

CS Foundation Course

(e-bulletin for Foundation Programme Students)



THE INSTITUTE OF
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IN PURSUIT OF PROFESSIONAL EXCELLENCE
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Message from the President

“As the legend goes, when the Phoenix resurrects from the flames; it is even more beautiful than before.”

Dear Students,

It has been more than a month since the entire country went in for a lockdown and it has been many more months since the entire world has been grappling with the pandemic of COVID-19. The times facing us have been unprecedented and they surely have altered our lifestyles in a manner unimaginable until now.

While all of us are waiting to get on track with time, the fact that it is the moment at hand, the present that we live in, has required us to make multiple modifications and transformations both in our personal and professional lives. You, as students, too, I believe are going through a host of changes given the situations at hand. Yet, we at ICSI, wholeheartedly appreciate the courage being portrayed by you in your daily lives.

Understanding the gravity of the situation and its unpredictable nature, ample steps are being taken by the ICSI to accord you much ease and comfort as to move ahead on your professional paths. While providing relaxation in the Pre-Examinations and One day Training Programme for the upcoming June, 2020 Examinations, another major decision has been taken by the ICSI in view of the ongoing situation.

I would like to take this moment to share with you the decision that the Company Secretaryship Examinations for June, 2020 which were to be held from 1st to 10th of June, 2020 have been postponed. The same shall now be held from 6th July, 2020.

I hope and believe that all of you, all my young Governance Professionals in making shall take this extended duration, the time at hand to prepare yourselves in a much better manner and come out with flying colours at the end of this journey.

Understanding the relevance and significance of the above quote in the present times, the intent of the Institute has always been to create an atmosphere for our students wherein, neither the growth is hampered nor does the process of learning pause. And to keep our students continually updated and armed and equipped with knowledge, the Institute is organizing Webinars by Experts to provide learning within the comfort of their abodes.

Friends, a true professional is not one who portrays professionalism in his field of work, activity and operation, rather a true professional is one who portrays professionalism in each and every sphere of life...

Stay Safe, Stay Home!

With Best Wishes

CS Ashish Garg

President

The Institute of Company Secretaries of India

Academic Guidance

AN OVERVIEW OF COOPERATIVE BANKS IN INDIA

Introduction

Cooperative movement in India was started primarily for dealing with the problem of rural credit. The history of Indian cooperative banking started with the passing of Cooperative Societies Act in 1904. The objective of this Act was to establish cooperative credit societies “to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means.”

Many cooperative credit societies were set up under this Act. The Cooperative Societies Act, 1912 recognised the need for establishing new organisations for supervision, auditing and supply of cooperative credit.

These organisations were-

- (a) A union, consisting of primary societies;
- (b) the central banks; and
- (c) provincial banks.

Although beginning has been made in the direction of establishing cooperative societies and extending cooperative credit, but the progress remained unsatisfactory in the pre-independence period. Even after being in operation for half a century, the cooperative credit formed only 3.1 per cent of the total rural credit in 1951-52.

There are different types of cooperative credit institutions working in India. These institutions can be classified into two broad categories- Agricultural and Non-Agricultural.

Agricultural credit institutions dominate the entire cooperative credit structure. Agricultural credit institutions are further divided into short-term agricultural credit institutions and long-term agricultural credit institutions.

