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Status of Co-Operative Banks in India

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Abstract

India, the co-operative movement is given more credit. The first level in this is the State Co-operative Bank. The second level is the district central bank and the third level is the primary institution of primary nature. All of them need credit. Considering this matter, it was decided to establish a district central bank in each district. The membership and initiation of these banks were given to the farmers and cooperative societies of that district, then it was decided not to give the membership of these banks to individuals through the Reserve Bank. But initially it was given membership to individuals so the members of the bank have been given the form of individuals and institutions. The working area of that bank is an entire district. The headquarters of this bank is located in the district. Later there are branches of this bank in all the talukas, if necessary a new branch is also opened leaving the branch in the taluka. Through this bank, loans are provided to farmers and many types of cooperative societies in the district. Capital issue may arise in front of this bank while supplying this cost. Considering this matter, the bank can get financial assistance from the State Co-operative Bank. This bank is a member of the State Co-operative Bank. The second Co-operative Act of 1972 provides for the establishment of this bank. This bank is responsible for the development of the cooperative movement in the entire district. A bank which is democratically run. Taluka representatives are sent from each taluka to this bank. It is from this that the working of the management of this bank is prepared. The president is elected from the executive.

Keywords: Co-operative banks, Capital, RBI/NABARD, Act of 1949, UCB's.

Introduction

The co-operative banks have been in the operations since more than 100 years. These banks are an important segment of the Indian Financial System and play an important role in making available banking facilities in urban and rural areas. These banks are formed on the principles of co-operation, mutual help, democratic decision making process and open membership. Like commercial banks, co-operative banks are financial intermediates in the financial system. These banks accept demand and time deposits from various customers for the purpose of lending in urban and rural areas. Co-operative banks provide credit facility mainly for financing agriculture and allied activities, rural based micro and small size enterprises, trade and industry in urban areas. Because of this, co-operative banks in India play an important role in financing of economic activities in rural, semi urban and urban areas. The business of co-operative banks in urban areas has increased phenomenally in recent years on account of increase in number of branches and their ability to reach local customers to meet their banking needs. These banks are registered under the co-operative societies act. They are also governed by the Reserve Bank of India under the Banking Regulation Act of 1949 as amended by the Laws (Applicable to Co-operative Societies) Rules, 1966. The certain sections of Reserve Bank of India Act, 1934 (RBI) are also applicable to co-operative banks. The Government of India appointed a

committee headed by Mr M Narasimham in 1997 to suggest measures to strengthen the banking system in India. This committee submitted its report in 1998. The important recommendations of this committee with respect to the co-operative banks, were as under

- Co-operative banks should reach a minimum of 8 per cent capital risk asset ratio over a period of 5 year
- Co-operative banks need to increase their capital base through subscription by members and not by the Government.
- Present dual control over co-operative banks by the State Government and the RBI/NABARD should be eliminated and these institutions should be brought under the purview of the Banking Regulation Act of 1949
- Co-operative banks must meet genuine credit needs of small industries which includes small borrowers.

Objectives

- To understand the structure of co-operative banking system in India
- To Study performance of urban co-operative banks

Structure of Co-operative Bank

The structure of co-operative banks in India is given in chart no. 1. Based on this chart, co-operative banks in India can be classified into two group's namely urban co-operative banks

and rural co-operative banks. There were 1606 urban co-operative banks as on 31, March 2013. Of these 51 urban co-operative banks were scheduled banks and 1555 urban co-operative banks were non-scheduled banks. The rural co-operative banks can be classified into two groups. One group is of those banks like State Co-operative Banks and District Central Co-operative Banks which provide short term loans. There were 31 State Co-operative Banks and 370 District Central Co-operative Banks as on March 31, 2012. Other group is of State Co-operative Agriculture and Rural Development banks and Primary Co-operative Agriculture & Rural Development banks. There were 20 State Co-operative

Agriculture and Rural Development banks and 697 Primary Co-operative agriculture & Rural Development banks as on March 31, 2012. The chart 1 clearly indicates that co-operative banks in India have a three tier structure namely primary (Urban and Agriculture) co-operative credit banks, district central co-operative banks and at the apex level state co-operative banks. The RBI is responsible for supervision and regulation of primary urban co-operative banks. The National bank for Agriculture and Rural Development (NABARD) is responsible for supervision of state co-operative agriculture and rural development banks, state-co-operative banks and district central co-operative banks.

