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e-COOP BANKING

NAFCUB

• Tabloid No. 92

• Volume - XXXII

Fortnightly

PROUDLY CO-OPERATIVE

• 16th - 30th April 2024

Annual Subscription: Rs. 1000/-

Impressive show by Urban Cooperative Banks in Delhi : Laxmi Dass declared in the Workshop organised by the NAFCUB

As part of our objective, NAFCUB jointly with Delhi Urban Cooperative Banks Federation organized one day training cum workshop for the Directors of UCBs of NCT Delhi on 20-04-2024 at Hotel Jaypee Siddharth, New Delhi on the topic of Importance of Governance in UCBs. Around 77 Directors & Senior functionaries from various banks of Delhi participated in the programme.

Programme started with the inaugural speech delivered by Sh. Laxmi Dass President, NAFCUB. At the outset, he welcomed the participants and thanked them for participation in the programme in short notice. He briefed about the objectives and purpose of the Training Programme cum Workshop. The enthusiasm and good number of participation is motivational for NAFCUB to arrange more of such programmes across the country for which MOC has provided financial support to NAFCUB. He said a target of 220 programme across the country has been set out & seeing our today's response we are hopeful of accomplishing our mission.

Shri Laxmi Dass added that the Director of UCBs of Delhi are much experienced persons and are running their bank efficiently since very long time as such there should not be any need for their training. But keeping in view the fast changes in banking sector especially in the area of Governance, Technology and Risk Management, it is important that Directors must also know about all aspects of changes in banking

cont. on page 02

Astounding performance by Cosmos Bank : Earns gross profit of Rs. 460 crores

One of the largest urban cooperative banks of India- Cosmos Cooperative Bank, which had suffered a massive setback due to cyberattacks, has performed very well in the 2023-24 financial year.

The business of the bank crossed to more than Rs 35,000 crore and earned a gross profit of Rs 460.77 crore as on 31st March 2024.

Talking to the Indian Cooperative about the bank's excellent growth, Cosmos Bank Chairman Milind Kale said , " Auditing is still going on in the bank and we are hoping that it would be completed in the 1st week of

cont. on page 03

Kalupur Bank achieves astonishing results in 2023-24

THE KALUPUR COMMERCIAL CO-OPERATIVE BANK LIMITED
MULTI STATE SCHEDULED BANK
SINCE : 1970

The Kalupur Commercial Co-op.Bank Ltd, the leading Muti State Scheduled Urban Co-Op Bank in the State of Gujarat has come out with very encouraging provisional financial results as at the close of financial year 2023-24.

As at 31-03-2024, the Advances of the bank have risen by 12.91% to Rs.7691.82 Cr (6812.63 Cr), Deposits has gone up by 13.46% to Rs.11545.54 Cr (Rs.10175.67) Cr. and total business mix has gone up by 13.24% to Rs.19237.36 Cr (16988.30) Cr. The bank's gross NPA stands at just 0.56% and Net NPA is Zero for the last so many years.

Such good progress of the bank is attributed to transparent working of the bank management. The Sound Financial Position of the bank is reflected in adequate reserves of Rs.2234.65 Cr. which is perhaps the top most amongst all the urban co-operative bank in the State of Gujarat. YoY good growth in profit had resulted into substantial growth in reserves of the bank.

Impressive show ....Cont. from Page 01

sector and adopt new systems in their operations to boost their businesses. With this Objective to sensitise the Directors of Urban Cooperative Banks, NAFCUB is arranging these types of training cum workshop across the country. I hope it will be beneficial to you all, he remarked.

Sh. Vijay Mohan, Chairman of Delhi UCBs Federation was the guest of honor. He thanked NAFCUB for organising this training cum workshop and said the UCBs of Delhi would be much benefitted from the programme. He said more of such programme may be organised by NAFCUB in future for UCBs of Delhi so as to improve Governance in them.

Sh. Praveen Garg (GM, RBI Delhi), Sh. Rajat Mittal (Director, NCDC) also participated in the Importance of Good Governance Practices programme.

The following speaker from various institutes spoken to the participants.

