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Megha Middha, Assistant Professor of Law in Mody University of Science and Technology, Lakshmangarh, Sikar

Megha Middha, is working as an Assistant Professor of Law in Mody University of Science and Technology, Lakshmangarh, Sikar (Rajasthan). She has an experience in the teaching of almost 3 years. She has completed her graduation in BBA LL.B (H) from Amity University, Rajasthan (Gold Medalist) and did her post-graduation (LL.M in Business Laws) from NLSIU, Bengaluru. Currently, she is enrolled in a Ph.D. course in the Department of Law at Mohanlal Sukhadia University, Udaipur (Rajasthan). She wishes to excel in academics and research and contribute as much as she can to society. Through her interactions with the students, she tries to inculcate a sense of deep thinking power in her students and enlighten and guide them to the fact how they can bring a change to the society

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Mrs.S.Kalpana

Assistant professor of Law

Mrs.S.Kalpana, presently Assistant professor of Law, VelTech Rangarajan Dr. Sagunthala R & D Institute of Science and Technology, Avadi. Formerly Assistant professor of Law, Vels University in the year 2019 to 2020, Worked as Guest Faculty, Chennai Dr.Ambedkar Law College, Pudupakkam. Published one book. Published 8 Articles in various reputed Law Journals. Conducted 1 Moot court competition and participated in nearly 80 National and International seminars and webinars conducted on various subjects of Law. Did ML in Criminal Law and Criminal Justice Administration. 10 paper presentations in various National and International seminars. Attended more than 10 FDP programs. Ph.D. in Law pursuing.



Avinash Kumar



Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship. He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi. Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi. He has qualified UGC - NET examination and has been awarded ICSSR - Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.

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STRENGTHENING GOVERNANCE, TRANSPARENCY AND AUTONOMY OF COOPERATIVE BANKS THROUGH LEGISLATIVE COMPETENCE

AUTHORED BY - NITHYA SRI S

BA.LLB (Constitutional Law and Criminal Law)

5th Year Law Student

ICFAI LAW SCHOOL, HYDERABAD

INTRODUCTION

India's banking industry is made up of co-operative banks, small finance banks, regional rural banks, and scheduled commercial banks. Nearly 90% of co-operative banks' total loans as of 2015 were for less than five lakh rupees per, making up 33% of all loans provided by these institutions. Co-operative societies whose main line of business is banking are considered cooperative banks. UCBs gradually decreased to 1,534 by the end of March 2021¹.

The SARFAESI Act enables banks and other financial institutions to auction off the defaulter's residential or business properties in order to recoup loans. In order to increase RBI's regulatory authority over co-operative banks in terms of management, capital, audit, and liquidation, the Banking Regulation (Amendment) Act, 2020 alters the BR Act. A separate administrative, legal, and policy framework to support the growth of multi-state cooperatives is what the Ministry of Co-operation, which will be established in July 2021, aims to provide.

Cooperative banks registered under State law and multi-State cooperative societies registered under the MSCS Act, 2002 with regard to "banking". The RBI should interpret the terms of the Act in a way that preserves UCBs and restores public confidence in the cooperative banking system.

¹ Reserve Bank of India, Report on trends and progress of Banking in India 2020-21 , 98-122 (2021)

MEANING OF COOPERATIVE BANKS:

A cooperative bank is a financial institution that is owned by its members, who also serve as both its owners and its clients. People from the same local or professional community, or those with a similar interest, frequently form cooperative banks.

The foundation of cooperatives are self help, self reliance, democracy, equity, solidarity and equality.

- Ex: In India, Amul is possibly the most well-known cooperative society.

IMPORTANCE OF COOPERATIVE BANKS:

- Customer-owned entities
- Democratic member control - "one person, one vote"
- Profit
- Financial Inclusion

COOPERATIVE BANKING STRUCTURE:

While the co-operative banking structure is a three tier federal one, the commercial banking structure is of the branch-banking type.

- A State Cooperative Bank operates at the state level, or at the apex level.
- The Central Co-operative Bank is an Intermediate Level Organization. (For example, District Co-operative Banks Ltd. operates at the district level.)
- Base-level primary cooperative credit societies (at the village level)

THE CONSTITUTION (97TH AMENDMENT) ACT OF 2011 IS CONCERNED WITH COOPERATIVE SOCIETIES OPERATING IN INDIA.

