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Co-operative Banks Under RBI Supervision

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Why In News

Recently, the Central government approved an **Ordinance** to bring **all urban and multi-state co-operative banks** under the direct supervision of the **Reserve Bank of India (RBI)**.

Key Points

- **Reason:**
 - The decision comes after several instances of **fraud and serious financial irregularities**, including the major scam at the **Punjab and Maharashtra Co-operative (PMC) Bank** in 2019.
 - Till now, all the co-operative banks **came under dual regulation of the RBI and the Registrar of Co-operative Societies**, resulting in regulatory and supervisory lapses at many of these banks.
 - The RBI had no powers to draw up an enforceable scheme of reconstruction of a co-operative bank.
 - However, from now onwards the urban and multi-state co-operative will come under the direct supervision of RBI.

- **Benefit:**
 - The move will **empower the RBI to regulate** all urban and multi-state co-operative banks **on the lines of commercial banks**.
 - Earlier, the **Supreme Court pronounced** that co-operative banks come within the definition of ‘Banks’ under the Banking Regulation Act, 1949 for the purposes of the Sarfaesi Act, 2002.
 - The Sarfaesi Act is an effective tool for bad loans **(Non-Performing Assets)** recovery.
 - It will also provide **more security to depositors**.
 - In India, there are 1482 urban co-operatives banks and 58 multi-state co-operative banks.
 - These banks have a depositor base of 8.6 crores, who have saved a huge amount of Rs. 4.84 lakh crore with these banks.
- **Issues Involved:**
 - The **rural co-operative banks will continue to remain under the dual regulation** of RBI and Registrar of Co-operative Societies.
 - The rural co-operative banks face the same issue of misgovernance and fraud, like urban co-operatives banks.

Co-operative Banking

- 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. It is **distinct from commercial banks**.
- They are broadly **classified into Urban and Rural co-operative banks** based on their region of operation.
- They are registered under the **Co-operative Societies Act of the State concerned** or under the **Multi-State Co-operative Societies Act, 2002**.
- The Co-operative banks are also **governed by the**
 - Banking Regulations Act, 1949.
 - Banking Laws (Co-operative Societies) Act, 1955.

- **Features of Co-operative Banks:**

- **Customer Owned Entities:** Co-operative bank members are both customer and owner of the bank.
- **Democratic Member Control:** These banks are owned and controlled by the members, who democratically elect a board of directors. Members usually have equal voting rights, according to the cooperative principle of “one person, one vote”.
- **Profit Allocation:** A significant part of the yearly profit, benefits or surplus is usually allocated to constitute reserves and a part of this profit can also be distributed to the co-operative members, with legal and statutory limitations.
- **Financial Inclusion:** They have played a significant role in the financial inclusion of unbanked rural masses. They provide cheap credit to masses in rural areas.

Source: IE