative Bank Ltd., Bangalore

Kerala

138. Shri M. Achuthan Nair,
Adoor Co-operative Urban Bank Ltd., Adoor
139. Shri N. C. Joseph, President
Kaduthuruthy Co-operative Bank Ltd., Kottayam
140. Shri R. Gopindranathan Nair, President
Mattancherry Mahajanik Co-operative Bank Ltd., Cochin

Maharashtra

141. Shri S. V. Sanzgiri, Ex-Secretary,
Saraswat Co-operative Bank Ltd., Bombay

Orissa

142. Shri K. C. Patnaik, President
Berhampur Co-operative Urban Bank Ltd.,
Berhampur, Ganjam District
143. Shri K. Kurmarao Patnaik, President
Jeypore Co-operative Urban Bank Ltd., Jeypore, Koraput District
144. Shri I. Venkata Rao, President
Co-operative Urban Bank Ltd., Parlakimedi, Ganjam District

Tamil Nadu

145. Shri P. N. Sankaran, President
Ambasamudram Co-operative Urban Bank Ltd.,
Ambasamudram, Tirunelveli District
146. Shri T. A. N. Mohamed Abdullah, President
Arantangi Co-operative Town Bank Ltd., Arantangi

147. Shri S. Ramamoorthy, President
Ariyalur Co-operative Urban Bank Ltd., Ariyalur
148. Shri V. V. P. Duraiswamy Chettiar, President
Shri Lakshminarayana Co-operative Urban Bank Ltd.,
Vijayapuram, Thanjavur District
149. Shri V. S. Rama Subramaniam, President
Madurai Urban Co-operative Bank Ltd., Madurai
150. Shri K. P. K. Madakkan, President
Mukkuperi Co-operative Bank Ltd.,
Mukkuperi, Tirunelveli District
151. Shri A. M. V. Appasamy, President
Rasipuram Co-operative Town Bank Ltd.,
Rasipuram, Salem District
152. Shri A. Julie, President
Tiruchirapalli Hirudayapuram Co-operative Credit Bank Ltd.,
Tiruchirapalli
153. Shri A. Vadivelu, President
Tirukoilur Co-operative Bank Ltd.,
Tirukoilur
154. Shri A. Gideon Varaprasad, Vice-President
Vaniyambadi Town Co-operative Bank Ltd.,
Vaniyambadi
155. Shri P. Lakshminarayana Reddiar, President
Villupuram Co-operative Urban Bank Ltd.,
Villupuram

Uttar Pradesh

156. Shri Veerpal Singh, Chairman
Uttar Pradesh Co-operative Federation Ltd.,
Lucknow

IX. Other Institutions

157. National Co-operative Union of India, New Delhi

APPENDIX III

LIST OF PERSONS WHO PARTICIPATED IN THE DISCUSSIONS HELD BY THE COMMITTEE

Assam

1. Shri S. K. Biswas
Chief Accountant
Assam Co-operative Apex Bank Ltd.
Gauhati

Bihar

2. Shri M. L. Majumdar
Registrar of Co-operative Societies, Bihar
Patna

Delhi

3. Shri G. S. Bansal
Adviser to Delhi State Co-operative Urban Credit Societies'
Federation and Chief Executive, National Federation of Urban
Co-operative Banks and Credit Societies, Delhi
4. Shri D. K. Jain
Chairman
Delhi State Co-operative Urban Credit Societies' Federation
Delhi
5. Shri Uday Narain
Vice-President
Delhi State Co-operative Urban Credit Societies' Federation
Delhi
6. Shri S. P. Jain
Director
Delhi State Co-operative Urban Credit Societies' Federation
Delhi
7. Shri S. S. Gupta
General Secretary
Delhi State Co-operative Urban Credit Societies' Federation
Delhi
8. Shri Ganga Das
Registrar of Co-operative Societies
Delhi
9. Shri R. R. Jayna
Chief Executive
Jain Co-operative Bank Ltd.
Delhi

Gujarat

10. Shri Jashwantlal S. Shah
Chairman
Gujarat State Co-operative Bank Ltd.
Ahmedabad
11. Shri Arvindbhai R. Maniar
Director
Gujarat Urban Co-operative Banks Federation
Ahmedabad
12. Shri Bakubhai P. Amin
Chairman
Vaso Co-operative Bank Ltd.
District Kaira
13. Shri Babubhai M. Patel
Hon. Secretary
Uttarsanda People's Co-operative Bank Ltd.
Uttarsanda
14. Shri Vasant V. Khokhani
Managing Director
Rajkot Nagrik Sahakari Bank Ltd.
Rajkot
15. Shri H. M. Joshi
Commissioner of Co-operation and Registrar of Co-operative Societies
Gujarat, Ahmedabad
16. Shri P. H. Shah
Joint Registrar of Co-operative Societies (Credit)
Ahmedabad
17. Shri H. G. Chhawala
Deputy Registrar of Co-operative Societies
(Urban Co-operative Banks)
Ahmedabad
18. Shri Gokulbhai O. Parikh
Secretary
Gujarat Urban Co-operative Banks Federation
Ahmedabad
19. Shri D. N. Pathak
Secretary
Gujarat State Co-operative Banks Association
Ahmedabad
20. Shri D. B. Pandya
Manager
Madhavapura Mercantile Co-operative Bank Ltd.
Ahmedabad

Haryana

21. Shri Manobarlal Jain
Chairman
Sonepat Urban Co-operative Bank Ltd.
Sonepat
22. Shri C. D. Singal
Deputy General Manager
Haryana State Co-operative Bank Ltd.
Chandigarh

Himachal Pradesh

23. Shri S. R. Bhardwaj
Joint Registrar of Co-operative Societies
Himachal Pradesh
Simla
24. Shri C. S. Jamar
General Manager
Himachal Pradesh State Co-operative Bank Ltd.
Simla
25. Shri S. R. Sharma
Manager
Simla Urban Co-operative Bank Ltd.
Simla

Jammu & Kashmir

26. Shri S. Mirza Yaqub Beg
Chairman
Jammu and Kashmir State Co-operative Bank Ltd.
Srinagar
27. Shri B. R. Bali
Chairman
Jammu Central Co-operative Bank Ltd.
Jammu
28. Shri M. Ilyas Khan
Joint Registrar of Co-operative Societies
Jammu & Kashmir
Srinagar
29. Shri R. K. Sharma
Deputy General Manager
Jammu Central Co-operative Bank Ltd.
Jammu

Karnataka

30. Shri Nallure Gowda
President
Karnataka State Co-operative Apex Bank Ltd.
Bangalore

31. Shri M. K. Jothi Senthnan
Managing Director
Karnataka State Co-operative Apex Bank Ltd.
Bangalore
32. Shri M. K. Venkataramana Gowda
Joint Registrar of Co-operative Societies
Karnataka
Bangalore
33. Shri J. S. Patel
Joint Registrar of Co-operative Societies
Karnataka
Bangalore
34. Shri T. R. Shamanna
President
National Co-operative Bank Ltd.
Bangalore
35. Shri Y. V. Keshava Murthy
Honorary Secretary
National Co-operative Bank Ltd.
Bangalore
36. Shri P. Ramadev
Secretary
Malleswaram Co-operative Bank Ltd.
Bangalore
37. Shri A. G. Anegundi
Legal Adviser
Karnataka State Urban Co-operative Banks' Association Ltd.
Davangere
38. Shri Prabhudev
Assistant Secretary
Karnataka State Urban Co-operative Banks' Association Ltd.
Davangere

Kerala

39. Shri Babu Jacob
Registrar of Co-operative Societies
Trivandrum
40. Shri A. K. Singh
Managing Director
Kerala State Co-operative Bank Ltd.
Trivandrum

Madhya Pradesh

41. Dr M. P. Saxena
Joint Registrar of Co-operative Societies
Madhya Pradesh
Bhopal

42. Dr Sohan Lal Gupta
President
Jabalpur Nagrik Co-operative Bank Ltd.
Jabalpur
43. Shri C. M. Dagaonkar
President
Indore Paraspar Sahakari Bank Ltd.
Indore
44. Shri S. B. Lal
Director
Bhilai Nagrik Sahakari Bank Ltd.
Bhilai
45. Shri K. D. Rai
Manager
Bhilai Nagrik Sahakari Bank Ltd.
Bhilai
46. Shri S. S. Gadkari
Manager
Indore Paraspar Sahakari Bank Ltd.
Indore

Maharashtra

47. Shri H. S. Doctor
Chairman
Bombay Mercantile Co-operative Bank Ltd.
Bombay
48. Shri K. C. Ahmed
Deputy General Manager
Bombay Mercantile Co-operative Bank Ltd.
Ahmedabad
49. Shri K. A. Borikar
Chairman
Wardha Nagari Sahakari Adhikosh Ltd.
Wardha
50. Shri V. B. Sabnis
Deputy General Manager
Maharashtra State Co-operative Bank Ltd.
Bombay
51. Shri M. S. Kulkarni
Manager
Maharashtra State Co-operative Bank Ltd.
Bombay
52. Shri D. S. Jamadagni
Managing Director
Janata Sahakari Bank Ltd.
Pune

53. **Shri John D'Silva**
Managing Director
Abhyudaya Co-operative Bank Ltd.
Bombay
54. **Shri S. V. Sanzgiri**
Financial Consultant
North Kanara Goud Saraswat Brahmin Co-operative Bank Ltd.
Bombay and Ismailia Co-operative Bank Ltd.
Bombay
55. **Shri L. Y. Lagoo**
Managing Director
Sangli Urban Co-operative Bank Ltd.
Sangli
56. **Shri P. N. Dharkar**
Chairman
Pen Co-operative Urban Bank Ltd.
Pen, District Kolaba

Orissa

57. **Shri N. Biswal**
Joint Registrar of Co-operative Societies
Orissa
Bhubaneswar
58. **Shri F. C. Panda**
Managing Director
Orissa State Co-operative Bank Ltd.
Bhubaneswar
59. **Shri R. Patra**
Manager
Orissa State Co-operative Bank Ltd.
Bhubaneswar

Punjab

60. **Shri R. S. Grewal**
Managing Director
Punjab State Co-operative Bank Ltd.
Chandigarh
61. **Shri Gurdev Singh**
Deputy General Manager
Punjab State Co-operative Bank Ltd.
Chandigarh

Rajasthan

62. **Shri Narain Chaturvedi**
Chairman
Rajasthan State Industrial Co-operative Bank Ltd.
Jaipur

63. Shri Harish Golcha
Chairman
Urban Co-operative Bank Ltd.
Jaipur

Tamil Nadu

64. Shri T. C. Babu
President
George Town Co-operative Bank Ltd.
Madras
65. Shri R. Senguttavelan
President
Coimbatore City Co-operative Bank Ltd.
Coimbatore
66. Shri M. Muthuswamy
President
Tiruchirappally City Co-operative Bank Ltd.
Tiruchirappally
67. Shri S. Balasubramanian
Joint Registrar of Co-operative Societies
Tamil Nadu
Madras
68. Shri S. Umapathy
Senior Officer
Tamil Nadu State Co-operative Bank Ltd.
Madras

Uttar Pradesh

69. Shri Basantlal Gupta
Chairman
Oudh Sahakari Bank Ltd.
Lucknow

West Bengal

70. Shri J. Sengupta
Managing Director
West Bengal State Co-operative Bank Ltd.
Calcutta
71. Shri S. Mukherjee
Vice Chairman
Federation of West Bengal Urban Credit Co-operative Societies Ltd.
Calcutta
72. Shri A. K. Chatterjee
Secretary
Federation of West Bengal Urban Credit Co-operative Societies Ltd.
Calcutta

73. **Shri S. D. Mukherjee**
Ex-Chairman of Federation of West Bengal Urban Credit
Co-operative Societies Ltd. Calcutta and
Vice Chairman of National Federation of Urban Co-operative Banks
and Credit Societies
New Delhi
74. **Shri H. P. Ghosh**
Ex-chairman
Bantra Co-operative Bank Ltd.
Howrah
75. **Shri S. K. Sen**
Secretary
Shibpur Co-operative Bank Ltd.
Howrah

APPENDIX IV

STUDY REPORT ON VIABILITY OF URBAN CO-OPERATIVE BANKS

One of the terms of reference of the Committee is to examine the aspect of viability of urban co-operative banks. Various committees which have had occasion to examine the working of urban banks in the past have stressed the need for ensuring the viability of these institutions. This question has assumed added importance in the context of the rapid increase in the number of urban banks in recent years and the emergence of marginal and sub-standard institutions whose working is a source of weakness to the urban banking movement. As at the end of June 1977, out of 1023 urban banks (excluding salary earners societies classified as primary co-operative banks), 33 banks were under liquidation and 25 banks were not found to comply with the provisions of Section 11(1) of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies), which stipulates that the real or exchangeable value of the paid-up share capital and reserves of a co-operative bank should not be less than Rs 1 lakh. Besides, as on 24 June 1977, out of 1040 reporting banks, 457 banks had a working capital up to Rs 25 lakhs and 148 of these had a working capital of Rs 10 lakhs and less. The existence of a large number of uneconomic units is a drag on the progress of the urban banking movement as a whole inasmuch as it adversely reflects on this class of institutions by creating an apprehension in the minds of the public regarding them as repositories of their savings. Moreover, there is always a danger that the affairs of non-viable banks may suddenly register a downward trend and place the interests of depositors in jeopardy. One of the main reasons for the coming into being of a large number of small and uneconomic units which continue to remain so even after a lapse of several years is the failure to conduct a survey regarding the scope for development of the institutions before registering them. A contributory factor is that some banks have also been promoted by vested interests to serve their own ends. Thus, some banks have been organized more as family concerns with the major portion of advances going to a coterie of a few relatives or those connected with the board of directors. In such cases, due consideration has not been given to factors such as the financial viability of the institutions or the potential for their successful functioning.

2. As one of the measures for countering these tendencies, the Reserve Bank has been subjecting the applications for licensing of urban banks to a careful scrutiny and has been stipulating certain criteria relating to collection of share capital and membership to be satisfied prior to issue of a licence for commencement of banking business by an urban bank. Thus, although the statutory minimum requirement for commencement of banking business under Section 11 of the Banking Regulation Act, 1949

(As Applicable to Co-operative Societies) is that a bank should have an aggregate paid-up share capital and reserves of Rs 1 lakh, in the interests of ensuring that small and uneconomic units are not organized and that banks have adequate potential for attaining viability, as also the support of a large segment of the local community, the Reserve Bank has been generally insisting on the collection of an initial share capital of about Rs 3 lakhs and enrolment of at least 1000 members prior to considering the issue of licence for a bank. However, depending on the area proposed to be served and the existing banking facilities, relaxations are being made on the merits of each case. Thus, where the area to be catered for is a backward or tribal area or is at present having inadequate banking facilities, these norms have been suitably relaxed, keeping in mind, however, the prospects of the bank becoming viable.

3. As a long-term measure, to prevent the growth of weak and inefficient urban banks, the question of raising the statutory minimum share capital and reserves for an urban bank, which is at present Rs 1 lakh, has been under the active consideration of the Reserve Bank. A proposal engaging attention is whether the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) should be amended raising the minimum requirements of share capital and reserves for an urban bank to commence or carry on banking business according to the size of the population of the centre it is intended to serve.

4. There have, however, been representations that the standards applied at present and proposed to be adopted by the Reserve Bank are somewhat stringent and that necessary compliance with the conditions may be difficult. Proper cognisance, it is felt, has to be taken of the need for and scope of the banks particularly those organized in smaller centres to collect the required share capital. One of the suggestions made is that the Reserve Bank might examine the possibility of having graded scales of share capital taking into account the location, area of operation etc., of a bank. Thus, in a small semi-urban centre, it is felt that a lower capital base might be adequate as compared to a bank operating in a metropolitan centre.

5. All new institutions wheresoever organized should have potential if not immediate viability. Further, existing institutions should also be viable if there is to be sufficient justification for their continued existence. Since there are differing views as to what exactly should constitute norms of viability, it appears necessary to make a rational assessment of what may be deemed as reasonable norms of viability and, *inter alia*, the minimum owned funds requirement for an urban bank. This is accordingly discussed in the following paragraphs.

6. Broadly, an institution can be deemed as viable if the income earned by it is adequate to cover its expenditure, at the same time leaving some surplus to provide a reasonable return on capital. However, while this is

the basic requirement, it cannot be taken to mean that any institution working at profit should be deemed as viable. It is possible and also not uncommon for an institution to have a minimum of transactions on the one hand, and keep down its establishment and management expenditure deliberately at a low level on the other, and thus earn enough to defray not only its expenditure but leave some surplus. The profit criteria alone cannot, therefore, be the proper yardstick for determining viability.

7. An urban bank has a definite objective and a distinct role to perform. It is expected to mop up surplus resources in the hands of the community which it serves. It is also required to provide banking and credit needs of the small borrower comprising small traders, small businessmen, artisans, factory workers and professional and salaried persons in urban and semi-urban areas. Its viability will depend on how efficiently and effectively it is able to discharge this role envisaged for it. A viable unit should, therefore, be able to mobilize sufficient deposits and adequately cater for the diversified needs of its members for credit. In view of the increasing field of activities, a viable bank should be one which has a developmental outlook and which should continuously seek to expand its operations. In other words, a viable institution is not one which is just able to survive from year after year with a practically static level of operations serving the needs of a limited number of members, but a bank which is able to fully tap the potential in its area of operations.

8. To carry out its functions, a viable institution should possess an efficient organizational set-up and have proper staff *vis-a-vis* its loaning operations not only numerically but also from the qualitative point of view. A non-viable institution is caught up in a vicious circle inasmuch as its meagre profits do not allow the employment of staff of a proper calibre and the absence of qualified staff creates a feeling of apathy and inertia and general lack of effort for improving the working of the bank. Viability can, therefore, be said to be closely linked with efficiency and progress.

9. The fixing of definite standards of viability for co-operative banks was first suggested by the All-India Rural Credit Survey Committee (1954) which fixed certain general norms of viability for central co-operative banks. So far as urban banks are concerned, the Agricultural Credit Department of the Reserve Bank had attempted the formulation of broad norms for viability in the year 1971. These norms were placed before the first seminar of the chief executive officers of urban banks held at Pune in July 1971 and were generally endorsed by them. The approach adopted was to (i) fix norms of income and expenditure of a model urban bank, (ii) arrive at the margin earned by a bank on loans and advances made by it, (iii) express the bank's variable items of expenditure as a percentage of loan business, and (iv) find out the resultant margin available for certain items of fixed expenditure and expenditure on development programmes. With the given margin and the income and expenditure, the quantum of loaning business and of owned funds, deposits, borrowings

etc., were determined for what could be deemed as a viable unit. Certain assumptions were, however, made regarding the number of branches for a bank and also regarding the management and establishment expenditure that was to be incurred. Thus, it was assumed that a viable bank would have two branches. Further, it was assumed that a loan verification official could handle a business of Rs 9 lakhs and that variable expenditure would constitute 2.22 per cent of the loan business. The margin available to a bank on raising and investing resources for a loaning business of Rs 100 was assessed at Rs 3.85. The norms for a viable bank were fixed as under:

	Rs lakhs
Owned Funds	5.00
Deposits and Borrowings	20.00
Loan Business	18.00
Working Capital	25.00

10. When the position was reviewed in 1974 by the Agricultural Credit Department of the Reserve Bank, taking into account the rise in the cost of management as well as the cost of servicing credit and deposits, it was felt that the norms of viability should be suitably enhanced. Accordingly, revised norms of viability were fixed as follows:

	Rs Lakhs
Owned Funds	7.60
Deposits	40.00
Loan Business	32.00
Working Capital	50.00

11. The above was considered to be the minimum necessary to give an urban bank adequate income to maintain competent and qualified staff for properly managing its business.

