

## Programme Report

- 1) **Program Title** : National Workshop on Banking Regulation (Amendment) Act 2020 and Cyber Security for Chief Executive Officers & Officers of DCCBs at VAMNICOM, Pune
- 2) **Mode of programme**- Off-Line
- 3) **Date / Duration**: 2<sup>nd</sup> -3<sup>rd</sup> August, 2023 (3 days)
- 4) **Number of participants** – 19
- 5) **States Covered in Programme** – Maharashtra, Gujarat and Karnataka
- 6) **Need and Importance of Program** : The amendments in Banking Regulation Act & recent policy decisions for strengthening of PACS through multi services and computerization of PACS has provided enabling environment for DCCBs. However, there are issues & challenges which need to be addressed for implementation of such decisions. The technology adoption and cyber security also assumes significant importance in the context of competitive environment for DCCBs. The topics identified for the workshop will provide a platform to discuss all these issues and help the DCCBs for its effective implementation.
- 7) **OBJECTIVES**:
  - 1) To discuss issues & challenges before DCCBs & implementation of challenges of Banking Regulation Act 2020
  - 2) To discuss implementation path for model bye-laws for PACS
  - 3) To identify issues & challenges in effective technology adaption & Cyber Security.
- 8) **Session Details (Inclusive of No. of sessions with 7-8 lines brief about each)**:

In the inaugural function held on Wednesday, 2<sup>nd</sup> August, 2023 at VAMNICOM Dr. Hema Yadav, Director, VAMNICOM and Prof. Mukund Tapkir were present. In all 19 participants from 10 DCCBs of Gujarat, Karnataka and Maharashtra participated in the workshop.



Dr. Hema Yadav, Director, VAMNICOM in her inaugural address mentioned that the purpose of the national workshop is to bring together the senior officers from DCCBs across the country in larger form to have discussion for better outcomes, share their experiences, knowledge, ideas, share best practices adopted by DCCBs etc. Dr. Yadav suggested that, officers should take out time to participate in such workshops or training programmes. Dr. Yadav briefed on all the topics planned for the two days. Dr. Yadav also said that achievements by India in digitization are remarkable. Digital infrastructure needs to be protected, that is why cyber security has become a significant topic for cooperative banks to protect their depositors, their accounts, transactions etc.

Dr. Hema Yadav gave an overview of 48 initiatives of Ministry of Cooperation which are interconnecting. She also mentioned formulation of New National Cooperation Policy which includes introduction of new areas in cooperatives, formation of election commission in each State.

The current GDP share of cooperatives is 11% which according to Dr. Yadav should increase. In Vision 2047 i.e. Amrit Kaal, GoI has targeted GDP share of cooperatives to achieve 42% for which each cooperative will play an important role.



Prof. Mukund Tapkir addressed the participants and expressed that, DCCBs are not working at par. HR policies in cooperatives nationwide are not proper due to which getting professionals is very difficult. Dr. Tapkir mentioned other reasons such as different pay structure, different environment culture and its changing environment, India is trying to reach third economic power and therefore cooperatives should adopt changes happening in and around through a business angle. The old generations were introduced to computers at the age of 55. However, the new generation has been more techno savvy. To back up the statements, junior officers of DCCBs

are techno savvy and unless we adopt new policy, it is difficult to guide juniors and retain them. Prof. Tapkir advised the officers to inculcate the spirit of technology if cooperatives have to sustain in this dynamic situation.

Dr. Y.S. Patil, Workshop Director in his address briefed the participants about the topics and its coverage and the methodology to be adopted for deliberations on topics assigned in groups. Dr. Patil also gave an insight of each session.

### **Workshop Sessions:**

## **Model Bye-Laws for PACS & Its Implementation** **Shri. Dhananjay Doiphode,(Retd.) Jt. Registrar, Cooperative Societies**

The session was delivered by Shri. Dhananjay Doiphode explained the purpose of drafting Model Bye-Laws for PACS to address the issues and transform PACS into vibrant economic entities at the village level. These Model Bye-Laws will enable PACS to undertake more than 25 business activities which will help them to diversify. These activities include agriculture & non-agriculture, credit and non-credit activities such as short-term, medium-term and long-term credit, fertilizer and pesticide distribution, floriculture, beekeeping, fish/ shrimp farming, silk production, activities related to packaging, branding and marketing of agricultural products, insurance facility to name a few. He further added that, Model Bye- Laws will provide a framework to PACS so that they can have better governance, effective business operations and efficient functioning. Due to this, PACS will be serving as multi-service centers and single window agencies catering to the needs of member farmers in rural areas.