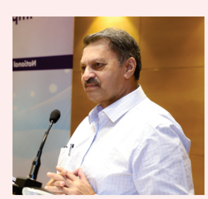
1. Sh. Abhishek Kumar (DGM, CAB) (RBI, Pune)
2. Sh. Punit Jain (Director) (NIBSCOM, Delhi)
3. Prof. Pallavi Ingle (Professor) (VAMNICOM, Pune)

Sh. Abhishek explained in detail about the role and responsibilities of Directors of UCBs. He elaborately explained about the good governance and transparency in the bank's affairs. He also explained regarding various regulatory compliance to be complied with by UCBs to them in letter & spirit to avoid the financial penalties & other regulatory actions against the Banks.

Sh. Punit Jain explained the importance of Risk Management H.R & Corporate Governance & Business promotion.

Prof. Pallavi Ingle explained in detail about various aspects of good Governance & said that it is much desired for the growth of UCBs.

During interactive session, the queries raised by the participants were satisfactorily replied by the speakers and Sh. Praveen Garg who was also present during interactive session advised the issues raised by UCBs of Delhi and whole hearted participants.



Shri Subhash Gupta, Advisor, NAFCUB briefed about the objectives of the programme.

cont. on page 04

Public sector banks do not have power to issue Look Out Circulars against defaulters : Mumbai High Court

The Bombay High Court on April 23, 204 ruled that public sector banks do not have the power in law to issue Look Out Circulars (LOCs) against default borrowers. The HC's verdict would render all LOCs issued by such banks against defaulters as quashed.

A division bench of Justices Gautam Patel and Madhav Jamdar held as unconstitutional the clause of an office memorandum issued by the central government empowering the chairpersons of public sector banks to issue LOCs against default borrowers.

Advocate Aditya Thakker, appearing for the Union government, sought the HC to stay its order but the bench refused. The court passed its verdict on a bunch of petitions challenging validity of the said clause. The bench said the Bureau of Immigration shall not act upon such LOCs (issued by banks against defaulters).

The court also said its judgment would not affect the orders issued against any defaulter by a tribunal or a criminal court restraining them from travelling abroad. While the office memorandum issued by the Centre was not ultra vires the Constitution, the clause empowering the chairperson of a public sector bank to issue LOC was "arbitrary and without power in law", the HC said. The Centre's office memorandum, in an amendment made in 2018, empowered the public sector banks to issue LOCs in the "economic interest of India".

This essentially restrained a person from travelling abroad if his/her departure could be detrimental to the economic interest of the country. The petitioners contended that the words "economic interest of India" cannot be equated with the "financial interests" of any bank.

Astounding performance ....Cont. from Page 01

May. According to unaudited figures, we have performed well on all parameters and registered a 15 percent growth in our overall business portfolio in comparison to other big cooperative banks", he said.

"Now we will focus on strengthening cooperative banks which have merged with the Cosmos Bank. So far, we have merged 18 weak banks and with the mergers all depositors are getting their money as well as employees' interests are also being protected", claimed Kale on the phone.

At the end of March 2024, the Cosmos Bank achieved deposits of more than Rs 20,000 crore and loans & advances of more than Rs 15,000 crore. The net NPA of the bank stood at 1.5 percent.

Cosmos Bank has its presence in seven States with 170 branches, clients and customers counting more than 18 lacs. The business set-up of Cosmos Bank is 35,000 crores, out of which Gujarat State has the lion's share in its business which covers the loans of Rs. 3,000 crores in MSME Segments.

More than 3,000 employees are associated with the Cosmos Bank. The Bank has set new records in managing the portfolios of Business, Deposit Mobilization, Loan Disbursement, Loan Recovery, Net & Gross Profit in the Financial Year ending on March 31st, 2024.

The UCB is always at work updating, upgrading and developing its digital banking platform which is beneficial for customers.

It bears recall that the Cosmos Cooperative Bank achieved remarkable success at the 19th IBA Annual Technology Conference in Mumbai, securing five prestigious awards.

These awards include recognition for Best IT Risk Management, Best Technology Bank, Best Digital Engagement, Best Technology Talent, and a special mention in Best Fintech & DPI Adoption categories.

"As soon as taking charge as the Chairman of Cosmos Cooperative Bank, Milind Kale had began to work hard to take the bank to new heights. Being an honorary Chairman, Kale himself and his other colleagues are dedicating all their time and efforts to ensure the bank progresses and remains on a growth path", said a cooperator associated with the bank.

