

# RBI to Supervise Cooperative Banks

June 25, 2020

The Union Cabinet approved an ordinance to bring all urban and multi-State cooperative banks under the direct supervision of the Reserve Bank of India (RBI) to ensure that the depositors are protected.

## What are Cooperative Banks?

Co-operative banks in India are **financial entities established on a co-operative basis** and belonging to their members. This means that the **customers of a co-operative bank are also its owners**. These banks provide a wide range of regular banking and financial services. Broadly, co-operative banks in India are divided into two categories – urban and rural.

## Features of the Ordinance

- The urban cooperative banks and multi-State cooperative banks, which are 1,540 in number and have a depositor base of 8.6 crore (who have saved ₹4.84 lakh crore), have been **brought under RBI supervision process, which is applicable to scheduled banks**. Depositors will get more security because of the decision.
- Currently, these banks come under **dual regulation of the RBI and the Registrar of Co-operative Societies**. While the role of registrar of cooperative societies includes incorporation, registration, management, audit, supersession of board and liquidation, RBI is responsible for regulatory functions such as maintaining cash reserve and capital adequacy, among others.
- The move to bring these urban and multi-State cooperative banks under the supervision of the RBI (through changes to the Banking Regulation Act) comes after **several instances of fraud and serious financial**

**irregularities**, including the major scam at the Punjab and Maharashtra Co-operative (PMC) Bank last year. Urban cooperative banks reported nearly 1,000 cases of fraud worth more than ₹220 crore in past five fiscal years, a Press Trust of India report said.

- Cooperative banks will be **audited according to RBI's norms** and the central bank can supersede the board, in consultation with the state government, if any cooperative bank is under stress.
- **Appointments of chief executives** will also **require permission from the banking regulator**, as is the case for commercial banks.