

# A Study of Penalties Levied on Various Banks Operating in Co-Operative Sector by Reserve Bank of India

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## **Abstract:**

This study contains analysis of various reasons of penalties levied by Reserve Bank of India on various banks operating in Co-operative sector in India. The analysis is based on unique data base of 100 financial penalties imposed during January 2023 to Aug. 2023 on almost 100 banks operating like PSU banks Small banks, Private Sector Banks or Co-operative banks.

It is evident from the data that how co-operative banking institutions neglected required due diligence on various statutory or regulatory guidelines and attracted penalties from RBIs. We also demonstrate the various reasons behind the imposition of penalties to the co-operative banking sector.

**Keywords:** Penalties, RBI

## **Introduction:**

RBI is Central Bank of India. With all other works it is also working as a regulator of Banking Industry and as every regulators likes to have compliant entities (to whom it regulates), RBI also like to have compliant banking industry in India.

Every regulator is drawing their own lines of regulations on the basis of not only local conditions but considering global scenarios, also not only on the basis of actual instances happened around India or on global scenarios but also foreseeing different possibilities. After the instance of Yes Bank, PMC bank, RBI had initiated many steps to enhance security of the banking industry by adding some additional regulation on the entire banking field.

RBI is publishing the details of penalties levied by it, as and when it penalized some Bank on the basis of its / NABARD's audit observations of various Bank's yearly audits, special or snap audits.

It is an indicator for entire Banking fraternity that what are the reasons for which RBI has penalized the Banks and also gives a chance to banking fraternity to initiate appropriate measures to avoid recurrence of such reasons in their institutions.

All banking fraternity (inclusive of those penalized) is able to instigate proper mechanism to contain the risk of penalty in the areas in which RBI penalized some bank. Its true here that "Prevention is better than cure" though the banks which was already penalized has to go for cure

However, despite the brighter points discussed above, there is darker side to it as the Co- Operative Banking sector feels that they are penalized by RBI largely, as no. of co-operative banks appearing in the lists is high vis-à-vis other banks (nationalized, PVT. Sector, small finance and Indian arms of foreign banks).

**Review of Literature:**

Banking regulation and supervision differ between jurisdictions. Previous research such as **Barth et al (2013)** has documented the difficulty in measuring and comparing these differences. In the process of banking regulation, the emphasis is on ensuring that banks comply with existing laws. Supervision, on the other hand, is the regular examination of these regulated banks and its effectiveness is relative to the powers it receives through regulation

Bank regulation and supervision are important because they impact a bank's risk-taking appetite. A number of studies have examined the relationship between supervisory intervention and supervisory performance. **Berger et al. (2000)** showed that supervisory performance is improved in cases of intense bank supervision that encourages collecting more precise information about bank performance.

**Delis and Staikouras (2011)** studied the impact of supervision on risk taking and concluded that there is an impact when the supervision is intense, However. **Barth et al (2008)** examine a sample of banks operating in over 100 countries and conclude that there is no systemic relationship with a greater level of supervisory authority and bank stability and performance. This suggests that country-specific characteristics have an impact on the effectiveness of the supervisory authority.

**Scopes of the Study:**

The study has the following scope:

- The study could suggest measures for the co-operative banks to avoid future penalties.
- The study may help the government in creating & implementing new strategies to control future penalties.

**Objectives of the Study:**

- To study of various reasons behind the penalties imposed by RBI on various banks operating in Co-Operative sector in India.
- To help the Co-operative banks & government for creating new strategies or policies to control the penalties.

**Research Methodology:**

The study is conducted to not only study reasons of penalties to co-operative banks by RBI but to find root cause of the issues. While doing the study only secondary data has been taken. The secondary data has been taken from RBI notification various reports, working papers & government publications.

**Penalized Banks**

Sr. No.	Reason	Bank penalised	Amount in Rs-lakh/s
1	<b>Failed to undertake customer due diligence measures as mandated while opening an account in the name of a sole proprietary firm or obtaining requisite documents of business and not ensuing nature of business</b>	Indian Bank	55.00
		The Urban Co-operative Bank Limited, Rourkela	6.00

