



Cooperative Bank

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Why in News?

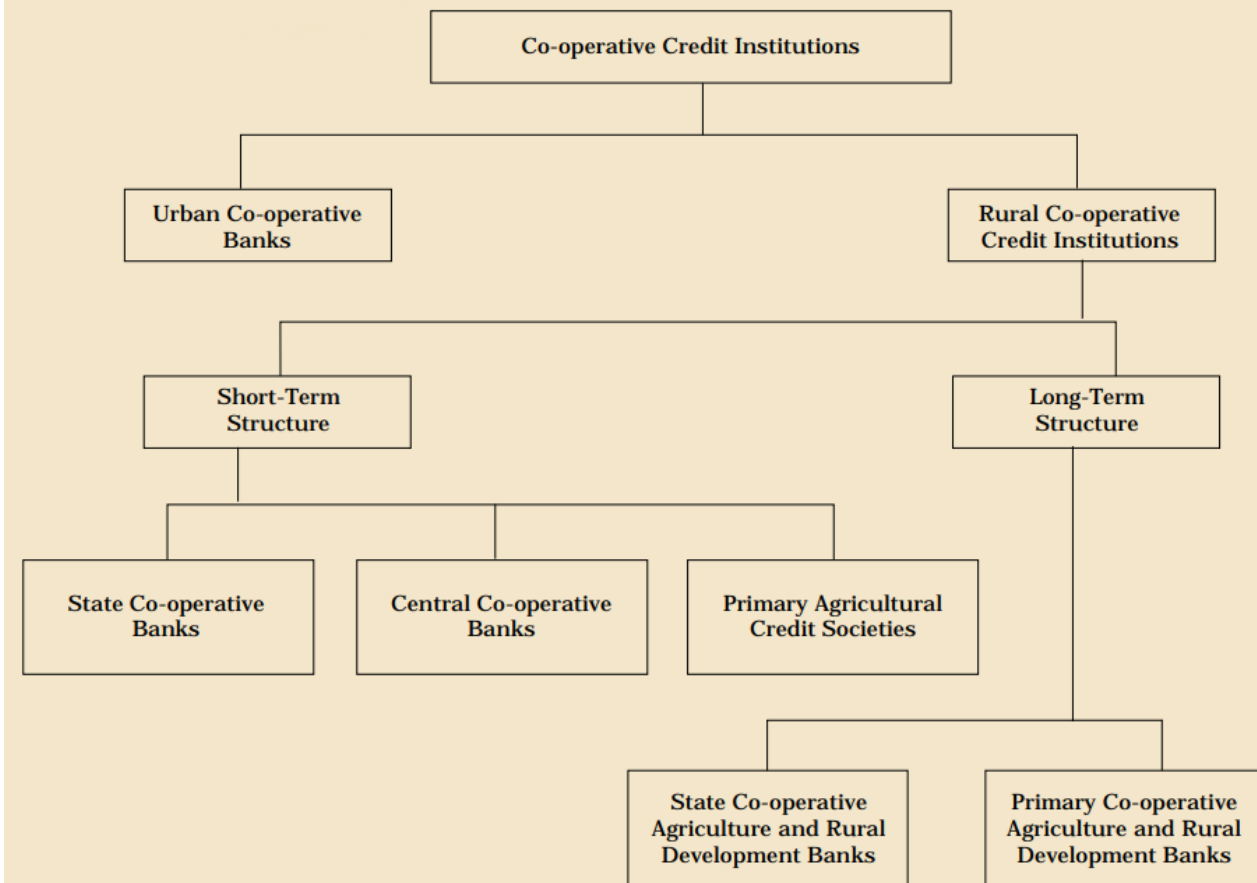
The [Reserve Bank of India \(RBI\)](#) intervened in **New India Cooperative Bank** over fund misappropriation concerns, appointing an administrator and imposing restrictions to protect depositors.

- This move reflects a broader trend of consolidation and financial discipline in the [cooperative banking sector](#).

What are the Cooperative Banks?

- **Definition:** A Co-operative Bank is a [Co-operative Society](#), either registered under **State Cooperative Societies Acts** or the [Multi-State Cooperative Societies Act, 2002](#), engaged in **banking business**.
 - Cooperative banks in India are classified into **Urban Cooperative Banks (UCBs)**, and **Rural Cooperative Banks (RCBs)**.

Structure of Co-operative Credit Institutions



- **Ownership:** Cooperative banks are owned and operated by members, who are its customers.
 - Members usually have equal voting rights, according to the cooperative principle of “one person, one vote”.
- **Objective:** Provide **rural financing and micro-financing**. Primarily support agriculture, small-scale industries, and self-employed workers
- **Regulation and Supervision:** Cooperative banks in India function under a **dual regulatory framework**, dividing banking and managerial oversight between the RBI and the Registrar of Cooperative Societies (RCS).
 - **RBI's Role:** Regulates **banking functions** under the **Banking Regulation Act, 1949**, and **Banking Laws (Application to Cooperative Societies) Act, 1965**. This includes **capital adequacy, risk management, lending norms, and financial supervision**.
 - **RCS's Role:** Oversees **managerial aspects** under the **State/Central Government**, including **incorporation, registration, governance, audit, board supersession, and liquidation** of cooperative banks.
- **License Cancellation:** RBI can revoke the license of a Co-operative Bank if it ceases banking operations or fails to meet the conditions set by RBI.
- **Importance:** UCBs cater to the financial needs of small businesses and individuals, fostering growth in urban and semi-urban areas.
 - Cooperative banks play a vital role in providing credit to farmers, boosting rural economic development.
 - Cooperative banks are **more resilient to economic downturns**, as they avoid high-risk assets, demonstrated by UCBs during the 2008 global financial crisis.
 - They cater to the unbanked and underbanked sections, promoting inclusive growth by Financial Inclusion.

Aspect	Commercial Banks	Cooperative Banks
Governing Act	Commercial banks are constituted	Cooperative banks are constituted

	by a uniform act passed by the parliament	by different states under different acts.
Regulation	RBI directly	Regulated by RBI, NABARD and Registrar of Co-operative Societies.
Services Offered	Larger scope in offering a variety of banking services	Lesser scope in offering a variety of banking services.
Area of Operation	Large-scale operation, usually countrywide. Commercial banks can also open branches in foreign countries.	Small-scale operation, usually limited to a region. Cooperative banks cannot open branches in foreign countries.
Borrowers	Borrowers are only account holders and have no voting power, so they cannot influence the lending policy	Borrowers are member shareholders, so they have some influence on the lending policy of the bank

UPSC Civil Services Examination, Previous Year Question (PYQ)

Q. With reference to 'Urban Cooperative Banks' in India, consider the following statements:

1. They are supervised and regulated by local boards set up by the State Governments.
2. They can issue equity shares and preference shares.
3. They were brought under the purview of the Banking Regulation Act, 1949 through an Amendment in 1966.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (b)