



## ALL INDIA BANK EMPLOYEES' ASSOCIATION

Central Office : Chennai - 600 001, Regn. No. 2037

E-Mail ID - aibeahq@gmail.com



## ALL INDIA CO-OP. BANK EMPLOYEES' FEDERATION

Central Office : Kolkata - 700 017

E-Mail ID - aicbef.kol@gmail.com, Whatsapp No. +91 9748434348

Date: 19/09/2022

To  
The Deputy Managing Director,  
National Bank for Agriculture & Rural Development,  
Plot No. C-24, G Block, Bandra Kurla Complex Road,  
Bandra East, Mumbai - 400 051

Sir,

At the very outset, we convey our sincere thanks for allowing All India Co-operative Bank Employees Federation; the only organization of the Co-op. Bank Employees at the national level, an affiliate of All India Bank Employees Association (AIBEA) to submit their view points on the terms of reference of the expert team constituted by Govt. of India for conducting "study on relevance applicability and retention of three tier short term Co-op. credit structure (STCCS).

Although the three tier Co-op. credit structure is a century old but the need for delayering of one tier has been felt even during the regulatory regime, with beginning of new economic policy, a committee constituted by Govt. of India on Banking Sector Reforms (Narasimham Committee-II), which was headed by Prof. Narasimham, former Governor of RBI, which recommended that....."There should be delayering of the Co-operative Credit institutions with a view to reducing the intermediation cost and thus providing the benefit of cheaper NABARD credit to the ultimate borrowers" (Chapter VI, Para 6.12 of Prof. Narasimham Committee Report-1998).

It may please be noted that the idea of dispensing with a three-tier structure to two-tier is not new. In the past, the working group of the Fifth Five Year Plan (1974-1979) had recommended a two-tier structure. A team appointed by the Reserve Bank of India to study the Co-operative Credit Structure in Kerala (1972) has also indicated their preference for a two-tier structure. The expert committee headed by Prof. M.S. Sreeram has strongly recommended that the Kerala Co-operative Banking System should be converted to a two-tier structure.

In tune with, Govt. of India's new mantra "To make our Banking System globally competitive", all the associates banks of SBI have been merged with the State Bank of India, Public Sector Commercial Banks have also been amalgamated to make them stronger. Similarly in case of Regional Rural Banks, state wise amalgamation have already taken place in order to make the Regional Rural Banks more stronger and financially viable.

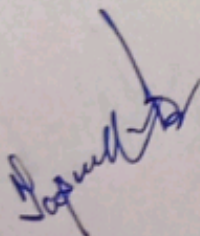
If we also look globally with particular reference to Co-operative Institution, Rabo Bank, a renowned Co-operative Institution of Netherlands have also been restructured and converted from 2 tier to single tier.

Raiffeisen of Germany and in Canada also consolidations of Co-operative Banks have also taken place to make the Co-operative Banks more strong and globally competitive.

We would now furnish the necessity of two tier structure.

#### **NEED OF TWO-TIER STRUCTURE:**

- a) Introduction of Two Tier Credit Structure in Co-operatives by eliminating middle tier will reduce interest burden to the extent of interest margin being shared by middle tier and also all types of Agriculture Credit flow is available under one roof.
- b) The amalgamation of District Co-operative Central Banks with State Co-operative Bank would reduce the operational and administrative costs for extension of Rural Credit at reduced rates of interest to the ultimate borrowers i.e. farmers.
- c) Since most of the commercial banks merged and proposing the central government to further mergers, the Co-operatives Credit Structure should be a stronger unit on viable basis for enabling to withstand global competition and to render effective services by providing timely credit to the farming community in rural areas for attending Seasonal Agriculture Operations for which the State Co-operative Bank has to be made a stronger body for taking effective policy to make the movement to survive.
- d) The State Co-operative Bank, being a scheduled Bank, it has the scope of becoming stronger body, eliminating all the disadvantages of DCCBs, as it can tap more deposit through its Branches in rural areas whereby dependence on RBI/NABARD can considerably be reduced, which is not possible in case of DCCBs independently as they do not have the status of a Scheduled Bank.
- e) In case of natural calamities occurs in small area of operation which destroys the economy of the farmers, leads to non-payment of dues to the PACS/DCCBs, thereby bring down these institutions. Flexibility in area of operation will help banks to lend in different agro-climatic zones, so that the effect of natural calamities will not be catastrophic on these institutions.
- f) The consolidation process cuts down costs of technology, administrative costs and financial costs significantly since this envisages delayering, there would be significant gains in terms of efficiency of managing a single large balance sheet and all the gains in the costs could eventually be passed on to the primaries so that they could serve their customers more effectively.



