

Urban co-op banks irked over RBI's proposal on board of management

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The Urban Co-operative Banking sector is miffed at the Reserve Bank of India's draft guidelines on Board of Management, which makes the constitution of such a Board mandatory to get regulatory approval for expansion of area of operation and opening of new branches. There are fears that such a requirement could stifle growth of the smaller UCBs as they may not be in a position to put in place such a Board.

With almost 69 per cent of the banks in the urban co-operative banking sector being classified as Tier I (with less than ₹100 crore deposits), veteran bankers from the sector feel creating a Board of Management (BoM) will add to their costs as allowance/sitting fees will have to be paid to the Members. There were 1,562 UCBs in the country as at March-end 2017.

Currently, these banks pay allowance/sitting fees only to the board of directors (BoD). What is worrying bankers is that it may be difficult to attract persons having special knowledge or practical experience in areas such as accountancy, economics, finance and information technology to be members of the BoM located in smaller towns as the compensation is unlikely to be worth their time and effort.

Jyotindra Mehta, All-India President, Sahakar Bharati, which is an umbrella body of co-operative banks and societies in the country, said it is unfair to the large number of soundly-managed UCBs to impose BoM on them.

Superior performance

In its 'Report on Trend and Progress of Banking in India,' the RBI itself has stated that the UCBs have outperformed the

commercial banks on many health parameters, including bad debts and gross NPAs.

"This performance is with the existing system of BoD, which indicates that our system is at least as effective as the BoD system that exists among commercial banks, if not better," underscored Mehta.

To overcome constraints imposed by dual regulation (the State/Central Registrar of Co-op Societies also has oversight over UCBs), the RBI has envisaged the BoM concept so that it gets a handle on these banks. The BoM will be responsible to the BoD. Broadly, the BoM's responsibilities will include managing credit, risk and liquidity.

Mehta said the sector opposes any move to curtail growth of urban banks by denying them new branch licences, or by putting other curbs just because they do not subscribe to the idea of a separate BoM.