

BANKING REGULATION (AMENDMENT) BILL PASSED IN LOK SABHA TO BRING COOPERATIVE BANKS UNDER RBI

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

Considering the deteriorating condition of cooperative banks in the country, Lok Sabha on Wednesday passed the [Banking Regulation \(Amendment\) Bill](#), 2020. The Bill proposes amendments to the Banking Regulation Act, 1949. With this new Bill, the central government aims to bring [cooperative banks](#) under the supervision of the Reserve Bank of India (RBI).

"We are trying to bring this amendment to protect the depositors. As in some unfortunate situation in banks, depositors are put to hardship," finance minister [Nirmala Sitharaman](#) said in Lok Sabha on Wednesday.

"For the last two years, depositors of cooperative banks and small banks are facing problems. We are trying to bring this amendment in order to protect the depositors. Because these banks have fallen into hard days requiring therefore the regulator to bring a moratorium and to solve the problem seems to consume all the time," the finance minister added.

The Bill was first introduced in March during the Budget session. However, it could not be passed due to COVID-19 pandemic. In June, the union cabinet approved the ordinance to bring 1,482 urban and 58 multi-state cooperative banks under the supervision of the central bank.

"Due to the pandemic, the stress in cooperative banks increased and the gross NPA ratio increased from 7.27% in March 2019 to over 10% in March 2020. Therefore it was felt that to protect depositors' interest we should have the ordinance brought in," she added.

"This Bill does not regulate cooperative banks. The amendment is not for central govt to take over the cooperative banks," Sitharaman said.

With the amendments, RBI will be able undertake a scheme of amalgamation of a bank without placing it under moratorium. Prior to this amendment, if a lender was put under the moratorium, it not only capped the withdrawals by depositors, but also barred a bank's lending operations.

Few more amendments have been proposed under Section 45 of the Act that will help the central bank to develop a scheme to ensure the interest of the public, banking system, account holders in the bank and banking company's proper management, without disrupting any banking functionalities. However, the changes will not affect the existing powers of the state registrars of co-operative societies under state laws.

Besides, amendments in Sections 3 and 56 extend the provisions applicable to scheduled commercial banks to cooperative banks and brings them within the central bank's regulation.

The amendments do not apply to Primary Agricultural Credit Societies (PACS) or co-operative societies whose primary object and principal business is long-term finance for agricultural development, and which do not use the words "bank", "banker" or "banking".

Commenting on the Bill, Divakar Vijayasathy, founder and managing partner, DVS Advisors LLP said, "It strikes the right chord and has given a mechanism to restructure these banks and also significantly improves their regulatory oversight by a competent and efficient regulator, the

RBI.

"This move should certainly improve the confidence in the cooperative banks and the interest of all the stakeholders would be protected in the long run," he added.

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