CH. 1. INTRODUCTION TO CO-OPERATIVE BANKING

DEFINATION:

"A Co-operative bank, as its name indicates is an institution consisting of a number of individuals who join together to pool their surplus savings for the purpose of eliminating the profits of the bankers or money lenders with a view to distributing the same amongst the depositors and borrowers."

The Co-operative Banks Act, of 2007 (the Act) defines a co-operative bank as a co-operative registered as a co-operative bank in terms of the Act whose members –

1. are of similar occupation or profession or who are employed by a common employer or who are employed within the same business district; or

2. have common membership in an association or organisation, including a business, religious, social, co-operative, labour or educational group; or

3. have common membership in an association or organisation, including a business, religious, social, co-operative, labour or educational group; or

4. Reside within the same defined community or geographical area.

CO-OPERTIVE BANKING - AN INTRODUCTION:

Co-operative bank, in a nutshell, provides financial assistance to the people with small means to protect them from the debt trap of the moneylenders. It is a part of vast and powerful structure of co-operative institutions which are engaged in tasks of production, processing, marketing, distribution, servicing and banking in India. A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. These banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts…). Co-operative banks differ from stockholder banks by their organization, their goals, their Values and their governance.

The Co-operative Banking System in India is characterized by a relatively comprehensive network to the grass root level. This sector mainly focuses on the local population and micro- banking among middle and low income strata of the society. These banks operate mainly for the benefit of rural areas, particularly the agricultural sector.

OBJECTIVES OF STUDY

- The Objective of the study of Co-operative Banking is to know the origin of Co-operative Banks in India.
- To know the role of Co-operative banks in India.
- To know the importance of Co-operative Banks in India.
- To know the types of Co-operative Banks.
- To know the Development of Co-operative Banks in India.

CH. 2. ORIGIN AND OPERATION OF CO-OPERATIVE BANKING

ORIGIN OF CO-OPERATIVE BANKING:

The beginning co-operative banking in India dates back to about 1904, when official efforts were made to create a new type of institution based on principles of co-operative organization & management, which were considered to be suitable for solving the problems peculiar to Indian conditions.

The philosophy of equality, equity and self help gave way to the thoughts of self responsibility and self administration which resulted in giving birth of co-operative. The origin on co-operative movement was one such event-arising out of a situation of crisis, exploitation and sufferings.

Co-operative banks in India came into existence with the enactment of the Agricultural Credit Co-operative Societies Act in 1904. Co-operative bank form an integral part of banking system in India. Under the act of 1904, a number of co-operative credit societies were started. Owing to the increasing demand of co-operative credit, anew act was passed in 1912, which was provided for establishment of co-operative central banks by a union of primary credit societies and individuals.

Co-operative Banks in India are registered under the Co-operative Societies Act. The cooperative bank is also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

OPERATION OF CO-OPERATIVE BANKING:

❖ **Establishments:**

- Co-operative bank performs all the main banking functions of deposit mobilisation, supply of credit and provision of remittance facilities.
- Co-operative Banks belong to the money market as well as to the capital market.
- Co-operative Banks provide limited banking products and are functionally specialists in agriculture related products. However, co-operative banks now provide housing loans also.
- UCBs provide working capital loans and term loan as well.

❖ **The chief functions of Co-operative banks are:**

a. To attract deposit from non-agriculturist,

b. To use excess funds of some societies temporarily to make up for shortage in another,

c. To supervise and guide affiliated societies.

❖ **The basic principles on which a Co-operative bank works are:**

- A co-operative character of activities and trait of mutual aid of credit granted.

- Catering for collective organizations and their members.

- Restriction on the number of individual votes.

As a result, during 2007-08, the Primary Cooperative Agriculture and Rural Development Banks have again started lending for the Non-Farm Sector including Jewel Loans.

- Aiming at high rates on deposits and low rates on lending.

- Limitation of dividends out of profits and bonus to depositors and borrowers or grants to cultural or co-operative endeavour.

These banks are constituted of voluntary association, self-help and mutual aid, one share one vote and non-discrimination and equality of members. **The co-operative banks are the organizations of and for the people**.

CH. 3. ROLE OF CO-OPERATIVE BANKING

ROLE OF CO-OPERATIVE BANKING IN INDIA:

Co-operative Banks are much more important in India than anywhere else in the world. The distinctive character of this bank is service at a lower cost and service without exploitation. It has gained its importance by the role assigned to them, the expectations they are supposed to fulfill, their number, and the number of offices they operate. Co-operative banks role in rural financing continues to be important day by day, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative banks. In rural areas, as far as the agricultural and related activities are concerned, the supply of credit was inadequate, and money lenders would exploit the poor people in rural areas providing them loans at higher rates. So, Co-operative banks mobilize deposits and purvey agricultural and rural credit with a wider outreach and provide institutional credit to the farmers. Co-operative bank have also been an important instrument for various development schemes, particularly subsidy-based programmes for poor.

The Co-operative banks in **rural areas** mainly finance agricultural based activities like:

- Farming
- Cattle

- Milk
- Hatchery
- Personal finance

The Co-operative banks in **urban areas** finance in activities like:

- Self-employment
- Industries
- Small scale units
- Home finance
- Consumer finance
- Personal finance

Some of the forward looking Co-operative banks have developed sufficient core competencies to such an extent that they are able to challenge state and private sector banks.

The exponential growth of Co-operative banks is attributed mainly to their much better contacts with the local people, personal interaction with customers, and their ability to catch the nerve of the local clientele. The total deposits and lendings of Co-operative banks are much more than the Old Private Sector Banks and the New Private Sector Banks.

IMPORTANCE OF CO-OPERATIVE BANKING

Co-operative bank forms an integral part of banking system in India. This bank operates mainly for the benefit of rural area, particularly the agricultural sector. Co-operative bank mobilize deposits and supply agricultural and rural credit with the wider outreach. They are the main source for the institutional credit to farmers. They are chiefly responsible for breaking the monopoly of moneylenders in providing credit to agriculturists. Co-operative bank has also been an important instrument for various development schemes, particularly subsidy-based programmes for the poor. Co-operative banks operate for non-agricultural sector also but their role is small.