Shri Doiphode felt that these Model Bye- Laws are supposed to strengthen the 3- tier structure of cooperatives in the country. Shri. Doiphode clarified that, Maharashtra has already adopted the model bye-laws. The inclusion of definition of CEO is included in new bye-laws. The 4<sup>th</sup> object is "to facilitate or make arrangements or to collaborate with any local bodies/ Governments/ Departments/ Universities/ Societies/ Companies for achieving its objectives for the benefit of Society and its members'. The 5<sup>th</sup> objective 'to set up or arrange for Locker facilities with the permission of DCCB (District Central Cooperative Bank). The promotion of subsidiary organization is new addition to the Model Bye-Laws.

## Issues & Challenges before DCCBs

**Shri. Anil Kawade (IAS), Commissioner for Cooperation, RCS, Maharashtra**



Shri. Anil Kawade, (IAS), Commissioner for Cooperation, RCS, Maharashtra delivered the session on 'Issues & Challenges before DCCBs'. Shri Kawade explained the 3-tier structure of cooperatives having 351 DCCBs in country and out of that 31 DCCBs in Maharashtra with 14,012 and 3,704 branches of DCCBs in country and Maharashtra respectively and highlighted the importance of 3-tier structure for rural credit in country to reach to the unreachable where private or commercial banks may not go. Therefore, strengthening 3-tier structure and DCCBs is of paramount importance.

Shri. Kawade listed the challenges for DCCBs :

- Lack of professional management, Absence of well-defined policies, Training/ capacity building, personnel policies.

Shri Kawade further pointed out following gaps in present system of DCCBs:

- Delay in adoption of modern technologies, implementation of all CBS modules, treasury module, ALM modules, QR Codes, IT based delivery channels like ATMs, Micro ATMs, AEPS, E-com, Mobile banking and other modes- Shri. Kawade observed that, today's youth require accuracy, transparency and speed and if cooperatives do not adapt to the changing times, cooperatives won't be able to attract youth as an employee and as a customer.
- Weak internal checks and control, poor vigilance mechanism, delay in taking punitive action against fraudsters.
- Mobilization of low-cost deposits, CASA, long term deposits.
- Lack of model business development plan, deployment of funds in non-agri. advances, insurance activities etc.
- Low CD ratio, Marginal lending to small borrowers, JLGs, SHGs.
- Loss of interest income in NABARD ST(SAO) Loan and high rate of interest on additional ST (SAO)
- Low level of Agri./ non-Agri. loan recovery
- Noncompliance of inspection and audit- Sensitization of BoD regarding mistakes, frauds, irregularities and correcting them is crucial. Otherwise, customer trust issue will arise.
- Lack of exchange of views and best practices among banks- Shri. Anil Kawade suggested the officers to create a State/ National platform where they can have regular meetings at State Cooperative Bank Level, can conduct comparative study of various policies of other banks, best practices of other banks and study various activities carried in PACS in their area. He also suggested that, directors should develop a model like 'Think Tank' where it will act as incubation center, where ideas can be shared and nurtured for improvements in banking sector, where guidance will be available, support will be available. This way cooperatives can allow each other to improve and grow.

Shri. Anil Kawade suggested to have a recruitment policy in DCCBs and recruitment board.

