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## **THE THEORETICAL BACKGROUND OF CO-OPERATIVE BANKING**

**Gururaju K**

Associate professor

Dept. of Economics, Government First Grade College for Women, Holenarasipura,  
Hassan District

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### **ABSTRACT:**

Co-operative banking is a type of banking service that is provided by a Co-operative , which is a financial institution that is owned and controlled by its members. Co-operative banks are founded by collecting funds through shares, accepting deposits and granting loans.

Co-operative banking services are typically focused on providing credit and other banking services to members of the Co-operative .

Co-operative banking services may include savings accounts, checking accounts, loans, mortgages, insurance, and investment services. In addition, Co-operative banks may offer a variety of services aimed at helping members of the Co-operative with their financial needs, such as financial education and money management programs.

**Key Words:** Co-operative banks, Finance, Services, Credit, Societies.

### **INTRODUCTION:**

#### **History of Co-operative Banking**

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

Many Co-operative credit societies were set up under this Act. The Co-operative Societies Act, 1912 recognized the need for establishing new organizations for supervision, auditing and supply of Co-operative credit. These organizations 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 Co-operative societies and extending Co-operative credit, but the progress remained unsatisfactory in the pre-independence period. Even after being in operation for half a century, the Co-operative credit formed only 3.1 per cent of the total rural credit in 1951-52.

The Banking Regulations Act of 1949 and the Banking Laws (Co-operative Societies) Act, of 1955 govern the Co-operative banks in India.

#### **Co-operative banks run with the motto of “ no profit, no loss”.**

The Act enabled the formation of Co-operative credit societies by providing them with a legal structure and creating infrastructure for their operations. It provided for the registration of such societies with the Registrar of Co-operative Societies and empowered them to borrow money from the government and other sources and to accept deposits from members.

It also enabled societies to lend money to their members to meet their needs. The Act also provided for the formation of State and Central Co-operative banks, which would act as the apex body of all Co-operative credit societies.

The State and Central Banks were empowered to provide loans to the registered societies, and also to inspect and audit them. The Act also made provisions for the formation of District Central Co-operative banks, which were to act as the intermediary between the State and Central Banks and the registered societies. The Act also prescribed certain rules and regulations for the functioning of Co-operative credit societies

### **Objective of Co-operative Banks**

- To provide credit services to the farmers and weaker sections of the society at comparatively
- To reduce the influence of moneylenders and middlemen.
- Providing rural finance and micro finance and not profit making.
- To provide financial assistance and personal financial services to small scale industries and to low rates.
- To provide basic banking services to its members. Promoting the overall development of rural
- •provide housing financial assistance. areas

### **Functions of a Co-operative Bank**

Co-operative banks, also known as Co-operative credit institutions or credit unions, are financial institutions that are owned and operated by their members. These banks are formed by a group of individuals, typically from a specific community or profession, who come together to pool their financial resources and provide banking services to themselves and the community.

Here's a general overview of how Co-operative banks work:

- **Membership:** Co-operative banks have a defined membership base. Individuals or businesses who meet specific eligibility criteria can become members of the bank by purchasing shares or making an initial deposit.
- **Democratic Governance:** Co-operative banks operate on the principle of democratic governance, where members have equal voting rights regardless of the number of shares they hold. Members elect a board of directors from among themselves to oversee the bank's operations and make key decisions.
- **Capital Formation:** Members contribute to the bank's capital by purchasing shares or making deposits. These funds serve as the primary source of capital for the bank's lending activities and other financial services.
- **Savings and Deposits:** Co-operative banks encourage their members to save money by offering various savings accounts and deposit products. Members can deposit their savings and earn interest on their balances.
- **Loans and Credit Services:** One of the primary functions of Co-operative banks is to provide loans and credit facilities to their members. The bank utilizes the pooled resources from its members to offer loans for various purposes such as personal loans,

home loans, agricultural loans, and small business loans. The interest rates and terms of these loans are often favourably compared to traditional banks.

