

# BHARAT SCHOOL OF BANKING

## COOPERATIVE BANKS

In normal **commercial banking**, the banking business is owned or maintained by government (in case of **Public Sector Banks**) or some **private** entity (in case of **Private Sector Banks**). In this case, **banks**, on behalf of government or that private entity, **lends** to other individuals or business, i.e., **borrowers**. The sole purpose of this commercial banking is **profit**.

But in case of **cooperative banking**, some small private entities or individuals come together, and form a small financial institution (by their **own funds / member funds**), and **lend** to the **members** of that institution. Note that the **banking** business here is on **cooperative** basis, i.e., one member is helping / lending to other member (now they do lend to non-member individuals or entities as normal banks). These financial institutions are known as **Cooperative Banks**.

### Purpose

Initially, **cooperative banks** were set up to meet the **credit** needs in **rural** area, especially to prevent **money lenders**, but now they have vast area of services as follows -

- Agricultural and allied activities
- Rural-based industries
- Small trade and industry in Urban areas, etc.

### Structure of Indian Cooperative Banks

Cooperative banks in India have a **3-tier** structure -

- **Primary Credit Societies** (village/town/urban centers)
- **Central Cooperative Banks** (district-level)
- **State Cooperative Banks** (state-level)

### Urban Cooperative Banks (UCBs)

**Primary (urban) Credit Societies** that meet certain criteria can apply to **RBI** for a **banking license** to operate as **Urban Cooperative Banks (UCBs)**.

- Managerial aspects, like **registration, management, recruitment, administration**, etc. are controlled by **Registrar of Cooperative Societies (RCS)** of the respective **state governments** (as per **Co-operative Societies Acts**)
- Banking aspects are governed by **RBI** (as per **Banking Regulation Act, 1949**)

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These banks cater to the needs of **small borrowers** including retail traders, small entrepreneurs, professionals, salaried persons, etc.

### District Central Cooperative Banks (DCCB)

DCCBs are cooperative banks at the **district-level**. Each district generally will have only one **DCCB**. Following the establishment of **NABARD** in **1982**, the supervisory function of these banks has been passed on to **NABARD**.

### State Cooperative Banks (SCB)

SCBs are cooperative banks at the **state-level**. A number of **DCCBs** report to an **SCB**. **NABARD** has the supervisory authority over these SCBs.

Note that **DCCB** and **SCB** has three supervisors - **RCS**, **RBI** and **NABARD**, whereas **UCBs** are controlled by **RCS** and **RBI**.