### Session-III

## Computerization of PACS & Role of NABARD

Shri. Dilip Watwani, Deputy General Manager, NABARD, Pune



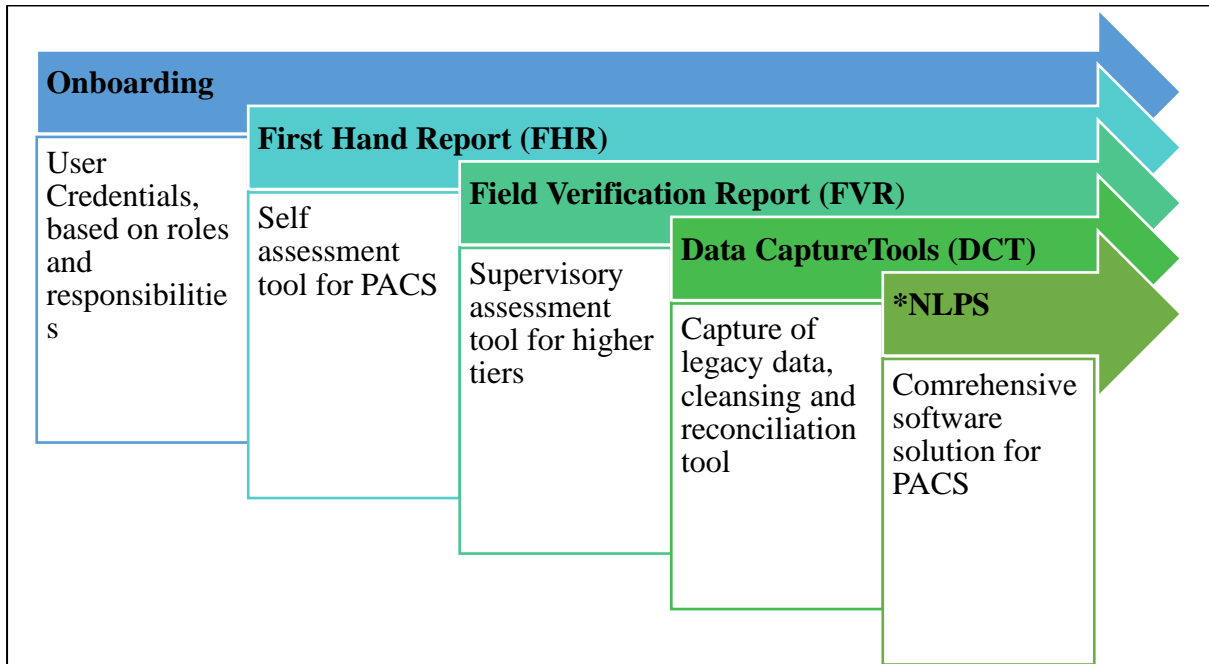
According to the data provided by NABARD, there are 95,509 PACS in 6,33,346 Indian villages with a total membership of 13.82 crore, borrowing membership of 5.269 crore. To cater to the needs of the PACS and its members, 63,000 functional Primary Agriculture Cooperative Credit Societies (PACS) are being computerized under centrally sponsored project and NABARD as an implementing agency. It will reduce imbalance and irregularities, will bring uniformity in accounting practices, will increase transparency and efficiency of the PACS. Computerization of PACS will enhance financial inclusion, will ease migration of legacy data and complete statutory audit in 2-3 days and will help in integration with higher tiers. For DCCBs it is supposed to benefit in uniform accounting and reconciliation and reduction of imbalances. Key components of Computerization of PACS are ERP solution, hardware, PMUs, training, support and maintenance.

Shri. Dilip Watwani, Deputy General Manager, NABARD, Pune delivered the session on "Computerization of PACS and explained the role of NABARD". Shri Watwani illustrated the implementation methodology of Computerization of PACs

Selection	Support	-	Training	PMUs
<ul style="list-style-type: none"> <li>Audited PACS to be covered</li> <li>Due prioritization would be done</li> </ul>	<ul style="list-style-type: none"> <li>For sustainability /maintenance &amp; handling</li> <li>One Support Centre per 200 PACS under the state PMU</li> </ul>	<ul style="list-style-type: none"> <li>Support Centre-operated by concerned state's SI</li> <li>Under overall supervision and control of State Govt.</li> </ul>	<ul style="list-style-type: none"> <li>PACS staff will be given hands on training through NCCTs/ ASCTIs/ other training institute supported by SOFTCOB</li> </ul>	<ul style="list-style-type: none"> <li>NABARD will set up Central PMU/ State PMUs</li> </ul>

**Fig. Implementation Methodology**

Shri. Watwani further explained the process of computerization of PACS is as shown in the following diagram-



**Fig. Process of Computerization of PACS**

The overall monitoring of the project will be with Ministry of Cooperation through NLMIC (National Level Monitoring and Implementation Committee) that includes guiding, approving guidelines, reviewing, reallocating the funds and monitoring functioning of Central PMU. In case of State Governments, respective State Government will be responsible for implementation and monitoring of the project in their States.

**Session IV**  
**Innovative Technology**  
**Ms. Jigisha Patel, Lead- Banking Alliance & Partnership, OneStack**



Ms. Patel commenced the session by focusing on the challenges faced by cooperative banks in implementing UPI. She further elaborated the issues, viz. lack of technological infrastructure which is impacting the pace of digitization in cooperative banks, private and PSU banks being hesitant to become sponsor banks or open VPA accounts of the cooperatives, limited financial and human resources to invest in the technology and infrastructure needed to implement UPI, security concerns regarding UPI transaction etc.

Ms. Patel discussed about Core Banking Solution, Mobile Banking Application, UPI/ QR Services & Sound box. Ms. Patel also briefed about now age technology and its role to increase CASA deposits of cooperative banks.