'Conditions favour extending trend that boosted India's real GDP growth above 8% from 2021-24'

Conditions are shaping up for an extension of the trend upshift that took India's average real GDP growth above 8 per cent during 2021-24 even as there is greater confidence now that the descent of retail inflation to the 4 per cent target is imminent, according to an article in RBI's latest monthly bulletin.

The conditions are apposite, with the credit quality of Indian corporates having strengthened on the back of deleveraged balance sheets, sustained domestic demand and public capital expenditure: rating upgrades have continued to surpass downgrades, said RBI officials, including Deputy Governor MD Patra, in the article "State of the Economy".

RBI Governor Shaktikanta Das, in his statement at the last monetary policy committee meeting held between April 3 to 5, 2024, observed that the Indian economy is growing at a robust pace with an average annual growth of 8 per cent during the last three years.

"India continues to be the fastest growing major economy in the world, supported by an upturn in investment cycle and revival in manufacturing. Services sector continues to grow at a strong pace," he said.

RBI officials noted that an important development that favours India's growth ambitions is the evolution of inflation dynamics in recent prints. Starting in January 2024, the softening of headline inflation is providing a tailwind to growth impulses.

Analysis within India's KLEMS (capital, labour, energy, materials and services) growth accounting framework shows that the contribution of fixed capital stock to the growth of gross value added (GVA) in India has started improving from the low to which it had declined during the pandemic.

"By 2021-22, its contribution to the growth of GVA had recovered to 32 per cent, although there is still catch-up to attain vis-a-vis pre-pandemic levels. If this is augmented by the quality of the capital stock embodied in its composition, the contribution goes up close to 34 per cent," the authors said. The RBI officials underscored that in order to achieve its developmental aspirations over the next three decades, the Indian economy must grow at a rate of 8-10 per annum over the next decade to reap the demographic dividend that started accruing from 2018 and, as calculations show, will last till 2055.

So far, capital deepening is powering the step-up in the growth trajectory, led by sustained public investment, and supported by productivity improvements, they added.

The officials opined that for India to harness its favourable demographics and achieve the escape velocity required to breach the low middle income barrier, the developmental strategy over the next few decades must centre around extracting the maximum possible contribution of its young and rising labour force to the growth of GVA.

Impressive show ....Cont. from Page 02

Earlier Shri Yogesh Sharma, Chief Executive, NAFCUB welcomed the participating delegates of the programme and outlined the activities of NAFCUB. Stressing the need of good governance in Urban Cooperative Banks, he said RBI is giving utmost importance to the governance in the Urban Banks to streamline the working of UCBs Sector. He further added that NAFCUB has undertaken the responsibility of train the Directors of Urban Banks. He said the training programmes specially designed for Directors will be organised at various centres to enrich the knowledge and responsibility of Directors of UCBs

Concluding the Workshop, Shri Laxmi Dass thanked all the participants for their presence in the workshop. He also thanked all the three experts who have came from Pune & Noida to explain to participants about the need of Good Governance and various aspects associated with it.

Picture perfect of Training Programme

LEGAL COLUMN

The extreme repercussions of issuing a Lookout Circular must hence be regulated to give it form and certainty and not be made the norm for recovery of outstanding payments to the bank : High Court of Calcutta.

The issue for adjudication in the High Court of Calcutta in *Mannoj Kumar Jain vs. Union of India, WPA 22748 of 2022 dated 9.6.2023 : 2023 SCC OnLine Cal 1442* is whether the Lookout Circular (LOC) can continue to prevent the petitioners from travelling outside India or should be quashed on the facts which have been brought to the notice of the Court.

Facts, in nutshell

The epitome of facts, culminating in the commencement, relevant for disposal of this appeal and emanating from the records are that the petitioners had obtained loans for the expansion of businesses from various banks and settled the claims of all the banks except for respondent 8. The petitioners were prevented by the Immigration Authority to travel to the U.K. by reason of a LOC based on a request made by the Indian Overseas Bank. Aggrieved by the action taken by the Immigration Authority, the petitioners preferred a writ petition and prayer for permission to travel to the U.K. on account of the academic compulsions of the petitioners' son. The petitioners later amended the writ petition and sought for quashing of the LOC.

The respondents contended that the writ petition cannot be amended to seek the quashing of the LOC. The respondents further contended that the Central Bureau of Investigation (CBI) should be impleaded as a necessary party to the proceedings.

