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UGC Approved Sr. No. 49366




SRIIS

Online ISSN -2278-8808

Printed ISSN- 2349-4766



ATTESTED

  
PRINCIPAL  
Karmaveer Kalkasoleb Wagh Arts, Commerce,  
Science and Computer Science College,  
Chanderi, Tel Nigadi, Dist. Nandik-422 201.

**An International  
Peer Reviewed**

**Referred  
Quarterly**

**SCHOLARLY RESEARCH JOURNAL  
FOR INTERDISCIPLINARY STUDIES**

**OCT-DEC, 2017. VOL. 6, ISSUE -34**



SJIF 2016 = 6.177

Online ISSN 2278-8808

Printed ISSN 2349-4766

An International, Peer Reviewed, & Referred Quarterly

## Scholarly Research Journal for Interdisciplinary Studies

**OCT-DEC, 2017, VOL-6, ISSUE-34**

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201 RESENT TRENDS IN BANKING SECTOR REFORMS

*Bahekar Pratibha Ambadas (911-914)*

202 IMPACT OF DIGITAL MARKETING WITH REFERENCE TO MOBILE APPS ON THE REAL ESTATE INDUSTRY

*Irfan Chaugule (915-917)*

203 ECOMMERCE

*D. S. Thorat (918-920)*

204 CLOUD COMPUTING TECHNOLOGY: A BOON FOR E-BUSINESS

*Mr. Mande P.B. (921-924)*

205 A STUDY OF FINANCIAL PERFORMANCE EVALUATION OF WOMEN'S NON-AGRICULTURAL CO-OPERATIVE CREDIT SOCIETIES IN AHMEDNAGAR DISTRICT

*Dr. Harjeet. B. P & Miss.Sarika. B. Perane (925-932)*

~~206~~ CO-OPERATIVE BANKS: TYPES, ADVANTAGES-DISADVANTAGES & THEIR PROBLEMS

*Mr. Dnyanesh Dilip Mahatekar & Dr.R.K. Datir (933-937)*

207 CHANGES IN STRUCTURE OF INCOME TAX POLICY

*Prof. Prashant Suryabhan Ugale (938-944)*

208 GST : ISSUES AND CHALLENGES

*Prof. Hamdani Rizwana M.J. (945-948)*

209 E-BANKING

*Prof. Sable Prajakta Santosh (949-953)*

210 RECENT CHANGES IN HOUSEHOLD SAVINGS & INVESTMENT PATTERN AFTER DEMONETIZATION

*Prof. Swati Surve (954-955)*

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Mr. Dnyanesh Dilip Mahatekar &amp; Dr.R.K. Datir (933-937)

**CO-OPERATIVE BANKS: TYPES, ADVANTAGES-DISADVANTAGES & THEIR PROBLEMS**

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**Introduction:**

Co-operative Banks in India have become an integral part of the success of Indian Financial Inclusion story. They have achieved many landmarks since their creation and have helped a normal rural Indian to feel empowered and secure. The story has not been smooth and has its share of procedural glitches and woes placed in various pockets. A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts). They are registered under the Cooperative Societies Act, 1912, and governed by the Banking Regulations Act 1949 and Banking Laws (co-operative societies) Act, 1965. Anyonya Sahakari Mandali, established in 1889 in the province of Baroda, is the earliest known cooperative credit union in India.

**KeyWords:-** Co-Operative Bank & Commercial Bank, Difference: Commercial And Co-Operative Banks, Advantages & Disadvantages of Cooperative Society, Types of Co-Operative Banks In India, Problems of Cooperative Banks.

**Co-Operative Bank & Commercial Bank :** Federal structure in nature i.e at the top level State Co-operative Banks, and at the village level primary Co-operative credit Societies They are functioning on branch banking and the branches are located in all areas rural, urban etc. the head office contain branches through Zonal office They are generally concentrating on rural credit and provide credit facilities to agricultural and rural activities. They are mainly concentrating on the requirements of trade and industry. In Co-operative Banks the borrowers are usually their members. Borrowers can be any including individuals institutions. The Co-operative Banks provide a little higher rate of interest on deposits as compared to commercial banks. The Commercial Banks provide a lesser rate of interest as compared to co-operative banks.

**Difference: Commercial and Co-Operative Banks**

- 1) Features of Co-Operative Banks:** They are organized and managed on the principal of co-operation, self-help, and mutual help. They function with the rule of one member, one vote. Function on "no profit, no loss" basis. Co-operative banks, as a principle, do not pursue the goal of profit maximization. Co-operative bank performs all the main banking functions of deposit mobilization, supply of credit and provision of remittance facilities. Co-operative Banks provide limited banking products and are functionally specialists in agriculture related products. However, co-operative banks now provide housing loans also. UCBs provide working capital loans and term loan as well. Co-operative bank do banking business mainly in the agriculture and rural sector. However, UCBs, SCBs, and CCBs operate in semi urban, urban, and metropolitan areas also. Co-operative banks are perhaps the first government sponsored, government-supported, and government subsidized financial agency in India. They get financial and other help from the Reserve Bank of India NABARD, central government and state governments.



