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**LACK OF CORPORATE GOVERNANCE IN URBAN CO-OPERATIVE BANKS (UCB)
RESULTS: UCB ARE FALLING LIKE PACK OF CARDS, LEAVING HAPLESS
DEPOSITORS HIGH AND DRY!**

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Abstract:

Corporate Governance is concerned with the systems and processes for ensuring proper accountability, probity and openness in the conduct of an organization's business.

Thus, it is the process under which the organizations try to hold the balance between economic and social goals and between individual and communal goals. The basic aim of Corporate Governance is to align as nearly as possible the interests of individuals, corporations and society. Banks have an overwhelmingly dominant position in developing the economy's financial system, and are extremely important engines of growth. Despite the differences between co-operative banks in the different countries, all networks share one common and defining feature – member ownership. The cooperative banks are effectively owned and controlled by their local customers through the



membership concept. Corporate governance in banks has assumed importance in India post-1991 reforms because competition compelled banks to improve their performance. Due to these core values and corporate governance rules, cooperative banks were not at the root of the crisis and have shown to be more resilient during the crisis. With core values and corporate governance model of cooperative banks in mind, the importance of corporate governance is much greater than is considered at present.

This paper reviews the existing codes of Corporate Governance (CG) in India. It uses secondary data for analyzing the adaptability of CG codes in the Indian context. The data were collected through various published and unpublished reports and websites. The paper reviews, what is conveniently forgotten is the pathetic troubles of a large number of bank depositors caused by a series of failures of urban co-operative banks (UCBs) year after year. During first ten months of the current year, ten urban co-operative banks death causing untold hardship to a large number of bank depositors, who are virtually left high and dry for no fault of theirs.

Key words: *Corporate Governance, Urban Co-operative Banks, investor's confidence, etc.*

Introduction:

There is an unprecedented euphoria both at the Reserve Bank of India (RBI) and the Finance Ministry to grant new banking licenses. There are 26 aspirants waiting in the wings to start banking operations once they get through the fit and proper criteria prescribed by RBI. To add to this excitement, the governor of RBI has recently announced that the central bank would soon come out with major reforms in the banking sector that will allow foreign banks to enter India in a big way and even take over domestic lenders, which has even created ripples in the stock market in our country. On the other side of the spectrum is the strong view conveyed by the Parliament's Standing Committee on Finance (PSCF) against granting new banking licenses to industrial houses. The PSCF felt the industrial houses may not be geared to achieve national objectives of priority sector lending and



financial inclusion, going by the past experience of poor performance of many new private banks licensed by RBI. In this exuberance, what is conveniently forgotten is the pitiable (pathetic) plight (difficulty) of a large number of bank depositors caused by a series of failures of urban co-operative banks (UCBs) year after year. During first ten months of the current year, ten urban co-operative banks death causing untold hardships (lack of money) to a large number of bank depositors, who are virtually left high and dry for no fault of theirs.

The UCBs that closed during the calendar year 2013 are as under:

Date of closure	Name of UCC Bank	State	Date of license
3 January 2013	Swami samarth Sahakari Bank Ltd. Solapur.	Maharashtra	13 February 1988
7 February 2013	Abhinav Sahakari Bank Ltd. Rahuri. Nagar	Maharashtra	25 March 2000
21 May 2013	Arjun Urban Co-op. Bank Ltd. Solapur.	Maharashtra	14 October 1996
12 June 2013	Vaishali Urban Co-op. Bank Ltd. Jaipur.	Rajasthan	2 March 1998
24 August 2013	Mahatma Fule Urban Co-op. Bank Ltd. Patoda	Maharashtra	23 July 1998
27 August 2013	Srikakulam Co-op. Urban Bank Ltd. Srikakulam	Andhra Pradesh	21 November 1995
6 September 2013	Kasundia Co-op. Bank Ltd. Howrah	West Bengal	26 July 1986
12 September 2013	Vishwakarma Nagari Sahakari Bank, Aurangabad	Maharashtra	28 October 1999
25 September 2013	Sri Siddhivinayak Nagari Sahakari Bank. Rasayani	Maharashtra	7 January 1995
1 October 2013	Konkan Prant Sahakari Bank Ltd., Mumbai	Maharashtra	17 June 1988



As on 31 March, 2013, there were 2,007 urban co-operative banks functioning in the country under the dual control of the state governments and the RBI and these banks are covered under the deposit insurance cover of Rs1 lakh per depositor provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC), which is a subsidiary of RBI. Every year several urban co-operative banks go into liquidation. During 2012-13, as many as 19 co-operative banks have been wound up, where as during 2011-12 banks numbering 23 were closed down. If you go through the press releases of RBI, every other day, the central bank penalizes one co-operative bank or the other for breach of banking regulations. This finally, culminates in the withdrawal of banking license at an average of more than one bank a month, which is not only painful to the depositing public but a sad commentary on the functioning of the banking institutions in our country.

