7. Proposed Operating Framework

7.1. The entities in the sector display a high degree of heterogeneity in terms of their deposit/ asset base, area of operations and nature of business. A system of differentiated regulatory and supervisory regime as opposed to a 'one size fits all" approach may be more appropriate, keeping in view the vastly differentiated entities comprising the sector. The broad principles governing RBI regulation over UCBs could largely follow the principles as under:

A. Unit Banks (Simplified regulatory regime)

7.2. Unit banks, in particular, the smaller among them, essentially capture the basic concept and spirit of cooperative banking since they function from a single office/ branch and cater to the clientele in and around their place of business. As such, they have a natural ability to relate to the customer, have the local feel and flavour and consequently modulate their business strategy to meet the local aspirations. Since small unit banks with deposits below, say, Rs.50 crore epitomise the basic tenets of cooperative banking, less stringent regulations could be considered for such banks. For example, CRAR could be replaced by the simpler form of minimum capital requirement viz. Net Owned Funds to NDTL ratio which is easier to compute for the small banks while serving the purpose adequately. At the same time, keeping in view their ability to assess and absorb risks, appropriate limitations like a lower level of single and group exposure limit could be prescribed for these banks to contain their concentration risk. Similarly, the exposure by such banks to sensitive sector should be checked, as these banks lack the wherewithal, in terms of expertise, technology and financial strength to sustain exposure to capital market / real estate etc. As such, keeping in view the nature and size of their operations, appropriate relaxations like a lower prescribed minimum investment in G-Sec (in view of their inability to access market) and restrictions necessary to insulate them from systemic shocks may be introduced for such banks. Ideally the unit banks should work within a small geographical area and accordingly the Unit banks to be eligible for the simplified regulatory regime shall conform to this requirement by rolling back their business in far off locations. The suggested simplified regulatory prescriptions are given in Annexure - II.

B. All Banks (other than unit banks with deposits less than Rs. 50 crore)

7.3. Regulatory prescriptions, as applicable to commercial banks should be applicable in all respects to banks falling in this category. However, for these banks the extant relaxations for UCBs could remain in force for the period already prescribed. Further, it is suggested that as a matter of principle, there should not be any unscheduled Multi State Bank. This could be operationalised through the

Central Registrar of Cooperative Societies, which could ensure that a bank is scheduled before it is granted registration under the Multi State Co-operative Societies Act. In order to ensure that all scheduled banks are also, as far as possible, strong enough to support themselves and a few smaller UCBs around them, the RBI could prescribe appropriate norms for scheduling of cooperative banks. Further, banks in this category which comply with the prescribed regulatory requirements can be extended facilities and privileges as are presently available to the commercial banks of comparable size.

7.4. The existing scheduled banks, both under Multi State and State Cooperative Societies Act, which do not meet the prescribed criteria and do not comply with the prudential and regulatory regimen akin to that of commercial banks, could be excluded from the second schedule to the RBI Act through a time bound corrective action framework As a corollary, the existing non-scheduled Multi State Banks could also be required to close their branches/withdraw from any business outside the principal State of their activity.