Analysis and Reasoning

In the light of facts and circumstances of the present case, the Court observed that the petitioners could not have challenged the LOC in the original writ petition, as the petitioners were made aware of the LOC after the filing of the writ petition. Rejecting the contentions of the respondents that the writ petition cannot be amended, the Court opined that such an objection to the amendment is untenable, illogical and contrary to law. The law with regard to permitting amendments is liberal and appropriately so since the purpose of an amendment under Order VI Rule 17 of the Code of Civil Procedure, 1908, is to determine the real questions of controversy between the parties.

While rejecting the respondents' contention regarding addition of CBI as a necessary party, the Court observed that the petitioners have not raised any grievance against the CBI either before or after the amendment; moreover, the CBI Court had many times granted permission to the petitioner No.1 to travel abroad.

LOC, not a recovery mechanism

LOCs are issued where the concerned persons are considered as flight risks, that is, it is apprehended that they will fail to return to India. The originator of a LOC, which is the entity at whose instance the circular is issued, usually takes recourse to pending criminal cases against the person or an ongoing proceeding where the continuous presence of the person is required. The apprehension is that the person concerned cannot be allowed to travel since the person, presumably in search of a safe haven, will not return to India for the logical culmination of the proceedings. The recent trend however is of banks issuing LOCs as a recovery mechanism for outstanding monetary dues. The reasoning of the bank is that the person may frustrate settlement of the dues by not returning to India. The logic put forth is that the person's bona fides in repaying the dues is best ensured if the person remains within reach, i.e. in the territory of India.

The banks' apprehension may be founded on a real threat of the person leaving the country forever and the banks' loans being written off. This reasoning however cannot apply across the board for all borrowers without exception. The criteria for assessing the credit-worthiness of a borrower and his/her bona fides for repayment must be determined on a case-to-case basis. The individual circumstances of a borrower's ability and willingness to pay or the mode and manner of repayment must be assessed before the fundamental right of a person to travel is denied.

LOCs which have the effect of restricting a person's free movement and the right to travel should only be issued in exceptional circumstances. LOCs cannot be issued at random and at the slightest provocation particularly at the instance of a bank who seeks restriction on travel as a buffer to payments outstanding to the bank. The only acceptable logic - albeit with some effort - is that a person may flee the country and not return to repay his/her outstanding loan. This however cannot be the rule across the board and a borrower's credentials and circumstances for making payment must be taken into account.

There is something draconian and uncivilized in a person being de-boarded from an aircraft without being informed of the reason for such. In most cases, the person concerned is simply handed a piece of paper and told at the last moment to de-plane without being made aware of the reason. This is against the principles of natural justice and fair play in action where the fundamental right to travel and the right to life is inexorably compromised and with impunity. The extreme repercussions of issuing a LOC must hence be regulated to give it form and certainty and not be made the norm for recovery of outstanding payments to the bank. Isolated and few-and-far between cases of persons fleeing the country cannot become the uniform rationale for issuing of LOCs left, right and centre.

Abuse of power by banks must be checked

The petitioners' efforts in the settlement of loans are a sure-shot factor in establishing the petitioners' case for relief. The respondent No. 8 has not denied the fact of the petitioners making part payments to the said respondent or that the petitioners having settled the claims of the remaining banks of the consortium. The argument that the petitioners continue to be a threat to the economic interest of the country is far-fetched and suffers from an absence of a rational basis. The ground used against the petitioners is evidently economic interests of India. There is no evidence that the petitioners' leaving the country for a specific period of time would affect the economic interest of India. The petitioners have not been declared fraudsters or money-launderers or even economic offenders.

Apart from the reach of LOCs to cause immediate and irrevocable violation of a person's fundamental right of movement, LOCs have an inexplicably long shelf-life. Once a LOC is issued, it remains alive and kicking for almost all times to come. This spells dangerous repercussions on the person's right to freely move across and beyond the country and remain mobile. The banks have been given untrammeled powers to issue, use and exploit the lock-in power of a LOC without sufficient recourse being provided in law to the person at the receiving end of it. The writ Court hence can and should step in to check such unregulated abuse of power by banks where the facts demand relief.

The upshot

In view of the above reasons, the respondent No. 8 Indian Overseas Bank cannot have any continuing reason to interfere with the petitioners' travel outside the country. The interference sought to be imposed by way of the LOC is arbitrary and without any rational basis. The Court however sees no reason to allow the impugned LOC to remain or be used against the petitioners in the absence of any acceptable apprehension, let alone evidence, shown on behalf of the bank. The writ petition is accordingly allowed by quashing the impugned LOC issued by the respondent No. 8 bank.