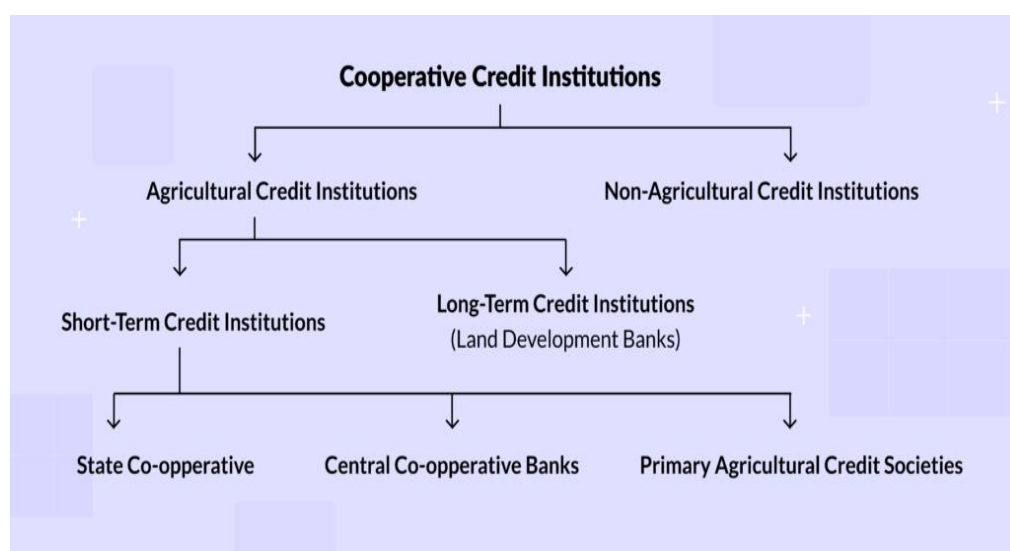
- **Financial Services:** Co-operative banks provide a range of financial services, including checking accounts, ATM services, money transfers, payment services, and insurance products. These services are tailored to meet the specific needs of the members and the community they serve.
- **Profit Distribution:** Unlike traditional banks, Co-operative banks are not profit-oriented entities. Their primary focus is to serve the financial needs of their members and the community. Any surplus generated by the bank is distributed among the members in the form of dividends or reinvested to strengthen the bank's capital base.
- **Community Development:** Co-operative banks often play a vital role in community development by promoting financial literacy, supporting local businesses, and investing in community projects. They foster a sense of solidarity and mutual support among their members.

### Features of Co-operative banks

- **One person, one vote:** this is what Co-operative banks follow. A chosen Board of Directors is held responsible for the administration of the organization.
- Minimum interest rates are applied to the agricultural loans which the farmers can avail from the Co-operative banks.
- Loans are more accessible in rural areas along with credit benefits.
- The profit earned is spent on financial resources and part of which is then distributed among the Co-operative members.

### Structure of Co-operative Banking

Co-operative banks can be further divided and subdivided into the following categories.



### State Co-operative banks

A state Co-operative bank is a Co-operative bank organized at the state level in India. State Co-operative banks are regulated by both the Reserve Bank of India (RBI) and the respective

state governments. These banks operate in a manner similar to commercial banks, offering services such as deposits, loans, and payments.

State Co-operative banks are an important part of the Indian banking system, providing financial services to rural and low-income populations across the country. They are often the primary source of credit for agricultural and allied activities, small-scale industries, and other small businesses. These banks also provide banking services to Co-operative s, including credit unions, dairy Co-operative s, and agricultural Co-operative s.

The working capital of SCB is obtained from deposits, funds, borrowings from RBI, state governments and other resources.

### **Central Co-operative banks (CCBs)**

Central Co-operative banks (CCBs) are Co-operative s that are established and managed in accordance with the Co-operative Societies Act. They are formed to promote economic development in rural areas and to provide credit and banking services to agricultural producers and small businesses.

CCBs are supervised by the state Co-operative department and are regulated by the Reserve Bank of India. The CCBs are owned by their member shareholders and operate according to their by-laws. The CCBs provide services such as deposits, loans, and other banking services to their members. They also promote and finance agricultural activities, such as crop insurance and input supply services.

The working capital for the central Co-operative banks is primarily raised from individual funds, deposits, borrowings etc.

### **Primary Agricultural Credit Societies**

They are financial Co-operative s that are typically organized by farmers and other agricultural professionals to provide credit and other services to farmers. These societies are owned and managed by their members, who contribute both capital and labor for the benefit of the Co-operative .

The primary purpose of these societies is to provide loans to members, often at low-interest rates, in order to facilitate the purchase of inputs and other necessities required to operate a successful farm.

They also offer other services, such as crop insurance, storage services, and help marketing that help farmers to manage their operations. Primary agricultural credit societies are often organized in rural areas where access to traditional banking services may be limited.

### **ADVANTAGES OF CO-OPERATIVE BANKS:**

#### **1. Alternative Source of Credit**

The rural population is benefitted from Co-operative banking as they provide credit at a lower rate as compared to the money lenders who tend to provide credit at a higher rate of interest. This protects the rural population from the monopoly of the money lenders.

#### **2. Productive Borrowing**

Co-operative banks encourage productive borrowing instead of borrowing money for consumption or other unproductive. This has enabled the system to bring a change in the nature of credit as well.