2	the bank failed to make payment of applicable interest on balance amounts lying in the current accounts of deceased individual depositors / sole proprietorship concerns,	Janata Sahakari Bank Ltd., Pune	13.00
		The Harij Nagrik Sahakari Bank Ltd., Harij	3.00
3	sanction of gold loans in breach of the cap under bullet repayment scheme	The Trichur Urban Co-operative Bank Ltd., Thrissur, Kerala	2.00
		The Chiplun Urban Co-operative Bank Ltd	2.00
4	not adhere to instructions pertaining to customer identification when it allowed transactions in accounts without confirming local address of constituents	The Urban Co-operative Bank Limited, Rourkela	6.00
5	not adhere to instructions pertaining to issue of cheque books	The Urban Co-operative Bank Limited, Rourkela	6.00
6	not paid interest on matured fixed deposits / OVERDUE RECURRING DEPOSITS from the date of maturity till the date of its repayment at the rate applicable to saving deposits or the contracted rate of interest whichever is lower	The Waghodia Urban Co-operative Bank Ltd.	5.00
		Lalbaug Co-operative Bank Ltd., Vadodara	5.00
		Rajkot Nagarik Sahakari Bank Ltd., Rajkot	13.00
		Maninagar Co-operative Bank Ltd., Ahmedabad,	1.00
		The Sarvodaya Sahakari Bank Limited, Modasa, Gujarat	6.00
		Nagarik Sahakari Bank Ltd., Babra, Gujarat	2.00
7	the bank had failed to pay eligible interest at the time of repayment (i) on term deposits which matured on a Sunday / holiday / non-business working day, and paid on the succeeding working days,	The Waghodia Urban Co-operative Bank Ltd.	5.00
		Rajkot Nagarik Sahakari Bank Ltd., Rajkot	13.00
8	it offered interest on deposits of non-individual constituents at rates applicable to senior /	Indian Overseas Bank	222.00

	<b>super senior citizens, in certain instances</b>		
<b>9</b>	<b>Failed to produce of KYC documents for several accounts</b>	Panihati Co-operative Bank Ltd.	2.50
<b>10</b>	<b>Not having or conducting periodic review of risk categorisation</b>	The Karnataka State Co-operative Apex Bank Ltd., Bengaluru	23.23
		Bombay Mercantile Co-operative Bank Ltd., Mumbai	13.00
		Ambarnath Jaihind Co-operative Bank Ltd., Ambarnath	2.00
		Dhule and Nandurbar Jilha Sarkari Nokaranchi Sahakari Bank Ltd., Dhule	1.00
		Nagrik Sahakari Bank Maryadit, Raipur, Chhattisgarh	4.50
		The Kanyakumari District Central Co-operative Bank Ltd., Nagercoil, Tamil Nadu	7.50
		Bajirao Appa Sahakari Bank Ltd., Ankalkhop	2.00
		Shri Laxmi Sahakari Bank Ltd., Mhaisal	1.00
		Jowai Cooperative Urban Bank Limited, Jowai, Meghalaya	6.00
		Solapur Siddheshwar Sahakari Bank Limited	1.50
		The Berhampur Co-operative Urban Bank Ltd., Odisha	1.00
		Khatra People’s Co-operative Bank Ltd., Khatra, West Bengal	0.05
		Mizoram Urban Cooperative Development Bank Limited, Aizawl	1.00
Shreeji Bhatia Cooperative Bank Ltd., Mumbai	0.20		

		Mangal Co-operative Bank Limited, Mumbai	1.00
		The Islampur Urban Co-operative Bank Limited, Islampur	1.00
		The Mahabaleshwar Urban Co-operative Bank Limited.	2.00
		Bally Cooperative Bank Ltd., Howrah,	1.00
		The Aska Co-operative Central Bank Ltd.,	0.50
		The Nabapalli Co-operative Bank Ltd., West Bengal	2.50
		Walchand Nagar Sahakari Bank Ltd., Pune, Maharashtra	4.00
		Ratnagiri Urban Co-operative Bank Ltd.	2.00
		The Midnapore People's Co-operative Bank Ltd	2.00
		The Sahayadri Sahakari Bank Limited, Mumbai	6.00
11	<b>not carried out periodic updation of KYC of its customers as per risk categorisation</b>	Dhule and Nandurbar Jilha Sarkari Nokaranchi Sahakari Bank Ltd., Dhule	1.00
		Bajirao Appa Sahakari Bank Ltd., Ankalkhop	2.00
		The Sahayadri Sahakari Bank Limited, Mumbai	6.00
		The Jawhar Urban Co-operative Bank Limited, Palghar	1.00
12	<b>the bank did not allot or allotted multiple customer identification code to some of its individual customers.</b>	The Kanyakumari District Central Co-operative Bank Ltd., Nagercoil, Tamil Nadu	7.50
		Standard Chartered Bank-India	30.00
		The Berhampur Co-operative Urban Bank Ltd., Odisha	1.00
		The Uttarpara Co-operative Bank Ltd., West Bengal	2.50
		The Gadhinglaj Urban Co-operative Bank Ltd.	3.00