**2) Functions**

- 1) Cooperative banks in India finance rural areas under: Farming, Cattle, Milk, Personal finance.
- 2) Cooperative banks in India finance urban areas under: Self-employment, Industries, Small scale units, Home finance, Consumer finance, Personal finance.

**Importance of Co-Operative Bank**

Indian cooperative structures are one of the largest such networks in the with more than 200 million members. It amounts to about 67% of the total rural credit. Integral Part for Credit To Agriculture Important Instrument in Small Scale Operation Extensive branch network Traditional importance

**Advantages of Cooperative Society**

- 1) **Easy to form:** Any ten adults can join together and form a cooperative society. Registration of a cooperative society is very simple and easy. No legal formalities are required for the formation of cooperative society.
- 2) **No obstruction for membership:** Unless and otherwise specifically debarred, the membership of cooperative society is open to everybody. Nobody is obstructed to join on the basis of religion, caste, creed, sex and color etc. A person can become a member of a society at any time he likes and can leave the society when he does not like to continue as member.
- 3) **Limited liability:** In most cases, the liabilities of the members of the society is limited to the extent of capital contributed by them. Hence, they are relieved from the fear of attachment of their private property, in case of the society suffers financial losses.
- 4) **Service motive:** In Cooperative society members are provided with better good and services at reasonable prices. The society also provides financial help to its members < the concessional rates. It assists in setting up production units and marketing of produces & small business houses so also small farmers for their agricultural products.
- 5) **Democratic management:** The cooperative society is managed by the elected members from and among themselves. Every member has equal rights through its single vote but can take active part in the formulation of the policies of the society. Thus all member are equally important for the society.
- 6) **Stability and continuity:** A cooperative society cannot be dissolved by the death insolvency, lunacy, and permanent incapability of the members. Therefore, it has stable life are continues to exist for a longer period. It has got separate legal existence. New members may join and old members may quit the society but society continues to function unless are otherwise all members unanimously decided to close the same.
- 7) **Economic operations:** The operation carried on by the cooperative society economical due to the eliminations of middlemen. The services of middlemen are provided by the members of the society with the minimum cost. In the case of cooperative society, the recurring and non-recurring expenses are very less. Further, the economies of scale-ma production or purchase, automatically reduces the procurement price of the goods, thereby minimizes the selling price.
- 8) **State patronage:** Government provides special assistance to the societies to enable them to achieve their objectives successfully. Therefore, the societies are given financial lo< at lower rates. Government also extends much type of subsidies to cooperative societies strengthening their financial stability and sustainable growth in future.

**Disadvantages of Cooperative Society**

- 1) **Limited resources:** Cooperative society's financial strength depends on the cap contributed by its members and loan raising capacity from state cooperative banks. The membership fee is limited for



which they are unable to raise large amount of resources as their members belong to the lower and middle class. Thus, cooperative are not suitable for the large scale business which require huge capital.

- 2) **Inefficient management:** A cooperative society is managed by the members only. They do not possess any managerial and special skills. This is considered as major drawback of this sector. Inefficiency of management may not bring success to the societies.
- 3) **Lack of secrecy:** The cooperative society does not maintain any secrecy in business because the affairs of the society is openly discussed in the meetings. But secrecy is very important for the success of a business organization. This paved the way for competitors to compete in more better manner.
- 4) **Cash trading:** The cooperative societies sell their products to outsiders only in cash. But, they are usually from the poor sections. These persons require availing credit facilities which are not possible in the case of cooperatives. Hence, marketing is a shortcoming for the cooperatives.
- 5) **Absence of motivation:** The members may not feel enthusiastic because the law governing the cooperatives put some restriction on the rate of return. Absence of relationship between work and reward discourage the members to put their maximum effort in the society.
- 6) **Excessive Government interference:** Government put their nominee in the Board of management of cooperative society. They influence the decision of the Board which may or may not be favorable for the interest of the society. Excessive state regulation, interference with the flexibility of its operation affects adversely the efficiency of the management of the society.
- 7) **Disputes and differences:** The management of the society constitutes the various types of personnel from different social, economic and academic background. Many a times they strongly differ from each other on many important issues. This becomes detrimental to the interest of the society. The different opinions and disputes may paralyses the effectiveness of the management.
- 8) They do not provide long term loans to industries.
- 9) Banking operations are conducted on the co-operative basis and not on commercial basis.
- 10) Banking services are provided but on a limited scale.
- 11) Such banks hardly indulge in to merchant banking.
- 12) None of the co-operative banks operate mutual funds

#### **TYPES of CO-OPERATIVE BANKS IN INDIA**

- 1) **Central Co-Operative Banks:** These are the federations of primary credit societies in a district and are of two types- those having a membership of primary societies only and those having a membership of societies as well as individuals. The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank.
- 2) **State Co-Operative Banks:** The state co-operative bank is a federation of central co-operative bank and acts as a watchdog of the co-operative banking structure in the state. Its funds are obtained from share capital, deposits, loans and overdrafts from the Reserve Bank of India. The state cooperative banks lend money to central co-operative banks and primary societies and not directly to the farmers.
- 3) **Land Development Banks:** The Land Development Banks meet the long term credit requirements of the farmers for developmental purposes. They are supervised National Bank for Agriculture and Rural development (NABARD). The state land development banks oversee the the primary land development banks situated in the districts and tehsil areas in the state. They are governed both by



the state government and Reserve Bank of India. Recently, The sources of funds for these banks are the debentures subscribed by both central and state government. These banks do not accept deposits from the general public.

