

**REPORT OF THE
EXPERT COMMITTEE ON LICENSING OF
NEW URBAN CO-OPERATIVE BANKS**

2011



**RESERVE BANK OF INDIA
URBAN BANKS DEPARTMENT
CENTRAL OFFICE
MUMBAI**

**Y.H. Malegam
Chairman
Expert Committee
On Licensing of New
Urban Co-operative Banks**

**Reserve Bank of India
Urban Banks Department
Central Office
Mumbai – 400 018**

August 18 , 2011

Dr. D. Subbarao
Governor
Reserve Bank of India
Mumbai

Dear Sir

I have pleasure in presenting the report of the Expert Committee on Licensing of New Urban Co-operative Banks. I thank you for giving me and the other members of the Committee this opportunity.

As Chairman of the Committee, I would like to place on record my personal appreciation to all the Members who have brought in their rich experience and expertise to the deliberations of the Committee. I also thank the officials of Urban Banks Department and Legal Department for their support.

With regards,

Yours sincerely,


(Y.H. Malegam)

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LIST OF ABBREVIATIONS

AABC	As Applicable to Banking Companies
AACS	As Applicable to Co-operative Societies
AAP	Annual Action Plan
BR Act	Banking Regulation Act, 1949
BR Act, 1949 (AACS)	Banking Regulation Act, 1949 (As Applicable to Co-operative Societies)
BIS	Bank for International Settlement
BLRCC	Branch Level Rehabilitation Review Committee
CAs	Chartered Accountants
CEO	Chief Executive Officer
CGM	Chief General Manager
CGM-i-C	Chief General Manager-in-Charge
CMD	Chairman-cum-Managing Director

CRAR	Capital to Risk-weighted Assets Ratio
CRCS	Central Registrar of Co-operative Societies
CRR	Cash Reserve Ratio
DCCB	District Central Co-operative Bank
EC	Extension Counter
EPN	Entry Point Norm
HPC	High Power Committee
IAS	Indian Administrative Service
GoI	Government of India
IBA	Indian Banks Association
IGNOU	Indira Gandhi National Open University
IT	Information Technology
LAB	Local Area Bank

MoU	Memorandum of Understanding
NAFCUB	National Federation of Urban Co-operative Banks and Credit Societies
NBFC	Non-Banking Finance Company
NPAs	Non-Performing Assets
PCBs	Primary Co-operative Banks
PACS	Primary Agricultural Credit Societies
PCS	Primary Credit Societies
PSBs	Public Sector Banks
PSL	Priority Sector Lending
RBI	Reserve Bank of India
RBI Act	Reserve Bank of India Act, 1934
RCBs	Rural Co-operative Banks
RCS	Registrar of Co-operative Societies
RIDF	Rural Infrastructure Development Fund

RRBs	Regional Rural Banks
SCBs	Scheduled Commercial Banks
StCBs	State Co-operative Banks
SLR	Statutory Liquidity Ratio
SLRRC	State Level Rehabilitation Review Committee
SSI	Small Scale Industry
TAFcUB	Task Force for Co-operative Urban Banks
UBD	Urban Banks Department
UCBs	Urban Co-operative Banks
UO	Umbrella Organisation



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

www.rbi.org.in

EXECUTIVE ORDER

Deputy Governor

Expert Committee on Licensing of Urban Cooperative Banks

It was announced in the Annual Policy Statement 2010-11 to set up a Committee comprising all stakeholders for studying the advisability of granting new urban co-operative banking licences under Section 22 of the Banking Regulation Act, 1949 [as applicable to co-operative societies (AACS)]. As per the announcement made in the Second Quarter Review of Monetary Policy 2010-11, the scope of the Committee was extended to look into the feasibility of an umbrella organisation for the UCB sector. Accordingly, the revised terms of reference of the Committee are as under:

- i) To review the role and performance of UCBs over the last decade and especially since the adoption of VISION document in 2005,
- ii) To review the need for organization of new UCBs in the context of the existing legal framework for UCBs, the thrust on financial inclusion in the economic policy and proposed entry of new commercial banks into the banking space,
- iii) To review the extant regulatory policy on setting up of new UCBs and lay down entry point norms for new UCBs,
- iv) To examine whether licensing could be restricted only to financially sound and well managed cooperative credit societies through conversion route,
- v) To make recommendations relating to the legal and regulatory structure to facilitate the growth of sound UCBs especially in the matter of raising capital consistent with cooperative principles.
- vi) To examine the feasibility of an umbrella organisation for the UCB Sector.
- vii) To examine other issues incidental to licensing of UCBs and make appropriate recommendations.



With the induction of Shri K. Madhava Rao, Retd. IAS, the members of the committee will be as under:

1. Shri Y.H. Malegam	Chairman
2. Shri U. C. Sarangi (Addl Chief Secretary - Home Government of Maharashtra)	Member
3. Dr. S. K. Goel (Principal Secretary - Co-operation Government of Maharashtra)	Member
4. Shri K. Madhava Rao (Retd. IAS)	Member
5. Sri K. Elumalai, Director, IGNOU	Member
6. Shri H. K. Patil (President, NAFCUB)	Member
7. Dr. M. L. Abhyankar	Member
8. CGM-in-charge, UBD,	Member Secretary

3. The Committee will submit its report within six months. Urban Banks Department, Central Office of Reserve Bank of India will provide the necessary secretarial assistance to the Committee.

Shyamala Gopinath
(Shyamala Gopinath)

December 27, 2010

CHAPTER 1

INTRODUCTION

1.1 The Primary Co-operative Banks, commonly known as Urban Co-operative Banks (UCBs) were brought under the provisions of the Banking Regulation Act, 1949 w.e.f. March 1, 1966, and certain provisions (not all) of the Act were made applicable to them. The Act, therefore, for the limited purpose of its applicability to existing co-operative banks and co-operative societies converted into banks is known as "Banking Regulation Act, 1949 (As Applicable to Co-operative Societies)" or in short as "BR Act, 1949 (AACS)". The Reserve Bank of India was vested powers under the BR Act, 1949 (AACS) to regulate and supervise UCBs. However, the regulation and supervision by the Reserve Bank are restricted to certain functions of the UCBs. These functions include mobilization of deposits, granting of loans and advances, investments for the purpose of statutory liquidity, and other banking functions. The remaining functions of the UCBs are regulated and supervised by the Central or State Governments through the Multi-State Co-operative Societies Act, 2002 or the State Co-operative Societies Act of the State concerned.

1.2 There has been a phenomenal growth in the UCB sector since 1966 in terms of number of banks, volume of banking business (deposits plus loans and advances), and geographical outreach. The Reserve Bank has been reviewing the performance of the UCB sector from time to time, and had constituted certain committees and groups in the past to look into the regulatory issues concerning UCBs, including the licensing policy. These committees included Madhava

Das Committee in 1978, Marathe Committee in 1991 and Madhava Rao Committee in 1999.

1.3 The Reserve Bank had, in the past, pursued a fairly liberal licensing policy pursuant to the recommendations of the Marathe Committee, which had suggested dispensing the 'one-district, one-bank' approach to licensing policy and to shift the stance of the policy to assess the 'need and potential' in an area for mobilizing deposits and purveying of credit for a new UCB. Consequently, the Reserve Bank issued as many as 537 licences between May 1993 and March 1999 under the said policy. Thereafter, the Reserve Bank pursued a licensing policy that emphasized the twin criteria of strong start-up capital and impeccable credentials of the promoters including professionalism in management on the recommendations of the Madhava Rao Committee.

1.4 In the year 1993, before the liberalisation of licensing policy, there were 1311 urban co-operative banks (UCBs) having deposits and advances amounting to ₹ 11,108 crore and ₹ 8,713 crore, respectively, which increased to 2104 UCBs with deposits and advances of ₹ 1,03,478 crore and ₹ 61,930 crore, respectively by end-December 2003. After the liberalisation of licensing norms in May 1993, up to June 2001, 823 licences were issued and it was observed that 31 per cent of these newly licensed UCBs became financially unsound within a short period. Accordingly, the Reserve Bank constituted a screening committee consisting of outside experts in June 2001 to examine the applications for licences. The Committee recommended that it should be made mandatory for all newly proposed UCBs to come into being

through a process of graduation from a co-operative credit society on the strength of demonstrated and verifiable track record.

1.5 In the light of the experience and the prevailing financial health of the UCB sector, it was announced in the Annual Policy Statement for the year 2004-05 that the Reserve Bank would consider issuance of fresh licences only after a comprehensive policy on UCBs, including an appropriate legal and regulatory framework for the sector, is put in place and a policy for improving the financial health of the urban co-operative banking sector is formulated early; and no fresh licences have been issued thereafter for organizing new UCBs.

1.6 With a view to improving the financial soundness of the UCB sector, the Reserve Bank has, since 2005, entered into Memoranda of Understanding (MoU) with all State Governments and the Central Government for coordination of regulatory policies and encouraged voluntary consolidation in the sector by merger of non-viable UCBs with financially sound and well managed UCBs. During the last five years, the number of banks in the sector has declined by more than 200 and stood at 1645 as at the end of March 2011. During the same period, there has been an average increase of 11.4 per cent in deposits and an average increase of 11.9 per cent in advances, which was lower than the general industry average. However, mainly as a result of the reduction of 200 UCBs, on account of closure or merger of UCBs, which were financially weak, the share of financially sound banks has also increased from 61.3 per cent as on March 31, 2005 to 81.8 per cent as on March 31, 2011. This could partly be attributed to the fact that the signing of the MoUs has contributed to the improvement in the financial position of the sector.

1.7 Against this backdrop, with a view to increasing the coverage of banking services amongst local communities, it was proposed in the Annual Policy Statement for the year 2010-11 to set up a Committee comprising of all stakeholders for studying the advisability of granting new urban co-operative banking licences under Section 22 of the Banking Regulation Act, 1949 (AACS). Further, as per the announcement made on November 2, 2010 in the Second Quarter Review of Monetary Policy 2010-11, the Committee was advised to look into the feasibility of an umbrella organisation for the UCB sector.

Terms of Reference

1.8 The Committee, called the Expert Committee on Licensing of New Urban Co-operative Banks (Expert Committee) has the following terms of reference:

- (i) To review the role and performance of Urban Co-operative Banks over the last decade and especially since the adoption of vision document in 2005;
- (ii) To review the need for organization of new Urban Co-operative Banks in the context of the existing legal framework for UCBs, the thrust on financial inclusion in the economic policy and proposed entry of new commercial banks into the banking space;
- (iii) To review the extant regulatory policy on setting up of new Urban Co-operative Banks and lay down entry point norms for new Urban Co-operative Banks;

- (iv) To examine whether licensing could be restricted only to financially sound and well managed co-operative credit societies through conversion route;
- (v) To make recommendations relating to the legal and regulatory structure to facilitate the growth of sound Urban Co-operative Banks especially in the matter of raising capital consistent with co-operative principles;
- (vi) To examine the feasibility of an umbrella organisation for the Urban Co-operative Banking Sector; and
- (vii) To examine other issues incidental to licensing of Urban Co-operative Banks and make appropriate recommendations.

Composition of the Committee

1.9 The Expert Committee comprises of the following members:

- | | |
|--|----------|
| 1. Shri Y.H. Malegam
Director
Central Board of Reserve Bank of India
Mumbai | Chairman |
| 2. Shri K. Madhava Rao
Ex-Chief Secretary
Government of Andhra Pradesh
Hyderabad | Member |
| 3. Shri U. C. Sarangi
Additional Chief Secretary
Government of Maharashtra
Mumbai | Member |

- | | | |
|----|--|------------------|
| 4. | Dr. S. K. Goel
Principal Secretary
Government of Maharashtra
Mumbai | Member |
| | | |
| 5. | Shri K. Elumalai
Director
Indira Gandhi National Open University
New Delhi | Member |
| | | |
| 6. | Shri H. K. Patil
President
National Federation of Co-op. Urban Banks
New Delhi | Member |
| | | |
| 7. | Dr. M. L. Abhyankar
Director
Cosmos Co-operative Bank Ltd.
Pune | Member |
| | | |
| 8. | Shri A. Udgate
Chief General Manager-in-Charge
Urban Banks Department, RBI, Central Office
Mumbai | Member Secretary |

Approach

1.10 The Expert Committee held nine meetings in Mumbai and Bengaluru between December 2010 and August 2011. The details are furnished in Annex-I. Secondly, a questionnaire on the terms of reference was circulated among various participants of the Urban Banking Sector and suggestions were sought from them (Annex-II and

Annex-III). Responses were received from 10 Registrar of Co-operative Societies, 9 State Federations, 126 UCBs and 44 Individuals. The Expert Committee also held discussions with the representatives of national and state federations of the urban co-operative banks, Registrars of Co-operative Societies, urban co-operative banks, credit co-operative societies and individuals. The names of such individuals and institutions are furnished in Annex-IV.

Acknowledgements

1.11 The Expert Committee acknowledges the presence of Deputy Governors Smt. Shyamala Gopinath and Shri Anand Sinha, Executive Directors Shri V.K. Sharma and Shri S. Karuppasamy, Chief General Manager Smt. Uma Shankar and Legal Adviser Shri D.N. Tripathi in the meetings and interactions held by the Expert Committee. The secretarial assistance was provided by Shri L.M. Kamble, General Manager, Shri P.K. Arora, General manager, Shri Pankaj Kumar, Deputy General Manager and Shri Amit Kumar, Assistant General Manager, Reserve Bank of India, Urban Banks Department, Central Office.

CHAPTER 2

REVIEW OF GROWTH OF URBAN CO-OPERATIVE BANKING SECTOR

2.1 Urban Co-operative Banks (UCBs) are at the base level in the 3-Tier structure of co-operatives in India and for this reason they are referred to as Primary (Urban) Co-operative Banks. The middle and apex tiers in the co-operative structure are the District Central Co-operative Banks (DCCBs) and the State Co-operative Banks (StCBs) respectively. In view of this hierarchical structure, the DCCBs and StCBs act as higher financing agencies for UCBs. As the names indicate, the DCCBs and StCBs are restricted to the District and State for the purpose of their banking operations (area of operation). This has restricted the geographical growth beyond the District for DCCBs and beyond State for StCBs. On the other hand, the base level banks, i.e. UCBs, have no restrictions on geographical growth. As on March 31, 2011, there were as many as 42 multi-State UCBs and this number is increasing every year. The geographical growth obviously increases the volume of banking business of UCBs. As a result a few of the UCBs have grown bigger than some of the Scheduled Commercial Banks.