13	<b>levied penal charges for non-maintenance of minimum balances in inoperative accounts</b>	Uttar Pradesh Co-operative Bank Limited, Lucknow	28.00
14	<b>not conducted annual review of inoperative/dormant accounts</b>	Vita Urban Co-operative Bank Ltd	1.50
		Mangal Co-operative Bank Limited, Mumbai	1.00
		The Mahabaleshwar Urban Co-operative Bank Limited.	2.00
		The National Co-operative Bank Ltd., Mumbai,	1.00
		The Sahayadri Sahakari Bank Limited, Mumbai	6.00
15	<b>opened several savings accounts in the names of customers not eligible to maintain savings deposit account/ ineligible institutions.</b>	Indian Bank	162.00
		The Kalyan Janata Sahakari Bank Limited, Kalyan	4.50
	<b>the bank had opened savings deposit accounts of trusts, whose entire income was not exempt from payment of income-tax under the Income Tax Act, 1961</b>	SBPP Co-operative Bank Limited, Killa Pardi, Gujarat	13.00
16	<b>failed to ensure that customers are not contacted after 7 pm and before 7 am</b>	Kotak Mahindra Bank Limited	395.00
17	<b>Failure to submit data to CIC on regular basis/ or not submitting at all / no integrity or quality of data is not upto the mark</b>	The Karnataka State Co-operative Apex Bank Ltd., Bengaluru	23.23
		Nagrik Sahakari Bank Maryadit, Raipur, Chhattisgarh	4.50
		The Hongkong and Shanghai Banking Corporation Limited	173.75
		The Bihar State Co-operative Bank Limited, Patna	60.20
		Jammu and Kashmir Bank Limited	250.00
18	<b>Sanctioning / renewal of loans to directors or relative of</b>	Baran Nagrik Sahkari Bank Ltd., Baran, Rajsthan	2.00

	<b>directors of to the firms where directors or their relatives are proprietor/partner or directors.</b>	The Sutex Co-operative Bank Ltd., Surat (Gujarat)	10.00
		Ranuj Nagarik Sahakari Bank Ltd., Patan (Gujarat)	1.00
		Devika Urban Co-operative Bank Ltd., Udhampur	3.00
		The Viramgam Mercantile Co-operative Bank Ltd	5.00
		The Waghodia Urban Co-operative Bank Ltd.	5.00
		The Co-operative Bank of Mehsana Ltd	3.50
		HCBL Co-operative Bank Ltd., Lucknow	11.00
		Bassein Catholic Co-operative Bank Ltd., Vasai,	25.00
		Saraswat Co-operative Bank Limited, Mumbai	23.00
		Dhanera Mercantile Co-operative Bank Ltd., Dhanera, Gujarat	6.50
		The Janata Co-operative Bank Ltd., Godhra,	3.50
		The Sarvodaya Sahakari Bank Limited, Modasa, Gujarat	6.00
		The Karnavati Co-operative Bank Ltd., Ahmedabad	1.50
		Makarpura Industrial Estate Co-operative Bank Ltd., Dist. Vadodara	2.00
		Nagarik Sahakari Bank Ltd., Babra, Gujarat	2.00
		The Sevalia Urban Co-operative Bank Ltd., Sevalia, dist. Kheda, Gujarat	0.50
		ICICI Bank Ltd.	1219.00
<b>19</b>	<b>sanctioned loans and advances in violation of the Operational Instruction</b>	Nagrik Sahakari Bank Maryadit, Raipur, Chhattisgarh	4.50
<b>20</b>	<b>(1) it sanctioned a term loan to a Corporation (i) in lieu of or to substitute budgetary</b>	Bank of Maharashtra	145.00
		Jammu and Kashmir Bank Limited	250.00

