

CHAPTER 4
CO-OPERATIVE BANKING IN INDIA

- 4.1 Introduction
- 4.2 Co-operative Banks
- 4.3 Features of Co-operative Banks
- 4.4 Types of Co-operative Banks
- 4.5 Issues Facing the Co-operative Banking Segment in India.
- 4.6 Co-operative banks in Satara City

CHAPTER 4

CO-OPERATIVE BANKING IN INDIA

4.1 Introduction

Co-operative banks have completed 100 years of existence in India. They play a very important role in the financial system. The cooperative banks in India form an integral part of our money market today. Therefore, a brief resume of their development should be taken into account. The history of cooperative banks goes back to the year 1904. In 1904, the co-operative credit society act was enacted to encourage co-operative movement in India.

For the co-operative banks in India, co-operatives are organized groups of people and jointly managed and democratically controlled enterprises. They exist to serve their members and depositors and produce better benefits and services for them.

Professionalism in co-operative banks reflects the co-existence of high level of skills and standards in performing, duties entrusted to an individual. Co-operative bank needs current and future development in information technology. It is indeed necessary for cooperative banks to devote adequate attention for maximizing their returns on every unit of resources through effective services.¹⁰

4.2 Co-operative Banks

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. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts etc.). Co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance. In most countries, they are supervised and controlled by banking authorities and have to respect prudential banking regulations, which put them at a level playing field with stockholder banks. Depending on countries, this control and supervision can be implemented directly by state entities or delegated to a co-operative federation or central body.

¹⁰ www.rbi.org.in 24/05/2012 17.25 hrs

Co-operative banking is retail and commercial banking organized on a co-operative basis. Co-operative banking institutions take deposits and lend money in most parts of the world. Co-operative banking, includes retail banking, as carried out by credit unions, mutual savings and loan associations, building societies and co-operatives, as well as commercial banking services provided by manual organizations (such as co-operative federations) to co-operative businesses.

The structure of commercial banking is of branch-banking type; while the co-operative banking structure is a three tier federal one.

- 1) A State Co-operative Bank works at the apex level (ie. works at state level).
- 2) The Central Co-operative Bank works at the Intermediate Level. (ie. District Co-operative Banks Ltd. works at district level).
- 3) Primary co-operative credit societies at base level (At village level).

Co-operative banks are deeply rooted inside local areas and communities. They are involved in local development and contribute to the sustainable development of their communities, as their members and management board usually belong to the communities in which they exercise their activities. By increasing banking access in areas or markets where other banks are less present, farmers in rural areas, middle or low income households in urban areas - co-operative banks reduce banking exclusion and foster the economic ability of millions of people. They play an influential role on the economic growth in the countries in which they work in and increase the efficiency of the international financial system.

4.3 Features of Co-operative Banks

The following are the features of Co-operative Banks

4.3.1 Customer-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 maximize 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.

4.3.2 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”.

4.3.3 Profit 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.

4.4 Types of Co-operative Banks

The co-operative banks are small-sized units which operate both in urban and non-urban centers. They finance small borrowers in industrial and trade sectors besides professional and salary classes. Regulated by the Reserve Bank of India, they are governed by the Banking Regulations Act 1949 and banking laws (co-operative societies) act, 1965. The co-operative banking structure in India is divided into following 5 components:

4.4.1 Primary Co-operative Credit Society

The primary co-operative credit society is an association of borrowers and non-borrowers residing in a particular locality. The funds of the society are derived from the share capital and deposits of members and loans from central co-operative banks. The borrowing powers of the members as well as of the society are fixed. The loans are given to members for the purchase of cattle, fodder, fertilizers, pesticides, etc.

4.4.2 Central Co-operative Banks

These are the federations of primary credit societies in a district and are of two types those having a membership of primary societies only and those having a membership of societies as well as individuals. The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank.

4.4.3 State Co-operative Banks

The state co-operative bank is a federation of central co-operative bank and acts as a watchdog of the co-operative banking structure in the state. Its funds are obtained from share capital, deposits, loans and overdrafts from the Reserve Bank of India. The state cooperative banks lend money to central co-operative banks and primary societies and not directly to the farmers.

4.4.4 Land Development Banks

The Land development banks are organized in 3 tiers namely; state, central, and primary level and they meet the long term credit requirements of the farmers for developmental purposes. The state land development banks oversee, the primary land development banks situated in the districts and tehsil areas in the state. They are governed both by the state government and Reserve Bank of India. Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural development (NABARD). The sources of funds for these banks are the debentures subscribed by both central and state government. These banks do not accept deposits from the general public.

4.4.5 Urban Co-operative Banks

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered on communities, localities, work place

groups. They essentially lend to small borrowers and businesses. Today, their scope of operations has widened considerably.^{11 12}

4.5 Issues Facing the Co-operative Banking Segment in India

Following are the issues facing the Co-operative Banking Segment in India

4.5.1 Governance Issues – Dual Control and Borrower Driven Structure

“Cooperation” is a State subject under the Indian Constitution; hence all cooperative societies are governed by the Cooperative Societies Act of the State. Registration, incorporation, management, amalgamation etc are governed by the RCS of the particular State. At the same time, certain provisions of the Banking Regulation (BR) Act, 1949, are applicable to the cooperative banks that accept public deposit. In the rural structure, StCBs and the DCCBs and in the urban structure, PCBs are covered by these provisions of the BR Act. This “duality” of control and regulation has given rise to serious problems in the governance structure (such as interference by the State Govt. due to its combined role as dominant shareholder, manager, regulator, supervisor and auditor; further the precise demarcation of the powers between the two regulators is ambiguous.)

4.5.2 Management and HR Issues

Major problem related to HR is ageing staff and inadequate qualification of existing employees. Another problem is lack of training facility to the existing employees. Co-operative banks also face heavy competition in the market and they are unable to attract young talent.

4.5.3 Issues Relating to Finance

The poor recovery of outstanding credit by the rural cooperative banks makes the whole system unsustainable and lack of standardised business model and risk management

¹¹ www.rbi.org.in 24/05/2012 17.25 hrs

¹² www.Banknetindia.com 26/05/2012 11.45 hrs

system. Over exposure to the agri sector and lack of diversification of the loan portfolio are major problems relating to finance.¹³

4.6 Co-operative Banks in Satara City

Following table shows number of co-operative banks and total number of employees working with these banks in satara city.

Table 4.6.1

Sr.	Name of Cooperative Bank	No. of Employees
1	Satara D.C.C Bank, Satara	315
2	Sharamik Co-op Bank Ltd, Satara	11
3	Krishna Co-op Bank Ltd ,Satara	4
4	Rayat Sevak Co-op Bank ,Satara	52
5	Ajinkyatara Mahila Co-op Bank ,Satara	51
6	Baramati Co-op Bank ,Satara	8
7	Col.R.D Nikam Sainik Co-op Bank, Satara	130
8	Janata Co-op Bank ,Satara	134
9	Malojiraje Co-op Bank ,Satara	12
10	Jijamata Co-op Bank ,Satara	21
11	Koyana Co-op Bank Ltd ,Satara	5
12	Janaseva Co-op Bank ,Satara	8
13	Shikshak Co-operative Bank, Satara	45
14	Rahimatpur Co-op Bank ,Satara	3
15	Mandeshi Mahila Co-op Bank, Satara	7

¹³ www.icrier.org/pdf/Mandira_Sarma.pdf 28/05/2012 12.05 hrs