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Co-Operative Banks in India and RBI: Study of Regulatory Framework

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ABSTRACT

Cooperative banks are subject to the Reserve Bank's statutory powers of regulation and supervision under the 1949 Banking Regulation Act. However, the Registrars of Cooperative Societies of the States concerned retain their authority over these banks' incorporation, management, etc., incorporation, management, etc., of these banks. It is further stated that the provisions of the Banking Regulation Act, 1949 (as applicable to Cooperative Societies) shall be supplementary to, and not, save as expressly specified in the Act, in derogation of, any other law for the time being in force. This means that cooperative banks must follow not just the Banking Regulation Act, but also any additional legislation that may be relevant to them. The requirements of the Banking Regulation Act must take precedence over the provisions of the Cooperative Societies Act concerning matters specifically established in the Banking Regulation Act. By including Section 56 of the Act, cooperative banks were rendered subject to it in 1966.

As the name implies, members of a cooperative bank serve as both the bank's owners and its customers. Members of the same local community, or profession, or who share a shared interest will typically form a cooperative bank. In general, members of cooperative banks have access to a wide variety of banking and financial services (loans, deposits, checking accounts, etc.). The structure, mission, values, and management of cooperative banks are distinct from those of stockholder banks. They are treated similarly to stockholder banks in most countries because of their oversight and control by banking regulators and compliance with prudential banking standards. This regulation and oversight may be exercised directly by government agencies in certain nations, while in others it may be entrusted to a federation or centralized body of cooperatives. The term "cooperative banking" refers to the cooperative structure of both retail and commercial banking. Most of the world's population has access to cooperative banking institutions that accept deposits and make loans. Commercial banking services supplied by manual organizations (such as cooperative federations) to cooperative firms are included in the broader category of "cooperative banking," which also include retail banking as practiced by credit unions, common savings and loan associations, building societies, and cooperatives.

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Comparatively, cooperative banks have a three-tiered federal structure, while commercial banks use a branch banking model.

***Keywords**: Cooperative banks, RBI, banking regulations, commercial banks, Cadbury Report, NABARD, Legal framework, Insurance Sector.*

I. INTRODUCTION

Cooperative banks are an important financial institution that belongs to their associates, who are both owner and consumers of their bank. A cooperative bank is always made by individuals who join the same locality and shares a general interest. It generally offers its people a broad variety of banking services such as loans, deposits, saving and current accounts, and ATM facilities. A cooperative bank varies from an active bank by its firm, goals, importance, and domination. In many nations, it is controlled by banking authorities and should obey prudential banking rules, which situate them on an equivalent footing with a shareholder bank.

A cooperative bank is much more significant in India than anywhere else. The distinguishing nature of it is served at a lesser rate and services without misuse. This bank has achieved its vitality by the position assigned to them, the expectation they are supposed to accomplish, and the number of branches they function. Its role in rural finance pursues to be vital gradually, and its dealing in the cities also has risen extraordinarily in recent times chiefly because of the quick raise in the number of prime Cooperative banks. In the rural locality, to the extent that farming and associated activities are considered, the delivery of credits was insufficient, and money lenders would use the poor public in rural localities giving them loans at a higher interest rate. Hence, these banks mobilize deposit and rural credits with a broad outreach and give institutional credits to the farmer.[2] Cooperative banks have also been a significant tool for many growth schemes, mainly subsidy-based programs for the poor.

(A) Importance Of Co-Operative Bank

Low economic growth, a predominantly rural population, an unfavorable land mass ratio, reliance on agriculture, an industrial base concentrated in cities, a highly unequal distribution of income and wealth, and high poverty and unemployment rates are all hallmarks of India's economy. Poverty and unemployment, in particular, are key hindrances to the country's development and prosperity. Cooperative banks have been instrumental in helping to solve this issue. The district central cooperative bank is one of the most powerful weapons in the struggle

[2] Shankar, Ravi. "India's cooperatives in a globalised world." National Cooperative Union of India (2007): Hundred years of cooperative development in India. New Delhi (2007): 113-137.

against poverty. It is adaptable and has received widespread praise as a means of combating poverty and uplifting those at the bottom of the socioeconomic ladder.

The word "financial sector" refers to many different parts of an economy. Domestic and international legal and institutional frameworks, financial intermediaries, markets, and tools are all included Money is the driving force behind any plan for growth. Cooperative Banks encourage saving by giving customers access to a wide range of deposit and investment options.

Household savings are gathered and distributed around the economy to boost output in various industries. Growth and social justice can both be attained if credit is distributed with care and fairness.

