



Date 30<sup>th</sup> JULY 2021

To,

The Chairman

Expert Committee on Primary (Urban) Cooperative Banks

Dear Sir,

**Sub: Final Recommendations of the Expert Committee on Urban Cooperative Banks**

It has been a privilege for me to be a member of the Committee and discuss issues related to the terms of reference with very learned Chairman and fellow members in the Committee.

I am thankful to the Chairman and the members for accepting some of my suggestions and those of federations and banks. More particularly, I would like to list out the following where our points of view have been incorporated:

1. Recommendation to drop the requirement of constituting BOM in all tier II banks and making it a condition for branch expansion.
2. Making scheduling of eligible banks automatic.
3. Inclusion of Revaluation Reserve in computation of Tier I capital.
4. Inclusion of UCBs as eligible banks in all the government schemes such as MUDRA, CGTMSE, Interest Subvention/Subsidy Scheme, etc.
5. Approval by Govt. for UCBs to undertake Government Business, with prescribed criteria.
6. Empowering TAFcUBs to play important role in rehabilitation of weak banks.
7. Recommending resumption of Licensing of new UCBs, though conditional to UO becoming operational, revising earlier proposed recommendation of continuing to keep the issue on hold.

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8. Grouping the banks into 4 groups according deposits for differential regulation.
9. Allowing very large banks all the freedom available to commercial banks by prescribing Basel III norms.
10. Donations to be considered as contribution to capital without accompanying voting rights.
11. Recommending relaxations/enhancement in housing loans and gold loans

However, the Report includes many recommendations that I had opposed and even the sector is also not in favour. As a representative of the sector, I would regretfully have to voice my dissent, with a request to take note of it and include the same in the body of the report.

My dissent on various recommendations is as detailed below

### **1. Problems arising in implementing B R Act after amendment**

I do not agree with the recommendation that by RBI just considering clarifying the position appropriately to RCS/CRCS on jurisdictional issues arising out of Banking Regulation (Amendment) Act 2020 will solve the problems of UCBs in this regard. It will require a committee to examine the issues and both sides agreeing to a road map of implementation. In absence of such a clear understanding the UCBs could be put to unending regulatory problems and delays.

### **2. Voluntary conversion of UCBs to Joint stock companies**

I strongly disagree with the endorsement of the idea of voluntary conversion of UCBs to joint stock companies. It militates against the purpose and concept of cooperation. It is not simple issue of all the shareholders opting for changing the structure of the organization. As cooperatives are based on principles of taking limited returns and creating collective reserves which are passed on to next generation of members / shareholders to be held on trust. It is not ethical for a particular generation of shareholders to encash this surplus by converting the cooperative into a joint stock company and making windfall gains.

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It is definitely not moral for the regulator to encourage this unethical practice by according permission to and legitimizing the route by providing guidelines for such conversion. If the members are so interested, the bank may be wound up by liquidation of assets and satisfaction of all liabilities, and the shareholders may form a joint stock company and approach the RBI with a proposal for granting a banking license.

### **3. Regulatory Prescriptions**

#### **A. Tier I banks**

i. I do not agree with the recommendation that we should put a figure of minimum capital of ₹ 2 crore and ₹ 5 crore at this juncture for banks that have been licensed on the basis of entry point norms and are meeting the regulatory requirement of CRAR. The idea of banks being well capitalized at all times can be achieved, instead of recommending arbitrary figures to be met in a given time frame, by prescription of steady growth of 10 per cent in net worth every year as suggested by me in discussions and connecting it to the eligibility for opening branches. This would have been a more constructive way of achieving the same goal for the Tier I banks, notwithstanding the reasoning that without minimum prescribed net worth the banks these days will not be able to meet the expenses needed for technology. Tier I banks do not do big capital expenditure on technology as they are all on use and pay system.

ii. While the prescription of 9 per cent CRAR is alright, I do not agree with the loading of 2.5 per cent, both, for not meeting with the minimum capital norm and for not being member of UO. This should be 1 per cent so that the maximum requirement of CRAR is not more than 11 per cent for Tier I banks.

iii. I do not agree with the prescription of annual increase of 10 per cent in branch expansion of The Tier I banks and of their opening branch in unbanked areas. They should allowed to open branches based on availability of the head room capital, as most of them have very few branches and there is no point in prescribing the 10 per cent norm. It was repeatedly mentioned that UCBs generally open branches in urban clusters and they are not unbanked.

