

RESERVE BANK OF INDIA

DEPARTMENT OF CO-OPERATIVE BANK REGULATION

Minutes of the 33rd meeting of the Standing Advisory Committee (SAC) for Urban Co-operative Banks (UCBs)

The 33rd Meeting of the Standing Advisory Committee for Urban Co-operative Banks was held in Conference Room No 2, Central Office Building, Reserve Bank of India, Mumbai at 3.00 p.m. on May 5, 2017. The meeting was chaired by Shri N.S. Vishwanathan, Deputy Governor and attended by Shri Sudarshan Sen and Shri K.K. Vohra, Executive Directors. List of participants is given in Annex I.

2. Shri Neeraj Nigam, Chief General Manger, Department of Co-operative Bank Regulation welcomed the participants and briefed them about the agenda of the meeting.

3. Shri Sudarshan Sen, Executive Director, presented highlights of the policy initiatives taken by RBI for the co-operative banking sector since the last SAC meeting. He informed the participants that policies on exposure norms, housing loans, priority sector lending and Supervisory Action Framework are under review.

4. In his key-note address, Deputy Governor (DG), expressed concerns about some UCBs not meeting the Priority Sector Lending (PSL) target. He observed that PSL target which was once 60% for UCBs has been brought down to 40% on par with commercial banks. Given the type of clientele UCBs are expected to serve, these banks are expected to have much larger priority sector portfolio as compared to commercial banks. However, it is surprising that the banks are not meeting even the minimum target. On the other hand, unlike commercial banks, UCBs are not penalised for not meeting PSL target and do not contribute to Rural Infrastructure Development Fund. He exhorted the forum to introspect before seeking parity with commercial banks when UCBs are unable to fulfil the basic objective for which they have been set up.

5. DG observed that in successive meetings of SAC, there were demands for parity with commercial banks. The High Powered Committee (HPC) on UCBs (Chairman: Shri R. Gandhi) examined the requirements to be met before bringing parity keeping in view the slowdown in mergers, concerns about the co-operative principles being undermined and limitations in allowing further growth of UCBs. DG stressed upon the need to find solutions to the problems examined by HPC and to address the issues as recommended by HPC. He referred to the meeting conducted with the members of SAC on May 20, 2016 to find ways for implementation of the recommendations of HPC and expressed regret that the members had not responded to the proposals agreed upon. He advised that SAC should deliberate on the issues and the report of HPC should not remain unacted upon.

(Action: NAFCUB)

6. While stressing upon the need for digitalisation of payments, DG stated that digitalisation should, however, not be pursued at the cost of fundamental security. He expressed concern that IT systems of many banks have been hacked and the banks were not even aware that their systems had been hacked. He urged that UCBs should raise the bar on IT capability of their staff and appoint qualified CTOs to provide support on an ongoing basis. Otherwise, the banks should opt for entering the payment system through a third party having requisite security in place. He advised the Federations to give necessary guidance to the banks in these matters. **(Action: Federations)**

7. DG reiterated that SAC is not meant for only seeking concessions and should be used to address the issues faced by co-operative banking sector and find solutions in a consultative environment. He stated that RBI is open to suggestions from the sector and would examine them with sincerity.

8. Dr. A.K.Bhutani, Central Registrar, Co-operative Societies, in his initial remarks, agreed with the key points of DG regarding digitalisation of payments and importance of IT security in UCBs. He suggested that there should be an audit system to identify banks eligible to migrate to IT enabled services. He agreed with DG's view that priority sector lending targets should be met by the banks to achieve the greater objective of financial inclusion. He informed the forum about the amendments contemplated in the Multi-State Co-operative Societies Act, 2002. Regarding conversion of multi-state UCBs into other legal entities, he stressed upon the need to make out a strong case for such conversions. He suggested that small groups may be constituted for taking up the recommendations of HPC one by one so as to iron out differences and proceed with the progressive recommendations. **(Action: DCBR)**

9. Shri Shandilya, Vice president, NAFCUB, expressed appreciation that issues faced by UCBs during demonetisation were taken up proactively by the regulator and cash requirements of these banks were addressed. He informed that NAFCUB is working on an umbrella organisation for UCBs to prevent recurrence of such problems. He briefed the forum about the issues flagged for discussion by NAFCUB.