Constitutional Provision

Article 19 (1) (c) as the right to organize cooperatives is a fundamental right.

Article 43-8, the guiding principle of state policy The government must work to encourage cooperative societies' voluntary formation, democratic governance, independent operation, and expert management.

The Co-operative Societies defined under (*Articles 243-ZH to 243-ZT*) of Part IX-B *State List: Entry No.32 (7th schedule)* of the Indian Constitution, State Subject

JURISDICTION:

Cooperatives are considered state subjects by the Constitution, which means that state governments have jurisdiction over them. However, many cooperative organizations have members and areas of operation that are dispersed over multiple states.

The Co-operative banks are governed by the,

- Banking Regulations Act, 1949.
- Banking Laws (Co-operative Societies) Act, 1955.
- Banking Regulation (Amendment)Act3, 2020
- Multi-State Cooperative Societies Act, 2002.

THE DIFFICULTIES THE COOPERATIVE BANKS FACE:

- a) Changes in the financial sector
- b) Dual Regulation
- c) Money Laundering and Corruption
- d) Declining Agricultural Lending
- e) Unfair Audit
- f) Government Interference
- g) Limited Coverage
- h) Stressed assets in the area of cooperative banking

DUAL REGULATION CAUSED COOPERATIVE BANKS TO FAIL:

Banking regulations were made applicable to cooperative banks in the middle of the 1960s in order to provide the Reserve Bank some control over them as requests for the extension of the deposit insurance program to these banks grew. This resulted in the sector being under dual control.

The RBI is granted regulatory and oversight authority over the Coop banks by this Act. But as almost all cooperative banks are registered under the Cooperative Societies Act, the Registrar of

² Banking Regulation Act, 1949, No. 10, Acts of Parliament, 1949 (India)

³ Banking Regulation (Amendment), 2020, No.39, Acts of Parliament, 2020 (India)

Coop Societies of the relevant State or Center continues to hold the authority over incorporation, management, and board of director elections. Therefore, RBI and RCS have dual control over all cooperative banks.

Thus, it is clear that primary credit society, which engages in banking, is subject to extensive and pervasive oversight by the Reserve Bank of India. Any cooperative society must seek a license from the Reserve Bank of India in order to conduct business, according to the BR Act, 1949.

PUNJAB AND MAHARASHTRA COOPERATIVE (PMC) BANK CASE:

Introduction

In 1983, the multi-state Punjab & Maharashtra Co-operative Bank Limited (PMC) opened for business. The required operational restrictions for PMC Bank began on September 23, 2019, and will last for six months. As a result, during this period of restrictions, holders of checking accounts are not permitted to withdraw more than \$1,000 from their accounts. The limitations are loosened on September 26th, 2019, allowing consumers to withdraw a whole \$100,000. Joy Thomas, a former manager of the Co-operative Bank (PMC), has acknowledged being a hood. In order to avoid regulatory oversight, the bank is also accused of fabricating accounts for businesses that borrowed relatively small sums of money and fabricating fake reports. By hiding the default loans received by real estate company Development and Infrastructure Ltd (HDIL) of Rs. 6,500, the auditors, bank's board, and the run for several years. Within the PMC Bank fraud, the social control board has filed a concealment case⁴.

Financial Failure Factors

1. Financial irregularities
2. Failure of internal control and systems
3. Wrongdoing and Under-reporting of its (lending)

Effect on PMC Bank's depositors

- Deposits are cursed with the bank, causing problems with withdrawals; the maximum deposit is INR 50,000.
- PMC found it difficult to withdraw People with salary accounts.

⁴ An International Journal Of Management &Ita Refereed Research Journal , Vol 12 / No 2 / Jan-Jun 2021
Analytical Study Of Pmc (Punjab & Maharashtra Co-Operative Bank) By Considering Financial Failure Of Bank,
1-5, 2021

- Businesses having PMC checking accounts ran out of operating funds. People with salary accounts in PMC found it challenging to withdraw.