12. More recently, the Committee on Problems of Urban Co-operative Banks in Maharashtra (1976) had occasion to examine, among other things, the question of viability of urban banks. On the basis of the study of the financial particulars of 150 urban banks, the Committee observed that viability of urban banks was usually reached with owned funds between Rs 2 lakhs and Rs 3 lakhs, deposits between Rs 6 lakhs and Rs 7 lakhs and loan business between Rs 7 lakhs and Rs 8 lakhs. The Committee observed that banks operating at this level of business had generally been able to offer a fair return on their share capital. Such banks were generally found to have been established at places where the population was between 18,000 and 30,000. The Committee concluded, therefore, that towns with this level of population would offer enough deposit and loan potential for sustaining a viable urban bank. Where there is a municipality, an industrial estate or regulated market, viability may be attained even with a lesser population of 15,000 to 18,000. The banks, it was further observed, attained viability over a period of 3 to

8 years. The Committee accordingly recommended that new banks should be given assistance by the state government and the state co-operative bank by way of share capital and loans respectively so that they might attain viability at the end of 3 years of commencement of business.

13. One important feature of the above assessment was that the Committee determined the level of viability mainly on the basis of the bank's ability to earn profits and declare a dividend. But, as observed by the Committee itself, there is a wide disparity between the owned funds, deposits and loaning business of a bank *vis-a-vis* the staffing expenditure and the net profits. Banks with a higher level of deposits and loaning business were found to have a relatively lower management and establishment expenditure as compared with banks with a lower level of deposits and loaning operations. This can only be partly attributed to inefficient management resulting in higher costs of recruitment or a larger number of staff than needed. As observed by the Committee, engaging of inadequate staff or paying them lower scales of pay is an easy way of earning profits with a small loan business. It follows from the foregoing that mere ability to earn profits would not be a reliable indicator of the viability of an institution. Further, the norms of viability were fixed by this Committee for a bank catering to a small population of less than even 1 lakh. The Committee did not separately assess norms of viability for banks located at metropolitan or bigger urban centres.

14. The earlier norms of viability which have been evolved appear to suffer from certain shortcomings. Thus, these norms tend to ignore the marked variations in the location, coverage, the nature of activities etc., of urban banks. Unlike urban banks, central banks conform to a broad pattern inasmuch as their area generally covers a revenue district and their dominant field of activity is agricultural financing. Even for central banks, however, the Study Teams on Agricultural Credit Institutions in Bihar (1976) and in Madhya Pradesh (1976) observed that no uniform standards of viability could be prescribed as the potential differed from area to area. They accordingly recommended that banks should preferably be grouped according to the potential offered. The Committee on Co-operative Land Development Banks set up by the Reserve Bank which submitted its report in December 1974 and which was also required to suggest standards of viability for primary land development banks/branches of state land development banks held the view that the potential for business widely differed from area to area and the norms of viability could not be uniformly applied.

15. The position of urban banks is far from analogous even to central banks or primary land development banks as these banks differ widely not only in their location and area of operation, but also in their clientele, types of business undertaken etc. Urban banks are heterogeneous in nature and do not strictly conform to any set size or pattern of operations.

16. In so far as the area of operation is concerned, while some banks are located in mofussil centres with operations confined to the limits of a particular semi-urban centre, there are others whose area of operations extends over a district, and in a few cases, with a state or even inter-state or country-wide jurisdiction. While some banks are located in metropolitan centres or district headquarters, and have an area confined to the municipal limits of the particular town in which they operate, there are others which do not operate within any such confines. Some banks are unit banks but there are others with a large network of branches. The number of branches of banks ranged from 1 to 28.

17. Business prospects would vary naturally not only with the extent of the area covered but also with the stage of development of the area. It may be mentioned in this context that unlike a central bank where the major business is for agriculture and where, therefore, a rough indication of the loaning potential may be given by taking into account factors such as the cropping pattern and scales of finance, the scope for loaning of an urban bank does not lend itself to such an easy analysis. But even identical areas of operations in terms of coverage of population do not offer the same scope for raising resources or granting loans. This arises from the fact that it is not the size or population alone but the type of population, and the prosperity of the agricultural and industrial economy that influences the operations of a bank. The leadership and the managerial factors are equally important in determining the size of an institution. Thus, even in the case of banks operating in the same area, the quantum of business may widely differ depending on the dynamism and initiative shown by the directors and staff.

18. Further, even assuming a given potential, there is no assurance that an urban bank can fully exploit the same. An urban bank faces stiff competition from commercial banks which undertake practically the same type of lending. The exploitation of potential, moreover, depends on the number of branches which a bank has opened. Here also there is no set number of branches for an urban bank and an optimum number cannot be suggested. The opening of branches usually depends on the bank's own evaluation of the need or desirability for opening of branches. Thus where a bank feels that it has consolidated its position, it has a particular affinity with the area, there is scope for lending of the type which it would like to be associated with, and its existing business would enable it to bear the burden of losses, a decision may be taken to open a branch in a particular area.

19. Following from the above, the size of banks and nature of activities differ significantly from institution to institution. While there are banks with a small membership, an owned funds base of about Rs 1 lakh and deposits and working capital of a few lakhs of rupees, there are large institutions with membership extending to as much as 36,000 and having owned funds of Rs 178 lakhs and loans aggregating Rs 1046 lakhs.

20. In the light of the wide variations referred to above, it would not be appropriate to fix any single set of norms of viability for urban banks. Norms of viability should take note of all the varying factors but there are obvious limitations in this regard as this approach, if strictly followed, may require fixing of as many norms of viability as there are differences in the size and pattern of operations of these institutions.

21. In the circumstances, a practical solution to the problem of fixing rational norms would be to decide on the criteria, taking into account the location of a bank. The scope for collection of deposits and the quantum of loaning business will differ according to its situation. Similarly, the cost of establishment and management expenditure will be related to the area in which a bank operates. In metropolitan areas, banks will have larger scope for raising resources and for their deployment in diversified types of lending. The staff of such banks will not only have to be more in numbers but may have to be paid a higher remuneration than those recruited in smaller or mofussil centres. Rent for premises and other establishment expenditure will also vary depending on whether a bank is located in a metropolitan area or other urban/semi-urban centre. Further, it is perhaps likely that a bank whose head office is in a metropolitan centre will have a wider area of operations and larger number of branches than a bank in a smaller semi-urban centre whose operations are ordinarily restricted to the area of the particular centre. In other words, the former bank will have a broader set up than the latter type of institution. Viability standards could, therefore, be worked out for three different categories of banks, viz., those operating in (i) metropolitan centres having a population of 10 lakhs and above; (ii) in other urban centres having a population of 1 to 10 lakhs; and (iii) in semi-urban centres with a population of less than 1 lakh.

22. Urban banks have a varying number of branches and it is not possible to recommend any optimum level of branches for these banks. The total establishment expenditure of an institution will depend on the number of branches. However, it may be assumed that the income earned by a branch would generally offset the expenditure incurred thereon after some time. In the initial stages also a new bank would not embark on a branch expansion programme. Further, several urban banks are unit banks with no branch. In the circumstances, it would perhaps be in order to work out viability on the basis of the operations of the head office. The viability of a branch could be separately worked out for banks in different centres. The total business that a bank should have could then be determined taking into account the total number of offices.

23. As regards the methodology of working out this exercise, a proper course to arrive at viability of an institution would be to work out the margin available to the bank on raising and deploying its resources, the management and other expenditure, and given the available margin, to calculate the quantum of loan business that is needed to meet the manage-

ment and establishment expenditure. In this connexion, it may be pointed out that the management and other establishment expenditure will comprise of fixed and variable costs. Fixed costs would represent the minimum expenditure which will, in any case, have to be incurred by a bank and which will not vary according to loan business. Such expenditure will cover salaries and allowances of key personnel and a minimum supporting staff, directors' fees, rent, taxes, insurance, lighting etc. Variable expenditure will, on the other hand, cover items such as salaries and allowances of additional staff at junior and lower levels, stationery, postage, audit fees etc., which will vary in proportion to the loan business. In the light of the position obtaining in the banks, a rough assessment of the amount of variable expenditure for a particular quantum of loaning business can be made. With the margin available, the amount of fixed expenditure and the percentage of variable cost to loaning business, it is possible to determine the quantum of loan business which would generate adequate income to meet the establishment and management expenditure.

24. A detailed survey of banks in each of the three categories in five states, viz., Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal was undertaken by the Agricultural Credit Department of the Reserve Bank of India on behalf of the Committee during the period December 1977 to January 1978 with a view to ascertaining the actual costs and returns accruing to banks. The survey covered a total of 38 banks of which 16 were situated in metropolitan centres with population exceeding 10 lakhs, 12 in urban centres with a population between 1 and 10 lakhs and 10 in semi-urban centres with a population below 1 lakh. In view of the diversity of operations of banks and the fact that this was only a sample survey, the selected banks cannot be considered as fully representative of the banks in the various categories. However, certain broad assumptions could be made in the light of the data collected. On the basis of the findings of these studies and the financial and other particulars available in the Agricultural Credit Department of the Reserve Bank of India regarding the working of urban co-operative banks, the following observations may be made:

25. Certain essential data relating to the financial position of the banks visited are given in Annexure I. It emerges therefrom that the financial operations of the banks present a varied pattern and show wide disparity in the position from bank to bank. Thus, it may be seen that in the banks in the metropolitan areas visited, the pattern of resources and investment showed marked fluctuations. This may be attributed to several factors including the difference in area of operations of the bank, period of their existence, the dynamism of their management etc. Further, the various components of assets and liabilities do not show any set proportion in the case of different banks. Even as between the three different categories it is seen that in some cases owned funds and deposits are higher in semi-urban or urban centres as compared with the metropolitan centres.

26. Notwithstanding the fact that studies of individual banks show wide variations in the pattern of resources and investments, it is possible by taking into account the position of resources and investments, cost of raising funds and the returns on loans and investments as indicated in the study reports, and keeping in mind the desired or optimum level, to draw up a notional balance sheet for the three categories of banks. The details are given in Annexure II. The basis on which the various items in the balance sheet and the costs have been arrived at are referred to below:

*Pattern of Distribution of Resources
Owned Funds*

27. The percentage of owned funds showed marked variations ranging from 10.90 per cent to 98.6 per cent of loans and advances in the case of the banks studied. As a percentage to deposits, the owned funds ranged from 8.79 per cent to as much as 284.87 per cent. The build up of owned funds of an institution and the proportion it forms to the loans and advances and to deposits are influenced by various factors. Banks which are newly registered and which have yet to mobilise deposits in any sizeable measure tend to rely heavily on owned funds for their lendings and investments in the initial years. Owned funds comprise share capital and reserves. Again, the proportion which each of these items formed to total owned funds differed widely from bank to bank. The percentage of share capital to owned funds constituted anything between 29.82 per cent to as much as cent per cent in the case of new banks which had yet to earn profits and appropriate the same towards reserves. In banks which have been in existence for a number of years, the reserves have generally tended to exceed the share capital as these represent the cumulative appropriations made over a period of time. On the other hand, the percentage of reserves to share capital is low in the case of banks functioning for a few years only. So far as the optimum level of share capital is concerned, unlike in the case of central banks there is no direct relationship between owned funds and borrowings in an urban bank in the sense that the need for a capital base does not arise to enable the bank to sustain borrowings from higher financing agencies for loaning operations. The maximum borrowing power recommended for an urban bank is 25 times the owned funds. In other words, the bank would require an owned funds base of only 4 per cent of whatever resources it raises by way of deposits and borrowings from higher financing agencies. Further, the maximum percentage of share linking to borrowings is 5 per cent. Taking the foregoing into account, it is felt that a new bank should be able to achieve viability within a period of 5 years. The owned funds may not form more than about 18 per cent of loans and advances within this period. However, with the building up of reserves from year to year and also with the accumulation of share capital inasmuch as old borrowers who liquidate their loans may not fully redeem their share capital, the owned funds as a percentage of loans and advances will register a steady increase over a longer period of time. In the initial years, however, a bank may incur losses. Since profits may be

earned only from say, the third year onwards, by the fifth year reserves may be expected to form one-fifth of share capital. The ratio of share capital to reserves has, therefore, been assumed as 5 : 1. Taking into account the existing broad proportions, in the notional balance sheet, the share capital and reserves have accordingly been assumed at Rs 15 and Rs 3 respectively.

28. Not all the owned funds will be available for lending. Some portion of the owned funds will be used for investment in fixed and other assets and in purchase of shares of the apex or central bank. While the amount of owned funds locked up in such assets depends on several factors, it is felt that roughly about 75 per cent of owned funds could be deemed as available loanable resources.

29. While considering the cost of owned funds, apart from the dividend declared, it is necessary to take into account the proportion of profits appropriated towards reserves. In other words, the cost of owned funds would be computed as the percentage which net profits should form to share capital, making provision not only for the declaration of a reasonable dividend but also allowing for the amount of net profits which will be taken towards reserves. In most states, the maximum permissible dividend has been fixed at 12 per cent. While a few banks declared dividend at the maximum rate, the dividend declared varied from bank to bank. A viable bank should be able to declare a dividend of at least 6 per cent. In addition to appropriation of 25 per cent of net profits to the statutory reserve, banks may be expected to appropriate a further 15 per cent to other reserves. If 60 per cent of the profits is available for declaration of dividend and the dividend declared is 6 per cent and the balance of 40 per cent of profits is appropriated towards reserves the net profits should form 10 per cent of share capital. In other words, the cost of owned funds would be 10 per cent.

Deposits

30. The percentage of deposits to working capital varied with the period of existence of a bank. In banks of long standing, deposits collected were usually high and constituted more than 70 per cent of the working capital. In most banks, deposits exceeded loans and advances. Roughly one-third of deposits has to be statutorily maintained in the form of liquid assets and only the balance amount is available for lendings. Unless, therefore, a bank derives the major portion of its loanable resources from owned funds, deposits will normally exceed loans and advances. In this connexion, one undesirable feature often observed is that urban banks maintain an excessive proportion of deposits in liquid assets either for want of remunerative avenues of lendings or even deliberately because of the profitability of retaining funds in certain types of investments such as call and fixed deposits with banks. An urban bank need not ordinarily maintain more than 35 per cent of deposits in the form of liquid assets and the

balance of 65 per cent should be available for lendings. For the purposes of the notional balance sheet, therefore, it has been assumed that this quantum of deposits can be used for giving loans.

31. As regards the pattern of deposits, it is seen that the deposit distribution varied from bank to bank. Generally, fixed deposits constituted a major proportion of the deposits portfolio with savings deposits forming roughly 50 per cent of fixed deposits and current deposits constituting a small proportion of about 10 per cent of the total deposits. The average deposit rates would depend on the component of deposits since fixed and savings deposits carry a higher rate of interest in that order. Assuming a broad pattern of deposits on the lines indicated above and taking into account the fact that interest rates on deposits are subject to the directives of the Reserve Bank, the average deposit rate may be assumed at 7 per cent.

Borrowings

32. Urban banks are mostly self-reliant institutions depending on their owned funds and deposits for their loaning operations. In the context of the line of credit now being extended by the Reserve Bank for industrial financing, a few banks have had recourse to this accommodation. Some banks avail themselves of credit from the higher financing agencies during the busy season when there is a pressure for funds. Yet borrowings as a source of finance are still generally insignificant. In the case of banks which showed borrowings from higher financing agencies, the credit availed of was not more than 5 to 10 per cent of the loans and advances. Another feature observed is that borrowings are resorted to more by banks in the metropolitan or bigger urban centres where there is scope for financing of trade, commerce and small-scale industries. Borrowings were usually absent in the case of banks located in small semi-urban centres. The position may be expected to undergo a change. Traditionally, banks have been granting loans mostly for consumption expenditure. Urban banks are now being looked upon as an important banking agency for grant of loans to small-scale and cottage industries. With the increasing emphasis on provision of loans for productive purposes and particularly for industrial financing, the banks may be expected to have greater resort to borrowings. Moreover, in order to attain a level of viability within a shorter period of time, banks may place reliance to a greater extent than at present on borrowings. It is felt, therefore, that borrowings may be placed at 15 per cent of loans and advances in metropolitan and urban centres and at 10 per cent in semi-urban centres.

33. In regard to borrowing rate, it varied from 10.50 per cent in Maharashtra to as much as 16 per cent in the case of some banks in Karnataka. A rate of 16 per cent or rates near thereto for borrowings is excessive. Since banks will borrow not only for financing of small-scale and cottage industries which are available from the Reserve Bank at

concessional rates, but also to bridge the deficit in their resources, a reasonable average borrowing rate may be assumed at 11 per cent.

ASSETS

Fixed and Other Assets

34. As discussed earlier, a part of the owned funds of an urban bank will be invested in fixed and other assets. The amounts so invested would depend on a number of factors, e.g., whether a bank has acquired its own premises or not. Generally, in the case of banks visited, the amount of owned funds invested in fixed assets constituted between 10 and 20 per cent of total owned funds. In addition to investment in fixed assets, banks also purchase shares of higher financing agencies. The rate of linking is usually 5 per cent of borrowings. For the purpose of the present exercise it has been assumed that 25 per cent of owned funds will be used for purchase of shares and for fixed and other assets. While a bank may receive a dividend of say 5 per cent on shares held in the higher financing agency, no return may ordinarily be expected on fixed assets as these are for the bank's own use.

Cash Reserve and Liquid Assets

35. Urban banks are often inclined to maintain excess liquidity above the statutory requirements. While the amount of liquid assets so maintained formed a high proportion of deposits, in some cases reaching as much as 70 per cent, even the cash reserve and balances with banks in current account amounted to as much as 25 per cent of deposits in the case of some banks. Further, some banks were found to invest their excess funds in call and fixed deposits with commercial banks which are not reckoned for purposes of liquidity of the institutions. Taking into account the statutory requirements and making allowance for some excess liquidity for the purpose of operational needs, it is felt that the optimum level of liquid assets would be roughly 35 per cent of deposits of which not more than 6 per cent should be held in the form of cash in hand or balances in current account. Cash balances do not generally yield any return. In some of the banks studied, it has been observed that a rate of interest up to 1/2 per cent is being allowed on current account balances. Hence, a return at this rate has been assumed in the calculations.

Investments

36. Regarding the pattern of investments of banks, in terms of Section 24 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) liquid assets may be maintained by urban banks either in the form of unencumbered approved securities or by way of fixed deposits with the state or central co-operative bank concerned. It is observed that most banks showed a preference for investment of funds in fixed deposits with higher financing agencies carrying a higher rate of return and their

investments in government or trustee securities were relatively low. In the light of the observations made above, the following may be assumed as the pattern of investments and the yield therefrom:

Government Securities	Composition Per cent	Rate of Interest	Return
Fixed Deposits	80	9%	7.2%
Government/Trustee Securities	20	6%	1.2%
LDB Debentures			
			8.4%

37. The rate of return on government and trustee securities varied from 5 to 6.25 per cent depending upon the type of securities and has, therefore, been assumed at 6 per cent in the above exercise. The average rate of return on investments works out to 8.4 per cent.

Loans and Advances

38. In the banks visited, it was observed that lending rates ranged from 13 per cent in Maharashtra to as much as 17 per cent in Karnataka. The rates varied from bank to bank and in the case of individual banks, the rates of interest were even as high as 18 per cent. In the absence of any ceiling on interest rates on loans, banks have been charging interest on loans purely at their discretion. However, these rates appear unduly high and unwarranted. Keeping in mind the social objective of urban banks which is to provide credit to the small borrower at reasonable rates of interest and assuming that the banks would step up their lendings to small-scale industries, it is felt that the average lending rate in a viable urban bank should be not more than 14 per cent at the most.

Loanable Resources

39. As discussed earlier, in the foregoing analysis, it has been assumed that 25 per cent of owned funds, 65 per cent of deposits and cent per cent of borrowings will be invested in loans and advances. On this basis, for lendings of Rs 100, the amount of loanable resources that will be derived from owned funds, deposits and borrowings in the banks in three different categories would be as under:

	Metropolitan and Urban Rs	Semi-urban Rs
Owned Funds	13.50	13.50
Deposits	71.50	76.50
Borrowings	15.00	10.00

40. The deposits that will have to be raised to yield the requisite amount of loanable resources for a loaning business of Rs 100 will be Rs 110 in a metropolitan and urban area and Rs 118 in a semi-urban centre. The total working capital will be Rs 143 in metropolitan and urban centres and Rs 146 in semi-urban centres.