Though much smaller as compared to scheduled commercial banks, co-operative banks constitute an important segment of the Indian banking system. They have extensive branch network and reach out to people in remote areas. They have traditionally played an important role in creating banking habits among the lower and middle income groups and in strengthening the rural credit delivery system.

CH. 4. HISTORY OF CO-OPERATIVE BANKING

HISTORY OF CO-OPERATIVE BANKING

The origins of the cooperative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany, such societies were set up in India.

Now, Co-operative movement is quite well established in India. The first legislation on co-operation was passed in 1904. In 1914 the Maclagen committee envisaged a three tier structure for co-operative banking viz. Primary Agricultural Credit Societies (PACs) at the grass root level, Central Co-operative Banks at the district level and State Co-operative Banks at state level or Apex Level.

In the beginning of 20th century, availability of credit in India, more particularly in rural areas, was almost absent. Agricultural and related activities were starved of organised, institutional credit. The rural folk had to depend entirely on the money lenders, who lent often at usurious rates of interest.

The co-operative banks arrived in India in the beginning of 20th Century as an official effort to create a new type of institution based on the principles of co-operative organisation and management, suitable for problems peculiar to Indian conditions. These banks were conceived as substitutes for money lenders, to provide timely and adequate short-term and long-term institutional credit at reasonable rates of interest.

The Anyonya Co-operative Bank in India is considered to have been the first co-operative bank in Asia which was formed nearly 100 years back in Baroda. It was established in 1889 with the name **Anyonya Sahayakari Mandali Co-operative Bank Limited**, with a primary objective of providing an alternative to exploitation by moneylenders for Baroda's residents.

In the formative stage Co-operative Banks were Urban Co-operative Societies run on community basis and their lending activities were restricted to meeting the credit requirements of their members. The concept of Urban Co-operative Bank was first spelt out by Mehta Bhansali Committee in 1939 which defined on Urban Co-operative Bank . Provisions of Section 5 (CCV) of Banking Regulation Act, 1949 (as applicable to Co-operative Societies) defined an Urban Co-operative Bank as a Primary Co-operative Bank other than a Primary Co-operative Society were made applicable in 1966.

With gradual growth and also given philip with the economic boom, urban banking sector received tremendous boost and started diversifying its credit portfolio. Besides giving traditional lending activity meeting the credit requirements of their customers they started catering to various sorts of customers viz.self-employed, small businessmen / industries, house finance, consumer finance, personal finance etc.

CH. 5. FEATURES OF CO-OPERATIVE BANKING

FEATURES OF CO-OPERATIVE BANKING

1.Co-operative Banks are organized and managed on the principal of co-operation, self-help, and mutual help. They function with the rule of "one member, one vote". function on "no profit, no loss" basis. Co-operative banks, as a principle, do not pursue the goal of profit maximization.

2. Co-operative bank performs all the main banking functions of deposit mobilisation, supply of credit and provision of remittance facilities.

3. Co-operative Banks provide limited banking products and are functionally specialists in agriculture related products. However, co-operative banks now provide housing loans also.

4. Co-operative banks are perhaps the first government sponsored, government-supported, and government-subsidised financial agency in India. They get financial and other help from the Reserve Bank of India, NABARD, central government and state governments. They constitute the "most favoured" banking sector with risk of nationalisation. For commercial banks, the Reserve Bank of India is lender of last resort, but co-operative banks it is the lender of first resort which provides financial

resources in the form of contribution to the initial capital (through state government), working capital, refinance.

5. Co-operative Banks belong to the money market as well as to the capital market. Primary agricultural credit societies provide short term and medium term loans.

6. Co-operative banks are financial intermediaries only partially.
The sources of their funds (resources) are:
(a) Central and state government,
(b) The Reserve Bank of India and NABARD,
(c) Other co-operative institutions,
(d) Ownership funds and,
(e) Deposits or debenture issues.

7. Some co-operative bank are scheduled banks, while others are non-scheduled banks. Co-operative Banks are subject to CRR and liquidity requirements as other scheduled and non-scheduled banks are. However, their requirements are less than commercial banks.

8. As said earlier, co-operative banks accept current, saving, and fixed or time deposits from individuals and institutions including banks.

9. In the recent past, the RBI has introduced changes in interest rates of co-operative banks also, along with changes in interest rates of commercial banks. The interest rates structure of co-operative banks is quite complex. The rates charged by them depend upon the type of bank, the type of loans,

and vary from state to state.

10. Since 1966 the lending and deposit rate of commercial banks have been directly regulated by the Reserve Bank of India. Although the Reserve Bank of India had power to regulate the rate co-operative bank but this have been

exercised only after 1979 in respect of non-agricultural advances they were free to charge any rates at their discretion. Although the main aim of the co-operative bank is to provide cheaper credit to their members and not to maximize profits, they may access the money market to improve their income so as to remain viable.

11. Co-operative banks (COBs), in short, have played a pivotal role in the development of short-term and long-term rural credit structure in India over the years. The co-operative credit effort is said to be the first ever attempt at micro-credit dispensation in India.

Co-operative Banks share some common features for their customer benefit:

- **Customer's owned entities** :

  In a co-operative bank, the needs of the customers meet the needs of the owners, as co-operative bank members are both. As a consequence, the first aim of a co-operative bank is not to maximise profit but to provide the best possible products and services to its members. Some co-operative banks only operate with their members but most of them also admit non-member clients to benefit from their banking and financial services.

