



NUCFDC

**NATIONAL URBAN CO-OPERATIVE
FINANCE AND DEVELOPMENT
CORPORATION LIMITED**

**Umbrella Organisation of
Urban Co-operative Banking Sector**

Basic Questions Answered

NATIONAL URBAN CO-OPERATIVE FINANCE AND DEVELOPMENT CORPORATION LTD.
(FORMERLY KNOWN AS NATIONAL CO-OPERATIVE FINANCE AND DEVELOPMENT CORPORATION LTD.)

PROMOTER DIRECTORS



SH. JYOTINDRA M. MEHTA
Chairman, NUCFDC



DR. H. K. PATIL
Chairman Emeritus, NAFCUB

INDEPENDENT DIRECTORS



SH. AJAI KUMAR
*Former Chairman &
Managing Director,
Corporation Bank*



**SH. KRISHNAKUMAR
SUBRAMANYAM, IAS (Retd.)**
*Former Secretary,
Government of India*



**DR. RADHA BINOD
BARMAN**
*Former Executive Director,
RBI and Technology Advisor, NPCI*



NATIONAL URBAN CO-OPERATIVE FINANCE AND DEVELOPMENT CORPORATION LTD-- UMBRELLA ORGANISATION FOR INDIA'S URBAN CO-OPERATIVE BANKING SECTOR

“The structure, size, lack of avenues for raising capital funds and limited area of operation of the Primary (Urban) Co-operative Banks (UCBs) add to their financial vulnerabilities. A long-term solution to make the UCB sector financially resilient and to enhance the depositors' confidence is to set up an Umbrella Organization (UO) as prevalent in many countries. The UO, apart from extending liquidity and capital support to its member UCBs, would also be expected to set up Information and Technology (IT) infrastructure for shared use of members to enable them to widen their range of services in the wake of advances in information and communication technology at a relatively lower cost. The UO can also offer fund management and other consultancy services”.

The above reference to the UO made in RBI's Statement dated February 7, 2019 regarding Developmental Regulatory Policies presented by the Governor following the Monetary Policy statement should be seen as an important milestone in the journey for the

formation of a national level UO for the country's UCB sector. Later, on June 6, 2019, RBI conveyed its approval to NAFCUB for their proposal for formation of a national UO.

Evolution of the Umbrella Organisation

2. The idea of an UO for India's UCB sector was first mooted in the year 2006 by an RBI Working Group (Chairman: Shri N.S. Vishwanathan) constituted by the RBI on Augmentation of Capital of UCBs. The recommendation was made in the context of exploring avenues for UCBs for raising capital, as also the need for professionalization of the management of UCBs and reviving the sagging public confidence in the sector, post the MNCB crisis.

2.1 Pursuant to the above observations, RBI appointed a Working Group on Formation of an Umbrella Organization for the UCB Sector (Chairman: Shri V.S. Das). The Group examined the idea in greater detail and based on their study of UOs in other



countries, submitted a comprehensive report in 2009, recommending a model of a national UO for India's UCB sector.

2.3 Subsequently, these recommendations found resonance and were supported by certain other high-level Committees of RBI, such as Malegam Committee, Gandhi Committee appointed by RBI and also by UCBs themselves in several conferences and seminars.

2.4 The pace in establishment of UO was, unfortunately rather slow, as is generally the case with reforms of this nature. NAFCUB, however, pursued the matter vigorously with RBI for early implementation of the recommendations for setting up of UO.

2.5 At the instance of RBI, NAFCUB constituted a Steering Committee (Chairman: Shri V.S. Das, former Executive Director, RBI) on the subject in 2016. This Committee submitted its recommendations in 2017 on the design, role and functions of a national UO which were submitted to RBI for approval in August, 2018.

2.6 In June 2019 the RBI conveyed regulatory approval to NAFCUB for forming a national UO for the UCB sector in the form of a non-deposit taking NBFC, subject to certain terms and conditions. This led to the incorporation of a company which is now called National Urban Co-operative Finance and Development Corporation Ltd. (NUCFDC) having its registered office in the office premises of NAFCUB at New Delhi. NUCFDC has since received Certificate of Registration (CoR) as Type II NBFC (ND) from RBI and is gearing itself to commence its business.