(B) Review of literature

- There have been several studies done, and many proposals made, to improve the efficiency of financial institutions. **Narasimhan Committee (1991),**[3] emphasized

capital adequateness and liquidity, **Padmanabhan Committee (1995),**[4] suggested CAMEL rating (in the form of ratios) to examine financial and working efficiency**, Tara pore Committee (1997),**[5] talked about non-performing assets and property quality, Kannan the Committee (1998) opined regarding working capital and lending methods, Basel committee (1998 and revised in 2001) preferred capital adequacy norms and risk management measures. Several committees were formed by the Reserve Bank of India to bring about reforms in the banking sector by emphasizing the improvement of the banks' financial health. These committees included **Kapoor Committee (1998),**[6] which made recommendations for credit delivery systems and credit guarantees, and **Verma Committee (1999**),[7] which made recommendations for seven parameters (ratios) to judge financial performance. To analyze and comprehend the financial and operational elements of financial institutions, particularly banks, experts have offered a variety of tools and methodologies. To foresee business failures and the onset of bankruptcy, these have centered on assessing the financial health and creditworthiness

[3] Devanand, H. N., and T. Rajendra Prasad. "NARASIMHAM COMMITTEE–THE CHANGING SCENARIO OF INDIAN BANKING SECTOR." Primax International Journal of Commerce And Management Research: 33.
[4] Garg, Vishal. "A Camel Model Analysis of Private Sector Banks in India." American Journal of Economics and Business Management 5.12 (2022): 205-212.
[5] RBI, observation of taparore committee, available at https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=18533 (last visited 25 April 2023)
[6] Bhat, K. A. (1999). Kapoor Committee Report: An Incomplete Agenda. SEDME (Small Enterprises Development, Management & Extension Journal), 26(2), 117–12
[7] D. N. Ghosh. “Verma Committee Report on Weak Public Sector Banks.” Economic and Political Weekly, vol. 34, no. 48, 1999, pp. 3356–59. JSTOR, http://www.jstor.org/stable/4408652. Accessed 6 May 2023.

of financial institutions.

Despite the implementation of prudential norms, **Baskaran and Josh (2000**),[8] found that the recovery performance of cooperative lending institutions remained unsatisfactory, hence contributing to the expansion of NPA. They advocated for changes to legislation and policy that would bring cooperative credit institutions into line with the standards of commercial banking competition. District Central Cooperative Banks (DCCBs) in the western Indian states of Maharashtra, Gujarat, and Rajasthan have been compared and contrasted by Jain (2001), who has concluded that DCCBs in Rajasthan have been more successful in terms of profitability and liquidity.

- **Singh and Singh (2006)** analyzed financial margin as a means of studying the financial management practises of the Regional Central Cooperative Banks (DCCBs) in Punjab. Central Cooperative Banks made a larger reserve for non-performing assets because they used a larger share of their own money and were worried about recovering those monies.
- Banking performance in terms of revenue generation, efficiency, asset quality, and handling of finances has become vital to stabilize the economy, as proposed by **Davuluri, Boppani, and Nagarjuna (2006).** Public-sector banks in India were determined to be more effective than private-sector banks
- **Pal and Malik (2007),[9]** looked studied the disparities in profitability, liquidity, risk, and efficiency across 74 banks in India (both domestic and international). In terms of both overall performance and resource utilization, international banks fared better than their domestic and domestic-only counterparts.
- **Campbell (2007)** examined the link between NPLs and bank collapse and urged for a strong bank insolvency law to avoid and control NPLs in developing and transitioning economies, which have been experiencing serious difficulties as a result of NPLs.

(C) Objective of the research

- To understand the need to learn how cooperative banks in India make loans.
- Understand how RBI regulates these banks

[8] Bhaskaran R. &Praful Josh P. (2000), "Non-Performing Assets (NPAs) in Cooperative Rural Financial System: A Major Challenges to Rural Development", BIRD'S Eye View, Dec. 2000.
[9] Pal, Ved & Malik, N. (2007). A Multivariate Analysis of the Financial Characteristics of Commercial Banks in India. The IUP Journal of Bank Management. VI. 29-42.

- To evaluate the effectiveness of India's cooperative banks.
- To analyze how "size" affects the effectiveness of Cooperative Banks.
- To provide effective strategies for enhancing the performance of cooperative banks.
- Recognize that various clientele has a preference for various loan types.
- Find out how happy consumers are with the bank's lending policies

(D) Issues raised

- From when India has developed cooperative societies?
- How did cooperatives develop in India? Schemes, laws, and committees that led to their development
- How have cooperatives banks been governed? Laws and legislation related
- How have cooperatives impacted the rural and urban areas?
- WHAT is the role of rbi in their governance?
- Whether cooperatives have led to progress in India’s economy?

(E) Research methodology and approach

In order to address the concerns raised by the research questions and achieve the study's objectives, it will use a doctrinal approach to research methodology. Various bank laws have been examined including the RBI, and Banking Regulation Act 1949. The Cooperative Societies Act of 1912 governs the incorporation of cooperative banks. These are governed by the Banking Regulation Act of 1949 and the Banking Laws (Application to Cooperative Societies) Act of 1965, respectively, and are enforced by the Reserve Bank of India and the National Bank for Agriculture and Rural Development (NABARD).

II. IMPACT ON COOPERATIVE BANKS-ON BANKING AND INSURANCE SECTOR

People visit banks mostly to deposit money, take loans and get insurance. This chapter highlights how banking and insurance sector have been impacted though cooperative governance and cooperative loans. Through this chapter we understand how the facilities like insurance have reached the urban middle class and the rural class through various schemes and legislations.