2.2 The cause of concern in UCBs mostly relates to non-professional management. This in turn results in relatively weak internal control and risk management systems in the UCBs. Therefore, the incidence of failure of banks in India has been the highest in urban banking sector vis-à-vis other banking sectors. Certain data about this aspect is given in subsequent paragraphs of this chapter. Keeping this concern in view, the Reserve Bank has been reviewing the performance of UCBs

from time to time through departmental reviews, internal working groups and committees consisting external experts. The last such committee was constituted under the chairmanship of Shri K. Madhava Rao (IAS) in 1999 to review the performance of Urban Co-operative Banks and suggest necessary measures to strengthen them. On the basis of recommendations made by this Committee and the developments in 2001, especially in the Madhavpura Mercantile Co-operative Bank Ltd., the Reserve Bank had come-up with a medium term vision document with the following objectives:

- (i) To rationalize the existing regulatory and supervisory approach keeping in view the heterogeneous character of entities in the sector;
- (ii) To facilitate a focused and continuous system of supervision through enhanced use of technology;
- (iii) To enhance professionalism and improve the quality of governance in UCBs by providing training for skill up-gradation as also by including large depositors in the decision making process / management of banks;
- (iv) To put in place a mechanism that addresses the problems of dual control, given the present legal framework, and the time consuming process in bringing requisite legislative changes;
- (v) To put in place a consultative arrangement for identifying weak but potentially viable entities in the sector and provide a framework for their being nurtured back to health including, if necessary, through a process of consolidation; and
- (vi) To identify the unviable entities in the sector and provide an exit path for such entities.

2.3 To achieve these objectives, the approach was to adopt state specific strategy by entering into Memorandum of Understanding

(MoU) with each state government and constitute a Task Force with representatives from Reserve Bank, concerned State Government and National and State Federations of Urban Co-operative Banks. A similar agreement was also entered into with Central Registrar of Co-operative Societies, Government of India, in respect of UCBs registered under the Multi-State Co-operative Societies Act, 2002. The impact of the consultative process has resulted in general improvement in the health of UCBs. The regulatory comfort brought about by MoUs with State Governments has enabled the Reserve Bank to extend additional business opportunities to UCBs including organic growth through new branches. The Reserve Bank has also formed a few internal working groups to examine specific issues concerning UCBs.

Working Group to examine issues relating to augmenting capital of Urban Co-operative Banks (UCBs)

2.4 As announced in the Annual Policy Statement for the year 2006-07 by RBI, a Working Group was constituted to examine the issues relating to treatment of paid-up share capital as core capital including identifying alternate avenues for raising fresh capital by primary (urban) co-operative banks particularly in the light of guidelines on newer instruments issued to commercial banks by RBI. The Working Group under the chairmanship of Shri N. S. Vishwanathan, then Chief General Manager-in-Charge, Urban Banks Department comprised representatives from State Governments, and Urban Co-operatives Banks' Federations. The Working Group's recommendations are discussed in Chapter 6 of this report.

Working Group on Information Technology (IT) Support to Urban Co-operative Banks

2.5 In terms of the Memorandum of Understanding (MoU) signed with the State Governments, the Reserve Bank is committed to facilitate IT initiatives in UCBs. In furtherance of the commitment made under the MoUs, Governor announced in the Mid-term Review of the Annual Policy 2007-08, that *'a working group comprising representatives of the Reserve Bank, State Governments and the UCBs sector' would be constituted 'to examine the various areas where IT support could be provided by the Reserve Bank.'* Accordingly, a Working Group was constituted under the chairmanship of Shri R. Gandhi, then Chief General Manager-in-Charge, Department of Information Technology, RBI and members drawn from State Governments, Urban Co-operative Banks, other Departments of Reserve Bank and Urban Co-operative Banks' Federation. The group observed diversity in level of IT uses in UCB sector and considered the various issues involved in computerization of UCBs and support required for the same. Considering the concentration of small UCBs, the lack of uniformity in the levels of computerization and inadequate awareness about the efficacy of computers in enhancing competitiveness, the Group recommended that it is necessary to articulate the minimum IT infrastructure which should exist in each UCB regardless of its size, location or profitability. This minimum level of IT infrastructure should include the following:

- (a) Computerized front-end i.e. customer interface;
- (b) Automatic backend accounting (through software);
- (c) Computerized MIS reporting; and
- (d) Automated regulatory reporting

The group also deliberated on the delivery mechanism. It recommended that financial support should not be given in the form of a grant or subsidy but should be in the form of an interest free loan. The interest free loan by the RBI or NABARD could be routed through IDRBT which would provide technical support. We are informed that while IDRBT has not provided technical support as suggested by the Group, the NAFCUB has taken the initiative and requested RBI to arrange for financial support, and as per RBI's advice, NAFCUB has now submitted its proposal to NABARD for financial support to UCBs under the Financial Inclusion Technology Fund, and it is under consideration of NABARD.

Umbrella Organization for Urban Co-operative Banks

2.6 There are a large number of Primary (Urban) Co-operative Banks (UCBs) in the country forming a heterogeneous group in terms of size and spread. Many of these banks are very small in size and reach. They compete with larger participants in the same banking space. Over the years, a number of UCBs have become weak and non-viable thus posing systemic risk to the UCB sector. They lack avenues for raising capital funds since they cannot go in for public issue of shares nor can they issue shares to members at a premium. At the same time, there are a number of UCBs in the sector that are financially strong and viable. There is, therefore, need for some sort of co-operative bonding and mutual support system, which could make the sector strong and vibrant. Looking at various successful federal models internationally, especially in Europe and USA, where the growth of Umbrella Organizations has been through a process of evolution along with that of the co-operative banks/credit unions, a need was felt for an umbrella organization that will be in a position to channelize their

resources, aggregate their needs and also lend credibility through mutual support in the financial market. A Working Group constituted to examine issues relating to augmenting of capital of primary (urban) co-operative bank (UCBs) had also observed that it may be necessary to facilitate emergence of umbrella organizations for UCBs to enhance public confidence in the sector. In this backdrop, a Working Group was constituted under the chairmanship of Shri V. S. Das, Executive Director to suggest measures including the appropriate regulatory and supervisory framework, to facilitate emergence of umbrella organization(s) for the UCB sector taking into consideration the international experiences and systems and also to suggest modalities for setting up an appropriate mutual assistance / revival fund for urban co-operative banks and the nature of support that could be provided by such fund. The Expert Committee's observations and recommendations in this regard are discussed in Chapter 7 of this report.

Review of Growth of Urban Co-operative Banking Sector

2.7 While reviewing the progress made by the urban co-operative banks during the last 10 years, it was observed that the performance has by and large been satisfactory (Table-2.1). Though there has been reduction in the number of UCBs from 2004 onwards, the total banking business (deposits plus advances) of UCBs has shown steady increase signifying that the banks have been able to garner more business.

Table-2.1: Performance of UCBs – Deposits and Advances

As on March 31	No. of UCBs	Deposits (₹ Crore)	Advances (₹ Crore)
2001	1618	80840	54389
2002	1854	93069	62060
2003	1941	101546	64880
2004	1926	110256	67930
2005	1872	105021	66874
2006	1853	114060	71641
2007	1813	121391	79733
2008	1770	138496	88981
2009	1721	158733	97918
2010	1674	182862	110303
2011	1645	209949	135104

Note: Provisional data as on March 31, 2011 is based on OSS statements.

Market Share of Urban Co-operative Banks in Total Banking Sector

2.8 The business growth of UCBs was not, however, commensurate with the overall growth in the banking sector. There has been a gradual fall of the share of UCBs' business in the overall business of the banking sector (Table-2.2). Despite the presence of large number of UCBs, their share in the total deposits and advances of the banking sector is insignificant and the share is reduced year after year. From the market share of 6.3 per cent as on March 31, 2001, it had reduced to 3.5 per cent as on March 31, 2010. This reflects to a large extent the effect of

the policy of not permitting UCBs, including the healthy and well managed ones, to open new branches for six years contributing thereby to their inability to garner their share in the growing economy.

Table-2.2: Market Share of Urban Co-operative Banks in Banking Business in Banking Sector

(In Percentage)

As on March 31	UCBs	DCCBs & State CBs	RRBs	Commercial Banks
2001	6.3	7.2	2.9	83.6
2002	6.4	7.2	3.0	83.4
2003	6.3	7.0	3.0	83.7
2004	5.8	6.6	3.1	84.5
2005	5.3	6.3	3.1	85.3
2006	4.6	5.4	2.9	87.2
2007	4.0	4.7	2.7	88.6
2008	3.7	4.1	2.7	89.5
2009	3.4	3.9	2.6	90.1
2010	3.5	3.7	2.7	90.1

2.9 It may be observed from the Table-2.3 that despite the fact that the UCB sector has the maximum number of entities as compared to any other group, its market share continues to be meagre. This is to be seen in the light of the fact that almost half of the UCBs are unit banks and the total number of branches of the 1674 UCBs as at March 31, 2010 is around 7900 branches as against over 77000 branches of just 83

scheduled commercial banks. Another reason may be that due to the poor capital base of UCBs, coupled with individual and group credit exposure ceilings they are not in a position to lend high value advances. The other reason could be that the clientele of these banks is mainly confined to the lower and middle strata of the society.

Table-2.3: Market share of Urban Co-operative Banks in Banking Sector as on March 31, 2010

Urban Co-operative Banks	Rural Co-operative Banks	Regional Rural Banks	Scheduled Commercial Banks
1674 Banks	401 Banks	82 Banks	83 Banks
Share in Total Deposits (In %)			
3.5	3.7	2.7	90.1
Share in Total Loans and Advances (In %)			
2.9	3.8	2.1	91.2

Profitability Indicators

2.10 The performance of the UCB sector other than in the area of market share is comparable with the performance of the Scheduled Commercial Banks (Table-2.4). The Net Interest Margin (NIM) of the UCB Sector is slightly better than that of the Scheduled Commercial Banks. But the Return on Assets (RoA) is significantly low. The low Return on Assets could be probably due to the restricted earning avenues available to the sector and consequently the less diversified activities undertaken by them. Though the cost of deposits of the UCB sector is generally high, the NIM and RoA of UCBs is not significantly lower than as compared with other groups in the banking industry.

**Table-2.4: Return on Assets and Net Interest Margin –
Scheduled Commercial Banks (SCBs) vis-à-vis
Urban Co-operative Banks (UCBs)**

(In Percentage)

Year ended 31st March	All SCBs (Excluding Regional Rural Banks)		All Scheduled UCBs		All UCBs	
	Return on Assets	Net Interest Margin	Return on Assets	Net Interest Margin	Return on Assets	Net Interest Margin
2005	0.97	3.08	0.47	2.03	NA	NA
2006	0.96	3.04	0.85	2.31	NA	NA
2007	1.05	2.86	0.74	2.30	0.75	2.89
2008	1.12	2.58	1.24	2.76	0.89	2.86
2009	1.13	2.62	1.07	2.92	0.82	3.13
2010	1.05	2.55	0.68	2.48	0.68	2.85

NA – Data Not Available

Source: Report on Trend and Progress of Banking in India

Return on Assets = Net Profits/ Average Assets

Net Interest Margin = Net Interest Income (i.e. Interest Income - Interest Expenses) / Average Assets

Asset Quality

2.11 Along with profitability, the general health of the UCB sector has also improved. This can be seen from the increasing number of banks in Grade I and II (Table-2.5) especially after the process of signing of MoUs with the Central and State Governments and continuous reduction in the gross and net NPAs of the sector. As on March 31, 2004, the share of Grade I and Grade II banks out of total

UCBs was at 61.6 per cent, which increased significantly to 81.8 per cent as on March 31, 2011. Similar improvement is observed in the quality of assets of the UCBs along with their compliance with the prescribed regulatory capital requirement (CRAR).

Table-2.5: Grade-wise Distribution of Urban Co-operative Banks

Year Ended 31st March	Total No. of UCBs	UCBs in Grade I	UCBs in Grade II	UCBs in Grade III	UCBs in Grade IV	Gross NPAs (%)	Net NPAs (%)	UCBs with CRAR < 9%	UCBs with CRAR > 9%
2003	1941	997	944			19.0	NA	NA	NA
2004	1926	880	307	529	210	20.7	12.1	NA	NA
2005	1872	807	340	497	228	23.4	12.3	NA	NA
2006	1853	716	460	407	270	19.4	8.8	NA	NA
2007	1813	652	598	295	268	17.3	8.8	317	1496
2008	1770	747	527	258	238	16.0	7.7	313	1457
2009	1721	845	484	219	173	13.3	6.1	237	1484
2010	1674	879	465	179	151	11.8	4.7	230	1444
2011	1645	845	502	172	126	NA	NA	141	1504

Notes: (1) CRAR was made applicable to UCBs from 2002 onwards in a phased manner.

(2) Gradation system was made applicable from 2003 onwards. Prior to 2003, UCBs were classified as weak and sick instead of Grade III and IV.

(3) NA = Data Not Available

Geographic Distribution

2.12 Table 2.6 shows the geographic distribution of UCBs. It indicates that UCBs are concentrated in five states, namely Andhra Pradesh (6.4%), Gujarat (14.8%), Karnataka (16.9%), Maharashtra (32.8%) and Tamil Nadu (7.8%) which collectively account for 78.7 per cent of all UCBs.