3. A great opportunity now presents itself for India's UCBs, big and small, to come together in a spirit of cooperation and solidarity to form a robust and professional UO on the lines of those operating in other countries in North America, Europe, Australia, etc. where co-operative credit institutions (credit unions) have a large footprint. Shining examples of UOs abroad, are Credit Agricole (France), Rabobank (Netherlands), Central and Provincial Credit Unions in Canada and USA, etc. A dire need was felt for such a UO in India



which has large number of standalone UCBs spread across regions. Such a UO could help in scaling up their efficiency through capacity building, robust IT offerings through shared state of the art platforms products and services, better governance and fund-based as well as non-fund based services. The company will also assume and play the role of Self-Regulatory Organization (SRO) as envisaged by RBI and discharge its functions in the prescribed manner.

4. The company has already raised a sum of Rs. 117.95 crore through private placement of equity from 134 subscribers including a premier statutory body, viz NCDC. During the year 2024, the NUCFDC will endeavor to enhance its paid-up equity capital to Rs. 300 crore, as required by the RBI.
5. The company was incorporated with three promoter directors one of whom unfortunately passed away. As the UO is mandated by RBI to be managed by professionals where 50% of directors would of professionals of repute, it has therefore inducted three professional

Independent Directors in the BOD i.e. Dr. R.B Barman, former Executive Director, Reserve Bank of India, Shri S. Krishna Kumar IAS (Retd.) former Secretary Govt. of India and Shri Ajai Kumar, former Chairman & Managing Director of Corporation Bank. The company is presently governed by a Board of Directors comprising two Promoter Directors from UCB sector and three Independent Directors having expertise in fields relevant to the business of the company. Shri Atul Khirwadkar is the company's CEO. He was formerly a CEO with a prominent UCB in Maharashtra

6. With a view to facilitating a basic understanding of UO, its structure, role, functions, management and benefits to the UCBs, certain basic aspects are explained below in the form of Questions and Answers.

Questions & Answers relating to the Umbrella Organization

Q1. What is meant by UO?

Ans. In countries having a large presence of



co-operative banks (called credit unions), such as USA, Canada, Australia, France, Austria, Italy, Finland, Poland, Netherlands and quite a few others, co-operative banks are networked closely and thrive under an apex institution known as Umbrella Organization that provides cooperative banks a wide range of banking and other related financial services. In most countries, UO itself is a bank. India's UCBs do not have such a UO although there are 1,502 UCBs in the country as on 31st March, 2023

Q2. Why there is a need for a UO?

Ans. The UO, as in other countries, will signify the spirit of cooperation and solidarity – one for all and all for one- which is the basic philosophy of co-operatives. A unified & united sector served by a strong UO will through its wide-ranging services bring about greater professionalism, synergy and efficiency in the operations of UCBs, particularly the smaller ones. It

provides protection to members in times of financial distress and crisis and fosters co-operative spirits. A stable and vibrant sector will boost public confidence in UCBs and contribute to financial stability in the country.

The UO will:

- help UCBs raise their capital;
- be a provider of liquidity to address mismatches in emergencies and in times of distress/liquidity crisis; provide refinance facilities
- provide a robust and reliable IT infrastructure / platform that can significantly reduce costs for member banks while enabling them to provide modern banking products based on latest technology; and
- provide wide range of non-fund-based services in



operational spheres, training, consultancy, etc. and help them cope with competition effectively.

Q3. What is the relevance of UO in India?

Ans. The formation of UO will set the ball rolling for the UCB sector to move away from the existing 'stand-alone' structure of many small banks into a well-knit system of grass roots level banks with strong network that can provide support in times of need, and also improve the general quality of governance.

A national level UO for UCBs is of great relevance to India and could effectively address many limitations afflicting the sector such as, limited avenues for raising capital, meeting short term liquidity requirements, handling inefficiencies in operations, lack of professionalism and weak corporate governance.

Q4. What are the services to be provided by the UO?

Ans. Fund-based services:

- i. Accepting deposits from member banks.
- ii. Raising loans from UCBs, banks and financial institutions.
- iii. Raising funds through market borrowings (bonds and non-convertible debentures).
- iv. Raising refinance from other financial institutions.
- v. Granting loans and advances to member banks.
- vi. Granting refinance facilities to member banks.
- vii. Providing liquidity support to member banks against SLR securities through repo.
- viii. Providing capital support to member banks.

