Research Paper Commerce

A Study On Co-Operative Bank Governance Practices In Gujarat

Asst. Prof. Ajaykumar C. Tita [M.Com.]

Commerce & BBA Eng. Med. College,Junagadh-362 001, (Gujarat)

ABSTRACT

Indian banking is the lifeline of the nation and its people. Banking has helped in developing the vital sectors of the economy and usher in a new dawn of progress on the Indian horizon. In the Indian Banking System, Cooperative banks exist side by side with commercial banks and play a supplementary role in providing need-based finance, especially for agricultural and agriculture-based operations including farming, cattle, milk, hatchery, personal finance etc. along with some small industries and self-employment driven activities.

KEYWORDS Bank, Economy Co-Operative

Introduction:

Indian banking is the lifeline of the nation and its people. Banking has helped in developing the vital sectors of the economy and usher in a new dawn of progress on the Indian horizon. The sector has translated the hopes and aspirations of millions of people into reality. But to do so, it has had to control miles and miles of difficult terrain, suffer the indignities of foreign rule and the pangs of partition. Today, Indian banks can confidently compete with modern banks of the world.

Before the 20th century, usury, or lending money at a high rate of interest, was widely prevalent in rural India. Entry of Joint stock banks and development of Cooperative movement have taken over a good deal of business from the hands of the Indian money lender, who although still exist, have lost his menacing teeth.

In the Indian Banking System, Cooperative banks exist side by side with commercial banks and play a supplementary role in providing need-based finance, especially for agricultural and agriculture-based operations including farming, cattle, milk, hatchery, personal finance etc. along with some small industries and self-employment driven activities.

Generally, co-operative banks are governed by the respective co-operative acts of state governments. But, since banks began to be regulated by the RBI after 1st March 1966, these banks are also regulated by the RBI after amendment to the Banking Regulation Act 1949. The Reserve Bank is responsible for licensing of banks and branches, and it also regulates credit limits to state co-operative banks on behalf of primary co-operative banks for financing SSI units.

Banking in India originated in the first decade of 18th century with The General Bank of India coming into existence in 1786. This was followed by Bank of Hindustan. Both these banks are now defunct. After this, the Indian government established three presidency banks in India. The first of three was the Bank of Bengal, which obtains charter in 1809, the other two presidency bank, viz., the Bank of Bombay and the Bank of Madras, were established in 1840 and 1843, respectively. The three presidency banks were subsequently amalgamated into the Imperial Bank of India (IBI) under the Imperial Bank of India Act, 1920 – which is now known as the State Bank of India.

Overview of Co-operative Banks

Historical Roots - Co-Operative Banks in Europe and India:

The cooperative banking sector in Europe was created in response to the economic challenges and deprivation large swathes of the population faced in the 19th and early 20th centuries. Most continental European cooperative banks were established on the basis of the ideas of Hermann Schulze (1808–83) and Friedrich Wilhelm Raiffeisen (1818–88). Both men were moved by the poverty and misery they observed, especially during the famine of 1848, and noted that ordinary people had no access to credit, except perhaps from usurer lenders. They independently started to promote the idea of credit cooperatives during the middle of the 19th century, Schultz aiming at helping urban small business owners and artisans and Raiffeisen seeking to assist the rural poor.

The rationale was similar to the one behind current microfinance initiatives in developing countries, namely to provide people with the tools and resources to collectively and individually help themselves. From Germany the cooperative banking concept gradually spread to the rest of the continent and to the Nordic countries. In the British Isles, cooperative banks have somewhat different historical roots: building societies date back to the 18th century and were associated with a revivalist Christian movement that became popular among working class and lower middle class segments of society. UK and Irish credit unions only appeared during the second half of the 20th century and were based on US credit unions, which themselves were inspired by Canadian adaptations of the German cooperative banking concept (Hansmann,1996).

European cooperative banks flourished because they overcame important market imperfections. Commercial banks in 19th century Europe were focused on servicing the needs of the emerging industry, wealthy individuals, and governments, and often took excessive risks with their clients' money. Even if they wanted to, servicing poorer layers of the population ran into problems of imperfect and/or asymmetric information and difficult and/or uneconomic enforceability of (small-scale) contracts, problems which still plague rural credit markets in developing countries to this day (Hoff and Stieglitz, 1990).

Cooperative Movement in India

The Indian cooperative movement, like its counterparts in other countries of the world has been essentially a child of distress. Based on the recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901), the Cooperative Credit Societies Act was passed in 1904, paving the way for the establishment of cooperative credit societies in rural and urban areas on the patterns of Raiffeisen and Schulze Deglitch respectively.

The Cooperative Societies Act of 1912 recognized the formation of non-credit societies and the central cooperative organizations/federations. The state patronage to the cooperative movement continued even after 1947, the year in which India attained freedom. The independent India accepted the concept of planned economy and cooperative organizations were assigned an important role.