**Table-2.6: State-wise and Grade-wise Distribution of
Urban Co-operative Banks as on March 31, 2011**

Sl. No.	State	Grade I	Grade II	Grade III	Grade IV	Total UCBs
1	Andhra Pradesh	52	45	5	4	106
2	Assam	4	3	1	0	8
3	Bihar	2	1	0	0	3
4	Chhatisgarh	7	3	2	0	12
5	Gujarat	60	155	11	17	243
6	Goa	3	2	0	1	6
7	Haryana	1	4	0	2	7
8	Himachal Pradesh	3	1	0	1	5
9	Jammu & Kashmir	3	0	0	1	4
10	Jharkhand	2	0	0	0	2
11	Karnataka	112	108	35	13	268
12	Kerala	41	12	5	2	60
13	Madhya Pradesh	16	17	13	6	52
14	Maharashtra	301	105	78	55	539
15	Manipur	1	1	1	0	3
16	Meghalaya	3	0	0	0	3
17	Mizoram	0	1	0	0	1
18	New Delhi	12	1	2	0	15
19	Orissa	2	3	5	2	12
20	Puducherry	1	0	0	0	1
21	Punjab	1	3	0	0	4
22	Rajasthan	32	4	1	2	39
23	Sikkim	1	0	0	0	1
24	Tamil Nadu	107	18	1	3	129

25	Tripura	0	1	0	0	1
26	Uttarakhand	3	2	0	0	5
27	Uttar Pradesh	46	9	7	8	70
28	West Bengal	30	2	5	9	46
Total		845	502	172	126	1645

Deposits

2.13 Table 2.7 gives the deposit-wise and grade-wise distribution of UCBs. It indicates that though the number of UCBs in Grade I and II across all the deposit ranges were significantly high (above 80%), except in the deposit category of less than ₹ 10 crore where it was only 64 per cent indicating the lower viability and greater vulnerability of smaller banks.

Table-2.7: Deposit-wise and Grade-wise distribution of Urban Co-operative Banks as on March 31, 2011

Deposit Size (₹ in crore)	Grade I	Grade II	Grade III	Grade IV	Total No. Of UCBs
<10	84	108	63	44	299
10 to 25	213	141	39	28	421
25 to 50	179	87	32	21	319
50 to 100	138	69	19	16	242
100 to 250	130	55	15	4	204
250 to 500	57	25	1	7	90
500 to 1000	26	9	2	4	41
1000 to 5000	15	7	1	2	25
>= 5000	3	1	0	0	4
Total	845	502	172	126	1645

Note: The data is furnished on the basis of information available in the OSS system

2.14 Table 2.8 indicates a similar distribution based on CAMELS ratings. The number of UCBs in Rating A and Rating B category is higher as compared to the banks in C and D Ratings. However, the A and B Ratings do not strictly correspond to Grades I and II category primarily because rating is done on more granular basis. It also takes into consideration the relative performance in the previous year. Nonetheless, the share of A and B rated banks having deposits below ₹ 10 crore is still lower than banks in other deposit categories.

Table-2.8: Deposit-wise and CAMELS Rating-wise Distribution of Urban Co-operative Banks as on March 31, 2011

Deposit size (₹ crore)	Rating A	Rating B	Rating C	Rating D	Total No. of UCBs
<10	26	88	124	61	299
10 to 25	68	184	136	33	421
25 to 50	56	138	100	25	319
50 to 100	39	106	75	22	242
100 to 250	40	91	68	5	204
250 to 500	22	40	22	6	90
500 to 1000	12	16	9	4	41
1000 to 5000	10	9	5	1	25
> = 5000	2	1	1	0	4
Total	275	673	540	157	1645

2.15 Table 2.9 gives the leverage ratio of UCBs according to deposit size. This also indicates that UCBs with a higher deposit base are able to achieve a lower leverage ratio. While this indicates that small banks lack the ability to mobilize more deposits, this does not pose a regulatory concern since they do not have an over-leveraged position.

**Table-2.9: Deposit-wise and Leverage Ratio-wise
Distribution of Urban Co-operative Banks as on March 31, 2011**

Deposit size (₹ crore)	No. of Banks	Leverage Ratio (%)
<10	299	13.6
10 to 25	421	8.9
25 to 50	319	9.9
50 to 100	242	6.5
100 to 250	204	5.2
250 to 500	90	4.3
500 to 1000	41	3.3
1000 to 5000	25	1.1
>=5000	4	0.4
Total	1645	4.4

Notes: (1) The data is furnished on the basis of information available in the OSS system (Special Form IX).

(2) Leverage Ratio is calculated as percentage of “capital and reserves” to “total assets”.

2.16 Table 2.10 gives the deposit size-wise distribution of UCBs. This also shows that the four largest UCBs account for 17.4 per cent of the total deposits of the UCB sector while 1040 UCBs having a deposit base of up to ₹ 50 crore and constituting 63 per cent of the total number of UCBs have an aggregate deposit base which constitutes only 9.6 per cent of the total deposit base of the UCB sector.

**Table-2.10: Deposit Size-wise Distribution of
Urban Co-operative Banks as on March 31, 2011**

Deposit Size (₹ Crore)	No. of UCBs	No of banks (% to total)	Deposits (₹ Crore)	Deposits (% to total)
> 5000	4	0.2	36514	17.4
1000 < 5000	25	1.5	46340	22.1
500 < 1000	41	2.5	28889	13.7
250 < 500	90	5.5	29561	14.1
100 < 250	204	12.4	31518	15.0
50 < 100	242	14.7	17110	8.1
25 < 50	319	19.4	11289	5.4
10 < 25	421	25.6	7093	3.4
< 10	299	18.2	1635	0.8
Total	1645	100.0	209949	100.0

Asset Size

2.17 Table 2.11 gives the distribution of UCBs by assets size. This shows that only 2.5 per cent in number of UCBs account for 45 per cent of the total asset size of UCBs, while 933 UCBs having an asset size of up to ₹ 50 crore and constituting 57 per cent of the total number of UCBs account for only 7.4 per cent of the total asset size of UCBs.

Table-2.11: Deposit-wise and Asset-wise Distribution of Urban Co-operative Banks as on March 31, 2011

Assets Size (₹ crore)	No. of Banks	No. of banks (% to total)	Assets (₹ crore)	Assets (% to total)
A > 2000	15	0.9	81681	31.1
1000 < 2000	26	1.6	36411	13.9
500 < 1000	50	3.1	35397	13.5
250 < 500	102	6.1	33677	12.8
100 < 250	233	14.4	36021	13.7
50 < 100	287	17.4	19991	7.6
25 < 50	326	19.8	11528	4.4
15 < 25	223	13.7	4837	1.9
< 15	383	23.0	2990	1.1
Total	1645	100.0	262533	100.0

Advances

2.18 Table 2.12 gives the distribution of UCBs by size of advances. This indicates that 44 UCBs constituting only 2.6 per cent of the total number of UCBs account for 47.4 per cent of the total advances of the sector while 1225 UCBs with advance up to ₹ 50 crore and constituting 74.4 per cent of the total number of UCBs account for only 14.2 per cent of the total advances of the sector.

**Table-2.12: Advance size-wise distribution of
Urban Co-operative Banks as on March 31, 2011**

Advances Size (₹ Crore)	No. of UCBs	No of banks (% to total)	Advances (₹ Crore)	Advances (% to total)
≥1000	17	1.0	45499	33.7
500 ≤1000	27	1.6	18525	13.7
250 < 500	50	3.1	17075	12.6
100 < 250	141	8.6	21925	16.2
50 < 100	186	11.3	12954	9.6
25 < 50	254	15.4	9097	6.7
10 < 25	452	27.5	7347	5.5
< 10	518	31.5	2682	2.0
Total	1645	100.0	135104	100.0

Capital Adequacy

2.19 Table 2.13 gives the state-wise distribution of UCBs in terms of capital adequacy. It will be seen that a majority of the UCBs (91.3%) now comply with the regulatory prescription of minimum CRAR of 9 per cent. Some of the UCBs which previously had a negative net worth have also reported positive CRAR by raising Tier II capital through innovative instruments like Long Term Deposits permitted by the Reserve Bank of India.

**Table-2.13: State-wise and CRAR-wise distribution of
Urban Co-operative Banks as on March 31, 2011**

State/ Region	No. of UCBs with CRAR Below 3%	No. of UCBs with CRAR 3% and above but < 6%	No. of UCBs with CRAR 6% and above but < 9%	No. of UCBs with CRAR 9% and above but < 12%	No. of UCBs with CRAR ≥ 12%	Total No. of UCBs
Andhra Pradesh	4	1	4	5	92	106
Assam	0	0	0	3	5	8
Bihar	0	0	0	0	3	3
Chhattisgarh	0	0	0	0	12	12
Gujarat	10	5	0	4	224	243
Goa	1	0	0	2	3	6
Haryana	0	0	0	0	7	7
Himachal Pradesh	0	0	0	3	2	5
Jharkhand	0	0	0	0	2	2
Jammu & Kashmir	1	0	0	2	1	4
Karnataka	7	1	5	17	238	268
Kerala	2	1	4	32	21	60
Madhya Pradesh	2	1	1	3	45	52
Maharashtra	37	13	11	80	398	539
Manipur	0	0	0	1	2	3
Meghalaya	0	0	0	0	3	3
Mizoram	0	0	0	0	1	1
New Delhi	0	0	1	1	13	15
Orissa	2	0	1	3	6	12
Pondicherry	0	0	0	1	0	1
Punjab	0	0	0	0	4	4
Rajasthan	2	0	0	5	32	39

Sikkim	0	0	0	0	1	1
Tamilnadu	3	1	3	22	100	129
Tripura	0	0	0	0	1	1
Uttar Pradesh	4	0	1	8	57	70
Uttarakhand	0	0	0	1	4	5
West Bengal	9	1	2	3	31	46
Grand Total	84	24	33	195	1309	1645
Per cent Share	5.2	1.5	2.0	11.9	79.4	100.0

Urban Co-operative Banks with Negative Network

2.20 Table 2.14 gives details of the state-wise distribution of UCBs with negative network. It will be noticed that there has been continuous reduction in banks having negative network mainly due to up-gradation, amalgamation and liquidation.

Table-2.14: Centre-wise details of Urban Co-operative Banks having Negative Network

S. No.	Name of the Regional Office	March 31, 2007	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011
1	Ahmedabad	27	27	20	16	13
2	Bangalore	22	22	12	10	6
3	Bhopal	2	5	2	4	6
4	Bhubaneswar	3	4	3	2	2
5	Chandigarh	2	2	2	1	0
6	Chennai	0	2	3	4	2
7	Dehradun	1	1	0	0	0
8	Guwahati	1	1	1	1	0
9	Hyderabad	8	8	5	5	3
10	Jaipur	0	2	2	2	2

11	Jammu	0	0	0	0	0
12	Kolkata	9	9	9	8	3
13	Lucknow	0	4	4	6	6
14	Mumbai	52	52	33	34	32
15	Nagpur	27	27	17	16	11
16	New Delhi	1	1	0	0	0
17	Patna	0	0	0	1	0
18	Raipur	2	2	2	1	0
19	Thiruvapuram	0	0	0	1	2
	Total	157	169	115	111	88

Licenses Cancelled

2.21 Table 2.15 gives details of banking licenses of UCBs cancelled during the last 12 years. The figures do not include the number of license applications rejected in respect of existing unlicensed banks, whose number came down from 181 in September 1999 to three as on March 31, 2011 (and two as on June 30, 2011). It may be noted that out of the 204 UCBs whose licenses were cancelled or which were merged with other UCBs since the year 2000, 100 UCBs were established after 1993 i.e. after the liberalization in grant of licenses following the recommendations of the Marathe Committee.

Table-2.15: Details of Banking Licenses of Urban Co-operative Banks cancelled during last 12 years*

Year ended March 31	No of licences Cancelled	No of UCBs Merged	TOTAL
2000	4	0	2
2001	0	0	0
2002	0	0	0

2003	4	0	4
2004	25	0	25
2005	5	0	5
2006	8	4	12
2007	22	15	37
2008	23	27	50
2009	19	22	41
2010	22	13	35
2011	2	11	13
2011 _(Till June 30, 2011)	4	3	7
TOTAL	136	95	231

* Provisional data as reported by Regional Offices

Branches

2.22 Table 2.16 gives a state-wise distribution of branches of UCBs categorised by population centres. The data reveals that the UCBs are located in 28 States/Union Territories out of the total 35 States/Union Territories in the country. The seven States/Union Territories where the UCBs do not have presence included (1) Andaman & Nicobar Islands, (2) Arunachal Pradesh, (3) Chandigarh, (4) Dadra and Nagar Haveli, (5) Daman and Diu, (6) Lakshadweep, and (7) Nagaland. The UCBs located in States/Union Territories have not been evenly distributed from the angle of branch network. There are as many as 271 districts (45%) out of the total 604 districts, which are not at all covered by the UCBs' branches in the States/Union Territories, where UCBs are already functioning. There are a few States/Union Territories, (viz; Delhi, Goa, Karnataka, Kerala, and Maharashtra) where all the districts have UCBs' branches.

Table-2.16: State-wise Distribution of Branches of Urban Co-operative Banks - Position as on March 31, 2011

State/ Union Territory	Total UCBs	No. of Branches - Population Centre-wise				Total Branches	Districts Covered	Districts not covered
		A	B	C	D			
1. Andhra Pradesh	106	121	39	43	57	260	21	2
2. Assam	8	16	0	4	2	22	8	20
3. Bihar	3	4	0	0	0	4	2	36
4. Chhattisgarh	12	12	7	3	1	23	8	10
5. Goa	6	5	6	6	49	66	2	0
6. Gujarat	243	433	55	242	123	853	24	1
7. Haryana	7	1	6	10	0	17	7	13
8. Himachal Pradesh	5	0	0	1	9	10	4	8
9. Jammu & Kashmir	4	0	13	0	6	19	6	16
10. Jharkhand	2	1	0	0	1	2	2	22
11. Karnataka	268	201	129	171	334	835	30	0
12. Kerala	60	0	30	35	293	358	14	0
13. Madhya Pradesh	52	43	10	18	19	90	27	23
14. Maharashtra	539	1677	713	941	1171	4502	36	0
15. Manipur	3	0	0	9	1	10	2	7
16. Meghalaya	3	0	0	2	4	6	3	4
17. Mizoram	1	0	0	0	1	1	1	7
18. New Delhi	15	78	0	0	0	78	1	0
19. Orissa	12	23	6	11	6	46	12	18
20. Punjab	4	12	0	6	1	19	4	16
21. Puducherry	1	0	0	1	4	5	1	4
22. Rajasthan	39	37	35	46	83	201	24	9
23. Sikkim	1	0	0	2	1	3	2	2
24. Tamilnadu	129	19	75	0	225	319	33	3
25. Tripura	1	0	0	2	0	2	1	4
26. Uttarakhand	5	0	4	10	47	61	8	5
27. Uttar Pradesh	70	96	35	54	57	242	39	33
28. West Bengal	46	29	9	67	0	103	11	8
Total	1645	2808	1172	1622	2494	8157	333	271

Note:

Category-wise Population Centre:

Centre A: Population over 10 lakh

Centre B: Population five lakh and above but below 10 lakh

Centre C: Population one lakh and above but below five lakh

Centre D: Population below one lakh

CHAPTER 3

ISSUES WHICH NEED TO BE EXAMINED

3.1 The review of the growth of Urban Co-operative Banking given in the preceding chapter highlights the following facts which need attention.