Obstacles Faced By Pmc Bank:

- a) Lack of Democratic Spirit
- b) Fair Audit
- c) Abuse of Power by the Leadership
- d) Government Interference
- e) Modern Banking Practices
- f) Limited Coverage
- g) Lack of institutions

1949 BANKING REGULATION ACT

The Banking Regulations Act of 1949 was passed on March 16, 1949, to unify the regulatory laws governing banking, specify the transactions that commercial banks in the nation may do, and include all commercial banks under its purview. It was deemed necessary to expand the BR Act's 1949 provisions to primary non-agriculture credit societies, which were related to banking, as well as to State cooperative banks, central cooperative banks, and other financial institutions.

The Banking Regulation Act's general goals are

- to protect depositors' interests;
- to build banking institutions on sound foundations; and
- to align the monetary and credit system with the wider interests and national priorities.

BANKING REGULATION (AMENDMENT) ACT, 2020

In order to increase RBI's regulatory authority over co-operative banks in terms of management, capital, audit, and liquidation, the Banking Regulation (Amendment) Act, 2020 alters the BR Act. It aims to expand the scope of the Banking Regulations Act (Act)'s restrictions on cooperative bank behavior. When introducing the Bill in the legislature, Finance Minister Nirmala Sitharaman noted that following the recent failure of notable cooperative banks Punjab and Maharashtra Cooperative Bank and other cooperative banks, it was urgent to regulate their behavior because their failure had negatively impacted the financial market and shaken depositors' confidence in

the banking sector.

Relevant Sections Of Banking Regulation Act, 2020

➤ **Section 3** was replaced as under:

“3. Nothing in this Act shall apply to—

(a) a primary agricultural credit society;

(b) a co-operative land mortgage bank; and

(c) any other co-operative society, except in the manner and to the extent specified in Part V.”

➤ **Section 5(1)(c) of BR ACT, 1949:** Banking company means Banking company means any corporation that conducts banking operations in India⁵”

A cooperative bank is a State Cooperative Bank, a Central Cooperative Bank or a Primary Cooperative Bank a Primary Cooperative Bank - **Section 5 (cci)**

➤ **Section 5A** was modified concerning the co-operative banks. The adjustment has been made in accordance with Section 56(e) of Part V of the BR Act, 1949, inasmuch as it applies to cooperative societies/banks.

➤ **Section 6(1)(d) :** The words "cooperative society" were added after the term "company"

➤ " **Section 56**⁶: Cooperative societies are subject to the provisions of this Act as they currently stand, with the following modifications:—

(a) “Banking companies," "the company," or "such companies" must be understood to refer to cooperative banks;

After clause (cc) in Section 5 definition of 'central co-operative banks' in clause (ccc) was added as under: "central co-operative bank", "co-operative bank", "co-operative society", "director", "primary agricultural credit society", "primary co-operative bank", "primary credit society" and "State co-operative bank" shall have the meanings respectively ”

FORMULATION OF A PLAN FOR AMALGAMATION OR RECONSTRUCTION WITHOUT A MORATORIUM (SECTION 45)

According to the BR Act, the RBI may create a plan for the reconstruction or merging of a bank

⁵ Banking Regulation Act, 1949 (Act No. 10 of 1949), Section 5(1)(c)

⁶ Banking Regulation Act, 1949 (Act No. 10 of 1949), Section 56

after placing it under moratorium. The interests of depositors, the broader public, or the banking system may be served by doing this, or it may be done to ensure effective administration of the bank. For up to six months after being placed under a moratorium, banks are not subject to legal action. Furthermore, during the moratorium, banks are not permitted to release any debts or make any payments. The modified Section 45 of the Act permits RBI to launch a plan for the reconstruction or fusion of a bank without enacting a moratorium.

THE SECURITIZATION AND RECONSTRUCTION OF FINANCIAL ASSETS AND ENFORCEMENT OF SECURITY INTEREST ACT (SARFAESI) ACT, 2002

Background of SARFAESI Act⁷:

The banking industry has been one of the key participants in India's struggle to quickly structure its economy. The Narasimham Committees I and II as well as the Andhyarujina Committee have proposed new legislation for securitization that would allow banks and financial institutions to seize securities and sell them without the need for court action.

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) was approved by the Parliament on December 17, 2002. This law was passed to enable banks and financial institutions to quickly reclaim monetary advances.