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### **B. Tier II banks**

i. It has been argued by us that in the absence of credible avenues of raising capital for all small and mid-sized banks of tier I and tier II there is no logic in prescribing a steep increase of 6 per cent, from present 9 per cent to 15 per cent, in CRAR with 1 per cent reduction, if they are the members of the UO. I do not subscribe to the recommendation. It should not have been more than 12 per cent at the most, with 1 per cent more for not being the member of the UO.

ii. I do not agree on ceiling of 10 per cent on number of branches that can be opened annually and, on the compulsion, to open branches in unbanked areas. As in tier I, banks in tier II also should have been allowed to open branches up to the head room capital permits without the ceiling of 10 per cent and prescription of compulsory opening of branches in unbanked areas

iii. The recommendation that Tier II banks may continued to be under RBI prescription of loan limit (50 per cent of loan accounts to be under ₹ 25 lakhs or 0.2 per cent of capital subject maximum of ₹ 1 crore) and PSL (75 per cent of advances) is not agreeable. The reduction of PSL to 50 per cent and removal of ceiling of ₹ 1 crore was proposed by sector and it should have been recommended. The recommendation of 95 per cent of incremental loans be subject to the norms till the bank becomes compliant would not really serve the purpose. It would have been meaning full if the percentage was close to 50 per cent so that the growth requirements of existing good borrowers are met and they remain with the banks.

### **C. Tier III banks**

I do not agree with the recommendations for following reasons:

i. While the recommendation that banks having deposits of over ₹ 1000 crore meeting with the net worth criteria of ₹ 200 crore and CRAR of 15 per cent will be entitled for all the operational freedom of an SFB that include entire country as area of operation, freedom to open branches, automatic scheduling, AD licensing etc. is good, 1% reduction I CRAR if bank is member of UO should have been included instead of making it optional for Tier III banks.

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ii. Tier III banks will be hardest hit if the loan limit and PSL norms as existing are either not made inapplicable to them or diluted as suggested for tier II banks.

#### **D. Tier IV banks**

i. The recommendation of all Tier IV banks having deposits of over ₹ 10,000 crore and net worth of over ₹ 500 crore will governed by Basel III and commercial banks CRAR prescription and will be eligible for all the regulatory freedom of a universal commercial bank also implies that the existing loan limit and PSL norms of UCBs will not be applicable to them.

The recommendation that banks in tier IV b virtue of deposit size but ineligible to be authorised to function as universal bank should conform to regulations applicable to tier IV banks but will be given operational freedom of tier II banks is not acceptable and I dissent on this recommendation which also prescribes the loan limit / PSL norms of SFBs for them.

li. I oppose the recommendation of not providing any regulatory incentive / nudge for Tier IV banks to become members of UO.

#### **4. SAF and TAFUB**

i. My dissent is on the fact that there is no clarity in recommendation as to how the present problem of TAFUB having become ineffective with the introduction of SAF is to be solved. TAFUB is still an important forum to bring all the stakeholders together, notwithstanding the primacy that the Banking Regulation Act amendment confers upon RBI. All the stakeholders, big and small come together with TAFUB. I also have to dissent on the emphasis that SAF should be such that resolution time is minimized and stating that the all-inclusive direction should be treated on par with moratorium under Sec45 and if imposed should not continue to there under beyond the time permitted to keep a bank under moratorium. Recommendations for action under Stage III SAF will help in neither rehabilitation nor merger of existing number of weak banks thereby not helping the depositors' interest. Stage III is being recommended when the net worth is very much positive. If all inclusive directions are imposed at this stage, (there are over 50 banks under this category), the banks will have to close down.



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### **5.Umbrella Organisation**

I do not agree with recommendation on UO that for Tier III and Tier IV banks there should be no nudge to become UO members and that for them it should be completely voluntary. If 1451 UCBs (Tier I and Tier II) are benefitted from UO, definitely remaining 88 Tier III and IV banks will also stand to gain. As the banks with sizeable resources, they should be nudged to become members of UO by imposing 1% extra CRAR for not becoming members.

The above are my dissenting observations which may kindly be included in the report.

Thanking You,

I remain,

Yours Faithfully,

(Jyotindra Mehta)

Member,

Expert Committee