

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:6099  
ANSWERED ON:27.04.2001  
FAILURE OF COOPERATIVE BANKS IN GUJARAT  
PRABHAT KUMAR SAMANTARAY

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Government are aware of the great panic created in the state of Gujarat, due to failure of Cooperative Bank;
- (b) if so, the details thereof;
- (c) the action being taken by the Reserve Bank of India to protect the interest of investors in general and small investors in particular;
- (d) the legal action proposed against the officers of cooperative banks who have violated all banking norms by investing bank money to share brokers at Mumbai and Kolkata; and
- (e) the action proposed to be taken for recovery of lost money?

**Answer**

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

(a) and (b) The sudden rush for withdrawal of deposits beginning 9th March 2001 and closure of Madhavpura Mercantile Cooperative Bank Ltd. (MMCB) on 13th March 2001 had created large-scale panic amongst depositors of urban cooperative banks and triggered a run on the deposits of several cooperative banks not only in Ahmedabad but also in other towns in Gujarat.

(c) With a view to protect the interests of the depositors of MMCB, RBI has taken certain measures such as imposition of directives under Section 35A of the Banking Regulation Act 1949 (As Applicable to Cooperative Societies), supersession of Board of directors of MMCB, filing complaint in the Court of Chief Metropolitan Magistrate, Ahmedabad against the Chairman and Managing Director of MMCB. RBI has requested Registrar, Cooperative Societies, Gujarat to supersede the Board of Directors of Classic Cooperative Bank Ltd., Ahmedabad. The affairs of urban banks having high Credit-Deposit Ratio, borrowings, etc. are being monitored closely. The system of off-site surveillance in respect of scheduled urban cooperative banks in the country have been introduced from 30 March, 2001. The prudential norm relating to Capital Adequacy (Capital to Risk Assets Ratio-CRAR) is also being made applicable to Urban Cooperative Banks.

(d) and (e) RBI has filed a criminal complaint in the court of Chief metropolitan Magistrate, Ahmedabad against the bank, its Chairman and Managing Director under Section 46 of the Banking Regulation Act, 1949 and Section 58B read with Section 56C of the RBI Act, 1934 for having wilfully made false statements to RBI regarding borrowings and their failure to submit information/ statements as regards withdrawal of deposits and trial balances as promised by them. The case is also being enquired into by Central Bureau of Investigation on a complaint lodged by Bank of India. Some officials of MMCB have been arrested. A group has been constituted by Central Registrar of Cooperative Societies to suggest measures for revival of MMCB and the proposed course of action for its rehabilitation including steps for recovery of its dues will be examined by RBI in the light of its recommendations to be submitted by the group. The Administrator of the bank is expected to file arbitration case against the defaulters for recovery of dues.