(A) Improvements in corporate governance for India’s cooperative banks

The importance of **sound management practices inside cooperative financial institutions**

has never been higher. Protection of shareholders' rights, enhancement of shareholders' value, Board issues including its composition and role, disclosure requirements, accounting integrity, and control systems, in particular internal control systems, are all topics discussed in the literature on corporate governance. More and more cooperative banks in India, both in urban and rural areas, have experienced grave problems in recent times, which has in a way threatened the profile and identity of the entire cooperative system, bringing corporate governance especially in the cooperative sector into sharp focus. Among these issues are problems with mismanagement, wasteful spending, bad investments, and members feeling increasingly disconnected from their cooperative community.[10]

Cooperative corporate governance is based on the goals and ideals of cooperatives. Co-ops are communities that are owned and operated by their members. Businesses with democratically elected management. Their primary purpose is to provide value to their investors and members. Therefore, the goal of cooperative corporate governance is to guarantee co-operational relevance and performance by integrating members, management, and staff into planning, strategy development, and implementation.

Corporate governance's very definition derives from its inherent connection to the full spectrum of activities that can have an impact on a company's bottom line in some way.

businesses, firms, etc. One of the first to propose a definition was Nobel Prize–winning economist Milton Friedman: "Corporate governance" is "the practise of managing a corporation so that its activities are consistent with generally accepted ethical standards. “With the goals of the owners or shareholders, which are often to maximise profits while adhering to the norms of society as reflected in the law and local customs.

The original meaning of "corporate governance" was narrow, but successive definitions have broadened its use. Experts disagree on what constitutes good corporate governance, but most agree that it must involve doing more with less, long-term thinking, satisfying the information demands of all shareholders, and holding executives accountable are all goals that should be at the forefront of any company's relations with their stockholders.

Former World Bank President Mr. James Wolfensohn defined corporate governance as "the process by which management is overseen to ensure that it is acting in the best interests of its shareholders." a commitment to equality, openness, and responsibility within the workplace. The OECD, or Organisation for Economic Co-operation and Development, has provided a

[10] Deller, Steven, et al. "Research on the economic impact of cooperatives." University of Wisconsin Center for Cooperatives 231.2209 (2009): 232-3.

fuller definition. It defines "corporate governance" as "the framework through which for-profit organisations are governed and managed." Here, the corporate governance framework delineates the allocation of responsibilities and rights, management, shareholders, and other stakeholders, and lays up the rules and procedures for how the corporation's various players are to carry out their respective roles and obligations. This not only provides the framework within which the company's goals are determined, but also the means by which they can be achieved.

It is not out of place to mention the recent global prominence of topics like corporate governance and corporate control in this context. The Watergate scandal in the United States likely planted the seeds of current corporate governance. Subsequent investigations by US regulatory and legislative bodies revealed control failures that allowed several large corporations to bribe government officials and make illegal political contributions.

While these changes in the US prompted discussion in the UK,[11] a series of scandals and bank collapses in the late 1980s and early 1990s caused investors and financial institutions to worry about their holdings. The 1980s were a disastrous decade for several companies in the UK that had rapid revenue development. It's important to note that bad management practises were a primary cause of these dramatic corporate disasters. Subsequent inquiries into corporate governance (most notably the Cadbury Report) and widespread modifications to corporate structure fuelled this discussion.

To help improve corporate governance and investor trust in financial reporting and auditing, the London Stock Exchange appointed Sir Arian Cadbury to head a Committee in May 1991. The Committee's charge was to outline the roles and responsibilities of all parties involved, as well as the standards that should be met. The Committee looked into the Board of Directors' responsibility to both shareholders and the public at large. In its report and accompanying "code of best practices," submitted in December 1992, it detailed the procedures for governing that would strike a fair balance between the Board of Directors' necessary powers and their due responsibility. It seems appropriate to make passing mention of the report's recommendations, which take the form of guidelines for things like the Board of Directors and Reporting & Control, given the report's status as a ground-breaking study of corporate governance.

According to the Cadbury Report, the Board of Directors should have frequent meetings, keep complete and effective control of the company, and keep tabs on the management team. To

[11] Lakshmi, P., and S. Visalakshmi. "Impact of cooperatives in financial inclusion & comprehensive development." Journal of Finance and Economics 1.3 (2013): 49-53.

prevent any one person from having unchecked decision-making power, there should be a well-defined set of roles and duties at the top of the firm. To maintain its authority over the organization, the Board of Directors needs a written list of decision-making responsibilities. In addition, the Directors should follow a predetermined method for seeking outside professional guidance in the performance of their duties. The Cadbury Report suggested that the Board keep an objective and professional relationship with the auditors in section,[12]on Reporting & Control. The report stated that the Board was responsible for providing a fair and transparent analysis of the company's status. The Board should form an Audit Committee and provide it explicit terms of reference detailing its responsibilities and authority. Alongside a statement from the auditors outlining their reporting responsibilities, the Directors should explain their role in preparing the accounts. The efficiency of the company's internal control system should also be reported by the Board of Directors. The Directors were also required to state whether or not they believe the company can be sustained as a going concern, providing any relevant caveats or assumptions. There was a great deal of curiosity about The Cadbury Report in India.[13]

The Confederation of Indian Industries (CII), the Associated Chamber of Commerce and Industry (ASSOCHAM), and the Securities and Exchange Board of India (SEBI) have all studied and addressed the topic of corporate governance at length. The importance of the Board and the need for it to adhere to a Code of Best Practices was reaffirmed by these investigations, lending credence to the Cadbury Report's central thesis. As legal entities, cooperative banks have their own distinct qualities. Contrary to what one might expect, the emergence of professionalism in cooperatives has been overlooked as they have evolved in India from being peoples' organizations to business businesses adopting professional managerial practices.