Margin Earned

Cost

41. The cost of raising working capital and the return on investments and loans and advances are summarised below:

	<i>Per cent</i>
Share Capital	10
Deposits	7
Borrowings	11
<i>Return</i>	
Current Account Balances	0.5
Investments	8.4
Loans and Advances	14
Shares in the Apex Bank/Central Bank	5

42. The margin that will be available to banks in metropolitan and urban centres would be Rs 5.89 and in a semi-urban centre Rs 6.07 or roughly Rs 6. The increased margin in a semi-urban centre is due to the decreased borrowings assumed and the corresponding reduction in the cost of raising funds. The distribution of working capital of an urban bank related to loans of Rs 100 and the margin earned is shown in Annexure II.

Fixed Expenditure

43. On a study of the staffing pattern in the banks it is seen that in order to run a full-fledged bank in a metropolitan centre where, apart from the traditional forms of lending, there will be considerable potential for lending for trade, commerce and industry and taking into account the diversity in operations, the minimum staff (key personnel and supporting staff) that will be necessary will be as under:

<i>Particulars</i>	<i>No.</i>
Chief Executive Officer	1
Accountant (Banking)	1
Officer-in-Charge of Loans, Establishment, Development etc.	1
Cashier	1
Clerks	2
Peons	2

In the case of a bank in an urban centre, it may perhaps suffice if the bank has only one other officer in addition to the Chief Executive Officer.

The other complement of junior and other staff would be as in the case of a bank in a metropolitan centre. For a bank located in a semi-urban centre, the key personnel may be appointed as in the case of a bank in an urban centre, viz., Chief Executive Officer and one other officer but it may be in a position to reduce the minimum complement of clerks from 2 to 1. This complement of staff is the minimum necessary for functioning as a viable unit. The expenditure in respect of salaries and allowances of this staff may, therefore, be considered as fixed expenditure. Additional clerks and other staff will have to be appointed commensurate with the loaning business and have been included under variable expenditure. Initially, in the first one or two years of its working, a bank may not perhaps appoint all the key personnel or may be in a position to operate with fewer clerks than that envisaged at the level of viability. But at the end of a period of 5 years within which period a bank is expected to attain viability, this minimum staff will have to be in position. This requirement of staff has been determined on the assumption that the bank has a single office only. Although the expenditure on key personnel is not easily variable, yet with the growth and expansion of a bank, the managerial staff have to be suitably augmented. Thus, in order to efficiently cope with increasing work as and when the junior staff is increased, corresponding staff at the higher supervisory level may become necessary. Further, with the opening of branches, additional staff for effective supervision of the branches will have to be appointed at the head office. Banks financing small-scale and cottage industries on a sizeable scale may find it useful to employ a technical officer. For the purpose of this exercise, however, it is assumed that the additional staff will be required only after a period of time and hence cognizance has not been taken of this in deciding on the norms of viability. In other words, the minimum and not the optimum level of the staff has been taken into account.

44. The details of the expenditure on establishment and management for the three categories of banks are given in Annexure III. It may be seen therefrom that there is a corresponding decrease in the cost of staff depending on whether the bank is situated in a metropolitan, urban or semi-urban centre. This arises from the fact that not only will the staff be fewer but the salary structure will differ, the staff in smaller centres having lower remuneration. Similarly, rents, rates and taxes will also register a decline depending on the area where the bank is located. The total fixed expenditure assumed in the case of metropolitan, urban and semi-urban centres is, therefore, Rs 95,000, Rs 72,500 and Rs 43,000 respectively.

Variable Expenditure

45. In the banks studied, it has been observed that the average loan business handled per clerk roughly worked out to Rs 4 lakhs. Since the staff required is not separately worked out for maintenance of deposit accounts, it is assumed that a clerk will handle not only this quantum

of loan business but also the corresponding deposit business required for this extent of lendings. The cost of a clerk per annum is Rs 6,000, Rs 5,500 and Rs 4,500 in metropolitan, urban and semi-urban centres respectively. Other variable expenditure such as that incurred on stationery, postage, audit fees etc., constituted roughly 2 per cent or about Rs 8,000 for a loan business of Rs 4 lakhs. In other words, the total variable expenditure for a loan business of Rs 4 lakhs is Rs 14,000, Rs 13,500 or Rs 12,500 in metropolitan, urban and semi-urban centres respectively. The variable cost usually ranged between 3 and 4 per cent of loaning business. Taking into account the declining cost of staff, the variable costs as a proportion to loan business could be fixed in the ratio of 1:29, 1:30 and 1:32 in metropolitan, urban and semi-urban centres respectively.

46. On the basis of the margin available on raising and deployment of resources and in the light of the assumptions regarding staff requirements, the cost of management and establishment, the relationship between variable expenditure and loan business, the norms of viability have been worked out in Annexure IV. The loaning business required for a viable institution would be Rs 40 lakhs, Rs 30 lakhs and Rs 15 lakhs in metropolitan, urban and semi-urban centres respectively. The share capital, reserves, deposits, borrowings and working capital for this level of loan business would be as under:

	Rs Lakhs		
	Metropolitan	Urban	Semi-urban
Share Capital	6.00	4.50	2.25
Reserves	1.20	0.90	0.45
Deposits	44.00	33.00	17.70
Borrowings	6.00	4.50	1.50
Loans and Advances	40.00	30.00	15.00
Working Capital	57.00	43.00	22.00

47. Generally, an institution working with a reasonable amount of efficiency should be able to attain the above norms of viability within a period of five years. Annexure V indicates the progressive increase in the main items of liabilities and assets and the income and expenditure of the bank in each of the three categories over a period of five years. Within this period, the bank should be able not only to meet management and establishment costs of the order envisaged above, but also earn a surplus so as to declare a reasonable dividend and also make appropriations towards its reserves. A bank should have prospects of attaining this level of viability within a period of five years. Similarly, banks which have been in existence for this period of time but have still not reached these levels at the head office could be considered as non-viable. If the bank has opened further offices during the period, it would be only reasonable

to expect that it should have a larger loaning business taking into account the number of such branches and the duration of their working.

48. Turning to the question of what should be the minimum share capital that would be required prior to licensing of an urban bank, as mentioned earlier, the statutory minimum share capital and reserves for a bank to commence or carry on banking business as laid down in the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) is Rs 1 lakh. However, the Reserve Bank has been generally insisting on a collection of share capital of Rs 3 lakhs prior to licensing of a new bank, relaxations being made on the merits of each case. Furthermore, a proposal for amendment of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) fixing the minimum requirement of share capital and reserves for an urban bank at not less than Rs 3 lakhs was under active consideration. The present studies have revealed that different norms of viability should be fixed for banks dependent on the particular centre where the bank is to be organized. As per the exercises done, the minimum share capital for a viable bank would be roughly Rs 2.25 lakhs, Rs 4.50 lakhs and Rs 6.00 lakhs in semi-urban, urban and metropolitan centres respectively. Besides, the banks in each of these centres would be able to build up reserves of about Rs 0.45 lakh, Rs 0.90 lakh and Rs 1.20 lakhs within a period of 5 years. But reserves would be built up only after a period of about 3 years when a bank starts earning profit. In the circumstances, it would be reasonable to expect that a bank should, even prior to commencement of its business, collect at least two-thirds of the share capital required for a viable unit. This will enable a bank to start with a reasonable owned funds base and attain viability within the stipulated period at the expected growth rate. Hence the minimum share capital requirement that may be prescribed for licensing of a new bank may be Rs 1.50 lakhs, Rs 3 lakhs and Rs 4 lakhs in semi-urban, urban and metropolitan centres respectively.

49. While the exact number of members that would be necessary to provide such capital cannot be assessed as this would depend on the contribution to share capital per member and it is natural for promoters to contribute higher amounts in order that a bank is sufficiently broad-based, it is desirable that the initial membership is high. However, the existing norms fixed by the Reserve Bank are somewhat difficult to attain particularly in small semi-urban centres where the population is low. It is felt that, taking all factors into account, the minimum membership could perhaps be fixed at 1,000, 700 and 400 in metropolitan, urban and semi-urban centres respectively.

Economics of a Branch

50. An urban bank desirous of opening a new place of business has to submit an application to the Reserve Bank in a prescribed form wherein various particulars which have a bearing on the economic viability of a

branch are also to be furnished. The applicant bank is expected to conduct a survey regarding the potential, both in regard to deposit mobilization and issue of loans and advances for productive purposes in the area where the office is proposed to be opened. The Reserve Bank has also advised that the area should be capable of providing adequate business for the branch and the branch should be self-supporting preferably from the first year itself unless there are special reasons for its becoming viable only after a few years. The applicant banks are expected to clearly identify these reasons.

51. Apart from the foregoing, certain norms have been prescribed by the Reserve Bank in terms of loaning business for eligibility for opening of a branch as under:

(a) In the case of bank operating in metropolitan centres, i.e., places with a population of over 10 lakhs, it should have attained an average loan business of not less than Rs 10 lakhs per existing branch, treating the head office also as a branch.

(b) In the case of urban centres, i.e., places with a population of over 1 lakh but not more than 10 lakhs, the average loan business per existing branch should not be less than Rs 5 lakhs.

(c) For all other centres, i.e., semi-urban centres with a population of 1 lakh or less, the average loan business should not be less than Rs 2 lakhs.

52. The norms prescribed above are with a view to determining whether an institution is a sound unit and the existing loaning business is of an adequate order as to warrant further expansion. While it has been generally indicated that a branch should be self-supporting in the first year itself, as far as possible, no detailed economics have been worked out so far. The condition that a bank should earn adequate income to cover its expenditure in the first year itself would appear to have been stipulated taking into account the fact that the establishment expenditure on a branch is of a lower order. Nevertheless, it would appear unrealistic to expect a branch to mobilize a large quantum of deposits and grant sufficient loans in the first year itself. It is felt that a bank should be allowed a period of at least 3 years to reach the break-even point.

53. Ordinarily, the profitability of a branch is worked out taking into account the total cost of the branch including the interest paid on deposits and the establishment cost, the income earned by the branch on its loans and advances and other types of business and the interest paid or charged to a branch on the surplus funds remitted by it to the head office or funds lent to it by the head office respectively. It is usually the practice for a small difference to be maintained in the rates at which funds are lent or borrowed by the head office. However, it is seen that there is considerable diversity in the rates charged or allowed by banks to their branches. The basis for fixing of rates are somewhat arbitrary and no scientific calculation of the actual cost or income has been attempted. Strictly speaking, the overhead costs incurred by the head office whose benefits are shared by

the branches and the cost incurred by the head office in maintaining adequate overall liquidity for the bank as a whole should be taken into account and suitably apportioned in working out the economics of a branch. But to calculate with any degree of accuracy the optimum rates would require a detailed analysis since the rates vary from bank to bank.

54. For the purpose of this exercise, therefore, it has been assumed that a similar margin as available to the head office of the bank on the collection and investment of funds will also be available to a branch. Taking into account the minimum fixed and variable expenditure on the lines adopted for working out the viability of the head office, the economics of a branch in each of the three categories has been worked out in Annexure VI. Since key personnel will be appointed at the head office only, the fixed management expenditure will be correspondingly lower for a branch. It is felt that for a branch in metropolitan and urban centres the minimum complement of staff would be one manager, two clerks and one peon. In a semi-urban centre, the minimum staff would comprise one manager, one clerk and one peon. The expenditure on rent, rates and taxes has been assumed on the basis of the position obtaining in banks visited.

55. So far as the variable expenditure is concerned, although the cost of supporting staff will be the same as in the case of the head office, other variable expenditure would be of a slightly lesser order as a larger share of expenditure on printing, stationery, postage, legal expenses etc., will be normally borne by the head office.

56. Assuming that a similar margin will be maintained as in the case of head office, the loan business required for a branch to meet the variable and fixed expenditure would be Rs 10.90 lakhs, Rs 9.20 lakhs and Rs 5.70 lakhs or say, Rs 11 lakhs, Rs 9 lakhs and Rs 5.50 lakhs for a branch in a metropolitan centre, urban centre and semi-urban centre respectively. The deposits necessary for the above business would be Rs 12 lakhs, Rs 10 lakhs and Rs 6.50 lakhs. Since the establishment expenditure at a branch is of a lower order and the various overhead costs as at the head office will not be incurred at a branch, it should be able to reach a position of viability in a shorter period of time. A branch office could, therefore, be allowed a maximum period of 3 years to attain viability. If the projections indicate that a branch has adequate prospects of attaining this level within this period of time, it could be considered as having the potential for viability.

57. All branches are not, however, self-balancing centres in the sense that the deposits tapped may not invariably be adequate to meet the needs of lendings. If banks are not able to raise adequate funds the deficit is met by obtaining funds from the head office. On the other hand, where surplus funds are collected and the branch is not able to profitably utilise the same, the excess amounts are remitted to the head office. Merely because a bank is a deposit mobilization centre it does not mean that the particular branch is uneconomic.

58. The branch will be a deposit or loan centre on the basis of the potential in the area for collection of funds or for lendings. Regardless of whether it is a deposit or loan centre, each branch has a useful role to perform. Surplus funds raised by a branch will be profitably deployed elsewhere. A branch has, in any case, to maintain a minimum complement of staff and although there may be some under-utilisation thereof, if a bank is either not able to raise resources required for lendings or *vice versa*, the minimum staff is not divisible. In view of the foregoing, it is felt that if a branch is in a position to either attain the level of loaning of Rs 11 lakhs, Rs 9 lakhs or Rs 5.50 lakhs or corresponding amount of deposits of Rs 12 lakhs, Rs 10 lakhs or Rs 6.50 lakhs within a period of 3 years, it may be considered to be an economic unit.

59. As per the norms fixed by the Reserve Bank, an average loaning business of Rs 10 lakhs, Rs 5 lakhs and Rs 2 lakhs per existing branch, treating the head office also as a branch, is to be attained by a bank operating in metropolitan, urban or semi-urban centres respectively for eligibility for opening of a new branch. As discussed earlier, these are *ad hoc* norms fixed. No distinction is also made between the head office and a branch in computing the loan business. It is felt that an institution which has not attained the level of viability should not contemplate the opening of branches and attention should instead be bestowed on consolidation of its position. Hence it may be prescribed that unless a bank has attained the norms of viability, permission may not be accorded to it for opening of branches. While the important criterion should be that the proposed branch should have potential viability, it is not essential that each of the existing branches, regardless of the period of their existence, should attain the prescribed level of viability before an application for a further office is submitted. In other words, a bank need not be asked to wait for an interval of three years to establish the viability of a newly opened office before applying for opening of a further branch. Since the permission for opening a branch is given on the basis of the potential for business, the progress towards attainment of viability could be judged in the case of a newly opened office taking into account the period of its existence as under:

	Rs Lakhs					
	Metropolitan Centre		Urban Centre		Semi-urban Centre	
	Loaning Business	Deposits	Loaning Business	Deposits	Loaning Business	Deposits
First Year	2.00	2.20	1.50	1.65	1.00	1.20
Second Year	6.00	6.60	4.50	6.00	3.00	3.50
Third Year	11.00	12.00	9.00	10.00	5.50	6.50

60. Accordingly, for eligibility for a new branch, a bank should have attained the norms of viability prescribed for the bank and the norms of viability prescribed for its branches, a lower norm as indicated above being adopted in the case of newly opened branches which have been functioning for a period of less than three years.

61. To sum up, therefore, it is felt that the norms of viability for the head office and branches of a bank may be fixed as under:

(1) As per the norms of viability fixed by the Reserve Bank in 1974, an urban bank should have owned funds of Rs 7.60 lakhs, a loaning business of Rs 32 lakhs, deposits of Rs 40 lakhs and a total working capital of Rs 50 lakhs. In the light of wide variations in the location and area of operations of urban banks it would not be proper to fix any single set of norms of viability for such banks. It is felt that three different norms of viability could be fixed as under depending on whether a bank is operating in (i) a metropolitan centre having a population exceeding 10 lakhs, (ii) an urban centre having a population between 1 lakh and 10 lakhs and (iii) in a semi-urban centre with a population of less than 1 lakh.

	Rs Lakhs		
	Metropolitan	Urban	Semi-urban
Share Capital	6.00	4.50	2.25
Reserves	1.20	0.90	0.45
Deposits	44.00	33.00	17.70
Borrowings	6.00	4.50	1.50
Loans and Advances	40.00	30.00	15.00
Working Capital	57.00	43.00	22.00

These norms have been fixed on the assumption that the bank has a single office. The norms have to be attained within a period of five years.

(2) At present, the Reserve Bank is generally insisting on collection of a minimum share capital of Rs 3 lakhs prior to licensing of a new bank. It was proposed to amend the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) so as to fix the statutory minimum requirement of paid-up share capital and reserves for a bank to commence or carry on banking business at Rs 3 lakhs instead of the present requirement of Rs 1 lakh. Taking into account the norms of viability, it is felt that the minimum share capital to be initially collected prior to licensing of a bank may be fixed at Rs 4 lakhs, Rs 3 lakhs and Rs 1.50 lakhs in metropolitan, urban and semi-urban centres respectively.

(3) At present, the Reserve Bank is insisting on an initial membership of 2,000 in metropolitan centres and 1,000 in all other centres having a population of less than 10 lakhs. As it is difficult for banks to enrol this

number of members at its inception, the requirement of initial membership may be fixed at, 1,000, 700 and 400 in metropolitan, urban and semi-urban centres respectively.

(4) The norms for viability of a branch in a metropolitan, urban and semi-urban centre, to be attained within three years of its opening, would be a loaning business of Rs 11 lakhs, Rs 9 lakhs and Rs 5.50 lakhs or a deposit business of Rs 12 lakhs, Rs 10 lakhs and Rs 6.50 lakhs respectively. As a branch may be either a loaning or a deposit centre, a branch which has either attained the level of loaning or deposit business, could be deemed as viable.

(5) As per the earlier norms of eligibility for opening of a branch, a bank in metropolitan, urban and semi-urban centres respectively, should have attained an average loaning business of not less than Rs 10 lakhs. Rs 5 lakhs and Rs 2 lakhs respectively per existing branch, treating the head office also as a branch. It may henceforward be prescribed that unless a bank has attained the norms of viability, an application for opening of a branch office will not be considered. A bank may be considered as eligible for opening of an additional branch provided it satisfies the norms of viability prescribed for the head office and for its existing branch office/offices. This does not mean that a bank cannot open a new branch within three years of the opening of an existing branch as it may not have attained the norms of viability. The attainment of the norms of viability of an existing branch may be judged with reference to its level of deposits or loan business depending on the duration of its existence as indicated in paragraph 59.

ANNEXURE I (1)

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*Important Particulars as on 30 June 1977 of Banks Surveyed
Category I (Metropolitan Area: Population of above 10 lakhs)*

Rs Thousands																
Name of the Bank	Date of Registration	No. of Branches	Share Capital	Reserves	Owned Funds	Deposits	Borrowings	Working Capital	Cash Investments	Loans	Fixed Assets	Out-standing	Est. Expenses	Staff Cost	Net Profit	Rate of Dividend Per Cent
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
<i>Maharashtra</i>																
1. Jijamata Mahila Sah. Bank Ltd., Pune	25-4-1974	—	320	19	339	119	—	472	140	3	311	15	18	13	+2	—
2. Chembur Nagrik Sah. Bank Ltd., Bombay	7-3-1974	—	175	2	177	885	—	1091	379 (Rs 100)	673	20	16	15	+34	—	
3. Poona Co-op. Rupee Bank Ltd., Pune	21-11-1912	2	575	700	1275	15766	—	15769	5092	602	10957	234	398	424	+142	9
4. North Canara Goud Saraswat Co-op. Bank Ltd., Bombay	26-9-1917	3	1212	1741	2953	33581	—	38358	17828	288	19001	332	343	522	+700	12

ANNEXURE I (1) (Contd.)

