

Bill Summary

The Banking Regulation (Amendment) Bill, 2020

- The Banking Regulation (Amendment) Bill, 2020 was introduced in Lok Sabha by the Minister of Finance, Ms. Nirmala Sitharaman, on March 3, 2020. The Bill seeks to amend the Banking Regulation Act, 1949, with regard to cooperative banks. The Act regulates the functioning of banks and provides details on various aspects such as licensing, management, and operations of banks.
- **Exclusions:** The Act does not apply to certain cooperative societies. These are: (i) primary agricultural credit societies, (ii) cooperative land mortgage banks, and (iii) any other cooperative societies (except those specified in the Act).
- The Bill amends this provision to state that the Act will not apply to: (i) primary agricultural credit societies, and (ii) cooperative societies whose principal business is long term financing for agricultural development. Further, these societies must not: (i) use the words ‘bank’, ‘banker’ or ‘banking’ in their name or in connection with their business, and (ii) act as an entity that clears cheques.
- **Issuance of shares and securities by cooperative banks:** The Bill provides that a cooperative bank may issue equity shares, preference shares, or special shares on face value or at a premium to its members or to any other person residing within its area of operation. Further, it may issue unsecured debentures or bonds or similar securities with maturity of ten or more years to such persons. Such issuance will be subject to the prior approval of the Reserve Bank of India (RBI), and any other conditions as may be specified by RBI.
- The Bill states that no person will be entitled to demand payment towards surrender of shares issued to him by a co-operative bank. Further a co-operative bank cannot withdraw or reduce its share capital, except as specified by the RBI.
- **Supersession of Board of Directors:** The Act states that RBI may supersede the Board of Directors of a multi-state cooperative bank for up to five years under certain conditions. These conditions include cases where it is in the public interest for RBI to supersede the Board, and to protect depositors.
- The Bill adds that in case of a co-operative bank registered with the Registrar of Co-operative Societies of a state, the RBI will supersede the Board of Directors after consultation with the concerned state government, and within such period as specified by it.
- **Power to exempt cooperative banks:** The Bill states that RBI may exempt a cooperative bank or a class of cooperative banks from certain provisions of the Act through notification. These provisions relate to restrictions of certain types of employment, qualifications of the Board of Directors and, appointment of a chairman. The time period and conditions for the exemption will also be specified by the RBI.
- **Certain provisions omitted:** The Bill seeks to omit certain provisions from the Act. Some of these provisions are listed below:
 - The Act restricts cooperative banks from making loans or advances on the security of its own shares. Further, it prohibits the grant of unsecured loans or advances to its directors, and to private companies where the bank’s directors or chairman is an interested party. The Act also specifies conditions when unsecured loans or advances may be granted and specifies the manner in which the loans may be reported to RBI. The Bill omits this provision from the Act.
 - The Act states that cooperative banks cannot open a new place of business or change the location of the bank outside of the city, town or village in which it is currently located without permission from RBI. The Bill omits this provision.
 - The Act requires a scheduled cooperative bank to maintain assets with a value not exceeding 40% of the its total demand and time liabilities, within India. The Bill omits this provision.

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