Modifications to the SARFAESI Act

Section 2(1)(c) and 2(1)(d)⁸

“2. Definitions.—(1) In this Act, unless the context otherwise requires,—

(c) “bank” means—

- (i) a banking company; or
- (ii) a corresponding new bank; or
- (iii) the State Bank of India; or
- (iv) a subsidiary bank; or

⁷ The Securitisation And Reconstruction Of Financial Assets And enforcement Of Security Interest Act, 2002, Act No. 54 Of 2002

⁸ The Securitization And Reconstruction Of Financial Assets And Enforcement Of Security Interest Act (SARFAESI) Act, 2002 (Act No. 54 of 2002), Section 2(1)(c)

(iva) a multi-State co-operative bank; or (v) such other bank which the Central Government may, by notification, specify for the purposes of this Act;

(d) “banking company” shall have the meaning assigned to it in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);”

Section 2(d)⁹

“2. Definitions.—In this Act, unless the context otherwise requires,—

(d) “bank” means—

(i) a banking company;

(ii) a corresponding new bank;

(iii) State Bank of India;

(iv) a subsidiary bank; or

(v) a Regional Rural Bank;

(vi) a multi-State-co-operative bank;”

RECOVERY PROCEDURES WITHOUT COURT INTERVENTION:

Section 13(1) of the SARFAESI Act grants the secured creditor (banks/financial institutions) the authority to start a recovery proceeding against the borrower in order to enforce a security interest without the involvement of a court or tribunal. Any sort of security, including a mortgage and a charge placed on real estate, is referred to as a "security interest" in this context and supplied as payment in full for any financial aid provided by the creditor.

MULTI-STATE CO-OPERATIVE SOCIETIES (MSCS) ACT 2002

The Multi State Cooperative Societies Act, 2002 needs to be amended, according to the Ministry of Cooperation, to address specific instances of malfunctioning that have been observed in some of the Multi State Cooperative Societies. The Act needed to be changed as a result of developments throughout time in order to boost the cooperative movement in multi-state cooperative societies.

Need for Amendment to Multi-State Cooperative Societies Act, 2002

- Since 2002, the cooperatives industry has undergone a lot of development. Cooperation

⁹ The Securitization And Reconstruction Of Financial Assets And Enforcement Of Security Interest Act (SARFAESI) Act, 2002 (Act No. 54 of 2002), Section 2(1)(c)

was a division of the Ministry of Agriculture at the time. However, the government established a separate Ministry of Cooperation in July 2021.

- As a result of the 97th Constitutional Amendment Act of 2011, Part IXB was added to the Constitution. It is now necessary to revise the Act in light of the addition of Part IXB.
- As Per the 97th Amendment:
- Article 19 (1) of the Constitution includes the ability to organize cooperative societies.
- One of the DPSPs—Promotion of Cooperation Societies—was added (Article 43-B).
- Additionally, modifications to the Act were required as a result of developments throughout time in order to enhance the cooperative movement in multi-State cooperative organizations.

ACT OF 2022 RELATING TO MULTI-STATE COOPERATIVE SOCIETIES (AMENDMENT)

On December 7, 2022, the Multi-State Co-operative Societies (Amendment) Bill 2022 was introduced in Lok Sabha. The Multi State Co-operative Societies Act, 2002, is being modified by the proposed bill in a number of ways. The Multi-State Co-operative Societies (Amendment) Bill, 2022, according to the Minister of Cooperation's "Statement of Objects and Reasons," inter alia provides for the following:

Proposed 2022 Amendments

- Merger of Cooperatives
- Co-operative Election Authority
- Stricter Punishments
- Cooperative Ombudsman
- Rehabilitation and Development Fund

Rationale behind the proposed amendment “Strengthening Governance and Transparency¹⁰”

- No existing prudential norms are there for thrift and Credit MSCS leaving scope for malpractices.
- The amended provision will ensure financial discipline. Already existing credit societies

¹⁰ LOK SABHA SECRETARIAT NEW DELHI, Joint_Committee_on_the_Multi-State_Co-operative_Societies_(Amendment)_Bill_2022_1.pdf, March 2023

will get 5 years to meet these norms.

- Multi- State co-operative banks will continue to follow RBI norms.
- Ease of doing business : This would expedite registration process and ensure ease of doing business.
- In case of deficiencies in the registration applications, additional time will be provided for rectification in place of rejecting the application.”