Non-fund-based services

- i. IT Infrastructure for use of member banks to facilitate sharing of resources leading to cost efficiency, Consultancy, Data Centers, dedicated IT network.



- ii. Fund Management Services, Treasury Management Services.
- iii. Consultancy services in various operational areas.
- iv. Capacity building services: training, seminars, and conferences.
- v. HR services: manpower planning and recruitment.
- vi. Research & Development

Additional Activities

- As advised by RBI, UO will be obtaining separate approval/No objection certificate for undertaking various activities wherever required. UO is expected to engage in providing a dedicated ATM network, Debit/Credit cards, PPIs, PSO, Payment Gateway etc. Providing a non-fund based wide range of activities such as selling of Mutual Funds, Insurance products, consultancy in ALM, IT, Product Management, restructuring of assets and liabilities, merger and amalgamation of UCBs will also be taken up by UO. Further, providing HR services in areas such as manpower planning, recruitment, training, and

development of staff will be another area of activity apart from maintaining data base of qualified personnel who can serve on the Boards and Boards of Management of UCBs.

- The UO shall also play the role of a Self-Regulatory Organization for its members.

Q 5. What is meant by Self-Regulatory Organization (SRO)?

Ans. A Self-Regulatory Organization (SRO) is a non-governmental organization which has the power to create and enforce stand-alone industry and professional regulations and standards. It is meant to protect the investor by establishing rules, regulations, and set Standard Operating Procedures which promote ethics, equality, professionalism, transparency, and code of governance.

The UO will be subject to RBI-imposed regulation to a degree. However, the



RBI may delegate some aspects of the industry oversight and surveillance to the UO. Any applicable laws or Governmental/RBI regulations will apply and be foremost while those set by the SRO become complementary / supplementary in nature to ensure efficient and sound UCBs. Since the SRO has some regulatory influence over an industry or profession, it can serve as a watchdog to guard against fraud or unprofessional practices.

The RBI shall prescribe the SRO role and functions of the UO. As an SRO, the UO will provide comfort to the Government, RBI and public who place their savings in UCBs.

Q 6 Should there be only one UO at the national level or regional UOs at the state level?

Ans. The RBI approval is for national Level UO that shall provide all the fund based as well as non-fund-based services to its members, particularly in those regions where State Federations may not be equipped for

the task and the number of UCBs is small. In states with a large presence of UCBs respective federations may extend only non-fund-based services to their member banks and which may be supported by National UO. For this, there could be state level UO as has been done in Gujarat by formation of a separate wing under the aegis of the Federation, called the Centre for Banking Research Development and Excellence (CBRDE).

Q 7. How will a centralised institution like UO be able to help small banks spread over different states?

Ans. UO is envisaged to provide fund based and non- fund-based support to urban banks, including the large number of small banks. In the age of electronic funds transfers, the fund-based support will not be hindered by geographical location.

In respect of non-fund-based support activities, while certain specialised functions like investment guidance, all technology related guidance, support



on regulatory aspects, etc. will be done by UO directly through its specialised arms.

Certain other aspects like capacity building activities and localised seminars etc. will, if need be, be carried out in collaboration with the state and district level federations who can set up dedicated divisions/verticals for this purpose.

Q8. How the UO will be helpful to weak UCBs?

Ans. There are various avenues and options for addressing the problem of weak UCBs under rehabilitation / restructuring, such as TAFcUB, mergers, acquisitions, conversion, etc. Reserve Bank of India has put in place the above institutional mechanism for restructuring / rehabilitation of UCBs having weak financial position. The framework encompasses augmentation of capital, improving CRAR and net worth and improvement in profitability of the UCBs that are

viable and merger of those that cannot be turnaround. However, the UO will be able to uplift banks confronted with incipient or chronic problems through timely fund based, consultancy and other advisory and technical services well before the banks get into solvency problems. UO would also provide consultancy services and work in collaboration with all stakeholders for implementation of turn around strategies of weak/sick UCBs.

Q9. How will the UO be useful for banks which are self-sufficient in technology, have trained manpower and are professionally run?

