

## **6. Strategy**

### **6.1 State Specific Approach**

6.1.1. The strategy to deal with the UCBs may need to be state specific, one that involves the concerned State Government, RBI and the UCBs operating in the state. A State level Task Force on Co-operative Urban Banks (T AFCUB) comprising the Regional Director (RD) of the RBI for the concerned state, Registrar of Cooperative Societies, an official from Central Office of Urban Banks Department (UBD), in-charge of UBD of the concerned Regional Office of RBI and a representative each from NAFCUB and the State Federation of the UCBs, could be set up, in each of the 5 states with high concentration of UCBs and in a few other states having, say, more than 50 banks to explore viable state specific solutions, including, on the future set up of the existing unlicensed banks whose license applications are pending with the RBI. Similar approaches may be considered for other states in a second phase after assessing the working of the state specific approach in the five states and in states with more than 50 UCBs. However, if any state prefers to adopt the approach in the first phase itself, RBI could consider the proposal appropriately.

6.1.2 The Regional Director (RD) of the RBI and RCS of the concerned state could be the Chairman and co-chairman of T AFCUB, respectively. Each T AFCUB could identify the weak but viable (non-scheduled) UCBs in the respective states and frame a time bound programme for revival of such entities. It would identify the nature and extent of funds required to be infused, the changes in management where necessary and suggest periodical milestones to be achieved. The RBI would closely monitor the progress made by the bank vis-à-vis the revival plan and initiate appropriate action, in case of non-achievement of the targets, as per the plan. Further, UCBs which are not found viable by the T AFCUB, could be required to exit from banking business either through merger with strong banks, if such merger makes economic sense to the acquiring bank, or through voluntary conversion into a cooperative society by paying off the non-member deposits and withdrawing from the payment system and if there is not other viable option they could even be taken into liquidation by the Registrar at the behest of the RBI. The proposed terms of reference of T AFCUB is given in Appendix.

6.1.3. The guidelines on merger and amalgamations (M&A) of UCBs have been issued vide our circular UBD.No.(PCB)Cir.36/09.169.00/2004-05 dated February 2, 2005. These guidelines provide that Reserve Bank of India may consider proposals for merger and amalgamation in the following circumstances:

(i) When the networth of the acquired bank is positive and the acquirer bank assures to protect entire deposits of all the depositors of the acquired bank.

(ii) When the networth of acquired bank is negative and the acquirer bank on its own assures to protect deposits of all the depositors of the acquired bank.

(iii) When the networth of the acquired bank is negative and the acquirer bank assures to protect the deposits of all the depositors of the acquired bank with financial support from the State Government extended upfront as part of the process of merger.

In all cases of merger/ amalgamation the financial parameters of the acquirer bank, post merger, should conform to the prescribed minimum prudential and regulatory requirement for urban co-operative banks and the realizable value of assets has to be assessed through a process of due diligence. TAFUCB shall make suitable recommendations on M&A based on the above guidelines

## 6.2 Memorandum of Understanding with State Governments

As per provisions of the State Cooperative Societies Act as also the BR Act 1949 (AACS), the Reserve Bank is not empowered to take action against the management of an urban cooperative bank, in case of need, as in respect of commercial banks. It may be useful to have a working arrangement in the form of Memorandum of Understanding (MOU) between the RBI and the State Government/CRCS to ensure that the difficulties caused by dual control are suitably addressed through such MOU/s. The State Governments may, through the MOU, agree to take immediate action on requisitions of RBI for supersession of the Board of Directors, appointment of liquidators, initiating action for removal of CEO/Chairman of a bank, enhancing quality of HR and IT resources in the banks on the lines required by RBI, work to raise the standards of corporate Governance by putting in place certain minimum fit and proper criteria for members to be eligible for seeking election for the post of director, institute special audit by Chartered Accountants, the cost of which may be borne by the RBI, and furnish reports of the findings within a given time frame, introduce long form audit reports for conducting statutory audit, modify its audit rating models to bring it on par with the gradation system of RBI, conduct statutory audit only through external Chartered Accountants in respect of banks with deposits over a specified minimum level etc. The draft MOU is given in Annexure –I. The TAFUCBs would be set up in states that sign the MOUs with the RBI. In respect of the states that sign the MOU but do not fulfill the commitments therein, the TAFUCB would cease to function and RBI would be at liberty to initiate appropriate corrective action