Autonomy and Independence:

Cooperatives are autonomous, self-help organisations controlled by their members. If cooperatives enter into agreement with other organisations including Government or raise capital from external sources, they do so on terms that ensure their democratic control by members and maintenance of cooperative autonomy.

“**Article 43B.** The State shall endeavour to promote voluntary formation, autonomous functioning, democratic control and professional management of co-operative societies.”

The **97th Constitutional Amendment** additionally highlights the autonomous operation and democratic governance of cooperative societies in Article 243 ZL (1)'s second proviso (Chapter IX B of the Indian Constitution).

"Subject to the provisions of this Part," it reads, "the Legislature of a State may, make provisions with respect to the incorporation, regulation, and winding up of cooperative societies based on the principles of voluntary formation, democratic member control, member economic participation, and autonomous functioning."

The nodal ministry clarified that the amendment bill is in accordance with the 97th Constitutional Amendment to close gaps in the current law and to strengthen governance in the MSCSs, in accordance with the following Cooperative Principles, namely:

- a) Voluntary and Open Membership;
- b) Democratic Member Control
- c) Member-Economic Engagement, and
- d) Autonomous Functioning

LEGISLATIVE COMPETENCE OF PARLIAMENT

By enacting the 2020 Act, Parliament broadens the scope of the RBI's regulation of co-operative banks to include issues relating to their management, capital, audit, and winding up. It is unclear if Parliament has the authority to pass laws addressing these issues for cooperative banks. These organizations carry out banking operations and are registered as cooperative societies under various state Co-operative Societies Acts.

Through entry 45 of the Union List in the Seventh Schedule to the Constitution, Parliament is given the authority to pass laws pertaining to "banking". Entry 32 of the State List deals with issues relating to "incorporation, regulation, and winding up" of cooperative societies. Additionally, entry 43 of the Union List exempts issues relating to incorporation, regulation, and winding up from the scope of Parliament.

It further stated that co-operative banks will be subject to state law with regard to "incorporation, regulation and winding up" issues that are unconnected to entry 45 of the Union List. Therefore, the question is whether the 2020 Act falls under the legislative purview of Parliament and if regulation of management, audit, capital, and winding up is necessary to the activity of banking and the operation of a (cooperative) bank.

LANDMARK JUDGEMENTS:

I. PANDURANG GANPATI CHAUGULE vs. VISHWASRAO PATIL MURGUD SAHAKARI BANK LIMITED 2020 (3) CTC 55811

FACTS OF THE CASE:

Pandurang Ganpati Chougule, the appellant, questioned Vishwasrao Patil Murgud Sahakari Bank Limited's compliance with the SARFAESI Act. The issue involved in this present appeal was whether cooperative banks at the state level and multi-state levels falls under the SARFAESI Act. Writ petition under Article 32 of the Indian Constitution has also been submitted, challenging the co-operative banks' use of Section 13 notices to invoke the SARFAESI Act.

¹¹ Pandurang Ganpati Chaugale v. Vishwasrao Patil Murgud Sahakari Bank 2020] ibclaw.in 09 SC, CIVIL APPEAL NO. 5674 OF 2009

ISSUE OF THE CASE :

(1) Whether 'co-operative banks', which are co-operative societies also, are governed by Entry 45 of List I or by Entry 32 of List II of the Seventh Schedule of the Constitution of India, and to what extent?

The Supreme Court opined that co-operative banks registered under State legislation and multi-State level co-operative societies registered under the Multi-State Co-operative Societies Act, 2002 with respect to 'banking' fall within the purview of Entry 45 of List I of the VII Schedule of Constitution of India by relying on the judgment in **Rustom Cavasjee Cooper v. Union of India** (1970) 1 SCC 248. It further noted that the Reserve Bank of India Act was amended to extend its applicability to co-operative banks.

Relying on the judgment in **Union of India and Anr. v. Delhi High Court Bar Association** and Ors¹², court held that recovery of dues is an essential function of banking institution. The Court held that amendment of SARFAESI Act to include co-operative banks within the definition of bank does not reserve for State Legislation under Entry 32 List II as the recovery of dues to banks including co-operative banks is an essential banking function.

(2) Whether 'banking company' as defined in Section 5(c) of the BR Act, 1949 covers co-operative banks registered under the State Cooperative Laws and also multi State co-operative societies?