A high level of professionalism demonstrates the existence of a confluence of talents and standards in carrying out one's responsibilities. Professional management in cooperative banks is hindered by a lack of resources for training and placement. Many cooperative banks have some sort of training programme in place, but rarely do they try to align that programme with the actual needs of the business. It is preferable for the training to focus on both improving existing skills and teaching new ones. Staff motivation can also be maintained by regular work rotation, job enrichment, and acknowledgment of performance. In order to maintain and grow their market share and sense of identity over the long term, cooperative banks should operate

[12] Misra, Biswa Swarup. Credit cooperatives in India: Past, present and future. Vol. 78. Routledge, 2010.
[13] Seibel, Hans Dieter, and Harishkumar R. Dave. "Commercial aspects of SHG banking in India." National Bank for Agriculture and Rural Development, Mumbai, mimeo (2002).

like professional organizations based on good managerial systems that are in sync with the needs of the present and take into account future projections of requirements. This highlights the crucial importance of having competent and transparent bank boards. Good corporate governance is subject to external pressure from regulators.

However, being in full accordance with all rules and regulations is not always the best option. Internal pressures, peer pressures, and market pressures are necessary to go beyond the bare minimum of requirements set by regulatory agencies and are thus a necessary condition of good corporate governance. Some aspects of the recent approach to regulation by RBI could increase the necessity and value of good corporate governance in the cooperative sector. By increasing the breadth of information covered and the timeliness of such data and analytical content, the importance of transparency has been emphasized. Importantly, operational transparency must accompany deregulation and operational freedom.

In fact, the RBI Governor made it clear in his April 2002 Monetary & Credit Policy announcements that after the elimination of minimum lending rates for cooperative banks, it would be the responsibility of those institutions to make their interest rates public knowledge.[1435] Therefore, regulators have mandated that all banking institutions make public both their base interest rate and their rate of interest plus any applicable fees. Thus, disclosure and transparency are fundamental components of a corporate governance framework, as they equip all stakeholders with the knowledge, they need to assess whether or not their interests are being taken into account. The Reserve Bank of India recognizes the value of openness and disclosure as tools for enforcing bank accountability in the market.

Increasing the openness of cooperative banks' financial statements is another key topic that needs special attention. Commercial banks in India must now report their operating profit, return on assets, business per employee, nonperforming assets, etc., and their loan, investment, borrowing, and deposit maturities. The question at hand is how to make the necessary adjustments so that identical disclosures are included in the audit reports of cooperative banks.

Registrars of Cooperative Societies of State Governments were informed by the Reserve Bank of India (RBI) in 1996 that the balance sheet and profit and loss account should be prepared in accordance with prudential norms introduced as a sequel to Financial Sector Reforms, and that the statutory/departmental auditors of cooperative banks should investigate whether or not these norms were being followed. Therefore, it is incumbent upon auditors to be conversant in

[14] Ghosh, Saibal, and Jugnu Ansari. "Board characteristics and financial performance: Evidence from Indian cooperative banks." Journal of Co-Operative Organization and Management 6.2 (2018): 86-93.

all aspects of the new RBI guidelines and to ensure that the profit and loss account and balance sheet of cooperative banks are prepared openly and accurately reflect the true state of affairs. As per the Cooperative Societies Act/Rules of the state concerned and the bye-laws of the individual institutions, auditors should also make sure that any other legislative provisions and appropriations out of earnings are made.

With a greater focus on business product diversity as the primary demand at all levels in cooperative credit institutions, it is more important than ever to have effective internal control mechanisms in place. Cooperative banks must ensure they are making the most of their finances by employing efficient strategies and mechanisms for managing their money. Cooperative banks' dealings in government securities are a key part of their investment portfolio, but they have received a lot of attention for all the wrong reasons. In fact, it's caused enough concern to warrant today's Convention.

By prescribing prudential requirements, the Indian government hopes to improve the financial soundness and competitive capabilities of the country's financial industry. To achieve the desired level of transparency in their balance sheets, the prudential rules framework has been extended to the cooperative banks as well. Income recognition, asset classification, provisioning, and other related norms were first implemented in a phased manner for urban cooperative banks in April 1992. In the following years, these prudential norms, including asset classification and provisioning (excluding the capital adequacy ratio), were extended to ARDBs.

