

Constituting Board of Management in Primary (Urban) Cooperative Banks-suggestions

With reference to the draft guidelines issued on the captioned subject on June 25, 2018 we submit our comments/feedback as under :

1. At the outset, it is our considered opinion that the proposal to constitute Board of Management (BoM) in urban-operative banks (UCB) is against the co-operative principles, against the democratic norms and tantamount to insulting elected directors of UCBs. In the commercial banks also 'Fit and Proper' criteria is being applied for members of the board and 51% of the seats in the board is reserved for members having special knowledge in the matters mentioned in Annex- IIB of the above guidelines. However, in spite of having 'Fit and Proper directors and CEO, the performance of public sector banks is much to be desired. You will agree that the percentage of average gross NPAs of public sector banks even after giving the benefit of 'technical write-off' is much higher than that of UCBs without the benefits of 'technical write-off'. It may not be out of place to mention here that in spite of having 'strict' RBI supervision, 'Fit and Proper Board and CEO, in the recent years there were number of forced mergers in the commercial banking sector viz Ganesh Bank of Kurundwad, Sangli Bank, Global Trust Bank, Bank of Punjab, Centurion Bank, etc. The fact that the system of reserving 51% of seats in the BoD to persons with special qualifications has not given the desired results in commercial banks goes to prove that the major reason for fraud/ higher NPA/bank failure is not the lack of specialization, but something else. Therefore, imposing BoM in addition to BoD on UCBs makes little sense.
2. As advised by the Reserve Bank of India, the UCBs are already having two professional directors. Since qualifications suggested for members of BoM and professional directors are more or less similar, having BoM in addition to two professional directors amounts to not only a duplication of work but also an insult to the co-opted professional directors. The guideline is silent about whether the present professional directors can be members of BoM and treated as from outside the BoD.
3. Technically, the role of BoM is recommendatory in nature and it has no delegated powers for sanctioning any loan. Further, if our understanding is correct, the members who are from outside the BoD are not bound by the provisions of Section 20 of Banking Regulation Act, 1949 and restrictions on director related advances. They are neither subjected to 'examination of staff accountability' nor inquiry under Section 64 or similar Sections of State Co-operative Act. Moreover, the BoD or credit subcommittee is bound to endorse the recommendations of BoM. lest they will be hounded by the RoC and RBI. Thus, the role of BoM is power without any responsibility.
4. The USP of the Co-operative banks is quick decision making. The addition of BoM in the structure of decision making will deprive the UCBs of that USP. Many UCBs are already finding it difficult to get two professional directors, for them constituting a BoM will be an uphill task.
5. The post of CEO in UCBs is created under relevant Sections of State Co-operative Acts. Most of the CEOs are promoted from the cadre and bound by the banks service rules. CEO of an UCB cannot be compared to a Managing Director of the commercial bank. Therefore, removal CEO by RBI without following natural justice and due process of law may lead to legal challenge by CEO.
6. One of the functions of BoM is considering proposals for investment and making recommendation to Investment Committee. You will agree that invest decision should be taken quickly in a dynamic market. For that, power has been delegated to Investment committee with a direction to take decision within Board approved policy. Imposing one more tier not only delays the decision making but also an expression of mistrust on RBI mandated investment committee. Moreover, the BoM is not expected to meet so frequently only to consider investment decision.
7. The Malegam committee and high power committee headed by Sri R. Gandhi have recommended BoM in the contest of licensing new UCBs and as a corollary recommended the same to existing UCBs. Instead of giving license to new UCBs, the concept of BOM is being imposed on existing UCBs.
8. In the circumstances, we request you not to go ahead with the implementation of BoM for existing UCBs.

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