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Complied by : R. MURALIDHARAN, Puducherry Civil Service Officer (Retired), Director, Catalyst [Training People]

भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

www.rbi.org.in

RBI/2024-25/18
DOR.STR.REC.13/13.03.00/2024-25

Date : April 15, 2024

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks, excluding Payments Banks)
All Primary (Urban) Co-operative Banks, State Co-operative Banks and Central Co-operative Banks
All Non-Banking Financial Companies (including Housing Finance Companies)

Key Facts Statement (KFS) for Loans & Advances

Please refer to our instructions on Key Facts Statement (KFS) and disclosure of Annual Percentage Rate (APR) as contained in paragraph 2 of Circular on 'Display of information by banks' dated January 22, 2015; paragraph 6 of Master Direction on 'Regulatory Framework for Microfinance Loans' dated March 14, 2022; and paragraph 5 of 'Guidelines on Digital Lending' dated September 2, 2022.

2. As announced in the Statement on Developmental and Regulatory Policies dated February 8, 2024, it has been decided to harmonize the instructions on the subject. This is being done in order to enhance transparency and reduce information asymmetry on financial products being offered by different regulated entities, thereby empowering borrowers for making an informed financial decision. The harmonised instructions shall be applicable in cases of all retail and MSME term loan products extended by all regulated entities (Res).

3. For the purpose of this circular, following terms have been defined:

(a) Key Facts of a loan agreement between an RE/a group of REs and a borrower are legally significant and deterministic facts that satisfy basic information required to assist the borrower in taking an informed financial decision.

(b) Key Facts Statement (KFS) is a statement of key facts of a loan agreement, in simple and easier to understand language, provided to the borrower in a standardised format.

(c) Annual Percentage Rate (APR) is the annual cost of credit to the borrower which includes interest rate and all other charges associated with the credit facility.

(d) Equated Periodic Instalment (EPI) is an equated or fixed amount of repayments, consisting of both the principal and interest components, to be paid by a borrower towards repayment of a loan at periodic intervals for a fixed number of such intervals; and which result in complete amortisation of the loan. EPIs at monthly intervals are called EMIs.

Other words and expressions not defined above, but used in this circular, shall have the same meaning as assigned to them under the Master Direction on Interest Rate on Advances (2016) as updated from time to time or any other relevant regulation issued by the Reserve Bank.

4. REs shall provide a KFS to all prospective borrowers to help them take an informed view before executing the loan contract, as per the standardised format given in the Annex A. The KFS shall be written in a language understood by such borrowers. Contents of KFS shall be explained to the borrower and an acknowledgement shall be obtained that he/she has understood the same.

5. Further, the KFS shall be provided with a unique proposal number and shall have a validity period of at least three working days for loans having tenor of seven days or more, and a validity period of one working day for loans having tenor of less than seven days.1

Explanation

Validity period refers to the period available to the borrower, after being provided the KFS by the RE, to agree to the terms of the loan. The RE shall be bound by the terms of the loan indicated in the KFS, if agreed to by the borrower during the validity period.

6. The KFS shall also include a computation sheet of annual percentage rate (APR), and the amortisation schedule of the loan over the loan tenor. APR will include all charges which are levied by the RE. Illustrative examples of calculation of APR and disclosure of repayment schedule for a hypothetical loan are given in Annex B and C respectively.

7. Charges recovered from the borrowers by the REs on behalf of third-party service providers on actual basis, such as insurance charges, legal charges etc., shall also form part of the APR and shall be disclosed separately. In all cases wherever the RE is involved in recovering such charges, the receipts and related documents shall be provided to the borrower for each payment, within a reasonable time.

8. Any fees, charges, etc. which are not mentioned in the KFS, cannot be charged by the REs to the borrower at any stage during the term of the loan, without explicit consent of the borrower.

