

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3848
ANSWERED ON:17.08.2001
INSPECTION UNIT OF RBI
BALIRAM

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India has revamped its Inspection Units after the infamous share market scams in which Madhav Cooperative Bank was also involved and .

(b) if so, the details of the other steps taken to check the growing tendency of cooperative banks playing into the hands of share brokers?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a): Yes, Sir. Reserve Bank of India (RBI) has reported that it has taken the following steps to strengthen the system of inspection of Urban Co-operative Banks (UCBs) by its Regional Offices:

To conduct inspection of all the scheduled urban co-operative banks every year;

Introduction of a system of off-site surveillance for urban co-operative banks with effect from 31-3-2001;

To call the Chairman and few Directors of scheduled urban co-operative banks for a discussion at RBI's Central Office and advise them to rectify the deficiencies immediately. Besides focusing on bank specific issues, compliance with RBI inspection report/other instructions, developments in urban banking sector in the State in particular are to be covered.

(b) As per the extant instructions of RBI, urban co-operative banks are not permitted to extend any credit facilities to stock brokers. UCBs are also prohibited from investing in equity / debentures of corporates either in secondary or primary market. However, they were allowed to lend to individuals against shares subject to certain limits. RBI has, however, advised UCBs in April 2001 that they should not entertain any fresh proposals for lending directly or indirectly against security of shares either to individuals/stock brokers or to any other entity; to recall such advances/dispose of such investments, if lent to stock-brokers; to seek repayment by the borrowers by contracted date and no renewals of such advances be permitted; to report their existing outstandings to individual borrowers and other entities against shares on quarterly basis beginning with the outstanding position as on 31 March 2001 in a prescribed format