



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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January 6, 2012

Reserve Bank Cancels the Licence of Veershaiva Co-operative Bank Ltd., Mumbai (Maharashtra)

In view of the fact that Veershaiva Co-operative Bank Ltd., Mumbai (Maharashtra), had ceased to be solvent, all efforts to revive it in close consultation with the Government of Maharashtra had failed and the depositors were being inconvenienced by continued uncertainty, the Reserve Bank of India delivered the order cancelling its licence to the bank as on the close of business on December 30, 2011. The Registrar of Co-operative Societies, Maharashtra has also been requested to issue an order for winding up the bank and appoint a liquidator for the bank. It may be highlighted that on liquidation, every depositor is entitled to repayment of his/ her deposits up to a monetary ceiling of ₹1,00,000/- (Rupees One lakh only) from the Deposit Insurance and Credit Guarantee Corporation (DICGC) under usual terms and conditions.

The bank was granted a licence by Reserve Bank on March 26, 1974 to commence banking business. The bank was issued supervisory instructions on June 18, 2007 based on the inspections findings with reference to its financial position as on March 31, 2006 and these supervisory instructions were modified, from time to time, based on the findings of the subsequent inspection reports.

The statutory inspection of the bank under Section 35 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) [the Act], with reference to its financial position as on March 31, 2009 revealed that the assessed networth of the bank was negative and the bank's deposits had eroded to the extent of 13.0%. The CRAR of the bank was (-) 35.4% against the regulatory requirement of 9%. The gross and net NPA were 57.6% and 44.4% of gross and net advances respectively. The assessed loss stood at ₹3350.95 lakh. Based on the inspection report as on March 31, 2009, the bank was advised on October 29, 2009 not to resort to borrowings, allow premature withdrawal of deposits, grant fresh loans and explore the possibility of merger with a sound UCB.

Inspection of the bank with reference to its financial position as on March 31, 2009 also revealed that the bank had sanctioned loans to 192 individuals at its Kandivili branch amounting to ₹210.00 lakh through a tie-up arrangement with an auto dealer, M/s Satguru Auto. In about 145 cases the lien endorsements obtained from RTO were found not to be genuine and hence these were treated by the bank as fraudulent transactions. RCS had conducted enquiry under Section 83 of the Maharashtra Cooperative Societies Act, 1960 (in short 'MCS Act, 1960') for the frauds perpetrated at the bank. As informed by RCS, the enquiry officer had submitted his report under section 83 of the MCS Act, 1960 on February 08, 2010 which revealed fraud and misappropriation of funds in respect of auto loans at Kandivili branch and irregularities in other loans sanctioned at Andheri branch. As per the report, apart from the said auto loans, the bank had

disbursed other loans having insufficient mortgage security and lack of repayment capacity of borrowers involving 76 loan accounts with total outstanding of ₹6253.44 lakh where the bank may suffer loss.

The statutory inspection of the bank with reference to its financial position as on March 31, 2010 revealed that the financial indicators of the bank has further deteriorated and its assessed net worth stood at ₹(-)3383.32 lakh and assessed CRAR stood at (-) 53.2%. The erosion in deposits increased to 15.9%. The gross and net NPAs formed 69.8% and 58.4% of the gross and net advances respectively. The inspection report was forwarded to the bank on June 24, 2010 for rectification of deficiencies and compliance. However, the compliance report submitted by the bank vide letter dated August 23, 2010 was not considered satisfactory. Based on the inspection findings as on March 31, 2010 the bank was advised on August 27, 2010 that existing Supervisory Action/ Operational Instructions will continue.

The statutory inspection of the bank as on March 31, 2011 revealed that the financial position of the bank continued to deteriorate. The assessed net worth as on March 31, 2011 stood at (-)Rs.5231.01 lakh, CRAR stood negative at (-)139.6% deposits have also been eroded to the extent of 33.4%, gross NPA constituted 79.1% of gross advances, net NPA constituted 63.0% and the loss was assessed at ₹3659.32 lakh during 2010-11.

In view of the steep deterioration in its financial position since 2008-09 as revealed by successive inspections from March 31, 2009, the bank was placed under all-inclusive directions under section 35A of the Act vide order UBD.CO.BSD-I/D-46/12.22.293/2011-12 with effect from the close of business on August 3, 2011.

The quality of management and the standard of governance in the bank were poor. The Board was ineffective in laying down policies for management of the key asset portfolio and was not able to ensure observance of even laid down policy guidelines. There was complete absence of efforts for improvement of the bank's financial position. The management had failed to present the true and fair view of affairs of the bank in its published financial statements for several years to the members, depositors and public. The performance of the Board was not satisfactory, as evident from the continued deterioration in the bank's financial position as well as various violations of regulatory guidelines. The management had not displayed sufficient firmness/ seriousness in dealing with the staff responsible for the irregularities also recovery of NPAs. The Board of Directors was ineffective and is responsible for deterioration in the financial position of the bank and for conducting the affairs of the bank in a manner detrimental to the interest of the depositors. TAF CUB had also recommended that SCN may be issued to the bank. Accordingly SCN dated August 17, 2011 was issued to the bank requiring it to show cause as to why the licence granted to it under Section 22 of the Act, on March 26, 1974 to carry on banking business should not be cancelled and the bank be taken to liquidation.

The submissions made by the bank in reply to the show cause notice were examined and not found satisfactory. There was no concrete revival plan or merger proposal from the bank.

Therefore, Reserve Bank of India took the extreme measure of cancelling licence of the bank in the interest of bank's depositors. With the cancellation of licence and commencement of liquidation proceedings, the process of paying the depositors of the Veershaiva Co-operative Bank Ltd., Mumbai (Maharashtra), the amount insured as per the DICGC Act, will be set in motion subject to the terms and conditions of the Deposit Insurance Scheme.

Consequent to the cancellation of its licence, Veershaiva Co-operative Bank Ltd., Mumbai (Maharashtra) is prohibited from carrying on 'banking business' as defined in Section 5(b) of the Act.

For any clarifications, depositors may approach Smt. K.S. Jyotsna, Deputy General Manager, Urban Banks Department, Mumbai Regional Office, Reserve Bank of India, Mumbai, whose contact details are as below:

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Press Release : 2011-2012/1079

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