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RBI cancels licence of Mumbai-based Sarvodaya Co-operative Bank

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Context of the News

In **May 2026**, the **Reserve Bank of India (RBI)** cancelled the **banking licence of Mumbai-based Sarvodaya Co-operative Bank Limited**, with effect from **12 May 2026**, invoking **Sections 22(4) and 56 of the Banking Regulation Act, 1949**. The cancellation was triggered by the bank's **inadequate capital, weak earning prospects, inability to fully repay depositors, and non-compliance with capital adequacy and licensing requirements** under **Sections 11(1) and 22(3)** of the Act.

Key Highlights

- **Action:** RBI cancelled the banking licence of **Sarvodaya Co-operative Bank Limited**, Mumbai.
- **Effective date: 12 May 2026**.
- **Legal basis: Sections 22(4) and 56 of the Banking Regulation Act, 1949**.
- **Reasons cited:**
  - **Inadequate capital and weak earning prospects**.
  - **Inability to fully repay depositors**.
  - **Non-compliance** with **Sections 11(1) and 22(3)** (capital adequacy and licensing requirements).
- **Winding-up procedure:**
  - RBI directed **Maharashtra Registrar of Co-operative Societies (RCS)** to start the **winding-up process**.
  - **Liquidator** to be appointed.
- **Operational restrictions imposed:**
  - **No fresh deposits**.
  - **No repayment of deposits**.
  - **All banking operations halted**.
- **Depositor protection:**
  - **DICGC insurance cover** of **up to ₹5 lakh per depositor per bank**.
  - Cover applies to **principal and interest** on **savings, current, fixed, and recurring deposits**.
- **Broader context:** Continued cleanup of weak urban co-operative banks, in line with **post-2020 BR Act amendments** that strengthened RBI's regulatory hand.

About the News (Q&A)

Which bank had its licence cancelled, and by whom?

The **RBI cancelled the licence** of **Sarvodaya Co-operative Bank Limited** (Mumbai) with effect from **12 May 2026**.

Under which provisions was the licence cancelled?

Under **Sections 22(4) and 56 of the Banking Regulation Act, 1949**. The bank had also breached **Sections 11(1) (capital requirements) and 22(3) (licensing requirements)** of the Act.

What were the specific reasons cited by RBI?

(a) **Inadequate capital and weak earning prospects**. (b) **Inability to fully repay current and future depositors**. (c) **Non-compliance with regulatory requirements** on capital adequacy and licensing. (d) Continuation of the bank would have been **prejudicial to depositor interests**.

What happens after the licence is cancelled?

(a) The bank **ceases all banking operations** — no deposits, no repayments. (b) The **Maharashtra Registrar of Co-operative Societies (RCS)** initiates the **winding-up** process. (c) A **liquidator** is appointed. (d) **Eligible depositors** receive insurance compensation from **DICGC**.

How are depositors protected?

Through the **Deposit Insurance and Credit Guarantee Corporation (DICGC)**, which insures deposits up to **₹5 lakh per depositor per bank**. This covers **principal and interest** on **savings, current, fixed, and recurring deposits**.

What is the role of the Maharashtra RCS?

As **co-operative societies fall under State legislation**, the **Registrar of Co-operative Societies** at the state level is responsible for the **formal winding-up and liquidation** of co-operative banks once the RBI cancels their licence.

Why does RBI take such action?

Because once a bank loses the **capacity to honour deposits**, allowing it to continue operating only **worsens depositor losses**. The RBI's action **freezes the situation** and triggers the **DICGC's insurance machinery** to compensate depositors quickly.

How does this fit into the wider regulatory trend?

Following the **PMC Bank crisis (2019)** and similar episodes, the **Banking Regulation (Amendment) Act, 2020** strengthened RBI's powers over **co-operative banks** — including governance, audits, supersession of boards, and licensing. The RBI has since cancelled the licences of **several weak urban co-operative banks** to **protect depositor interests** and clean up the sector.

Are depositors with more than ₹5 lakh at risk?

Yes — any amount **above ₹5 lakh per depositor** is **not covered by DICGC insurance** and depends on the **recovery during liquidation** of the bank's assets. This is one reason the RBI advises depositors to **diversify across banks** for safety.

Background Concepts (Q&A)

What are co-operative banks in India?

Co-operative banks are **member-owned financial institutions** established under **state co-operative societies legislation** (or the **Multi-State Co-operative Societies Act, 2002**). They serve **specific communities, regions, or trades**, and combine **co-operative ownership** with **banking activities**.

What is the structure of co-operative banks?

Indian co-operative banks broadly fall into: **Urban Co-operative Banks (UCBs)** — operating in urban/semi-urban areas; can be **single-state** or **multi-state**. **Rural Co-operative Banks**:

- **Short-term structure:** State Co-operative Banks (StCBs) → District Central Co-operative Banks (DCCBs) → Primary Agricultural Credit Societies (PACS).
- **Long-term structure:** State Co-operative Agriculture & Rural Development Banks (SCARDBs) → Primary Co-operative Agriculture & Rural Development Banks (PCARDBs).

Who regulates co-operative banks in India?

A **dual control** structure: **Banking functions:** Regulated by the **RBI** (and **NABARD** for rural co-operatives).

Co-operative functions (registration, governance): Regulated by **state Registrars of Co-operative Societies** (or the Central Registrar for multi-state co-operatives).

What was the Banking Regulation (Amendment) Act, 2020?

A law that significantly **expanded RBI's powers over co-operative banks**, particularly UCBs: (a) Brought them under RBI's banking regulation framework. (b) Empowered the RBI to **supersede co-operative bank boards**. (c) Tightened **audit, governance, and capital norms**. (d) Helped align co-operative banks more closely with commercial banks on prudential standards.