	resources envisaged for certain projects; (ii) without undertaking due diligence on the viability and bankability of the projects to ensure that revenue streams from the projects were sufficient to take care of the debt servicing obligations; and (iii) the repayment/servicing of which was made out of budgetary resources,	Indian Bank Union Bank of India	162.00 100.00
21	the bank had sanctioned loans to its nominal members for purpose other than the prescribed under aforesaid directions	Vishwanathrao Patil Murgud Sahakari Bank Ltd., Murgud,	1.00
22	the bank had failed to comply with RBI directions limiting the quantum of housing loan that can be granted to an individual borrower by a District Central Co-operative Bank.	Vidyasagar Central Co-operative Bank Limited, Midnapore	1.50
23	levied interest from disbursement due date instead of the actual date of disbursement, contrary to the terms & conditions of sanction,	Kotak Mahindra Bank Limited	395.00
24	levied foreclosure charges despite there being no clause in the loan agreement for levy of prepayment penalty on loans recalled/foreclosure initiated by the bank	Kotak Mahindra Bank Limited	395.00
25	there was significant divergence between the NPAs, as reported by it and as assessed by the inspection	Indian Overseas Bank	221.00
26	the bank was collecting fixed penal charge for shortfall in	Suvarnayug Sahakari Bank Limited., Pune	1.00



	<b>maintenance of minimum balance in saving bank accounts, instead of proportionate to the extent of shortfall, without giving notice to the effect that in the event of minimum balance not being restored in the account within a month from the date of notice, penal charges will be applicable</b>	Krishna Sahakari Bank Ltd., Satara	1.00
		The National Cooperative Bank Ltd., Mumbai	1.00
		Kokan Mercantile Co-operative Bank Limited., Mumbai	1.00
		The Chiplun Urban Co-operative Bank Ltd	2.00
		The Kolhapur Urban Co-operative Bank Ltd	1.00
		The Municipal Co-operative Bank Ltd., Mumbai	1.00
		Shree Warana Sahakari Bank Ltd., Kolhapur	1.00
		The Kalyan Janata Sahakari Bank Limited, Kalyan	4.50
27	<b>it failed to implement control measures for ATMs relating to end-to-end encryption of communication between the ATM terminal/PC and the ATM Switch, within the timelines prescribed</b>	Indian Overseas Bank	220.00
		Bank of Maharashtra	145.00
28	<b>not provided a direct link for lodging the complaints with specific option to report unauthorised electronic transactions on home page of its website</b>	The Co-operative Bank of Rajkot Ltd., Rajkot	10.00
29	<b>not provided 24x7 access through multiple channels for reporting unauthorised electronic transactions that had taken place and/ or loss or theft of payment instrument such as card, etc.,</b>	The Co-operative Bank of Rajkot Ltd., Rajkot	11.00
30	<b>not enabled customers to instantly respond by “Reply” to the SMS and e-mail alert sent by the bank</b>	The Co-operative Bank of Rajkot Ltd., Rajkot	12.00
31	<b>used abridged form of its name in social media posts on</b>	The Co-operative Bank of Rajkot Ltd., Rajkot	13.00

	<b>multiple occasions wherein the full name of bank as appearing in the banking license was not displayed prominently and also the font size used for full name was smaller than the one used for abbreviated name</b>		
32	<b>the bank had failed to put in place certain mandated controls which led to the cyber security incident</b>	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd., Hyderabad	65.00
		Dombivli Nagari Sahakari Bank Limited, Dombivli	50.00
33	<b>the bank had not credited interest to inoperative saving bank accounts</b>	The Baramati Sahakari Bank Ltd	2.00
34	<b>failed to carry out annual review / due diligence of the service provider,</b>	Kotak Mahindra Bank Limited	395.00
35	<b>Not put in to use any robust software as a part of effective identification and reporting of suspicious transactions</b>	The Karnataka State Co-operative Apex Bank Ltd., Bengaluru	23.23
		Dhule and Nandurbar Jilha Sarkari Nokaranchi Sahakari Bank Ltd., Dhule	1.00
		The Bihar State Co-operative Bank Limited, Patna	60.20
		Uttar Pradesh Co-operative Bank Limited, Lucknow	28.00
		Walchand Nagar Sahakari Bank Ltd., Pune, Maharashtra	4.00
36	<b>No transfer or late transfer of eligible amount to DEAF</b>	Bombay Mercantile Co-operative Bank Ltd., Mumbai	13.00
		The Tamil Nadu State Apex Co-operative Bank Limited, Chennai (	16.00
		The Bantra Co-operative Bank Ltd., Howrah, West Bengal	0.30
		The Jamnagar District Co-operative Bank Limited	4.10
		Bhilai Nagarik Sahakari Bank Maryadit, Bhilai (Chhattisgarh)	1.25