3.2 (a) Heterogeneity is a striking characteristic feature of the UCB structure. Almost half of all branches of UCBs, around 60 per cent of total extension counters and more than 85 per cent of ATMs of UCBs are located in Maharashtra. Of the remaining states, UCBs have a significant presence in Andhra Pradesh, Gujarat, Karnataka, Kerala, Tamil Nadu and Uttar Pradesh and somewhat lower presence in Rajasthan and West Bengal.

(b) Even within the states in which UCBs operate, 45 per cent of districts are not covered by UCBs. There are 14 states where the unbanked districts constitute more than 50 per cent of the total districts in the state.

(c) If we consider centres within states where the population is less than 5 lakh, there are seven states viz. Assam, Bihar, Chattisgarh, Haryana, Punjab, Tripura and West Bengal where the number of branches in such centres is less than 10 per cent of the total number of branches in the state.

3.3 A sound UCB can be assumed to have the following characteristics:

- (i) A CRAR of nine per cent or more;
- (ii) Gross NPAs of less than 10 per cent of gross advances;
- (iii) Continuous record of profits in the last three years; and
- (iv) No defaults in maintenance of CRR and SLR.

Measured by the above criteria as shown in table 2.8 in the preceding chapter, only 57.6 per cent of the total UCBs can be considered as sound UCBs.

3.4 A classification of UCBs by size of deposits shows that UCBs which have deposits of ₹ 100 crore or less constitute 78 per cent of the total number of UCBs but they account for only 17.7 per cent of the total deposits and only 23.8 per cent of the advances of the UCB sector. It also shows that there are only 29 UCBs which have deposits in excess of ₹ 1000 crore but they account for 39.5 per cent of the total deposits and 47.4 per cent of the total advances of the UCB sector.

3.5 UCBs as a class account for only 3.5 per cent of the total deposits and only 2.9 per cent of the total advances of the banking system. Therefore, as many as 1282 UCBs, which have deposits of up to ₹ 100 crore account for only 0.6 per cent of deposits and 0.7 per cent of advances of the banking system.

3.6 UCBs are rated according to their financial and operative performance with Rating A reflecting the soundest UCBs and Rating D the weakest UCBs. When the ratings are related to UCBs grouped by size of deposits, the following picture emerges.

Deposit Size (₹ in crore)	Total No. of UCBs	C & D Rated UCBs	Percentage (3) as % of (2)
(1)	(2)	(3)	(4)
Up to 10	299	185	61.9
10 – Up to 100	982	391	39.8
100 – Up to 1000	335	114	34.0
Over 1000	29	7	24.1
Total	1645	697	42.4

The details in the table above show that the UCBs with larger deposit base are relatively sounder as compared to UCBs with smaller deposit base. The proportion of UCBs falling in Ratings C and D with deposit base up to ₹ 10 crore is 61.9 per cent of the total UCBs with this deposit base. The proportion of UCBs in Ratings C and D reduces significantly along with the increase in deposit base of the UCBs. The overall proportion of UCBs in Ratings C and D is 42.4 per cent of the total UCBs.

3.7 As a result of more vigorous action by RBI and particularly after the establishment of TAFCUBs consequent on MoUs signed with State Governments as many as 194 licences have been cancelled or UCBs merged with other UCBs and 178 unlicensed UCBs whose applications for license had been pending for several years have been issued license or their applications have been rejected. Despite this, there are at present 88 UCBs which have a negative networth with consequent erosion in depositors' funds.

3.8 The above analysis leads to the following conclusions.

(a) There is uneven geographical spread of UCBs with several states, districts and low population centres having inadequate presence of branches of UCBs.

(b) There is a pronounced weakness in the overall UCB structure with a large number of UCBs having financials below the required norms and several UCBs having a negative networth.

(c) Almost one-third of UCBs which have a deposit base of ₹ 10 crore or less have shown less than satisfactory performance and must be considered as providing inadequate safety for depositors.

3.9 (a) A question often asked is “in what way are UCBs different from commercial banks and what the role they play is in the banking system?”

(b) It has been suggested that the essence of the co-operative character of a UCB is that there is a close identity between the owners and the customers. The founding principle of co-operative banking i.e. mutual aid, coupled with the objective to promote thrift and self help have helped to sustain the prominence of UCBs through the years. Though functioning on commercial lines, profit maximization is not the sole objective of UCBs. Rather, their primary objective is the provision of affordable banking facilities to their members and catering to their credit needs.

(c) While the above remains true for most UCBs at their inception, with increase in the size of their operations, the identity between owners and customers is often lost in substance, though it remains in form. Depositors and borrowers are often not existing members who avail of the services but rather those who become members only to comply with the provisions of the Co-operative Societies Acts.

(d) There is, however, one area in which UCBs play a useful role. UCBs are perceived as banks primarily intended for the small man. A large number of their borrowers are persons of small means like small traders, merchants, artisans, industrial workers, street vendors, self-employed skill technicians like carpenters, mechanics etc. An analysis of the advances pattern of UCBs indicates that though advances below ₹ 5 lakh constitute less than 20 per cent in value of the total advances of UCBs, they nonetheless constitute more than 90 per cent of the total loan accounts in number of all loans given by UCBs.

(e) It is also pertinent to note that beginning with 1983, UCBs have been required to maintain a minimum percentage of their aggregate credit in the form of credit to the priority sector. While it was prescribed at 60 per cent initially, it was reduced to 40 per cent of aggregate bank credit beginning March 2009. This target has been generally exceeded by most UCBs except for a few who operate in the North Eastern States and industrially weaker states like U.P. and Rajasthan. In fact the aggregate credit provided by UCBs to the priority sector constitutes 45.9 per cent of the aggregate credit provided by them.

(f) UCBs therefore could be an important element in the programme of financial inclusion. They provide scope and potential for prosperity, self-reliance and empowerment to a vast section of the population who are left out by the commercial banking system. The potential can be best realized if the entry of new UCBs is directed towards those regions where their representation is inadequate and if their governance is strengthened and adequately supervised.

3.10 The responses received from the parties to whom the questionnaire referred to in para 1.10 above was issued may be summarized as under:

(a) There was general appreciation of the improvement in the functioning of UCBs in the last decade and the satisfactory performance of TAFcUBs.

(b) There was almost unanimous agreement on the need to set up new UCBs with a preference for unbanked areas and "C" and "D" category population centres.

(c) While there was unanimity in having a concessional approach towards new UCBs which are proposed to be set up in less developed areas, opinion was divided as regards the exact prescription for entry point capital for such UCBs.

(d) There was unanimity on the need for an Umbrella Organization for the UCB sector.

(e) Almost all the respondents responded positively to the prescription of “fit and proper” persons as CEOs and directors of UCBs and to the recommendation that it should be made a pre-requisite for the issue of licence.

3.11 In the interactive sessions which were held with individuals and institutions referred to in para 1.10 above, the following views were expressed.

(a) The UCBs are an important segment in the banking sector and provide useful service to small and medium strata of society. They also play an important role in financial inclusion as they are more customer-focused.

(b) The concept of separate Board of Management would be effective. However, the operational modalities, role and functions should have more clarity.

(c) Well managed co-operative credit societies meeting certain financial criteria like profits, capital adequacy, NPAs' proportion etc. should be given priority for granting licenses as urban co-operative banks.

(d) Adequate number of professional directors may not be available in C and D category centers, if only Chartered Accountants are considered as professional directors. However, if other professions/expertise as envisaged in Section 10 (B) of the Banking Regulation Act, 1949 are considered, then this may not be a constraint.

(e) Though a lot of scrutiny is done before registration of a co-operative society, not much focused monitoring is done once the society becomes a bank.

3.12 In the opinion of the Committee, therefore, UCBs play a useful role and there is need for a greater presence of UCBs in unbanked districts and in population centres which have population below five lakh. At the same time, it is necessary to ensure that relevant criteria is determined and compliance therewith assured at the entry stage itself to ensure that UCBs which are given licenses will at all times have the characteristics of a sound UCB as defined in paragraph 3.3 above.

CHAPTER 4

THE PROBLEM OF DUAL CONTROL

4.1 (a) UCBs are governed by the respective Co-operative Societies Acts of the States in which they are registered. There are also 42 UCBs which are registered under the Multi-State Co-operative Societies Act, 2002.

(b) UCBs are also governed by the Banking Regulation Act, 1949 and Part V of the Act makes provision for the application of the Act to co-operative banks subject to certain modifications. These modifications provide that several of the powers which the Act gives to RBI for the supervision and regulation of banks are diluted or are denied to RBI when applied to UCBs. These pertain mainly to control over the Board of Directors of UCBs and their management of the affairs of the UCB.

(c) On the other hand, under the various State Co-operative Societies Acts and to a lesser extent under the Multi-State Co-operative Societies Act, the Registrars of Co-operative Societies are vested with significant powers regarding the functioning of the Boards of Directors and the Management of the UCB.

(d) As a consequence, RBI is not empowered to take unilateral action against the management of an erring UCB in case of need and it requires the assistance of the concerned Registrar of Co-operative Societies to take necessary action.

(e) This system of dual control is often claimed to have been one of the important factors responsible for the less than satisfactory performance of several UCBs. The effective regulation and supervisory control of UCBs would warrant that there should be a clearly defined

control system in place whereby the co-operative character of UCBs is controlled exclusively by the Registrars of Co-operative Societies while all the banking functions of the UCB are exclusively controlled by RBI.

(f) Recognizing the conflicts created by this system of dual control, the Vision Document proposed that there should be a strong working arrangement between RBI and the State Governments / CRCS to address the difficulties caused by dual control. Consequently, beginning with 2005, RBI has entered into Memorandum of Understanding (MoUs) with all State Governments to address this problem.

4.2 Under the MoUs, State Governments have agreed to take immediate action on requisition by RBI for supersession of the Board of Directors, appointment of liquidators, initiation of action for removal of CEO / Chairman of a bank, enhancing quality of HR and IT resources on lines required by RBI, work to raise the standards of corporate governance, the institution of special audit by Chartered Accountants when necessary, the introduction of long form reports by auditors, the appointment of Chartered Accountants as Statutory Auditors in respect of larger UCBs and other matters.

4.3 As a part of the MoUs, Task Forces for Co-operative Urban Banks (TAFcUB) have been set up with representation by the State Governments and RBI and these Task Forces are identifying potentially viable and non-viable UCBs and suggesting revival path or non-disruptive exit routes as applicable.

4.4 The advent of TAFcUBs has resulted in significant improvement in the health of the UCB sector as seen by the fact that while on 31 March 2004, 38.4 per cent of the total number of UCBs were in grades

III and IV, by 31st March 2011, this percentage has been reduced to 18.2 per cent.

4.5 While the formation of TAFcUBs has certainly mitigated some of the problems of dual control, the processes still remain cumbersome and time-consuming and prevent RBI from taking timely unilateral action as it can do in the case of commercial banks. Moreover, while the institution of the TAFcUB enables corrective action to be taken, improvement in the functioning UCBs can only be achieved if the persons who manage the affairs of the UCBs are professionally competent, devoid of vested interest and subject to supervision and control.

4.6 (a) The solution, therefore, lies in a segregation of the ownership of the UCB as a co-operative society from its functioning as a bank. While the Registrar of Co-operative Societies would continue to exercise control and regulation of the UCB as a co-operative society, RBI would exercise control and regulation on its function as a bank.

(b) It would, therefore, be necessary to have a new organization structure for UCBs consisting of a Board of Management in addition to the Board of Directors. The Board of Directors would be elected in accordance with the provisions of the respective State Co-operative Societies Acts or the Multi-State Co-operative Act, 2002 and would be regulated and controlled by the Registrar of Co-operative Societies. The Board of Directors would establish a Board of Management (BoM), consisting of persons who have the requisite professional skills, which shall be entrusted with the responsibility for the control and direction of the affairs of the Bank assisted by a Chief Executive Officer (CEO) who shall have the responsibility for the management of the Bank. RBI would have unfettered powers to control and regulate the

functioning of the Bank and of its BoM and of the CEO in exactly the same way as it controls and regulates the functioning of the Board of Directors and the Chief Executive in the case of a commercial bank.

(c) The legal aspects of the above proposition have been examined. The Committee is advised that while it is true that specific provisions relating to regulation of the management of banks under the Banking Regulation Act have been made not applicable to UCBs (particularly Sections 10, 10A, 10B, 10BB, 10C, 10D, 35B, 36AA and 36AB), it is open to RBI, when examining the general character of management of a UCB before granting license under Section 22 of the Act to stipulate conditions relating to formation of Board of Management, fit and proper criteria for the Board and inclusion of professionals in the Board, which are necessary to ensure that the functioning of the Board is not prejudicial to public interest or the interest of depositors. This can be made either as a part of the policy for grant of license to new urban co-operative banks or as a directive issued under Section 35A of the BR Act, 1949 (AACS). If it warrants any changes in the bye-laws, it may be done before applying to the RBI for banking license.

4.7 These propositions are further developed in Chapter 5.

CHAPTER 5

ENTRY POINT NORMS

5.1 In formulating entry point norms, it is necessary to recognize the following considerations:

- (a) The proposed UCB should have adequate capital to ensure the smooth future operations of UCBs.
- (b) In the selection of UCBs to whom licences are to be given, it is necessary to ensure geographic spread to provide the benefits of UCBs in areas where existing presence is inadequate.
- (c) The proposed UCB should have an organizational structure which will promote a healthy development of the sector and facilitate supervision and control.

5.2 UCBs are governed, inter-alia, by the following provisions of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).

- (a) Under Section 11(1), no co-operative bank can commence or carry on banking business in India unless it has a minimum value of paid-up capital and reserves of ₹ One lakh.
- (b) Under Section 22(1), no co-operative society which is a co-operative bank can carry on banking business in India unless it holds a license issued in that behalf by the Reserve Bank, "subject to such conditions, if any, as the Reserve Bank may deem fit to impose."