The Reserve Bank of India (RBI) released comprehensive instructions for transactions in securities to all co- operative banks in September 1992. In accordance with the guidelines in effect, each bank must formulate an investment policy, with the approval of its Board. Specifics regarding broker transactions, the Subsidiary General Ledger (SGL) facility, the issuance of Bank Receipts, internal control systems, audit and review systems, etc. are all laid out therein. The banking industry has been instructed to use SGL accounts exclusively for all Government Securities transactions. A framework for disciplinary action against the bouncing of SGL transfer forms due to lack of sufficient balance in the SGL account or current account has also been implemented to ensure proper discipline for SGL account transactions, thereby reducing settlement risks. Only brokers who are members of NSE, BSE, or OTCEI shall be used as intermediaries by banks. A broker's involvement in a transaction should be limited to facilitating communication between the buyer and seller. Both the cash settlement and the security settlement portions of a transaction must be settled directly between the counterparties.

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A prudential ceiling of 5% of the total transactions (both purchases and sales) has been prescribed for routing transactions through an individual broker with the aim of preventing a disproportionate volume of transactions from being routed through one or a few brokers. If a bank's exposure to a broker is more than the prudential ceiling of 5%, the bank must provide the Board with an explanation after the event. It has also been recommended that banks implement adequate internal control mechanisms to track the purchase and sale of government securities. However, regulatory policy can only establish the broad outlines of a good investment strategy. It does not ensure that lending institutions would articulate and implement commercially effective investment decisions.

A compliant management team working in cahoots with unethical clients can outwit even the most robust regulatory framework and effective supervisory system. Internal control supported by an impartial and efficient audit system is essential, and occasional supervision cannot replace it. For this purpose, it is crucial for co- operative banks to have Audit Committees of the Board that are separate from management. People's faith in the cooperative sector took a giant leap forward once the Banking Regulations Act was extended to urban cooperative banks in 1966 and deposit insurance was instituted in 1971. In fact, non- member deposits now greatly outnumber member deposits in most city banks.

Nothing could be sadder than squandering these benefits and letting sloppy work and a lack of dedication at these banks cause people to lose faith in the cooperative economy. . The split authority in cooperative banking is a topic that has received a lot of attention recently. The Registrar of Cooperative Societies was the sole regulator and supervisor of all societies registered in his State, including societies engaged in banking operations, in accordance with the Cooperative Societies Acts of different States.

This is no longer the case due to the application of the BR Act, 1949 (AACS) to cooperative banks. Urban cooperative societies are presently regulated and supervised by RBI, while State Cooperative Banks and District Central Cooperative Banks are supervised by NABARD. The Reserve Bank of India (RBI) is responsible for supervising universal cooperative banks (UCBs), while the National Cooperative Agricultural Development Bank (NABARD) is in charge of supervising state cooperative banks and development credit cooperatives (DCCBs).

We also need to examine the periodic review reports on such transactions that are received from these institutions in order to identify early warning signs, if any, pertaining to any such abnormalities in their investment portfolio. Controls over cooperative banks are now vested in State Govts., RBI, and NABARD; nevertheless, there is an urgent need for clarity in defining

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The Reserve Bank of India (RBI) is responsible for supervising universal cooperative banks (UCBs), while the National Cooperative Agricultural Development Bank (NABARD) is in charge of supervising state cooperative banks and development credit cooperatives (DCCBs). We also need to examine the periodic review reports on such transactions that are received from these institutions in order to identify early warning signs, if any, pertaining to any such abnormalities in their investment portfolio. Controls over cooperative banks are now vested in State Govts., RBI, and NABARD; nevertheless, there is an urgent need for clarity in defining the roles of various control organizations through streamlining processes, protocols, etc. A distinct regulating agency for the cooperative banks was emphasized in the Governor's Monetary & Credit Policy statement in April 2001. Many people have different opinions on this matter. Credit institutions are interconnected through a web of interbank ties that, as recent events have demonstrated, can quickly become instruments for the propagation of a crisis. There are substantial hazards to the financial system whenever there are indications of financial mismanagement in a single institution or a collection of institutions, regardless of the cause. Good corporate governance is especially important in this setting. Too often, the few people at the top of cooperative banks hold too much sway over the institution as a whole. Therefore, cooperative performance has traditionally been marked by a lack of participation and involvement.

Cooperative identity and excellence can be strengthened by the efforts of involved members who feel they are contributing to an organization whose goals are consistent with their own and whose governing bodies and management have clear roles for constructive engagement and competence. Perhaps it's time for state governments to reshape co-op bank management by adopting some of the best practices in corporate governance. 19In the end, a company's human resources will determine the success of its economic decisions. Today, cooperative banks,

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which rest on the belief that their people are their most valuable asset, require a shift in strategy that will encourage greater levels of proactivity on the part of their management, members, and staff. Management can benefit much from corporate governance that takes its responsibilities seriously.

Knowledge and experience are a source of competitive advantage for cooperative banks. All members of a cooperative must share a common understanding of the group's goals, values, and long-term objectives. As the forces of competition gather steam and financial markets develop greater depth, the Indian financial system will expand not just in size but also in complexity in the years to come. With an emphasis on greater operational freedom and increased prudential regulation and supervision, it can be said that the policy environment will continue to be conducive to healthy growth and development. However, our financial sector reforms will be truly successful only if banks, including cooperative banks, are able to improve their own internal organizational effectiveness.

The onus is on cooperative banks to leverage the natural synergy of their organizational structure and advocate for what makes them special.