Ans. It is evident that a small number of large banks which account for bulk of assets in terms of value and the large number of small banks whose aggregate assets form small part of sector's total assets, both will be able to make use of the UO in different ways.

- We live in a highly globalized and networked world. The



volatilities in global banking system are there for all to see. While within the urban banking sector, any failure of the large number of small banks could adversely affect even big banks, it is a fact that there is no guarantee for even a professionally managed large urban bank not to encounter unforeseen problems due to external factors, and it would need a body like UO to come to its support. At present, there is no such support system available.

- By maintaining links with markets and large international/ national co-operatives, UO will be able to chart out new acceptable and safe growth paths for large banks.
- By participating in support system for small UCBs through UO, the large banks will

indirectly be supporting themselves as overall strength of the sector will only enhance their standing in the financial intermediation world.

It is very important to note that by promoting an umbrella organization the UCB sector will be taking the first step towards the much-needed common bonding and networking amongst themselves.

- This will release synergy, efficiencies of scale, improvement of governance and raising of public confidence in the sector.
- Also, the most visible facility of short-term liquidity support will be immediately available even to the large banks, whenever they need it.
- Lastly, membership of the UO could make them eligible for regulatory relaxations/ concessions.



Q 10. What is important for the UO to be effective and to succeed?

Ans. Spirit of mutual co-operation, support and solidarity will be the foundation on which the UO should stand. The UO will have to be thoroughly professional, driven by Board of Directors appointed as per fit and proper criteria prescribed by RBI and its day-to-day operations will also be managed by professionals. It will be an organization that will also be intensely technology driven on a state-of-the-art IT platform.

Q 11. What will be the organizational form of the national UO?

Ans. The UO initially will be in the form of a public limited non-deposit accepting NBFC (deposits from members being exempt). The company will largely be owned and controlled by UCBs as its shareholders. The NBFC form will enable the UO to raise capital and other borrowings from the market and use it for capitalizing member UCBs and for its own operations.

As and when the UO is fully mature and based on its track record, it may convert itself into a full-fledged bank on the lines of UOs in other countries.

Q 12. Will the membership of the UO be voluntary or compulsory?

Ans. Membership of the UO will be voluntary. However, it is likely that UCBs joining the UO may enjoy special regulatory concessions and treatment. Being an SRO, UCBs having membership of Umbrella Organization will stand to gain in terms of branch expansion and extension of area of operation would be a platform for UCBs for taking up policy issues with RBI/GOI.

Q 13. What will be the capital structure of the UO and contribution of each UCB?

Ans. The UO will have an authorized capital of Rs. 500 crore. Initial issued and paid-up capital will be Rs.300.00 crore. The Steering Committee recommended that if each UCBs contributes 10 paise per Rs.100 of



assets, the total amount of Rs.600.00 crore can be contributed to the capital of UO by all the UCBs as against the present requirement of Rs300.00 crore. The load on each UCB can be made more reasonable and fairer through equitable formula. Significant contribution and support is also expected from certain premier national cooperative and financial institutions for the UO. The participation of international organizations such as International Finance Corporation in subscribing to the capital of UO can be explored based on experience gained in the successful running of the UO.

Q 14. How will the UO mobilize working capital?

Ans. Apart from contribution to capital, UO will raise resources by way of borrowing from Banks and financial institutions, raise non-convertible debentures, refinance from financial institutions, UCBs having surplus funds due to low CD Ratio. Further, large cooperative organizations such

as IFFCO, KRIBHCO which have sufficient resources/ capacity to deploy funds may provide working capital funds for specified periods.

Q 15. Will membership be restricted only to UCBs?

Ans. Membership can also be open to other co-operatives institutions and also to public when the UO becomes a listed company and the members can avail of the services of the UO within the framework of prevalent laws and regulations. While UO is being conceived mainly for the UCBs sector, it could also play a role in strengthening the rural cooperative credit institutions particularly in the areas of fund management, ALM, capacity building, IT adoption, Research & Development, Management Consultancy etc. They could derive benefits of its professional expertise and facilities.

Q 16. How will the UO earn its revenues?

