

Business Standard

Urban cooperative banks to get umbrella body for liquidity support

The organisation, an NBFC, will have authorised capital of Rs 500 crore

Namrata Acharya | Kolkata October 10, 2019 Last Updated at 16:00 IST



Urban cooperative banks (UCBs) are expected to have an umbrella organisation for liquidity support and self-regulation, by the end of this financial year.

While there has been talk of having such an organisation for some time, the recent fraud at Punjab and Maharashtra Cooperative (PMC) Bank

has given the matter a move on.

The fraud, estimated at close to Rs 4,355 crore, has put depositors in uncertainty.

“One of the objectives of the organisation would be to provide liquidity to banks in crisis situations,” said Subhash Gupta, member secretary and chief executive, National Federation of Urban Cooperative Banks and Credit Societies (NAFCUB).

The umbrella organisation, which will be a non-banking financial company (NBFC), will have Rs 500 crore as authorised capital, while its paid-up capital would be Rs 300 crore, said Gupta.

Urban banks and their federations will contribute to it.

At the end of 2017-18, the collective net profit of about 1,551 UCBs was close to Rs 4,062 crore, and stronger banks are likely to be major contributors to the initiative.

“We are in the process of getting the registration done, after which we will seek an NBFC licence. The NBFC should be in place by the end of this financial year,” said Gupta.

Self-regulation includes governance and internal control.

FINANCIAL HEALTH OF UCBs

(at the end of March 2018)

1,551 Number of UCBs

₹4,062 crore Collective net profit (FY18)

₹12,970 crore Capital

7.10% Gross NPA

0.74% Return on assets

8.65% Return on equity

Source: RBI

The Reserve Bank of India (RBI) a few months ago gave permission for the umbrella organisation. However, the federation requires an NBFC licence from the RBI.

Between 1993 and 2004, the RBI followed a liberal licensing policy for UCBs, which resulted in a proliferation in the number of UCBs. Their poor financial health prompted the regulator to conceive a Vision Document in 2005. Subsequently mergers and exits reduced the number of UCBs from 1,926 in March 2004 to a little more than 1,500 in March 2017, with Maharashtra accounting for the highest number of mergers, followed by Gujarat and Andhra Pradesh.

At the end of March last year, there were 1,551 UCBs, of which about 54 were scheduled ones.

Earlier, RBI had given the option of converting UCBs into small finance banks, but UCBs have turned down the proposal.

At present, UCBs are under the dual control of state governments and the RBI, which is also a reason for uneven regulation. Top bosses in UCBs are selected through election, often governed by political factors. This is unlike banks, where professionals are handpicked.

Experts are in favour of undivided supervision by the RBI.

The idea of setting up an umbrella organisation was broached in 2006 by a working group of the RBI under N S Vishwanathan. A high-powered committee for UCBs under R Gandhi stressed it again in 2015.