GS-III: Trust deficit

News

It has been a nightmare of a week for thousands of customers of the Punjab and Maharashtra
Co-operative Bank (PMC), who were told last Tuesday by the RBI that no more Rs.1,000 could
be withdrawn from their accounts for a period for 6 months.

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.
- 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).
- 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.

Way Forward:

RBI shares regulatory responsibilities over such banks with stares register of co-operative
society further mires the problem. With over 1,500 urban co-operative banks operating the
country and a few of them already under RBI imposed restrictions, a new road map is essential
for their future course.