29th September, 2021

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Sub: Feedback on Recommendations of the Expert Committee on Primary (Urban) CoOp Banks

Dear Sir,
Namaskar.

Consequent upon the publication of the Report of the Expert Committee on Primary (Urban) CoOp Banks, during last one month we had detailed interaction with a cross section of Urban CoOp Bankers. Based on the deliberations that we had, we give here below the feedback for consideration of the RBI.

1. As there are several Districts without even a single UCB, Norms for Registration of new UCBs be announced immediately, as no new UCB has been registered in last 20 years. Norms be announced at the start of CoOp Week, beginning on 14th November.

   Registration of new UCBs should not be linked to the formation of Umbrella Organization (UO), which may not be formed or may not be functional in the immediate near term.

2. Membership, Activities and Scope of UO be restricted only to cover Financial CoOps.

3. As a Regulator of the Banking Sector, RBI at all times should remain Regulator for all UCBs, irrespective of Tier classification arrangement. Responsibility of regulation of Tier I & Tier II UCBs should not be transferred to UO.

4. Branches be allowed to be opened in the adjoining Districts, including those of neighbouring States. It need not be restricted to neighbouring Districts of the same State/Union Territory. Such relaxation is particularly, necessary for UCBs operating border Districts of different States/Union Territories.

5. Fit & Proper norms for RBI to be satisfied that UCB has a proper Board, CEO and meets Financial Requirements, be decided on the basis of Marks based Objective Guidelines, and such guidelines should be formulated and the same be put in Public Domain. However, RBI should retain for itself 25% marks to make its own independent assessment about an UCB being Fit and Proper.

6. To facilitate Listing & Trading on recognised Stock Exchanges, RBI should issue Guidelines for including Securities issued by an UCB under Securities Contract Regulation Act. This is now possible as RBI is empowered after the amendment to the Banking Regulation Act 1949. This will help eligible UCBs to raise Capital/Long Term Funds.

7. Categorisation of UCBs under different Tiers –

a. Expert Committee has proposed that all UCBs with Deposits more than Rs. 1000 crs and upto Rs 10000 crs be classified as Tier III. This Tier would have a very large canvas. Hence, the proposed Tier III should be divided in two parts as under-
    i. Tier III – UCBs with Deposits more than Rs. 1000 crs and up to Rs. 5000 crs, and
    ii. Tier IV – UCBs with Deposits more than Rs. 5000 crs and up to Rs. 10000 crs.

b. We propose an additional new Tier i e Tier V - UCBs with Deposits more than Rs. 10000 crs.

8. Time frame for meeting the required minimum Networth on transitioning from lower Tier to next Tier be increased to three years (instead of the proposed two years) and if an UCB is showing distinct progress, more time may also be given to achieve the targeted level.

9. Regarding RBI guidelines to all UCBs to achieve Priority Sector Lending (PSL) target of 75% of their total ANBC/CEOBSE is too stringent and demanding. Hence, the target of PSL Lending be pegged at 50% maximum.

10. RBI Guidelines that 50% of the total Loan Book should comprise of accounts with limits upto Rs 25 Lakhs is again a hindrance in achieving a healthy Loan Book.

    For all UCBs, perhaps, except single unit UCBs, the limit of Rs 25 Lakhs is too low and it will lead to high operational cost/s, surplus liquidity eventually affecting profitability and financials of UCBs.

Instead, UCBs be allowed to sanction loans not more than 0.40% of Tier I Capital or Rs 25 Lakhs whichever is higher with a target of 50% of the total advance portfolio.

11. In cases where the Board is superseded, the present practice is to appoint an experienced Banker (either from the RBI or a PSU Bank or from a State CoOp Bank (StCB) / District Central CoOp Bank (DCCB)). This practice should be stopped forthwith.

    Instead, a Financially Strong and Well Managed UCB, preferably, from the same region be appointed as Administrator. This would facilitate revival of weak and stressed UCBs.

    RBI may formulate and put in place detailed guidelines for appointing such **Institutional Administrator**.

12. The recent amendments to the Banking Regulation Act 1949 stipulate that a Shareholder can remain a Director continuously for a maximum period of 8 years. This provision is inconsistent with the existing practice and also the 97th Constitution Amendment which provides a term of 5 years for an Elected Board.

    RBI is empowered to waive/amend any provision of the Banking Regulation Act 1949 and hence, RBI should modify and allow a Shareholder to remain a Director continuously for 2 Terms of 5 years each.

13. The current approach and thinking within the RBI and the Recommendations of the Expert Committee that UCBs under Tier III be regulated on par with Small Finance Banks (SFBs) needs to be reviewed as the profiles and background of SFBs and UCBs are materially different. Hence, an independent regulatory approach for UCBs is essential.

Trust you will consider the above feedback while formulating Policies and a Roadmap for orderly Growth and Development of the UCB Sector.

Thanking you, we remain,

Yours faithfully,

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