# Regulatory Challenges in Urban Co-operative Banks

I am really happy and privileged to be here to share some of my thoughts on Regulatory Challenges in Urban Co-operative Banks.

The Co-operative Banks were brought under the fold of the Banking Regulation Act in 1966 by the introduction of a separate section (Section 56), there have been regular steps taken by RBI by appointing committees from time to time and addressing the issues through acceptance of recommendations of these committees. The formation of the Maharashtra Urban Co-operative Banks' Federation Ltd, Mumbai in 1979 and its active interventions have helped in solving many issues of the sector.

Recommendations of the Madhav Das Committee (1978), the Marathe Committee (1999) and their acceptance by RBI have removed many angularities. These steps significally helped the urban banks to groom at a rapid pace during the eighties and the nineties.

Introduction of all the prudential norms were made to urban co-operative banks. During the last fifteen years most of the urban cooperative banks have internalized the basic concepts of the prudential norms and are also complying with all the related provisions fairly satisfactorily.

However, some highly visible indiscretions committed by a handful of banks during the last 8 years have brought about serious erosion in the confidence level of the depositors in the sector. A combination of factors like lack of professional approach and commitment on the part of the Board and Management in some cases wrong intensions, lack of appreciation of prudential practices of banking and sometimes certain local factors like factionalism and political bureaucratic interferences could not be the main reasons attributable to the state of affairs.

Development in the wake of some of these failures prompted RBI to take a series of measures to tighten controls and ensure better compliance of its Directives and Instructions in the last five years.

Amongst the steps taken by RBI in last one decade:-

a) Imposition of ban on all types of loans to the Directors of the banks and their relatives and to organizations in which the directors/ relatives have interest.
b) Introduction of 90 days impairment norms to all loans above Rs. 100000/-

c) Compulsory investment of SLR funds in Government securities as against the earlier freedom of investing them with State / District Central Co-operative Banks.
d) Introduction of compulsory concurrent audit and also designation of compliance officers in respect of audit and inspection report comments.
e) Setting up of Audit Committees, ALM Committees in all the banks.
f) Introduction of all the disclosure norms for the balance sheets of UCBs that are applicable to commercial banks.
g) Strict prohibition of UCBs undertaking financing operations in sensitive sectors like stockbrokers and builders etc.
h) Monitoring of investment of Urban co-operative banks and imposition of clear and strict rules regarding sale, purchase, and trading of Govt. securities.

Of late, RBI in its anxiety to see that the Indian Banking Industry catches up with the international banking norms and with its focus on risk based supervision has been reacting rather strongly to every development in the co-operative banking sector.

This could spell trouble for a number of small urban banks that have the potentially to improve and to be of use to the local community in which they are operating. A few of the difficulties are illustrated below.

1) Branch Licensing Norms for Primary (Urban) Co-op. Banks-Liberalization

2) 180 days NPA norms instead of 90 days for loans for all banks (Tier-I and tier-II ) irrespective of size.

3) Increasing ceiling on Unsecured advances.

4) Nanded district Central Co-operative Bank Ltd., Nanded
Directions issued under Section 35 (A) of BR Act 1949 (AACS) Relaxations there of.-

5) Exposure norms for (i) Housing Finance and (ii) Real Estate Finance
for UCBs

6) Urban Co-operative Banks – Deployment of Funds

7) Additional interest on Deposits of Disabled / handicapped persons

8) Scheduling of UCBs

9) To extend membership of RTGS & NEFT facilities with RBI to Grade-I and Grade-II Banks irrespective of Net Worth and NDS membership to non-scheduled Urban co-op. Banks.

10) Revision of Individual Housing Loan Limits-

11) Delay in up gradation of Banks in Rehabilitation:

12) Default in Maintenance of CRR/SLR- Waiver of penal interest imposed on Urban Co-operative Banks by RBI

<u>Conclusion:</u>

Urban Co-operative Banking has come of age and these banks need to be steered gradually towards greater maturity. Too many restrictions could sent many banks into oblivion,. However, the fact remains that they are catering to a specific segment and the credit gap for this segment will only widen if the urban co-operative banking sector shrinks or is deliberately not allowed to grow.

The UCBs notwithstanding of a few abbreviations witnessed here and there are institutions which require support of the RBI and the Govt. in carrying out their business smoothly.

The UCBs all over India are passing through major transmission phase and the resultant turmoil as they strive to adopt to a new economy and the new regulatory regime. The UCBs have been expressing their fears and anxieties continuously in the past Madhavpura situation in which for the wrong doing and incept handling in a few co-operative banks even the stronger UCBs which can measure and match up to the major nationalized and other commercial banks and private sector banks in terms of their sound financials have not been allowed to expand due to severe restrictions.

In a shadow of sluggishness in the Indian Economy and cut throat competition between international companies and the Indian companies, the RBI should take sympathetic view in extending relaxations to UCBs, particularly, in the areas of adhering to the guidelines of non-performing assets, interest recognition, asset classification provisioning and other related matters.

UCBs should not be made to suffer just because the policies declared were not practical when UCBs are playing an important role in upgrading and developing the economically backward strata of the society, they should not be kept under strict policies and controls, otherwise, the required development of the society may not be achieved.

We are not against accepting the banking reforms in order to improve our banking system to compete the global level. However, the role of foreign banks, Nationalised banks, private banks and co-operative banks should be strengthen in such a way that with strengthening of banking movement, our co-operative banks will also survive. As UCBs cannot digest some of the reforms at this stage a reasonable period should be given to them to absorb the implications of such reforms.

The RBI must be reasonable, logical and practical in its approach to UCBs. Its praise of the sector must be in spirit not only in words.

RBI must adopt a "nursing" approach, not a surgical approach and the patient must be faithful to medicines, diet and exercise prescribed.

(Arvind G. Deshpande)
Chief Executive & Secretary
The Maharashtra Urban Co-operative Banks' Federation Ltd; Mumbai