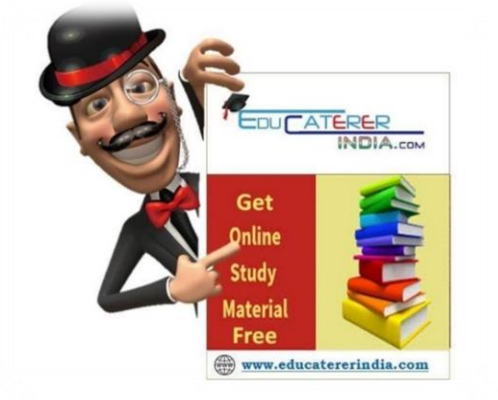
UNIT 14- Regional Rural Banks v/s Co-operative Banks



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Introduction

The banks which are present in India are divided into 3 major groups namely, Central Bank (RBI), Scheduled Banks & Non-Scheduled Banks. This means other than RBI, every bank will be either a scheduled bank or a non-scheduled bank. Based on the functions, there are five categories of Banks in India viz. Central Bank (RBI), Commercial Banks, Development Banks, and Cooperative Banks & Specialized Banks.

Further Scheduled banks are classified into scheduled commercial banks & scheduled cooperative banks. The basic difference b/w them are in their holding pattern. Regional Rural Banks comes under scheduled commercial banks.

Regional Rural Banks

RRBs were established in 1975 under the provisions of the ordinance promulgated on 26th-sept-1975.
Every RRB is owned by 3 entities with their respective shares as follows:
Central Government -50%
State government-15%
Sponsor bank -35%

Difference Between RRB and Corporative Banks

- **Ownership** – They are maintained by 3 different bodies as mentioned above.
- **Regulation**- They are regulated by NABARD, which is a subsidiary of RBI.Other banks in India are directly regulated by RBI.
- S**tatutory Background** –These banks have a distinct law behind them viz. Regional Rural Banks Act, 1976.
- **Statutory pre-emptions** – RRBs need not maintain CRR (Cash Reserve Ratio) & SLR (Statutory liquidity ratio) like any other banks.

Reasons for establishing the RRBs:-

Even after nationalisation, there were cultural concerns which made it difficult for commercial banks even under the ownership of government, to lend to farmers. So Regional Rural Banks were started to work in rural perspectives & they can lend to more & more farmers, who are in real need of money. To provide them constitutional background, a separate act was passed.

Various problems of RRBs:-

RRBs were considered as a low-cost organisation having a rural philosophy, local touch & pro-poor focus. Each bank was to be funded by a 'Public Sector Bank' (PSU), though; they were planned as the self-sustaining credit institutions which were able to refinance their core resources in themselves & were expected from the statutory pre-emptions. There were 196 RRBs in India in1990.This has reduced to 56 (as of mar-2014) after mergers & amalgamations.

Current government's policy:-

The Modi govt. has put the hold on further mergers of the RRBs. The government is focusing on improving the performance of RRBs & to explore new opportunities in the same. At present, there is a bill pending to make some amendments in the RRB act which is aiming to increase the pool of investors to tap capital for RRBs.

COOPERATIVE BANKING

A cooperative bank is jointly owned enterprise in which same people are its customers who are also its owners. Therefore, the basic difference b/w scheduled commercial banks & a scheduled cooperative bank is in their holding pattern. These are registered under Cooperative societies Act. The cooperative banks work agreeing to the principles of mutual assistance. These cooperative structures are one of the largest networks in the world comprising of more than 200million members.

History

Hermann Schulze & Friedrich Wilhelm Raiffeisen gave the idea of cooperative banking for the first time. In India, the history of cooperatives begins from 1904 when the cooperative credit societies act, 1904 led to the formation of societies in both rural & urban zones. The act was recommended by Sir Friedrich Nicholson (1899) & Sir Edward Law (1901).The cooperative societies act of 1912, further gave recognition to the formation of non-credit societies & the central cooperative organisations.

Extent of Cooperative Banking in India

Further, it is divided into 2 broad categories namely, Urban Cooperative Banks & Rural Cooperative Banks.

Urban cooperatives have been further divided into scheduled & non-scheduled. Both categories are again divided into multi-state & single-state. The majority of these comes under no- scheduled & single-state category. All the activities of urban cooperatives are monitored by RBI.whereas; it is regulated by RBI & NABARD for rural cooperative banks.

Significant features of Cooperative Banking in India:-

These are small financial institutions governed by Banking Regulations Act,1949 & Banking Laws cooperative Societies Act, 1965
Owned by its members
Involved in community development
Bringing banking to the doorstep of the lowest section of the society
Profits obtained will be combined to form some reserves while some amount is distributed to members.
Some sections of banking regulation act are not applicable to cooperative banks

Problems faced by Cooperative Banks in India:-

The state partnership has resulted in excessive state control & interference. Inactive membership has made them declining as there is the lack of dynamic & professional attitude. Credit retrieval is weak, especially in rural areas.