

Relief for depositors: Ordinance brings cooperative banks under RBI supervision

Our Bureau New Delhi | Updated on June 24, 2020 Published on June 24, 2020

1



Union Minister Prakash Javadekar

This picture is used for representational purpose only. - Reuters

Cabinet also approves 2% subvention for 'Shishu' mudra loans

The Union Cabinet on Wednesday approved an ordinance to bring Urban Cooperative Banks (UCBs) and multi-state cooperative banks (MSCBs) under RBI's supervision.

This decision to bring these banks under the RBI supervision process applicable to scheduled commercial banks will give added protection and comfort to depositors of the UCBs and MSCBs, Prakash Javadekar, Union Information & Broadcasting Minister, told a press conference after the Cabinet meeting.

“Depositors will get protection and benefit out of this,” he said.

As on date, there are 1,540 UCBs and MSCBs in India with customer base of 8.6 crore and deposits of nearly ₹5 lakh-crore.

Shishu loans

Meanwhile, in another significant decision, the Union Cabinet approved a scheme for interest subvention of 2 per cent to Shishu loan category borrowers under the Pradhan Mantri Mudra Yojana outstanding as on March 31, for a period of 12 months to eligible borrowers.

Javadekar said that over 9 crore small loans will get 2 per cent subvention and this is important in this hour of crisis.

Mudra loans are designed to bring enterprises into the formal financial system. They are available to non-farm micro or small enterprises engaged in income generation through manufacturing, trading and services. Shishu loans are loans that are up to ₹50,000 per borrower.

Coop banks

After the Punjab and Maharashtra Cooperative Bank (PMC) crisis — where several small depositors lost their hard earned savings — the government has been looking to strengthen the regulatory framework around cooperative banks.

The Union Cabinet had in February approved an amendment to the Banking Regulation Act to strengthen cooperative banks and avoid PMC Bank-like crisis. However, this Bill could not be cleared in Parliament in the Budget session. Now the government has brought an ordinance to bring the UCBs and MSCBs within the supervisory framework of RBI.

The problem so far was that many depositors in India still think that “cooperative banks” are under the direct supervision of RBI just because they had the name ‘banks’ to such types of entities.

However, the reality was different with very little supervision till date from the central bank, said banking industry observers. Now the latest government move would squarely bring the UCBs and MSCBs under the supervisory net of the RBI.

Some finance industry experts also now wonder whether RBI currently had the “supervisory bandwidth” to supervise 1,540 cooperative banks in the country.

Published on June 24, 2020

A letter from the Editor

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1

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