- **Democratic member control** :

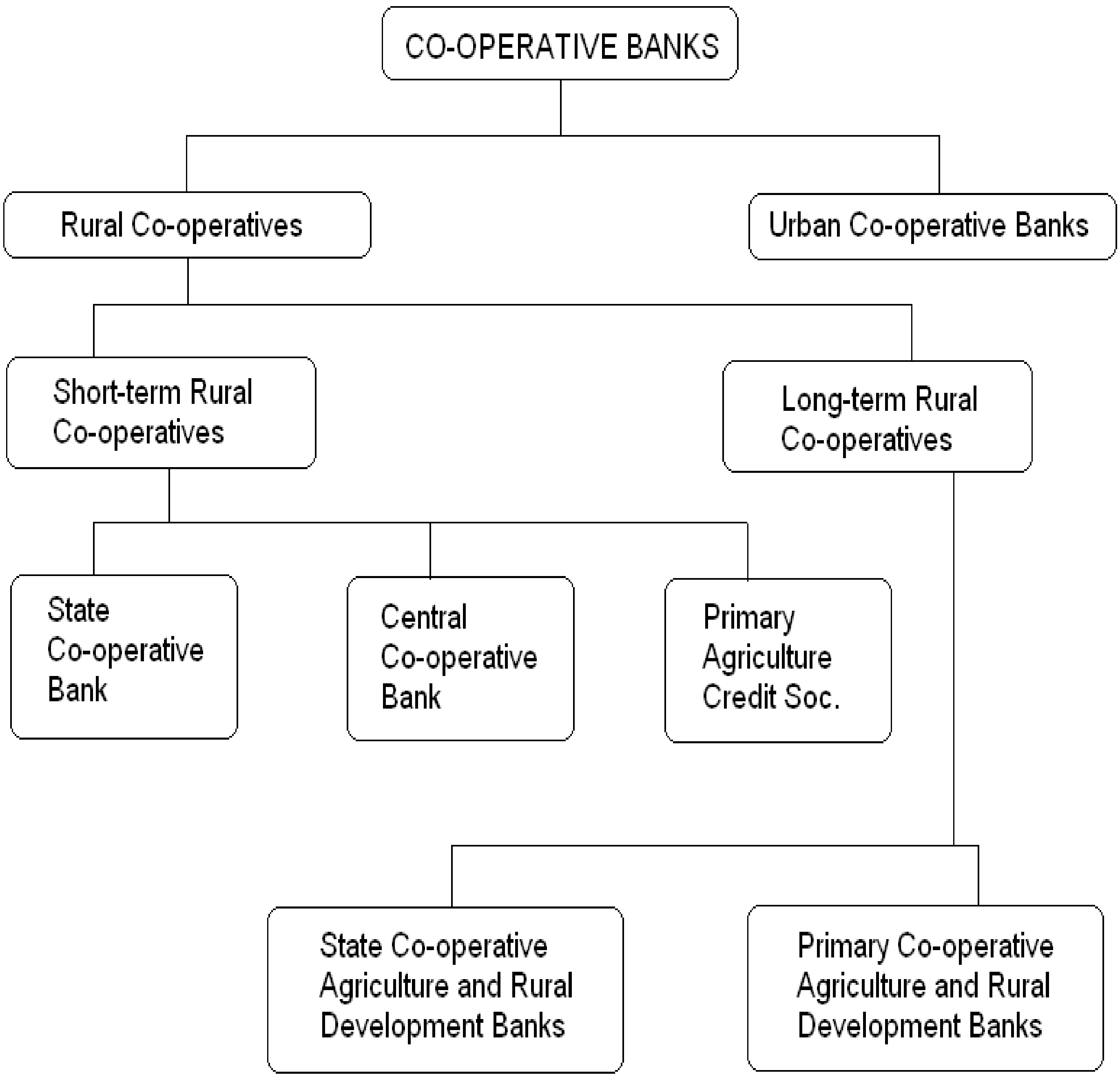
  Co-operative banks are owned and controlled by their members, who democratically elect the board of directors. Members usually have equal voting rights, according to the co-operative principle of "one person, one vote".

- **Profil allocation** :

  In a co-operative bank, a significant part of the yearly profit, benefits or surplus is usually allocated to constitute reserves. A part of this profit can also be distributed to the co-operative members, with legal or statutory limitations in most cases. Profit is usually allocated to members either through a patronage dividend, which is related to the use of the co-operative's products and services by each member, or through an interest or a dividend, which is related to the number of shares subscribed by each member.

CH. 6. TYPES OF CO-OPERATIVE BANKS

TYPES OF CO-OPERATIVE BANKS



CLASSIFICATION OF CO-PERATIVE BANKS:

The Co-operative banking structure in India comprises of:

1. Urban Co-operative Banks
2. Rural Co-operatives

Some co-operative banks are scheduled banks, while others are non-scheduled banks. For instance, State Co-operative banks and some Urban Co-operative banks are scheduled banks but other co-operative banks are non-scheduled banks.

Scheduled banks are those banks which have been included in the second schedule of the Reserve bank of India act of 1934. **The banks included in this schedule list should fulfill two conditions.**

1. The paid capital and collected funds of bank should not be less than Rs. 5 lac.

2.Any activity of the bank will not adversely affect the interests of depositors.

Every Scheduled bank enjoys the following facilities.

1. Such bank becomes eligible for debts/loans on bank rate from the RBI
2. Such bank automatically acquire the membership of clearing house.

1. Urban Co-operative Banks:

Urban Co-operative Banks is also referred as Primary Co-operative banks by the Reserve Bank of India. Among the non-agricultural credit societies urban co-operative banks occupy an important place. This bank is started in India with the object of catering to the banking and credit requirements of the urban middle classes.

The RBI defines Urban Co-operative banks as “small sized co-operatively organized banking units which operate in metropolitan, urban and semi-urban centers to cater mainly to the needs of small borrowers, viz. owners of small scale industrial units, retail traders, professional and salaries classes.”