1.	2.	3.	4.	5.	6.	7.	8.	9.	10	11.	12.	13.	14.	15.	16.	17.
<i>Gujarat</i>																
1. The Co-op. Bank of Ahmedabad, Ahmedabad	26-9-1968	12	4870	3954	8824	68226	--	82586	29546	1070	49851	2776	1043	1449	+1232	9
2. The Vijay Co-op. Bank Ltd., Ahmedabad	11-1-1973	—	1271	668	1939	10709	5279	18927	3328	521	14013	272	231	333	+418	9
3. The Textile Processors Co-op. Bank Ltd., Ahmedabad	7-9-1973	—	508	470	978	2952	—	4387	928	24	1280	101	171	73	+325	9
4. The Adarsh Co-op. Bank Ltd., Ahmedabad	1-6-1974	—	325	59	384	864	1042	2416	340	20	1952	46	87	55	+50	3 (1976)
<i>Karnataka</i>																
1. The Malle-swaram Co-op. Bank Ltd., Bangalore	26-6-1920	2	1791	873	2664	22393	—	26618	16616	359	9137	420	150	348	+311	11
2. The Bharat Co-op. Bank Ltd., Bangalore	21-8-1974	—	868	34	902	1241	240	2508	373	3	2068	53	43	57	+97	4

ANNEXURE I (1) (Contd.)

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
3. The Vysya Co-op. Bank Ltd., Bangalore	19-7-1926	9	1315	587	1902	22511	—	25180	11269	201	12089	1165	481	449	+53	5
4. The Citizen Co-op. Bank Ltd., Bangalore <i>Tamil Nadu</i>	5-7-1973	—	207	—	207	115	—	422	104 (Rs 100)	290	18	11	14	+40	—	
1. The Thyagarajanagar Co-op. Bank Ltd., Madras	28-5-1933	—	311	498	809	2623	1183	4780	767	163	3455	201	216	25	+52	7
2. The George Town Co-op. Urban Bank Ltd., Madras	12-4-1923	—	2838	4966	7804	30970	—	43836	13446	1098	26635	800	841	739	+752	9 (1976)
3. The Vellala Co-op. Urban Bank Ltd., Madras	4-12-1923	—	693	1105	1798	3971	2101	8607	1334	264	6551	101	290	98	+290	9 (1976)
4. The Purasawalkam Co-op. Urban Bank Ltd., Madras	26-11-1924	—	144	108	252	2419	861	2029	254	65	1572	67	42	40	+39	9 (proposed)

ANNEXURE I (2)

Category II (Urban Area: Population between 1 lakh and 10 lakhs)

Rs Thousands

Name of the Bank	Date of Registration	No. of Branches	Share Capital	Reserves	Owned Funds	Deposits	Borrowings	Working Capital	Cash in Hand	Investments	Loans Outstanding	Fixed Assets	Est. Expenses	Staff Cost	Net Profit	Rate of Dividend (Per Cent)
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
<i>Maharashtra</i>																
1. Nagpur Urban Co-op. Bank Ltd., Nagpur	26-9-1974	—	205	14	219	196	—	537	213	3	222	20	31	15	+2	—
2. Kolhapur Maratha Co-op. Bank Ltd., Kolhapur	20-10-1933	4	664	856	1520	11591	—	13757	4746	268	8219	210	107	303	—201	9
<i>Gujarat</i>																
1. The Jivan Commercial Co-op. Bank Ltd., Rajkot	18-4-1972	—	618	410	1028	5360	4395	10783	2239	5	8590	83	172	175	+275	9

ANNEXURE I (2) (Contd.)

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
2. The Makarpura Industrial Estate Co-op. Bank Ltd., Baroda	1-4-1975	—	309	12	321	725	414	1498	603	13	811	12	28	37	+26	5
<i>Karnataka</i>																
1. The Arya Vaishya Co-op. Bank Ltd., Hubli	25-6-1919	7	368	866	1234	8282	—	10067	3465	77	6390	72	171	231	+222	12
2. The Vardhaman Co-op. Bank Ltd., Hubli	23-3-1974	—	353	33	386	1684	—	2192	898	—	1233	44	61	50	+57	9
<i>Tamil Nadu</i>																
1. The Big Kancheepuram Co-op. Town Bank Ltd., Kancheepuram	8-10-1904	2	1392	927	2319	17330	—	20461	7813	666	11032	522	288	301	+250	9 (1976)

ANNEXURE I (2) (Contd.)

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
2. The Madurai Urban Co-op. Bank Ltd., Madurai	3-4-1906	—	192	221	413	2231	—	2748	709	35	1734	17	82	78	+54	7 (1976)
<i>West Bengal</i>																
1. Shibpur Co-op. Bank Ltd., Shibpur	3-10-1929	—	1263	999	2262	9844	—	12710	6811	530	4565	392	97	234	+183	6 (1976)
2. Bally Co-op. Bank and Credit Society Ltd., Bally	3-10-1925	—	392	385	797	1422	—	2320	897	106	1273	112	64	57	+41	5 (1975)
3. Contai Co-op. Bank Ltd., Contai	30-3-1947	3	879	1494	2373	18686	—	23463	9603	551	10285	613	299	389	+250	9 (1975)
4. Bantra Co-op. Bank Ltd., Howrah	27-3-1927	—	1889	1081	2970	19742	—	24077	6842	6	16316	200	86	305	+481	6 (1976)

ANNEXURE I (3)

Category III (Semi-urban Area: Population less than 1 lakh)

Rs Thousands

Name of the Bank	Date of Registration	No. of Branches	Share Capital	Reserves	Owned Funds	Deposits	Borrowings	Working Capital	Cash Investment	Loans Outstanding	Fixed Assets	Est. Expenses	Staff Costs	Net Profit	Rate of Dividend (Per Cent)	
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
<i>Maharashtra</i>																
1. Shetkari Sahakari Bank Ltd., Akluj	9-1-1975	—	496	20	516	1022	225	1788	439	15	1292	33	48	28	+18	3
2. Parbhani People's Co-op. Bank Ltd., Parbhani	29-12-1965	1	253	291	544	3774	—	4667	2082	14	2283	137	70	78	+151	9
<i>Gujarat</i>																
1. The Bayad Nagrik Sah. Bank Ltd., Bayad	6-2-1975	—	187	23	210	566	14	820	195	9	564	11	16	17	+15	6
2. The Chhapi Co-op. Bank Ltd., Chhapi	1-1-1970	—	290	139	429	1947	—	2520	925	20	1515	17	36	43	+93	9

ANNEXURE I (3) (Contd.)

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
<i>Karnataka</i>																
1. The Chikodi Urban Co-op. Credit Bank Ltd., Chikodi	21-6-1940	2	351	374	725	4726	—	5710	2839	80	2690	73	56	64	+140	12
2. The Hiriyyur Urban Co-op. Bank Ltd., Hiriyyur	23-10-1973	—	265	11	276	618	686	1685	322	24	1293	26	24	30	+50	9
<i>Tamil Nadu</i>																
1. The Chengalpattu Co-op. Urban Bank Ltd., Chengalpattu	6-5-1910	1	201	573	774	3068	10	3998	818	149	2693	37	78	85	+43	4 (1976)
2. The Virudhunagar Co-op. Urban Bank Ltd., Virudhunagar	24-3-1919	—	142	447	589	3036	—	3866	1,231	69	2240	127	24	91	+140	9
<i>West Bengal</i>																
1. Kasundia Co-op. Bank Ltd., Howrah	10-10-1939	—	324	207	531	4473	—	4973	3464	11	1858	251	48	56	+34	6 (1976)
2. Nabadwip Co-op. Credit Bank Ltd., Nabadwip	26-11-1929	—	73	41	114	448	—	696	326	3	215	52	11	16	+3	—

ANNEXURE II (1)

Distribution of Working Capital of an Urban Bank relating to Loans and Advances of Rs 100 and the Margin earned on it Metropolitan and Urban Centres

Liabilities

	Amount	Cost	
	Rs P	Per Cent Per Annum	Amount Rs P
Share Capital	15.00	10	1.50
Reserves	3.00	—	—
Deposits	110.00	7	7.70
Borrowings	15.00	11	1.65
	<u>143.00</u>		<u>10.85</u>

Assets

	Amount	Return	
	Rs P	Per Cent Per Annum	Amount Rs P
Cash in Hand	3.30	—	—
Balances with Banks	3.30	0.5	0.02
Investments	31.90	8.4	2.68
Apex Bank Shares	0.75	5	0.04
Loans and Advances	100.00	14	14.00
Fixed Assets	3.75	—	—
	<u>143.00</u>		<u>16.74</u>

Margin Earned: Rs 16.74 — Rs 10.85 = Rs 5.89.

ANNEXURE II (2)

*Distribution of Working Capital of an Urban Bank relating to Loans and Advances of Rs 100 and the Margin earned on it
Semi-urban Centre*

Liabilities	Assets						
	Amount	Cost		Amount	Return		
	Rs p	Per Cent Per Annum	Amount Rs p	Rs p	Per Cent Per Annum	Amount Rs p	
Share Capital	15.00	10	1.50	Cash in Hand	3.54	—	—
Reserves	3.00	—	—	Balances with Banks	3.54	0.5	0.02
Deposits	118.00	7	8.26	Investments	34.42	8.4	2.89
Borrowings	10.00	11	1.10	Apex Bank Shares	0.50	5	0.02
				Loans and Advances	100.00	14	14.00
				Fixed Assets	4.00	—	—
	<hr/>		<hr/>		<hr/>		<hr/>
	146.00		10.86		146.00		16.93
	<hr/>		<hr/>		<hr/>		<hr/>

Margin Earned: Rs 16.93 — Rs 10.86 = Rs 6.07.

ANNEXURE III

*Annual Expenditure on Establishment and Loaning Business For an
Urban Bank to Function as a Viable Unit*

	Metropolitan Centre (Population over 10 lakhs)			Urban Centre (Population 1 lakh to 10 lakhs)			Semi-urban Centre (Population less than 1 lakh)		
	No. of incum- bents	Amount Rs	Amount Rs	No. of incum- bents	Amount Rs	Amount Rs	No. of incum- bents	Amount Rs	Amount Rs
A. Fixed Expenditure									
(i) Salary and allow- ances, including P.F. contribution									
Manager	1	16,000		1	14,000		1	9,000	
Accountant (Banking)	1	12,000		1	11,000		1	7,000	
Officer-in-charge of loans, estab- lishment, deve- lopment	1	12,000							
Cashier	1	7,000		1	6,500		1	5,500	
Clerks-cum- typists	2	12,000		2	11,000		1	4,500	
Peons	2	8,000	67,000	2	7,000	49,500			32,000
(ii) Rent, rates, taxes, lighting			22,000			18,000	2	6,000	8,000

ANNEXURE III (Contd.)

	Metropolitan Centre (Population over 10 lakhs)			Urban Centre (Population 1 lakh to 10 lakhs)			Semi-urban Centre (Population less than 1 lakh)		
	No. of incum- bents	Amount Rs	Amount Rs	No. of incum- bents	Amount Rs	Amount Rs	No. of incum- bents	Amount Rs	Amount Rs
(iii) Others, including directors' fees and allowances			6,000			5,000			3,000
			95,000			72,500			43,000
B. Variable Expenditure									
Cost of one clerk handling loan busi- ness of about Rs 4 lakhs and correspond- ing deposit business		6,000			5,500			4,500	
Other variable expen- diture at roughly 2 per cent of loans for a loan business of Rs 4 lakhs		8,000	14,000		8,000	13,500		8,000	12,500
Rates of variable costs to loan business			1 : 29			1 : 30			1 : 32
Loan Business			About Rs 40 lakhs			About Rs 30 lakhs			About Rs 15 lakhs

ANNEXURE IV

Balance Sheet of a Viable Urban Co-operative Bank

Rs Lakhs

Metropolitan Centre

Share Capital	6.00	Cash	1.32
Reserves	1.20	Balances in Current Account	1.32
Deposits	44.00	Investments	12.76
Borrowings	6.00	Shares in Apex Bank	0.30
		Loans	40.00
		Fixed and Other Assets	1.50
	<hr/>		<hr/>
	57.20		57.20
	<hr/>		<hr/>

Urban Centre

Share Capital	4.50	Cash	0.99
Reserves	0.90	Balances in Current Account	0.99
Deposits	33.00	Investments	9.57
Borrowings	4.50	Shares in Apex Bank	0.22
		Loans	30.00
		Fixed and Other Assets	1.13
	<hr/>		<hr/>
	42.90		42.90
	<hr/>		<hr/>

Semi-urban Centre

Share Capital	2.25	Cash	0.53
Reserves	0.45	Balances in Current Account	0.53
Deposits	17.70	Investments	5.16
Borrowings	1.50	Shares in Apex Bank	0.08
		Loans	15.00
		Fixed and Other Assets	0.60
	<hr/>		<hr/>
	21.90		21.90
	<hr/>		<hr/>

ANNEXURE V (1)

*Main Items of Liabilities and Assets over a period of
5 years — Metropolitan Centres*

Year	Share Capital	Deposits	Borrowings	Investments	Loans and Advances
1	4,00,000	4,00,000	—	2,48,000	4,00,000
2	4,30,000	9,00,000	—	3,50,000	8,00,000
3	4,70,000	14,00,000	2,25,000	4,06,000	15,00,000
4	5,25,000	26,00,000	3,75,000	7,54,000	25,00,000
5	6,00,000	44,00,000	6,00,000	12,76,000	40,00,000

Income

Year	Interest on Amount kept for Liquidity	Interest on Loans and Advances	Commission and Exchange	Total Income
1	21,000	56,000	1,000	78,000
2	29,000	1,12,000	3,000	1,44,000
3	35,000	2,10,000	6,000	2,51,000
4	65,000	3,50,000	9,000	4,24,000
5	1,09,000	5,60,000	12,000	6,81,000

Expenditure

Year	Interest on Deposits	Interest on Borrowings	Salaries	Rent, Taxes and others	Variables	Total Expenditure
1	28,000	—	42,000	20,000	7,000	97,000
2	63,000	—	44,000	21,000	12,000	1,40,000
3	98,000	25,000	56,000	22,000	22,000	2,23,000
4	1,82,000	41,000	64,000	24,000	36,000	3,47,000
5	3,08,000	66,000	67,000	28,000	56,000	5,25,000

Profit and Loss

Year	Income	Expenditure	Net profit/loss (+/-)	Amount taken to reserves	Amount taken for dividend
1	78,000	97,000	19,000 (-)	—	—
2	1,44,000	1,40,000	4,000 (+)	—	—
3	2,51,000	2,23,000	28,000 (+)	13,000	—
4	4,24,000	3,47,000	77,000 (+)	45,000	32,000
5	6,81,000	5,25,000	1,56,000 (+)	1,20,000	36,000

ANNEXURE V (2)
Main Items of Liabilities and Assets over a period of
5 years — Urban Centres Amount Rs

Year	Share Capital	Deposits	Borrowings	Investments	Loans and Advances
1	3,00,000	3,00,000	—	1,87,000	3,00,000
2	3,25,000	7,00,000	—	2,02,000	7,00,000
3	3,55,000	13,00,000	1,95,000	3,77,000	13,00,000
4	3,95,000	21,00,000	3,00,000	6,09,000	20,00,000
5	4,50,000	33,00,000	4,50,000	9,57,000	30,00,000

Income

Year	Interest on Amount kept for Liquidity	Interest on Loans and Advances	Commission and Exchange	Total Income
1	16,000	42,000	1,000	59,000
2	17,000	98,000	2,000	1,17,000
3	32,000	1,82,000	4,000	2,18,000
4	52,000	2,80,000	6,000	3,38,000
5	82,000	4,20,000	8,000	5,10,000

Expenditure

Year	Interest on Deposits	Interest on Borrowings	Salaries	Rent, Taxes and Others	Variables	Total Expenditure
1	21,000	—	26,000	20,000	3,000	70,000
2	49,000	—	28,000	20,000	8,000	1,05,000
3	91,000	21,000	36,000	21,000	15,000	1,84,000
4	1,47,000	33,000	47,000	22,000	25,000	2,74,000
5	2,31,000	49,500	49,500	23,000	40,000	3,93,000

Profit and Loss

Year	Income	Expenditure	Net profit/loss (+/-)	Amount taken to reserves	Amount taken for dividend
1	59,000	70,000	11,000 (-)	—	—
2	1,17,000	1,05,000	12,000 (+)	1,000	—
3	2,18,000	1,84,000	34,000 (+)	13,000	21,000
4	3,38,000	2,74,000	64,000 (+)	40,000	24,000
5	5,10,000	3,93,000	1,17,000 (+)	90,000	27,000

ANNEXURE V (3)

*Main Items of Liabilities and Assets over a period of
5 years—Semi-urban Centres* Amount Rs

Year	Share Capital	Deposits	Borrowings	Investments	Loans and Advances
1	1,50,000	1,50,000	—	1,03,000	1,50,000
2	1,60,000	4,00,000	—	1,46,000	3,50,000
3	1,75,000	6,00,000	90,000	1,74,000	6,00,000
4	1,95,000	11,00,000	1,50,000	3,10,000	10,00,000
5	2,25,000	17,70,000	1,50,000	5,16,000	15,00,000

Income

Year	Interest on Amount kept for Liquidity	Interest on Loans and Advances	Commission and Exchange	Total Income
1	8,700	21,000	—	30,200
2	12,200	49,000	2,000	63,200
3	14,800	84,000	4,000	1,02,800
4	26,400	1,40,000	6,000	1,72,400
5	43,900	2,10,000	9,000	2,62,900

Expenditure

Year	Interest on Deposits	Interest on Borrowings	Salaries	Rent, Taxes and Others	Variables	Total Expenditure
1	10,500	—	16,000	9,000	2,000	37,500
2	28,000	—	18,500	9,000	5,000	60,500
3	42,000	10,000	22,500	10,000	9,000	93,500
4	77,000	16,500	29,000	10,500	14,000	1,47,000
5	1,24,000	16,500	32,000	11,000	21,000	2,04,500

Profit and Loss

Year	Income	Expenditure	Net profit/loss (+/-)	Amount taken to Reserves	Amount taken for Dividend
1	30,200	37,500	7,300 (-)	—	—
2	63,200	60,500	2,700 (+)	—	—
3	1,02,800	93,500	9,300 (+)	4,700	—
4	1,72,400	1,47,000	25,400 (+)	13,700	11,700
5	2,62,900	2,04,500	58,400 (+)	45,000	13,500

ANNEXURE VI
Norms of Viability for Branches

	Metropolitan Centre		Urban Centre		Semi-urban Centre	
	No.	Amount Rs	No.	Amount Rs	No.	Amount Rs
A. Fixed Expenditure						
1. Salaries and Allowances						
Manager	1	10,000	1	9,000	1	8,000
Clerks	2	12,000	2	11,000	1	4,800
Peons	1	4,000	1	3,500	1	3,200
Total		26,000		23,500		16,000
2. Rent, Rates, Taxes, Lighting etc.		8,000		6,500		5,000
Total Fixed Expenditure		34,000		30,000		21,000
B. Variable Expenditure						
1. Cost of one clerk handling loan business of Rs 4 lakhs		6,000		5,500		4,500
2. Other Variable Cost		5,000		5,000		5,000
		11,000		10,500		9,500
Minimum Loan Business required for a bank to become viable		Rs 10.90 lakhs		Rs 9.20 lakhs		Rs 5.70 lakhs
Amount of Deposits		Rs 12.00 lakhs		Rs 10.00 lakhs		Rs 6.70 lakhs

APPENDIX V

STUDY REPORT ON STAFFING PATTERN IN URBAN CO-OPERATIVE BANKS

In recent years, the operations of urban banks both in regard to mobilization of deposits and loans and advances have increased considerably. However, the efficiency and methods of working of these banks have not kept pace with the increased volume of operations. By and large, the attitude of urban banks towards administrative principles, procedures, systems and methods continues to be not sufficiently responsive. The traditional outlook about employment of minimum staff at minimum cost still appears to prevail in many of the banks. In the context of the diversified and efficient services urban banks are now called upon to render, and the keen competition they have to face from commercial banks, it has become necessary for them to bestow adequate attention on their organizational and personnel development.