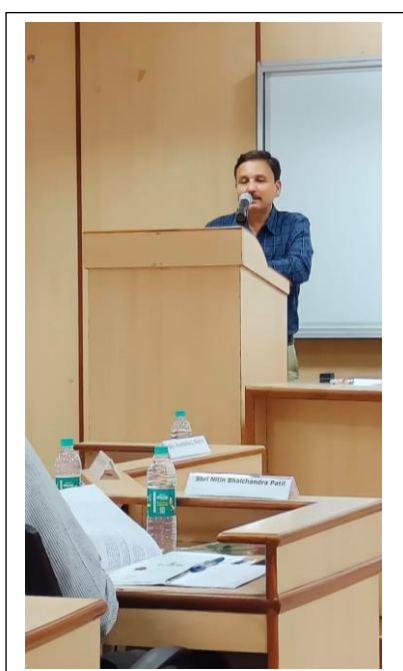


Session V

Technology adaption and Cyber Security for DCCBs

Dr. Y. S. Patil, Workshop Director

Dr. Y. S. Patil in his session felt that the journey of cooperative banks for IT adoption did not go in a professional way as has happened in private or nationalized banks. The reasons for it, as he mentioned, could be business rules, practices, distinct customers and different customer expectations. While explaining the importance of technology adoption in cooperative banks, Dr.



Patil gave an example of Surat DCCB, Gujarat with business growth from Rs. 900 crores in 2009 to Rs. 11,000 crores in 2023.

Dr. Patil further said that, manpower to handle IT department in DCCBs is less as compared to UCBs. When cooperatives are making profits, they should not don't compromise on IT manpower. **The Hackers are inadequate technical manpower for IT Management.** The checklist provided by Institute for Development and Research in Banking Technology (IDRBT) established by RBI needs to be referred by DCCBs for ensuring security of IT set up.

He further added that, if DCCBs have to reap real fruits, they should not depend on vendor. Cooperatives should do Business Process Re-engineering (BPR) for every activity, prior to implementing CBS, User Acceptance Test (UAT) needs to be done. Dr. Patil said Data migration audit is must when switching from one software to another. He further expressed that, accountability and responsibility should go hand in hand. The young generation customers are time conscious, cost conscious and therefore to attract them, some changes are needed. Dr. Patil observed that, implementation of best practices is not happening in DCCBs.

Dr. Patil further said that, we have witnessed the rigorous use of internet in COVID-19. Usage of digital payments system. These developments in technology have created security issues. Dr. Patil suggested officers to invest in updated technology for the security purpose. He mentioned that, 80% frauds are happening due to insiders, other vendors, associates outside. In this context, Dr. Patil taught the art of defense to the officers which says that- 'if you know

your enemy and know yourself- no need to fear, if you know yourself and not enemy, it is of zero value and will suffer a defeat and if you know neither the enemy nor yourself it can cause a disaster”.

Dr. Patil recommended to refer RBI circular on cyber security and opionated that, risk cannot be zero however, it can be minimized and mitigated and to minimize the risk, the first step is to be aware of the risk.

### **Commencement of Presentations:**

19 Participants were divided into 4 groups. Each group had a topic on which they were suggested to give a presentation.

#### **Group 1**

##### **Topic: Issues & Challenges before DCCBs**

As a part of the workshop, a group of following officials discussed and presented the group opinion on the theme 'Issues & Challenges before DCCBs'.

- 1) Shri. Pundalika L. Sadure, Chief Executive Officer (**Group Leader**)
  - 2) Shri. Sandip Harishchandra Margaj, Asst. Manager
  - 3) Shri. J.V. Boda, Manager (Personnel)
  - 4) Shri. Abhay C. Kothari, Officer
- The group shared concerns with respect to the prevailing trend of charging higher Rates of Interest by the DCCBs and other cooperatives functioning in urban credit area, viz, Urban Cooperative Banks, Urban Cooperative Credit Societies for their deposit accounts and as a consequence for their loan products.
  - In view of the DCCBs financing through PACS to the ultimate borrower/ member engaged with agriculture, agri.allied activities, agriculture infrastructure in the form of short-term and medium term loan, the group suggested for Rate of Interest concession by NABARD for onward financing to farmers/ members of primary cooperatives through DCCBs.
  - The group suggested for advising the primary credit cooperatives including PACS, Urban Credit Societies, Urban Cooperative Banks, Salary Earner's Cooperative Societies' deposit with DCCBs for primary Statutory Liquidity Ratio (SLR) investments, through the same are not compelling for Cooperative Credit Societies.
  - In terms of recovery of overdues, the group felt, DCCBs are largely dependent on persuasive method of recovery of overdues incidentally and as per requirement coercive method of recovery through legal course is followed by the DCCBs. However, the coercive

method of recovery is time consuming, efforts of recovery are dealt by the internal staff of the concerned DCCB.