10. Shri K.K. Vohra, ED, DICGC, briefed the participants on the following items and requested NAFCUB/ State Federations/ Registrars to initiate necessary action:

- a) DICGC is in the process of launching an integrated accounting system (IASS) where the returns could be directly uploaded. The package will be ready within 3 months and will facilitate payment of premium, claim submission and uploading of returns by banks. All co-operative banks may ensure that there are no gaps in computerisation.

(Action: Federations)

b) DICGC website is being upgraded. Co-operative banks should visit the website regularly. They may also make suggestions to DICGC for improving the website.

(Action: Federations)

c) Around 88 banks have delayed payment of insurance premium due on Nov 30, 2016. The banks may not be aware that they have to pay high penal interest at the rate of 8% plus Bank Rate for delay in payment even by one day. He advised the banks and the federations to spread awareness about timely payment of premium to avoid penalties.

(Action: Federations)

d) There is need for co-ordination and support of RCS by early appointment of liquidators to speed up settlement of claims, including creation of panel of Liquidators. Banks have to update depositors' contact details to reduce the time lag between failure and payment to depositors. DICGC has issued guidelines and it is also organising trainings for liquidators. If required, DICGC will organise workshops upon requests from banks and Federations.

(Action : RCS/ CRCS/ Federations)

e) UCBs have some pending court cases where the details are not available with DICGC. He requested banks to respond to the queries raised on priority to enable early resolution.

(Action: Federations)

11. Minutes of the 32nd Meeting of the Standing Advisory Committee held on December 14, 2015 were circulated among the participants. Since no comments/ suggestions were received, the Minutes were treated as confirmed.

12. Smt. Mangaladevi Ashok Kumar, DGM, briefed the participants about the action taken on issues raised in the 32nd SAC meeting. The following decisions were taken after deliberations on the Action Taken Report:

S.No	Subject	Action Taken / Further Action to be taken
12.1	Loans sanctioned by UCBs to other co-operative societies	Dr Anand Jogdand, Additional Commissioner & Special Registrar of Co-operative Societies, Maharashtra informed that section 22 of Maharashtra Co-op. Societies Act permits admission of a co-operative society as member of another co-op. society and section 44 of the Act <i>ibid</i> permits a co-op. society to grant loans to another co-op. society with the special sanction of RCS. DG explained that as per the definition provided in B.R. Act, no UCB can admit another

		<p>co-operative society as member. Dr. Jogdand informed that RCS would recommend amendments to the Act to the State Government. DG suggested that approval for grant of fresh loans by UCBs to other co-op. societies and allowing admission of a co-op. society as member of UCB may be kept in abeyance until the amendments are carried out in the Act. Dr. Jogdand agreed to the proposal.</p> <p style="text-align: right;">(Action : RCS, Maharashtra)</p>
12.4	Targeted Inspection of UCBs to the extent of Trigger points only	<p>Shri Shandilya stated that supervisory actions are initiated without considering the updated financials of the bank thereby causing difficulties in recovery in respect of even good loan accounts. Shri Jyotindra Mehta suggested that Supervisory Action Framework should vest some discretionary powers and flexibility with regional offices. It was agreed to consider the suggestion.</p> <p style="text-align: right;">(Action: DCBR)</p>
12.7	Publish FAQ on classification of NPAs	<p>The forum was informed that FAQ on classification of NPA is already available as Annex to the Master Circular on IRAC norms. In regard to divergence in computation of NPAs and net worth between statutory auditors and RBI inspectors, DG clarified that RBI guidelines would prevail.</p>
12.10	Fit and Proper Criteria for CEOs – RBI to look into matter without transgressing the legal areas of RCS	<p>DG informed the forum that this item be kept out of the purview of SAC in future since it is a bilateral issue between the co-operative sector and RCS</p>
12.11	Membership of all four Credit Information Companies by UCBs and uniform data formats	<p>DG informed the participants that as per the information given to RBI, all Credit Information Companies have uniform data formats. Federations were advised to share information with RBI if any bank had been advised to submit data in a different format by any CIC. DG</p>

		<p>reiterated that membership with all the four CICs is compulsory. He stated that RBI has ensured that the current arrangement is cost-neutral. In regard to the suggestion made by Shri Shandilya that CICs should share data among themselves and provide creditor information to member banks, DG informed that it would not result in any cost reduction since charges for obtaining data from other CIC will be passed on to the UCB..</p> <p style="text-align: right;">(Action : Federations)</p>
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13. The following issues flagged by the members were taken up for discussion;

