**Syllabus subtopic**: Government Policies and Interventions for Development in various sectors and Issues arising out of their Design and Implementation.

**Prelims and Mains focus**: about the amendments proposed and their significance; about cooperative banks; about the act

**News**: The Union cabinet has approved changes to the Banking Regulation Act to strengthen oversight of cooperative banks.

**Background**: 
- In September 2019, the RBI superseded Punjab and Maharashtra Cooperative Bank Ltd. (PMC Bank) board after uncovering several irregularities. Cash withdrawals were capped at Rs.1,000 per account for six months, but subsequently relaxed to Rs.50,000 as panic spread among depositors.

- Urban cooperative banks (UCBs) reported nearly 1,000 cases of fraud worth more than Rs.220 crore in past five fiscal years, a Press Trust of India report said, citing the RBI.

**Aim of the amendment**

The proposed amendment is aimed at protecting the interests of 86 million depositors who have put money totalling around Rs.5 trillion in 1,540 cooperative banks in the country.

**Present Scenario**

- Cooperative banks are currently under the dual control of the Registrar of Cooperative Societies and RBI.

- While the role of registrar of cooperative societies includes incorporation, registration, management, audit, supersession of board and liquidation, RBI is responsible for regulatory functions such maintaining cash reserve and capital adequacy, among others.
What are the amendments proposed?

- It will give the Reserve Bank of India wider powers to regulate cooperative lenders and prevent frauds such as the one seen at Punjab and Maharashtra Co-operative Bank Ltd.

- Once the amendment is cleared by Parliament, cooperative banks will be audited according to RBI’s norms and the central bank can supersede the board, in consultation with the state government, if any cooperative bank is under stress.

- Appointments of chief executives will also require permission from the banking regulator, as is the case for commercial banks.

- Audit of such banks will be as per RBI guidelines and recruitment for banks’ management will be based on certain qualifications. All these steps will be implemented by RBI in a phased manner.

- The administrative role will continue to be done by the Registrar of Cooperative Societies. The amendments will apply to all urban co-operative banks and multi-state cooperative banks.

About the Act:

- The Banking Regulation Act, 1949 regulates all banking firms in India. Passed as the Banking Companies Act 1949, it came into force from 16 March 1949 and changed to Banking Regulation Act 1949 from 1 March 1966.

- It is applicable in Jammu and Kashmir from 1956.

- Initially, the law was applicable only to banking companies. But, in 1965 it was amended to make it applicable to cooperative banks and to introduce other changes.
Overview:

- The Act provides a framework under which commercial banking in India is supervised and regulated. The Act supplements the Companies Act, 1956. Primary Agricultural Credit Society and cooperative land mortgage banks are excluded from the Act.

- The Act gives the Reserve Bank of India (RBI) the power to license banks, have regulation over shareholding and voting rights of shareholders; supervise the appointment of the boards and management; regulate the operations of banks; lay down instructions for audits; control moratorium, mergers and liquidation; issue directives in the interests of public good and on banking policy, and impose penalties.

- In 1965, the Act was amended to include cooperative banks under its purview by adding the Section 56. Cooperative banks, which operate only in one state, are formed and run by the state government. But, RBI controls the licensing and regulates the business operations. The Banking Act was a supplement to the previous acts related to banking.