Finance ministry may get a say in oversight of co-op banks

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The government is planning to amend the Banking Regulation Act and the Co-operative Societies Act to bolster the regulatory oversight of urban cooperative banks (UCBs).

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The finance ministry will likely have an important say in the oversight of urban co-operatives that are effectively functioning like banks, as the ongoing crisis at Punjab and Maharashtra Co-operative (PMC) Bank has forced authorities to overhaul the rules and regulations governing such entities, an official source told FE.

The government is planning to amend the Banking Regulation Act and the Co-operative Societies Act to bolster the regulatory oversight of urban cooperative banks (UCBs). Currently, such co-operatives are usually regulated jointly by the Reserve Bank of India (RBI) and states.

Some other steps that are being deliberated upon are installing professional management at urban co-operative banks and turning them into commercial banks, if they so wish, once their businesses breach Rs. 20,000 crore each, according to the source. However, those large co-operatives not willing to convert into banks may still continue to run as co-operatives but they will have to be subject to stricter regulatory and supervisory guidelines. These measures are in sync with the recommendations of an RBI panel under the then deputy governor R Gandhi in 2015.

The source quoted earlier said: “Deliberations on the amendments are still on. They will be finalised soon. But the basic idea is to strengthen the regulatory system in such a manner that any potential sign of stress or fraud in a co-operative bank can be detected early. Moreover, in case a crisis occurs, the regulatory system must have been adequately empowered to tackle it swiftly before it flares up and takes a toll on stakeholders, especially depositors.” At present, the boards of directors of co-operatives are usually appointed on the basis of election by their shareholders, unlike banks that are professionally managed. That’s why the functioning of co-operatives remains opaque and early signs of trouble are barely visible to stakeholders outside a coterie of the key management people. As per the Gandhi panel recommendation, in case an urban co-operative with business in excess of Rs. 20,000 crore doesn’t want to convert into a bank, ‘it will be subject to the regulatory guidelines requiring that the types of businesses that they undertake remain within the limits of plain vanilla products and services and their growth will be at a much slower pace’.

“Their expansion in terms of branches, area of operations and business lines may thus be carefully calibrated to restrict unrestrained growth,” the panel had suggested. The co-operative structure suffered a major crisis of confidence when the Madhavpura Cooperative Bank scam took place in FY02. There are 1,550-odd urban cooperative banks across the country, with total deposits of about Rs. 4.6 lakh crore. Usually, these UCBs are divided into two tiers based on their area of operation. Although just 31% of the UCBs belong to the tier-2 category, they make up for roughly 87% of their total deposits and similar percentage of advances.