9. The KFS shall also be included as a summary box to be exhibited as part of the loan agreement.

Exemptions

10. Credit card receivables are exempted from the provisions contained under this circular.

Applicability and Commencement

11. REs shall put in place the necessary systems and processes to implement the above guidelines at the earliest. In any case, all new retail and MSME term loans sanctioned on or after October 1, 2024, including fresh loans to existing customers, shall comply with the above guidelines in letter and spirit without any exception. During the interregnum, the relevant provisions on 'KFS/Factsheet' under the extant guidelines shall continue to remain applicable, including the 'Guidelines on Digital Lending', the Master Direction on 'Regulatory Framework for Microfinance Loans', and the circular on 'Display of Information by Banks'.

Legal Provisions

12. The above instructions are issued under sections 21, 35A and 56 of the Banking Regulation Act, 1949, sections 45JA, 45L and 45M of the Reserve Bank of India Act, 1934, and sections 30A and 32 of the National Housing Bank Act, 1987.

Repeal

13. With the issue of these guidelines, the instructions/guidelines contained in the following circulars, issued by the Reserve Bank stand repealed.

All the repealed circulars/provisions shall be deemed to have been in force during the relevant periods, prior to the coming into effect of these directions.

Yours faithfully,

Vaibhav Chaturvedi
(Chief General Manager)

Circular can be downloaded from :
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/CIRCULARKFS1504242AE2500BAF494C2A82442B0B642705C1.PDF

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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Date : April 24, 2024

Shri T. Rabi Sankar re-appointed as RBI Deputy Governor

The Central Government has re-appointed Shri T. Rabi Sankar as Deputy Governor, Reserve Bank of India for a period of one year with effect from May 03, 2024, or until further orders, whichever is earlier.

(Yogesh Dayal)
Chief General Manager

Press Release: 2024-2025/174

Circular can be downloaded from :
https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR174SHRITRABISANKARREAPPOINTED08D9374AB3684B5BB16EEDD429479587.PDF

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RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2024-25/30
DoS.CO.PPG.SEC.1/11.01.005/2024-25

Date : April 29, 2024

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payments Banks
All Primary (Urban) Co-operative Banks/ State Co-operative Banks/
District Central Co-operative Banks
All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies)

Madam / Dear Sir,

Fair Practices Code for Lenders – Charging of Interest

The guidelines on Fair Practices Code issued to various Regulated Entities (REs) since 2003, inter-alia, advocate fairness and transparency in charging of interest by the lenders, while providing adequate freedom to REs as regards their loan pricing policy.

2. During the course of the onsite examination of REs for the period ended March 31, 2023, the Reserve Bank came across instances of lenders resorting to certain unfair practices in charging of interest. Some of the unfair practices observed are briefly explained below:

Charging of interest from the date of sanction of loan or date of execution of loan agreement and not from the date of actual disbursement of the funds to the customer. Similarly, in the case of loans being disbursed by cheque, instances were observed where interest was charged from the date of the cheque whereas the cheque was handed over to the customer several days later.

In the case of disbursal or repayment of loans during the course of the month, some REs were charging interest for the entire month, rather than charging interest only for the period for which the loan was outstanding.

In some cases, it was observed that REs were collecting one or more instalments in advance but reckoning the full loan amount for charging interest.

3. These and other such non-standard practices of charging interest are not in consonance with the spirit of fairness and transparency while dealing with customers. These are matters of serious concern to the Reserve Bank. Wherever such practices have come to light, RBI through its supervisory teams has advised REs to refund such excess interest and other charges to customers. REs are also being encouraged to use online account transfers in lieu of cheques being issued in a few cases for loan disbursal.

4. Therefore, in the interest of fairness and transparency, all REs are directed to review their practices regarding mode of disbursal of loans, application of interest and other charges and take corrective action, including system level changes, as may be necessary, to address the issues highlighted above.

5. This circular takes immediate effect.

Yours faithfully,

(Tarun Singh)
Chief General Manager

Circular can be downloaded from :
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT304DC5E9FCD1ED493490460FA4A57D092B.PDF

Social Media Accounts - Reg.

The following are our new social media accounts:

Facebook	:	**@nafcubindia**	https://www.facebook.com/nafcubindia
Twitter (X')	:	**@nafcubindia**	https://twitter.com/nafcubindia
Instagram	:	**@nafcubindia**	https://www.instagram.com/nafcubindia/
YouTube	:	**@nafcubindia**	https://www.youtube.com/channel/UCQ9AHQtPHP3I9YbWQ1WkEOw

Kindly follow and interact with our social media accounts.