- (c) Under Section 22(3), the conditions on which the Reserve Bank needs satisfaction before granting a license include, inter alia, the following:
- (i) that the general character of the proposed management of the UCB will not be prejudicial to the public interest of its present or future depositors;
 - (ii) that the UCB has adequate capital structure and earning prospects;
 - (iii) that having regard to the banking facilities available in the proposed principal area of operations of the UCB, the potential scope for expansion of banks already in existence in the area and other relevant factors, the grant of the license would not be prejudicial to the operation and consolidation of the banking system consistent with monetary stability and economic growth; and
 - (iv) any other condition, the fulfillment of which would, in the opinion of the Reserve Bank, be necessary to ensure that the carrying on of banking business in India by the UCB will not be prejudicial to the public interest or the interests of the depositors.

5.3 The Reserve Bank, therefore, has wide discretion in formulating the conditions on which a license can be given to a co-operative society to carry on banking business.

5.4 The question of minimum capital requirement for co-operative banks has been considered by earlier Committees appointed by

the Reserve Bank. Their broad recommendations in this behalf are as under:

- (a) The Marathe Committee recommended entry point share capital ranging from ₹ 5 lakh to ₹ 30 lakh as per population classification of the proposed centre with diluted prescription for banks to be organized in less/least developed states and organized by Mahila, SC/ST promoters.
- (b) The Madhav Rao Committee recommended that entry point capital for new UCBs be on par with peer groups like Local Area Banks and Regional Rural Banks whose clientele are broadly similar to UCBs and recommended entry point capital ranking from ₹ 0.50 crore to ₹ 5 crore for different population categories. The Committee also recommended that quantitative norms like CRAR, tolerance limit for NPAs and operational efficiency should replace qualitative norms for entry. The Committee also recommended relaxation in entry point norms for a period of five years for UCBs operating in less developed areas or exclusively for women or SC/STs.

5.5 As noted earlier, UCBs which have a deposit base of less than ₹ 10 crore have a Grade Classification of III and IV which is almost twice the equivalent classification of UCBs which have a deposit base of between ₹ 10 crore and ₹ 100 crore and almost three times the equivalent of UCBs having a deposit base of more than ₹ 100 crore. It is, therefore, obvious that size is a factor which influences the viability of a UCB and, therefore, it is desirable that the proposed UCB should have the capacity to generate deposits in excess of ₹ 10 crore.

- 5.6** If we assume a credit/deposit ratio of 0.7:1 and a CRAR of 12 per cent, it appears that, to generate deposits of ₹ 10 crore, the proposed UCB should have a net worth of ₹ 0.84 crore. It may, therefore, be desirable that the proposed new UCB should have a minimum Net Worth of ₹ one crore.
- 5.7** It is, however, also necessary to encourage new entrants to open banks and branches in states and districts which are unbanked or inadequately banked and in centres which have a population of less than 500,000. It is equally necessary to discourage new entrants from opening branches in districts and population centres which are already adequately banked. It may, therefore, be desirable to relax the minimum Net Worth requirements for proposed UCBs which intend to operate mainly in unbanked states/districts and/or in centres which have a population of less than 500,000 and to increase the minimum Net Worth requirements for proposed UCBs which intend to operate in other centres.
- 5.8** A distinguishing feature of a UCB is that because of its co-operative nature and its constitution, it should maintain a close identity between its members and its customers. This identity gets loosened as the area of operation of the UCB expands. It may, therefore, be desirable that at least initially the operations of the UCB should be confined to one state only. However, as growth is a necessary feature of a bank's sound operation, new UCBs should be allowed to operate on a multi-state basis after some years of profitable operation. When existing credit societies having multi-state operations are given a license to

become a UCB, their operations need not be confined to one state only.

5.9 Having regard to the above considerations, the Committee recommends the following entry point norms as regards minimum capital for new UCBs:

Sr.No.	Particulars		Minimum capital
(a)	UCB operating in only one state in		₹ 50 lakh
	(i)	North Eastern States	
	(ii)	In other States but confined to unbanked districts	
	(iii)	In other States but confined to 'C' and 'D' category population centres of banked districts	
(b)	UCB operating in only one State with 50% or more branches in 'C' and 'D' category population centres		₹ 100 lakh
(c)	UCB operating in only one State but without requirement to have branches in 'C' and 'D' category population centres		₹ 300 lakh
(d)	UCB which wishes to operate in more than one state after five years of successful operation		₹ 500 lakh

Notes: (1) In respect of existing co-operative credit societies opting to be converted in to UCBs, the minimum capital required will be as per the norms stipulated in the above table or as per the RBI's per branch head room capital prescription, whichever is higher.

(2) Unbanked District means a district without any existing UCB.

5.10 For the reasons mentioned earlier, we would recommend that it should be made a condition of the license that every new UCB should be required to have a Board of Management (BoM) to be appointed by the Board of Directors (BoD) and a Chief Executive

Officer (CEO) to be appointed by the BoM. The relationship between the BoD and BoM would be similar to the relationship between a Supervisory Board and an Executive Board as is widely prevalent in many co-operative banks in European countries. While the BoD will be responsible for laying down the broad contours of strategy, the BoM will be vested with the mandate to direct and control the day-to-day operations of the UCB within the limits set by the BoD.

5.11 The Committee would recommend that the following rules should apply to the constitution of the BoM and its functioning as also its relationship with the CEO.

(a) At least 51 per cent of the members of the BoM should be persons who have special knowledge or practical experience in one or more of the matters specified in Sub-Section 2 of Section 10A of the Banking Regulation Act, 1949.

(b) Members of the BoD can be members of the BOM provided they fulfill the conditions specified.

(c) Members of the BoM can be paid such sitting fees as the BOD may decide subject to a ceiling to be specified by RBI.

(d) The CEO shall be responsible for the management of the whole or substantially the whole of the affairs of the UCB but shall be subject to the control and direction of the BoM.

(e) The appointment of the CEO shall be subject to the prior approval of RBI.

(f) The maximum number of members of the BoM (say 12) should be prescribed by RBI.

5.12 The Committee would also recommend that the following should be conditions on which the license is granted to the proposed UCB.

- (a) The RBI should have the following powers:
 - (i) When RBI is satisfied that in the public interest or for preventing the affairs of the UCB being conducted in a manner detrimental to the interests of the depositors or for securing the proper management of the UCB, it is necessary so to do, RBI may for reasons to be recorded in writing, by order, remove from office any member of the BoM or the CEO after giving such a person a reasonable opportunity of making a representation against the Order.
 - (ii) For similar reasons, RBI can supercede the BoM for a period not exceeding five years and appoint an Administrator in its place.
 - (iii) RBI can require the BoM to make such changes in the Management as it considers necessary.
 - (iv) RBI can require the BoM to introduce such aspects of technology as RBI considers necessary.
- (b) The annual financial statements of the UCB should be audited by a Chartered Accountant to be appointed by the BoM from out of a panel of approved auditors maintained by RBI. The auditor so appointed should be subject to rotation after four years.
- (c) The BoM should be required to follow a Code of Corporate Governance to be specified by RBI. The Code should inter alia deal with the following matters:-

- (i) A 'fit and proper' tests for all members of the BoM
- (ii) The responsibility of the BoM to put in place and monitor policies for:
 - (1) Internal control and inspection functions and the independence and seniority of the persons heading these functions;
 - (2) Risk management;
 - (3) Credit appraisal policies;
 - (4) Asset liability management;
 - (5) Exposure limits for advances and concentration limits for deposits;
 - (6) Related parties transactions;
 - (7) Whistle blowing;
 - (8) Regulatory compliance; and
 - (9) Periodic reporting by the CEO to the BOM and by the BoM to the BoD.
- (d) Non-fulfillment of the above conditions should be sufficient reason for cancellation of the license. RBI should retain the power to relax some of these conditions as and when it considers appropriate having regard to the size of the UCB, the cost of compliance or for other valid reasons.

5.13 The Committee would also recommend that similar conditions should be voluntarily accepted by the larger existing UCBs. Currently, about a third of the UCBs have a deposit base in excess of ₹ 50 crore and respective TAFCUBs should be persuaded to ensure that at least these larger UCBs accept these conditions. In the meantime, compliance with the above

conditions should be made a pre-requisite before granting licence to existing UCBs for opening new branches.

5.14 (a) A question which needs to be examined is whether new licences should be given only to existing societies which have shown satisfactory performance or whether there should be no such restriction.

(b) The Screening Committee of RBI established in June 2001 to examine applications for licences of UCB had recommended that new licences should be restricted to co-operative credit societies which had demonstrated a sound track record. There is considerable merit in this recommendation as it gives a necessary degree of confidence that the proposed UCB will be able to function on sound lines.

(c) The counter argument is that such a restriction may hamper the growth of the UCB sector particularly in unbanked or inadequately banked centres. This is a consideration which cannot be ignored.

(d) The Committee would, therefore, recommend that while, in the consideration of application for new UCBs, preference should be given to existing co-operative societies with a sound track record, other applications should also be considered, particularly in unbanked or inadequately banked centres.

(e) Following upon the recommendations of the Madhav Rao Committee that quantitative norms should replace qualitative norms, we would recommend that existing co-operative credit societies must satisfy the following criteria before their application for license can be considered:

- (i) CRAR of not less than 12 per cent;
- (ii) Net Profit for at least the previous three financial years;
- (iii) Net NPAs below 5 per cent of advances;
- (iv) Credit-deposit ratio below 60 per cent;
- (v) Rating not below B as per inspection to be carried out by the RBI before entry;
- (vi) Undertaking that the UCB would implement CBS;
- (vii) Minimum capital as per entry point norms stated above;
- (viii) Minimum membership of 500 members in respect of societies operating in inadequately banked centres and 1000 members in other centres;
- (ix) No regulatory defaults; and
- (x) The existence or willingness to introduce the desired level of technology.

CHAPTER 6

THE NEED FOR PROVISIONS TO FACILITATE THE RAISING OF CAPITAL

6.1 As stated earlier, 57 per cent of the total number of UCBs account for only 7.4 per cent of the total asset size of the UCB sector. Moreover, there are still 141 UCBs which have Capital Adequacy below the prescribed limit of 9 per cent and of these as many as 88 UCBs have a negative Networth. In some ways this reflects the difficulties UCBs face in increasing their share capital.

6.2 The Working Group established by RBI under the Chairmanship of Shri N.S. Vishwanathan, then Chief General Manager-in-Charge, Urban Banks Department has examined in depth the need for UCBs to raise capital (both Tier I and Tier II) and has made a number of suggestions in this regard. These include:

(a) the removal of existing monetary ceilings on individual shareholding prescribed by State Governments, especially in respect of UCBs which have capital adequacy below the prescribed limit or have a negative Networth;

(b) the issue of unsecured, subordinated, non-convertible redeemable debentures / bonds which can qualify as Tier II capital;

(c) the issue of shares at a premium which will be non-voting, perpetual and transferable by endorsement and delivery;

(d) permission for commercial banks to invest in the special shares and Tier II bonds issued by UCBs within the ceiling prescribed for investment in unlisted securities;

- (e) permitting UCBs to invest in the Tier II bonds of other UCBs;
- (f) the issue of redeemable cumulative preference shares, which will qualify as Tier II capital;
- (g) the acceptance of deposits with maturity of 15 years and above which will qualify as tier II capital; and
- (h) in respect of UCBs with negative Networth, exemption from the requirement that Tier II capital cannot exceed Tier I capital.

6.3 While the above suggestions merit consideration (except for item (e) for which the Committee has reservations), it also needs to be recognized that the application of certain provisions of the various State Co-operative Acts act as a serious disincentive to the ability of UCBs to issue fresh capital. Some of these disincentives are as under:

(a) Currently all share capital is issued at par value and redemption of share capital is also at par value. Over a period of time, UCBs build-up significant amount of reserves and therefore have a Networth which is significantly higher than the nominal value of the share capital. In these circumstances, it is not fair to existing shareholders that a new shareholder can acquire shares at par value and equally unattractive to a prospective investor that at the point of exit, he will not be able to share in the increase in reserves during his tenure. It is therefore suggested that if fresh capital is to be attracted by existing UCBs, it would be more appropriate if all fresh capital is issued at a premium, based on the Networth at the end of the preceding year as certified by the UCB's auditors and all redemption of capital is also made on that basis. While it is not clear whether this needs an amendment to the Co-operative Societies Acts, amendment should be made if so required.

(b) Every borrower is required to become a member and carries voting rights. However, every depositor is not required to become a member and a depositor who becomes a member, can opt to become a nominal or associate member which membership does not carry voting rights. As a consequence, the UCB has normally a large number of members, who do not have voting rights and are not interested in the functioning of the UCB but have become members only because the law enjoins them to do so. Only a very small proportion of the total membership attends the Annual General Meeting. Similarly small proportion of membership exercise their franchise in the election to the Board of Directors and hence it is possible for vested interests (mostly consisting of borrowers) to capture control of UCBs and use them for the furtherance of their own interests. This is further assisted by the fact that as stated above, all depositors do not have voting rights and also the fact that a member can continue to be a member, even after he ceases to be a borrower or a depositor. If fresh capital is to be attracted from genuine investors, it is necessary that in addition to the measures proposed above, the control of UCBs should shift from borrowers to depositors. It is, therefore, suggested that 50 per cent in value of deposits should be held by voting members and in order to assure that confidence regarding proper management is generated among investors the concept of Board of Management (BoM) as discussed in Chapter 5 should be introduced.

CHAPTER 7

UMBRELLA ORGANISATION

7.1 A Working Group under the Chairmanship of Shri V.S. Das submitted in October 2009, a report on “Umbrella Organization and Constitution of Revival Fund for UCBs”.

7.2 The Working Group has pointed out that:

(a) Only scheduled UCBs have direct access to liquidity support from RBI and when other UCBs need to arrange for temporary liquidity, the only option available to them is to avail of loans against SLR securities from DCCBs / StCBs. However, if these DCCBs / StCBs are themselves financially unsound, they are unable to meet the liquidity needs of UCBs. In such a situation, UCBs may need to sell SLR securities in distress situations at a loss and temporary liquidity problems could snowball into solvency problems.