- In order to expedite in time recovery process the group suggested engaging of external recovery personnel/ agencies.
- The group felt that, in addition to advancing of loans for agriculture and agri. allied activities, the DCCBs should also focus on non-agriculture loans as numerous opportunities are available in semi-urban and urban areas.
- The group felt that the overdue percentage of loans is with the typical type of societies viz, labour contract cooperatives, fishery cooperatives, housing cooperatives to name a few. Such advances require immediate attention for recovery purpose. In terms of technology acceptance and development by the DCCBs, the group felt that generally the technology acceptance/ IT is in a slow pace with DCCBs adversely affecting on the customer services.
- Adequacy of technical experts in IT department and constitution of IT committees as suggested by the regulator are required to be put in place in DCCBs.
- With respect to branding of products and services and image building of the DCCBs, the group felt that the DCCBs are far behind the competitors. Therefore, the group suggested for brand identification at the products and services offered by DCCBs. With image building through the appropriate infrastructure, ambience creation, customer relationship management, offering of online services etc. is the need of the day.
- In order to attract youth to into cooperatives, the group suggested for introduction of cooperation subject at the school level.
- In view of recruiting competent professionals in DCCBs, the group felt that a third-party professional intervention for recruitment of personnel in cooperatives is highly desired. The group also recommended for having consistent training arrangements for imparting training to Board of Directors and officials of DCCBs, appropriate promotion facility and incentivization process for employees for achieving allotted targets.
- The group suggested for retaining their composition of Board of Directors by injecting Directors with a professional background and women along with the other regulatory advices defining the designed composition of Board of Directors.

In his concluding remarks, Shri S.Y. Deshpande, Associate Professor & session chair reminded that, DCCBs are having branches in certain blocks only as their area of operation is limited to particular district. He mentioned that, mission of DCCBs is the overall development of cooperatives in district. Shri. Deshpande suggested to rework on the development model which is very important. He suggested DCCBs must focus on performance and governance in the DCCBs and to build internal values and culture. In the existing 3-tier structure, DCCBs are in the middle; they interlink State Cooperative Banks and Primary Agriculture Credit Societies.

Shri. Deshpande suggested participants from DCCBs to focus on development of primary cooperatives such as PACS, housing cooperatives etc. He reminded the participants that, cooperatives are risk sharing entities; DCCBs are therefore small and marginal farmers. They have to relate themselves to such people and create entry barriers to banks other than cooperatives. He conducted his remarks with DCCBs need to work on image building in the rural India.

## **Group 2**

### **Topic: Model bye-laws for PACS & Computerization of PACS**

- 1) Shri. Pinkal Rajnikant Raval, Chief Executive Officer **(Group Leader)**
- 2) Shri Hitenkumar P. Nayak, Chief Executive Officer
- 3) Shri Buddaraj Urs, Assistant General Manager
- 4) Shri Maroti Tukaram Shinde, General Manager
- 5) Shri Prashant Vishnu Late, Asst. Manager MM- II

Shri. Hitenkumar Nayak presented on the topic wherein he said that secretary is need to be aware of the model bye-laws for PACS. It is found that Secretary and Talathi are not sensitized in this context. Member level awareness is also necessary to create. He expressed that; clarification is necessary in case of migration of legacy data. Due to computerization, work load of Secretary has increased, therefore, remuneration and manpower allotment should be increased in the same line.

Shri. Nayak shared that, the decision of fast implementation of Model Bye-Laws is too hasty and the deadline is difficult to achieve. In his area, PACS are already computerized under one vendor and they have spent Rs. 3.73 crores for the purpose. But NABARD has assured that, those PACS which have already been computerized with private vendors and their own software will be compensated with Rs. 50,000/- only if they implement common CBS from NABARD.

## **Group 3**

### **Topic: Banking Regulation (Amendment) Act, 2020 & Its Implementation Challenges before DCCBs**

- 1) Shri Arun Ganu Gondhali, Chief Executive Officer **(Group Leader)**
- 2) Shri Nitin Bhalchandra Patil, Sr. Officer
- 3) Shri Sunil Sakharam Desale, Chief Officer
- 4) Mr. Rajnikant Pragjibhai Raval , Consultant- Legal Advisor
- 5) Shri Prashant Shyamsundar Mahamune,I/c Dy. Gen. Manager

Shri. Chintamani Vaijapurkar, Banking Expert initially briefed on Banking Regulation (Amendment) Act, 2020 and its Implementation Challenges before DCCBs. He said that, unless and until BoD and other top officers don't change, nothing is going to happen. He also mentioned that, the requirement of professional Board of Directors in the field of agriculture, rural economy, banking, economics, finance and other special knowledge with practical experience doesn't require particular degree. Intermittent role of DCCBs in existing 3-tier structure of cooperatives is significant and DCCBs should utilize this responsibility and facilitate PACS in a better way.