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RBI/2024-25/31
DOR.ORG.REC.21/14.10.001/2024-25

Date : April 30, 2024

Guidance Note on Operational Risk Management and Operational Resilience

1. Purpose

1.1 Operational Risk is inherent in all banking/ financial products, services, activities, processes, and systems. Effective management of Operational Risk is an integral part of the Regulated Entities' (REs) risk management framework. Sound Management of Operational Risk shows the overall effectiveness of the Board of Directors and Senior Management in administering the RE's portfolio of products, services, activities, processes, and systems.

1.2 An operational disruption can threaten the viability of an RE, impact its customers and other market participants, and ultimately have an impact on financial stability. It can result from man-made causes, Information Technology (IT) threats (e.g., cyber-attacks, changes in technology, technology failures, etc), geopolitical conflicts, business disruptions, internal/external frauds, execution/ delivery errors, third party dependencies, or natural causes (e.g., climate change, pandemic, etc.).

1.3 An RE needs to factor in the entire gamut of risks (including the aforesaid risks in its risk assessment policies/ processes), identify and assess them using appropriate tools, monitor its material operational exposures and devise appropriate risk mitigation/management strategies using strong internal controls to minimize operational disruptions and continue to deliver critical operations, thus ensuring operational resilience.

1.4 Until recently, the predominant Operational Risks that REs faced emanated from vulnerabilities related to increasing dependence and rapid adoption of technology for provision of financial services and intermediation. However, the financial sector's growing reliance on third-party providers (including technology service providers) exacerbated by Covid-19 pandemic with greater reliance on virtual working arrangements, has highlighted the increasing importance of Operational Risk Management and Operational Resilience; which not only benefits the RE by strengthening its ability to remain a viable going concern but also supports the financial system by ensuring continuous delivery of critical operations during any disruption.

1.5 In view of the foregoing, the Reserve Bank, through this Guidance Note on Operational Risk Management and Operational Resilience (hereafter 'Guidance Note') intends to:

1.5.1 promote and further improve the effectiveness of Operational Risk Management of the REs, and

1.5.2 enhance their Operational Resilience given the interconnections and interdependencies, within the financial system, that result from the complex and dynamic environment in which the REs operate.

1.6 This Guidance Note updates the "Guidance Note on Management of Operational Risk" dated October 14, 2005. It has been prepared based on the Basel Committee on Banking Supervision (BCBS) principles documents issued in March 2021, viz., (a) 'Revisions to the Principles for the Sound Management of Operational Risk' and (b) 'Principles for Operational Resilience' as well as the some of the international best practices.

1.7 The Guidance Note has adopted a principle-based and proportionate approach to ensure smooth implementation across REs of various sizes, nature, complexity, geographic location and risk profile of their businesses. Although the exact approach may vary from RE to RE, the Guidance Note provides an overarching guidance to REs for improving and further strengthening their Operational Risk Management Framework (ORMF). It gives adequate flexibility to REs for Operational Risk Management to enhance their ability to withstand, adapt and recover from potential operational disruptions and ensure their Operational Resilience. The systems, procedures and tools prescribed in this Guidance Note are indicative in nature and should be read in conjunction with the relevant instructions issued by Reserve Bank from time to time. In case of inconsistency, if any, the relevant instructions issued by the Reserve Bank would prevail.

1.8 The operational risk regulatory capital requirements shall continue to be guided by the applicable guidelines1.

2. Application

2.1 This Guidance Note shall apply to the following REs:

2.1.1 All Commercial Banks2;

2.1.2 All Primary (Urban) Co-operative Banks/State Co-operative Banks/Central Co-operative Banks;

2.1.3 All All-India Financial Institutions (viz., Exim Bank, NABARD, NHB, SIDBI, and NaBFID); and

2.1.4 All Non-Banking Financial Companies including Housing Finance Companies.

3. Repeal and Transitional Arrangements

With the issuance of this Guidance Note the "Guidance Note on Management of Operational Risk" dated October 14, 2005, stands repealed.

4. Key changes

Key changes carried out in this Guidance Note vis-à-vis the repealed Guidance Note are given in Annex.

Yours faithfully,

(Sunil T. S. Nair)
Chief General Manager

Circular can be downloaded from :
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/GUIDANCENOTEONORMANDORBFDF5D6F62CE430D82E672634B8C4F02.PDF

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Published by **National Federation of Urban Cooperative Banks & Credit Societies Ltd.**
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