

Power of RBI to Supersede the Board of Multi State Co-operative Banks

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Introduction

The Board of Directors occupies a central position in the governance and management of a co-operative bank. The democratic character of co-operative institutions ordinarily requires that their affairs be managed by an elected Board representing the interests of their members. However, banking is a sector in which mismanagement can have consequences extending far beyond the institution itself. The failure of a co-operative bank may directly affect depositors, threaten financial stability and undermine public confidence in the banking system. It is therefore necessary for the Reserve Bank of India (**RBI**), as the expert banking regulator, to possess powers enabling it to intervene where the affairs of a co-operative bank are being conducted in a manner detrimental to depositors or the institution. One such significant regulatory power is the supersession of the Board of Directors, under which the elected Board is removed, and its powers, functions and duties are transferred to an administrator appointed by the RBI.¹

The scope of this power came under consideration in *Sandeep S. Ghandat and Ors. v. Reserve Bank of India and Ors.*, first before the Bombay High Court and subsequently before the Supreme Court of India. The dispute arose from the RBI's decision to supersede the Board of Directors of Abhyudaya Co-operative Bank Limited, a multi-State co-operative bank, (**the co-operative bank**) under Section 36AAA read with Section 56 of the Banking Regulation Act, 1949 (**the BR Act**). The Bombay High Court, in its judgment dated 18 November 2024, upheld the RBI's action. The matter then reached the Supreme Court, which rendered its judgment on 3 September 2026 in Civil Appeal Nos. 5351–5352 of 2025.²

The Supreme Court judgment is significant because it goes beyond merely determining whether the supersession order was valid. It clarifies the relationship between Article 243ZL of the Constitution of India and Section 36AAA read with 56 of the BR Act, determines whether the RBI's power can continue beyond the original tenure of an elected Board, and explains the extent to which the Constitutional principles governing co-operative societies can restrict the specialised regulatory framework applicable to co-operative banks.³

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¹Sandeep S. Ghandat v. Reserve Bank of India, MANU/MH/6968/2024, ¶ 52; Banking Regulation Act, No. 10 of 1949, § 36AAA (India).

² Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 1–7; Sandeep S. Ghandat v. Reserve Bank of India, MANU/MH/6968/2024, ¶¶ 1–4 (Bom. H.C. Nov. 18, 2024).

³Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 15–18, 34, 38–40.

The Statutory Framework for Supersession

Section 36AAA read with section 56 of the of the BR Act empowers the RBI to supersede the Board of a co-operative bank where it is satisfied that such action is necessary in the public interest, for preventing the affairs of the co-operative bank from being conducted in a manner detrimental to the interests of depositors or the co-operative bank, or for securing its proper management. The RBI is required to record reasons in writing and may supersede the Board for a period not exceeding five years in the aggregate. Once supersession takes place, the RBI may appoint an Administrator and issue directions to that Administrator. The Chairman, Managing Director and other directors vacate office, while the Administrator assumes the powers, functions and duties which would otherwise be exercised by the Board. The statutory scheme also provides for the Constitution of a committee of people having experience in law, finance, banking, administration or accountancy and requires the Administrator to call a general meeting for the election of new directors before the expiry of the period of supersession.⁴

Thus, supersession is not merely a punitive action against individual directors. It is a mechanism through which control over the management of a co-operative bank is temporarily transferred from its elected Board to an Administrator. The purpose is essentially protective: to prevent deterioration in the financial health of the institution and safeguard depositors while ensuring that the co-operative bank continues to be managed effectively.⁵

Facts and the Bombay High Court's Judgment

In *Ghandat*, the appellants had been elected as members of the Board of Co-operative Bank in May 2019 for a statutory term of five years. On 24 November 2023, the RBI exercised its power under Section 36AAA read with section 56 of the BR Act and superseded the Board for one year, appointing an Administrator. The RBI relied upon the deteriorating financial condition of the co-operative bank, the need to protect depositors and prevent the collapse of the institution, and the necessity of expert professional management to restore the financial health of the Co-operative bank. During the pendency of the challenge before the High Court, the original five-year tenure of the elected Board expired on 24 May 2024.⁶

⁴ Banking Regulation Act, No. 10 of 1949, §§ 36AAA(1)–(9), 56 of the (India); Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 21–22.

⁵ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 22, 30–32, 36–37.

