



## Voluntary Amalgamation of Co-operative Banks

**For Prelims:** [Urban Co-operative Bank \(UCB\)](#), [Reserve Bank of India \(RBI\)](#), [Banking Regulation Act, 1949](#), Credit Societies, [Multi-State Co-operative Societies Act, 2002](#), [Non-Performing Asset \(NPA\)](#)

**For Mains:** Key Features of Cooperative Banks and Challenges.

[Source: Mint](#)

### Why in News?

**Saraswat Co-operative Bank (SCB)**, the largest [Urban Co-operative Bank \(UCB\)](#) in India, has received **in-principle approval from the RBI** to acquire the fraud-hit **New India Co-operative Bank (NICB)** under the [RBI's Voluntary Amalgamation Scheme for UCBs](#).

### What is RBI's Voluntary Amalgamation Scheme for UCBs?

- **About:** The **Voluntary Amalgamation Scheme** is a regulatory framework introduced by the RBI to facilitate the **voluntary merger of two or more UCBs**. Its primary objective is to ensure **financial stability** and protect the interests of **depositors**.
  - This scheme is governed by the **Master Direction on Amalgamation of Urban Co-operative Banks, 2020**, issued under:
    - **Section 35A** of the [Banking Regulation Act, 1949](#), which grants the RBI the authority to issue directions to banks in public interest or for proper management.
    - **Section 44A**, which addresses the voluntary amalgamation of banking companies, including UCBs.
    - **Section 56**, which extends the provisions of the Act to co-operative banks, with necessary modifications.
  - Amalgamation is **permitted** only when specific conditions related to **financial soundness and depositor protection** are met. Approvals are required from the **boards, shareholders**, and the **RBI**.
- **Legal Backing:** The scheme is legally supported by the **Banking Regulation (Amendment) Act, 2020**, which strengthens the RBI's authority to direct, approve, or reject UCB amalgamations to ensure financial stability and protect depositor interests.
  - In these mergers, the **Amalgamated Bank is the weaker UCB** transferring its business, while the **Amalgamating Bank is the stronger UCB** acquiring it.
- **Conditions for Amalgamation:**
  - **Positive Net Worth:** The merger can proceed if the **amalgamated bank has a positive net worth**, with the stronger bank ensuring full protection of depositors' funds.
  - **Without Government Support:** If the amalgamated bank has a **negative net worth**, the stronger bank may merge while voluntarily protecting all depositors' funds, without external assistance.
  - **With Government Support:** If the amalgamated bank has a negative net worth, the

merger can proceed with full depositor protection, backed by financial support from the State Government.

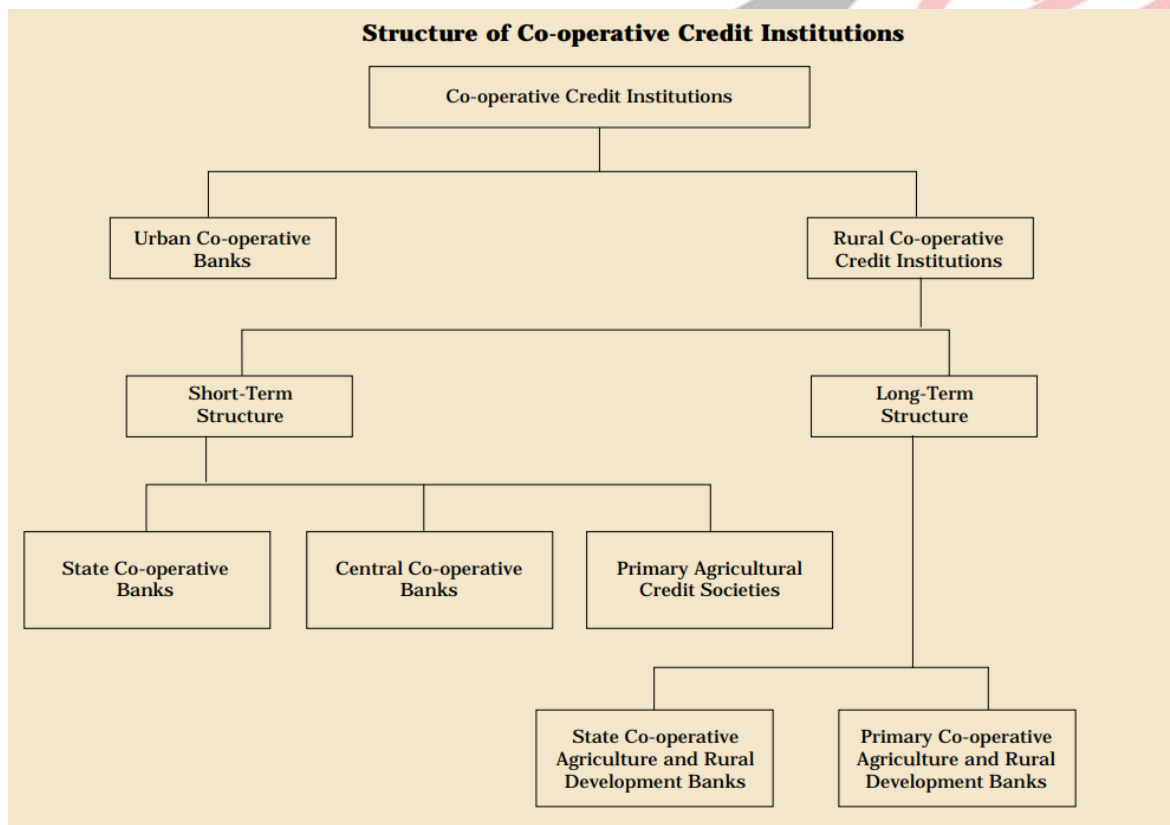
▪ **Approval Process for Amalgamation:**