(b) The Working Group under the Chairmanship of Shri N.S. Vishwanathan had suggested that the only long term solution to enhance the public depositors' confidence in the co-operative banking sector appears to be the emergence of umbrella organization(s) like those prevalent in many European countries viz. Credit Agricole Group, Rabobank Group, Raiffeson Bank Group etc.

(c) Prominent and successful umbrella organizations in other countries provide a range of services to their member organizations and have scheme which facilitate emergency liquidity support to their members. The organizations are financially strong and well regulated and the discipline prescribed by the umbrella body on its members has imparted a degree of self-regulation which has contributed to the sector's stability.

(d) Internationally, there are two broad and distinct approaches for the creation of an Umbrella Organization.

(i) In European countries, the Umbrella Organization is generally in the form of a strong apex level entity (usually in the form of the central bank). The co-operative networks, arranged under two / three tier framework, revolve around the central apex body and each member exercises its voting rights under the “one member one vote” principle. The apex entity supports and advises the individual member banks in areas such as customer services, ALM, IT, mutual funds, product development etc. A significant and distinct feature is the existence of a mutual support system viz. legally binding cross guarantees which are monitored by the Central Bank or through an outside body. In some cases, the Umbrella Organization also enjoys supervisory powers and responsibility.

(ii) In other countries, the Umbrella Organization is not part of any Group but is a distinct entity where the credit unions are members. In the U.S., the Umbrella Organization provides extensive investment, liquidity and cash-management products and services, risk management and analytics capabilities, settlement, funds transfer and payment services, and safekeeping and custody services. In Australia, the emphasis is on transactional (payment like clearing) services and emergency liquidity support. In Canada, the Umbrella Organization serves as central financial facility, liquidity manager, payment processor and trade association also.

(e) Cutting across all umbrella organizations in other countries, it is seen that they all provide banking services to their members and are actually banks. They also act as gateways for the payment systems, issuers of credit / debit cards, ATM network providers and

also providers of other services such as fund management, and emergency liquidity support. Some organizations also provide a route to accessing capital through their subsidiaries.

7.3 The Working Group has recommended that:

(a) There should be one Umbrella Organization at the national level for the entire UCB sector.

(b) The Umbrella Organization should ultimately be in the form of Banking Company but not as a UCB. However, to start with, it can be a non-deposit taking NBFC.

(c) The proposed NBFC should have a minimum Networth of ₹ 50 crore and to begin with, the entire share capital should be contributed by UCBs. The shareholding may be divested subsequently but at all times 51 per cent of the share capital must be held by UCBs.

(d) RBI should consider exempting UCBs placing term deposits with the Umbrella Organization from maintenance of SLR in form of Government and other approved securities.

(e) The Umbrella Organization should provide a wide range of services to UCBs such as providing loans and advances, refinance, payment and settlement services, IT services, ATM network services, investment banking, fund management, management consultancy, capacity building services and even capital support.

(f) The Umbrella Organization should also be permitted to lend to non-UCBs.

(g) The Umbrella Organization should not be mandated to provide emergency liquidity and solvency support to UCBs. Emergency liquidity support should be provided through state-level

schemes. This would be in the form of a state-level Emergency Fund to which all UCBs in the state would contribute a certain percentage of their assets (say 0.05%) as deposits. This fund could be in the form of a trust.

7.4 The recommendations of the Working Group fall into four broad classes:

- (a) The provision of payment and settlement services;
- (b) The provision of other services which are mainly in the region of management or outsourced services;
- (c) The provision of emergency liquidity support through state-level schemes; and
- (d) The provision of solvency support through state-level schemes.

Each of these recommendations has been considered by the Committee.

7.5 Payment and settlement services to commercial banks and to certain UCBs are provided by the Payments and Settlement Board under the Payments and Settlement System Act, 2007. However, as UCBs to whom such services are not provided generally do not have the necessary geographic spread in their branch network, they have to use the services of commercial banks for clearance of cheques and other payment and settlement services. For this purpose they are required to maintain large deposits with these banks thus blocking up their funds. The creation of an Umbrella Organization which provides these services could, therefore, be of considerable assistance to the

smaller UCBs. There is no reason why given the rapid developments in technology, in the future, all UCBs cannot be integrated into the main Payments and Settlement system. However, in the interim an Umbrella Organization for UCBs could function as a part of the main Payments and Settlement System and in turn provide these services to its members.

7.6 As the Das Committee has pointed out, a significant part of the UCBs sector lacks professionalism and is unable to keep pace with rapid advancements in IT, modern banking systems and financial products. They need to widen their range of services to run on professional lines and match the services provided by commercial banks. The Committee agrees that there is a need in our country for one or more organizations which can provide the services which internationally Umbrella Organizations provide to co-operative banks.

7.7 The Committee also agrees that there is a need for an organization which can provide liquidity support to UCBs on the same lines as support is provided by RBI to commercial banks.

7.8 The Committee, however, does not agree that there is need for solvency support for UCBs. All banks whether commercial or co-operative are expected to be managed on sound and prudent lines and regulations have to ensure that with compliance with regulatory safeguards such as SLR and CRR and with adherence to prudential norms the solvency of banks is maintained. If timely regulatory measures are taken, there is no reason why the solvency of banks should be impaired but if in spite of these measures, the financial position of banks is impaired, the continued existence of such banks should not be permitted to ensure the safety of the depositors' money.

7.9 The Das Committee has recommended that there should be one Umbrella Organization at the national level for the entire UCB sector which will provide both the payment and settlement system gateway and also the vast range of services such as fund management services, lines of credit, asset management, ATM networks, credit card, investment, capital raising and other financial services. In our opinion, it would be more appropriate if the national level Umbrella Organization were to confine itself to the functions of providing the payment and systems gateway and of providing liquidity support. The other services could be provided by one or more state-level organizations or even by outside service providers.

7.10 (a) It is important to note, in this connection, the distinguishing features, highlighted by the Das Committee, of the two broad types of international Umbrella Organizations.

(b) The organizations based on the European Model have the following features:

(i) There is a strong apex level entity which often has a controlling interest in the participating entities and which can enjoy supervisory powers.

(ii) The participating entities indirectly tap the capital markets through the apex central body which in turn raises capital via the subsidiary route.

(iii) There is a mutual support system whereby the participating entities often provide legally binding cross guarantees and have joint and several liabilities for each others' commitments.

(iv) The Umbrella Organization provides the full range of services under one roof.

(c) On the other hand, in the second model as in the U.S., Australia and Canada, the distinguishing features are:

(i) The Umbrella Organization is owned by the participating entities as in the U.S. and Australia.

(ii) The participating entity often provides a commitment e.g. 3.2 per cent of total assets is provided by the participating entity to the Credit Union Financial Support System, a company registered by guarantee in Australia.

(iii) While in the U.S., the Umbrella Organization does provide investment services, business services, brokerage services and education/training services, essentially the Umbrella Organization in Australia provide services normally provided by central banks such as access to payments systems, access to wholesale monies, credit card securitization etc. and in Canada, the principal role is to monitor and maintain system liquidity at the provincial level right till the grass roots. Additional services include providing direct access to the Canadian payments system, facilitating fund transfer between participating entities, regular financial updates and asset liability management.

7.11 The Committee believes that while both models have elements which could be incorporated in the model of the proposed Umbrella Organization, the European Model cannot operate in India given the present organizational structure of UCBs and it would be more appropriate to modify the second type of model to suit Indian conditions. Umbrella Organizations have evolved in other countries over a period of time. It would therefore be appropriate if initially we focus on a few of the basic functions of Umbrella Organizations. The Committee would, therefore, recommend that:

(a) there should be two separate Umbrella Organizations viz. a national level organization which provides payments and settlement services and other services normally provided by central banks as also liquidity support to its members; and

(b) one or more organizations which provide the management, IT, training and other services which the UCB sector needs.

7.12 (a) The national level Umbrella Organization should preferably be in the form of a multi-state UCB with membership being restricted to and mandatory for all UCBs other than scheduled UCBs.

(b) Member UCBs should be required to maintain their CRR in the form of deposits with the Umbrella Organization instead of in the form of deposits with the District and State Co-operative Banks.

(c) The Umbrella Organization should invest its funds only in the form of balances with RBI, deposits with commercial banks or in SLR securities and in no other form.

(d) The Umbrella Organization should offer Repos and Reverse Repos facilities in the same manner as RBI offers to commercial banks and at the same rates of interest. In turn, it should enjoy Repos and Reverse Repos facilities with RBI.

(e) UCBs which wish to avail of Repos facilities can therefore avail of these facilities only to the extent of their SLR holdings which are in excess of the prevailing minimum SLR stipulation and can utilize their surplus funds to buy SLR securities from the Umbrella Organization under Reverse Repos arrangements.

(f) Until the Payments and Settlements Board is in a position to provide Payments and Settlements facility directly to UCBs, the

Umbrella Organization will act as a gateway to provide these services for a fee to UCBs. In turn, the Umbrella Organization will be a member of the Payments and Settlement System operated by the Payments and Settlement Board.

(g) Apart from the above, the Umbrella Organization will not carry on any commercial activity.

(h) Being a UCB, the Umbrella Organization would have a Board of Management and will be subject to the regulation, supervision and inspection of RBI.

7.13 UCBs which need services in the nature of management, IT, training and other services can avail of these services from NAFCUB or State Level Federations.

CHAPTER 8

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

8.1 The Banking Regulation Act, 1949 was made applicable to primary co-operative banks commonly known as Urban Co-operative Banks (UCBs) w.e.f. March 1, 1966 and to review the performance of these banks the Reserve Bank constituted different committees from time-to-time. (Para 1.1 and Para 1.2)

8.2 Reserve Bank followed liberal licensing policy between May 1993 and March 1999. However, many UCBs licensed during this period became financially weak. In the Annual Policy Statement for 2004-05, RBI announced licensing discontinuance and entered in to MoU with State Govts. for co-ordination of regulatory policies. Since then, there has been considerable improvement in the functioning of UCBs. Hence, the Committee was constituted to study the advisability of granting licenses to new UCBs. (Para 1.3 to Para 1.9)

8.3 Review of growth of UCBs is examined from different aspects like deposits and advances, market share in total banking sector, return on assets, net interest margin, NPAs, grade-wise, rating-wise, CRAR-wise and state-wise distribution of branches. (Para 2.1 to Para 2.22)

8.4 The review made in Chapter 2 reveals: (a) the heterogeneity of the UCB sector, (b) that only 57.6 per cent of existing UCBs can be considered as financially sound, (c) that UCBs as a class account for only 3.5 per cent of the deposits and only 2.9 per cent of the advances of the banking sector, (d) that UCBs with a larger deposit base are relatively sounder as compared to UCBs with a smaller deposit base, and (e) that at present 88 UCBs have a negative net worth. (Para 3.1 to Para 3.7)

8.5 The analysis of the results of the review made in Chapter 5 leads to the following conclusions:

(a) There is uneven geographical spread of UCBs with several states and districts and low population centres having inadequate presence of branches of UCBs.

(b) There is a pronounced weakness in the overall UCB structure with a large number of UCBs having financials below the required norms and several UCBs having a negative net worth.

(c) Almost one-third of UCBs, which have a deposit base of ₹ 10 crore or less have shown less than satisfactory performance and must be considered as providing inadequate safety for depositors. (Para 3.8)

8.6 (a) The founding principle of co-operative banking is mutual aid, coupled with the objective to promote thrift and self-help. Its primary objective is not profit maximization but rather the provision of affordable banking facilities to members and to cater to their credit needs. However, with the increase in size of operations of UCBs, the identify between owners and customers is often lost in substance though it remains in form.

(b) UCBs play a useful role as banks primarily intended for the small man. Though advances below ₹ 5 lakh constitute less than 20 per cent in value of total advances of UCBs, they constitute more than 90 per cent of the total loan accounts in number of all loans given by UCBs and aggregate credit provided by UCBs to the priority sector constitutes 45.9 per cent of the aggregate credit provided by UCBs. UCBs, therefore, could be an important element in the programme of financial inclusion.

(c) There is need for a greater presence of UCBs in unbanked districts and in population centres, which have population below 5 lakh. At the same time, it is necessary to ensure that relevant criteria are determined and compliance therewith is assured so that the new entrants have the characteristics of a sound UCB.

(Para 3.9 and Para 3.12)

8.7 The system of dual control, both the Registrar of Co-operative Societies and RBI, is often claimed to have been one of the important factors necessary for the less than satisfactory performance of sound UCBs. The effective regulation and supervisory control of UCBs would warrant that there should be a clearly defined control system in place whereby the co-operative character of UCBs is controlled exclusively by the Registrar of Co-operative Societies, while all the banking functions of the UCB are exclusively controlled by RBI. (Para 4.1)

8.8 The signing of MoUs between the State Governments and RBI and the setting up of TAFCUBs has resulted in a significant improvement in the health of the UCB sector. While this has certainly mitigated some of the problems of dual control, the processes still remain cumbersome and time consuming and prevent RBI from taking unilateral corrective action. Improvement in the functioning of the UCBs can only be achieved if the persons who manage the affairs of UCBs are professionally competent, devoid of vested interest and subject to supervision and control. (Para 4.2 to Para 4.5)

8.9 A solution of the problem of dual control lies in the segregation of the ownership of the UCB as a co-operative society from its functioning as a bank. This can be achieved if there is a new organization structure consisting of a Board of Management in addition to the Board of Directors. (Para 4.6)

8.10 In formulating entry point norms it is necessary to recognize the following considerations.

(a) The proposed UCB shall have adequate capital;

(b) There should be geographic spread; and

(c) There should be an organizational structure, which will promote a healthy development of the sector and facilitate supervision and control. (Para 5.1)

8.11 RBI has wide discretion, under the Banking Regulation Act, 1949 (As applicable to Co-operative Societies) to formulate conditions under which a license can be given to a co-operative society to carry on banking business. (Para. 5.3)

8.12 The Committee recommends the following entry point norms as regards minimum capital for new UCBs.

Sr.No.	Particulars		Minimum capital
(a)	UCB operating in only one state in		₹ 50 lakh
	(i)	North Eastern States	
	(ii)	In other States but confined to unbanked districts	
	(iii)	In other States but confined to 'C' and 'D' category population centres of banked districts	
(b)	UCB operating in only one State with 50% or more branches in 'C' and 'D' category population centres		₹ 100 lakh
(c)	UCB operating in only one State but without requirement to have branches in 'C' and 'D' category population centres		₹ 300 lakh
(d)	UCB which wishes to operate in more than one state after five years of successful operation		₹ 500 lakh

(Para 5.9)

8.13 The Committee recommends that it should be made a condition of the license that every new UCB should:

(a) have a Board of Management with the constitution as specified;

(b) RBI should have the powers for regulation and control as specified;

(c) Every UCB should be audited by a Chartered Accountant to be appointed from a panel maintained by RBI; and

(d) The Board of Management should follow a Code of Corporate Governance as specified by RBI. (Para 5.10 to Para 5.12)

8.14 Conditions governing the grant of license as specified for new entrants should be voluntarily adopted by existing UCBs which have deposit base in excess of ₹ 50 crore. In the meantime, compliance with the other conditions should be made a pre-requisite before granting licence to existing UCBs for opening new branches.