⁶ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 3–7.

Before the Bombay High Court, the challenge primarily concerned three questions. First, the petitioners argued that Section 36AAA read with section 56 of the BR Act had become inoperative after the introduction of Part IXB of the the Constitution, particularly Articles 243ZL and 243ZT of the the Constitution of India. Article 243ZL of the Constitution of India generally restricts supersession or suspension of a co-operative society's Board to six months, while Article 243ZT of the Constitution of India concerns the continuance of laws inconsistent with Part IXB of the Constitution of India. The petitioners therefore argued that the five-year period contemplated by Section 36AAA of the BR Act was inconsistent with the Constitutional scheme and that the provision had ceased to operate after February 2013.⁷

The High Court rejected this argument by placing emphasis on the third proviso to Article 243ZL of the Constitution of India, which specifically provides that in the case of a co-operative society carrying on the business of banking, the provisions of the BR Act shall also apply. The Supreme Court held that this proviso preserved the applicability of the BR Act to multi-state co-operative banks and consequently allowed Section 36AAA read with section 56 of the BR Act to operate. It therefore found no inconsistency between Article 243ZL of the Constitution of India and Section 36AAA read with section 56 of the of the BR Act and held that Article 243ZT of the Constitution of India did not render Section 36AAA read with section 56 of the of BR Act inoperative.⁸

The second issue concerned consultation with the Government. The proviso to Section 36AAA (1) read with section 56 of the BR Act requires consultation with the concerned State Government where the co-operative bank is registered with the Registrar of Co-operative Societies of a State. The petitioners argued that, for a multi-State co-operative bank, this should be understood as requiring consultation with the Central Government. The High Court rejected this interpretation and held that the language of the proviso specifically contemplated uni-state co-operative banks. Since Abhyudaya Co-operative Bank was a multi-State co-operative bank, prior consultation with the Central Government was not mandatory.⁹

Finally, the petitioners contended that principles of natural justice required the RBI to issue a Show Cause Notice and provide an opportunity of hearing before superseding the Board. The High Court noted that Section 36AA read with section 56 of the of BR Act expressly contains a provision for representation, whereas Section 36AAA read with section 56 of the BR Act contains no comparable requirement. It concluded that this distinction demonstrated legislative intent not to incorporate a prior hearing into Section 36AAA read with section 56 of the BR Act. The Court further reasoned that requiring a Show Cause Notice and hearing in circumstances requiring urgent

⁷ Sandeep S. Ghandat v. Reserve Bank of India, MANU/MH/6968/2024, ¶¶ 52–53 (Bom. H.C. Nov. 18, 2024); Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 8–9, 15, 19–20.

⁸ Sandeep S. Ghandat v. Reserve Bank of India, MANU/MH/6968/2024, ¶¶ 53–57; Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 24–34.

⁹ Sandeep S. Ghandat v. Reserve Bank of India, MANU/MH/6968/2024, ¶¶ 70–73; Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶ 39.

intervention could delay regulatory action and potentially result in further deterioration of the affairs of the co-operative bank. The writ petitions were consequently dismissed.¹⁰

The Supreme Court Proceedings

The Supreme Court proceedings assumed particular significance because the dispute had evolved beyond the validity of the original supersession order. After the first order was passed in November 2023, the RBI extended the period of supersession in November 2024 and again in November 2025. Importantly, the appellants' original tenure as elected directors had already expired in May 2024. The central question therefore became whether the RBI could continue extending a supersession even after the original term of the elected Board had ended.¹¹

The appellants argued that supersession could not extend beyond the tenure for which the Board had originally been elected. According to them, once their five-year tenure expired, there was no Board remaining in existence that could be superseded. They further relied on the six-month limitation under Article 243ZL of the Constitution of India and argued that the third proviso to that provision merely made the BR Act applicable without removing the Constitutional ceiling. They also reiterated their argument regarding mandatory consultation with the Central Government.¹²

The RBI, on the other hand, relied heavily upon the statutory language of Section 36AAA read with section 56 of the BR Act. It pointed out that Section 36AAA (7) read with section 56 of the BR Act requires the Administrator to call a general meeting for election of new directors “on and before expiration” of the period of supersession specified in the RBI’s order. According to the RBI, this language demonstrated that the tenure of the former Board had no bearing on the duration of RBI’s statutory power. The RBI maintained that the only relevant outer limit was the aggregate five-year period prescribed by Section 36AAA read with section 56 of the BR Act.¹³