Why corporate governance in Indian banks:

The system of corporate governance is important for banks in India because, majority of the banks are in public sector, where they are not only competing with one another but with other players in the banking system as well as in financial services system including Financial Institutions, Mutual Funds and other intermediaries, in a new environment of liberalization and globalization. Further, with restrictive support available from the Govt. for further capitalization of banks, many banks may have to go for public issues, leading to transformation of ownership. **Role of corporate governance practices in UCB** Each member of the Board of Directors of the Bank should adhere to the following so as to ensure compliance with good Corporate Governance practices.

“Dos

- Attend Board meetings regularly and participate in the deliberations and discussions effectively.
- Study the Board papers thoroughly and enquire about follow-up reports on definite time schedule.
- Involve actively in the matter of formulation of general policies.



- Be familiar with the broad objectives of the Bank and the policies laid down by the Government and the various laws and legislations.
 - Ensure confidentiality of the Bank's agenda papers, notes and Minutes.
- “Don'ts**
- Do not interfere in the day to day functioning of the bank. (This stipulation does not apply to the Chairman and Managing Director and Executive / Whole Time Director)
 - Do not reveal any information relating to any constituent of the Bank to anyone.
 - Do not display the logo / distinctive design of the Bank on their personal visiting cards / letter heads. (This does not prevent the Chairman and Managing Director and Executive /Whole Time Director from using DO Letterheads or visiting cards with BOI's logo thereon).
 - Do not sponsor any proposal relating to loans, investments, buildings or sites for Bank's premises, enlistment or empanelment of contractors, architects, auditors, doctors, lawyers and other professionals, etc.

Objective:

To study role of Urban Co-operative Banks for the development of the economy.

To study the role of DICGC towards the depositors of UCB

Research Methodology:

The research paper is conceptual in nature, to explain the importance of corporate governance in co-operative bank & role of Deposit Insurance & Credit Guarantee Corporation (DICGC).The data was collected through the secondary sources like: research articles, books Magazines etc.

Why Urban Co-operative Banks are important for the economy?

According to Manual on Financial and Banking Statistics 2007 of RBI, “urban co-operative banks play an important role in meeting the banking needs of urban and semi urban areas of the



country. UCBs account for about 5% of deposits and almost equal proportion of advances of the banking system. Despite their small share in business, UCBs contribute significantly towards social and economic development, as instrument of financial inclusion. They mobilize savings from the middle and lower income groups and purvey credit to small borrowers, including weaker sections of the society and thereby fill up an important gap in the mechanism for delivery of financial services.”

What trouble the co-operative banks?

Unawareness of corporate governance in urban co-operative banks results into mismanagement, lack of control. A number of UCBs suffer from a series of maladies of miss management, absence of professionalism, interference by political bosses, laxity in internal control due to poor systems and procedures and weak financial position caused by high non- performing loans and their inability to raise required capital. And these problems get compounded by the duality of control by state governments and the RBI, as the latter has very limited control over these banks. When the managements of these banks totally hand over their responsibility to resurrect the troubled banks, RBI is forced to impose restrictions on their operations, and when they reach a state of beyond repair that RBI withdraws the license resulting in liquidation of these banks. Though the number of sick and weak UCBs is coming down, there still exist a large number of them who need to improve their position to remain in banking business.

Role of Deposit Insurance & Credit Guarantee Corporation (DICGC)

If a bank goes into liquidation the DICGC is liable to pay to each depositor through the liquidator, the amount of his deposit up to Rs1 lakh within two months from the date of receipt of claim list from the liquidator. As per the rules, the DICGC does not deal directly with the depositors of failed banks. The liquidator has to prepare a depositor-wise claim list and send it to the DICGC who on scrutiny makes the payment to the liquidator, who is liable to pay to the depositors. But if the liquidator fails to submit the claim to the DICGC, the depositor has no way to get his dues and has to suffer in silence. Can this suffering of depositors go beyond a reasonable period due to the failure of



the liquidator to submit the claim to DICGC in time? Unfortunately, the position is so bad that depositors of as many as 25 UCBs, who went bankrupt during the last 14 years, are yet to receive their dues from the DICGC due to the failure of the liquidators of these banks to file their claims with the DICGC. This shows complete cruelty on the part of the concerned government authorities in continuing with the liquidators, who have miserably failed in their duties to the depositors of these banks. Can there be a worst tragedy than this for the bank depositors?

