

TRUST DEFICIT: ON PUNJAB AND MAHARASHTRA CO-OPERATIVE BANK ISSUE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

It has been a nightmare of a week for thousands of customers of the Punjab and Maharashtra Co-operative Bank (PMC), who were told last Tuesday by the Reserve Bank of India that no more than 1,000 could be withdrawn from their accounts for a period of six months. The 35-year-old lender may not be the first but is certainly one of the largest urban co-operative banks facing this clampdown. The resultant distress is also more widespread as the bank, with a large footprint in Maharashtra, is also present in Delhi, Goa, Gujarat, and Karnataka. Strikingly there was no ostensible sign of distress to trigger the bank's virtual collapse, following the regulator's intervention. Things were going swimmingly as per its latest annual report, with deposits growing nearly 17% year-on-year to 11,617 crore by March 2019, with long-tenure savings accounting for the largest chunk. Profits, in a tough year for banks, were flat, and while bad loans more than doubled, their proportion was far lower at PMC than at most public sector banks. Given this backdrop, the bank's depositors, who ironically include the RBI's own employees' co-operative, are understandably perturbed about the fate of their savings. The RBI has said it is acting in depositors' interests after 'financial irregularities, failure of internal control and systems of the bank and under-reporting of exposures' came to its notice and on Thursday, raised the withdrawal limit to 10,000 per account, stressing this should allow 60% of its depositors to recover their entire savings. The RBI must still explain what made it increase the withdrawal limit ten-fold within 48 hours, lest it be seen as a politically weighted move ahead of the Maharashtra election.

Questions have been raised on the bank's large exposure to Housing Development and Infrastructure Limited (HDIL) which is itself undergoing insolvency proceedings. The bank's chairman had served on the board of the HDIL for ten years between two long stints at the bank, and any irregularities in loans to the firm would be an indictment of the quality of oversight on banks. That the RBI shares regulatory responsibilities over such banks with States' Registrar of Co-operative Societies further mires the problem. With over 1,500 urban co-operative banks operating in the country, and a few of them already under RBI-imposed restrictions, a new road map is essential for their future course. Perhaps the only major gain from demonetisation was the deployment of public savings into the formal financial sector. But failures like PMC Bank can quickly erode that. Time-bound, transparent action to fix the PMC mess and a systemic overhaul is necessary to prevent cash from moving back below household mattresses.

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