Kerala Bank

Why in News?

Kerala Bank, the first state-owned bank in the cooperative sector, was officially launched recently.

What is the story?

- Kerala Bank is an entity created by the merger of 13 district co-operative banks (DCBs) with the Kerala State Cooperative Bank in Kerala.
- It is envisaged as a people-owned and people-managed modern bank with a significant share of the banking sector.
- All DCBs except the one which is controlled by the Congress-led UDF have been amalgamated into Kerala Bank.
- At the launch ceremony, the Chief Minister invited the outlier bank to come on board, and invited it for talks with the government.

What is the idea and how did it evolve?

- Kerala's "own bank" had been a promise of the CPM-led Left Democratic Front (LDF) for the 2016 Assembly elections.
- After coming to power, Vijayan's government appointed a committee to study the idea of creating a Kerala Bank by amalgamating the entire co-operative banking sector into a single entity.
- The demand for the Kerala Bank gained momentum after the State Bank of Travancore (SBT) was merged with the State Bank of India in 2017.
- The SBT had been handling a major part of the government's transactions, and was seen as Kerala's own bank.
- In October 2019, the Reserve Bank of India accorded final approval for the creation of the unified bank, subject to certain conditions.
- The Chief Minister said these conditions would be met, and a compliance report would be submitted to the central bank before March 31, 2020.
- The formation of Kerala Bank has reduced the earlier three-tier structure of co-operative banking in the state to a two-tier one.

What is its size and position?

- Kerala Bank has the second largest banking footprint in the state.
- Its network of 995 branches is second only to the SBI's, which has 1,215

branches across the state.
- While the SBI has a deposit base of Rs 1.53 lakh crore in the state, Kerala Bank would have a base of Rs 65,000 crore.
- Unlike the state and district co-operative banks, Kerala Bank can accept NRI deposits which will lead to an expansion of its deposit base.
- As part of Kerala Bank, the DCBs will get the status of a scheduled bank.
- The co-operative banking system in Kerala has about 30% market share in deposits and loans, but this may significantly increase after Kerala Bank begins to accept NRI deposits.

What will be its governance structure?

- At present, senior bureaucrats in the Co-operative Department are manning Kerala Bank, which will get a CEO in January 2020.
- However, Kerala Bank will have a democratically elected body, in tune with the tradition in the cooperative sector.
- It will have a board of directors with,
    1. Representatives from the primary cooperative societies,
    2. The secretary of the state Cooperative Department,
    3. Four ex-officio members,
    4. One nominee from NABARD, and
    5. Two independent professional directors.
- The nominees of the primary societies would have adequate representation for SCs/STs and women.

What will be the gains?

- The new Kerala Bank could offer modern banking facilities, including online transactions and ATMs, which have been thus far unavailable to a large chunk of clients in the cooperative sector.
- There would be parity in services offered in the sector, in the interest rates for deposits as well as loans.
- The primary cooperative societies could take a slew of modern banking facilities to their members, and give a fillip to technology-driven banking in the rural areas.
- Kerala Bank will not levy a fine for customers' failure to maintain a minimum deposit.
- According to the government, the Bank will help the economic development of Kerala by providing financial services to development projects without compromising on the commercial aspect.
- However, the opposition has alleged that the amalgamation of co-operative banks would harm the sector.

What are the challenges ahead?

- How depositors react to being brought into an ecosystem of greater accountability remains to be seen.
- The state government will have the task of taking the new entity out of the shadow of politics that frequently falls on the cooperative sector, and of infusing professionalism in operations.
- Besides the commitment to submit a compliance report by the end of March, Kerala Bank will have to keep an eye on non-performing assets (NPAs) at a time when the state cooperative bank is running at a loss.
- The 2016 demonetisation exercise, and the economic slump in the wake of two bouts of heavy floods in the state have adversely affected the district and primary cooperative societies.
- Defaults in farm loans have been growing, leading to the accumulation of NPAs.

Source: The Indian Express

SHANKAR IAS PARLIAMENT
Information is Empowering