(Para. 5.13)

8.15 In the grant of new licences, while preference should be given to existing co-operative societies which satisfy the recommended criteria, other applications should also be considered, particularly in unbanked or inadequately banked centres. (Para 5.14)

8.16 To facilitate raising of capital by UCBs, the Committee reiterated the suggestions made by the Working Group (Chairman: Shri N.S. Vishwanathan). Certain provisions of State Co-operative Societies Acts, which act as disincentives to the ability of UCBs to raise fresh capital need to be reviewed. (Para 6.1 to Para 6.3)

8.17 The Working Group under the Chairmanship of Shri V.S. Das has examined in detail the need for an Umbrella Organization. The recommendations of the Working Group fall into four broad classes, namely:

- (a) The provision of payment and settlement services;
- (b) The provision of other services, which are mainly in the region of management or outsourced services;
- (c) The provision of liquidity support through state level schemes; and
- (d) The provision of solvency support through state level schemes. (Para 7.1 to Para 7.4)

8.18 The Committee recommends that there should be two separate Umbrella Organizations namely:

- (a) A national level organization which provides payment and settlement services and other services normally provided by central banks as also liquidity support to its members; and
- (b) One or more state level organizations or outside agencies, which provide the management, IT and training and other services which the UCB sector needs. (Para 7.5 to Para 7.11)

8.19 (a) The national level organization should be a multi-state UCB with membership being restricted and being made mandatory for all UCBs other than scheduled UCBs;

(b) Member UCBs should be required to maintain their CRR in the form of deposit with the Umbrella Organization instead of with State and District Co-operative Banks;

(c) The Umbrella Organization should invest its funds only in deposits with scheduled commercial banks or in SLR securities;

(d) It should offer Repos and Reverse Repos facilities to member UCBs in exactly the same manner and at the same rates at which RBI offers such facilities to scheduled commercial banks and in turn it should enjoy Repos and Reverse Repos facilities with RBI;

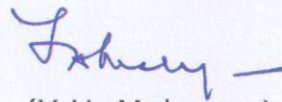
(e) It should act as the gateway to provide payments and settlement facilities to member UCBs and should be a member of the Payment and Settlement System;

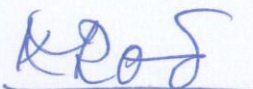
(f) Apart from the above, it should not carry on any commercial activity; and

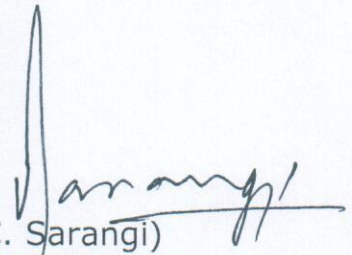
(g) It should have a Board of Management and should be subject to the regulation, supervision and inspection of RBI. (Para 7.12)

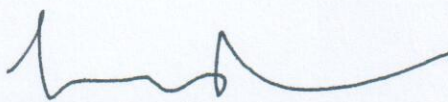
8.20 UCBs which need services in the nature of management, IT, training and other services can avail of these services from NAFCUB or State Level Federations. (Para 7.13)

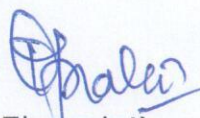
**EXPERT COMMITTEE ON LICENSING OF NEW
URBAN CO-OPERATIVE BANKS**

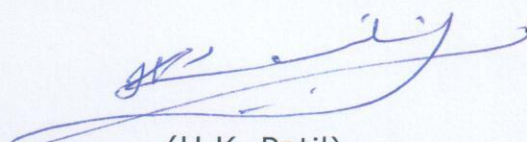

(Y.H. Malegam)
Chairman

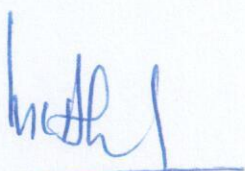

(K. Madhava Rao)
Member



(U.C. Sarangi)
Member


(Dr. S.K. Goel)
Member


(K. Elumalai)
Member


(H.K. Patil)
Member


(Dr. M.L. Abhyankar)
Member


(A. Udgate)
Member Secretary

August 18, 2011

ANNEX-I

EXPERT COMMITTEE ON LICENSING OF NEW URBAN CO-OPERATIVE BANKS

MEETINGS OF THE EXPERT COMMITTEE

The Expert Committee on licensing of new Urban Co-operative Banks held nine meetings as per details given below:

Meeting No.	Date of Meeting	Place of Meeting	No. of Committee Members, who attended the Meeting out of Total 8 Members
First	December 21, 2010 (Tuesday)	Mumbai	Five
Second	February 18, 2011 (Friday)	Mumbai	Seven
Third	March 3, 2011 (Thursday)	Mumbai	All Eight
Fourth	March 21, 2011 (Monday)	Mumbai	Six
Fifth	April 15, 2011 (Friday)	Mumbai	Seven
Sixth	May 13, 2011 (Friday)	Bangalore	Seven
Seventh	May 25, 2011 (Wednesday)	Mumbai	Seven
Eighth	August 5, 2011 (Friday)	Mumbai	All Eight
Ninth	August 18, 2011 (Thursday)	Mumbai	Six

ANNEX-II

EXPERT COMMITTEE ON LICENSING OF NEW URBAN CO-OPERATIVE BANKS

QUESTIONNAIRE ON TERMS OF REFERENCE

Term of Reference No. 1

To review the role and performance of Urban Co-operative Banks over the last decade and especially since the adoption of VISION document in 2004.

1. Has the overall health of Urban Co-operative Banking Sector improved in the last 10 years as a result of various policy initiatives taken by RBI and State/ Central Govt.?

Yes

No

Please specify the areas where further improvement is needed and the measures required to be taken for that.

2. Whether formation of Task Force for Co-operative Urban Banks (TAFUCB) in various states helped in resolving the various regulatory issues arising from dual control of UCBs and thereby strengthening the sector?

Yes

No

If no, what further needs to be done to resolve the issue

Term of Reference No. 2

To review the need for organization of new Urban Co-operative Banks in the context of the existing legal framework for Urban Co-operative Banks, the thrust on financial inclusion in the economic policy and proposed entry of new commercial banks into the banking space.

1. Keeping in view the growth of the economy and need for financial inclusion should licenses be given for setting up new Urban Co-operative Banks?

Yes No

Reasons

2. Should there be a policy thrust to encourage more new Urban Co-operative Banks at C and D category** centres?

Yes No

Reasons

3. While considering license applications to new UCBs should consideration be given to ensuring equitable distribution of their branches across all types of population centres** (A, B, C & D)?

Yes No

Reasons

** Population Centre Details:

Category of Centre	A	B	C	D
Population	Over 10 lakh	Five lakh and above but less than 10 lakh	One lakh and above but less than five lakh	Less than one lakh

Term of Reference No. 3

To review the extant regulatory policy on setting up of new Urban Co-operative Banks and lay down entry point norms for new Urban Co-operative Banks.

1. What should be the ideal startup capital (minimum entry point capital) for new Urban Co-operative Banks?

Please indicate. ₹ lakh

2. Should there be differential startup capital for new Urban Co-operative Banks set up in under banked or unbanked districts/ less populated centres (in Category C and D) / North-eastern states to promote financial inclusion?

Yes No.

If yes, what should be the desired prescription?

3. Should new Urban Co-operative Banks be subjected to higher capital adequacy prescription than the existing ones?

Yes No

If yes, what should be the appropriate prescription –

(a) 10% (b) 12% (c) 15% (d) -----

(Specify)

Term of Reference No. 4

To examine whether licensing could be restricted only to financially sound and well managed co-operative credit societies through conversion route.

1. Should we adopt a policy of restricting new co-operative banking license to only existing co-operative credit societies*?

Yes No

If yes, then what should be the requisites for such conversion?

2. (A) Should there be any threshold limit of total deposits that would make an existing co-operative credit society* mandatorily apply for license as a UCB to RBI?

Yes/ No – Reasons

If yes, then please indicate the amount of ceiling, ₹crore

2. (B) Should priority be accorded to unbanked areas while considering the license applications?

Yes/ No – Reasons

* Co-operative Credit Societies as defined in Section 5 cc (ii) of the Banking Regulation Act, 1949 (AACS)

Term of Reference No. 5

To make recommendations relating to the legal and regulatory structure to facilitate the growth of sound Urban Co-operative Banks especially in the matter of raising capital consistent with co-operative principles.

(In this connection Circular No. UBD. PCB. Cir. No. 4/09.18.201/2008-09 dated July 15, 2008 issued to All UCBs may please be referred to.)

1. Should legislative amendments be brought in the State Co-operative Societies Acts to resolve the legal and structural issues involved in enhancing and augmentation of capital by UCBs?

Yes No

If yes, suggest area where amendments are necessary

2. Should UCBs be permitted to introduce alternative financial instruments that can be utilized for raising stable and long term funds (equity or quasi-equity in nature)?

If yes, what should be the nature / characteristics of such instruments?

Term of Reference No. 6

To examine the feasibility of an umbrella organization for the UCB Sector

1. Do we need an apex (Umbrella) organization in the UCB sector to promote intra co-operative group support and act as a central credit institution for the UCBs?

Yes No

If No, Reasons:

If Yes, then:

(a) What should be the various services offered by such Apex Organization and the possible sources for its capital?

(b) What should be the holding structure of such organization ?

Term of Reference No. 7

To examine other issues incidental to licensing of Urban Co-operative Banks and make appropriate recommendations.

1. Should fit and proper criteria be prescribed for appointment of CEO and Directors of all new UCBs?

Yes

No

If yes, then should the same be included as a pre-requisite for issue of license?

2. To compete with commercial banks and attracting viable customer base, should new Urban Co-operative Banks be compulsorily required to use advanced banking technology?

Yes

No

Reasons:

3. What according to you should be the minimum viable deposit base for any Urban Co-operative Bank?

i) ₹ 5 crore

ii) ₹ 10 crore

iii) ₹crore

ANNEX-III

EXPERT COMMITTEE ON LICENSING OF NEW URBAN CO-OPERATIVE BANKS

LIST OF BANKS, INSTITUTIONS, PERSONS, REGIONAL OFFICES OF RESERVE BANK, WHICH RESPONDED TO THE QUESTIONNAIRE

The list of banks, institutions, persons, Regional Offices of Reserve Bank of India, which responded to the questionnaire is furnished below.

Registrars of Co-operative Societies

1. Registrar of Co-operative Societies, Bihar
2. Registrar of Co-operative Societies, Jharkhand
3. Registrar of Co-operative Societies, Karnataka
4. Registrar of Co-operative Societies, Andhra Pradesh
5. Department of Co-operative Audit, Karnataka
6. Registrar of Co-operative Societies, Himachal Pradesh
7. Registrar of Co-operative Societies, Mizoram
8. Registrar of Co-operative Societies, Jammu and Kashmir
9. Registrar Co-operative Societies, Madhya Pradesh
10. Registrar of Co-operative Societies, Assam

State Federations

1. Urban Co-operative Banks Professional Directors' Forum, Bangalore (Karnataka)
2. Karnataka State Sauharda Federal Co-operative Ltd., Bangalore (Karnataka)
3. A.P. Co-operative Urban Banks Federation, Hyderabad (Andhra Pradesh)
4. Uttar Bharat Urban Co-operative Banks Federation, Lucknow, (Uttar Pradesh)
5. A.P. Co-operative Urban Banks & Credit Societies Association, Hyderabad (Andhra Pradesh)
6. Uttarakhand Urban Co-operative Banks Federation, Nainital (Uttarakhand)
7. The Punjab State Urban Co-operative Banks and Credit Societies Federation Ltd., Jalandhar (Punjab)
8. The Federation of Manipur Urban Co-operative Banks and Credit Societies Ltd., Imphal, Manipur
9. Delhi Urban Co-operative Banks Federation, New Delhi

Urban Co-operative Banks

1. Bihar Awami Co-operative Bank Ltd., Patna, Bihar
2. The VSV Co-operative Bank Ltd., Vaishali, Bihar
3. The National Co-operative Bank Ltd., Bangalore, Karnataka
4. The Bhatkal Urban Co-operative Bank Ltd., Bhatkal, Karnataka
5. Shiva Sahakari Bank Niyamita, Devangere, Karnataka

6. The Cardamom Merchants Co-operative Bank Ltd., Haveri, Karnataka
7. The Raddi Sahakara Bank Niyamitha, Dharwad, Karnataka
8. The Gandhi Gunj Co-op Bank Ltd., Bidar, Karnataka
9. The Hubli Urban Co-operative Bank Limited, Karnataka
10. Janatha Seva Co-operative Bank Ltd., Bangalore, Karnataka
11. The Malleswaram Co-operative Bank Ltd., Bangalore, Karnataka
12. The Sirsi Urban Sahakari Bank Ltd., Sirsi, Karnataka
13. Sri Bhagwati Co-op Bank Ltd., Mangalore, Karnataka
14. Amanath Co-operative Bank Ltd., Bangalore, Karnataka
15. Maratha Co-operative Bank Ltd., Belgaum, Karnataka
16. Sir M. Visvesvaraya Co-operative Bank Ltd., Bangalore, Karnataka
17. The Grain Merchants Co-operative Bank Ltd., Bangalore, Karnataka
18. Tumkur Grain Merchants Co-operative Bank Ltd., Tumkur, Karnataka
19. Ananda Co-operative Bank Ltd., Bangalore, Karnataka
20. Mahila Co-operative Bank Ltd, Bangalore, Karnataka
21. The Salem Urban C-operative Bank Ltd., Salem, Tamilnadu
22. Mayuram Co-operative Urban Bank Ltd., Mayuram, Tamilnadu
23. Palayamkotti Co-operative Urban Bank Ltd., Tamilnadu