Urban Co-operative banks mobilize savings from the middle and lower income groups and purvey credit to small borrowers, including weaker sections of the society. These banks organize on a limited liability basis, generally extend their area of operation over a town. The main functions of these banks are to promote thrift by attracting deposits from members and non-members and to advance loans to the members. It is registered under Co-operatives Societies Act of the respective state Governments. Prior to 1966, Urban Co-operative banks were exclusively under the purview of State Government. From March 1, 1966 certain provisions of Banking Regulation Act have been made applicable to these banks. Consequently, the

RBI became the regulatory an supervisory authority of Urban Co-operative Banks for their related operations. Managerial aspects of such banks continue to remain with State Governments under the respective Co-operative Societies Act. These banks with multi-presence are regulated by the Central Governments and registered under Multi-State Co-operative Societies Act. The RBI extends refinance to Urban Co-operative Banks at bank ate against their advances to tiny and cottage industrial units. These banks grants sizeable loans and advances under priority sector for lending to small business enterprises, retail trade, road and water transport operators and professional and self-employed persons. Urban Co-operative banks are mostly located in towns and cities and cater to the credit requirement of the urban clientele.

The objectives and functions of the Urban Co-operative banks:

- Primarily, to raise funds for lending money to its members.
- To attract deposits from members as well as non-members.
- To encourage thrift, self-help ad mutual aid among members.
- To draw, make, accept, discount, buy, sell, collect and deal in bills of exchange, drafts, certificates and other securities.
- To provide safe-deposit vaults.

Area of Operation :

The area of operation of these banks are usually restricted by its byelaws to a municipal area or a town. In some occasions it exceeds this limit. The study group on Credit Co-operatives in Non-Agricultural Sectors has recommended that normally, it would be advisable for an urban co-operative bank to restrict its area of operation to the municipality or the taluka town where it operates.

2. Rural Co-operatives:

Rural Cooperative Banking plays an important role in meeting the growing credit needs of rural population of India. It provides institutional credit to the agricultural and rural sector. The inadequacy of rural credit engaged the attention of RBI and Government throughout the 1950s and 1960s. One important feature of providing agriculture credit in India has been the existence of a widespread network of rural financial institutions. The rural credit structure consists of many types of financial institutions as large scale branch expansion was undertaken to create a strong institution based in rural area. It has served as an important instrument of credit delivery in rural and agricultural areas. The separate structure of rural Co-operative sector for long-term and short-term loans has enabled these institutions to develop a specialized institution for rural credit delivery. The volume of credit flowing through these institution has increased. The Rural Co-operative structure has traditionally been bifurcated into two parallel wings, i.e.

I. Short-term Rural Co-operatives,

II. Long-term Rural Co-operatives.

There is a larger network of co-operative banks in the rural sector, consisting of 29 State Co-operative Banks and 367 District Central Co-operative Banks, with 13,025 branches. In addition, there are 92,000 Primary Agricultural Co-operative Credit Societies , 19 State Land Development Banks and 745 Primary Land Development Banks, along with 1,847 branches, which are not strictly banks as they are not covered under the Banking Regulation Act, 1949. The RBI Governor's proposals should, therefore, encompass the entire Co-operative banking system.

I. Short-term Rural Co-operatives:

The short-term rural co-operatives provide crop and other working capital loans to farmers and rural artisans primarily for short-term purpose. These institutions have federal three-tier structure.

At the Apex of the system is a State Co-operative bank in each state.

At the middle (or district) level, there are Central Co-operative Banks also known as District Co-operative banks.

At the lowest (or village) level, are the Primary Agricultural Credit Societies.

i. <u>State Co-operative Banks:</u>

State Co-operative Banks are the apex of the three-tier Co-operative structure dispensing mainly short/medium term credit. It is the principal society in a State which is registered or deemed to be registered under the Government Societies Act, 1912, or any other law for the time being in force in India relating to co-operative societies and the primary object of which is the financing of the other societies in the State which are registered or deemed to be registered. The State Co-operative Banks receive current and fixed deposits from its constituent banks as well as savings, current and fixed deposits from the general public and from local boards, other local authorities, etc. Further, they receive loans from the RBI and NABARD. NABARD is the supervisory authority for State Co-operative Banks. The state government contributes the certain portion of their working capital. The principal function of State Co-operative Banks is to assist the Central Co-operative Banks and to balance excesses and deficiencies in the resources of Central Co-operative Banks. It also act as the "balancing centre" for Central Co-operative Banks in the sense that surplus fund of some of these banks are made available to other needy banks. It also serves the link between RBI and the Central Co-operative Banks and Primary Agriculture Credit Societies. But the connection between the State Co-operative Banks and Primary Co-operative Societies is not direct. The

Central Co-operative Banks are acting as intermediaries between the State Co-operative Banks and Primary societies.

ii. Central Co-operative Banks:

Central Co-operative Banks form the middle tier of Co-operative credit institutions. These are the independent units in as much as the State Co-operative Banks have control to control or supervise their affairs. They are of two kinds i.e. ‘pure’ and ‘mixed’. Those banks are the membership of which is confined to co-operative organizations only are included in ‘pure’ type, while those banks the membership of which is open to co-operative organizations as well as to the individuals are included in ‘mixed’ type. The pure type of Central Banks can be seen in Kerala, Bombay, Orissa, etc., while the mixed type can be seen in Andhra Pradesh, Assam, Tamil Nadu, etc. The pure type of banks is based on strict co-operative principles. However, the mixed type has an advantage over the pure type in so far as they can draw their funds from the non-agricultural sector too.

The Central Co-operative Banks draw their funds from share capital, deposits, loans from the State C-operative Banks and where State Banks do not exist from the RBI, NABARD and commercial banks. NABARD is the supervisory authority for Central Co-operative Banks. Deposits constitute the major component of sources of funds, followed by borrowings. The main function of Central Co-operative Banks is to finance the primary credit societies. In addition they carry on Commercial banking activities like acceptance of deposits, granting of loans and advances on the security of first class guilt-edged securities, fixed deposit receipts, gold, bullion, goods and documents of title to goods, collection of bills, cheques, etc., safe custody of valuables and agency services. They are expected to attract deposits from the general public. They also act as ‘balancing centres’, making available access funds of one primary to another which is in need of them.