2. The Committee on Urban Co-operative Banks has been called upon, among other things, to assess the extent of professional management and adequacy of training facilities in urban banks. Against this background, a study of the staffing pattern of urban banks was undertaken on behalf of the Committee by the respective regional offices of the Agricultural Credit Department of the Reserve Bank in Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal during the period December 1977 to January 1978. The study was combined with the study on viability of urban banks. For the purpose of the study, 38 urban banks were visited by the officers of the regional offices of the Agricultural Credit Department of Reserve Bank in these states. Senior officers of the Co-operation Department and of the state co-operative bank of the concerned states were actively associated in the selection of the banks and also with the field studies. Further, to examine the staffing pattern of banks operating in metropolitan, urban and semi-urban areas, the selection of banks was made from these three areas, for on-the-spot studies. Of the 38 banks visited, 16 banks were operating in metropolitan areas with population exceeding 10 lakhs, 12 banks in urban areas with population of 1-10 lakhs and the remaining 10 banks in semi-urban areas with population of less than 1 lakh as indicated in Annexure I. The broad conclusions of the study are given in the following paragraphs.

Organizational Set-up

3. An important conclusion which emerged out of the study was that the urban banks did not follow appropriate policies of staff development. The organizational set-up of banks was not designed to discharge banking functions and to undertake developmental activities effectively. While the

work in the head office of the bigger banks was divided into various sections or departments, there were no such sections in smaller banks even in metropolitan centres. In the 8 banks visited in Maharashtra, the number of sections/divisions varied from 4 to 7 in these banks. Three banks, viz., Chembur Nagrik Sahakari Bank, Jeejamata Mahila Sahakari Bank and Nagpur Urban Co-operative Bank did not have any sections or divisions. In Tamil Nadu, the George Town Co-operative Bank was having as many as 14 sections/departments with specific items of work assigned to each department. The Thyagarajanagar Co-operative Bank and the Chengalpattu Co-operative Urban Bank did not have any departments or sections. In the banks visited in the states of Gujarat, Karnataka and West Bengal, there were 6 banks which did not have any section or division. It was reported that the work was entrusted to the staff on an *ad hoc* basis depending upon exigencies. In certain banks, the strength of the staff at various levels was not large enough to permit banks to divide the organization into divisions or sections each under the control of an officer. In some banks where the work was divided on the basis of sections and divisions, a middle level executive in the category of either accountant or deputy manager/assistant manager or an officer belonging to the intermediate level was looking after each section. In certain banks, the sections were put under the charge of clerks who were directly responsible to the chief executive officer.

4. The banks had not generally followed any rational pattern in fixing the staff requirements in each section/division in the head office, especially at clerical level with reference to the work load as judged by items such as volume of correspondence to be handled, number of cases to be examined, vouchers to be attended to etc. The staff requirements were mostly fixed according to the exigencies of the situation and experience. It was, however, noticed that the George Town Co-operative Bank (Tamil Nadu) and the Shibpur Co-operative Bank (West Bengal) had fixed certain norms for deciding the staffing requirements. As per the norms fixed in the Shibpur Co-operative Bank, each clerk was expected to attend to 6 loan cases daily. The norms fixed by the George Town Co-operative Bank for the purpose of determining the requirements in the deposit section and in the loan section are indicated below:

	No. of accounts to be maintained by a clerk
Savings Deposits and Current Deposits	1800
Fixed Deposits	2500
Recurring Deposits	1200
Mortgage Loans	1100
Surety Loans	1100
Jewel Loans	1400

This bank was posting or withdrawing additional staff as and when there was increase or decrease in the work load of sections. No norms were fixed for deciding the staff requirements in other sections. In the other banks visited in the five states, viz., Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal, the staff requirements were assessed on an *ad hoc* basis. Whenever there was an increase in the volume of work, the increase in staff strength was sanctioned by the board of directors either on the recommendations of the staff sub-committee, secretary or the manager, who was the chief executive officer of the bank.

5. In the case of banks visited for the purpose of study, the following staff were found to be on deputation with the banks:

Name of bank	State	Designation of the official on deputation	On deputation from
Bharat Co-operative Bank	Karnataka	Manager	Karnataka State Co-operative Apex Bank
Poona Co-operative Rupee Bank	Maharashtra	Recovery Officer	Co-operative Department
Parbhani Peoples Co-operative Bank	"	Manager Accountant	Parbhani District Co-operative Central Bank
Shetkari Sahakari Bank	"	Manager	Sholapur District Co-operative Central Bank
George Town Co-operative Bank	Tamil Nadu	Secretary	Co-operative Department
Big Kancheepuram Co-operative Town Bank	"	Secretary	—do—
Madurai Urban Co-operative Bank	"	Secretary	—do—
Chengalpattu Co-operative Urban Bank	"	Secretary	—do—
Contai Co-operative Bank	West Bengal	Chief Executive Officer	—do—

6. One feature noticed in the organizational set-up of the Arya Vaishya Co-operative Bank in Hubli was that it had 2 controlling offices, viz., administrative office and the head office. The administrative office was

under the charge of a manager whose duties were (i) to attend to correspondence of the bank; (ii) to convene and attend the meetings of the board of directors in consultation with the chairman, record the proceedings of such meetings and to carry out the resolutions passed at the meetings; (iii) to control the salaried persons of the bank; (iv) to place relevant papers and documents before the chairman for orders; (v) to carry out the inspection of the branches and (vi) to attend to any other duties as may be assigned by the chairman. The assistant manager was in overall charge of the head office and he was to attend to such work entrusted by the manager from time to time.

Chief Executive Officer

7. There was no uniformity in the designation of the chief executive officer of urban banks. He was generally designated as secretary or manager. In Tamil Nadu, the secretary was the chief executive as per the provisions of the by-laws of the banks visited for the purpose of the on-the-spot study. The position in Karnataka was that the chief executive officer was generally designated as manager. However, the chief executive was designated as general manager in the Vysya Co-operative Bank, while his counterpart in the Bharat Co-operative Bank was designated as secretary-cum-manager. In Maharashtra, the chief executive was designated as manager in the banks visited for the purpose of the study. In Gujarat, there was no uniformity in the designation of the chief executive. While in 5 banks the manager was functioning as the chief executive, in the remaining 3 banks the chief executive was designated as general manager, managing director and assistant manager respectively. One peculiar feature noticed in the 6 banks visited for on-the-spot study in West Bengal was that honorary services were sought in the management of some banks. In 4 banks, viz., Bantra Co-operative Bank, Bally Co-operative Bank and Credit Society, Nabadwip Co-operative Credit Bank and the Kasundia Co-operative Bank, chief executives were honorary secretaries elected by the managing committees of the concerned banks. In Bantra Co-operative Bank, the honorary secretary was assisted by a paid secretary.

8. The post of chief executive of banks was normally held by the bank's own officers. In a few cases, the incumbents were officers taken on deputation either from the Co-operative Department or from the higher financing agencies. The position in respect of 38 banks visited for on-the-spot study was as follows:

<i>Post of Chief Executive held by</i>	<i>No. of Banks</i>
Bank's own Officers	29*
Higher Financing Agencies (i.e. central/apex bank)	3
Departmental Officers	6
Total	38

* The incumbents in 4 banks were holding honorary posts.

Thus, the number of chief executive officers on deputation either from the Co-operative Departments or from the higher financing agencies was small. Where banks had taken officers on deputation to hold the post of chief executive, it was noticed that they had resorted to this not as an interim arrangement until the posting of an incumbent from amongst the ranks or from outside by direct recruitment, but as a long-term measure. While selecting officers from the Co-operative Department, little or no consideration was given to their suitability with reference to their educational qualifications and practical experience in banking. There were also frequent changes in the incumbents to the post of chief executive wherever these were held by deputationists as indicated below:

<i>Name of Bank</i>	<i>Period</i>	<i>No. of Changes</i>
Bharat Co-operative Bank (Karnataka)	March 1975 till December 1977	2
George Town Co-operative Bank (Tamil Nadu)	July 1971 till December 1977	5

In the Kasundia Co-operative Bank (West Bengal) where the honorary secretary was the chief executive, there were 4 changes in the incumbent to the post of the chief executive since 1971 up to December 1977.

9. In regard to recruitment to the post of chief executive, no uniform practice was followed by the banks. While some banks filled the post of chief executive by promoting persons from amongst the staff, others followed the practice of open recruitment. The minimum qualifications necessary for the post of chief executive in the banks visited in Tamil Nadu were prescribed in the special by-laws indicated below:

- (a) The degree of B.A. or B.Com. or B.Sc. of any of the recognized universities, and
- (b) A course of training successfully undergone in the Government Institute of Commerce, Madras, or in the Central Co-operative Institute, Madras or in any other mofussil institution or
- (c) A pass in the Government Technical Examinations in Book keeping, Banking, Co-operation and Auditing or the examinations in these subjects held by the Central Co-operative Institute or the Madras State Co-operative Union.

No previous experience was prescribed in the special by-laws for appointment to the post of the chief executive.

10. In Gujarat, the minimum qualification of graduation was insisted upon for the post of chief executive by 3 banks operating in the metropolitan areas. But the other 5 banks visited had not prescribed any such minimum qualification. Further, the banks had not generally prescribed any previous

experience. However, the Co-operative Bank of Ahmedabad was insisting on a minimum of 10 years experience for the post of chief executive. In Maharashtra, the Co-operative Societies Act/Rules or by-laws of banks did not prescribe any minimum qualification for the post of chief executive in the state. The managers of a few banks visited for the on-the-spot study were matriculates. In West Bengal, out of 6 banks visited, honorary secretaries were functioning as chief executive officers in 4 banks and no minimum qualification was prescribed for these functionaries. Rule 53 of the West Bengal Co-operative Societies Rules 1974 which prescribed the minimum qualifications for the various categories of staff was, however, silent on the minimum qualification necessary for the post of chief executive in the urban banks.

11. In Karnataka, Rule 17(2)(A) (i) and (ii) of the Karnataka Co-operative Societies Rules 1960 laid down the qualifications required for the incumbent to the post of secretary/manager in co-operative institutions as indicated below:

(a) Degree of B.A., or B.Com., or B.Sc., L.Com., and D.Com. or degree of any recognised university in the case of societies having a working capital of rupees one lakh or more and S.S.L.C. in others [Rule 17 (2)(A)(i)].

(b) A pass in the Government Technical Examinations in book-keeping, banking, co-operation and auditing or the examination in these subjects or examinations conducted by the regional co-operative schools provided that a person who has taken the B.Com. degree shall be exempted from passing these examinations [Rule 17 (2)(A)(ii)].

12. In regard to the procedure for appointment of chief executives, there was no uniformity. The power for appointment of chief executive was generally vested with the Board of Directors. Whenever direct recruitment was resorted to, the banks in Karnataka had advertised the vacancies in local newspapers. Selection was made after interview by the Board of Directors. There was no system of calling for confidential reports in respect of new appointees from their previous employers before appointment. In Maharashtra, some banks were found to be filling the vacancies to the post of chief executives from outside, generally with banking experience. These direct recruits to the post were usually retired officers of commercial or co-operative banks. There was no system of either notifying the vacancies to the Employment Exchange or advertising in the local newspapers. In Tamil Nadu, the Registrar of Co-operative Societies had issued instructions on 17 November 1977 that appointment to any post in a co-operative institution should be made only through the Employment Exchange by calling for candidates with the required qualifications. If the Employment Exchange issues a non-availability certificate, appointment shall be made by obtaining a list of qualified candidates from the Tamil Nadu Co-operative Urban Union and/or by advertisement in the leading dailies approved by the Government. None of the banks visited in West

Bengal had laid down the procedure for the appointment to the post of chief executive. However, there was a provision in Rule 53(b) of the West Bengal Co-operative Societies Rules 1974 requiring every co-operative society to fill up 50 per cent of posts of each category or class by promotion from officers or staff in the lower rank.

13. The duties and powers of the chief executive were usually laid down either in the Co-operative Societies Act or the Rules framed thereunder and in the by-laws of banks. Additional powers other than those laid down in the Act/Rules/By-laws were also delegated to the chief executives in terms of resolutions passed by the Board of Directors from time to time. Normally, the chief executives of banks were empowered to grant loans against fixed deposits, government securities, LIC policies etc., either as per the provisions in the by-laws or by board resolutions. In certain banks, however, these powers were not delegated to the chief executives.

14. The by-laws of certain banks stipulated that the chief executives should attend the meetings of the Board of Directors or committees and write the proceedings of such meetings. The practice of making the chief executive an ex-officio member of the Board was not in vogue.

15. Another important feature revealed by the study was the need for streamlining the administration of the banks. There was no clear-cut demarcation between managerial and executive functions. In certain cases, non-officials holding the post of President/Chairman and Secretary/Joint Secretary in banks where managers were functioning as chief executives, interfered in the day-to-day administration of banks. In certain banks, some of the powers for the day-to-day administration of banks were vested with the non-officials themselves holding the said posts of President, Chairman or Secretary.

Key Personnel

16. No uniformity was followed by banks visited for the purpose of the study in respect of middle level management representing key personnel. While there was no middle level management staff in some banks, especially in the smaller banks, the number of key personnel differed in bigger banks. Significant variations were observed in this respect from bank to bank within a state and from state to state. The position in respect of banks visited for the study is indicated in Annexure II.

17. In 6 out of the 38 banks visited for the purpose of the on-the-spot study, there were no officers of adequate experience and standing to assist the chief executive officer. In other banks, where posts of key personnel had been created, these personnel were ordinarily in charge of only one section or department. The key personnel were not ordinarily assigned any developmental functions such as mobilization of deposits, identification of new lines of business, and exploring the possibilities of financing small-scale

and cottage industries. However, the Vijay Co-operative Bank in Ahmedabad had appointed a Branch Development Officer, a Loan Officer and a Women Welfare Officer to look after these items of work. While the Branch Development Officer attended to the expansion and increasing the business of branches, the Loan Officer and the Women Welfare Officer assisted in the development and promotional functions such as loans to small-scale industries and self-employed persons. In the majority of banks, these promotional functions were in the care of chief executives. The banks did not appoint any technical staff for giving technical guidance to the borrowing industrial units. By and large, there was no arrangement in vogue in banks of taking assistance of the higher financing agencies, Small Industries Service Institute or State Financial Corporation. The arrangement obtaining in the Poona Co-operative Rupee Bank for the purpose was that a committee of two directors with technical knowledge on the Board, was appraising the loan applications from the industrial units and the bank consulted, wherever necessary, a private industrial consultancy service.

18. The procedure for recruitment of key level personnel also varied from bank to bank. While some banks, viz., Poona Co-operative Rupee Bank (Maharashtra), Hiriyyur Urban Co-operative Bank (Karnataka) and Citizen Co-operative Bank (Karnataka) had recruited key personnel directly, other banks, viz., North Kanara Goud Saraswat Brahmin Co-operative Bank (Maharashtra), Kolhapur Maratha Co-operative Bank (Maharashtra) often promoted the junior level staff to the higher posts on the basis of seniority and efficiency. Some banks had laid down a policy according to which 50 per cent of the vacancies to the officers' posts excluding the post of chief executive were reserved for staff candidates.

19. There was also no uniformity in the minimum educational qualifications in the appointment of key personnel. Some banks had insisted upon the minimum educational qualification of graduation and other training requirements for the post at the middle level as per the provisions in the Co-operative Societies Act/Rules or by-laws of banks. In the case of many banks, the minimum educational qualifications had not been prescribed.

Branch Staff

20. Out of 38 banks visited, only 16 banks were having branches. The study revealed that there was no uniformity in the staffing pattern in the branches of banks. They had not also followed any norm in deciding upon the staff requirements in branches with reference to aspects such as the quantum of deposits or loan business or other aspects. In certain banks, the staff was posted to the branches without any reference to the work load in the branches as may be seen in the following page.

(i) Arya Vaisya Co-operative
Bank (Karnataka)

Rs Lakhs

	Branches	
	Dharwar	Hosur
Total Deposits	21.08	3.28
No. of Deposit Accounts	1611	732
Total loans outstanding	15.12	5.97
No. of Accounts	678	302
<i>Staff</i>		
(a) Branch Managers	1	1
(b) Cashiers	1	1
(c) Clerks/Typists	2	2
Average number of vouchers/receipts attended to by a clerk in a day	11	11

The average number of vouchers/receipts attended to by a clerk in a day varied from 11 to 45 among the 6 branches of the bank.

(ii) Co-operative Bank of Ahmedabad (Gujarat)

Rs Lakhs

	Branches		
	Bombay	Navarang- pura	Rakhial
Total Deposits	29.13	9.77	35.35
No. of Deposit Accounts	1315	1589	2563
Total Loans Outstanding	52.92	1.12	30.96
No. of Loan Accounts	204	4	117
No. of Branch Managers	1	1	1
No. of Accountants	1	1	—
No. of Cashiers	1	1	2
No. of Clerks	7	4	7
No. of Officers/Supervisors/ Inspectors	3	—	2
Average number of vouchers/ receipts attended to by a Clerk in a day	100	100	100

While the services of an accountant were available in a smaller branch like Navarangpura, the branch manager of Rakhial had no accountants to assist him. The average number of vouchers/receipts attended to by a clerk in a day varied from 60 to 100 among the 12 branches of the bank.

(iii) *North Kanara Goud Saraswat Brahmin Co-operative Bank
(Maharashtra)*

	Rs Lakhs		
	Branches		
	Dadar	Jogeshwari	Mahim
Total Deposits	63.98	52.45	31.80
No. of Deposit Accounts	3048	3263	1114
Total Loans Outstanding	14.34	1.24	4.15
No. of Loan Accounts	27	9	14
No. of Branch Managers	1	1	1
No. of Supervisors/Cashiers	1	1	1
No. of Clerks	4	3	1
No. of Part-time Apprentices	1	1	1
Average number of vouchers/receipts attended to by a Clerk in a day	29	35	5

There were wide variations in the average number of vouchers/receipts attended to by a clerk in a day in the branches of the bank.

(iv) *Big Kancheepuram Co-operative Town Bank (Tamil Nadu)*

	Rs Lakhs	
	Branches	
	Pillaiyarpalayam	Gangaikondan Mandapam
Total Deposits	9.16	10.23
No. of Deposit Accounts	1192	1361
Total Loans Outstanding	17.23	28.90
No. of Loan Accounts	1499	2288
No. of Branch Managers	1	1
No. of Cashiers	1	1
No. of Clerks	3	3
Average number of vouchers/receipts attended to by a Clerk in a day	24	30

21. The foregoing would indicate the wide variations in the staffing pattern in the branches of different urban banks. The staffing pattern was decided without taking into account the volume of deposits and loan business and the average number of vouchers/receipts attended to by a clerk in a day.

22. In most of the branches, the staff managing the branches were officers. However, it was noticed that the Melamaiyur branch of the Chengalpattu Co-operative Urban Bank (Tamil Nadu) was managed by an assistant. There was also no uniform practice of posting of officers in the rank of accountant to assist the branch managers in bigger branches with the result some branch managers were kept busy with the day-to-day office work instead of attending to developmental and promotional functions for increasing the deposits and loan business of the branches.

Delegation of Powers

23. In the Kolhapur Maratha Co-operative Bank, the branch managers were not authorised to sign deposit account opening forms. The account opening forms of depositors were required to be sent to the Head Office for signature by the President/Vice-President. In regard to sanction of loans, generally the branch managers were not given adequate powers. Such powers were mostly restricted to sanction of loans against fixed deposits and in certain cases against gold/silver ornaments also. In the Poona Co-operative Rupee Bank, the branch managers were given more powers to sanction loans when compared to the branch managers of other urban banks visited for study as may be seen below:

<i>Security</i>	<i>Amount Rs</i>
Government Securities, LIC Policies, Silver Ornaments etc.	50,000
Pledge of Goods/Warehouse Receipts	10,000
Bills of Exchange, Promissory Notes, Hundies, Cheques	5,000
Surety or Without Surety Loans/Overdrafts	500
Temporary Overdrafts on Current Accounts	5,000

In many banks, the branch managers had no powers to sanction even petty expenditure which was to be incurred only with the prior sanction of the head office. However, in the Co-operative Bank of Ahmedabad, the branch managers were empowered to incur expenditure up to Rs 100 on a single occasion.