What is the Banking Regulation Act, 1949?

The principal law governing **banking in India**. It defines **what constitutes banking business**, regulates **licensing, capital adequacy, management, supervision, mergers, winding-up**, and gives the **RBI extensive powers** to issue directions, conduct inspections, and impose penalties.

What are Sections 11, 22, and 56 of the BR Act?

Section 11(1): Requires banking companies to have **minimum paid-up capital and reserves**. **Section 22:** Deals with **licensing of banking companies** by the RBI, including conditions for issuance, refusal, and cancellation. **Section 56:** Adapts the BR Act for **co-operative societies** — i.e., the modifications under which it applies to **co-operative banks**.

What is the Deposit Insurance and Credit Guarantee Corporation (DICGC)?

A **wholly-owned subsidiary of the RBI**, established under the **DICGC Act, 1961**. It provides **deposit insurance** to depositors of all commercial banks (including foreign banks operating in India), regional rural banks, and co-operative banks. The cover was raised to **₹5 lakh per depositor per bank** in **2020** (from ₹1 lakh earlier).

What kinds of deposits does DICGC insure?

DICGC insurance covers **savings, current, fixed, and recurring deposits** — including **principal and interest** — up to **₹5 lakh per depositor per bank**. The cover is **automatic** and does not require any **separate enrolment** by depositors.

What was the PMC Bank case?

In **2019**, the **Punjab and Maharashtra Co-operative (PMC) Bank crisis** exposed massive fraud and governance failures in a major urban co-operative bank, triggering depositor losses and public outrage. The crisis directly led to: (a) The **2020 BR Act amendment**. (b) **Doubling of DICGC cover** from ₹1 lakh to ₹5 lakh. (c) **Faster claim disbursal mechanisms**.

What is "winding-up" in the banking context?

The **formal process of closing down** a financial institution, including: (a) **Realising its assets**. (b) **Settling its liabilities** in a defined order of priority. (c) **Distributing residual amounts** to shareholders/members. For co-operative banks, the **state RCS** typically conducts the winding-up after RBI's licence cancellation.

Why have urban co-operative banks been under stress?

(a) **Weak governance** and **politicised boards**. (b) **Limited geographical and product diversification**. (c) **Concentration risk** in lending. (d) **Inadequate capital**. (e) Historically **dual control regulatory ambiguity** (now partly resolved).

What is the constitutional status of co-operatives in India?

The **97th Constitutional Amendment Act, 2011** added: (a) **Article 19(1)(c)** — right to form co-operative societies. (b) **Article 43B** — promotion of co-operatives as a **Directive Principle**. (c) **Part IX-B** — provisions for governance of co-operative societies. The Ministry of **Co-operation**, created in **2021**, is the central nodal ministry for the sector.

Practice MCQs

Q1. With reference to the RBI's cancellation of Sarvodaya Co-operative Bank's licence, consider the following statements:

1. The bank is based in Mumbai, Maharashtra.
2. The licence was cancelled under Sections 22(4) and 56 of the Banking Regulation Act, 1949.
3. The Maharashtra Registrar of Co-operative Societies has been directed to begin the winding-up process.
4. Deposit insurance coverage under DICGC is up to ₹1 lakh per depositor per bank.

How many of the above statements are correct? (a) Only one (b) Only two (c) Only three (d) All four (e) None

Q2. Consider the following statements about co-operative banks in India:

1. Urban Co-operative Banks (UCBs) may be either single-state or multi-state.
2. Rural co-operative banks operate in a three-tier structure of StCBs, DCCBs, and PACS for short-term credit.
3. The Banking Regulation (Amendment) Act, 2020 brought co-operative banks under stronger RBI supervision.
4. Co-operative banks are entirely exempt from the Banking Regulation Act, 1949.

Which of the above are correct? (a) 1, 2 and 3 only (b) 1, 2 and 4 only (c) 2 and 4 only (d) 1 and 4 only (e) All four

Q3. With reference to the Deposit Insurance and Credit Guarantee Corporation (DICGC), consider the following statements:

1. It is a wholly-owned subsidiary of the Reserve Bank of India.
2. It was established under the DICGC Act, 1961.
3. It insures deposits up to ₹5 lakh per depositor per bank, including principal and interest.
4. The deposit insurance cover was raised from ₹1 lakh to ₹5 lakh in 2020.

Which of the above are correct? (a) 1, 2 and 3 only (b) 1, 3 and 4 only (c) 2 and 4 only (d) 1 and 4 only (e) All four

Q4. With reference to constitutional and legal provisions for co-operative societies in India, consider the following statements:

1. The 97th Constitutional Amendment Act, 2011 added Part IX-B to the Constitution dealing with co-operative societies.
2. Article 43B promotes co-operative societies as a Directive Principle of State Policy.
3. The Ministry of Co-operation was created at the Centre in 2021.
4. Banking functions of co-operative banks are exclusively regulated by NABARD.

Which of the above are correct? (a) 1, 2 and 3 only (b) 1, 3 and 4 only (c) 2 and 4 only (d) 1 and 4 only (e) All four

Answer Key

1. (c) — Statements 1, 2, 3 are correct. Statement 4 is wrong; DICGC cover was **raised to ₹5 lakh per depositor per bank in 2020** (from the earlier ₹1 lakh).
2. (a) — Statements 1, 2, 3 are correct. Statement 4 is wrong; co-operative banks are **regulated under the Banking Regulation Act** (as modified by Section 56), not exempt from it.
3. (e) — All four statements are correct.
4. (a) — Statements 1, 2, 3 are correct. Statement 4 is wrong; banking functions of co-operative banks are

regulated by the **RBI** (and NABARD for rural co-operatives), but **not exclusively by NABARD**.

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