The central co-operative banks are located at the district headquarters or some prominent town of the district. These banks have a few private individuals also who provide both finance and management. The central co-operative banks have three sources of funds,

- Their own share capital and reserves
- Deposits from the public and
- Loans from the state co-operative banks

iii. <u>Primary Agriculture Credit Societies:</u>

Primary Agricultural Credit Societies is the foundation of the co-operative credit system on which the superstructure of the short-term co-operative credit system rests. It deals directly with individual farmers, provide short and medium term credit, supply agricultural inputs, distribute consume articles and also arrange for the marketing of products of its members through a c-operative marketing societies. These societies form the basic unit of co-operative credit system in India. These voluntary societies based on principle of one man one vote has posed challenge to exploitative practices of the village moneylenders. The farmers and other small-time borrowers come in direct contact with these societies. The success of the co-operative credit movement depend largely on the strength of these village level societies.

The major objective of Primary agricultural Credit Societies is to serve the need of weaker sections of these society. For this purpose, the people with limited means, particularly with schedules castes and scheduled tribes, are encouraged to become members of these societies. So, they must function effectively as well-managed and multi-purpose institutions mobilizing the savings of the rural people and providing the package of services including credit, supply of agricultural inputs and implements, consumer goods, marketing services and technical guidance with focus on weaker sections. Government has promoted multi-purpose societies in tribal areas for the benefit of people living there.

Challenges faced by this societies, apart from improving resources mobilization, are the following:

- Improving volume of business
- Reducing cost of management.
- Correcting imbalances in loan outstanding.
- Improving skill of the staff and imparting proffesionalisation

- Strenghtening Management Information System (MIS).

II. Long-term Rural Co-operatives:

The long-term rural co-operative provide typically medium and long-term loans for making investments in agriculture, rural industries and, in the recent period, housing. Generally, these co-operatives have two tiers, i.e. State Co-operative Agriculture and Development Banks (SCARBDs) at the state level and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) at the taluka or tehsil level. However, some States have a unitary structure with the state level banks operating through their own branches.

i. State Co-operative Agriculture and Development Banks (SCARBDs):

State Co-operative Agriculture and Development Banks constitute the upper-tier of long term co-operative credit structure. Though long term credit co-operatives have been allowed to access public deposits under certain conditions, such deposits constitute a relatively small proportion of their total liabilities. They are mostly dependent on borrowings for on-lending.

The main objective of the Co-operative State Agriculture and Rural Development bank is to finance primary agriculture and rural development banks. The bank undertakes the following functions to achieve the above objectives:-

(a) Floatation of Debentures,

(b) Receiving Deposits;

(c) Grant of loans to primary cooperative agriculture and rural development banks for purposes approved by the National Bank for Agricultural and Rural Development and Registrar of Cooperative Societies;

(d) To function as the agent of any cooperative bank subject to such conditions as the Registrar may specify;

(e) To develop, assist and coordinate the work of affiliated primary cooperative agriculture and rural development banks.

The bank issues long term and medium term loans towards agricultural and allied activities like construction of godowns, cattle shed, farm house, purchase of lands etc., and for minor irrigation purposes like construction of new wells, deepening of existing wells etc., In addition, long term loans are also sanctioned for animal husbandry, fisheries, plantation, farm mechanization, non-farm sector and other non-minor irrigation schemes.

ii. Primary Co-operative Agriculture and Rural Development Banks (PCARDBs):

Primary Co-operative Agriculture and Rural Development Banks are the lowest layer of long term credit co-operatives. It is primarily dependent on the borrowings for their lending business.

They provide credit for developmental purposes like minor irrigation, cultivation of plantation crops and for diversified purposes like poultry, dairying and sericulture on schematic basis. They get requisite financial assistance from the Cooperative State Agriculture and Rural Development Bank.

In order to widen their scope of lending to compete with other financial agencies, the primary cooperative agriculture and rural development banks have been permitted to finance artisans, craftmen and small scale entrepreneurs. They have also been permitted to issue loans to small road transport operators in rural areas for purchase of goods carriers and passenger vehicles.

As a result, during 2007-08, the Primary Cooperative Agriculture and Rural Development Banks have again started lending for the Non-Farm Sector including Jewel Loans.

CH. 7. REGULATORY BODIES OF CO-OPERATIVE BANKS

CO-OPERATIVE BANKS AND NABARD

As an apex bank involved in refinancing credit needs of major financial institutions in the country engaged in offering financial assistance to agriculture and rural development operations and programmes, NABARD has been sharing with the Reserve Bank of India certain supervisory functions in respect of co-operative banks and Regional Rural Banks (RRBs).

As part of these functions, it

- Undertakes inspection of Regional Rural Banks (RRBs) and co-operative banks (other than urban/primary co-operative banks) under the provisions of Banking Regulation Act, 1949.

- Undertakes inspection of State Co-operative Agriculture and Rural Development Banks (SCARDBs) and apex non-credit co-operative societies on a voluntary basis

- Undertakes portfolio inspections, systems study, besides off-site surveillance of co-operative banks.

- Provides recommendations to Reserve Bank of India on opening of new branches by State Co-operative Banks.

- Administering the Credit Monitoring Arrangements in Co-operative banks.

Core Functions of NABARD for Co-operative Banks:

NABARD has been entrusted with the statutory responsibility of conducting inspections of State Co-operative Banks (SCBs), District Central Co-operative Banks (DCCBs) and Regional Rural Banks (RRBs) under the provision of the Banking Regulation Act, 1949. In addition, NABARD has also been conducting periodic inspections of state level co-operative institutions such as State Co-operative Agriculture and Rural Development Banks (SCARDBs), on a voluntary basis.

REFORMS IN BANKING REGULATION ACT, 1949

Amendments to the BR Act would cover the following:

i. All cooperative banks would be on par with the commercial banks as far as regulatory norms are concerned.

ii. RBI will prescribe fit and proper criteria for election to Boards of cooperative banks. Such criteria would however not be at variance with the nature of membership of primary cooperatives which constitute the membership of the District/ Central Co-operative Banks and State Co-operative Banks.

iii. However, as financial institutions, these Boards would need minimum support at the Board level. Thus, the RBI will prescribe certain criteria for professionals to be on the Boards of cooperative banks. In case members with such professional qualifications or experience do not get elected in the normal electoral process, then the Board will be required to appoint such professionals in the Board and they would have full voting rights.

iv. The CEOs of the cooperative banks would be appointed by the respective banks themselves and not by the state. However, as these are banking institutions, RBI will prescribe the minimum qualifications of the CEO to be appointed and the names proposed by the cooperative banks for the position of CEO would have to be approved by RBI.

v. Cooperatives other than cooperative banks as approved by the RBI would not accept non-voting member deposits. Such cooperatives would also not use words like “bank”, “banking”, “banker” or any other derivative of the word “bank” in their registered name.