- **Board Approval:** The amalgamation requires approval from a **two-thirds majority of the total board members** of both the amalgamating and amalgamated UCBs, not just those present and voting.
- **Shareholder Approval:** Approval from **two-thirds of shareholders (in number and value)** of each UCB is required, with the shareholders present in person at a specially convened meeting.
- **RBI Sanction:** After obtaining board and shareholder approvals, the draft amalgamation scheme must be submitted to the relevant **Regional or Central Office of the RBI for final approval.**

- **Applicability:** Applicable to all **Primary (Urban) Co-operative Banks**, including both **single-state** and **multi-state** UCBs.

## What are Co-operative Banks?

- **About:** Co-operative Banks are financial institutions set up as [Co-operative Societies](#), registered under either the **State Co-operative Societies Acts** or the [Multi-State Co-operative Societies Act, 2002](#), and engaged in **banking business**.
- **Objective:** To provide **affordable credit** to **farmers, small businesses, self-employed, and low-income groups**, especially in **rural and semi-urban areas**.



- **Ownership & Governance:** Owned and managed by their **members**, who are also the **customers**.
  - It follows the **“one person, one vote”** principle, ensuring democratic control.
- **Regulatory Framework:** Co-operative banks operate under a **dual regulatory system**:
  - **RBI's Role:**
    - The **RBI regulates co-operative banks** under the **Banking Regulation Act, 1949**, ensuring compliance with **capital adequacy, lending norms, and financial supervision**.
    - It has the authority to **cancel a bank's license** if it fails to meet regulatory norms

or ceases operations.

- The **Banking Regulation (Amendment) Act, 2020** has **enhanced RBI's powers** to intervene in the **management and governance** of Urban Co-operative Banks (UCBs).
- **Registrar of Co-operative Societies (RCS):**
  - The administrative functions are overseen by the respective state governments or the central government through the **RCS**.

## What is the Significance of UCBs in India?

- **Promoters of Financial Inclusion:** UCBs play a crucial role in **serving small borrowers, micro-businesses, and low-income groups** in **urban and semi-urban areas**, thereby enhancing **financial access**.
- **Community-Centric Operations:** Their **localised focus** allows UCBs to better understand and meet **community-specific credit needs** with **customised financial services**.
- **Priority Sector Lending (PSL) Obligations:** UCBs are mandated to allocate **65% of their adjusted net bank credit (ANBC) to PSL in FY 2024-25**, with a target to **increase it to 75% by March 2026**, supporting key sectors like MSMEs, housing, and education.
- **Support to Non-Agricultural Urban Sectors:** Historically restricted to non-agricultural lending until 1996, UCBs now play an important role in financing **urban development and small-scale enterprises**, complementing commercial banks in credit outreach.