		The Kanyakumari District Central Co-operative Bank Ltd., Nagercoil, Tamil Nadu	7.50
		Telangana State Cooperative Apex Bank Limited, Hyderabad	2.00
		Vita Urban Co-operative Bank Ltd	1.50
		Vita Urban Co-operative Bank Ltd., Vita,	1.50
		The Islampur Urban Co-operative Bank Limited, Islampur	2.00
		The State Transport Co-operative Bank Ltd., Mumbai	2.00
		Punjab & Sind Bank	100.00
		The Gadhinglaj Urban Co-operative Bank Ltd.	3.00
		The Sahayadri Sahakari Bank Limited, Mumbai	6.00
		Makarpura Industrial Estate Co-operative Bank Ltd., Dist. Vadodara	2.00
		Nagarik Sahakari Bank Ltd., Babra, Gujarat	2.00
37	<b>not reported fraud case or not reporting of fraud cases to RBI within prescribed timeline.</b>	The Tamil Nadu State Apex Co-operative Bank Limited, Chennai (	16.00
		The Co-operative Bank of Rajkot Ltd., Rajkot	10.00
		The Gandevi People's Co-operative Bank Ltd., Navsari	2.00
		The Karnavati Co-operative Bank Ltd., Ahmedabad	1.50
		Janata Urban Co-operative Bank Limited, Wai,	1.00
		ICICI Bank Ltd.	1219.00
38	<b>not to submit statutory returns within prescribed timelines</b>	Telangana State Cooperative Apex Bank Limited, Hyderabad	2.00

39	<b>submit off-site surveillance system returns within prescribed timelines;</b>	Telangana State Cooperative Apex Bank Limited, Hyderabad	2.00
40	<b>not constituted a Customer Service Committee of the Board, put in place a Customer Grievance Redressal Policy duly approved by the Board</b>	Telangana State Cooperative Apex Bank Limited, Hyderabad	2.00
41	<b>the bank had breached inter-bank, gross as well as counterparty exposure limits or any of these limits</b>	The Bantra Co-operative Bank Ltd., Howrah, West Bengal	0.30
		Nagrik Sahakari Bank Maryadit, Raipur, Chhattisgarh	4.50
		The Sutex Co-operative Bank Ltd., Surat (Gujarat)	10.00
		Bajirao Appa Sahakari Bank Ltd., Ankalkhop	2.00
		Jowai Cooperative Urban Bank Limited, Jowai, Meghalaya (	6.00
		Panihati Co-operative Bank Ltd.	2.50
		The Berhampur Co-operative Urban Bank Ltd., Odisha	1.00
		The Uttarpara Co-operative Bank Ltd., West Bengal	2.50
		Ujjain Nagarik Sahakari Bank Maryadit, Ujjain	1.00
		Shri Vinayak Sahakari Bank Ltd, Ahmedabad	1.50
		The Tapindu Urban Co-operative Bank Limited, Patna	1.00
		The Nabapalli Co-operative Bank Ltd., West Bengal	2.50
		The Shibpur Co-operative Bank Ltd., West Bengal	0.10
The Midnapore People's Co-operative Bank Ltd	2.00		
The Municipal Co-operative Bank Ltd., Mumbai	1.00		

		The Becharaji Nagarik Sahakari Bank Ltd., Dist. Mehsana	2.00
		The Viramgam Mercantile Co-operative Bank Ltd	5.00
		Lalbaug Co-operative Bank Ltd., Vadodara	5.00
		The Co-operative Bank of Mehsana Ltd	3.50
		The Harij Nagrik Sahakari Bank Ltd., Harij,	3.00
		The Citizens' Co-operative Bank Ltd., Jammu	6.00
		Dhanera Mercantile Co-operative Bank Ltd., Dhanera, Gujarat	6.50
		Maninagar Co-operative Bank Ltd., Ahmedabad,	1.00
		The Sarvodaya Sahakari Bank Limited, Modasa, Gujarat	6.00
		The Gandevi People's Co-operative Bank Ltd., Navsari	2.00
		The Santragachi Co-operative Bank Ltd., West Bengal	1.00
		Gujarat Mercantile Co-operative Bank Ltd., Ahmedabad	4.50
		Nagarik Sahakari Bank Ltd., Babra, Gujarat	2.00
42	<b>it failed to make minimum mandatory transfer of a sum equivalent to 25 per cent of its disclosed profit for the year 2020-21 to its reserve fund</b>	Indian Overseas Bank	220.00
43	<b>failed to maintain minimum Cash Reserve Ratio (CRR) for few days</b>	The Harij Nagrik Sahakari Bank Ltd., Harij,	3.00
		Gujarat Mercantile Co-operative Bank Ltd., Ahmedabad	4.50
44	<b>made donation to a trust where one of the directors of the bank was a trustee</b>	The Janata Co-operative Bank Ltd., Godhra,	3.50