List of Banks under liquidation where claim lists have not been received by DICGC

Sr. No.	State	Name of the UCBs	Date of Liquidation/De-registration
1	West Bengal	Jhargram Peoples Co-op. Society Ltd.	3 August 1999
2	Assam	Guwahati Co-op Town Bank Ltd.	12 August 1999
3	Manipur	Manipur Industrial Co-op Bank Ltd.	23 September 1999
4	Assam	Silchar Co-op Bank Ltd.	16 February 2000
5	Uttar Pradesh	Federal Co-op Bank Ltd.	16 August 2000
6	West Bengal	Pranabananda Co-op Bank Ltd.	6 August 2002
7	Bihar	Madhepura Urban Development Co-op Bank Ltd.	27 May 2002
8	Bihar	Nalanda Urban Co-op Bank Ltd.	27 June 2002
9	Manipur	Lamka Urban Co-op Bank Ltd.	3 June 2003
10	Assam	Sibsagar Dist Central Co-op Bank Ltd.	19 June 2003
11	Andhra Pradesh	Hyderabad Co-op Urban Bank Ltd.	7 March 2006
12	West Bengal	Rohuta Urban Co-op Bank Ltd.	4 October 2007
13	Orissa	Bhadrak Urban Co-op Bank Ltd.	26 September 2008



14	Karnataka	Belgaum Catholic Co-op Bank Ltd.	8 March 2010
15	Gujarat	Vaso Co-operative Bank Ltd.	10 April 2010
16	West Bengal	Ramkrishnapur Co-op Bank Ltd.	17 June 2010
17	Maharashtra	Rajeshwar Yuvak Vikas Sah Bank Ltd.	19 April 2010
18	Maharashtra	Dhanashri Mahila Sahakari Bank Ltd.	3 December 2010
19	Assam	Golghat Urban Co-op Bank Ltd.	16 December 2010
20	Maharashtra	Agrasen Urban Co-op Bank Ltd.	15 February 2011
21	Maharashtra	Dadasaheb Rawal Co-op Bank Ltd.	1 April 2011
22	Maharashtra	The Veershaiva Co-op. Bank Ltd.	30 December 2011
23	Maharashtra	Krishna Valley Co.-op. Bank Ltd.	9 March 2012
24	Maharashtra	Bhusawal PeoplesCo-op. Bank Ltd.	22 March 2012
25	Gujarat	Madhavpura Mercantile Co-op. Bank Ltd.	18 July 2012

(Source: www.dicgc.org.in)

What needs to be done to protect the hapless depositors of these banks?

First, and foremost, there is an urgent need to force the liquidators to do their primary job of submitting the claim to DICGC, get the amount due and disburse the same to the depositors of failed banks without any further delay. If the liquidators are not amenable to the directions they should be replaced without any fear or favor and steps should be taken to appoint liquidators who comply with the orders of the authorities concerned.

The DICGC should not only pay the amount of insured deposits against such a claim, but also pay interest at the bank rate on these deposits over and above the insured deposit amount, as the delay is only due to the failure of the government appointed liquidators. DICGC as the protector of bank depositors should amend their rules and accept claims from the depositors directly, if the liquidators do not do their job within a reasonable time. DICGC should be empowered to not only take stern



action against the defaulting banks but also be authorized to step in to the shoes of the liquidators who fail to deliver to protect the interest of depositors of failed banks. RBI should take immediate steps to put an end to the dual control of these banks even by getting the required laws amended and have complete control over these banks to ensure that they are run on sound lines and failure of these banks should be considerably minimized if not totally avoided.

Conclusion:

In the context of many co-operative banks falling like of pack cards causing irreparable damage to the banking system and unbearable loss to the poor depositors, who have no voice in the present scheme of things, RBI should first put the house of co-operative banks in order before venturing into granting new banking licenses. The low level of deposit insurance cover existing at present in respect of the weak and shaky co-operative banks is nothing but a mockery of the banking system that calls for total overhaul in the interest of retaining public confidence in the banking system in our country.

RBI should give utmost priority to protect the hapless depositors and work out a new banking order that is 100% safe and secure to protect the poor, illiterate and less fortunate people of our country, who are now virtually pushed in to the banking system in the name of financial inclusion.