Structure of Co-operative Credit Institutions in India (AS at end-March 2012)

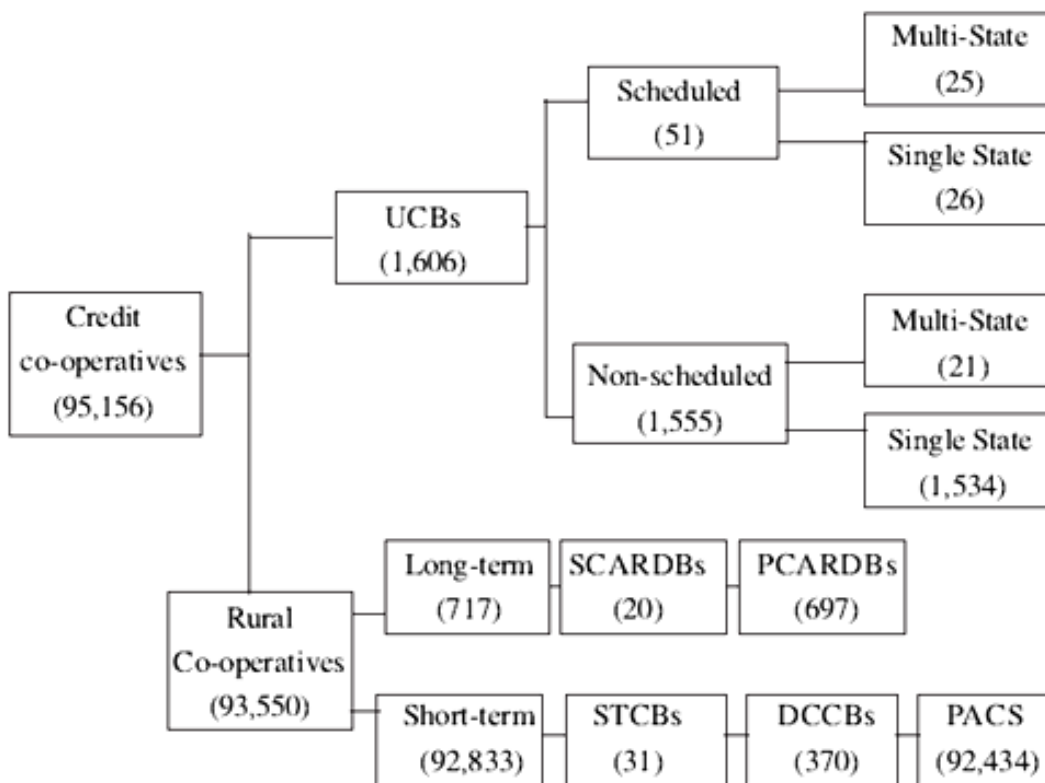


Chart 1: Structure of Co-operative Credit Institutions in India (AS at end-March 2012)

STCBS: State Co-operative Banks, DCCBs: District Central Co-operative Banks, PACS: Primary Agricultural Credit Societies, SCARDBs: State Co-operative Agriculture and Rural Development Banks, PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

Notes

- i). Figures in brackets indicate the number of institutions at end-March 2013 for UCBs and at end-March 2012 for rural co-operatives.
- ii). For rural co-operatives, the number of co-operatives refers to reporting co-operatives.

Recommendations of Various RBI’s Committee on UCB’s

The RBI constituted various committees to improve working of UCBs and promote growth in their business. The committee headed by Mr SS Marathe which was constituted in 1991 made significant recommendations with a view to achieve following objectives:

- i). To introduce viability norms for UCBs
- ii). To broaden the area of operation of UCBs

- iii). To carry out a comprehensive study on treatment to weak and sick banks by the RBI.

Further a working group was formed under chairmanship of Mr UM Chitale. This working group recommended revision in audit ratings model for UCBs.

