

Cooperative Banking

An important segment of the organized sector of the Indian banking system is represented by a group of financial institutions collectively called co-operative banks. They are so called because they have been organized under the provisions of the co-operative society's law of the states. Under the law, the co-operative societies may be organized for credit or for other (non-credit) purposes.

The co-operative banking system is much smaller than the commercial banking system. At the end of March 1994 the net total credit outstanding of commercial banks (with the commercial sector) was Rs. 1, 64,000 crore. In comparison, the net credit outstanding of the co-operative banking system was about Rs. 17,000 crore or 10% of the commercial bank credit outstanding.

People who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act. When a co-operative society engages itself in banking business it is called a Co-operative Bank. The society has to obtain a license from the Reserve Bank of India before starting banking business. Any co-operative bank as a society is to function under the overall supervision of the Registrar, Co-operative Societies of the State. As regards banking business, the society must follow the guidelines set and issued by the Reserve Bank of India.

Meaning of Cooperative Bank

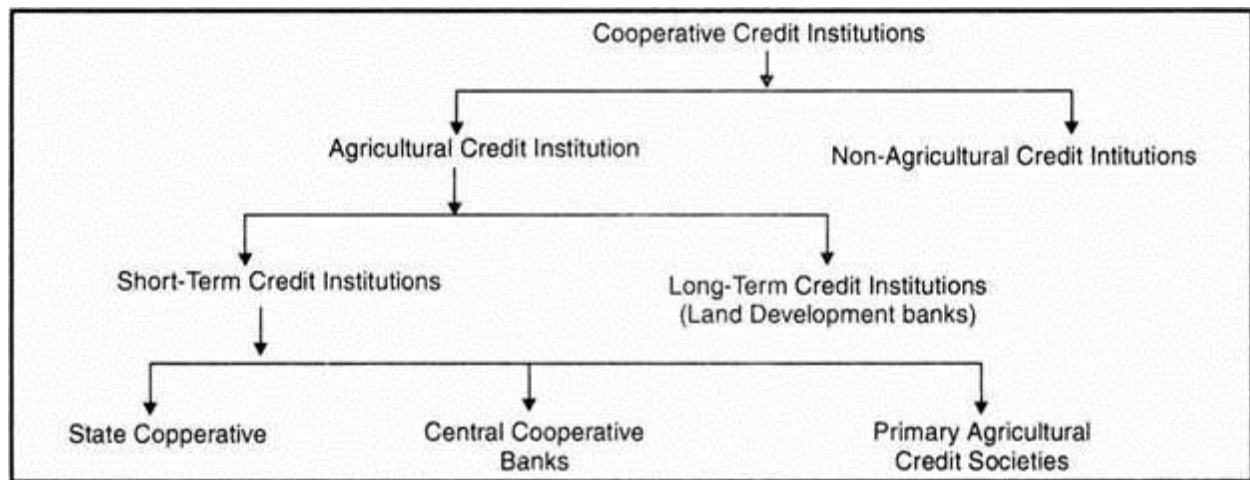
Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans.

Features of Cooperative Bank

- 1) 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.
- 2) Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest.
- 3) Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts).
- 4) They are registered under the Cooperative Societies Act, 1912, and governed by the Banking Regulations Act 1949 and Banking Laws (co-operative societies) Act, 1965.
- 5) They are organized and managed on the principal of cooperation, self-help, and mutual help. They function with the rule of one member, one vote.

- 6) Function on "no profit, no loss" basis. Co-operative banks, as a principle, do not pursue the goal of profit maximization.
- 7) Co-operative bank performs all the main banking functions of deposit mobilization, supply of credit and provision of remittance facilities.
- 8) Co-operative Banks provide limited banking products and are functionally specialists in agriculture related products. However, co-operative banks now provide housing loans also.

Structure of Co-operative Banks



Short-Term Rural Cooperative Credit Structure:

There are three types of co-operative banks operating in our country. They are primary credit societies, central co-operative banks and state co-operative banks. These banks are organized at three levels, village or town level, district level and state level.

1. STATE CO-OPERATIVE BANKS

These are the apex (highest level) co-operative banks in all the states of the country. Every state has a state cooperative bank. They mobilize funds and help in its proper channelization among various sectors. The money reaches the individual borrowers from the state co-operative banks through the central co-operative banks and the primary credit societies.

Management: The ultimate authority of state co-operative bank lies with the general body and managing committee of the state co-operative bank. The general body elects the board of director as per the banking regulation act, rules and by laws. The state government is also a party to the bank management and share capital and hence the state government nominates its own representatives.

Financial sources: Share capital, deposit collection from co- operative institutions, public and business, loan from RBI.

Functions:

- 1) Assist the central banks and to balance excess and deficiencies in the resources of central banks.
- 2) Keep watch on all the district co-operative banks within the state.
- 3) Act as a chain between co-operative activities and country's money market.
- 4) Directs the guidelines for the development of co-operative activities to the district banks situated in the state.
- 5) Helps district co-operative banks in the form of subsidies.
- 6) Create proper environment for the rapid growth of co-operative activity.
- 7) Plays the role of friend, philosopher and guide to all the co-operative institutions in the state.
- 8) Manage for imparting education and training of co-operative activities in the state.
- 9) Provides credit to the primary credit societies through the central co- operative banks.
- 10) Provides the facility of re-discounting of bills and clearing house.

