



RBI Cancels Licence of CKP Co-op Bank

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Why in News

Recently, the **Reserve Bank of India (RBI)** has cancelled the licence of Mumbai-based CKP Co-operative Bank.

Key Points

- RBI has cancelled the licence of the bank as the financial position of the bank was highly adverse and unsustainable.
 - The bank is not in a position to pay its present and future depositors.
 - The bank failed to meet the regulatory requirement of maintaining a **minimum capital adequacy ratio** of 9% and reserves.
- RBI has asked the **Registrar of Co-operative Societies, Maharashtra** to start the process of winding up operations of CKP Co-operative bank and appoint a liquidator. On liquidation, every depositor of the bank is entitled to get up to Rs 5 lakh from the **Deposit Insurance and Credit Guarantee Corporation**.
- In September last year, **RBI had imposed restrictions on Punjab and Maharashtra Co-operative (PMC) Bank** not to do any business for six months after it found major irregularities, which included financial irregularities, complete failure of internal control and systems, and wrongdoing and under-reporting of its lending exposure.

Capital Adequacy Ratio

- Capital Adequacy Ratio (CAR) is the **ratio of a bank's capital in relation to its risk weighted assets and current liabilities**. It is also known as **Capital-to-Risk Weighted Asset Ratio (CRAR)**.
- It is decided by central banks to prevent commercial banks from taking excess leverage and becoming insolvent in the process.
- The **Basel III norms** stipulated a capital to risk weighted assets of 8%.

- However, as per **RBI** norms, Indian scheduled commercial banks are required to maintain a CAR of 9%.

Deposit Insurance and Credit Guarantee Corporation

- DICGC came into existence in 1978 after the merger of Deposit Insurance Corporation (DIC) and Credit Guarantee Corporation of India Ltd. (CGCI) under the **Deposit Insurance and Credit Guarantee Corporation Act, 1961**.
 - It serves as a **deposit insurance and credit guarantee** for banks in India.
 - It is a fully owned subsidiary of and is governed by the **Reserve Bank of India**.
- DICGC charges 10 paise per ₹100 of deposits held by a bank. The premium paid by the insured banks to the Corporation is paid by the banks and is not to be passed on to depositors.
- DICGC last revised the deposit insurance cover to ₹5 lakh in Feb, 2020, raising it from ₹1 lakh since 1993. The protection cover of deposits in Indian banks through insurance is among the lowest in the world.

The **Damodaran Committee on 'Customer Services in Banks' (2011)** had recommended a five-time increase in the cap to ₹5 lakh due to rising income levels and increasing size of individual bank deposits.
- Banks, including regional rural banks, local area banks, foreign banks with branches in India, and cooperative banks, are mandated to take deposit insurance cover with the DICGC.

Co-operative Banking

- A **Co-operative bank** is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. It is **distinct from commercial banks**.
- Co-operative banks in India are registered under the **States Cooperative Societies Act**. The Co-operative banks are regulated by both **Registrar of Co-operative Societies** and **Reserve Bank of India (RBI)** and **governed by the**
 - Banking Regulations Act 1949.
 - Banking Laws (Co-operative Societies) Act, 1955.

- **Features of Cooperative Banks:**
 - **Customer Owned Entities:** Co-operative bank members are both customer and owner of the bank.
 - **Democratic Member Control:** Co-operative banks are owned and controlled by the members, who democratically elect a board of directors. Members usually have equal voting rights, according to the cooperative principle of "one person, one vote".
 - **Profit Allocation:** A significant part of the yearly profit, benefits or surplus is usually allocated to constitute reserves and a part of this profit can also be distributed to the co-operative members, with legal and statutory limitations.
 - **Financial Inclusion:** They have played a significant role in the financial inclusion of unbanked rural masses.
- Co-operative Banks are broadly **classified into Urban and Rural co-operative banks** based on their region of operation.

Difference between UCBs and Commercial Banks

- **Regulation:** Unlike commercial banks, UCBs are **only partly regulated by the RBI**. Their banking operations are regulated by the RBI, which lays down their capital adequacy, risk control and lending norms. However, their management and resolution in the case of distress is regulated by the **Registrar of Co-operative Societies** either under the State or Central government.
- **Borrower can be a Shareholder:** In general for a commercial bank, there is a clear distinction between its shareholders and its borrowers whereas in a UCB, borrowers can even double up as shareholders.

Source: IE