The RBI appointed a high power committee on UCBs in the year 1999 under the chairmanship of Mr K Madhava Rao. This committee made vary significant recommendations. Few of these recommendations were as under:

- i) The regulator must prescribe the twin criteria for setting up of new UCBs in respect of capital base and norms for eligibility of promoters.
- ii) Use of qualitative norms like Capital Risk Asset Ratio, limit of non-performing assets and operational efficiencies by the RBI to fix viability standards for UCBs.
- iii) UCBs must have a net worth of not less than Rs.50 crore in case if it wants to open branches in other states.
- iv) Newly formed UCBs must be allowed to extend their of operations to the entire district of their registration and adjoining districts.

Structure Regulations & Nature of Business of UCBs

Urban Co-operative Banks (UCBs) are primary co-operative banks which are located in urban and semi-urban areas. UCBs have been organized with a view to achieve the objective of promoting saving habits among middle and lower middle class segments of the society and providing credit facilities to the people with small means in urban and semi urban cities. Primary (Urban) credit society subject to the certain criteria can apply to the RBI for a banking license under the Banking Regulation Act of 1949 to operate as urban co-operative bank. The banking business of UCBs comprising of deposits and advances have concentrated in the western and southern region of the country. These two regions account for 92 per cent of total banking business of UCBs in India. UCBs are registered under the respective co-operative society's acts of the concerned state governments and also regulated by the respective state governments. In view of this, urban co-operative banks operate under the dual control of the RBI as well as State Government. The managerial aspects of these banks like registration, administration, amalgamation etc. are regulated by the State Government. The operational aspects of banking business of these banks are monitored regularly by the RBI based on its assessment of the financial position of the UCBs and initiates supervisory actions. By and large the area of operations of urban co-operative banks is confined to metropolitan, urban and semi urban centers. However, at present urban co-operative banks are allowed to undertake business in the whole district in which they are registered including rural areas. As on March 31, 2013 there were 1606 urban co-operative banks in India. Of these 51 were scheduled banks and 1555 were non-scheduled banks. Few urban co-operative Banks which are financially sound and having deposits of over 50 crore have been allowed to operate in more than one state. There were 46 multi state urban co-operative banks as on March 31, 2013. Till 1996, these banks were allowed to lend money only for non-agriculture purposes. But now these banks with few exceptions undertake banking business similar to that of commercial banks. In other words they undertake retail banking business, provide finance to MSMEs and agriculture sector etc. Urban co-operative banks provide funds and non-fund based facilities to the small borrowers including small enterprises, retail traders, small entrepreneurs, professionals and employed persons. Some urban co-operative banks like Saraswat Co-operative Bank and Cosmos Co-operative Bank, etc., have been permitted by the RBI to undertake foreign exchange business including financial assistance to the exporters and importers.

Number of UCBs and FSWM

On account of consolidation (i.e. merger of weak and unviable UCBs with financially strong and viable UCBs) there has been a continued reduction in numbers of UCBs in India. The total number of UCBs declined from 1872 as on March 31, 2005 to 1606 as on March 31, 2013. This can be seen from the data given in Table 1.

Table 1: Total Number of UCBs

As On March 31	No. of UCBs
2005	1872
2006	1853
2007	1813
2008	1770
2009	1721
2010	1674
2011	1645
2012	1618
2013	1606

Source: RBI's Report on Trend and progress of Banking in India for 2012-2013

UCBs which fulfill the following six norms are called as Financially Sound and well Managed (FSWM) UCBs.

- Capital risk Asset Ratio (CRAR) is not less than 10 per cent.
- Net non-performing assets (NPAs) are not more than 3 per cent and gross NPAs are less than 7%.
- No default in the maintenance of Cash Reserve Ratio (CRR)/Statutory Liquidity Ratio (SLR) during the preceding financial year.
- Uninterrupted net profit for the last three years.
- Sound internal control systems with at least two professional directors on the board.
- Regulatory comfort based on inter-alia record of compliance with the sections of banking Regulation Act of 1949, RBI Act of 1934 and instructions/directions issued by the RBI from time to time.

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