24. The control exercised by the head office over the branches was also not effective. There was no systematic and periodical inspection of branches. Whenever branches were inspected, proper follow-up action was not taken by the head office promptly. Further, these inspection reports were not placed before the Board of Directors for their consideration.

Recruitment of Staff

25. There was no uniform procedure for recruitment of staff in the urban

banks visited for the purpose of study in the 5 states. In Gujarat, there were no provisions in the Co-operative Societies Act/Rules as well as the by-laws of banks visited for the purpose of the on-the-spot study regarding the manner of recruitment of various categories of staff. The Registrar of Co-operative Societies also had not issued any administrative instructions in this regard. The procedures for recruitment varied from bank to bank. Usually, applications were received in a routine manner and interviews were conducted by a Staff Committee or the Board of Directors. For filling up the vacancies, some banks conducted written tests as well as interviews. In the Co-operative Bank of Ahmedabad, written test as well as interview was taken for clerical posts and for their promotion to checker's post, whereas for appointment to officer's post, only interviews were held. In the case of the Vijay Co-operative Bank, the written test and interview were conducted for appointment of Junior Officers. In other banks in Gujarat visited for the purpose of the study, written test was not conducted and appointments were made after interviews by a Staff Committee or Board of Directors.

26. In Karnataka, the provisions in Rule 17(1) of the Karnataka Co-operative Societies Rules 1960 empowered the Managing Committee of a co-operative society to determine the staff strength and scales of pay with the approval of the Registrar of Co-operative Societies. Rule 17(3) *ibid* specified that no appointment by direct recruitment should be made without calling for applications from eligible candidates by notifying the vacancies. The Registrar of Co-operative Societies had not, however, issued any detailed instructions in regard to the mode of recruitment of staff in various categories. There were also no provisions in the by-laws of banks in this behalf. The recruitment of staff was done generally by the Board of Directors or by a sub-committee constituted by the Board of Directors. There was no uniform practice among banks to notify the vacancies to the local employment exchange. Out of the 8 banks visited for the purpose of the study, in only 2 banks, viz., Vardhaman Co-operative Bank and Arya Vaishya Co-operative Bank had notified the vacancies to the local Employment Exchange. Three banks, viz., Vysya Co-operative Bank, Malleswaram Co-operative Bank and Bharat Co-operative Bank had not advertised the vacancies in the local dailies. While the Malleswaram Co-operative Bank had notified the vacancies on its notice board as well as notice boards of other local co-operative institutions, the other two banks had not done any notification in this regard. They had recruited staff from the applications casually received by them.

27. In Tamil Nadu, the instructions issued by the Registrar of Co-operative Societies on 17 September 1977 *inter alia* stipulated that the appointment to any post in a co-operative institution shall be made only through the Employment Exchange by calling for candidates with the required qualifications. If the Employment Exchange issued a non-availability certificate, appointment has to be made by obtaining a list of qualified candidates from the Tamil Nadu Co-operative Urban Banks Union or by

advertisement in the leading dailies approved by the government. As per the provisions in the special by-laws relating to service conditions of employees of urban banks in the state, the board of directors was competent to prescribe, from time to time, subject to the budget allotment sanctioned by the General Body, the strength of the establishment of the bank and the scale of pay admissible to each member of the staff. Except the secretary who, if he is a whole-time paid officer, shall be appointed by the board of directors, all other members of the establishment shall be appointed by the President or the Board of Management as the case may be, in accordance with the subsidiary rules framed for the purpose. Normally, appointment to clerical posts and other categories of staff except the chief executive, was made by the President. Generally, there was no system of notifying the vacancies to the local Employment Exchange or advertising the vacancies in the leading dailies in some banks prior to the instructions issued by the Registrar in September 1977. The practice earlier in those banks was to consider the applications submitted to the bank and in certain cases with recommendations of one of the directors. Appointments were made after conducting an interview. There was no system of giving written test to the candidates before they were called for interview.

28. In West Bengal, the provisions in Rule 53(b) of the West Bengal Co-operative Societies Rules 1974 required that every co-operative society should fill up 50 per cent of posts (excluding those of Grade IV staff) of each category or class by promoting from officers or staff in the lower rank. Further, Rule 53(c) also laid down that the remaining 50 per cent of the posts of each category or class should be filled up by the apex or central society to which each such society is affiliated. The Co-operative Societies Act or Rules framed thereunder did not prescribe the mode of recruitment of staff. The Registrar also had not issued any detailed administrative instructions to the banks in this regard. Thus, no uniform practice was followed by the banks in regard to filling up the posts. In respect of 6 banks visited for the purpose of the on-the-spot study in West Bengal it was noticed that while some banks had notified the vacancies to the local Employment Exchange, others advertised the vacancies in the local dailies. Some banks followed the practice of notifying the vacancies either in the bank's notice board or municipal/railway notice boards. There was generally no practice of giving written test to the candidates. Selection was made by conducting interviews only by the chief executive officer or the sub-committee appointed by the Board.

29. In Maharashtra, there were no provisions in the State Co-operative Societies Act/Rules or by-laws of the banks laying down the mode of recruitment of staff at various levels. The Registrar also had not issued any instructions or framed any service rules in this regard. In certain cases, where vacancies were notified to the local employment exchange, the candidates sponsored by the local employment exchange were not found suitable by the bank's Board of Directors. The banks in Maha-

rashtra did not also generally advertise the vacancies in the local dailies. Some of the banks were receiving applications throughout the year and whenever vacancies arose, persons were called for interview from among these applicants only. There was no system of giving written tests to the candidates before their selection.

Educational Qualifications of Staff

30. The details of minimum educational qualifications necessary for the post of chief executives of banks visited for the on-the-spot study have been referred to earlier in paragraphs 9-11. The particulars in respect of other categories of officers and staff are discussed below:

31. In Gujarat, Section 76 of the Gujarat Co-operative Societies Act, 1961 provided for prescribing minimum qualifications for the appointment of the staff of co-operative banks, but no such qualifications were prescribed by the government for the purpose. The Co-operative Department had also not issued any detailed administrative instructions in this regard. Further, the minimum educational qualifications were not prescribed either in the by-laws or by board resolutions of the banks visited.

32. In Karnataka, the minimum educational qualifications required for various categories of staff had been laid down in Rule 17(B) of the Karnataka Co-operative Societies Rules 1960. In terms of Rule 17(B)(i), an accountant, clerk, ledger keeper, sales clerk and shroff should have passed S.S.L.C. Rule 17(B)(ii) insisted on a pass in the examinations of book-keeping, banking, co-operation and auditing held by the government or examinations conducted by the regional co-operative schools. Further, no person who was already in the employment of a co-operative society before coming into force of these Rules was required to acquire these qualifications pertaining to any of the posts. All the staff recruited by a society after 1 July 1971 should have possessed the required qualifications as stipulated in the Rule mentioned above. The staff of the urban banks visited in Karnataka for the purpose of the study had the educational qualifications prescribed in Rule 17(B)(i), but they did not possess the other qualifications prescribed in Rule 17(B)(ii), viz., a pass in the examinations of book-keeping, banking, co-operation and auditing.

33. According to Section 74 of the Maharashtra Co-operative Societies Act 1960, the qualifications for the appointment of manager, secretary, accountant or any other officer of a society shall be such as may, from time to time, be prescribed by Rules. However, no such qualifications were prescribed in the Rules. There were also no provisions in the by-laws of banks regarding the minimum educational qualifications necessary for different categories of posts. However, the following 4 banks out of the 8 banks visited for the study in Maharashtra had laid down the minimum educational qualifications as given in the following page.

Name of bank	Category of post	Minimum educational qualification	Date when prescribed
Kolhapur Maratha Co-operative Bank	Officers other than Manager Clerical Staff	Graduate S.S.C. (with Diploma in Co-operation preferred)	—
Parbhani Peoples Co-operative Bank	Assistant Manager, Executive Officer, Chief Accountant, Chief Auditor, Administrative Officer	Graduate and possessing Accountancy and Banking qualification. R.A., G.D.C.A., G.D.C., H.D.C., C.A.I.I.B. Knowledge of regional language essential	14-10-68
	Accountant, Sub-accountant, Agent, Superintendent, Cashier, Clerk	Matriculation, H.S.C., S.S.C. or other equivalent qualification. Persons possessing Accountancy, Banking, Typing qualification preferred	
Poona Co-operative Rupee Bank	Senior Officer	S.S.C. and G.D.C.A.	1-7-77
	Accountant (Senior)	Graduate or S.S.C. and G.D.C.A. with experience	
	Accountant	S.S.C. with banking experience	
	Checker	S.S.C. with 2 to 3 years banking experience as a clerk	
	Clerks, Record-Keeper	S.S.C.	
Shetkari Sahakari Bank	All posts	Graduation	28-2-77

Three banks, viz., Chembur Nagarik Sahakari Bank, Jijamata Mahila Sahakari Bank and Nagpur Urban Co-operative Bank were, as a matter of practice, insisting on candidates for recruitment as Clerks having passed the secondary school certificate examination. In the North Kanara Gaud Saraswat Brahmin Co-operative Bank, the service rules framed by the Board provided that the candidate to be recruited in the bank for clerical or for any higher post should have passed the S.S.C. examination.

34. In Tamil Nadu, the Registrar of Co-operative Societies had issued instructions in September 1977 that all co-operatives, while making appointments by promotions or direct recruitment to posts other than typists, drivers, peons, watchmen and other staff, should appoint only persons who had undergone a basic course of co-operative training, besides possessing other qualifications prescribed for the particular posts in the special by-laws/service regulations of the societies concerned. According to the special by-laws relating to service conditions of employees, the minimum qualifications required for various posts are indicated below:

(a) *Accountants and Clerks*

(i) S.S.L.C. (eligible for college course or completed).

(ii) A pass in the examinations in book-keeping, banking, co-operation and auditing held by the Government Institute of Commerce, Madras or the Central Co-operative Institute, Madras or the State Co-operative Union, Madras, or of the mofussil institutions. (B.Com. degree holders were exempted from the relative subject under this item).

(b) *Shroff*

S.S.L.C. examination (eligible for college course or completed).

All the staff appointed in the 8 urban banks in the state visited for the study possessed the necessary educational and training requirements.

35. In West Bengal, Rule 53 of the West Bengal Co-operative Societies Rules, 1974 has prescribed the essential qualifications for various posts as under:

(a) An officer in a primary society should have (i) school final certificate, (ii) successful completion of a training course of a co-operative training centre and (iii) special training, if any, insisted on by the society concerned. In the case of a specially qualified candidate, it may be sufficient that the candidate acquires the qualifications referred to at (ii) and (iii) within 2 years from the date of his appointment or probation.

(b) An accountant in the service of a co-operative society should have a degree in commerce of a recognised university and successful completion of a training course at intermediate level of a co-operative training institution.

(c) An assistant accountant, cashier or any other employee excluding Grade IV staff in the service of a co-operative society should have school final certificate and successful completion of training (at junior level) in co-operative training institution.

Where, in the case of an existing employee of any co-operative society, the minimum qualifications prescribed in the said rule for a particular post are not satisfied, he shall be retained in the service of the society subject to his successful completion within 3 years from the date of these rules coming into force, of a suitable training course in any co-operative institution as may be determined by the Managing Committee.

Out of 6 banks visited for study in West Bengal, the staff posted in 3 banks had not fulfilled the minimum qualifications prescribed for the various categories of posts as shown below:

Name of Bank	Category of Post	Minimum Qualification	Actual Qualification	Remarks
Bally Co-operative Bank and Credit Society	General Assistant	S.S.C.	Non-matriculate	Taken on compassionate grounds
Contai Co-operative Bank	(a) Internal auditor	Graduation in Commerce or a person having passed the Intermediate examination in Chartered/ Cost Accountancy	Intermediate	All were promotees from the bank's staff
	(b) Superintendent (Recovery)	—do—	Matriculate	
	(c) Branch Manager	—do—	—do—	
	(d) Junior Cashier	Higher Secondary	Non-matriculate	
	(e) Record Keeper (Jr. Assistant)	—do—	—do—	
Shibpur Co-operative Bank	Accountant	Graduate	Under graduate	Promoted from the posts

36. There was thus no uniformity in the minimum educational qualifications prescribed for various categories of posts in urban banks in the 5 states visited for the study. While the Co-operative Societies Act/Rules of Karnataka and West Bengal States laid down the minimum qualifications, such stipulations were not made in the Co-operative Societies Act/Rules of the other 3 states. There were provisions in this regard in the special by-laws relating to service conditions of employees of banks in Tamil Nadu. In Gujarat and Maharashtra, the by-laws of banks visited for study contained no provisions in this regard.

Training

37. While the Co-operative Societies Rules of West Bengal laid down the training requirements for the staff of urban banks, there were no such provisions in the Co-operative Societies Act/Rules in Gujarat and Maharashtra. In Tamil Nadu, the Registrar in his circular dated 17 September 1977 instructed the banks to comply with the basic training requirements stipulated in the special by-laws relating to service conditions of employees before making appointments to any posts in the banks. There were no such provisions in the by-laws of banks in Gujarat, Karnataka and Maharashtra. The training requirements stipulated in the states of Tamil Nadu and West Bengal were as under:

Name of State	Category of Post	Training Requirements	Stipulated in
Tamil Nadu	Secretary or Assistant Secretary	(a) a course of training successfully undergone in the Government Institute of Commerce, Madras, or in the Central Co-operative Institute, Madras, or in any other mofussil institutes or (b) a pass in the Government Technical Examination in Book-keeping, Banking, Co-operation and Auditing or the examinations in these subjects held by the Central Co-operative Institute, Madras, or the State Co-operative Union	Special by-laws relating to service conditions of employees

Name of State	Category of Post	Training Requirements	Stipulated in
	Accountants/Clerks	<p>A person who has taken the B.Com. degree of the Andhra University or who has taken the diploma of any of the mofussil training institutes shall, however, be exempted from undergoing the training referred to in (a) but such person shall pass the examinations mentioned in (b)</p> <p>A pass in the examination in Book-keeping, Banking, Co-operation, Auditing held by the Government Institute of Commerce, Madras, or the Central Co-operative Institute, Madras, or the State Co-operative Union, Madras, or any mofussil institute.</p>	Special by-laws relating to service conditions of employees
West Bengal	(a) Officer of a primary society	<p>(a) Successful completion of training course in a co-operative training centre</p> <p>(b) Special training in co-operation if insisted on by a co-operative society</p>	Rule 53 of the West Bengal Co-operative Societies Rules 1974
	(b) Accountant	Successful completion of a training course at intermediate level	—do—

Name of State	Category of Post	Training Requirements	Stipulated in
	(c) Assistant Accountant, Cashier or any other employee excluding Grade IV Staff	Successful completion of a training (at Junior level) in any co-operative institution	Rule 53 of the West Bengal Co-operative Societies Rules 1974

38. Pre-service training was, therefore, a condition attached to the recruitment in the states of Tamil Nadu and West Bengal. While generally all the persons working in the 8 banks in Tamil Nadu visited for the study had satisfied the training requirements, in West Bengal, a number of staff belonging to different categories had not received the stipulated pre-service training. In West Bengal, Rule 53(d) of the West Bengal Co-operative Societies Rules 1974 had stipulated that the apex or the central society should introduce a training scheme under which candidates with the required qualification after selection might be trained under the supervision of any co-operative institution for at least one year. The candidates were to be absorbed subsequently after successful completion of training as direct recruits in the service of the affiliated societies. At least 25 per cent of direct recruits for each category or class of posts of each such society were to be filled up by such trainees who, during their training period, received a stipend of half of the minimum basic pay of the post to which they were eligible for appointment. No arrangements were made by the Federation of Urban Co-operative Credit Societies, West Bengal, for pre-service training of staff of urban co-operative banks as stipulated in the above Rules. The state co-operative bank had also not played any role in this regard.

39. The aspect of training of staff was generally neglected in urban banks. As a general rule, newly recruited staff was not sent for any training. While a large number of staff at the supervisory level did not also receive any orientation training, very few members of the staff had received special training in courses such as industrial finance, deposit mobilization, Banking Regulation Act 1949, at the College of Agricultural Banking, Pune. The number of untrained staff at various levels in the 16 banks visited for study in Gujarat and Maharashtra is shown in the following page.

State	Category of Staff	Total Number of Staff	Number Untrained
Gujarat	(a) Chief Executive	8	4
	(b) Officers	72	52
	(c) Other Staff*	206	185
Maharashtra	(a) Chief Executive	8	5
	(b) Officers	35	24
	(c) Other Staff*	135	104

* Junior staff other than peons.

40. The role played by the state co-operative banks in imparting training to the staff of urban banks was very insignificant. The urban banks' Federations in Gujarat and West Bengal have, however, evinced interest in this respect. The Federation of urban banks in West Bengal arranged for short-term courses through the Reserve Bank's College of Agricultural Banking, at Calcutta and 2 training courses for 6 months each at Calcutta sponsored by the National Co-operative Union of India. Similarly, the Gujarat Urban Co-operative Banks Federation organized courses at different centres with the assistance of the College of Agricultural Banking, Pune.

Pay, Allowances and Other Benefits

41. There were no uniform scales of pay at various levels in the urban banks visited for the purpose of study. In Gujarat, the Board of Directors in consultation with the association of employees, if any, fixed the scales of pay and allowances for the staff of co-operative banks. In Maharashtra, the basic pay scale of the chief executive differed from bank to bank. In Tamil Nadu, the post of chief executive was held by deputationists from the state government in 4 out of 8 banks visited for study and they were drawing pay and other allowances as per the state government rules. Out of the 8 banks visited for the study in Tamil Nadu, only 5 banks had fixed the pay scale for the chief executive. In West Bengal, the Pay Committee set up by the Government of West Bengal in June 1969 had recommended the scales of pay and allowances for various categories of staff. In Karnataka, the pay scale for the chief executive varied from bank to bank.

42. Similarly, no uniformity was noticed in the pay scales of other categories of staff in urban banks visited for study. In this context, the Karnataka State Urban Co-operative Banks' Association has taken a lead in fixing the cadre strength and pay scales of staff in urban banks in the state in June 1977.

43. In regard to payment of dearness allowance, in many banks, dearness allowance paid to the staff was fixed as a percentage of basic pay, the percentage varying from bank to bank. The percentage was higher for the lower category of staff in all the banks. In some banks, dearness allowance was paid at a flat rate.

44. There was also no uniformity in the banks for provision of other benefits to members of their staff. Some banks did not provide for benefits like provident fund and gratuity to the members of the staff. In banks where the benefit of provident fund was extended, the quantum of contributions was not uniform.

ANNEXURE I

Names of Banks Visited for the Study of Staffing Pattern

				Rs Lakhs
Sr. No.	Name of the State	Name of the Bank	Operating in	Working Capital as on 30-6-77
1.	2.	3.	4.	5.
1.	Gujarat	Co-operative Bank of Ahmedabad Ltd., Ahmedabad	Metropolitan Area	826
2.	—do—	Vijay Co-operative Bank Ltd., Ahmedabad	—do—	189
3.	—do—	Textile Processors Co-operative Bank Ltd., Ahmedabad	—do—	44
4.	—do—	Adarsh Co-operative Bank Ltd., Ahmedabad	—do—	24
5.	—do—	Jivan Commercial Co-operative Bank Ltd., Rajkot	Urban Area	114
6.	—do—	Makarpura Industrial Estate Co-operative Bank Ltd., Baroda	—do—	15
7.	—do—	Bayad Nagrik Sahakari Bank Ltd., District Sabarkantha	Semi-Urban Area	8
8.	—do—	Chhapi Nagrik Sahakari Bank Ltd., Chhapi., District Banas-kantha	—do—	25
9.	Karnataka	Bharat Co-operative Bank Ltd., Bangalore	Metropolitan Area	25
10.	—do—	Malleswaram Co-operative Bank Ltd., Bangalore-3	—do—	266
11.	—do—	Vysya Co-operative Bank Ltd., Bangalore	—do—	252
12.	—do—	Citizen Co-operative Bank Ltd., Bangalore	—do—	4
13.	—do—	Arya Vaishya Co-operative Bank Ltd., Hosur	Urban Area	101
14.	—do—	Vardhaman Co-operative Bank Ltd., Hubli	—do—	22
15.	—do—	Hiriyur Urban Co-operative Bank Ltd., Hiriyur	Semi-Urban Area	17

ANNEXURE I (Contd.)