45	<p><b>Not following SAF guidelines such as sanction of fresh loan and advances despite directions to stop sanction /renewal / disbursal of loans and advances, offered interest rates on deposits at rate more than those offered by the State Bank of India, giving donations etc.</b></p>	National Urban Co-operative Bank Limited, Pratapgarh (UP)	10.00
		Sawantwadi Urban Co-operative Bank Ltd	3.00
		Mizoram Urban Cooperative Development Bank Limited, Aizawl	0.20
		Shreeji Bhatia Cooperative Bank Ltd., Mumbai	1.00
		The Mahabaleshwar Urban Co-operative Bank Limited.	2.00
		The Dahanu Road Janata Cooperative Bank Ltd., Palghar	1.00
		The Viramgam Mercantile Co-operative Bank Ltd	5.00
		HCBL Co-operative Bank Ltd., Lucknow	11.00
		The Citizens' Co-operative Bank Ltd., Jammu	6.00
	The Sahayadri Sahakari Bank Limited, Mumbai	6.00	
46	<p><b>created financial/non-financial messages in SWIFT without first ensuring that the underlying transactions have been duly reflected in the CBS</b></p>	Jammu and Kashmir Bank Limited	250.00
0	<p><b>allowed operations and not closed several accounts opened using OTP based e-KYC in non-face-to-face mode, even after expiry of one year without conducting customer due diligence procedure,</b></p>	Indian Bank	162.00
s48	<p><b>(i) Not obtained annual declaration in Form B from one of its major shareholders, within one month of the close of the three financial years ending on March 31, 2018, March 31, 2019 and March 31, 2020,</b></p>	RBL Bank Limited	64.00

	<b>Not furnish certificates to RBI regarding continuance of the 'fit and proper' status of one of its major shareholders, by the end of September of the said three financial years.</b>		
<b>49</b>	<b>marketed and engaged in the sale of non-financial product</b>	ICICI Bank Ltd.	1219.00
<b>50</b>	<b>the bank had levied penal charges in certain accounts for late payment of credit card dues though the customers had paid the dues by the due date, through third party platforms. In furtherance to the same</b>	Axis Bank Ltd.	30.00

### Conclusion & Recommendation

Though data shows tilt against co-operative banking sector, one should not forget that since nationalization of many banks and establishment of RBI as regulator of Banking industry, nationalized / public sector banks are under their control and from years practicing on various regulatory guidelines, statutory guidelines and having much better international and national exposure, due to which their non-compliance to various regulatory or statutory guidelines is less.

Though Private sector and Small finance banks are new generation or new entrant in the field, these banks are under control of RBI since their inception. And mostly these banks are technology driven and having banking expertise, who are well-known to various regulatory stipulations, regulations as well as statutory guidelines applicable to their functional areas in Banking.

Over the year's public sector nationalized banks have laid downs their operational manuals sing various **SOP (standard operating procedures)** and staff is not only guided by such SOP manuals but also expected to follow the same and any failure in following SOP standard operational manual which may create an issue, results into staff accountability and other Pvt Sector banks, small finance bank's which are new generation banks are copying the module followed by public sector/ nationalized banks

As a result, these banks are comparatively less in appearance in penal list. Another dark side is that these banks are having monetary power to have best technology, best infrastructure as well as to hire sufficient and knowledgeable staff. In contrast banks operating in co-operative sector lagging behind in introducing suitable technology, which is off course costly for them, they have their own restrictions in hiring sufficient and knowledgeable staff. As most of the co-operative banks are working with very less no. of branches, having less money power. There is no comparison of co-operative banks with other banks like PSU, small banks, Private Sector banks or Indian arms of foreign banks.