Cooperative banks will certainly be able to grapple with these challenges and convert them into opportunities with elements of good corporate governance, sound investment policy, appropriate internal control systems, better credit risk management, focus on newly-emerging business areas like micro finance, commitment to better customer service, adequate mechanization, and proactive policies on house-keeping issue.

III. IMPACT ON INSURANCE SECTOR

(A) History Of Insurance Sector

The concept of insurance predates modern society. The drive to protect one's own life is the driving force behind human society. Having a sense of safety is crucial to contentment. Eliminating potential dangers is the foundation of security. The term "risk" refers to any potential for negative outcomes. Risk is also described as the potential for a monetary loss. The elimination of financial risk and uncertainty is what insurance is all about for the average person.

It is a tool for lowering the risks faced by a certain individual, known as the insured, by shifting such risks to another entity, the insurer, in exchange for financial compensation. It's a way to compensate someone for financial misfortune. A large number of insured people whom each pay a relatively small premium share the risk of a catastrophic loss. When an insured party

sustains a loss, the insurer uses the premium it has collected from policyholders to reimburse them for their hardship. The most accurate definition of insurance is that it is a cooperative method of dividing up risks among a large group of people who are all at danger of experiencing a loss.

(B) **The Insurance Industry's Nationalization**

Since India's independence, a plethora of insurance companies from all over the world have set up shop in the country. Some participants, however, were engaging in unethical behaviour and working against the best interests of insurance policyholders. The Government of India nationalized the life insurance business in 1956,[15] acquiring 245 Indian and foreign insurers and provident societies, to protect the wider objectives of the insurance sector, given its economic and social significance, and to safeguard the interests of the insured. The LIC Act of 1956 authorized the formation of the Life Insurance Corporation of India (LIC) to meet the country's growing need for life insurance for life insurance in the country.

With effect from January 1, 1973, the Indian government also took over the general insurance sector. The National Insurance Company Ltd.,[16] New India Assurance Company Ltd., Oriental Insurance Company Ltd., and United India Insurance Company Ltd. emerged from the consolidation of 107 smaller insurance firms. The insurance industry now boasts unprecedented stability, expansion, and reach thanks to nationalization.

(C) **Cooperative Insurance Societies**

Cooperative Insurance Society derives from the human needs for community and independence. Therefore, the best definition of insurance is that it is a cooperative device used to disperse the loss resulting from a specific risk among a group of people who are all exposed to that risk and all agree to insure themselves against it. It's a group insurance policy that promotes individual frugality and initiative. Each member works together with hundreds of thousands of other members to meet their own needs through insurance. Therefore, Insurance serves as the best illustration of the principle of cooperation. By combining the efforts of many people, we may lift a heavy burden from the shoulders of one person and place it squarely on the backs of many. The maxim "each for all and all for one" is borne out here.

The Origins of Indian Mutual Insurance Cooperatives

[15] Sahu, Gagan Bihari, and D. Rajasekhar. "Banking sector reform and credit flow to Indian agriculture." Economic and Political Weekly (2005): 5550-5559.
[16] Thakur, Vishal, and Kuldeep Kumar. "Marketing Strategies of Rural Banking for State Cooperatives Banks In India." Academy of Marketing Studies Journal 25.6 (2021): 1-6.

In 1941, in what was then known as Madras State, the first Cooperative Fire, and General Insurance Society was formally established. In 1946, the Orissa Cooperative Insurance Society Ltd. was established in the state of Orissa, the Cooperative General Insurance Society of Hyderabad was founded in 1947, and the Maharashtra State Cooperative Society was established in the early to mid-1950s. After India's independence, in January 1964, the country's then-Additional Secretary asked for the formation of a study team to look into the inner workings of the country's general insurance cooperative societies and make recommendations for how they could be strengthened and expanded. The cooperative insurance organizations were praised in the study for their effective operations, especially in the rural areas. According to the report, the committee agreed that cooperatives in the insurance industry should be supported by the state rather than nationalization. The committee made this remark after the nationalization of the life insurance market in 1956, 38 when it became clear that the rural population would suffer without the services of the Cooperative Life Insurance Society. It's very bad that cooperatives had to leave the insurance industry for so long following nationalization. A decade ago, however, the National Federation of Fishermen's Cooperatives (FISHCOFED) began representing General Insurance Company as an insurance agency in order to better safeguard the interests of its members, especially from vulnerable members of the community. Other cooperatives followed suit and began operating as insurance broke Legal provision on insurance cooperatives

India's insurance law, enacted in 1938, defines an insurance cooperative society under subsection (8A) of section 2 of part I (definitions). For the purposes of Section 8A, an "insurance cooperative society" is defined as:

Section (8A) "insurance co-operative society" means any insurer being a cooperative society, - (a) which is registered on or after the commencement of the Insurance (Amendment) Act, 2002, as a cooperative society under the Cooperative Societies Act, 1912 (2 of 1912) or under any other law for the time being in force in any State relating to Co-operative Societies

The Cooperative Sector has been included as one of the sectors for insurance business in Sub-clause (b) of sub-section 1 of Section 2C in Part-II under "Provisions Applicable to Insurers" of the India Insurance Act,1938. According to this provision, "any society registered under the Cooperative Societies Act, 1912 (2 of 1912), or under any other law for the time being in force in any state relating to cooperative societies," is considered a "cooperative society."

