

RBI policy of shrinking urban banking sector seen as self-inflicted disaster

RBI's 'Few but big banks' policy has hit urban co-op banks the most; dwindled down to 1,540 from 2,104 in 2003

Vidhyadhar Anaskar

IANS



I am fully aware that the title of the article may land the Reserve Bank of India in a tight spot. The only difference is that while the RBI's policy of shrinking the urban banking sector is the need of the hour, the urban cooperative banking sector sees it as a self-inflicted disaster.

Recently a committee has been formed under the chairmanship of former Deputy Governor of Reserve Bank Vishwanathan to find out the problems of urban cooperative banks. The establishment of this committee was expected to be done before the amendments made in the Banking Regulation Act on June 26, 2020. But without doing so, the urban cooperative banking sector is sceptical about the objectives of this committee, which was established after implementing all the necessary provisions of the law to bring complete control of the Reserve Bank over the urban cooperative banks and convert them into commercial banks.

If such a committee is to be appointed in respect of Civil Co-operative Banks, a senior official of the Union Ministry of Finance should be appointed as the chairman of the committee for its transparent functioning and not any former officer of the Reserve Bank of India. Even though the Maharashtra Federation has made a written request to Finance Minister Nirmala Sitharaman in a letter dated February 5, 2021, that the representative should be included only as a 'committee member', the purpose of appointing persons outside the cooperative banking sector is not understood.

This suspicion is confirmed by looking at the questions in the questionnaire given to each bank by this committee to get the views of the urban cooperative banking sector.

It is clear that the policy of integration is to be implemented and the task of creating the background for it has been entrusted to this committee. Also, has the recent merger of some state-owned banks adversely affected customer service? It was read that the Reserve Bank has undertaken a 'Customer Satisfaction Survey' to know this. Are bank mergers positive for consum-

ers in this survey? This question will be asked to the customers. The answer to this will be yes from the customers who only think about the safety of their deposits and capitalising on these answers, the government will implement the policy of consolidation and privatisation as it has the support of all the customers in the banking sector.

In the year 2004, then Finance Minister, P. Chidambaram while announcing the changed policy of the government henceforth 'big but fewer banks announcing the reformed policy it was predicted that only 4 or 5 nationalised banks would continue to operate in the country

After the central government changed its policy in the year 2004, the sequence of events that took place at the Reserve Bank level regarding the urban cooperative banking sector is as follows -

- As suggested by the Board of Financial Supervision in March 2004, RBI has stopped issuing new licences in the cooperative banking sector. From the year 2002 to date RBI has not granted any banking licence to any co-operative sector.
- In March 2004, the Reserve Bank of India made the 'Camels' rating system applicable to commercial banks as applicable to co-operative banks and tightened the

non-performing loan criteria from 180 days to 90 days like commercial banks.

- In February 2005, guidelines on 'Merger and Amalgamation' i.e. Voluntary Amalgamation of Urban Co-operative Banks were issued. Accordingly, the integration of civic cooperative banks was initiated.
- In March 2005, for the first time, the 'Vision Document' for the Urban Co-operative Banking Sector was released and through it, several ways were suggested for the weak banks to exit the sector.
- In the year 2006, the Reserve Bank entered into MoUs with each State regarding Civil Co-operative Banks and took all rights reserved to them.
- The committee of 2021 under the chairmanship of Viswanathan, the same committee tabled in its report in 2006, suggested that the civil cooperative banks should set up a mechanism for raising capital like commercial banks.
- In the year 2007, a Task Force for Urban Banks was created in each state, thereby empowering the banks and cancelling the licences of several banks announcing their intention to keep in the sector.
- Guidelines for a merger of civic cooperative banks with commercial banks in January 2009 Principles were announced. Accordingly, Suvarna Sahakari Bank in

Pune has been merged with Indian Overseas Bank.

- New guidelines have been issued regarding, the merger of Civil Co-operative Banks with the help of Insurance Corporation in February 2010.
- According to the Malegam Committee report in August 2011, the recommendation of the Board of Management and strategy was devised to prioritise mergers.
- Although, the Damodaran Committee in August 2011 to increase depositors' confidence in civic cooperative banks suggested increasing the insurance limit to Rs.5 lakh and was implemented in the year 2020 i.e. after almost nine years.
- In the year 2013, the College of Agriculture, surveyed the Civil Cooperatives banks. Concluding that the basic principles of co-operation are being lost from the banks, it was suggested that they should be converted into commercial banks.
- In October 2012 under the name 'Supervisory Action Framework' on Urban Co-operative Banks Control was tightened.
- The then Deputy Governor of Reserve Bank R. Gandhi who headed the High Power Committee submitted its report in July 2015, which proposed the conversion of multi-state banks into joint-stock companies along with other civil cooperative banks into small finance banks.
- On 13 March 2020, Reserve Bank imposed several restrictions on urban cooperative banks, among the imposition of commercial restrictions, allocation of 50% of the total loan amount to loans up to Rs.25 lakhs, an increase in loan allocation to 75% by 2024 for priority sectors, reduction of group loan limit from 40% to 25%. It is a fact that due to the above efforts of the Reserve Bank, the number of urban cooperative banks in the year 2003 has come down to 1,539 at the country level from 2,013. Given all this history, it doesn't take an astrologer to tell what the future of civic cooperative banks will be in this new committee's report.

(The author is the chairman of Maharashtra State Co-Operative Bank Ltd and also the State Cooperative Council)