Due to their (PSU, Private Sector, small banks or Indian arms of foreign banks) size, capital, reserve these banks are less in number where penalty is levied for exposure norms etc. Also, name of such banks is not

appearing for penalty to director related loans or loan to parties where directors are guarantor as director board is not located from specific areas/ group/ community etc. which is rampant in co-operative banks and these directors are well versed with such norms

Though co-operative banks are also in market from many years few may be from century or near century, the banks from the co-operative sector was brought under RBI's control recently by amending the Banking Regulations Act 1949 on 29 Sept. 2020 which made applicable retrospectively from 29 June 2020. As such Co-operative banks which are not well versed with RBI's controlling guidelines are suddenly burdened by this change. Till that, expertise of co-operative bankers is according to local needs, as per co-operative act, rules and regulations brought by NABARD and they are newer to RBI's guidelines as such changing the system abruptly is somewhat challengeable as customer dominance of co-operative banking is from semi urban and rural areas where changing customer's mind-set is of customers is itself is a challenge. However, prior to that major challenge is changing mind-set of existing staff, board of directors whereas finding new experience staff is another challenge Changing of customer's mind-set and changing the overall scenario which is going from years together create a fear in minds of co-operative banks of losing customers base which was established on the basis of years' practices

This create a gap in co-operative bank's fraternity's mind-set and RBI's expectations from Banking sector and now due to which they faced issues in complying with RBI's rules and regulations

Difference is due to RBI is controlling bank of banking sector, having knowledge of not only national economics but also international economies RBI also able to brought international best banking practices in Indian Banking Sector Also RBI learnt a lot from failure of various banks in past and brought various measures in implementation to prevent recurrences of such instances. And as co-operative banks brought under RBI control recently, they are not well versed with RBI rules and regulations, RBI's expectations and having dual control of co-operative act and RBI regulations resultant into dual path for co-operative banks.

Also the changes in all aspect of banking need retention of existing business, satisfying the existing customers, adoption of new technologies and over all educating not only director board, bank staff but also customers which required adequate resources, funds etc. Structure of many co-operative banks is a big stumble as its controllers are in hands of directors, dominantly from one community, one group, in some cases though bank is having board of directors, it's a one person oriented or driven as such big customers are also from specific community, group or many are indirectly related with directors by virtue of local ambience etc.

Perusal of RBI penalty list enumerated main factors for penalties which are as under and which give picture that up to what extend RBI is penalizing the banks of what the reason of such penalty it gives reflection of spectrum of issues as well as PAN India picture of banking system and penalty levied by RBI

By Banking Regulation Act, 1949 RBI is vested with various controlling and supervising powers and RBI is expected to utilize the same in judicially. Before penalizing any bank RBI is issuing notice to the bank narrating the instances of non-compliances noticed by it or NABARD in their audit of that bank After



notice that particular bank is having a chance to represent personally. through their functionaries and documentary submission is also permissible. If RBI is not satisfied by that banks personal appearance and documentary submission, then & then only RBI is levying penalty.

The list shows different quantum of penalties for same reason. It may conclude that the difference is due to no of instances, gravity of instances which differ from bank to bank It may also be noted that by virtue of penalty, financial position of that bank cannot be judge. Whenever RBI feels that some bank's financial position is not good then it asks the bank to stop its operation or some extreme cases cancelling the license also

Now, what are the reasons for such penalties True the main reason is non-complying with RBI's rules and regulations and guidelines

Now, if we try to locate the exact reason why banks are failing to comply with RBI's rules and regulations or guidelines, then we find out major reason which is nothing but “Not able to determined own risk appetite and Compliance failure”.

**Risk:** In general, when we look at the term Risk in banking it is nothing but a " potential loss to bank due to the occurrence of particular event". Such events not only considered as probability of advances turned into NPA, cash theft or burglary in branch, ATM or when cash-in- transit, frauds but now a day it has additions like data theft, cyber-attack, suspicious transactions, utilization of bank channels for terror funding etc. And as years goes and technology upgradation newer and newer aspects are coming into light. Looking at the known risk prone areas and probabilities of potential loss to bank due to occurrence of any unwanted event risk has to determined. However, risk is not only generated through known areas but may come from new and still unknown areas also, however, bank should look at the probabilities and logic to determine such risk also. One such risk which is unexpected and may unknown to any establishments is RBI penalty itself as it is a not only financial effect but have a reputational effect and in some cases existence may affected.

Compliance risk, Operational risk, credit risk, market risk, country risk, systemic risk reputational loss risk is few type of risks appearing in banking. However, main ingredients of risks are Inherent risk and control risk. Any function in banking is having inherent risk and when we put controls to mitigate the same and still having some residual risk, along with a control risk which may arise due to failure of control applied. Not assessing own risk appetite comes in the picture when banks are penalized for exposure limits or some credit lacunas or any simple avoidable reasons.