If a State Government and the CCS units in that state are enthusiastic in implementing the package, fulfillment of all the above conditionalities and consequently release of the entire financial assistance could be completed even within a year.

REFORMS IN CO-OPERATIVE SOCIETIES ACT:

As making legal amendments is time consuming process, the state governments may issue Executive Orders under the existing powers to bring in the desired reforms which will relate to:

i. Ensuring full voting membership rights on all users of financial services including depositors in cooperatives other than cooperative banks.

ii. Removing state intervention in all financial and internal administrative matters in cooperatives.

iii. Providing a cap of 25% on government equity in cooperatives and limiting participation in the Boards of cooperative banks to only one nominee. Any state government or a cooperative wishing to reduce the state equity further would be free to do so and the cooperative will not be prevented from doing so.

iv. Allowing transition of cooperatives registered under the CSA to migrate under the Parallel Act (wherever enacted)

v. Withdrawing restrictive orders on financial matters

vi. Permitting cooperatives in all the three tiers freedom to take loans from any financial institution and not necessarily from only the upper tier and similarly placing their deposits with any regulated financial institution of their choice.

vii. Permitting cooperatives under the parallel Acts (wherever enacted) to be members of upper tiers under the existing cooperative societies Acts and vice-versa.

viii. Limiting powers of state governments to supersede Boards

ix. Ensuring timely elections before the expiry of the term of the existing Boards.

x. Facilitating regulatory powers for RBI in case of cooperative banks as mentioned earlier.

ASSET STRUCTURE OF CO-OPERATIVE BANKS AS PER 2007

- The cooperative banks/credit institutions constitutes the second segment of Indian banking system, comprising of about 14% of the total banking sector asset (March 2007).

- Bulk of the cooperative banks operate in the rural regions with rural coop banks accounting for 67% of the total asset and 67% of the total branches of all cooperative banks.

- Share of rural cooperatives in total institutional credit was 62% in 1992-93, 34% in 2002-03 and 53% in 2006-07.

- Cooperative banks have an impressive network of outlets for institutional credit in India, particularly in rural India (1 PACS per 7 villages).

- In March 2007, there were 97,224 PACS in rural India against 30,393 branches of commercial banks (more than 3 times of outlet of coop banks).

- In March 2007, there were 102 savings A/C and 113 cooperative bank members per 1000 rural in India.

- Cooperative banks (both rural and urban) cater to small and marginal clients.

- Financial health of the cooperative credit institutions, particularly the rural cooperatives, has been found to be poor by several Committees.

Structure of Co-operative Banking (March 2007)

Institution	Number of Institute	Number of Branch	Asset Share (%)
A. Rural Co-operative Credit Structure:	**107497**	**112895**	**67**
1. Short term:	**106781**	**111090**	**58**
▪ State Coop bank	31	938	15
▪ Central Coop bank	369	12928	29
▪ Primary Agri Coop soc.	97224	97224	14
2. Long term:	**716**	**1800**	**8.3**
▪ State Coop Agri and Rural Dev banks	20	1104	4.4
▪ Primary Coop Agri and Rural Dev banks	696	696	3.9

B. Urban Co-operative Banks:	**49805**	**56600**	**33**

CH. 8. STRENGTH AND WEAKNESS OF CO-OPERATIVE BANK

MAIN WEAKNESS OF CO-OPERATIVE BANKS

The main weaknesses of co-operative banks are as follows:

1. The vital link in the co-operative credit system namely, the Primary Agricultural Co-operative Societies, themselves remain very weak. They are too small in size to be economical and viable; besides too many of them are dormant, existing only on paper.

2. With the expanding credit needs of the rural sector, the commercial banks have come in actively to meet the credit requirements of this sector, and this has aggravated the difficulties of co-operative banks. The theory that co-

operative banks would be buoyed up by the competition from other financial institutions does not appear to have worked.

3. Co-operative banks are not doing well in all the states; only a few account for a major part of their business. For example, 75 per cent of total deposits mobilised by State C-operative Banks was from only seven states in 1987- Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu, and Uttar Pradesh.

4. These banks still rely very heavily on refinancing facilities from the government, the RBI, and NABARD. They have yet not been able to become self-reliant in respect of resources through deposit mobilisation.

5. They suffer from dangerously low or weak quality of loan assets, and from highly unsatisfactory recovery of loans. They suffer from infrastructural weaknesses and structural flaws. They do not look like banks and do not inspire confidence in the potential members, depositors and borrowers.

6. Poor resource base is main constraint of these banks. Relatively low per capita base and less equity base due to non-participations of the members in the financial activities and limited area of operation is becoming a permanent obstacle in the progress of this sector.

7. Poor profit position and burden of huge accumulated losses of several co-operative banks has threatened the very survival of these banks. The amount of cost of management of this sector has adversely affected its profitability.

8. Most of the Co-operative banks are suffering from the lack of professional management. In the deregulated environment and stiff competition in the banking sector, do to lack of the professionalism in carrying out banking activities, the weakness of these banks has become more prominent.

9. Many co-operative banks even now continue to follow age-old system and procedures, which are not conductive in the present technologically driven banking environment. Except some Co-operative banks, technological development in Information Technology or computerized data management is conspicuously Absent.

10. There is a lack of proper governance. Corporate Governance has great relevance in the present environment. As there is no formal system of corporate governance in co-operative banks, many banks have become the hot bed of political patronage, unscrupulous financial practice and gross mis-management.