In addition, the following are excerpts from Chapter IV of the India Insurance Act of 1938, which is concerned with "Cooperative Life Insurance Societies "Definitions. “. Before the

effective date of the Insurance Regulatory and Development Authority Act, 1999, the following provisions of this Part shall apply: (1) –

(a)"Cooperative Life Insurance Society" means an insurer that is a society registered under the Cooperative Societies Act, 1912 (2 of 1912) or under an Act of a State Legislature governing the registration of cooperative societies, which carries on the business of life insurance and which has no share capital on which dividend or bonus is payable and of which,

by its constitution, only original members on whose application the society is registered and all political subdivisions thereof are members.

Cooperative life insurance societies in existence on the effective date of this Act must be given an additional year in which to bring themselves into compliance with its requirements.

Despite the provisions of subparagraph (1), a cooperative life insurance society may admit other cooperative societies as members without entitling them to any dividends, profits, or bonuses.

In accordance with the requirements of the Cooperative Societies Act in force in the State, the Registrar of Cooperative Societies of the State may register cooperative societies for the insurance of cattle or crops or both, subject to any restrictions issued by the Central Government.

A State Government may create rules to govern such societies that are not inconsistent with any regulations issued by the Central Government, and the provisions of this Act shall not apply to such societies to the extent that they are inconsistent with such rules.

Cooperative Insurance Association Registration

A requisition for registration application in the form (form IRDA/RI) established for the purpose must be submitted to the Authority by any applicant or cooperative society that satisfies the requirements of Section 8(A) of the Indian Insurance Act, 1938 and wishes to conduct insurance business in India.

After verifying the accuracy of the information provided in the IRDA/R1 application and receiving confirmation that the applicant has the internal resources to handle all aspects of the insurance business, including investment management, the Authority will issue a license. The

Authority may accept the requisition and directly supply the application for registration to the applicant if it is satisfied that the applicant -

i) is a bona fide applicant for registration under section 3 of the Act; and

ii) will be able to comply with all the requirements for the grant of certificate.

If your application for registration has been approved by the Authority, you can request your registration certificate by filling out the appropriate form (FORM IRDA/R2). Each type of insurance business conducted by an applicant requires its own registration application.

a) Documentary evidence of the making of the deposit required under section 7 of the Act must be included with every application for the grant of a certification of registration.

b) evidence of having rupees one hundred crore or more paid-up equity share capital, if the application for the grant of certificate is for life insurance business or general insurance business;

c) an affidavit by the principal officer and the promoters of the applicant certifying that the requirements of the Act to the effect that paid-up share capital is adequate, after excluding any preliminary expenses incurred in the formation and registration of the company.

d) a statement detailing the specific number of shares issued to each promoter and shareholder with respect to the applicant's share capital;

e) an affidavit by the applicant's chief executive and promoters attesting that the foreign promoter's stake in the company's paid-up equity capital, if any, was determined in accordance with the regulations and did not exceed 26%.

f) a certified copy of the published prospectus, if any;

g) a certified copy of the insurer's standard forms and statements of the assured rates, advantages, terms and conditions to be offered in connection with insurance policies, as well

h) as a certificate by an actuary, in the case of life insurance business, that such rates, advantages, terms and conditions are workable and sound;

i) a certified copy of the MOU between the Indian promoter and the foreign promoter (if any) or among the promoters (with details of the support comfort letters exchanged);

j) the original receipt for the R50,000 class of business fee payment;

k) a certificate from a practicing-chartered accountant or practicing company secretary attesting to the applicant's compliance with the Act's registration fee, share capital, deposit, and other requirements;

l) any other information required by the Authority in the course of processing the application for registration.

Position of NCUI

The Insurance Act, 1938 prominently included cooperatives' participation in the insurance business; however, this clause was abolished when the Insurance Amendment Bill (2001) was introduced in Parliament. The Parliament's Insurance (Amendment) Bill, 2001, which was first introduced in August 2001, has been assigned to the Finance Standing Committee.

The Malhotra committee and others were persuaded to give cooperatives their rightful place in the insurance industry after the arduous efforts of the National Cooperative Union of India (NCUI), the umbrella organization of the Indian cooperative movement. 41

An estimated Rs.10,000,000,000 is paid out by cooperatives, but only 30% of that is returned in claims. The cooperative insurance system would be catering specifically to the needs of those sections of society, The cooperative insurance system would be providing security to the persons of limited means, as well as generate surplus, which would be ploughed back for further cooperative and rural development.

As a result, the right of cooperative societies to conduct insurance business was acknowledged, and a provision reflecting this was included in the Bill, which subsequently passed both chambers of parliament. Capital and solvency standards for insurance cooperatives will be the same as those for new entrants/companies. Cooperative businesses may not be able to meet the minimum Rs.100 crore paid-up capital requirement stipulated by the Indian Insurance Act, which is based on common international practices. However, the Malhotra Committee suggested that state-level cooperative institutions entering the life insurance business be subject to a lower capital requirement.

people have different opinions on this matter. Credit institutions are interconnected through a web of interbank ties that, as recent events have demonstrated, can quickly become instruments for the propagation of a crisis. There are substantial hazards to the financial system whenever there are indications of financial mismanagement in a single institution or a collection of institutions, regardless of the cause.