The Court noted that the banking activities of co-operative banks run by co-operative societies are governed by the Banking Regulations Act, 1949. Banking activities of co-operative banks are covered within the meaning of 'Banking Company' defined Under Section 5(c) read with Section 56(a) of the Banking Regulation Act, 1949, which is a Central legislation under Entry 45 of List I. Co-operative banks are required to comply with provisions of Banking Regulations Act, 1949 and other legislations under 'Banking' in Entry 45 of List I and the Reserve Bank of India Act for carrying out banking activities.

(3). (i) Whether for applicability of the SARFAESI Act co-operative banks both at the State level and multi-State level are called 'banks'?

¹² Union of India and Anr. v. Delhi High Court Bar Association and Ors (2002) 4 SCC 275

(ii) Whether on account of inclusion of multi-State co-operative banks the provisions of Section 2(c) (iva) of the SARFAESI Act and notification notifying cooperative banks are ultra vires?

The Court held that the 2003 notification and amendment to SARFAESI Act are not ultra vires the Constitution by relying on *KC Gajapati Narayan Deo v. State of Orissa AIR 1953 SC 375*. Also so court observed that in case of *State of Tamil Nadu and Ors. v. K. Shyam Sunder and Ors (2011) 8 SCC 737*, held that legislature competence enacted a particular law depending on the concept of colourable legislation

JUDGEMENT :

1. The laws relating to Entry 45 of List I of the Seventh Schedule of the Constitution of India apply to cooperative banks registered under State law and multi-State cooperative societies registered under the MSCS Act, 2002 with regard to "banking."
2. Cooperative banks engaged in banking activities fall under the definition of "Banking Company". Section 56(a) read with Section 5 (c) of the Banking Regulation Act, 1949, a piece of law connected to Entry 45 of List I. It controls the 'banking' component of cooperative banks that are managed by cooperative societies.
3. According to section 2(1)(c) of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act of 2002, cooperative banks governed by State law and multi-State cooperative banks are considered "banks."
4. The recovery process outlined in section 13 of the SARFAESI Act, a piece of legislation related to Entry 45 List I of the Seventh Schedule to the Constitution of India, is relevant since it is a crucial component of banking. As a result, it is a requirement of the law.

II. THE BENGAL SECRETARIAT COOPERATIVE LAND MORTGAGE BANK AND HOUSING SOCIETY LTD. V. ALOKE KUMAR & ANR. 2022¹³

The Constitution (97th Amendment) Act of 2011 that added Part IXB has been made clear by the Supreme Court to not apply to local cooperative societies but will do so for multi-state cooperative societies and cooperative societies located in Union territories.

Chief Justice UU Lalit, Justice S. Ravindra Bhat, and Justice JB Pardiwala noted that

¹³ The Bengal Secretariat Cooperative Land Mortgage Bank And Housing Society Ltd. Versus Sri Alope Kumar, Civil Appeal No: 7261 Of 2022

"...the Constitution (97th Amendment) Act, 2011 would be applicable to the multi-State co-operative societies but would not be applicable to the local co-operative societies"

COOPERATIVE BANKS DURING PANDEMIC CRISIS

Cooperative Banks have handled the difficulties brought on by COVID-19's widespread distribution in many regions of the world extremely well. The prompt actions made by authorities and governments assisted in reducing and containing the detrimental effects of COVID-19 on the operation of cooperative banks. Cooperative banks received support at all levels as a result of special efforts made by regulators and bank management to maintain regular banking operations with sufficient employees, cash, and other resources.

Together, StCBs and DCCBs were functioning in advantageous locations and industries for handling the pandemic as opposed to SCBs. As SCBs made gains in this market, the proportion of co-operative banks providing ground level financing to farmers has been steadily loans provided 94 per cent of StCBs and 88 per cent of DCCBs 14 reported profits in 2020-21 as compared with 97 per cent and 83 per cent, respectively, in 2019-20.

DEVELOPMENTS IN CO-OPERATIVE BANKING

In contrast to the 96,612 rural cooperative banks that made up 65.8% of the total asset size of all cooperative banks as of 31 March 2017, there were 1,551 urban cooperative banks as of that date. Despite just making around 2% of the market, the UCBs have the financial power (44% of deposits and 31Advances in FY17).