11. Another problem arises out of the duality of control over them i.e. these banks are organized under dual control of RBI and as well as respective state government. Apart from the intervention of the apex bodies, the Government is also found to exercise control in various ways on these banks. Government intervention in the management, administration and business operation of co-operative banks has made the institution lose his own distinct character.

12. They suffer from too much officialisation and politicisation. Undue governmental interventions have prevented them from developing steadily as a self-reliant and resilient credit system. Most of them are headed by politicians.

13. They unduly depend on government capital rather than member capital. There is no active participation of their members in their working, which can come about if they work with members' money rather than government largesse.

GOVERNMENT INITIATIVES TO STRENGTHEN THE DEVELOPMENT OF CO-OPERATIVE BANKS

Even before the submission of the Khusro Committee Report, the government and the RBI had initiated certain measures to strengthen the development of co-operative banks. Some of these policy initiatives were as follows:

(i) The NABARD had formulated a scheme for the reorganisation of Primary Agricultural Co-operative Societies and the implementation of this scheme had started in those states which have accepted it.

(ii) The programme for development of selected Primary Agricultural Co-operative Societies into truly multi-purpose co-operative societies has been implemented in many states and Unionterritories.

(iii) In addition to such programmes, certain state governments like Andhra Pradesh, Madhya Pradesh West Bengal had also initiated development programmes to strengthen the working of the co-operative credit institutions at the base level.

(iv) On the basis of their financial position as on 30 June 1987, 175 Central Co-operative Banks and 7 State Co-operative Banks in the country were identified as 'weak' banks and brought under the programme of rehabilitation which, however, did not really work quite well.

(v) With a view to enabling weak banks which were either ineligible or were on the verge of becoming ineligible for refinance SUPP011, a 12-Point Action Programme had been formulated and circulated by NABARD to all the state governments.

INITIATIVES TOWARDS DEVELOPMENT OF CO-OPERATIVE BANKS:

1. Reorganisation of Primary Agricultural credit Societies.

   (a scheme by NABARD)

2. National Co-operative Bank of India (NCBI) was registered in 1993.(Multi-state co-operative society)-it has no regulatory functions.

3. Co-operative development bank (set up by NABARD).

4. Allowing all PCB's to undertake equipment leasing and hire- purchase financing.

5. Licensing of new banks.

SUGGESTIONS FOR EFFECTIVE OPERATION IN CO-OPERATIVE BANKING:

The following suggestions can be made for improving the effectiveness in operation of Co-operative banking:

1. It is apparent that the mountain overdue has become a major problem of most of the co-operative banks and their performance in managing Non Performing Assets is not satisfactory. Firm measure should be followed to make credit appraisal, documentation, disbursement, monitoring, etc. The following strategies may help the banks in avoiding or reducing NPA's.

- Pre-sanction strategies: Before sanctioning a loan, a bank has to go for detailed inquiry about borrower and his loan proposal.

- Post-sanction strategies: After the loan is disbursed, proper supervision of loan utilization is to be ensured. Bank has to maintain proper relationship with the borrower and ensure that first installment id deposited timely.

- Persuasion or Follow-up: As a step, bank has to pursue with borrower and if required, rescheduling of installments be made.

- The bank should adopt he system of computerized monitoring of loans.

2. These banks can also go for such schemes for opening of saving bank and other accounts treated as low cost deposit base as well as clientele base of the banks will take remarkable shape. In this respect, banks can introduce effectively various innovative deposit schemes like women's savings, children's savings, savings scheme for youth, daily collection etc.

3. With limited area of operation for so many decades together, Urban Co-operative banks cold not expand their business in other area in general. At this juncture, it should have governmental support and the government should liberalize this area of operation, so that they could incrase their business at their will.

4. All Co-operative banks should come in one umbrella i.e. CORE BANKING.

5. Co-operative banks, with their newly formed emphasis on prudential norms, need a high degree of professionalism in management.

6. Some Co-operative banks particularly which are small banks not having sufficient branch network are suggested to enter into tie-up arrangements with commercial banks like ICICI Bank, HDFC Bank, etc and in this way these banks could expand their business.

Co-operative banks v/s Other banks

If we look at the return provided by various co-operative banks, we immediately find that they are higher than returns provided by the various nationalized and private banks. For amount less than 15 lakhs, The returns provided by various co-operatives banks, SBI and ICICI are as follows:

Banks Name/ Period	91 days-180 days	181 days to 1 Year	1 year to 540 days	541 days to 2 years	2 years to 3 years	3 years to 5 years
Abhyudaya Co-operative Bank	6.50%	7.00%	7.25%	7.50%	7.75%	8.00%
THE BHARAT Co-operative Bank (MUMBAI) LTD	5.50%	6.75%	7.25%	7.25%	7.00%	7.00%
Saraswat Co-operative Bank	5.25%	6.00%	6.50%	7.25%	7.25%	7.25%
Ahmedabad Mercantile Coop Bank	5.50%	6.00%	7.00 %	7.00%	7.00%	7.00%
State Bank of India (SBI)	4.75%	5.25%	6.00%	6.00%	6.50%	6.50%
ICICI Bank	5.25%	6.00%	6.25%	6.25%	7.00%	7.50%

So, the first question which comes to our mind is why should not put our money in Co-operative banks rather than nationalized or private banks. But then there is a risk factor which comes in. In India 19 Co-operative banks have closed down in 2009! So, is it safe to park your valuable money in Co-operative banks?

While Co-operative banks were closing down, the Reserve Bank of India (RBI) tried to bring them under tighter control. Till a few years ago, Urban Commercial Banks were not strictly monitored with two regulators in the RBI and the Registrar of Co-operative Societies. But now the RBI has taken various measures to bring them under control.

It has signed MoUs with 11 states to set up task forces on Urban Co-operative Banks to work with the registrars on remedial action and take the tough decisions on the structure. It has also put a limit of "15 per cent of the own funds of the bank" for loans to one borrower group, making it difficult for the banks to give a huge loan to one entity and compromise its stability, as was happening earlier. According to the RBI, Co-operative banks are intended primarily for members and all financial information pertaining to the bank is required to be made available to them.