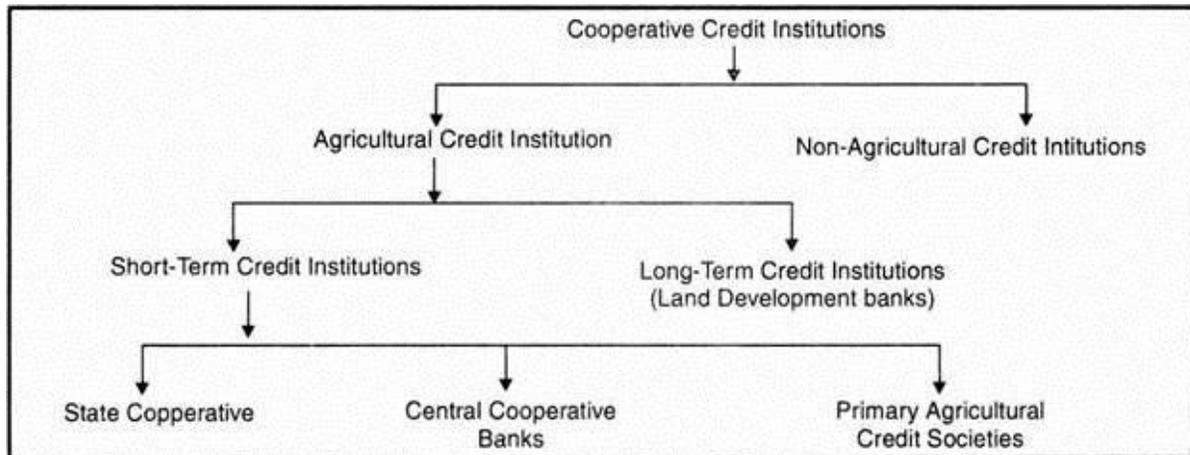
The short-term agricultural credit institutions which cater to the short-term financial needs of agriculturists have three-tier federal structure- (a) at the apex, there is the state cooperative bank in each state; (b) at the district level, there are central cooperative banks; (c) at the village level, there are primary agricultural credit societies.

Long-term agricultural credit is provided by the land development banks. The whole structure of cooperative credit institutions is shown in the exhibit 1.

*Dr. Akinchan Buddhodev Sinha, Assistant Director, ICSI.

The views expressed are personal views of the author and do not necessarily reflect those of the Institute.

Exhibit 1 Structure of Cooperative Banks



Source: Economics Discussions

Types of Cooperative Banks in India

There are four types of co-operative banks in India:

1. *Central Cooperative Banks*

These banks are organized and operated at the district level and can be of two types:

- Co-operative Banking Union; and
- Mixed control Co-operative Bank.

In the first, the members of the bank are the co-operative societies only. However, in the second, the members can be co-operative societies as well as individuals. The central co-operative banks lend money mainly to the affiliated primary societies with typical loan tenure lending between 1 to 3 years.

2. *State Cooperative Banks*

These banks are organized and operated at the district level and rest at the top of the hierarchy in the co-operative credit structure.

With the help of State Co-operative Banks (SCBs), the Reserve Bank of India (RBI) funds the co-operative institutions. These banks also get loans at an interest rate of 1% to 2% lower than the standard bank rate.

3. *Primary Co-Operative Banks:*

These offer credit services in the urban and semi-urban regions. Thus, they are not considered as agricultural credit societies.

Primary Co-Operative Banks receive concessional refinance service from RBI and Industrial Development Bank of India (IDBI) from time to time for them to offer housing loans and other types of loans that can be used by small businesses.

4. *Land Development Banks*

The land development banks are divided into three tiers which are primary, state, and central. These offer credit services to the farmers for developmental purposes. They used to be regulated

by the RBI as well as the state governments. However, this responsibility was recently transferred to the National Bank for Agricultural and Rural Development (NABARD).

Objectives of Cooperative Banks

The main function of cooperative bank in India is to provide financial help to the deserving at the lowest rate of interest. Cooperative banks main goal is to provide assistance and not to earn profit. Financial assistances are generally given in the following areas:

- Farming
- Cattle rearing
- Milk production
- Personal loan
- Educational loan
- Home finance
- Self-employment
- Small industries
- Any other agriculture related activity

Advantages of Cooperative Banks in India

With the onset of cooperative banks in India, the Indian society especially in the rural areas has witnessed some significant changes in farming practices.

- i) ***Freedom from the clutches of moneylenders*** : The cooperative bank provides loans at low rate of interest thereby eliminating the dominance of moneylenders.
- ii) ***Encouragement to save more*** : The various deposit schemes of cooperative banks encourages people to save more.
- iii) ***Better farming practices***: Cooperative banks provide loans for purchase of better machinery and improved seeds.
- iv) ***Encouragement for self-employment***: Cooperatives provides finance to people so that can start their own business.

