

**GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA**

UNSTARRED QUESTION NO:734
ANSWERED ON:21.02.2003
COOPERATIVE BANKS
GANTA SRINIVASA RAO

Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

- (a) whether RBI has urged more powers to supersede the boards of erring cooperative and also to cancel their licences;
- (b) is so, the reaction of the Union Government in this regard; and
- (c) the steps taken by the Government to check frauds in cooperative banks?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO VITHOBA ADSUL):

(a) and (b) The extant provisions of the Banking Resolution (BR) Act 1949 do not give Reserve Bank of India (RBI) powers to supersede the Board of Directors of Urban Cooperative Banks (UCBs) on its own but the same are vested with the Registrar of Cooperative Societies (RCS) in terms of provisions contained in Cooperative Societies Act of the concerned State. RBI, however, in the interest of depositors and in order to secure proper management can requisition RCS to supersede the Board of Directors. Of late, in order to give more autonomy to the Cooperatives, some of the State Governments have recently passed new enactments, which grant lot of operational freedom to them. While examining the provisions of these enactments it was observed that UCBs registered under these enactments as cooperatives cannot be termed as a Cooperative Society as defined under section 2 (f) of the NABARD Act, 1981 and would therefore be outside the purview of Section 56 of BR Act 1949. Thus RBI has no regulatory powers on such banks. In view of the above, the matter has been taken up by RBI with the concerned States for making necessary amendments so as to bring UCBs registered under the concerned Act on par with the definition of eligible Cooperative Bank as defined in Section 2 (gg) of the Deposit Insurance and Credit Guarantee Corporation Act, 1961 and also empowering RBI to issue necessary regulatory orders.

(c) As a measure towards prevention of frauds, RBI has been issuing detailed guidelines for curbing occurrence of frauds in various sensitive areas of bank functioning. Banks have also been issued detailed instructions for prevention of fraudulent encashment of dividend warrants, etc. and to strengthen their internal control machinery and to introduce a system of internal inspections. The banks have also been advised to be extra careful in the area relating to account opening procedures, custody of documents, loans against deposits, use of middlemen, etc.