#### **Group 4**

##### **Topic: Technology Adaption and Cyber Security for DCCBs**

Following group of officials shared opinions on the theme, 'Technology Adaption and Cyber Security for DCCBs':

- 1) Shri Shivdattsinh R. Kosada, Assistant General Manager **(Group Leader)**
- 2) Shri Bhaskar Vasantryao Nikam, Manager
- 3) Shri A.D. Sojitra, Officer (IT)
- 4) Mr. Nimeshkumar Bhojak, Asst. Officer IT Dept.
- 5) Shri Rajdatt B. Budkule, Officer (IT)

The group shared the concern of having no sufficient staff in the IT department of DCCBs. In this case, group said, there are only one or two employees handling the IT department. If there is no sufficient staff, compliance of upgraded IT facilities is difficult. In view of this, group expressed that, technology is upgrading continuously, therefore it is hard to cope with the speed of technology upgradation and its regular implementation.

It is observed that, Registrar of Cooperatives office do not have people with IT background. The group suggested that, Board of Directors should be involved in formulation of IT strategies. BoD should put forth their opinions in this context. The group unanimously expressed the need of having separate allocation of fund for IT infrastructure in the annual budgeting.

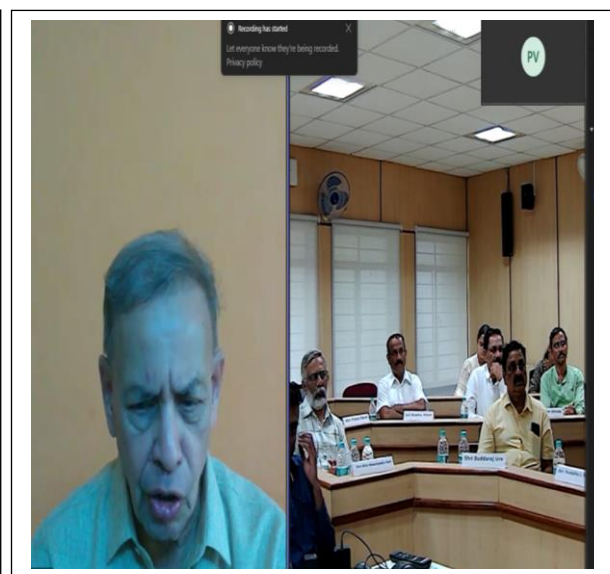
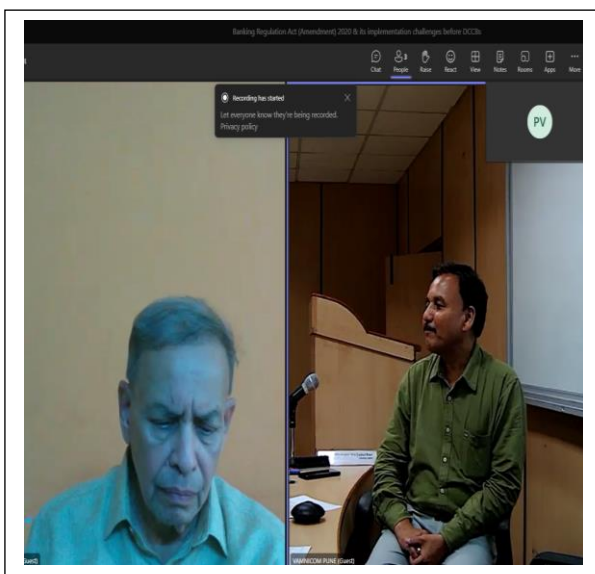
Dr. Y. S. Patil, Workshop Director, Associate Professor, HoC-IT, VAMNICOM was chairing the presentation. Dr. Patil agreed to the opinions of the group. While concluding, he suggested the provision of formation of 4 committees to increase the efficiency of IT department in the DCCBs, viz., IT steering committee, IT purchase committee, IT strategy committee and IT security committee. These separate committees will allow the division of work and will increase the efficiency of the DCCBs in IT context.

## Session VI

# Banking Regulation Act (Amendment) 2020 & its Implementation Challenges before DCCBs

Shri. Satish Marathe, Director, Central Board, RBI

Shri. Satish Marathe, Director, Central Board, RBI, interacted with the officers on the topic 'Banking Regulation Act (Amendment), 2020 and its Implementation Challenges before DCCBs'. He says, "in 1966, when the MoU was signed between RBI and respective State Governments and it was decided that all cooperative banks should be governed by banking regulation act; they would be given a status of regulated entity and the bulk of regulation was then divided between the Registrars and the RBI and banking regulation act was applicable to the societies, the size of cooperative banks, volume of business and outreach was substantially lower than what it is today. So, many of the provisions and the sections which were applicable to all in the banking sector were not applied to the cooperative banks and that is why it always used to be called Banking Regulation Act as applicable to cooperative societies. In the hindsight it was found that for 50 years the same arrangement has continued. The Urban Cooperative Banks (UCBs) have not received any new license for last 22 years. The stopping of issuance of license was because of the fraud by the Big Bull- Harshad Mehta. Thereafter, RBI has taken consistent stand, since RBI did not have adequate regulatory powers, RBI was reluctant to motivate cooperative banks. That is why, UCBs did not receive any new license in last 22 years. There are 750 districts in India and just 350 DCCBs. However, almost all the states have their State Cooperative Banks.



