

Punjab and Maharashtra Co-operative Bank (PMC) clampdown

What is the issue?

- The Punjab and Maharashtra Co-operative Bank (PMC) customers' cannot withdraw more than ₹1,000 from their accounts for a period of six months.
- This was told by the Reserve Bank of India (RBI).

What did happen?

- The PMC, a 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 has a large footprint in Maharashtra, Delhi, Goa, Gujarat, and Karnataka.
- Strikingly there was no apparent sign of distress to trigger the bank's virtual collapse, following the regulator's intervention.
- **Current situation** - As per its annual report, things were going smoothly by March 2019,
 1. Deposits growing nearly 17% year-on-year to ₹11,617 crores.
 2. In this, the long-tenure savings account for the largest chunk.
- In a tough year for banks, profits were flat and the bad loans have more than doubled.
- The proportion of bad loans was far lower at PMC than at most public sector banks.
- **Concern** - Given the above backdrop, the bank's depositors, who ironically include the RBI's own employees' co-operative, are concerned about the fate of their savings.

Why did the RBI take such a decision?

- The RBI has said it is acting in depositors' interests after,
 1. Financial irregularities,
 2. Failure of internal control and systems of the bank,
 3. Under-reporting of exposures' came to its notice.
- Due to the above reasons, it raised the withdrawal limit to ₹10,000 per account, stressing this should allow 60% of its depositors to recover their entire savings.
- The RBI made this ten-fold increase in the withdrawal limit just within 48

hours.

- Some see this as a politically weighted move ahead of the Maharashtra election.

What could be done?

- The bank's chairman had served on the HDIL's board for 10 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.
- In India, only a few of 1,500 urban co-operative banks are 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 repair is necessary to prevent cash from moving back below household mattresses.

Source: The Hindu