- 1) Land Development Banks
- 2) Central State Primary Level
- 3) Urban Cooperative Banks (Primary)

Urban credit societies that meet specified criteria can apply to RBI for a banking license to operate as urban co-operative banks. Primary (urban) co-operative banks are registered and governed by state governments under the respective co-operative societies acts of the concerned states. Under the control of the RBI, as covered by the provisions of the Banking Regulation Act, 1949. While the managerial aspects of these banks, registration, management, administration, recruitment, amalgamation, liquidation, etc are controlled by the state governments, matters related to banking are governed by RBI directives. Traditionally, the area of operation of primary (urban) co-operative banks is confined to metropolitan, urban or semi-urban centers and caters to the needs of small borrowers including SSIs, retail traders, small entrepreneurs, professionals and the salaried class. However, there is no formal restriction as such and today UCBs can conduct business in the entire district in which they are registered, including rural areas. Well managed primary UCBs with deposits of over Rs 50 crore are also allowed to operate in more than one state subject to certain norms. These banks are also included in the Second Schedule of the RBI Act 1934. This confers certain rights and obligations on them — rights such as the facility of obtaining accommodation in the form of refinance and loans and advances from the RBI and obligations such as maintenance of cash reserves, submission of returns to the RBI etc. At present, there are 29 scheduled UCBs.

**District Central Co-Operative Banks (Dccbs) and State Co-Operative Banks (Scbs):** They are co-operative banks at the district level and at the state level. Each district will have not more than one DCCB with a number of DCCBs reporting to the SCB. Earlier these two tiers were also under the supervision of the RBI. However, following the establishment of the National Bank of Agriculture and Development (Nabard) in 1982, the supervisory function of these banks has been passed on to Nabard. The major objectives of the DCBs are to provide loans to affiliated societies, to act as a balancing centre of finance for primary societies, to arrange for the supervision and control of the affiliated societies, to raise deposits from members and non-members, to convene conferences of the member societies and also prescribe uniform procedure for the working of primary societies, to open branches of the bank at important places with the permission of the Registrar of Co-operative Societies and to maintain and utilize state partnership. These apex banks or State Co-operative Banks are formed by federating DCBs in each state. The apex banks assume a key-position in the co-operative credit structure because the financial assistance from RBI and the National Bank for Agriculture and Rural Development are invariably routed through them.

**Problems of Cooperative Banks:** The biggest problem facing co-operative banks is the they have more than one master in the case of UCBs, you have the RBI and the Registrar of Co-operative Societies (RCS) of the respective state and in the case of the district and state co- operative banks, you have NABARD, the RBI and the RCS. Given the close links between politicians and co-operatives and the fact that the RCS functions under the state government, in practice this dual or triple custody of the health of co-operative banks has, in practice, led to poor supervision and control. Also most co-operative banks are lacking in skill/expertise. Recruitments are politicized as are appointments at most levels. Income recognition and prudential norms that were introduced for commercial banks in the early 90s were also not extended to the co-operative sector.

**Conclusion:** India's cooperative banking sector has been suffering in the last many years due to poor management and capital shortage. During 2000-2010, 132 banks had their licenses cancelled and 62 merged with other banks. There are over 1,600 UCBs with close to 7,000 branches in the country. About 45 Indian co-operative banks with combined deposits of Rs.35,600 crore face penal action by the Reserve Bank of India (RBI), including possible prohibition on their operations, if they fail to meet a 30 June deadline to achieve minimum capital and reserve requirements. of the 45 cooperative banks, 23 do not even have licenses but these together have Rs.7,600 crore deposits. of these, 16 are in Uttar Pradesh, three in Maharashtra, three in Jammu and Kashmir and one in West Bengal. The 16 banks in Uttar Pradesh together have a deposit base of Rs.2,900 crore and will require Rs.1,400 crore of capital to meet the 4% CAR stipulation. The three banks in Maharashtra have about Rs.3,000 crore of deposits. These 23 banks will require about Rs.2,100 crore of capital to achieve 4% capital adequacy ratio, according to NABARD's estimates. The remaining 22 of the 45 cooperative banks have licenses but were served notices by the central bank two months ago for non-compliance with its stipulations. of these, seven are in Kerala. These banks have to raise their capital adequacy to 4% by the end of June and to 7% by March 2014. All cooperative banks have to gradually migrate to 7% capital adequacy by March, 2014. In March 2011, the total deposits of all district cooperative banks stood at Rs.1.61 trillion and the advances at Rs.1.2 trillion.

**Source:**

- 1) *rbi.org*
- 2) *The Times of India*
- 3) [https://en.wikipedia.org/wiki/Cooperative\\_banking](https://en.wikipedia.org/wiki/Cooperative_banking)