The Supreme Court on Article 243ZL of The Constitution of India and the Six-Month Limit

The Supreme Court’s first major conclusion was that the RBI’s power to supersede the Board of a multi-State co-operative bank under Section 36AAA read with section 56 of the BR Act is not circumscribed by the six-month limitation contained in Article 243ZL (1) of the Constitution of India. The Court undertook a detailed textual analysis of Article 243ZL of the Constitution of India, particularly its third and fourth provisos.¹⁴

¹⁰ Sandeep S. Ghandat v. Reserve Bank of India, MANU/MH/6968/2024, ¶¶ 78–89.

¹¹ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 4–7.

¹² Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026 ¶¶ 8–9, 15, 19–20.

¹³ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026 ¶¶ 10–14, 36–37.

¹⁴ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026 ¶¶ 19–34.

The Supreme Court observed that Article 243ZL of the Constitution of India begins with a general rule that no Board of a co-operative society shall be superseded or kept under suspension for more than six months. However, the third proviso expressly provides that where a co-operative society carries on banking business, the provisions of the BR Act shall also apply. The Supreme Court treated the words “shall also apply” as significant. Rather than restricting the application of the BR Act, the third proviso incorporates the banking regulatory framework into the the Constitutional scheme insofar as multi-state co-operative banks are concerned.¹⁵

The Supreme Court also relied upon the structure of the fourth proviso of Article 243ZL of the Constitution of India. That proviso extends the period from six months to one year for a co-operative society other than a multi-state co-operative society carrying on banking business. According to the Supreme Court, the express exclusion of multi-state co-operative banks from this one-year extension demonstrated that Parliament was conscious of their distinct regulatory treatment. The Constitutional scheme therefore preserved the application of the BR Act to multi-State co-operative banks.¹⁶

The Supreme Court also adopted a purposive approach. Banking, it noted, involves public money and the savings of depositors, making the protection of depositors and the stability of banking institutions matters of significant public interest. Section 36AAA read with section 56 of the BR Act is one of the tools through which the RBI fulfils this regulatory function. A construction that restricted the RBI to an inflexible six-month period could create a supervisory vacuum and frustrate the objective of maintaining financial discipline. The Supreme Court therefore held that the BR Act applies to multi-state co-operative banks and answered the first issue in favour of the RBI.¹⁷

Can Supersession Continue Beyond the Board’s Original Tenure?

The most important development in the Supreme Court judgment concerns the relationship between supersession and the original tenure of the elected Board.¹⁸

The Supreme Court held that an order of supersession passed under Section 36AAA read with section 56 of the BR Act can be extended beyond the original term for which the Board was elected, provided the total period of supersession remains within the statutory ceiling of five years. The Supreme Court emphasised that once the Board is superseded, it ceases to exist as the

¹⁵ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026 ¶¶ 19–26; INDIA CONST. art. 243ZL(1), third proviso.

¹⁶ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 27–29; INDIA CONST. art. 243ZL(1), fourth proviso.

¹⁷ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 30–34; Banking Regulation Act, No. 10 of 1949, § 36AAA (India).

¹⁸ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 35–38.

governing body and its powers vest in the Administrator. Consequently, the tenure of the erstwhile Board does not determine the duration of the RBI's power of supersession.¹⁹

Section 36AAA(7) read with section 56 of the BR Act was particularly important to this conclusion. It requires the Administrator to convene the general meeting for election of new directors only on or before the expiry of the period of supersession specified by the RBI. Thus, the statutory scheme itself links the restoration of elected governance to the expiry of the supersession period rather than to the original tenure of the Board. At the same time, the five-year aggregate ceiling acts as a safeguard against indefinite regulatory control and ensures that elections cannot be postponed without limit. The Supreme Court therefore answered the second issue in the affirmative.²⁰

This finding is crucial because it prevents a situation in which the protective purpose of supersession would automatically disappear merely because the original term of the Board expires during regulatory intervention. The RBI's power is directed towards the institution and its financial management, rather than being dependent upon the personal tenure of individual directors.²¹