1.	2.	3.	4.	5.
16.	Karnataka	Chikkodi Urban Co-operative Bank Ltd., Chikkodi	Semi-Urban Area	57
17.	Maharashtra	Poona Co-operative Rupee Bank Ltd., Pune	Metropolitan Area	196
18.	—do—	Jijamata Mahila Sahakari Bank Ltd., Pune	Metropolitan Area	5
19.	—do—	North Kanara Goud Saraswat Brahmin Co-operative Bank Ltd., Bombay	—do—	384
20.	—do—	Chembur Nagrik Sahakari Bank Ltd., Bombay	—do—	11
21.	—do—	Kolhapur Maratha Co-operative Bank Ltd., Kolhapur	Urban Area	138
22.	—do—	Nagpur Urban Co-operative Bank Ltd., Nagpur	—do—	5
23.	—do—	Parbhani Peoples Co-operative Bank Ltd., Parbhani	Semi-Urban Area	47
24.	—do—	Shetkari Sahakari Bank Ltd., Akluj, District Sholapur	—do—	18
25.	Tamil Nadu	Thyagarajanagar Co-operative Bank Ltd., Madras	Metropolitan Area	48
26.	—do—	George Town Co-operative Bank Ltd., Madras	—do—	438
27.	—do—	Vellala Co-operative Bank Ltd., Madras	—do—	86
28.	—do—	The Purasawalkam Co-operative Bank Ltd., Madras	—do—	20
29.	—do—	Big Kancheepuram Co-operative Town Bank Ltd., Kancheepuram	Urban Area	205
30.	—do—	Madurai Urban Co-operative Bank Ltd., Madurai	—do—	27

ANNEXURE I (Contd.)

1.	2.	3.	4.	5.
31.	Tamil Nadu	Chengalpattu Co-operative Urban Bank Ltd., Chengalpattu	Semi-Urban Area	40
32.	—do—	Virudhunagar Co-operative Urban Bank Ltd., Virudhunagar	—do—	39
33.	West Bengal	Shibpur Co-operative Bank Ltd., District Howrah	Urban Area	127
34.	—do—	Bally Co-operative Bank and Credit Society Ltd., District Howrah	—do—	23
35.	—do—	Contai Co-operative Bank Ltd., District Midnapore	—do—	235
36.	—do—	Bantra Co-operative Bank Ltd., District Howrah	—do—	241
37.	—do—	Kasundia Co-operative Bank Ltd., District Howrah	Semi-Urban Area	50
38.	—do—	Nabadwip Co-operative Credit Bank Ltd., District Nadia	—do—	7

ANNEXURE II

The Position of Key Personnel in Urban Banks Visited for Study

Sr. No.	Name of the Bank	No. of Officers	Designation	No. in Position
1.	2.	3.	4.	5.
<i>Gujarat</i>				
1.	Co-operative Bank of Ahmedabad	5	Manager for branches Managers Chief Accountant	1 3 1
2.	Vijay Co-operative Bank	4	Assistant Manager Development Officer Women Welfare Officer Branch Development Officer	1 1 1 1
3.	Textile Processors Co-operative Bank	2	Accountant Loan Recovery Officer	1 1
4.	Adarsh Co-operative Bank	2	Accountant Loan Recovery Officer	1 1
5.	Jivan Commercial Co-operative Bank	4	Managers Accountant Loan Officer	2 1 1
6.	Makarpura Industrial Estate Co-operative Bank	1	Accountant	1
7.	Bayad Nagrik Sahakari Bank	—	—	—
8.	Chhapi Nagrik Sahakari Bank	1	Accountant	1
<i>Karnataka</i>				
1.	Arya Vaishya Co-operative Bank	4	Assistant Manager Touring Agent Accountant Assistant Accountant	1 1 1 1
2.	Vysya Co-operative Bank	9	Supervisor Assistant Managers Internal Auditor Inspector	1 2 1 1
3.	Malleswaram Co-operative Bank	3	Accountants Accountant Supervisors	4 1 2
4.	Chikkodi Urban Co-operative Bank	—	—	—

ANNEXURE II (Contd.)

1.	2.	3.	4.	5.
5.	Vardhaman Co-operative Bank	1	Accountant	1
6.	Bharat Co-operative Bank	1	Accountant	1
7.	Hiriyur Urban Co-operative Bank	1	Accountant	1
8.	Citizen Co-operative Bank	1	Accountant	1
<i>Maharashtra</i>				
1.	North Kanara Gaud Saraswat Brahmin Co-operative Bank	5	Deputy Managers Assistant Managers	2 3
2.	Poona Co-operative Rupee Bank	7	Accountants Special Officers Special Recovery Officer	4 2 1
3.	Chembur Nagrik Sahakari Bank	—	—	—
4.	Jijamata Mahila Sahakari Bank	—	—	—
5.	Kolhapur Maratha Co-operative Bank	1	Accountant	1
6.	Nagpur Urban Co-operative Bank	—	—	—
7.	Parbhani Peoples Co-operative Bank	4	Accountants Accountant-cum-cashier	3 1
8.	Shetkari Sahakari Bank	—		
<i>Tamil Nadu</i>				
1.	Thyagarajanagar Co-operative Bank	1	Accountant	1
2.	George Town Co-operative Bank	2	Assistant Secretary Accountant	1 1
3.	Vellala Co-operative Bank	1	Accountant	1
4.	Purasawalkam Co-operative Bank	2	Accountant Assistant Accountant	1 1
5.	Big Kancheepuram Co-operative Town Bank	3	Assistant Secretary Chief Accountants	1 2

ANNEXURE II (Contd.)

1.	2.	3.	4.	5.
6.	Madurai Urban Co-operative Bank	1	Accountant	1
7.	Chengalpattu Co-operative Urban Bank	1	Assistant Secretary	1
8.	Virudhunagar Co-operative Urban Bank	1	Accountant	1
<i>West Bengal</i>				
1.	Kasundia Co-operative Bank	2	Paid Secretary Accountant	1 1
2.	Nabadwip Co-operative Credit Bank	1	Accountant	1
3.	Shibpur Co-operative Bank	2	Accountants	2
4.	Bally Co-operative Bank and Credit Society	1	Accountant	1
5.	Bantra Co-operative Bank	3	Accountant Supervisors	1 2
6.	Contai Co-operative Bank	8	Accountant Superintendents Joint Accountants Internal Auditor	1 3 3 1

APPENDIX VI

**MODEL BY-LAWS OF A PRIMARY
CO-OPERATIVE BANK**

By-laws of
(Established in)

1. NAME

The Bank shall be called the
Limited.

2. REGISTERED OFFICE

The registered office of the Bank shall be situated at
(Any change in address shall be notified to the Registering Authority within
30 days and also published in local newspapers)

3. AREA OF OPERATION

The area of operation of the Bank shall be confined to the area as may
be permitted by the Registering Authority. For the time being, it will
extend to.....

4. DEFINITIONS

- (i) The word 'Act' and the word 'Rules' used in these By-laws mean
the.....Co-operative Societies Act,as
amended from time to time and the Rules made thereunder,
respectively.
- (ii) 'Government' means the 'Government of'
- (iii) 'Registrar' means the Registrar of Co-operative Societies, or the
Registering Authority.
- (iv) 'Member' means a person joining in an application for registration
of the Bank, or a person duly admitted to the membership of the
Bank after registration and includes a nominal and associate
member.
- (v) 'Nominal' member means a person who has been admitted as a
nominal member under By-law No. 10.
- (vi) 'Bank' means the Ltd.
- (vii) 'By-laws' means the By-laws of the Ltd.
- (viii) 'Chief Executive Officer' means the Managing Director appointed
by the Board of Directors. If a Managing Director is not appointed,
then the General Manager or Manager or Secretary appointed by
the Board of Directors of the Bank will be the Chief Executive
Officer.

- (ix) A 'person' means an adult individual, proprietary concern, partnership firm duly registered under the Indian Partnership Act 1932, company, or any other body corporate constituted under the law for the time being in force, society registered under the Societies Registration Act of 1860, State Government and Public Trust registered under any law for the time being in force for registration of such trusts.

5. OBJECTS

- (i) To encourage thrift, self-help and co-operation among members.
- (ii) To accept deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise, for the purpose of lending or investment.
- (iii) To borrow or raise money.
- (iv) To lend or to advance money either upon or without security to members and others as permitted by the Registrar.
- (v) To draw, make, accept, discount, buy, sell, collect and deal in bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, certificates, scrips and other instruments and other securities whether transferable or negotiable or not.
- (vi) To grant and to issue letters of credit, travellers' cheques and circular notes.
- (vii) To buy and to sell foreign exchange including foreign bank notes.
- (viii) To acquire, to hold, to issue on commission, to underwrite and to deal in stocks, funds, shares, debentures, debenture stock, bonds, obligations, securities and investment of all kinds.
- (ix) To purchase and to sell bonds, scrips or other forms of securities on behalf of constituents.
- (x) To receive all kinds of bonds, scrips, valuables on deposit or for safe custody or otherwise.
- (xi) To provide safe deposit vaults.
- (xii) To collect and transmit money and securities.
- (xiii) To negotiate loans and advances.
- (xiv) To carry on and to transact every kind of guarantee and indemnity business on behalf of constituents.
- (xv) To effect, to insure, to guarantee, to underwrite, to participate in managing and carrying out any issue, public or private, of State, Municipal or other loans or of shares, stocks, debentures, debenture stock of any company, co-operative society, corporation or association and to lend money for the purpose of any such issue.
- (xvi) To acquire, to construct, to maintain and to alter any building or works necessary or convenient for the purposes of the bank.
- (xvii) To manage, to sell and to realise any property which may come into the possession of the bank in satisfaction or part satisfaction of any of its claims.
- (xviii) To open branches and pay offices, with the permission of the

Registering Authority and the Reserve Bank of India within the area of operation of the Bank so as to provide banking services to the public.

- (xix) To acquire, to manage and to undertake the whole or part of business of any other co-operative society.
- (xx) To establish, to support, or to aid in establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit members, employee/ex-employees of the Bank or the dependents or connexions of such persons and to grant pensions.
- (xxi) To prepare and to finance schemes for amelioration of the financial condition of members.
- (xxii) To provide financial and technical assistance to self-employed persons for setting up their own business.
- (xxiii) To enter into participation arrangement/arrangements with any other bank or banks or financial institutions with the object of making loans and advances.
- (xxiv) To do any other form of business as specified in clause (1) of Section 6 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).
- (xxv) To do all such other things as are incidental and conducive to the promotion or advancement of these objects and of the business of the Bank.
- (xxvi) To undertake any other form of business which the Central Government may specify as a form of business in which it is lawful for a co-operative banking institution to engage.

6. FUNDS

Funds may be raised by the following means:

- (i) Shares
- (ii) Entrance Fee
- (iii) Subscription
- (iv) **Deposits**
- (v) Loans, Cash Credits, Overdrafts and Advances
- (vi) Donations, Grants and Subsidies

7. MAXIMUM BORROWING POWER

The maximum borrowing power of the Bank shall not exceed 25 times the paid-up share capital and reserves minus the bad debts reserve and accumulated losses.

8. SHARES

The authorised share capital of the Bank is Rs. The authorised share capital may be increased from time to time by General Body resolution subject to the approval of the Registering Authority.

9. MEMBERS

- (a) An individual may be admitted as a member if he is an adult, competent to contract and resides within the area of operation of the Bank or is gainfully engaged in any occupation in the area, provided that he is not a member of any other primary co-operative bank or a co-operative credit society.
- (b) Any other person as defined under by-law 4(ix) having its registered office within the area of operation of the Bank, and conducting business within such area may be admitted as a member, provided that
 - (i) The individual or person is not a member of any other primary co-operative bank or a co-operative credit society.
 - (ii) The individual or any partner of a partnership firm is not convicted of any criminal offence involving moral turpitude.
 - (iii) The individual or the person is not engaged in a business competing with or conflicting with the business of the Bank.
 - (iv) The individual is not an employee of the Bank.
 - (v) The individual or the person has subscribed to and fully paid for at least one share of the Bank and his application has been duly approved by the Board of Directors.
- (c) Government of
- (d) The State Co-operative Bank Ltd.
- (e) The Central Co-operative Bank Ltd.

No right of membership shall be exercisable until a person has made such payments to the Bank in respect of membership or acquired such interest in the Bank as may be prescribed by the Act or Rules or the By-laws.

10. NOMINAL MEMBER

- (i) Any person who is co-parcener or who desires to stand surety for a borrowing member of the bank or who desires to borrow occasionally for a temporary period against certain tangible securities such as gold and silver ornaments, fixed deposit receipts, life insurance policies and government and other securities may be enrolled as a nominal member upon his application in a prescribed form on payment of Rs..... as non-refundable entrance fee provided he resides or is gainfully engaged in any occupation within the area of operation of the bank.
- (ii) The nominal member shall not be entitled:
 - (a) to receive a share certificate;
 - (b) to receive audited accounts and annual report;
 - (c) to attend, to participate and to vote in the General Meeting and/or Special General Meeting of the Bank; and
 - (d) to receive dividend.
- (iii) A co-operative society registered under any law shall not be

eligible and as such shall not be admitted to nominal membership in terms of the provisions of this by-law.

11. JOINT SHAREHOLDERS

Shares may be purchased in the names of more than one person jointly.

- (i) On death of a joint-holder, the surviving person/persons shall be recognised as joint shareholder/holders;
- (ii) The joint-holder of any share shall be liable severally as well as jointly for all payments which are to be made in respect of such share or shares.
- (iii) The person whose name stands first written on the share certificate shall enjoy all the rights of a member and be responsible for all the liabilities of a member. He shall be entitled to receive the annual dividend and notice of the General Meeting.
- (iv) Where a share of the bank is held jointly by more than one person, the person whose name stands first in the share certificate, if present, shall have the right to vote. But in his absence the person whose name stands second and, in the absence of both, the person whose name stands next, and likewise in the absence of preceding persons the person whose name is next on the share certificate, who is present and who is not a minor, shall have right to vote.

12. SHARE CERTIFICATE

Every person admitted as member shall be entitled to receive a share certificate gratis stating the number of share/s and their distinctive number/s. The share certificates shall be signed by the Chairman, or any Director duly authorised and the Chief Executive Officer. The share certificate shall bear the Bank's seal.

13. TRANSFER OF SHARES

- (i) A member may transfer his share or shares after holding them for not less than one year to any person duly approved by the Board of Directors. The transfer is not complete until the name of the transferee has been duly entered in the register of members and the transfer fee of.....per share is paid.
- (ii) If any certificate be worn out, defaced, destroyed or lost, a new share certificate/s may be issued in lieu thereof on payment of a fee of..... per share. It shall, however, be necessary to produce evidence to the satisfaction of the Board of Directors that the share certificates were worn out, defaced, destroyed or lost, or in absence of such evidence, on such indemnity as the Board of Directors may deem sufficient.

14. RESIGNATION, CESSATION AND EXPULSION OF MEMBER

- (i) A member may resign his membership and withdraw his capital with the approval of the Board of Directors. The approval shall

not be given while such a member is indebted and within 5 years of his becoming a member of the bank. During any co-operative year, the aggregate withdrawals should not exceed 10 per cent of the total paid-up share capital as at 30 June of the preceding year provided the real or exchangeable value of paid-up share capital and reserves does not stand reduced to less than Rs..... as per section 11(1) of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) as a result of such withdrawals.

(ii) Membership will cease—

- (a) on death, or dissolution or liquidation in case of firm, or company or other corporate body;
- (b) on being adjudged as insolvent or legally disabled from continuing as a member;
- (c) on breach of any conditions prescribed under by-law 9;
- (d) on transfer of all the shares;
- (e) on resignation or withdrawal of membership having been accepted.

(iii) A shareholder member may be expelled as provided in section . . of the Co-operative Societies Act and Rules made thereunder. Shares held by an expelled member are liable to be forfeited. Transfer of shares may be declined to a shareholder member

- (a) if the member is indebted or is liable as surety to another member who is indebted to the Bank;
- (b) if the transferee does not fulfil the conditions prescribed under by-law (8);
- (c) if the member does not want to transfer all the shares held by him.

15. NOMINATION

A member may nominate a person to receive the member's interest in the Bank after his death. Nomination shall be made in the prescribed form and entered in the special register kept at the Bank's registered office. Prior approval of the Board shall be necessary if the person to be nominated is an employee of the Bank.

Nomination can be revoked and fresh nomination made any number of times after due intimation in writing to the Bank and on payment of prescribed fee of rupee one for every subsequent nomination.

16. DEATH OF SHAREHOLDER

On death of a shareholder, the Bank may pay to the person or persons nominated a sum representing the value of the shareholder's interest in the Bank within six months from the death of the shareholder. In the absence of nomination, the Bank may pay to such person or persons as may appear to the Board of Directors to be entitled to receive the same as heir or legal representative of the deceased shareholder on his or their executing an

appropriate deed of indemnity in favour of the Bank. Interest of the deceased shall be the amount of the shares and dividend together with amounts due to him on account of deposits and interest thereon or on any other account less the amounts due by him to the Bank.

17. LIABILITY OF A MEMBER

The liability of a shareholder shall be limited to the capital represented by the share or shares of which such shareholder is the registered shareholder. The liability of a past shareholder, to the extent of shares as they existed at the time when he ceased to be a shareholder, shall continue for a period of two years from the date of cessation. The estate of the deceased shareholder shall remain liable to the extent of sums due for a period of two years.

18. LIEN ON SHARES, DIVIDENDS AND DEPOSITS

The Bank shall have the first and paramount lien or charge upon all the shares, dividends and deposits of any member or past member for all moneys due from him to the Bank from time to time. The Bank may at any time set off any sum credited by or payable to the member or past member towards payment of any liability of such member or past member.

19. GENERAL BODY

- (i) Subject to the provisions of the Act and Rules, the final authority of the Bank shall vest in the General Body.
- (ii) General Meetings shall be of two kinds, viz., Annual General Meeting and Special General Meeting.
- (iii) The Annual General Meeting shall be called once on or before 30 September each year or within such period as extended by the Registrar.
- (iv) The Special General Meeting may be called at any time by the Board of Directors. It shall also be called on a written requisition made to the Chairman of the Board of Directors by 100 shareholders or one-fifth of the shareholders whichever number is smaller or on a requisition from the Registrar of Co-operative Societies.

20. BUSINESS OF THE ANNUAL GENERAL MEETING

The business of the Annual General Meeting shall be as under:

- (i) To consider the Board of Directors' Report on the working of the Bank for the preceding year, together with the audited statements of accounts including the balance sheet and profit and loss account for the year.
- (ii) To sanction distribution of profits and to declare dividend at a

rate not exceeding the rate recommended by the Board of Directors and prescribed in the Co-operative Societies Act and Rules.

- (iii) To consider communications from Registrar and/or Auditor relating to the annual audit.
- (iv) To appoint duly qualified Auditors, if necessary, for the ensuing year for conducting statutory audit and fix their remuneration.
- (v) To elect the members of Board of Directors.
- (vi) To fix the maximum limit up to which the Board of Directors may raise funds.
- (vii) To consider any other subject of which proper notice has been given as prescribed. With the permission of two-third of the members present at the Annual General Meeting any member may bring forward any subject which is not included in the agenda provided that the subject put forward does not relate to expulsion of a member or amendment to Bank's by-laws or reconsideration of a subject within six months.

