Cooperative and Commercial Banks

September 17, 2020

Banks can be described as a financial intermediary which exists between the borrowers and depositors and at the same time, also provides for banking services to its customers. A commercial bank is a bank that is formed for the commercial purpose and hence its primary aim is to earn profit from its banking business.

Difference Between Cooperative and Commercial Banks

- Commercial banks are **joint-stock banks.** Co-operatives banks, on the other hand, are **co-operative organisations.**
- Commercial banks are governed by the **Banking Regulation Act.** Co-operative banks are governed by the **Co-operative Societies Act of 1904.**
- Co-operative banks have lesser scope in offering a variety of banking services than commercial banks.
- 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 a **unit-bank system**, though there are co-operative banks with a number of branches but their coverage is not countrywide.
- 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.

Banking Regulation (Amendment) Bill, 2020

- The bill proposes amendments to the **Banking Regulation Act, 1949**. With this new bill, the central government aims to **bring cooperative banks under the supervision of the Reserve Bank of India (RBI).**
- For the last two years, depositors of cooperative banks and small banks are facing problems. The bill is trying to **protect the depositors.**
- 1,482 urban and 58 multi-state cooperative banks would be brought under the supervision of the central bank.
- The bill does not regulate cooperative banks. The amendment is **not for the central government to take over the cooperative banks.**
- The Bill provides that a co-operative bank may **issue equity, preference, or special shares on face value or at a premium to its members or to any other person residing within its area of operation.**
- Further, it may **issue unsecured debentures or bonds** or similar securities with maturity of ten or more years to such persons. Such issuance will be subject to the **prior approval of the RBI**, and any other conditions as may be specified by RBI.
- The Act states that **RBI may supersede the Board of Directors** of a multi-state co-operative bank for up to five years under certain conditions. These conditions include cases where it is in the **public interest** for RBI to supersede the Board, and to protect depositors.
- The Bill **applies certain provisions of the Act to co-operative banks in relation to its management.** Under the Bill, co-operative banks cannot employ as Chairman, someone who is insolvent or has been convicted of a crime involving moral turpitude, among other restrictions. RBI may remove the Chairman if he is not fit and proper and appoint a suitable person if the bank does not do so.