RBI have issued preventive guidelines like to what extent of capital/ NDTL one bank can finance to individual borrower or to a group firm Here RBI is guiding the banks about their own risk appetite and tried to reduce the exposure arithmetically on the basis of either Capital or NDTL, so to know own risk appetite bank can derive its financial limit to individual borrower or group concern. This is one example of mitigation of risk

RBI also restricted the banks in exposure level in unsecured loans along with permissible repayment period in case of unsecured loans also. Again it is a risk appetite defined by RBI. Where as in case of failure in various areas of lending exposures, exposure limits must be first to considered then risk rating, availability of securities etc. should be looked into

This is applicable in non-fund based exposure like BGs/ LCs also where certain guidelines are also laid down to avoid any unforeseen future or in banking parlance contingent liability

**Non classification of NPA (non-performing asset)** is also have a financial impact on any banking institutes as NPA is not only restrict booking of applied but un recovered interest/ income along with provision is required from profit earned. As such correct NPA classification is must.

Though above examples are from asset side there are few risk which any banker need to understand and coming from liability side. For example: Concentration risk of deposits which involves not only concentration of large value deposits, concentration of high interest rate deposits, majority of deposits maturing on certain date or in certain period. Another example is offering high rate of interest to attract deposits and at the same time allowing interest rate deviation to exiting borrow to sustain the business, both things leading to risk.

Another **major risk is asset-liability mismatch** i.e. loans repayment and deposit maturity period and amount mismatch for which RBI is stipulating maintenance of CRR (Credit reserve ratio) and SLR (Statutory liquidity ratio).

From the above few examples one can understood Risk involved in banking and with a changing time risk is dynamic and changing at very high fast.

**Compliance:** In simple language compliance is nothing but to comply with all prudential expectations, various rules and regulations which are brought out by any applicable law of country, various regulators and statutory expectations. As such Compliance risk is "the risk of legal or regulatory sanction, material financial loss or loss of reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules and code of conduct etc., applicable to its activity and banking industry, as a whole.

While compliance risk is arising out of non-compliance of applicable laws of country, various regulatory norms, statutory rules, regulations and expectations few other risk like credit risk country risk, systemic risk etc. are also arise due to non-compliance of some safeguards applicable to that specific areas.

As such risks and compliance is going hand to hand and may summaries as failure in any compliance can turned into risk or risk is arising from non-compliance also

And if there is Compliance failure in any bank result is increasing not only risk in the areas where compliance is failed but increasing risk of financial loss due to penalty, it may have levied by RBI which is not only financial loss but also business risk and reputational risk which is inherent conclusion of RBI penalty. So Compliance is major function to contain RBI penalty

Compliance is the major issue with majority of Co-operative banks, which lacks somewhere into compliance function.

There may be some reason which was not came into the picture off-late but there is possibility of such instances happening and which can be treated as non-compliance by RBI. For example, on RBI has penalized Nutan Nagarik Sahakari Bank Ltd., Ahmedabad for Rs 26 lakhs Among other reason one reason for penalty is issuance of debit cards to CC customers. Till the date that bank has not realized that issuance of debit card to CC account holder is one of the non-compliance and in recent past no other bank was penalized for this reason. Looking at the scenario two different views are coming forward

1. Other Bank's realized that issuance of debit card to CC account holder is deviation to RBI guidelines.
2. Functionaries of Nutan Nagarik Sahakari Bank Ltd., Ahmedabad may of the opinion that their action of issuance of debit cards to CC account holder is correct as no bank is yet penalized by RBI for such reason till date.

The overall opinion of co-operative fraternities is that without having separate compliance function in place, they are complying with the various regulatory and statutory rule and regulations till few years back However, though it is true, it is piece meal approach and for which every functionary should be aware of regulatory as well as statutory rules and regulations in letter and spirit not only theoretically. Banking is the area which can be run on the basis of various regulatory and statutory guidelines, rules & regulations along with knowledge of industry and not on the basis of logic which is mixed with paltry knowledge of industry. Moreover, it should not have piece and meal approach but should have dedicated approach to become compliant. It's an ongoing process and no one should show laxity of approach when we are, looking at the compliance.

**Interest Payment Overdue:** Another reason which largely appeared in the list of failure of interest payment in case of overdue deposits and non-payment of interest in individual proprietorship current account where account holder/ proprietor died though these are reason at large in penalty to many banks, it is still happening showing that bankers are not vigil enough to such simple guidelines. There may be lacunae in software system utilized by banks but shows compliancy of the staff while routing such transactions and rechecking the same

Another major reason found is failure of **maintenance of CRR and SLR**. Many banks faced the heat of penalties for such simple reason Again it's a human ignorance or human error.

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