24. Namakkal Co-operative Urban Bank Ltd., Tamilnadu
25. The Dharmapuri Co-operative Town Bank Ltd., Dharmapuri, Tamilnadu
26. The Ramanathpuram Co-operative Urban Bank Ltd., Ramanathpuram, Tamilnadu
27. The Rasipuram Co-operative Urban Bank Ltd., Rasipuram, Tamilnadu
28. Tiruchirapalli City Co-operative Bank Ltd., Puthur, Trichy, Tamilnadu
29. Vaniyambadi Town Co-operative Bank Ltd., Tamilnadu
30. The Kumbakonam Co-operative Urban Bank Ltd., Kumbakonam, Tamilnadu
31. The Rajapalayam Co-operative Urban Bank Ltd, Virudhunagar, Tamilnadu
32. The Nicholson Town Co-operative Town Bank Ltd., Thanjavur, Tamilnadu
33. Sivakasi Co-operative Urban Bank Ltd., Virudhunagar, Tamilnadu
34. Jolarpet Co-operative Urban Bank Ltd., Tamilnadu
35. The Krishnagiri Urban Co-operative Bank Ltd., Krishnagiri, Tamilnadu
36. The Little Kancheepuram Co-operative Urban Bank Ltd., Kancheepuram, Tamilnadu
37. The Tuticorin Mellur Co-operative Bank Ltd., Tuticorin, Tamilnadu
38. The Ammapet Co-operative Bank Ltd., Salem, Tamilnadu

39. The Coimbatore City Co-operative Bank Ltd., Coimbatore, Tamilnadu
40. The Pondicherry Co-operative Urban Bank Ltd., Puducherry
41. Sri Channabasavaswamy Souhardha Pattana Sahakari Bank Ltd.,Gangawati
42. The Neela Krishna Co-op Urban Bank Ltd., Secunderabad, Andhra Pradesh
43. Devi Gayatri Co-operative Urban Bank Ltd., Hyderabad, Andhra Pradesh
44. The Kakinada Co-operative Town Bank Ltd., Kakinada, Andhra Pradesh
45. The Kakatiya Co-operative Urban Bank Ltd., Andhra Pradesh
46. Vani Co-operative Urban Bank Ltd., Andhra Pradesh
47. Innespeta Co-operative Urban Bank Ltd., Rajahmundry, Andhra Pradesh
48. Darussalem Co-operative Urban Bank Ltd., Andhra Pradesh
49. Universal Co-operative Urban Bank Ltd., Mancherial, Andhra Pradesh
50. ABC Co-operative Bank Ltd., Hyderabad, Andhra Pradesh
51. LIC Employees Co-operative Bank Ltd., Machilipatnam, Andhra Pradesh
52. The Visakhapatnam Co-operative Bank Ltd., Hyderabad, Andhra Pradesh
53. Vasavi Co-operative Urban Bank Ltd., Hyderabad
54. Samatha Mahila Co-op Urban Bank Ltd., Andhra Pradesh

55. Almora Urban Co-operative Bank Ltd., Almora, Uttarakhand
56. Kurmanchal Nagar Sahakari Bank Ltd., Nainital, Uttarakhand
57. Urban Co-operative Bank Ltd., Deharadun, Uttarakhand
58. Kashipur Urban Co-operative Bank Ltd., Kashipur, Udham Singh Nagar, Uttarakhand
59. Uttarakhand Co-operative Bank Ltd., Rishikesh, Uttarakhand
60. United Mercantile Co-operative Bank Ltd., Kanpur, Uttar Pradesh
61. Noble Co-operative Bank Ltd., Noida, Uttar Pradesh
62. Shivalik Mercantile Co-operative Bank Ltd., Saharanpur, Uttar Pradesh
63. The Bapatla Cooperative Urban Bank Ltd., Bapatla, Andhra Pradesh
64. The Pochampally Co-operative Urban Bank Ltd., Pochampally, Andhra Pradesh
65. Vaishya Nagari Sahakari Bank Ltd., Parbhani, Maharashtra
66. Akola Janata Commercial Co-operative Bank Ltd., Akola, Maharashtra
67. Akola Urban Co-operative Bank Ltd., Akola, Maharashtra
68. Ameer Urban Co-operative Bank Ltd., Nagpur, Maharashtra
69. Amravati Merchants Co-operative Bank Ltd., Maharashtra
70. Bhandara Urban Co-operative Bank Ltd., Nagpur, Maharashtra
71. Chikli Urban Co-operative Bank Ltd., Nagpur, Maharashtra
72. Deendayal Nagari Sahakari Bank Ltd., Ambajogai, Beed, Maharashtra

73. Deogiri Urban Co-operative Bank Ltd., Nagpur, Maharashtra
74. Godavari Urban Co-operative Bank Ltd., Nagpur, Maharashtra
75. Khamgaon Urban Co-operative Bank Ltd., Khamgaon, Maharashtra
76. Markandey Urban Co-operative Bank Ltd., Nagpur, Maharashtra
77. Nagpur Nagrik Sahakari Bank Ltd., Nagpur, Maharashtra
78. Ravi Urban Co-operative Bank Ltd., Maharashtra
79. Sahyog Urban Co-operative Bank Ltd., Maharashtra
80. Samarth Urban Co-operative Bank Ltd., Maharashtra
81. Sanmitra Sahakari Bank Ltd., Nagpur, Maharashtra
82. Shikshak Sahakari Bank Ltd., Nagpur, Maharashtra
83. Shri Chhatrapati Rajarshi Shahu Urban Co-operative Bank Ltd., Beed, Maharashtra
84. The Washim Urban Co-operative Bank Ltd., Washim, Maharashtra
85. Lokvikas Nagari Sahakari Bank Ltd., Aurangabad, Maharashtra
86. Ajantha Urban Co-operative Bank Ltd., Aurangabad, Maharashtra
87. The Quilon Co-operative Urban Bank Ltd., Kollam, Kerala
88. The Kodungallar Town Co-operative Bank Ltd., Thrissur, Kerala
89. The Nilambur Co-operative Urban Bank Ltd., Nilambur, Kerala
90. People's Urban Co-operative Bank Ltd., Tripunithura, Kerala

91. The Vaikom Urban Co-op. Bank Ltd, Vaikom, Kerala
92. The Co-operative Urban Bank Ltd., Kottarakara, Kerala
93. The Sultan's Battery Co-operative Urban Bank Ltd., Wayanad, Kerala
94. The Mattancherry Sarvajani Co-operative Bank Ltd., Kochi, Kerala
95. Agartala Co-operative Urban Bank Limited, Agartala, West Tripura
96. The Imphal Urban Co-operative Bank Ltd., Imphal, Manipur
97. Laxmi Mahila Nagrik Sahakari Bank Ltd., Raipur, Chhattisgarh
98. Bhilai Nagrik Sahakari Bank Maryadit, Bhilai Nagar, Chhattisgarh
99. Pragati Mahila Nagrik Sahakari Bank, Bhilai, Chhattisgarh
100. Nagrik Sahakari Bank, Durg, Chhattisgarh
101. Bhilai Nagrik Sahakari Bank Maryadit, Bhilai Nagar, Chhattisgarh
102. Nagrik Sahakari Bank Ltd., Indore, Madhya Pradesh
103. Jharneshwar Nagrik Sahakari Bank Maryadit, Bhopal, Madhya Pradesh
104. Smriti Nagrik Sahakari Bank Maryadit, Mandsaur, Madhya Pradesh
105. Bhopal Nagrik Sahakari Bank Ltd., Bhopal, Madhya Pradesh
106. Indore Swayamsidh Mahila Co-operative Bank Ltd., Indore, Madhya Pradesh
107. Indore Paraspar Sahakari Bank Ltd., Indore, Madhya Pradesh

108. Astha Mahila Nagrik Sahakari Bank Maryadit, Bhopal, Madhya Pradesh
109. Sanawad Nagrik Sahakari Bank Maryadit, Sanawad, Madhya Pradesh
110. Transport Co-operative Bank Ltd., Indore, Madhya Pradesh
111. Nagrik Sahakari Bank Maryadit, Gwalior, Madhya Pradesh
112. Mahanagar Nagrik Sahakari Bank Maryadit, Bhopal, Madhya Pradesh
113. The Citizens' Cooperative Bank Ltd., Jammu, Jammu & Kashmir
114. Devika Urban Co-operative Bank Ltd., Udhampur, Jammu & Kashmir
115. The Urban Co-operative Bank Ltd., Anantnag, Jammu & Kashmir
116. Kashmir Mercantile Co-operative Bank Ltd., Sopore, Kashmir, Jammu & Kashmir
117. The Urban Co-operative Bank Ltd., Cuttack, Orissa
118. The Kendrapara Urban Co-operative Bank Ltd., Kendrapara, Orissa
119. The Puri Urban Co-operative Bank Ltd., Puri, Orissa
120. The Urban Co-operative Bank Ltd., Rourkela, Orissa
121. The Kangra Co-operative Bank Ltd., New Delhi
122. The Vaish Cooperative Adarsh Bank Ltd., New Delhi
123. The Khattri Co-operative Urban Bank Ltd., New Delhi
124. Jain Co-operative Bank Ltd., New Delhi

125. Keshav Sahakari Bank Ltd., New Delhi

126. The Co-operative City Bank Ltd., Guwahati, Assam

Individuals

1. Shri Manohar Maski, Bangalore, Karnataka
2. Shri Surendra Singh Sisodia, Ujjain, Madhya Pradesh
3. D. Krishna, Adviser, NAFCUB

Multi-State Co-operative Society

REPCO Bank, Chennai, Tamilnadu

Regional Offices of Reserve Bank of India (UBD)

1. Patna Regional Office
2. Bangalore Regional Office
3. Chennai Regional Office
4. Guwahati Regional Office
5. Raipur Regional Office
6. Bhubaneswar Regional Office
7. New Delhi Regional Office

ANNEX-IV

EXPERT COMMITTEE ON LICENSING OF NEW URBAN CO-OPERATIVE BANKS

LIST OF PERSONS WHO INTERACTED WITH THE COMMITTEE

Following persons had interaction with the Expert Committee during its fifth and sixth meetings held in Bangalore and Mumbai respectively.

Sl. No.	Name of the Person	Institution
1	Shri R. Varadarajan	REPCO Bank, Chennai
2	Shri Hanumantha Rao Vasireddy	The Citizen Co-operative Credit Society Ltd., Hyderabad
3	Smt. Sharan Banu	Amanath Co-operative Bank Ltd., Bangalore
4	Shri G. Ramamoorthy	A.P. State Co-operative Urban Banks Federation Ltd., Hyderabad
5	Shri P. Balaramis	Janatha Seva Co-operative Bank Ltd., Bangalore

6	Shri R. S. Huchachary	Additional Registrar of Co-operative Societies, Bangalore
7	Shri N. Rajanna	Joint Registrar of Co-operative Societies, Bangalore
8	Shri H. R. Suresh Shastri	National Co-operative Bank Ltd., Bangalore
9	Shri H. K. Srinivas	Sir M.Visvesvaraya Co-operative Bank Ltd., Bangalore
10	Shri Vishwanath Hiremath	Vikas Sauharda Co-operative Bank Ltd., Bangalore
11	Shri G. H. Ghakad	Veer Pulkeshi Co-operative Bank Ltd., Bangalore
12	Smt. P. N. Nagalatha	Mahila Co-operative Bank Ltd., Bangalore
13	Shri B. R. Ravindranath	Forum of Professional Directors, Bangalore
14	Shri Sharongauda	Karnataka State Sauharda Banks Federation, Bangalore

15	Shri M. Anjaneyulu	Director, National Federation of Urban Co-operative Banks and Credit Societies Ltd. (NAFCUB)
16	Shri K.K. Sharma	Director, NAFCUB
17	Shri K.D. Vora	Director, NAFCUB
18	Shri Ramesh Mantri	Director, NAFCUB
19	Shri A.M. Hindasgeri	Director, NAFCUB
20	Smt. Arti Bisaria	Director, NAFCUB
21	Shri Vilas Desai	Director, NAFCUB
22	Shri D.C. Gupta	Director, NAFCUB
23	Shri Mudit Verma	Director, NAFCUB
24	Shri D. Krishna	Advisor, NAFCUB
25	Shri Subhash Gupta	CEO, NAFCUB
26	Shri Jyotindra Mehta	Director, NAFCUB

27	Shri R.B. Shandilya	Director, NAFCUB
28	Smt. Sayali S. Bhoir	Chief Executive-Secretary, Maharashtra Urban Co-operative Banks' Federation, Mumbai
29	Shri Ashvinbhai N Mehta	Gujarat Urban Co-operative Banks Federation, Ahmedabad
30	Shri Om Prakash	Chairman, Maharashtra Rajya Sahakari Path Sanstha Federation Ltd., Mumbai (MRSPSFL)
31	Shri Prakash Pohare	Director, MRSPSFL
32	Shri V. T. Salunkhe	Manager, MRSPSFL
33	Shri Randhir Sawarkar	Director, MRSPSFL
34	Shri Chandrakant Wanjari	Chairman, Shivcrupa Sahakari Pat Sanstha Maryadit, Mumbai
35	Shri Deepak Patwardhan	Chairman, Swami Swarupananda Sahakari Pat Sanstha Maryadit, Mumbai
36	Shri Shirish Deshpande	General Manager, Buldhana Urban Co- operative Credit Society Ltd.

37	Shri P. V. Ghadge	Chief Executive Officer, Shivkrupa Sahakari Pat Sanstha Maryadit, Mumbai
38	Shri Pravin Darekar	Chairman, Brihan Mumbai Nagari Sahakari Path Sanstha Federation Ltd. (BMNPSF)
39	Shri Nitin Bankar	Director, BMNPSFL
40	Shri Shivajirao Nalawade	Director, BMNPSFL
41	Shri L.H. Gajre	Director, BMNPSFL
42	Shri Bhai Wangde	Director, BMNPSFL
43	Shri Jijaba Pawar	Director, BMNPSFL
44	Shri Vasantrao Deshmukh	Director, BMNPSFL