RBI did not have the power to resolve crisis in the cooperative banks. These are the reasons why RBI continuously restricted the growth of cooperative banks.

The 3-4 new powers RBI has received are very important which are-

- 1) Capital in cooperative banks has always been scarce. Today, the way banks have been capitalised, expansion of business is happening, we have accepted capital adequacy concept. The provision of Capital adequacy empowerment is in this Banking Regulation (Amendment), Act, 2020. It has been 2 years since the amendment; however, no progress has been made on raising equity or bonds through capital markets. And the main reason is, if cooperative institutions are to raise capital by tapping the capital markets. The different acts we have in the country will need an amendment before the cooperative banks can tap the capital markets, particularly in the case of equity. In Multi State Cooperative Act and State Government Act, suggestions have been made which says, cooperative act should empower cooperative societies and not only cooperative banks. But every type of cooperative society to set up a 100% owned limited company or Special Purpose Vehicle (SPV). Special purpose vehicle will also be under Company's Act. Multi-state Cooperative Act has a section which allows a cooperative society to register a 100% owned producer company. But no other type of activities can be undertaken under the existing provisions. Unfortunately, in cooperative society's act, in any state, this type of provision is not there. In foreign countries, in developed countries, it is these 100% owned companies of cooperative sector approach capital market regulator, in our case SEBI and they raise capital. Then that capital they deploy in cooperative sector. We want such type of facility in our country because we will need capital as we go ahead. Due to non-availability of this provision in cooperative sector it will take little more time before we are able to reach capital through equity. But long-term bonds can be raised, long-term bonds can be issued. There is not hindrance. But so far nobody had attempted to raise such bonds by tapping to the capital market, more particularly because, there is no provision in the stock exchanges to list a cooperative society. It has been a request to the government that just as now they have been providing a platform to social organizations, charitable trusts, non-profit making companies to raise long-term funds on stock exchanges, whether it is BSE or NSE likewise provide cooperatives a platform. But that has also not happened. So, some of the fears of the cooperators that, if they raise capital, it will be privatised. There is no reason to fear. Even if they raise capital through capital markets, the principle of one member one vote will remain intact.
- 2) Second provision is Urban Cooperative Banks, all DCCBs or StCBs will now be exclusively regulated by the RBI. RBI was already regulating it through the Registrar's Office, now they will be regulating directly. This is the change. What was initially contemplated was that this amendment would be applicable to only urban banks but now with the new amendment it is also equally applicable to the DCCBs and StCBs. Here again there is the provision that any

action, any initiative, any background, any step being contemplated by RBI, they have to do it after consultation with the Registrar's Office. So, the relevance of Registrar still remains as it was previously. But previously if the bank used to be delicensed, the RBI would direct the Registrar and he would cancel the license. Cancelling a license is not directly within the purview of the RBI.

- 3) The third important point in this case is that, irrespective of any provision of any act including cooperative act, if they are in conflict with the BR act, the provisions of BR act will prevail.

So, in a way, the two terms for a director, the matter is sub judice. The 15 years term for principal officers is also sub judice, so it has not been implemented. Despite all this, at the persuasion of the RBI almost 85% of Urban banks have now constituted BoM and the system seems to be working satisfactorily. Recently, the RBI has directed the Kerala State Cooperative Bank to form a BoM, which also they have formed. So, the acceptance for formation of BoM seems to be pretty high across the country.

Earlier, the RBI had no direct power to remove the principal officer, but now the RBI has full powers to remove principal officer if he found not fit to handle the operations of the bank and to keep the public deposits safe and secure. Similarly, if one director had to be removed, that power also RBI now has after following due process of show cause notice, seeking explanation, giving hearing and take appropriate action. Not only that, the RBI now has powers even to supersede the entire board. After, the amendment to the BR act, in last 2.5 years, no director has been removed, no principal officer (MD, CEO etc.) has been removed, 5-6 boards have been superseded, because their NPA levels were at very high level.