SI.No	Description of Issues	Decision of SAC
13.1	There should not be any cap on funds parked with nationalised banks / Balances maintained in current accounts with other banks may be excluded for computation of inter-bank exposure limit	<p>The members requested that funds kept in current account with other banks for specific purposes, e.g. RTGS, ATM etc. should not be treated as lending and subjected to ceilings. It was agreed to examine the issue.</p> <p style="text-align: right;">(Action : DCBR)</p>
13.2	Housing Loan ceilings should be enhanced / There should not be any cap for granting housing loans up to the value Rs. 25 lakh / Housing loan exposure limit may be increased from 10% to 15% and loans of value up to Rs. 30 lakh may be exempted for computation of this limit / for Pradhan Mantri Awas Yojana, additional limit of 10% may be given	<p>It was decided to consider the suggestions while reviewing exposure norms.</p> <p style="text-align: right;">(Action : DCBR)</p>
13.3	Loans to medium enterprises should be included under priority sector lending / Under priority sector lending, limit on loans to weaker sections may be enhanced from current limit of Rs. 50,000 to Rs. 2 lakh	<p>It was clarified that this cannot be taken up in isolation and will be examined as and when the larger review of Priority Sector Lending is taken up</p>

13.4	UCBs should be permitted to lend to PSUs	The members were informed that the objective of licensing UCBs is to lend to people not served by mainstream banks. Hence, the suggestion is not accepted.
13.5	Under consortium financing, the borrowing society needs to become member of all financing UCBs. However, the law states that no person can be a member of more than one co-op. society. The law needs a change	It was advised that the banks may not get into consortium financing if there are limitations in terms of legal provisions.
13.6	Limit on loans to nominal members is capped at Rs. 1 lakh. This may be raised to Rs. 2 lakh to enable them avail gold loan with bullet repayment facility up to Rs. 2 lakh	DG informed the participants that co-operative institutions are member-driven and the regulator should not be expected to promote nominal membership who have no say in the affairs of a co-operative bank.
13.7	AD - category I UCBs may be permitted to provide credit facilities to smaller UCBs without admitting them as members	This is not possible under the current legal framework.
13.8	All UCBs must be allowed to open account with RBI	The members informed that even though UCBs are permitted to open current account with RBI, applications of banks operating outside city limits are not entertained by RBI. Federations were advised to provide details of rejected applications. It was decided to also take up the matter with DGBA, if required. (Action : DCBR /Federations)
13.9	Common KYC format for customer profile may be prescribed by RBI	ED (SS) informed that Central KYC has common KYC template with minimum mandatory fields. Banks are free to collect additional information as per their requirement.
13.10	Limit on donations should be raised from the current ceiling of 1% to 5%	It has been decided to maintain status quo on donation policy.

13.11	State Government officers are not authorised to inspect UCBs/Multi-state co-op. societies registered under MSCS Act 2002	This is a bilateral issue between RCS and CRCS.
13.12	Minimum net worth criteria prescribed for internet banking may be reduced from Rs. 50 crore to Rs. 25 crore / All FSWM banks may be permitted to provide internet banking, mobile banking, centralised payment system services, etc. without insisting on minimum net worth	The participants were informed that there is no separate net worth criterion prescribed for offering mobile banking facility as it is subsumed in the facility with respect to internet banking where minimum net worth of Rs. 50 crore has been prescribed taking into account the risks and costs involved. Banks should be in a position to meet additional costs for engaging professional CISA, CTO, installation of firewall for handling RTGS, etc. DG stated that with the increasing technological challenges, the cost of ITeS will only increase in future. Therefore, banks offering the facility should have adequate net worth.
13.13	FSWM criteria may not be insisted upon for off-site/ on-site ATMs and net banking facilities	Maharashtra Federation expressed concerns that even a slight increase in NPA renders some banks ineligible to offer these facilities. The participants were informed that NPA figures of the UCB sector for 2015-16 were within the limit set by RBI and there is no justification in seeking relaxation.
13.14	RBI may do away with the condition of FSWM and prior approval for engaging the services of BCs	The suggestion was not agreed to.
13.15	FSWM banks may be permitted to offer ASBA facility for IPOs	The matter falls in the jurisdiction of SEBI. RBI has already recommended the case to SEBI for non-scheduled UCBs.

