

Co-operative Banks in India –An Overview

Abstract

The Co-operative Banks are a special type of banking in which people co-operate with each other with a view to promote their mutual interest. Present paper attempts to cover History of cooperative banking in India, Cooperative principles, Structure of cooperative network in India, Differences between Cooperative Banks and Commercial Banks, Functions of Cooperative Banks.

Apart from this challenges faced by cooperative banks had been discussed along with some suggestions to overcome. Finally, it's concluded that Even though several challenges are there for Cooperative banks still it is considered very important for development of our society and country.

Keywords: Cooperative Banks, Structure, Functions, Challenges, Suggestions.

Introduction

According to the International **Co-operative Alliance Statement** of co-operative identity, a co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Basically, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others. (ICBA)

The Co-operative Banks are a special type of banking in which people co-operate with each other with a view to promote their mutual interest. In this type of organization, people voluntarily co-operate with each other on equal terms to promote their own economic interest. The year 1904 marked the beginning of the history of Agricultural Co-operative Banks in India. The Anyonya Co-operative bank in India is considered as the first Co-operative bank in Asia.

Co-operative Banks in India are registered under the Co-operative Societies Act. The Co-operative Banks are also regulated by the RBI. They are governed by the Banking Regulation Act 1949 and Banking Laws (co-operative Societies) Act, 1965. The Co-operative banks in India play an important role in rural financing as well as increasing gradually in recent time in urban areas too.

History of Cooperative Banking in India (Indias daily E-Magazine of GK and Current affairs, 2015)

The Cooperative Movement in the world is a result of misery and distress in Europe faced by common people who had little or no access to credit to fulfill their basic needs, in uncertain times. People were suffering by poverty and deprivation.

It was the idea of Hermann Schulze (1808-83) and Friedrich Wilhelm Raiffeisen (1818-88) which resulted as cooperative banks of today across the world. They started to promote the idea of easy availability of credit to small businesses and for the poor segment of society. Although this helped spread cooperative movement in many parts of Europe, in British Isles it is came from the revivalist Christian movement and found high acceptance with working class and lower middle class segments of society. However, UK and Irish credit unions in 20th century were inspired by US credit unions which in-turn owe their emergence to Canadian adaptations of the German cooperative banking concept. These movements were supported by governments of the respective countries. This success was achieved due to the failure of the commercial banks to fund and support the needs of small business owners and ordinary people who were outside the formal banking net. Cooperative banks helped overcome the vital market imperfections and serviced the poorer layers of society.

Indian Cooperative Banks was also a result of distress in Indian society.



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The 7 Co-operative Principles are: (ICBA)

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operation among Co-operatives
7. Concern for Community

What do You Mean by Co-operative Banks?
(ICBA)

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 like providing loans, accepting deposits, opening banking accounts etc.

The Structure of Cooperative Network in India can be Divided into 2 Broad Segments- (Indias daily E-Magazine of GK and Current affairs, 2015)

1. Urban Cooperative Banks
2. Rural Cooperative Banks

Urban Cooperatives Banks

Urban Cooperative Banks can be further divided into scheduled and non-scheduled. Both the categories are further divided into multi-state and single-state.

Banking activities of Urban Cooperative Banks are monitored by RBI. However Registration and Management activities are managed by Registrar of Cooperative Societies (RCS). These RCS operate in single-state and Central RCS (CRCS) operate in multiple state.

Rural Co-operative Banks

The rural cooperative Banks are further divided into short-term and long-term structures.

The short-term cooperative banks are three tiered operating in different states as follows.

1. State Cooperative Banks- They operate at the apex level in states
2. District Central Cooperative Banks-They operate at the district levels
3. Primary Agricultural Credit Societies-They operate at the village or grass-root level.

Likewise, the long-term structures are further divided into –

1. State Cooperative Agriculture and Rural Development Banks (SCARDS)- These operate at state-level.
2. Primary Cooperative Agriculture and Rural Development Banks (PCARDBS)-They operate at district/block level.

All banking activities are regulated by a shared arrangement between RBI and NABARD. All management and registration activities are managed by RCS.

Differences between Cooperative Banks and Commercial Banks (chand)

1. Commercial banks are joint-stock banks. Co-operatives banks, on the other hand, are co-operative organisations.

2. Commercial banks are governed by the Banking Regulation Act. Co-operative banks are governed by the Co-operative Societies Act.
3. Commercial banks are subject to the control of the Reserve Bank of India directly. Co-operative banks are subject to the rules laid down by the Registrar of Co-operative Societies.
4. Co-operative banks have lesser scope in offering a variety of banking services than commercial banks.
5. Commercial banks in India are on a larger scale. They have adopted the system of branch banking, so they have countrywide operations. Co-operative banks are relatively on a much smaller scale. Many co-operative banks follow only unit-bank system, though there are co-operative banks with a number of branches but they are limited.
6. Commercial banks mostly provide short-term finance to industry, trade and commerce, including priority sectors like exports, etc. Co-operative banks usually cater to the credit needs of agriculturists.
7. Co-operative banks offer a slightly higher rate of interest to their depositors than commercial banks.
8. 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.
9. Co-operative banks have not much scope of flexibility on account of the rigidities of the bye-laws of the Co-operative Societies. Commercial banks, on the other hand, are free from such rigidities.

Functions of Cooperative Banks in India (managementparadise) The major Functions of a Cooperative Bank are:

1. Mobilization of funds from their members
2. Advance loans to the members

Most of the cooperative banks in rural India facilitate financing for farming, cattle, milk, hatchery, personal finance, etc.

In urban areas the cooperative banks in India facilitate finance for Self-employment, Industries Small scale units, Home finance Consumer finance, Personal finance, etc

Problems Faced by Co-operative Banks (Jyoti Gupta, 2012), (Sachin R. Agarwal, 2012)

1. The cooperative banks are facing severe problems which have restricted their ability to ensure smooth flow of credit
 - a. Limited ability to mobilize resources.
 - b. Low Level of recovery.
 - c. High transaction cost.
2. The NPAs of the cooperative banks are higher than those of commercial banks. [NPAs to asset ratios]
3. Bodies of chairman of cooperative banks are many times performing the unethical practices
4. They are largely depends upon govt. capital than the shareholders contributions.

5. They are facing infrastructural weakness and structural laws.
6. The state cooperative banks are not able to formulate their respective policies for investment of their funds that include their surplus resources because of certain restrictions.
7. Prior approval of RBI is mandatory for opening of new branches of State Cooperative banks [SCBs]. The SCBs are required to submit the proposal for opening of new branches to RBI through NABARD, whose recommendation is primarily taken into consideration while providing permission.
8. Patchy growth of cooperative banks across India. It has grown maximally in states of Gujarat, Maharashtra, Tamil Nadu whereas the other parts of India don't have a much of it.

Suggestions

1. The banks should adopt the modern methods of banking like internet banking, credit cards, ATM, etc. and should plan to introduce new schemes for attracting new customers and satisfying the present ones.
2. The banks should improve the customer services of the bank to some more extent.
3. As far as possible try to remove unnecessary restrictions on cooperative banks and focus to develop weak areas.
4. More and more areas in country should be covered by establishing branches in different states to fulfill the objectives.

Conclusion

It seems that cooperative banks are playing a vital role in the progress of country. There should be mutual support, help, accountability and responsibility in the system to develop further. The mobilization of small savings from large number of peoples is the desired strategy for deposit mobilization which is the key of success for cooperative banks. The modern practices should be adopted by cooperative banks for survival in the modern era.

Even though several challenges are there for Cooperative banks still it is considered very important for development of our society and country.

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