In addition, according to the existing regulations, a bank is required to publish its balance sheet in a newspaper in circulation in the main area of operations of the bank. They are also required to place their annual accounts before the annual general meeting. Certain minimum disclosures have been prescribed by RBI. All this information can be used by public in making investment decision.

However, the bank customer has to make his or her own choice, depending on which the bank offers the most suitable product. While the RBI is doing its bit, it says you should also run the following checks to ensure that you have a nice experience.

- **Check for deposit cover.** Ask the bank to what extent your deposit will be covered by DICGC insurance if you are not investing in the name of an individual but as a business organization.(In the event of a bank failure, DICGC protects bank deposits that are payable in India.)

- **Scheduled banks.** The 53 scheduled cooperatives banks are fairly safe.

- **Size.** For non-scheduled banks, there is safety in size. Decide in favor of bigger urban co-operative banks.

- **Non-performing assets.** These should be within single digits. The higher the NPA, the bigger the risk.

- **Capital adequacy.** This ratio should not be less than 9 per cent.

- **Credit-deposit ratio.** Ideally, the ratio should be 66 per cent. Anything more shows that the bank is not in a position to lend and, hence, get new business to pay back the depositors.

- **Profits.** Check whether the bank has been making profits for the last three years.

- **RBI directive:** Check out the current financial status of a bank operating under RBI's directive before dealing with it.

Some facts about Cooperative banks in India:

- Some cooperative banks in India are more forward than many of the state and private sector banks.
- The total deposits & lending of Cooperative Banks in India is much more than Old Private Sector Banks & also the New Private Sector Banks.
- This exponential growth of Co operative Banks in India is attributed mainly to their much better local reach, personal interaction with customers, and their ability to catch the nerve of the local clientele.

CH. 9. CASE STUDY

CASE STUDY

Vikas Souharda Co-operative Bank Ltd, Karnataka, India

About Vikas Souharda Co-operative Bank Ltd.

Vikas Souharda Co-operative Bank Ltd. has its main office located in Hospet, Karnataka and has branches at Hospet Station Road, Hospet Market and Hubli. Established on 21 August 1997, the bank has an estimated deposit of 50 crores and has recorded profits to a tune of 1.4 crores for the year ending March 2007. The bank offers financial services to miners, carrier owners, traders, and small and medium entrepreneurs.

Latest Technologies

It is the first bank in the Indian co-operative banking sector to introduce Digital Dispenser Technology and also the first bank in the state of Karnataka to provide Telebanking facility to its customers. To protect its customers' interests the bank has provided Fake Currency Detectors and safe deposit lockers facility.

Being a techno-savvy bank, it is the first bank in Karnataka state to adopt Electronic Fund Transfer (EFT) Scheme. It has been the first institution to respond to innovative concepts and has been a role model to many other co-operative banks in the state. The bank was quick in adapting to the changing banking scenario by maintaining not only the latest infrastructure but also by designing the interiors of the bank to get a look and feel that is at par with the multinational banks.

Goal of the Bank

Being a trendsetting bank in the co-operative sector that serves its customers 365 days a year and 12 hours a day, the goal of the bank was to improve the quality of customer service, the turn-around time, and accuracy of back-office operations thereby reducing costs and improving profits.

The bank's goal is to provide customer satisfaction with accuracy and reliability of service. The bank ensures safety and profitability of assets with due diligence by adopting appropriate information technology and maintenance of sufficient backup of the system and the data. The bank also aims to increase its customer base by introducing a variety of innovative financial services and products.

The Bank's Mission

- Improve quality of customer service levels
- Reduce cost of customer service
- The bank also aims at:

Providing a range of financial services to the customer

Maintaining transparency in customer relations

Fulfilling all commitments

Practicing judicious management of risks

Offering services to customers' satisfaction

Training employees to render professional and pleasing service to its customers

Giving fair return to its staff and contributing to their general welfare

VSoft's SuVikas helped the bank achieve its goal

SuVikas, a user-friendly, cost effective, flexible and self-supporting application permits easy performance, improves overall management efficiency, and enables the bank to concentrate on the business of finance without much concern about the ever changing IT trends.

<u>Through this, bank and customer got many benefits like:</u>

Quick customer service

The bank was able to substantially decrease the time a customer spends at the counter as the software provides a single view of all accounts of the customer. Which made the bank better as per their customers.

Reduced redundant tasks

Reducing redundant tasks meant more resources available for recovery. So, customer were getting auick facilities.

New delivery channels

The bank was able to achieve business success because of the operational efficiency made possible by technologies such as Internet Banking, TouchScreen Banking, and Mobile Alerts to its customers. Due to which customer were very happy.

Funds transfer made easy

The bank was able to introduce EFT Scheme in urban c-operative banks to affect remittances on behalf of their customers to various places in the country. Under this service, funds are transferred from one place to another within a short time. This facility was made available to the customers of co-operative banks recently. The scheme also enabled better customer service to rural and semi urban customers.

Multiple delivery channels

The bank was able to provide Any Branch Banking service to its rural and semi urban customers since 1997 by using high-end software and hardware equipment and network. The people at SUCO Bank appreciate the value of time and energy of the customers. By introducing Tele-banking facility, SUCO Bank has ensured that the customers can access their account details through telephone lines without leaving the comfort of their home and not having to travel long distances.

Extended Transaction Hours

SUCO Bank is the only bank to initiate transaction facilities beyond the regular banking transaction hours. This amply displays the commitment of the bank to customer service.

CH. 10. CONCLUSION

Conclusion:

Now, It is very much clear that co-operative banks have very much importance in national development. Without the help of co-operative banks, millions of people in India would be lacking the much needed financial support.

Co-operative banks take active part in local communities and local development with a stronger commitment and social responsibilities. These banks are best vehicles for taking banking to doorsteps of common men, unbanked people in urban and rural areas. Their presence in the social, economic and democratic structure of the country is essential to bring about harmonious development and that perhaps is the best justification for nurturing them and strengthening their base. These banks are sure to win in the race because they are from the people, by the people and of the people.

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