## Recent Developments in Co-operative Banking and Regulations

- **National Co-operative Policy (2025-2045):** Launched by the Union Government, the 20-year policy aims to establish **one co-operative in every village** and create **2 lakh new PACS by February 2026**, promoting **grassroots financial inclusion, rural development**, and the vision of **“Sahakar se Samridhi.”**
- **Reforms in Priority Sector Lending (PSL) Norms:** From **April 2025**, UCBs are required to allocate **60% of Adjusted Net Bank Credit (ANBC)/ Credit Equivalent of Off-Balance Sheet Exposures (CEOBE)** to PSL, revising older benchmarks.
  - For Small Finance Banks (SFBs), the **PSL mandate has been reduced from 75% to 60%** from FY 2025-26 to align them with universal banks and enhance operational flexibility in lending.
- **Enhanced Regulatory Oversight by RBI:** In FY 2024-25, the RBI intensified its supervision of UCBs by **issuing 215 penalties, cancelling 7 licenses**, and placing **23 UCBs under restrictions** for violations including **KYC breaches, high NPAs, and frauds**. Key reforms included:
  - **Revised prudential norms** for increased loan ceilings, relaxed provisioning timelines, and adjusted real estate exposure limits.
  - **Extension of Prompt Corrective Action (PCA)** to UCBs (from April 2025).
  - **Master Direction on Fraud Management (2024)**, introduced early warning systems and accountability mechanisms for fraud risk mitigation.
- **Digital & Institutional Strengthening:** RBI mandated **Core Banking System (CBS) adoption for all UCBs by March 2025**, supported by **NABARD and fintechs**.
  - The government launched **NUCFDC** to offer **shared digital infrastructure** and services. Policy reforms aim to **streamline PACS liquidation and registration**, replacing defunct units with tech-enabled, well-governed cooperatives.

## What are the Challenges Faced by UCBs in India?

- **Weak Governance and Fraud Risks:** Many co-operative banks face issues like **political interference, nepotism, and poor internal controls**, leading to **financial mismanagement, frauds, and erosion of depositor trust** (PMC Bank scam).
  - In 2023-24 alone, **24 UCB licenses were cancelled**.
- **Regulatory and Supervisory Constraints:** The legacy of **dual regulation** by RBI and State Registrars created **compliance issues and operational inefficiencies**. Although the **Banking Regulation (Amendment) Act, 2020** brought UCBs under RBI's full oversight, **overlapping functions** still pose challenges.
- **Financial Weakness and High NPAs:** Many UCBs suffer from **capital inadequacy**, limited fund access, and **rising NPAs**—**Gross NPAs stood at 8.8% in March 2024**, affecting their **profitability and stability**.
- **Limited Scale and Technological Obsolescence:** UCBs often operate in **small geographies** with limited membership and outdated infrastructure. Their **lag in digital adoption** affects **efficiency, competitiveness, and customer service**, especially against fintechs and commercial banks.
- **Declining Sectoral Relevance:** The share of co-operative banks in **agricultural lending** dropped from **64% (1992-93) to 11.3% (2019-20)**.
  - Similarly, their **share in total banking assets declined from 3.8% (2017) to 2.5% (2024)**, reflecting a **shrinking footprint** in the financial sector.

## Way Forward

- **Strengthen Governance and Oversight:** Mandate **professionalisation of UCB boards** by requiring at least **50% of directors** to have expertise in **banking, finance, or law**, ensuring better decision-making and risk management.
- **Promote Consolidation:** Encourage **voluntary mergers of weak UCBs with stronger ones** under the RBI's **Voluntary Amalgamation Scheme** to build **financially stable and efficient institutions**.

- **Ensure Independent and Regular Audits:** Institutionalise **regular audits by autonomous bodies** to enhance **transparency, accountability, and financial discipline** across co-operative banks.
- **Accelerate Technology Adoption:** Promote the adoption of **modern banking technology** (e.g., core banking, mobile banking, cybersecurity) to improve **operational efficiency** and **customer service**.
- **Introduce Social Audits:** Implement **stakeholder-led social audits** to assess the **effectiveness of policy implementation, fund allocation, and community impact**, thereby deepening trust and inclusivity.

### UPSC Civil Services Examination, Previous Year Question (PYQ)

**Q. With reference to 'Urban Cooperative Banks' in India, consider the following statements:**

1. They are supervised and regulated by local boards set up by the State Governments.
2. They can issue equity shares and preference shares.
3. They were brought under the purview of the Banking Regulation Act, 1949 through an Amendment in 1966.

**Which of the statements given above is/are correct?**

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

**Ans: (b)**

### **Mains:**

**Q.** "In the Indian governance system, the role of non-state actors has been only marginal." Critically examine this statement. (2016)

**Q.** "In the villages itself no form of credit organisation will be suitable except the cooperative society." – All India Rural Credit Survey. Discuss this statement in the background of agricultural finance in India. What constraints and challenges do financial institutions supplying agricultural finance face? How can technology be used to better reach and serve rural clients? (2014)