Good corporate governance is especially important in this setting. Too often, the few people at the top of cooperative banks hold too much sway over the institution as a whole. Therefore, cooperative performance has traditionally been marked by a lack of participation and involvement. Cooperative identity and excellence can be strengthened by the efforts of involved members who feel they are contributing to an organisation whose goals are consistent with their own and whose governing bodies and management have clear roles for constructive engagement and competence. Perhaps it's time for state governments to reshape co-op bank management by adopting some of the best practices in corporate governance. 19In the end, a

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company's human resources will determine the success of its economic decisions. Today, cooperative banks, which rest on the belief that their people are their most valuable asset, require a shift in strategy that will encourage greater levels of proactivity on the part of their management, members, and staff. Management can benefit much from corporate governance that takes its responsibilities seriously.

Knowledge and experience are a source of competitive advantage for cooperative banks. All members of a cooperative must share a common understanding of the group's goals, values, and long-term objectives. As the forces of competition gather steam and financial markets develop greater depth, the Indian financial system will expand not just in size but also in complexity in the years to come. With an emphasis on greater operational freedom and increased prudential regulation and supervision, it can be said that the policy environment will continue to be conducive to healthy growth and development. However, our financial sector reforms will be truly successful only if banks, including cooperative banks, are able to improve their own internal organizational effectiveness.

The onus is on cooperative banks to leverage the natural synergy of their organizational structure and advocate for what makes them special. Cooperative banks will certainly be able to grapple with these challenges and convert them into opportunities with elements of good corporate governance, sound investment policy, appropriate internal control systems, better credit risk management, focus on newly-emerging business areas like micro finance, commitment to better customer service, adequate mechanization, and proactive policies on house-keeping issue.

IV. Conclusion

Through this we understood the various provisions like cooperative insurance act and their impact on the economies which ultimately lead to the good of the people and make loans easy and accessible for the people of rural and urban areas, also we study about various committees that do their piece of research and highlight how cooperative banks have impacted lives of people and what further improvements can be done to make them effective.

We maintained that credit cooperatives are necessary for shaping a more sustainable economy, even if Western leadership is waning and the geo-economy is reverting to a pre-Industrial Revolution setting.

We reviewed the literature on credit cooperatives selectively and argued that regulators and supervisors have been influenced by a common perception of them as oddballs, with few attempts to understand their fundamental nature and more common neglect. Overall, we found

that the existing theories of banking intermediation did not support or justify this conclusion. In particular, we found that the different pros and cons of the organizational structure of the two types of banks explain why cooperative banks — and, more generally, stakeholder banks — exist alongside purely profit-maximizing commercial banks. Specifically, the (stakeholder oriented) cooperative banking model may, under certain circumstances, be more effective than the shareholder value maximizing banking model at managing the conflict of interests between depositors and bank owners and, simultaneously, offering some additional instruments to screen and monitor borrowers. Given this comparative advantage, it stands to reason that cooperative banks would put their focus on more traditional business modes, such as small and medium enterprise (SME) lending. When considering what we can learn from the current state of global instability, it appears that the stakeholder model is more resilient to the effects of the crisis than the other type of financial intermediary. Although not unique to cooperative banks, the relationship banking business model has emerged as the apparent victor of the financial crisis. Furthermore, in the last twenty years, the type of financial innovation that has been reshaping financial intermediaries has hinged on the shift from the old "originate to hold" (OTH) banking model to the new "originate to distribute" (OTD) model, where loans that are originated are immediately securitized on the financial market. Since banks knew ex ante, they would sell those loans, this type of financial innovation unfortunately induced the general loss of responsible behaviour on the part of the banks. As a result, it appears that the OTD banking model cannot be maintained in the future. The crisis implies the stakeholder value model is more sustainable than the shareholder value model because the former has maintained its roots in traditional intermediation while the later has been more willing to the transformation. This goes against the stereotype of credit cooperatives, which was widely held before the financial crisis that they were irrelevant and ineffective.

Finally, we examined in some depth three major problems that have been identified for credit cooperatives. To be more specific, the first order of business for credit unions is to discover means to ensure they retain their identity, both collectively and individually. Credit cooperatives were able to thrive and grow despite facing an increasingly hostile business climate over the previous few decades thanks to their underlying principles. However, proper measures must be taken to both preserve and revitalize these values. Second, credit cooperatives need to figure out how to best bear the burden of the change. In general, they were asked to fill the void left by the commercial banks' withdrawal of services by offering more assistance to customers and neighborhoods. This has increased the credit risks faced by credit cooperatives as the current economic downturn continues. Third, credit cooperatives should

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succeed in educating governing bodies and legislators on the grave dangers posed by three main flaws exemplified, for example, in Basel 3: damaging lending to SMEs; failing to recognize the pro-stability importance of a traditional/retail bank business model; and disregarding that the increasing cost of regulatory compliance may interfere with safeguarding biodiversity in banking, which is now widely acknowledged as a paramount concern.

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