Issues faced by Cooperative Banks

1. ***Transparency in Audit*** : It is well known that audits are done entirely by department officials & are neither regular nor comprehensive. Delays in the conduct of audits and submission of reports are widespread. Audit is limited to such accounts as are available and reports seldom examine whether accounts & record are complete, accurate and up to date. Further, the Audit Standards of commercial banks are not applicable on cooperative banks, hence there is lack of transparency in audit. of cooperative banks.
2. ***Abusing Power by the Leadership*** : Those who control cooperative societies are locally powerful, with strong political affiliations. The political class as a whole, irrespective of party, is loath to dilute, let alone give up the power that they get to garner electoral support, reward their supporters and mobilize funds from their control of cooperatives. Under the existing regime, they are able to abuse this power openly and with impunity.

3. **Mismanagement & Manipulation** : The strength of the movement was the involvement of the farmers who were shareholders & members of the society. Over the years, this truly democratic idea got corrupted and wealthier people having political background became more powerful. In practice, this altered the power structure of the cooperatives. In the elections of the governing bodies, money became such a powerful tool that the top posts of Chairman & Vice-Chairman usually went to the richest political persons even though the majority of members were farmers with small- or medium-sized Holdings. The social power that the cooperatives brought to rural India was gradually hijacked and turned into a political tool.
4. **Lack of Awareness** : People are not well informed about the objectives of the movement, the contributions it can make in rebuilding the society and the rules and regulations of cooperative institutions. People look upon these institutions as means for obtaining facilities & concessions from the Govt. so long as people expect to get something from the government, they see to it that societies somehow continue to function. Lack of education, dirty politics of the village, caste ridden elections to the offices of cooperative societies, bureaucratic attitudes of the government officers at the lower rank are some of the hurdles in spreading the correct information about the cooperative movement and in educating the people about its true character and vital role in the society.
5. **Lack of Professionalism** : Professionalism reflects the co-existence of high level of skills and standards in performing duties entrusted to an individual. The absence of a proper system of placement and skill up gradation inputs constrain professional management in cooperative banks.
6. **Limited Coverage** : The cooperative movement has also suffered on account of two important limitations on its working.
 - The size of these societies has been very small. Most of these societies are confined to a few members and their operations extended to only one or two villages. As a result their resources remain limited, which make it impossible for them to expand their means and extend their area of operations.
 - Majority of the societies have been single purpose societies, for this reason these societies are not able to take a total view of the persons seeking help, nor can they analyze and solve problems from different angles. The help these societies render thus cannot be adequate.

Recent Regulatory Changes

The Indian parliament is debating a bill to amend the Banking Regulation Act, 1949 which would give more power to the Reserve Bank of India (RBI) to regulate multi-state co-operative banks.

Co-operative banks are currently under the dual control of the Registrar of Cooperative Societies and RBI. Introduced by Finance Minister Nirmala Sitharaman, the Banking Regulation (Amendment) Bill 2020 would see the registrar continue to deal with administrative issues while RBI would have an enforcer role, ensuring the co-operative banks comply with regulatory requirements.

The bill aims to put co-op banks on par with the developments in the banking sector through “better management and proper regulation with a view to ensure that the affairs of the co-operative banks are conducted in a manner that protects the interests of the depositors”.

It also promises to strengthen the co-operative banks by increasing professionalism, enabling access to capital, improving governance and ensuring sound banking through the Reserve Bank of India. The act

will not apply to a primary agricultural credit society; or co-operative societies whose primary object and principal business is providing of long-term finance for agricultural development.

RBI would have a mandate to examine all unsecured loans and advances granted co-operative banks and will be able to prohibit the co-operative bank from granting these if it finds that they have been against the interests of depositors. If deemed to be in the public's interest or that of depositors, RBI can also direct that an additional audit of the co-operative bank accounts. In November 2019 RBI took control of Punjab and Maharashtra Co-operative Bank, one of the country's largest co-op banks after concerns arose about the accuracy of its financial statements.

Conclusion

Cooperative banks have been playing a pivotal role in the economic development of India and stoking up financial inclusion. No doubt, both in the past as well as in the recent we have witnessed cooperative society frauds that have shocked the banking sector but still it can be said without an iota of doubt that cooperative banks possess tremendous potential of serving a large section of unbanked population due to their reach even in the remote areas.

However, with stringent regulations in place, various lacunae prevailing in the functioning of cooperative banks could be surmounted, thereby ensuring good corporate governance in cooperative banks.

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