13.16	FSWM banks may be allowed to open regional offices without prior approval of RBI	The participants expressed the view that the present limit of 40 branches for setting up a regional office is too high. It will be difficult for a regional office to have control over 40 branches if they are spread over a large area or in more than one State. It was agreed to have a relook into the policy. (Action : DCBR)
13.17	Co-operative banks may be permitted to allow transactions up to Rs. 2 lakh per day under internet/ mobile banking without prior approval of RBI	It may not be possible to review the extant instructions at this juncture.
13.18	Marginal Standing Facility may be given to UCBs to handle CTS clearing returns coming after 5 p.m. CBLO also closes at 4 p.m.	It was decided to examine the request. (Action : DCBR)
13.19	UCBs may be permitted to have mutual funds and provident funds as approved counter parties for secondary market transactions in non-SLR securities	Presently, UCBs are allowed to have commercial banks and PDs as counterparties in secondary market trades. A member stated that small UCBs are having difficulty in dealing with these entities if transaction value is below Rs. 5 crore. Maharashtra UCBs Federation was advised to ascertain whether majority banks are having problems in dealing with PDs and revert to DCBR. (Action: Mah. UCBs Federation)
13.20	There is delay in settlement of claims under DEA Fund	DG informed that there was no basis in the complaint that DEA Fund claims from co-operative banks are settled slowly. He informed that RBI is moving to an automated system for settlement of claims and assured that RBI would take steps to minimize delays. (Action : DBR)

13.21	CICs are following different data formats which increases cost to banks	Federations were advised to share information with RBI if any bank had been advised by any CIC to submit data in a format other than the one agreed upon. RBI will also check with CICs. [Action : Federations/ DBR(CID)]
13.22	LAF may be extended to non-scheduled UCBs as well	It was informed that LAF cannot be extended to non-scheduled UCBs.
13.23	Differential regulation should be introduced for tier I and tier II banks. Introducing one more tier can be considered by revising the benchmark for each tier.	The suggestion will be examined when review of Vision Document is taken up. (Action – DCBR)
13.24	Co-operative banks may be authorised to accept deposits under Pradhan Mantri Garib Kalyan Deposit Scheme	The matter falls in the domain of the Government of India.
13.25	Co-operative banks may be allowed to conduct government business, e.g. pension, tax collection	Members were informed that DGBA would consider the proposals if sent with the approval of central / state government and routed through the Banking Department of the concerned regional office of RBI.
13.26	UCBs to be covered under CGTMSE scheme of Gol	Members were informed that RBI has already recommended inclusion of co-operative banks in CGTMSE Scheme to Government of India.
13.27	First class scheduled UCBs may be designated as nodal banks for various government subsidies, e.g. Technology Upgradation Fund, Credit Linked Capital Subsidy Scheme, etc.	The matter falls in the domain of the Government of India
13.28	CENVAT credit was denied to Cosmos Bank on the insurance premium paid to DICGC.	ED, DICGC stated that no other bank has raised this issue. Cosmos Bank was advised to take up the matter with CENVAT Authorities of the region concerned.

14. Smt. Sayali Bhoir, Chief Executive, Maharashtra UCB Federation raised the issue of rationalisation of risk weights and LTV ratio for housing loans on par with commercial banks. DG explained that the risk weights and LTV ratio for commercial banks are based on Basel II /III requirements, which cannot be applied partially to co-operative banks leaving out other aspects of the Basel framework. In regard to her request for allowing UCBs to provide reverse mortgage loans, DG advised that UCBs should first comply with priority sector lending targets before seeking new dispensations.

15. Smt. Uma Shankar, CGM, FIDD, expressed concerns about trading in Priority Sector Lending Certificates (PSLCs) by UCBs. She observed that some UCBs which are carrying out the transactions through sub-membership route are unable to realise the prevailing market premiums and settle for rates much below the market rates due to information asymmetry. She advised that UCBs should trade either directly or check with commercial banks about the going rates, before putting through the deals. **(Action: Federations)**

16. While raising the issue of IT implementation in small UCB, Shri Jyotindra Mehta, Chairman, Gujarat UCBs Federation, informed the forum that Gujarat Federation has hired one CTO for guiding the small banks on IT security and related aspects since small banks cannot afford the cost of having an independent CTO. DG observed that it is a good idea to have a single CTO for several small banks but, where it is decided to outsource the services of a third party, the Federation and banks should also ensure accountability and responsibility through MoU.