There is another background, why these powers were given-

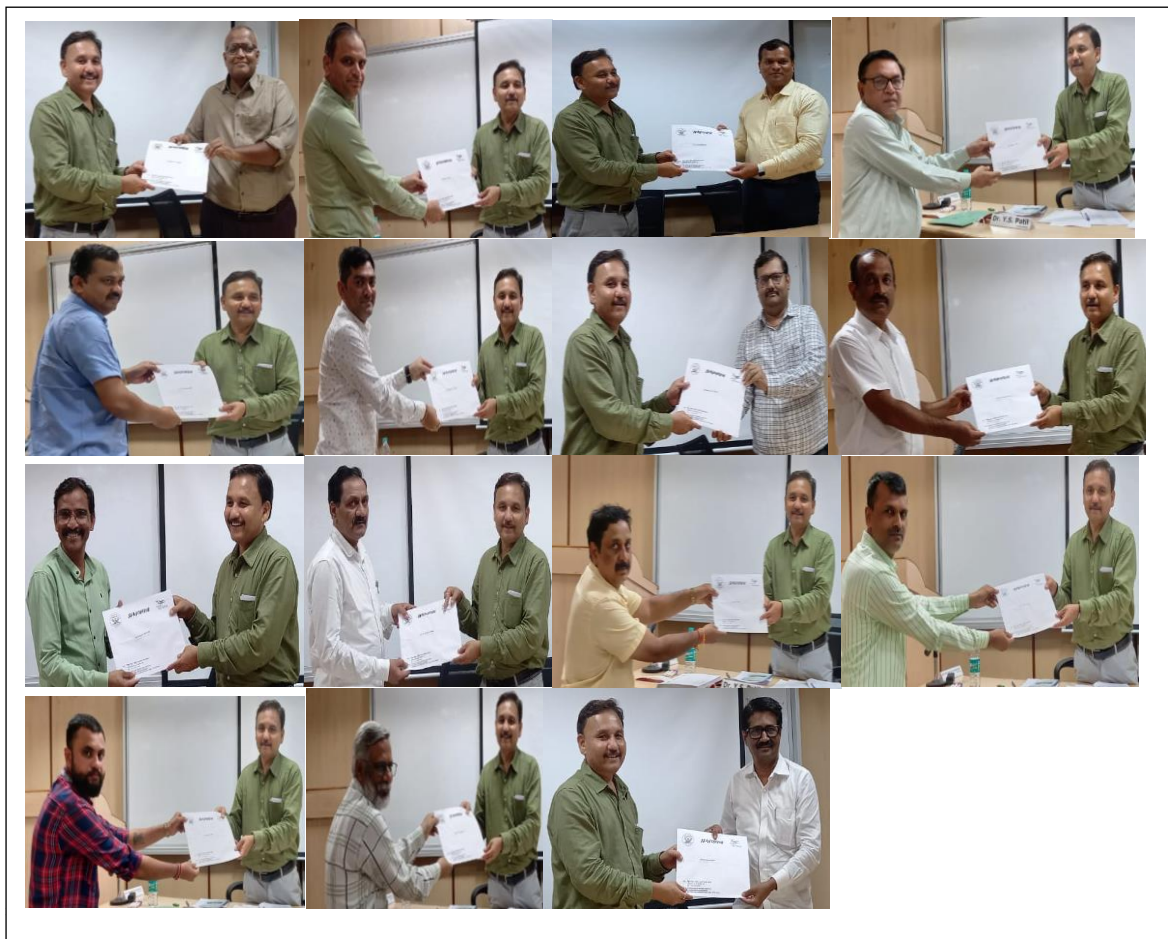
- 1) BR act is the speciality act whereas cooperative act is the general act. BR act only exclusively regulates the financial institutions- the banks, however, the cooperative act regulates as many types of cooperative societies as have registered in any state or under the multistate cooperative act. We have about 55 types of cooperatives in the country. So, the speciality act and the general act, that is one issue is noticed.
- 2) Second point is, there were lot of disputes, because cooperation is in the 2<sup>nd</sup> list i.e, State list. Time has again decided that the speciality law will prevail over the general law.
- 3) For recovery purposes, many banks had taken action under the SARFAESI Act 2002. The borrowers in some 200 banks had challenged this provision and said, cooperative banks cannot choose SARFAESI Act to recover dues. Action against SARFAESI Act. cannot be taken. All these cases across the country have clubbed together in the Supreme Court and after a long period of arguments and hearing, RBI has given a judgement that SARFAESI Act is applicable to cooperative banks. Cooperative is a state subject and banking is the



central subject and any enactment that empowers the cooperative bank to take appropriate action for recovery of dues in larger public interest, that act will prevail.

BR act is going to open the doors for future expansion and growth of the cooperative sector. Already the RBI in the case of Urban banks had constituted a committee and those banks which are under the category of Financially Sound and Well Managed Banks (FSWM), have been given permission to open branches, they have been given permission to adopt the internet banking, they have been given permission for mobile banking and all these facilities have started coming.

The workshop ended with the distribution of Certificates to the participants and vote of thanks.



**(Y.S. Patil)**  
**Workshop Director**