

1. Background

1.1 The urban cooperative banking system has witnessed phenomenal growth during the last one and a half decades. From 1307 urban cooperative banks (UCBs) in 1991, the number of UCBs has risen to 2105 in the year 2004. Deposits have increased by over 1100 percent from Rs. 8600 crore to over Rs.100, 000 crore, while advances have risen from Rs. 7800 crore to over Rs.65,000 i.e. by 733 percent during the above 15-year period. This growth path has been possible mainly on account of the enabling policy environment in the Post 1991 period, which encouraged setting up of new urban cooperative banks. Further, the deregulation of interest rates, as available to commercial banks, enabled the UCBs to mobilize vast deposits, which, together with the liberal licensing policy propelled the growth of UCBs in terms of numbers as also in size. This significant growth in business, which has come about in a competitive environment was largely due to the efforts and the ability of the sector to harness resources from the small depositors.

1.2. Thus, while the sector has shown spectacular growth during the last decade exhibiting substantial potential for sustained growth, there are certain infirmities in the sector that have manifested in the form of weakness of some of the entities resulting in erosion of public confidence and causing concern to the regulators as also to the sector at large. There is, thus, a need to harness the benefit of rapid growth and mitigate the risk to which individual banks and the system are exposed by providing a regulatory and supervisory framework that will address the problems of the sector as also the shortcomings of dual control.