17. Shri Neeraj Nigam, CGM informed that RBI would be coming out with a document on “Core Banking Solution Requirements for UCBs: Functional and Technical” in consultation with IDRBT. All UCBs may ensure that their systems meet the minimum requirements set in the document. He also flagged the issue of delay in implementation of CBS by some UCBs, particularly in Karnataka and Tamil Nadu. Shri Narasimhamurthy, JRCS, Karnataka informed that CBS implementation in Karnataka is under process. Dr. Rajendran, Addl. RCS, Tamil Nadu informed that CBS implementation in UCBs in the state is expected to be completed in the next three months.

(Action: RCS, Karnataka / Tamil Nadu)

18. The meeting ended with a vote of thanks by Shri A.G. Ray, General Manager.

List of Participants

SI No	Name of Participant	Designation	Organization
1	Dr. Ashish Kumar Bhutani	Central Registrar of Co-operative Societies	Ministry of Agriculture and Farmers' Welfare, Government of India
2	Dr. Anand Jogdand	Additional Commissioner & Special Registrar of Co-operative Societies, Maharashtra	Commissioner for Co-operation & Registrar of Co-operative Societies, Government of Maharashtra
3	Dr. K. Rajendran	Additional Registrar of Co-operative Societies, Tamil Nadu	Office of the Registrar of Co-operative Societies, Government of Tamil Nadu
4	N.B.Upadhyay	Commissioner of Co-operation & Registrar of Co-Operative Societies, Gujarat	Agriculture, Co-operation and Farmers' Welfare Department, Government of Gujarat
5	M D Narasimhamurthy	Joint Registrar of Co-operative Societies, Karnataka	Office of the Registrar of Co-operative Societies, Government of Karnataka
6	R.B. Shandilya	Vice-President	NAFCUB
7	Sayali S. Bhoir	Chief Executive and Secretary	Maharashtra UCBs Federation
8	T R Chikkaranganna	Director	The Karnataka State Co-operative Urban Bank Federation Ltd.
9	Jyotindra Mehta	Chairman	The Gujarat UCBs Federation
10	V G Kannan	Chief Executive	Indian Banks Association (IBA)
11	Gautam Thakur	Chairman	The Saraswat Co-operative Bank Ltd.
12	Milind Kale	Chairman	The COSMOS Co-operative Bank Ltd.
13	Suhas N. Sahakari	Managing Director	SVC Co-operative Bank Ltd.
14	Chandrashekar R. Mulky	Managing Director & CEO	Bharat Co-operative Bank(Mumbai) Ltd.
15	Vinod G. Dadlani	General Manager & CEO	The Kalupur Commercial Co-operative Bank Ltd.
16	Ramesh Kumar Bung	Sr. Vice-Chairman	AP Mahesh Co-operative Urban Bank Ltd.

Participants from RBI

SI No	Name of Participant	Designation
1	N. S. Vishwanathan	Deputy Governor
2	Sudarshan Sen	Executive Director
3	K. K. Vohra	Executive Director
4	Neeraj Nigam	Chief General Manager, DCBR
5	Uma Shankar	Chief General Manager, FIDD
6	Rohit Jain	Chief General Manager, DCBS, CO
7	Jyuthika M. Jivani	Regional Director, Nagpur
8	P.K. Chopla	General Manager-in-C, DCBS, MRO
9	V. Chalapathy	General Manager, DICGC
10	V.K.Jayakar	Joint Legal Advisor
11	A. G. Ray	General Manager
12	Mala Sinha	General Manager
13	T. V. Rao	General Manager
14	N. Sridhar	General Manager
15	Rajnish Kanojia	General Manager
16	Mangala Devi Ashok Kumar	Deputy General Manager
17	S. M. Shirke	Assistant General Manager
18	T.S. Chavan	Assistant General Manager
19	Aditi Gupta	Assistant General Manager
20	Soma Acharya	Assistant General Manager
21	Swati B Sharma	Assistant General Manager
22	Ritu Khatri	Manager
23	U. V. Jani	Manager
23	Manish Manhar	Manager
24	Neelam Raikwar	Assistant