The Reserve Bank and the government set out to deal with these concerns in 2020–21. The Reserve Bank now has more authority to oversee this industry thanks to the Banking Regulation (Amendment) Act of 2020. The share of cooperative depositors' coverage increased from 42.7 percent at the end of March 2019 to 69.4 percent at the end of March 2021.

The National Federation of Urban Cooperative Banks and Credit Societies (NAFCUB) recently hosted a conclave, and the Minister of Home Affairs and Cooperation, highlighted the need for reforms for urban cooperative banks (UCB).

The NAFCUB is the country's highest level promotional organization for urban cooperative banks and credit societies. NAFCUB is dedicated to working towards building a strong

and viable urban cooperative banking and credit system across the Country, to strive for level playing fields for the institutions.

Urban Cooperative Banks and Credit Societies Ltd. in the country are promoted at the highest level by the National Federation of Urban Cooperative Banks and Credit Societies Ltd. (NAFCUB). Our primary goals are to advance the urban cooperative credit movement and safeguard the Sector's interests¹⁴.

SUGGESTION

The best hope for rural India would be lost if cooperatives failed. Cooperatives should be allowed to operate democratically and independently while also being held accountable to its members and other stakeholders by the government. The Punjab and Maharashtra Cooperative (PMC) bank scandal, which caused desperate depositors to visit the branches in an effort to withdraw their hard-earned money, brought the issue to light.

What the majority of cooperative banks do with the money they receive as deposits from customers is not always transparent. Politicians and their allies visit many of those banks. This is frequently not meant to imply that all cooperative banks are terrible. But it's undoubtedly challenging to determine which ones are the best. Additionally, the ability of the RBI to manage cooperative banks may be somewhat constrained given their enormous number and political connections.

The RBI should interpret the terms of the Act in a way that preserves UCBs and restores public confidence in the cooperative banking system. New, fresh, and qualified individuals in managerial positions are required to move cooperative forward. Institutional changes are required for their development, such as hiring practices that are transparent and the installation of a reliable accounting system. NAFCUB should do a better job promoting symmetrical development.

As a result, it would be easier to recover debt, which was a crucial aspect of "banking," and as a result, it is within the jurisdiction of Parliament to permit cooperative banks to do so under the SARFAESI Act of 2002 and Banking Regulation Act (Amendment), 2020. Through the legislative competence of the parliament helped the cooperative bank to easily recover their dues

¹⁴ THE HINDU BUSINESS LINE , <https://www.thehindubusinessline.com/money-and-banking/urban-co-op-banks-want-rbi-to-permit-them-to-undertake-one-time-settlement-of-bad-loans/article66849670.ece>, May 14, 2023

from the borrowers and the role of RBI in supervising the cooperative banks enable governance , transparency and autonomy in their transactions which reduces frauds.

CONCLUSION

One of the main forces behind India's achievement in achieving rapid economic growth has been the financial industry. The Indian banking sector is gradually adhering to international prudential standards and accounting practices, but there are still some areas where it does not enjoy a fair playing field with other participants in the global financial markets. Our current legal framework for business transactions has not evolved to reflect the evolving economic practices and financial sector reforms.

Urban cooperative banks fail with frightening regularity. According to RBI statistics, their numbers decreased from 1,926 in 2004 to 1,551 in 2018. A lack of capital base is one of the reasons cooperative banks collapse so frequently. The RBI's regulation of cooperative banks is less strict than it is for economic banks.

The SARFAESI Act enables banks and other financial institutions to auction off the defaulter's residential or business properties in order to recoup loans. According to Section 2(1)(c) of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act of 2002, cooperative banks governed by State law and cooperative banks with multiple States are considered "banks."

The initial wave of the pandemic in 2020–2021 left the co-operative banking industry, particularly the rural co-operatives, virtually untouched. However, structural challenges brought on by regulatory overlaps, high loan default rates, and a decline in depositor confidence as a result of frauds continue to plague the industry.

The Reserve Bank now has more authority to oversee this industry thanks to the Banking Regulation (Amendment) Act of 2020. Parliament has expanded the scope of the RBI's regulation of co-operative banks by the Banking Regulation Act of 2020 to include issues relating to the management, capital, audit, and winding up of such banks. Cooperative banks with many states will keep up with RBI regulations.