

Features of Cooperative Banks: Member Owned, Democratic & More

Cooperative banks have features that are different from commercial banks. Cooperative banks are financial institutions that work collaboratively, i.e., owned and managed by the members. These banks offer financial assistance to farmers, small-scale enterprises, and the weaker sections of society. Features of cooperative banks: Democratic management, member ownership, limited profit motive, strong rural development. Cooperative banks in India are playing a significant role in providing affordable banking services to rural and semi-urban areas.

What is Cooperative Banks?

A cooperative bank is a [financial institution](#) established on cooperative principles where members are also customers. It aims to achieve financial inclusion and support small businesses, farmers, and lower-income groups. Cooperative banks are not profit-maximizing organizations like commercial banks; instead, they seek to meet the financial needs of their members.

The members own cooperative banks; the customers using the bank's services are the bank's owners. Banks operate with democratic control, whereby each member has a vote irrespective of the amount they contribute to the bank. [Cooperative banks](#) strengthen the rural economy, especially in agricultural, small enterprise, and unrepresented sectors. Cooperative banks are subjected to the guidance of RBI and NABARD, which govern them to prevent instability and guarantee trust.

Types of Cooperative Banks in India

Cooperative banks are indispensable support systems for many sections of the economy, rural and urban. They are also structured at several levels, such as village, district, state, and urban, to deliver their services based on the specific requirements of local populations.

1. **Primary Agricultural Credit Societies:** Primary Agricultural Credit Societies or PACS work at the village level and facilitate short-term loans to farmers to ensure agricultural requirements are fulfilled. These societies also provide saving facilities and offer services that meet the requirements of their customers - rural people, to trigger [economic development](#) at local levels.
2. **District Central Cooperative Banks:** District Central Cooperative Banks or DCCBs, are an intermediary between the PACS and the state-level banks, providing credit flow to the local farmer. It provides various banking services for the growth of the regional economy, including loans, deposit schemes, and other financial products.
3. **State Cooperative Banks:** These exist at state level and, helping NABARD in creating sufficient credit flows; SCBs assists the state level plans of govt, implemented for its strategies and policies pertaining to the schemes of rural developments by means of long term funding to agri and related operations.
4. **Urban Cooperative Banks (UCBs):** UCBs provide [banking services](#) in both urban and semi-urban places, catering to the needs of individuals, small-scale enterprises, and institutions. They focus on providing affordable financial products, including loans, savings accounts, and fixed deposits, in enhancing financial inclusion of the population in an urban setting.

Features of Cooperative Banks

The features of cooperative banks define how they function and are different from commercial banks. Here are some key features:

Member-Owned Institutions

A cooperative bank is owned and controlled by its members. Every account holder of a cooperative bank is also a shareholder. Unlike commercial banks, where [shareholders](#) invest in the hope of earning profits, cooperative banks work on the principles of mutual benefit. The proceeds are shared with the member or plowed back into development.

Democratic Management

A democratic [management](#) system follows the cooperative bank. Each member has equal voting rights, with no consideration given to the number of shares they hold. This is an essential factor so that there isn't a one-man show of operations. Even the district central cooperative bank and central cooperative bank follow this principle.

Service-Oriented Approach

While commercial banks aim to produce profits, cooperative banks aim to provide cheap financial services. It goes a step further to enhance rural and semi-urban [economic activities](#). Cooperative banks offer low-interest, easy-approval loans and affordable credit to customers.

Rural and Agricultural Focus

One of the most apparent features of cooperative banks is the stress on rural development. These banks offer short-term and medium-term loans to farmers for buying seeds, fertilizers, and other tools. District central cooperative banks and central cooperative banks provide these services.

Limited Profit Motive

As such, cooperative banks earn profits. However, they are not strictly profit maximization-oriented; their primary goal is financial assistance to members. This surplus income can be used to develop the community, improve infrastructures, or enhance services rather than spend it on large executive salaries or shareholder dividends.

Regulation and Supervision

The Reserve Bank of India and the National Bank for Agriculture and Rural Development regulate cooperative banks in India. NABARD monitors rural cooperative banks, whereas RBI monitors urban cooperative banks to maintain financial stability.

Accessibility and Inclusion

Cooperative banks operate in rural and urban areas, making more banking services accessible to low-income groups. They help to promote financial inclusion through low-priced loans, savings accounts, and small credit facilities.

Lower rates of interest on loans

Co-operative banks charge less interest than [commercial banks](#), especially on agriculture and small-scale business loans. They aim to uplift the weaker sections of society rather than make good profit.

Advantages of Cooperative Banks

There are several reasons for the prevalence of cooperative banks among farmers, minor business persons, and low-income groups.

1. **Easy and Inexpensive Credit:** Cooperative banks provide credit at low interest rates and help farmers and small businesses raise finances.
2. **Democratic Functioning:** All have equal voting powers, so [decision-making](#) is quite transparent and just.
3. **Rural Development Focus:** These banks focus on rural development through funding agriculture, small businesses, and self-help groups.
4. **Encourages Savings and Financial Inclusion:** It promotes savings and financial inclusion. Cooperative banks promote saving in rural and semi-urban regions.
5. **Reduced Risk of Exploitation:** Unlike private moneylenders, who charge excessively high interest rates, cooperative banks offer loans on reasonable interest.

Disadvantages of Cooperative Banks

Despite these benefits of cooperative banks, they have also met various disadvantages. Even with these disadvantages, reforms and the introduction of technology make cooperative banks efficient.

1. **Limited Financial Strength:** Cooperative banks depend on deposits from their members. Because of this dependence, it's not easy to expand.
2. **Political interference:** Political interference is still common among these cooperative banks, affecting decisions and transparency.
3. **Higher Risk of Loan Defaults:** Cooperative banks lend to small farmers and businessmen who may go bankrupt and will not be able to repay the same.
4. **Lack of modern banking facilities:** Many rural cooperative banks still use old [banking](#) systems and do not have digital banking services.
5. **Management issues:** Since most of its members are not banking professionals, there is a tendency for mismanagement and poor financial planning.

Features of Cooperative Banks FAQs

What is a cooperative bank?

A cooperative bank is a financial institution owned and managed by its members to provide affordable banking services and credit facilities.

What are the features of cooperative banks?

Features of cooperative banks include member ownership, democratic management, rural focus, low loan interest rates, and financial inclusion.

What is a district central cooperative bank?

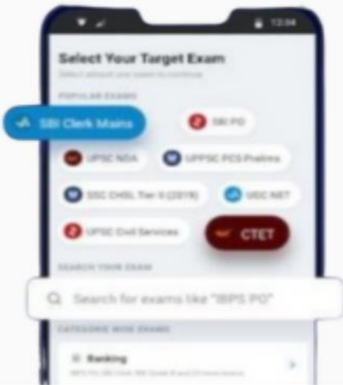
The middleman of a state cooperative bank and of the primary agricultural credit society is the central cooperative bank of the district.

What are advantages of cooperative bank?

Following are the benefits of cooperative banks: cheap loans, rural development, democratic, and financial.

What are central cooperative banks roles in India?

The central cooperative bank provides fund facilities to district banks and develops rural economies.



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