### **3. Encouragement to Saving and Investment**

Co-operative banking has enabled the rural population to save more and invest rather than hoard money. This will have a long-term benefit on the money management of the rural population.

### **4. Improvement in Farming Methods**

Due to the lower interest rates of the credits provided by the Co-operative banks, the rural population can now utilise the same for better farming methods eg: purchasing seeds, chemical fertilizers etc. This has also enabled them to sell their products at good prices.

### **Co-operative Banks and Economy**

The growth of the country is hidden in the economic growth of the citizens of the country and the economic development of the members is in the first place in the main principles of all the Co-operative structures working around the world. In India also, Co-operative banks are working as a lifeline for many people. Today co-operative banks across the country are working with commercial banks and are playing a vital role in providing need-based finance to people engaged in agriculture and agriculture-based activities. However, it cannot be denied that the co-operative banks of the country need major changes as per the changing times.

### **Importance of Co-operative Banks**

Co-operative banks have played an important role in the progress of the country by connecting common people in villages and towns with banking. The main objective of the country's co-operative credit structure is to provide the general public with a better alternative to traditional credit sources and co-operative banks have performed well in achieving this objective. Co-operative banks protect rural credit and the less educated population from the clutches of traditional lenders. It is to be noted that the traditional lenders have dominated the country for decades and are still exploiting the poor people by charging high rate of interest on loans. Co-operative banks provide loans to their customers at much cheaper interest rates, as their aim is not to make profit but to provide good services to their members. Co-operative banks have also encouraged savings and investment by inculcating savings habits among the farmers.

### **Challenges before Co-operative Banks**

Reports of some societies show that Co-operative banking despite its long history has failed to win the confidence of farmers in the country and that is the reason why most of the farmers in rural areas take only a small part of the loans taken from Co-operative banks.

So far it has failed to meet the needs of small farmers.

Overdues are a big problem at all levels.

Statistics show that the membership of Co-operative s in rural areas is only 45 percent, which means that 55 percent of the people in rural areas have not been able to join the Co-operative yet. The Banking Commission constituted in the year 1972 had attributed the following reasons for this:

- Inability of the member to repay the loan.
- Inadequacy of the prescribed credit limit.
- Mismanagement of land records.

- Inability of people to provide certain security for the loan.

Several studies have revealed that some co-operative banks in the country have become inactive and some are only on paper. Most of the co-operative banks are also facing the lack of professional management. Another important problem arises from the conflict of control over co-operative banks, as they are regulated and controlled by the RBI but administered by the state government.

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### **The steps taken by RBI for Co-operative Banking**

RBI has taken measures to develop Co-operative finance in India, let's have a closer look at them:

1. **Introduction of the Model Co-operative banks Act, 2003:** The Reserve Bank of India (RBI) has introduced the Model Co-operative banks Act, 2003, to provide a comprehensive legal framework for Co-operative banks in India. The Act provides for the constitution, regulation and management of Co-operative banks, including rules and regulations for their deposit-taking, lending and other operations.
2. **Issuance of Guidelines for Co-operative banks:** The RBI has issued various guidelines to strengthen the operations of Co-operative banks in the country. These include guidelines for acceptance of deposits, management of non-performing assets, credit concentration, asset liability management and risk management.
3. **Setting up of Specialized Supervisory Cells:** The RBI has also set up specialized supervisory cells in each of its regional offices to monitor the operations of Co-operative banks. The cells review the performance of the banks and take corrective measures, if necessary.
4. **Setting up of Credit Guarantee Scheme:** The RBI has set up a Credit Guarantee Scheme to provide credit guarantee cover to Co-operative banks. This scheme aims to provide financial assistance to small borrowers in the Co-operative sector.
5. **Introduction of Prudential Norms:** The RBI has also introduced a number of prudential norms to ensure sound and prudent banking

### **CONCLUSION:**

Co-operative banks often play a vital role in community development by promoting financial literacy, supporting local businesses, and investing in community projects. They foster a sense of solidarity and mutual support among their members and Co-operative society plays a key role in representing the needs of its members in a larger market and fostering their independence. It fosters social trust, a broad socio-economic uplift, and a propensity to support our local communities.

The need for Co-operative banks in the country cannot be denied, because through these we have been able to take the banking system in the country to the masses, but in view of the scams related to Co-operative banks, it is also necessary that the Co-operative banking structure of the country itself Make some basic changes. At present, the problem of conflict of control is the biggest problem facing the co-operative banks, to deal with which it is very important that the Reserve Bank of India and the state government come together on one platform and it is very necessary to work together so that the Co-operative banks can contribute. be prepared to give. Due to which the development of the country will increase

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