21. BUSINESS OF SPECIAL GENERAL MEETING

The business of Special General Meeting shall be the business as stated in the notice of requisition only. No other business shall be transacted.

22. NOTICE: ANNUAL GENERAL MEETING AND SPECIAL GENERAL MEETING

- (i) Notice of the Annual General Meeting together with the Agenda of the Meeting, audited statements of accounts including the balance sheet and the profit and loss account, and the Report of the Board of Directors shall be sent to the registered address of each shareholder member at least 15 days prior to the date of the meeting.
- (ii) A Special General Meeting must be convened within 30 days of receipt of requisition from members or from the Registrar of Co-operative Societies. Notice calling the meeting shall disclose the business contained in the notice of requisition and shall be the only agenda for the meeting. Notice shall be sent to the registered address of each shareholder member at least 15 days prior to the date of meeting.
- (iii) Notice of the Annual General Meeting shall state the place, date and time of the meeting. It shall also state the place, date and time of holding of the adjourned meeting should it be necessary to adjourn in the absence of quorum.
- (iv) Non-receipt of notice by shareholder members shall not be a valid ground for postponing or adjourning the Annual General Meeting.
- (v) Notice of the meeting shall be signed by the Chief Executive Officer of the Bank.

23. QUORUM

Thirty members or one-fifth of the total number of shareholder members whichever is less, shall constitute a quorum for a General Meeting. No business shall be transacted at any meeting unless the quorum of members is present.

24. ADJOURNMENT OF AN ANNUAL GENERAL MEETING AND DISSOLUTION OF A SPECIAL GENERAL MEETING

- (i) In the absence of quorum within half an hour after the time appointed for holding of a General Meeting, the meeting shall stand adjourned to the date stated in the notice of the meeting.
- (ii) In the absence of a quorum, within the time fixed for holding an adjourned general meeting, the shareholder-members present and entitled to vote shall form the quorum.
- (iii) No business other than that business for which a general meeting was called shall be transacted at an adjourned meeting.
- (iv) If, within half an hour after the time appointed for holding a special general meeting, convened on requisition by shareholder-members, a quorum is not present, the meeting shall be dissolved.

25. CHAIRMAN OF GENERAL MEETING

The Chairman of the Board of Directors shall preside over the General Meeting. In his absence, the Vice-Chairman and in the absence of both, the shareholder members present and entitled to vote shall elect one from amongst them to preside over the meeting.

26. VOTING RIGHTS

- (i) Each shareholder member shall have one vote irrespective of the number of shares held.
- (ii) Individual shareholder members shall vote in person, while a firm or a company or any other body corporate constituted under any law for the time being in force, or Government which is a shareholder member may appoint one of its partners, directors or officers to participate in the meeting and to exercise the right of vote.
- (iii) The Chairman presiding over the meeting shall have a casting vote, in case there is equality of votes for and against any resolution.

27. RESOLUTIONS

- (i) Resolutions shall be carried by a majority of votes. Votes shall be taken by show of hands unless a shareholder member

demands a ballot in which case a ballot shall be taken forthwith.

- (ii) Unless specifically directed in this behalf by the Registrar, no resolution concerning
 - (a) Election of an office-bearer and/or (b) Resolution passed in the previous General Body Meeting, can be placed before a General Meeting for re-consideration unless six clear months have elapsed from the date the original resolution was passed.

28. MINUTES

- (i) Minutes of the General Meeting shall be made in the minutes book provided for that purpose.
- (ii) Minutes of a meeting shall stand confirmed as soon as the same are signed by the Chairman who presided over that meeting.

29. BOARD OF DIRECTORS

- (i) The Board of Directors shall consist of not more than 12 Directors to be elected from amongst the shareholder-members of the Bank. At least 2 Directors out of the 12 Directors shall be elected from among the shareholders residing in the area of the Bank's branches outside the headquarters where the Bank has two or more branches. Where the number of such branches is more than two, the branches may be grouped in such a way that the shareholders in each group constitute an electoral college for the election of the Directors.
- (ii) In the event of the State Government contributing to the share capital of the Bank, it shall be entitled to nominate not more than one-third or three Directors on the Board of Directors of the Bank, whichever number is less.
- (iii) In addition to elected and nominated Directors, the Board of Directors may, if it so desires, co-opt not more than two Directors from among persons connected with small-scale and cottage industries, economists, financial and banking experts, and experienced co-operators residing in the area of operation of the Bank. Such Directors, however, shall not be entitled to vote at the meetings of the Board of Directors.
- (iv) At the end of each co-operative year, one-third of the elected directors shall retire from office by rotation. For the purpose of fixing the rotation, lots will be drawn for the first two years.
- (v) A retiring Director shall be eligible for re-election.
- (vi) The expert Directors as referred to in clause (iii) above may be co-opted every year.

30. CHAIRMAN AND VICE-CHAIRMAN OF THE BOARD OF DIRECTORS

- (i) The Board of Directors at its first meeting after the Annual General Meeting shall elect a Chairman and Vice-Chairman for the year from among the elected directors. This meeting shall be held within thirty days from the date of the Annual General Meeting. The Chairman shall preside over all meetings of the Board and also over the Annual General Body Meeting and Special General Meeting when such meetings are called for. In the absence of the Chairman, the Vice-Chairman shall preside over the meetings and in the absence of both the Chairman and the Vice-Chairman, the Directors shall elect the Chairman for that meeting from among those present.
- (ii) The Chairman of a meeting shall have a casting vote.
- (iii) The Chairman and the Vice-Chairman shall hold office for one year. They shall be eligible for re-election.

31. ELIGIBILITY FOR ELECTION AS DIRECTOR

A shareholder member shall not be eligible to be elected as director unless he is a shareholder member of the bank for at least two continuous years prior to the date of election and should have maintained a deposit account with the bank for a continuous period of 2 years with a credit balance of not less than Rs 500.

32. VACATION OF OFFICE BY A DIRECTOR

A director shall be deemed to have vacated his office before the expiry of his term if:

- (i) he becomes a defaulter either as a borrower or as a surety.
- (ii) he resigns and his resignation is accepted and/or ceases to be a member.
- (iii) he remains absent for three consecutive meetings of the Board without obtaining leave of absence.
- (iv) he is adjudged insolvent or incurs legal disability.
- (v) he accepts a position of profit in the Bank.

33. VACANCY IN THE BOARD OF DIRECTORS

Vacancies in the Board of Directors occurring through death, removal, resignation or any other reason, shall be filled by the remaining Directors by co-option from amongst the shareholders who have been members for at least two continuous years as on the date of co-option. Such director shall hold office till the time of the next election.

34. MEETINGS OF THE BOARD OF DIRECTORS AND NOTICE OF THE MEETING

The Board shall meet as often as is necessary to transact business, but it shall meet at least once a month. . Notice of a meeting of the Board

of Directors together with the Agenda of the meeting and detailed notes thereon shall be sent to all the Directors at least eight days prior to the date of the meeting.

35. QUORUM

Five directors shall form the quorum.

36. POWERS OF THE BOARD OF DIRECTORS

- (i) To consider applications for membership, allotment, transfer of shares and resignation.
- (ii) To raise with or without security, loans, overdrafts and cash credits within the maximum limit of borrowing fixed by the General Body of the Bank, and to approve the terms and conditions of such borrowings.
- (iii) To approve the annual balance sheet, statement of profit and loss account and other statements for being placed before the members at the Annual General Meeting.
- (iv) To consider applications for loans and advances and discounting of bills and to determine the terms and conditions thereof.
- (v) To enter into participation arrangements with any commercial or co-operative bank and financial corporation for the purposes of loans and advances and to determine the terms and conditions of participation. This power shall not be delegated to any Committee, Office-bearer or officer.
- (vi) To consider cases of arrears and defaults of loans, overdrafts, advances and cash credits due from constituents and approve the action to be taken for recovery of the same.
- (vii) To consider the proposal to modify, alter, delete and add to the terms and conditions governing the outstanding loans, overdrafts, cash credits and advances due from constituents.
- (viii) To approve investment of monies belonging to the Bank in government and trustee securities, deposits and other approved securities.
- (ix) To approve purchase, sale and/or pledge of government and trustee securities and other approved securities on behalf of the Bank and to delegate jointly to any one of the directors and the Chief Executive Officer, powers for the purpose of purchase, sale and/or pledge as the case may be.
- (x) To consider proposals for opening branches.
- (xi) To fix the rate of interest on loans and deposits.
- (xii) To refer any dispute by or against the Bank to the Registrar or to any other Officer duly appointed for this purpose.
- (xiii) To institute, defend, conduct, compromise, abandon, or withdraw any legal proceedings by or against the Bank, or the Board or its officers or employees.
- (xiv) To approve appointment of brokers, and agents and fix their remuneration.

- (xv) To consider proposals for creating posts of officers and junior and other staff on the Bank's establishment and to frame rules prescribing the procedure for filling the vacancies either by direct recruitment or by promotion from the existing members of staff and fix their qualifications, scales of pay and other allowances.
- (xvi) To appoint a Chief Executive Officer for efficient conduct of the Bank's business and to fix his remuneration and to frame rules governing the disciplinary action against erring employees, including the Chief Executive of the Bank.
- (xvii) To appoint a staff committee every year consisting of the Chairman, the Chief Executive Officer and 3 other directors for disposal of all matters concerning the paid staff of the Bank such as selection, appointment, promotions, training, disciplinary action and punishment.
- (xviii) To consider payment of compensation, advance rent or long-term advance with or without security for the purpose of securing premises for the Bank's Offices on lease or tenancy basis.
- (xix) To prepare annual budget estimates within which the Chief Executive Officer may incur expenditure for proper and efficient working of the Bank.
- (xx) To accept deposits of all kinds and types.
- (xxi) The Board of Directors may appoint a Sub-Committee or Committees and a Branch Committee or Committees consisting of not more than five directors including the Chairman and delegate to any such Committee such powers as it may deem fit. The Chairman of the Board of Directors shall be the Chairman and Chief Executive Officer shall be the ex-officio member of such Committee or Committees appointed by the Board.
- (xxii) To arrange for election of Directors of the Board.
- (xxiii) To open banking accounts, with any Bank or financial institution and to authorise officers of the Bank to deal with the same.
- (xxiv) To fill in, by co-option, casual vacancies occurring in the Board of Directors and also to co-opt expert directors.
- (xxv) To secure membership of or affiliation to appropriate institutions.
- (xxvi) To establish and support the provident fund scheme for the benefit of the staff.
- (xxvii) To nominate representatives of the Bank on the various committees, General Body Meetings whenever necessary, and for attending conferences, seminars etc.
- (xxviii) To make, alter, rescind, or abrogate the rules from time to time regarding the following:
 - (a) Deposits of all kinds and types
 - (b) Travelling allowance of directors and salaried staff

- (c) Provident fund, bonus and gratuity
- (d) Service Rules
- (e) Election Rules

The approval of the General Body shall be obtained in respect of election rules.

- (xxix) To perform all acts connected with the administration of the Bank and to undertake all activities and business in furtherance of the aims and objects of the Bank.

37. All acts done in good faith by the Board of Directors or any person acting as a member of the Board shall notwithstanding that it is afterwards discovered that there was some defect in the appointment of such Board or person be as valid as if the Board or every such person has been duly appointed.

38. MINUTES

The Minutes of the meetings of the Board of Directors, the Committees or Sub-Committees shall be recorded in the Minutes Book, the pages of which shall be duly numbered. The Minutes shall be signed by the Chairman of the Meeting and the Chief Executive Officer of the Bank.

39. CHAIRMAN

The powers and duties of the Chairman shall be as under:

- (i) To preside over the General Meeting, Meeting of the Board of Directors, Sub-Committee Meetings and Meetings of any other Committee.
- (ii) To supervise the general working of the Bank.

40. CHIEF EXECUTIVE OFFICER

The powers and duties of Chief Executive Officer who will be responsible to the Board of Directors, will be as under:

- (i) To take action on the resolutions and decisions taken by the General Body and Board of Directors.
- (ii) To convene the meetings of the General Body, Board of Directors, Sub-Committees, Staff Committee or any other committee and to attend and to record the minutes of all meetings in the minutes book and to countersign the same along with the Chairman of the meeting.
- (iii) To conduct correspondence on behalf of the Bank.
- (iv) To maintain all books of account, registers, and ledgers as may have been prescribed under the Co-operative Societies Act, Rules and by-laws.
- (v) To receive applications for membership of the Bank and for additional shares and place them before the Board of Directors with his report and recommendations.

- (vi) To receive applications for enrolment of nominal members and pass orders thereon.
- (vii) To receive applications for loans and to place them for consideration before the Board of Directors together with a detailed report containing his specific comments/recommendations.
- (viii) To accept deposits of all kinds and types and to arrange for issue of receipts, statements and pass books.
- (ix) To disburse moneys on behalf of the Bank.
- (x) To be the custodian of cash on hand, property both movable and immovable, documents, securities and bonds.
- (xi) To seek orders from staff committee for appointment of staff subordinate to him within the sanctioned strength, on such scales of pay and allowances as may have been sanctioned by the Board of Directors from time to time.
- (xii) To allot work amongst the Bank's staff and supervise their work.
- (xiii) To take disciplinary action against the Bank's staff in accordance with the Service Rules.
- (xiv) To issue orders of transfer of staff whenever necessary.
- (xv) To pass orders on leave applications, travelling allowance bills, medical bills and other permissible bills of the staff.
- (xvi) To incur expenditure within the budget approved by the Board of Directors.
- (xvii) To arrange for investments of moneys in accordance with the Board's policy and to report the same to the Board of Directors in their next meeting.
- (xviii) To exercise such other powers and discharge such other duties as may be delegated or entrusted to him by the Board of Directors or by the Chairman.
- (xix) To sanction loans up to Rs 5,000 against pledge of approved securities excluding immovable property. He shall, however, place a statement of such loans sanctioned before the next meeting of the Board of Directors.

41. LOANS AND ADVANCES

- (1) Loans, cash credits and/or overdrafts on current accounts may be granted to members on security or securities mentioned below or other security or securities approved by the Board of Directors or without security.
 - (i) Personal security and/or surety/sureties of other member/members.
 - (ii) Collateral security of movable and immovable property.
 - (iii) Industrial, mercantile, agricultural and other marketable commodities or machinery under pledge, hypothecation or charge of the Bank.
 - (iv) Pledge of government, trustee securities, shares of

approved companies, debentures, and fixed deposits with the Bank.

- (v) Insurance policies assigned to the Bank within the surrender value.
 - (vi) Warehouse receipts.
 - (vii) Gold and silver ornaments.
 - (viii) Any other tangible security.
 - (ix) The Board may frame detailed loan regulations prescribing proportion of unsecured loans to total loans and advances, proper terms and conditions and the nature of securities acceptable for loans and advances for different purposes.
- (2) Short-term loans will be for periods up to 15 months, medium-term loans for 15 months to 5 years and long-term loans over 5 years.

42. LINKING OF SHAREHOLDING WITH LOAN LIMITS

- (a) A borrower should hold at least 5 per cent of his borrowings if such borrowings are on an unsecured basis, i.e., in the form of clean overdrafts, loans against one or two personal sureties and purchase/discount of clean bills and cheques.
- (b) A borrower against tangible securities should hold shares of the bank to the extent of at least 2½ per cent of his borrowings from the Bank.
- (c) In the case of loans for small-scale industrial units, the linking of share capital might be fixed initially at one per cent of the borrowings, to be raised in the course of the next two years to 2½ per cent. The total amount of share capital held by a member will, however, have to be within the limits laid down under the Co-operative Societies Act.

43. DEPOSITS

- (i) Deposits may be received at any time within the limits determined under the Co-operative Societies Act and Rules, on such rates of interest and subject to such rules and regulations as may be fixed by the Board of Directors and also subject to the directives issued by the Reserve Bank of India in this behalf from time to time.
- (ii) Deposits may be received on current, savings, fixed, recurring, cumulative and under any other special scheme/s.

44. APPROPRIATION OF PROFITS

- (i) The net profit of the Bank shall be calculated as per the provisions of the Co-operative Societies Act and Rules.

- (ii) The General Body on the recommendation of the Board of Directors may appropriate the net profit as under:
 - (a) To carry not less than 25 per cent to the statutory Reserve Fund or such other higher proportion as is prescribed under the Co-operative Societies Act/Rules
 - (b) To carry not less than per cent to bad debts reserve
 - (c) To carry not more than per cent to the Charity Fund
 - (d) To pay to shareholder members dividend not exceeding per cent or subject to the maximum as permitted under the Co-operative Societies Act
 - (e) To carry to the building fund, dividend equalization fund and any other fund created by the Bank such amounts as per the directions of the General Body Meeting. The balance, if any, after appropriation as above shall be carried over to the next year.

45. RESERVE FUND

- (i) In addition to the sum prescribed under the Co-operative Societies Act and By-laws, all admission fees, entrance fees, nominal membership fees, amount of forfeited shares and dividends and donations shall be carried to the Reserve Fund.
- (ii) Any loss occurring as the net result of the year's working may with the previous sanction of the Registrar, be made good from the Reserve Fund or from the profits of the next ensuing year or years.
- (iii) The Reserve Fund shall be separately invested, in government and trustee securities or other approved securities or in fixed deposits with the District Central Co-operative Bank or the State Co-operative Bank.

46. DIVIDEND

- (i) The dividend declared shall be paid to the person whose name stands as the registered shareholder in the books of the Bank on the last day of the co-operative year to which the dividend relates.
- (ii) Dividend shall be proportionate to the amount paid on shares and the period in whole months for which the amount stood to the credit of the shareholder.
- (iii) Dividend shall be payable at par at the Bank's Head Office as well as the branches.
- (iv) Any dividend remaining undrawn for three years after having been declared shall be forfeited and shall be carried to the Reserve Fund of the Bank.
- (v) Unpaid dividend shall be payable on application provided the same has not been forfeited.

47. ACCOUNTS AND RECORDS

Accounts and records shall be maintained in forms prescribed or approved by the Registrar and the Reserve Bank of India with such additions as the Board of Directors consider necessary. Any member of the Bank may inspect any of the registers or records during office hours in so far as they relate to his own business transaction.

48. AUDIT

The accounts of the Bank shall be audited by an auditor appointed by the Registrar or the Bank.

49. SEAL

The Bank shall have a common seal which will remain in the custody of the Chief Executive and shall be affixed in the presence of a Director and the Chief Executive as per a specific resolution of the Board of Directors.

50. AMENDMENT TO BY-LAWS

- (a) None of these by-laws shall be added to, amended, altered or rescinded, except by a vote of the majority consisting of not less than two-thirds of the members present and voting at a General Meeting.
- (b) Any addition, amendment, alteration or rescission resolved upon at such meeting shall take effect from the date of receipt of the Registrar's approval in writing.

metropolitan centres, Rs 30 lakhs in urban centres and Rs 15 lakhs in semi-urban centres.

(iii) There should be co-ordination between the State Co-operative Departments and the Reserve Bank for the registration and licensing of new urban banks.

(iv) To prevent organisation of weak urban banks, registration of primary credit societies with a provision in their by-laws for accepting deposits from non-members should be stopped. The existing primary credit societies should either increase their share capital and reserves to the required level or refund the non-members' deposits within a period of four years and also delete the word 'bank', 'banker' or 'banking' from their name. Similar restrictions are also necessary in respect of salary earners' societies.

(v) Existing urban banks should build up their share capital and reserves to the revised minimum level indicated in (i) above, within a period of three years which can be extended by the Reserve Bank to a further period of two years, wherever necessary.

(vi) Urban banks should diversify their lendings in favour of productive purposes, particularly to cottage and small-scale industries.

(vii) There is need for recruitment of adequately qualified staff at all levels in urban banks and building up of professional management.

(viii) There should be active involvement of the Government of India, the state governments, the Reserve Bank of India, state co-operative banks and the federations of urban co-operative banks at the national and state levels in the promotion and growth of urban banks.

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