The policy of the Government towards the cooperative movement was guided by the recommendations of the Saraiya Committee, which stated that .the cooperative society has an important role to play as the most suitable medium for the democratization of economic planning. Various expert committees, which examined the problem of rural credit subsequently, have come to the same conclusion, without exception, that in the Indian context, there is no alternative from the point of view of structural appropriateness, to cooperatives at the village level.

Research Methodology
Rationale of the Study
The surfacing of the co-operative banks scam has once again, the financial sector and its markets fell victim to the regulator's failure to check malpractices within the system. The new scam involving the co-operative sector points to a crying need to have a speedier and better coordinated process for dealing with financial frauds as well as an effective governance structure and settlement system for efficient functioning of financial institutions.

The RBI found 25 urban co-operative banks spread across Gujarat, Maharashtra and West Bengal to be in violation of the RBI norms. In all, these banks are suspected to have run up losses of around Rs. 500 crores. As more than one co-operative bank is involved, it is feared that this could be only the tip of the iceberg. In November 2001, the RBI found that these banks had flouted banking norms stipulated by it.

The National Bank for Agriculture and Rural Development (NABARD) is the supervising body for all rural co-operative banks with the RBI as a regulator making the rules for these banks. However, the day-to-day administration of these banks is supervised by the RCS that come under State governments. Urban co-operative banks are monitored by the RBI and the RCS.

The RBI appointed Madhav Rao Committee on Urban Co-operative Banks, the Jagdish Capoor Report on Co-operative Credit and the Expert Committee on Legal aspects of Bank Frauds 2001 were unanimous on the need for a restructuring of co-operative banks and abolition of its dual management.

Even though the RBI made its representation to the Government on dual management; the Union Government does not want to take a view on this. In the Credit and Monetary Policy 2002-03, the RBI noted, "The events in the last two years have made it abundantly clear that the present system of dual/triple regulatory and supervisory control (involving Centre, States and the RBI) is not conducive to efficient functioning of the co-operative banks in the interest of their depositors. Several committees in the past have also recommended elimination of multiple layers of supervision and regulation of this sector.

Problem of the Study:
The Statement of the problem is "A STUDY ON CO-OPERATIVE BANK GOVERNANCE PRACTICES IN GUJARAT"

Objectives of the Study:
The main aim of the study is to analyze the present status of Governance in Urban Cooperative Banks (UCBs). The specific objectives of the study are:

1. To study and understand the concept and genesis of Cooperative Banks in India in general and Gujarat in particular.
2. To understand and analyze the importance of Governance in Banks in general and Cooperative banks in particular.
3. To evaluate the Compliance level of Governance in Urban Cooperative banks and to evaluate their performance.
4. To identify and discuss various challenges faced by UCBs to implement governance mechanism.
5. To suggest various means through which Governance practices can be improved so as to increase the efficiency of Cooperative Banks.

Universe of the study:
The study is carried out in among the various urban co-operative banks of western part of India especially Gujarat. This includes some of the major UCBs banks of Gujarat.

Contribution from the Study:
The present study is intended to study the governance practices in Co-operative Banks and identify the model of governance, which overall will allow UCBs to respond to solicitations of the competitive environment. The elements of sound governance and values of cooperative sectors UCBs should grapple the challenges and convert them in opportunities.

Limitation of the Study
All efforts have been made to ensure that the research is design and conducted to optimize the ability to achieve the research objective. However there are some constrains that do not validate the research but made to be acknowledge.

1. This study is restricted to the state of Gujarat only.
2. This evaluation is based on primary data generated through questionnaire and collected from the respondents and as such its findings depend on accuracy of data.
3. The sample consists of more than 500 urban Indian consumers from different cities of Gujarat State. The sample is selected conveniently and in single phase so as the opinion suggested by the executives is situation based. Also study is limited to the consumers who come to Malls and does not delve the respondents who do not come to mall.
4. As the primary data and observational method of research has its own limitations and based on the respondent the study is limited to Gujarat state only and it cannot be applicable to the consumers of the other states of India or at International Level.

REFERENCES

Arun, T.G and Turner, J.D., "Corporate Governance of Banks in | Developing Economies: Concept and Issues", 2003, | http://www.sed.manchester.ac.uk/idpm/publications/wp/depp/depp_wp02.p | df, | Date of Visit-24th Aug.2005. | Barnier, R J., "Good Corporate Governance in Australia", Report presented | to 2001 Malaysian Association of the Institute of Company Secretaries and | Administrators (MAICSA) Corporate Governance Conference, Kuala | Lumpur, April 23, 2001. | Barth, J.R., Capiro, Jr. G and Levine, R., "Financial Regulation and | Performance: Cross Country Evidence", Working paper, Central Bank of | Chile, No-118, November 2001. | http://www.bcentral.cl/eng/stdpub/studies/workingpaper/pdf/dtbc118.pdf, | Date of Visit-24th Aug.2005. | Basel Committee on Banking Supervision, "Enhancing Corporate | Governance in Banking Organisations", Bank for International Settlement, | Basel, 1999. |