- g) By using latest technology and centralized banking system, such as Net Banking, IMPS and Mobile banking, the young generation can be attracted into its fold. The DCCBs in several States are lacking behind in implementation of latest technology such as ATMs in core centres of their area, IMPS, Net Banking and Mobile Banking facility as provided by the Commercial Banks.
- h) Primary Agriculture Co-operative Credit Societies (PACS) as major stake holders of the system are in favour of two-tier, hoping that the PACSs will improve under the direct control of State Co-operative Bank rather than DCCBs.
- i) A State level centralized Bank will also able to handle the Foreign Exchange business.

#### ADVANTAGES OF TWO-TIER CREDIT STRUCTURE:

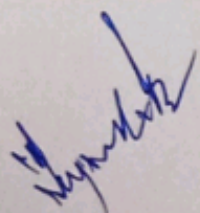
As per the policy of Govt. of India, most of the commercial banks have been merged and also considering for further mergers. Further, it is under active consideration of Govt. of India to set-up one common Rural Bank in place of multiple RRBs or to merge the RRBs with their sponsoring banks.

In the stated scenario, the Co-operative Credit Structure should be a stronger unit on viable basis for enabling to withstand global competition and to render effective services by providing timely credit to the farming community for attending seasonal agriculture operations for which the STCBs are to be strengthened for bringing out an effective policy to make the movement to survive.

If the Two Tier Credit System is implemented, the State Co-operative Banks would become a stronger unit at State level with scheduled status facilitating confidence to secure more deposits which will help to strengthen the internal resources eliminating dependence on RBI/NABARD where by refinance facility can be secured at concessional rate of interest which leads to reduce the cost of borrowing.

Unfortunately, there has been adverse campaign against the changed situation in STCCS of Kerala, it was rumored that concept of Kerala Bank has been a failure one, but a comparative position revealed the otherwise. Details are furnished below.

KERALA BANK	31.03.2020	31.03.2022
Net Loss	776.19	637.03
Operating Profit	418.40	336.39
Total Deposit	61,037.59	69,907.12
Total Loan	40,156.82	40,950.03
CRAR	7.30%	10.24%
Net NPA	4,547.59	3,691.27
	11.79%	9.01%



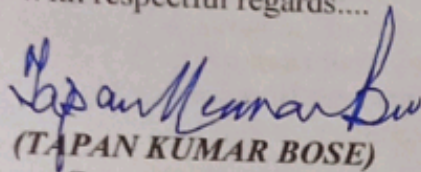
Sir, it is strongly felt necessary to submit here that a separate Ministry for Cooperatives was created by the Govt. of India for realizing the vision of "Sahkar se Samriddhi", aiming the objectives for providing a separate administrative, legal and policy framework for strengthening the cooperative movement in the country and thus making the cooperative movement a true people-based movement by help it reach the grassroots level. Further, in the wake of carving out Cooperation subject from the Agriculture, which strengthens our hopes that Govt. of India may consider for revival of agriculture credit structure across the country.

In the stated scenario, it is requested that Ministry of Cooperation may kindly initiate steps to make it mandatory for introduction of Two-tier system in place of Three-tier system in all the states uniformly for the benefit of farming community across the country.

**Our national organization "All India Bank Employees Association" could foresee long back and in 1972, a resolution for 2 tier structure in STCCS was adopted unanimously in first convention of Co-op. Bank Employees held at Hyderabad.**

Under such perspective, we welcome the guidelines of Reserve Bank of India on amalgamation of Dist. Central Co-operative Banks with the State Co-operative Banks.

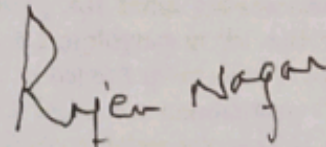
With respectful regards....



**(TAPAN KUMAR BOSE)**

General Secretary

All India Co-op. Bank Employees' Federation



**(RAJEN NAGAR)**

President

All India Bank Employees' Association