2. CENTRAL CO-OPERATIVE BANKS

These banks operate at the district level having some of the primary credit societies belonging to the same district as their members. These banks provide loans to their members (i.e., primary credit societies) and function as a link between the primary credit societies and state co-operative banks. The main function of the central cooperative banks is to provide loans to the primary cooperative societies. However, some loans are also given to individuals and others.

Management: The bank constitutes a managing committee for managing the running of the bank. A general meeting of shareholders is held annually. In the managing committee there are usually 9 to 11 members which are elected in the general meeting. The managing committee meets usually once in a month. For regular day-to-day management a full time manager is appointed. The operations are carried out as per the guidelines of the committee.

Financial sources: Share capital, deposits from the people and PCS, loan from state co-operative banks and where the state banks do not exist, from the RBI and other commercial banks.

Functions:

- 1) Supplies money to primary credit society.
- 2) Collects deposits from rural areas and farmers and provides it to the PCS in the form of safe investment. Also accept deposits from the private credit societies at attracted rates.
- 3) Gives money to other co-operative institutes at a reasonable rate of interest.
- 4) Supervises the functioning of PCS and gives training, guidance and advices to the employees of credit society only.
- 5) Advances loan to the people against their first class gilt edged securities.
- 6) Accepts cheques, drafts and hundies etc. on behalf of the customers.
- 7) Purchase and sells the securities on behalf of customers.
- 8) Acts as an agent of the customers.

3. PRIMARY CREDIT SOCIETIES

These are formed at the village or town level with borrower and non-borrower members residing in one locality. The operations of each society are restricted to a small area so that the members know each other and are able to watch over the activities of all members to prevent frauds. It encourages savings among the agriculturists, accepts deposits from them, gives loans to the needy borrowers and collects repayments. It serves as the last link between the ultimate borrowers, i.e., the rural people, on the one hand, and the higher agencies, i.e., Central cooperative bank, state cooperative bank, and the Reserve Bank of India, on the other hand.

Membership: Any person above the age of 18 years can become a member of the society. For this membership he has to pay the membership subscription as well as he has to purchase shares as per the rule. A person who is immature or having unsteady mind or declared insolvent or having loose character or has not paid government loans is not liable to be a member of the society.

Management: The society is managed by the managing committee. It is the elected body; usually the secretary and the other members run the routine process of the society. Only the Secretary-cum treasurer is full time paid member and other are honorary members.

Financial sources: Admission fees to become a member, share capital, deposits from the people. Finance from Central co- operative banks or State co-operative banks if needed.

Functions:

- 1) Provide short and medium term loans and advances to needy members mainly out of the deposits.
- 2) Supply all necessities required for agriculture, such as agricultural tools, seeds, fertilizers and insecticides.
- 3) Market the agricultural products and crops.
- 4) Supply certain consumable goods like food-grains, sugar, kerosene and other essential commodities.
- 5) Encourage the habits of saving among its members.
- 6) Arrange the programmes regarding the economic welfare of its members.

Difference between Cooperative Banks & Commercial Banks

S.NO.	COOPERATIVE BANKS	COMMERCIAL BANKS
1)	Only some sections of Banking Regulation Act, 1949 are applicable to co-operative banks.	Commercial banks are governed by the Banking Regulation Act, 1949.
2)	Co-operative banks have a three-tier structure having State co-operative banks at the top, DCBs at the district level and PCS at the village level.	On the other hand, Commercial banks have organization of a unity base.
3)	They are generally concentrating on rural credit and provide credit facilities to agricultural and rural activities.	They are mainly concentrating on the requirements of trade and industry.
4)	In Co-operative Banks the borrowers are usually their members.	Borrowers can be any including individual's institutions.
5)	Co-operatives banks are co-operative organizations.	On the other hand, Commercial banks are joint-stock banks.
6)	Co-operative banks have been established under Co-operative Societies Act of different states.	Commercial banks have been established under the Companies Act, 2013 as joint stock companies or under separate acts passed in the Parliament.

7)	Co-operative banks are subject to the rules laid down by the Registrar of Co- operative Societies.	Commercial banks are subject to the control of the Reserve Bank of India directly.
8)	Co-operative banks have lesser scope in offering a variety of banking services.	Commercial banks have wider scope in offering a variety of banking services.
9)	Co-operative banks are functioning on the basis of co-operation.	Commercial banks proceed on the strong business principles.
10)	Co-operative banks are private sector banks.	Commercial banks in India are of two types: (i) Public sector and (ii) Private sector banks.
11)	In co-operative banks, borrowers are member shareholders, so they have some influence on the lending policy of the banks, on account of their voting power.	Borrowers of commercial banks are only account- holders and have no voting power as such, so they cannot have any influence on the lending policy of these banks.
12)	Co-operative banks are relatively on a much smaller scale. Many co-operative banks follow only unit-bank system, though there are cooperative banks with a number of branches but their coverage is not countrywide.	Commercial banks in India are on a larger scale. They have adopted the system of branch banking, so they have countrywide operations.
13)	Only state co-operative banks can obtain refinance from RBI.	Commercial banks can avail refinance from RBI.
14)	The Co-operative Banks provide a little higher rate of interest on deposits as compared to commercial banks.	The Commercial Banks provide a lesser rate of interest as compared to co-operative banks.
15)	Audit and inspection of co-operative banks are done by the SCBs.	Whereas the audit of commercial banks is done by external auditors.