



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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September 26, 2013

Reserve Bank Cancels the Licence of Kasundia Co-operative Bank Ltd., Howrah (West Bengal)

The Reserve Bank of India has, effective September 6, 2013, cancelled the licence of Kasundia Co-operative Bank Ltd. Howrah (West Bengal) as it had ceased to be solvent and the depositors were being inconvenienced by the continued uncertainty. Consequent to the cancellation of licence, Kasundia Co-operative Bank Ltd. Howrah (West Bengal) is prohibited from carrying on business of 'banking' as defined in Section 5(b) of the Banking Regulation Act 1949 (AACS). The Registrar of co-operative Societies, West Bengal State has also been requested to issue an order for winding up the bank and appoint a liquidator for the bank.

With the cancellation of licence and commencement of liquidation proceeding, the process of paying the depositors of the Kasundia Co-operative Bank Ltd. Howrah (West Bengal), the amount insured as per the Deposit Insurance and Credit Guarantee Corporation Act, 1961 will be set in motion subject to terms and conditions of the Deposit Insurance Scheme.

Upon 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.

For any clarifications, depositors may approach Shri C. Patnaik, General Manager, Urban Banks Department, Kolkata Regional Office, Reserve Bank of India, Kolkata, whose contact details are as below:

Postal Address: Reserve Bank of India, Urban Banks Department, 15, Netaji Subhash Road, Kolkata-700001; Telephone Number: (033) 22130687; Fax Number: (033) 22439290; [E-mail](mailto:helpdoc@rbi.org.in).

Background:

The bank was granted a licence under Section 22 of the B. R. Act 1949 (AACS) by the Reserve Bank on July 26, 1986 to conduct banking business. The Statutory Inspection of the bank conducted under section 35 of the B. R. Act 1949 (AACS) from September 30, 2002 revealed that the financial position of the bank was deteriorating, resulting in inter-alia, deposit erosion of the bank to the extent of 11.5%.

The financial indicators of the bank continued to deteriorate further as revealed during subsequent inspections conducted with reference to its financial position as on September 30, 2004, March 31, 2005 and March 31, 2006. The bank was placed under directions under Section 35A of the B. R. Act 1949 (AACS) on January 15, 2004, which were further modified in January 2007 prohibiting the bank from (i) accepting fresh deposits, (ii) allowing premature withdrawal of deposits and (iii) granting/renewal of any loan except CC/OD provided it is a standard account without any ceiling on withdrawals.

The statutory inspection of the bank as on March 31, 2009 revealed further deterioration in the financial position of the bank with assessed net worth at (-) ₹ 1465.60 lakh and deposit erosion of 69%. The gross and net NPAs of the bank were at

₹ 328.85 lakh and ₹ 94.14 lakh constituting 66.9% and 36.6% of the gross and net advances respectively. The bank had not complied with section 11 (1) and Section 22 (3) of the B.R. Act 1949 (AACS) and also defaulted in compliance with regulatory reserve requirement of CRR and SLR. The bank faced serious liquidity constraints and frequently resorted to sale of Government Securities and borrowings from the West Bengal State Co-operative Bank Ltd.

In view of the deteriorating financial position of the bank, a Show Cause Notice (SCN) seeking reasons as to why the banking licence issued to the bank should not be cancelled was issued on August 7, 2009. The bank in its reply dated September 10, 2009 stated that it would be able to achieve positive net worth and comply with CRAR requirements in five years with the proposed financial support from the State Government. The State Government assured support in the form of Special Reserve Fund with a view to making the bank's net worth positive. In view of this, the proposed action of cancellation of bank's licence was deferred.

During the financial year 2009-10, the bank had resorted to borrowings from the West Bengal State Co-operative Bank Ltd. by availing loan against fixed deposits without prior approval from RBI in violation of extant directions. Consequently, a penalty of ₹ 1.00 lakh was imposed on the bank on October 01, 2010 in terms of the provisions of Section 47A(1)(b) of B.R. Act 1949 read with Section 46(4) of the B.R. Act 1949, which was paid by the bank on November 04, 2010.

The statutory inspection with respect to position as on March 31, 2010 indicated alarming deterioration in financial position with assessed net worth at (-) ₹ 1819.50 lakh and deposit erosion of 74.7%, with gross and Net NPA constituting 72.7% and 66.70% respectively.

The statutory inspection of the bank conducted with reference to the bank's financial position as on March 31, 2011 revealed deteriorated financial position with assessed net worth (-) ₹ 891.32 lakh, gross and net NPA still at 77.5% and 44.4% in spite of capital infusion of ₹ 14.66 crores by the State Government.

In July 2012, the bank faced severe liquidity crunch. The bank had stopped cash payments completely and returned most of the outward clearing instruments due to shortage of funds with clearing banker. In view of the above exceptional circumstances and the interest of depositors, all inclusive direction under section 35 A of B.R. Act 1949 (AACS) was imposed on the bank on September 25, 2012, restricting withdrawal of deposits up to ₹ 1000/- per depositor.

The statutory inspection of the bank as on March 31, 2012 revealed that the assessed net worth had significantly eroded at (-) ₹ 2142.41 lakh, CRAR at (-) 318.96% and Gross and Net NPA at 77.27% and 46.58% respectively. Deposit erosion of the bank stood the alarming level of 55.7%. The assessed net loss of the bank stood at ₹ 1769.21 lakh, with accumulated loss at ₹ 3906.30 lakh. The bank also violated the extant RBI directions.

In view of the above, another show cause notice (SCN) for cancellation of licence under Section 22 of B.R. Act 1949 (AACS) was issued to the bank on February 5, 2013. The bank's reply dated March 7, 2013 was examined and found to be not satisfactory. In view of the bank's precarious financial position with no merger proposal forthcoming and chances of its revival being remote, continuation of the bank would have been against public interest. The Reserve Bank of India, therefore, cancelled the licence of the bank in the interest of bank's depositors.