Ans. All the services, funded as well as non-funded, will be chargeable on



commercial lines. Activities such as loans, liquidity support, refinancing etc. will yield interest. Further, the UO will also invest its funds in assets which will generate income. The non-fund-based facilities such as IT services, ATM network, Payment & Settlement services, Fund Management, Consultancy, and other Capacity Building Services will earn fee-based income for UO. It will pay fair dividend to the shareholders from its distributable profits in conformity with the prevalent laws and regulations.

Q.17 How the affairs of UO would be managed?

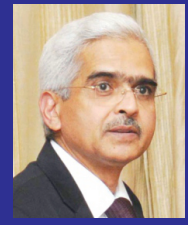
Ans. UO is mandated by RBI to be managed by professionals where 50% of directors in the Board would be in the category of independent directors comprising professionals of repute. It has, therefore, inducted three professional Independent Directors in the Board. The company is presently governed by a Board of Directors comprising two Promoter Directors

from UCB sector and three Independent Directors having expertise in fields relevant to the business of the company. The company has engaged a professional CEO and KMPs.

Formation of the UO is not just the question of having another new institution; it is about willingness to change our mindset to have a structure wherein we, as individual banks, are ready to co-operate, network and to help one another. More importantly, it is about our willingness to submit to certain mutually agreed self-discipline that will make the UO more effective.

Our success in formation of Umbrella Organisation will be an affirmation of co-operation among the co-operatives and a proof of the fact that despite marked heterogeneity in respect of size, spread and even business profile, urban co-operative banks can come together, network and be important players in the financial sector of the country.

“



"...A need is also felt for establishment of an Umbrella Organisation for UCBs which may extend loans and refinance facilities, setup IT infrastructure and provide support for capital and liquidity. The structure, functions and the regulatory guidelines of this organisation are being examined by the Reserve Bank. Mergers and consolidation in the sector will also help in reducing operating costs, encouraging greater risk diversification and economising capital. We propose to put in place a mechanism for encouraging voluntary mergers in the sector through appropriate incentives. We also propose to create a Centralised Fraud Registry for UCBs."

- **Shaktikanta Das, Governor, Reserve Bank of India**

”

“



Urban Cooperative Banks form the segment of the banking system in the Country which serve the lower middle class of the society and which are firmly rooted to the grassroots level. A Very important recent development in strengthening of the urban banking sector is the approval by RBI of a proposal submitted by NAFUCB for formation of an Umbrella Organisation for the urban banks. Successful launch of the Umbrella Organisation will go a long way in helping large number of small banks to gain confidence and professionalism required to meet the growing challenges of future. Even the larger urban banks will benefit by networking through the umbrella organization. It is very important that every urban bank contributes in the formation of the UO and benefits from its expertise in the various areas of technology, capacity building, investments, liquidity support, self regulation etc.

- **H.K. Patil, Chairman Emeritus, NAFUCB**

”

“



Formation of Umbrella Organisation is fulfillment of a long cherished dream of NAFUCB. A milestone has been reached with the RBI issuing the CoR for NUCFDC. The Urban Banking Sector will be strengthened with the support of the Umbrella Organisation in the coming years.

Our UCBs no longer have to depend on commercial banks for various technology-based supports or for fund-based supports. Projection of all UCBs as one group under one umbrella will make the sector to be a formidable force in banking system.

- **Laxmi Dass, President, NAFUCB**

”

“



These are very exciting and satisfying times for us in NAFUCB as our sustained efforts over the years has culminated in the approval by RBI for formation of an Umbrella Organisation. It shall be owned by the sector and would give all our banks a cutting edge in facing up to the competition. There are many countries in the World where cooperative banks have umbrella organizations which are among the most important and strongest financial institutions. Some of them are in even globally recognized entities having international operations, which are essentially to strengthen the grass roots level cooperative banks that own the umbrella organizations. Our urban cooperative banking sector has the capacity to get together to set up such an institution in India. We all must resolve to extend all the support in formation of the UO without any reservations.

- **Jyotindra Mehta, Chairman, NUCFDC**

”



NUCFDC

**NATIONAL URBAN CO-OPERATIVE FINANCE AND
DEVELOPMENT CORPORATION LIMITED**

(National Level Umbrella Organisation For Urban Co-operative Banks)

B-14, 3RD FLOOR, A- BLOCK SHOPPING COMPLEX,

NARAINA VIHAR, NEW DELHI-110028

E-MAIL: ncfdc.ltd@gmail.com