RBI's Moves on Punjab and Maharashtra Cooperative Bank

Why in news?

- The RBI has slapped restrictions on Punjab and Maharashtra Cooperative Bank Ltd (PMC Bank).
- It has also appointed an administrator and superseded its board of directors.

What are the implications of the decision?

- The PMC bank is a leading urban cooperative bank headquartered in Mumbai.
- The decision sent shock waves among thousands of its depositors.
- Panic-stricken customers rushed to bank's branches across the state and were unable to withdraw more than Rs 1,000.
- The Bank has a deposit base of Rs 11,617 crore and operations across 7 states.
- It has been put under the scanner by the RBI after "irregularities" were disclosed to RBI.
- It ranks among the top 10 cooperative banks in the country.
- Moreover, the RBI restrictions will remain in force for 6 months.
- Given these, the unrest among customers is likely to continue.

What went wrong?

- **Reporting** - With a deposit base of just over Rs 11,000 crore, PMC bank reported a net profit of Rs 99.69 crore in 2018-19 as against Rs 100.90 crore in 2017-18.
- The bank showed 3.76% (or Rs 315 crore) of advances (Rs 8,383 crore) as gross nonperforming assets (NPAs) in March 2019.
- This was a good performance considering that public sector banks recorded over 10% gross NPAs.
- But, it was learnt that the bank had suppressed the problematic assets and under-reported them.
- With this, the total bad loans could be between Rs 2,000-2,500 crore.
- Though this was not flagged in the Annual Report of 2018-19, the RBI was following it in the wake of huge divergence in bad loan reporting.
- **HDIL** - The bank was funding a clutch of companies, mainly in the troubled real estate sector, led by Housing Development & Infrastructure Ltd (HDIL).

- Rakesh Kumar Wadhawan is the Chairman of HDIL and his son Sarang Wadhawan is the Vice Chairman and MD.
- Notably, the Wadhawans of HDIL group had close links with PMC Bank for a long time.
- PMC had given loan to Wadhawan even after HDIL defaulted on its loans to other banks.
- Notably, commercial banks have already declared HDIL a defaulter.
- HDIL was also taken to National Company Law Tribunal (NCLT) for insolvency proceedings.
- Recently, NCLT admitted an insolvency plea moved by the Bank of India against HDIL in connection with a Rs 522-crore loan default.
- PMC, however, claimed that the loan was much lower than Rs 2,500 crore quoted in the media.
- The loans given to HDIL and other entities were suppressed by the PMC despite defaults.

What should be done?

- The RBI-appointed administrator of PMC Bank is expected to take appropriate measures to bring the bank back on track.
- Going by the RBI's actions on the co-operative banking front, one option is for PMC Bank to be merged with another bank.
- Notably, between 2004 and 2018, the RBI has merged 72 cooperative banks in Maharashtra alone.
- Across the country, the number of urban co-operative banks has fallen from close to 1,920 to around 1,550 in the last 15 years.
- If the bank is liquidated, which is less likely, depositors will get Rs 1 lakh irrespective of the amount they had deposited.
- Small depositors need not worry as the bank has Deposit Insurance and Credit Guarantee Corporation cover, under which deposits up to Rs 1 lakh are covered.
- The bank has also claimed it has enough assets to cover the liabilities.

Source: Indian Express

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