Consultation with the Government

On the issue of consultation, the Supreme Court adopted a relatively straightforward interpretation. Section 36AAA (1) read with section 56 of the BR Act requires consultation only where the co-operative bank is registered with the Registrar of Co-operative Societies of a State. Since Abhyudaya Co-operative Bank was a multi-state co-operative bank, it did not fall within this category. The Supreme Court therefore held that the requirement of consultation with the State Government did not apply to RBI and that the absence of such consultation did not invalidate the supersession.²²

Interestingly, although this issue had formed an important part of the Bombay High Court proceedings, the Supreme Court resolved it primarily through the language of the statutory proviso itself. The distinction between uni-state and multi-State co-operative banks was therefore maintained.²³

Natural Justice and Judicial Restraint

¹⁹ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026 ¶¶ 36–38; Banking Regulation Act, No. 10 of 1949, § 36AAA(1), (7) (India).

²⁰ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 36–38; Banking Regulation Act, No. 10 of 1949, § 36AAA(7) (India).

²¹ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶¶ 36–38.

²² Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026 ¶ 39; Banking Regulation Act, No. 10 of 1949, § 36AAA(1), proviso (India).

²³ Sandeep S. Ghandat v. Reserve Bank of India, MANU/SC/0992/2026, ¶ 39; Sandeep S. Ghandat v. Reserve Bank of India, MANU/MH/6968/2024, ¶¶ 70–73.

The Bombay High Court had also held that principles of natural justice could not be read into Section 36AAA read with section 56 of the BR Act so as to require a prior hearing. This aspect of the High Court's reasoning remained an important part of the case, particularly because supersession has a direct impact on the elected directors. The statutory scheme distinguishes Section 36AA read with section 56 of the BR Act, which expressly provides an opportunity of representation, from Section 36AAA read with section 56 of the BR Act, which does not contain an equivalent requirement. The High Court therefore treated the absence of a hearing provision as deliberate and connected it with the urgency inherent in protecting depositors and preventing further deterioration of the bank.²⁴

The broader principle emerging from the litigation is that courts must exercise caution when reviewing decisions involving specialised financial and economic regulation. Supersession of a bank's Board is an extraordinary measure, but it is one entrusted by Parliament to a specialised regulator operating within a statutory framework. Judicial review remains available to examine legality, but courts must be careful not to substitute their own assessment of complex financial and regulatory matters for that of the expert regulator.²⁵

Conclusion

The Supreme Court's decision in *Sandeep S. Ghandat v. Reserve Bank of India* provides important clarity on the legal framework governing supersession of Boards of multi-state co-operative banks. By upholding the Bombay High Court's reasoning, the Supreme Court has confirmed that Section 36AAA read with section 56 of the BR Act continues to apply to multi-state co-operative banks notwithstanding the general six-month rule contained in Article 243ZL of the Constitution of India. The third proviso to Article 243ZL of the Constitution of India preserves the operation of the specialised banking regulatory framework, allowing the RBI to exercise its statutory power of supersession for an aggregate period of up to five years.

More importantly, the judgment establishes that the RBI's power does not come to an end merely because the original elected tenure of the Board expires. Once validly superseded, the Board ceases to exercise its functions and the Administrator continues to manage the co-operative bank until the expiry of the permissible period of supersession. The five-year aggregate limit operates as the statutory safeguard against indefinite displacement of democratic governance. The Court's interpretation therefore attempts to balance two competing interests: the democratic and autonomous character of co-operative institutions on one hand, and the need for effective depositor protection and financial stability on the other.

²⁴ *Sandeep S. Ghandat v. Reserve Bank of India*, MANU/MH/6968/2024, ¶¶ 78–89; Banking Regulation Act, No. 10 of 1949, §§ 36AA, 36AAA (India).

²⁵ *Sandeep S. Ghandat v. Reserve Bank of India*, MANU/MH/6968/2024, ¶¶ 80–89.

Ultimately, *Ghandat* demonstrates that supersession in the banking sector cannot be viewed solely through the lens of corporate or co-operative democracy. A co-operative bank performs a financial function involving public confidence and depositor money, which justifies a specialised regulatory framework. The judgment consequently strengthens the RBI's ability to intervene where the statutory conditions are satisfied while retaining legislative safeguards on the duration and manner of such intervention. The decision is therefore significant not merely for co-operative banking law but also for understanding the relationship between the Constitutional governance, statutory regulatory powers, financial stability and judicial restraint.