

Swaminathan J: Working together, growing stronger - responsible governance for a resilient Urban Cooperative Bank sector

Valedictory address by Mr Swaminathan J, Deputy Governor of the Reserve Bank of India, at the Seminar for Directors of Urban Cooperative Banks (UCBs) "Resilient cooperatives for the future: enhancing governance in a digital age", held at the College of Agriculture Banking, Reserve Bank of India, Pune, 11 July 2025.

* * *

Chairmen and Directors of Urban Cooperative Banks; Shri Jaikish, Principal of the College of Agricultural Banking; my colleagues from the Reserve Bank of India; ladies and gentlemen - a very good afternoon to all of you.

I am honoured to be here today to address you at the culmination of this seminar's deliberations on the theme 'Resilient Cooperatives for the Future: Enhancing Governance in a Digital Age'.

This seminar, thoughtfully organised by the College of Agricultural Banking, comes at a very appropriate time. The United Nations has declared 2025 as the International Year of Cooperatives, with the theme 'Cooperatives Build a Better World', recognising the vital role cooperatives play in building inclusive, fair, and resilient communities - something that India's own cooperative movement has long exemplified.

With a proud history of over a century, cooperatives have become powerful engines of grassroots development. From Amul and IFFCO to SEWA and India Coffee House, India's cooperatives have shown how collective effort can drive both economic and social progress.

UCBs have long been an essential part of India's cooperative story, providing banking services to segments - often underserved by larger banks - small traders, self-employed individuals, salaried workers, and others in the informal sector. What sets UCBs apart is their deep-rooted presence in the community and their ability to offer personalised, responsive service, customers are at ease walking into their neighbourhood UCB branch. This reflects the essence of the cooperative model - banking built on relationships, local knowledge, and grassroots connection.

With this unique identity as a cooperative bank, comes a substantive responsibility. While UCBs are rooted in cooperative values, they are banks - licensed to accept public deposits and expected to operate with the same prudence, integrity, and accountability that banking demands. Banking is built entirely on the trust of depositors. Trust must be earned and protected every single day - through sound governance, effective risk management, and an unwavering commitment to depositors' interests.

Recognising both the importance of UCBs and the challenges they face, the Government and the Reserve Bank have taken several steps in recent years to support the sector's stability and growth. Based on the recommendations of the Expert Committee chaired by former Deputy Governor, Shri N. S. Vishwanathan, a four-tiered regulatory framework was introduced to bring proportionality in regulation. The

establishment of a sector-wide Umbrella Organisation was also facilitated to help address issues of scale, particularly in technology and capacity building. Recently, the priority sector lending guidelines for UCBs were revised in response to feedback from the sector.

While these measures reflect the commitment of the Reserve Bank and the Government to support and strengthen the UCB sector, lasting progress must ultimately come from within. Government and regulators can enable, but it is the internal resolve and discipline of each institution that will determine its long-term resilience. This calls for a renewed focus on governance, professional management, and strong internal systems. It is therefore essential that you, as Directors, take the lead in building institutions that are capable, forward-looking, compliant, and - most importantly - worthy of the trust placed in them.

Let me now turn to five key areas where, as Directors, your role is especially critical. These are not merely regulatory expectations - they are the essential building blocks of strong and sustainable institutions. In each of these areas, your focused attention and leadership can make a meaningful difference to the future of your banks.

Strengthening Governance and Accountability

My first area is on strengthening governance and accountability. Time and again, our supervisory experience has shown that the root cause of distress in cooperative banks is not external shocks, but weak internal governance. Whether it is high levels of non-performing assets, instances of fraud, or erosion of capital, the underlying issues often trace back to poor oversight, lack of independent judgement, and inadequate checks and balances at the Board level.

While you are not expected to manage the day-to-day operations - that is the responsibility of senior management - as Directors, your role is not to merely endorse decisions, but to actively engage, ask the difficult questions, and ensure that the bank is being run in a prudent, ethical, and transparent manner.

All dealings must be at arm's length, and related-party transactions must be approached with utmost caution and full transparency. This applies not only to lending decisions, but also to appointments and other administrative matters - please follow a fair and transparent process without fail.

Strong governance begins with active, informed, and independent Boards - Boards that place the long-term interests of the institution and its depositors above all else.

Building Robust Assurance Functions

The second area I want to highlight is the importance of strong internal assurance functions - namely, risk management, internal audit, and compliance. These are not back-office support roles. They are your eyes and ears within the organisation, helping you identify risks early, monitor controls, and ensure that operations align with regulatory expectations and internal policies.

However, these functions can only be effective if they are given the independence, stature, and access they require. They must have the freedom to escalate concerns without fear. They must have the skills and seniority to command respect within the institution. And most importantly, they must have a direct line of communication with the Board - especially with the Audit and Risk Management Committees (especially for those UCBs, where we have mandated RMCs).

As Directors, you must engage actively with these functions - not just to review their reports, but to understand what is happening at the ground level. Ask questions. Seek clarifications. Ensure that red flags are not ignored or rationalised. A well-functioning risk, audit, and compliance setup is the foundation of a safe, well-run bank.

Engaging Constructively with Auditors and Inspectors

The third area I would like to emphasise is your engagement with statutory and internal auditors, as also with supervisory teams. These stakeholders are not adversaries - they are valuable partners in safeguarding the health of your institution.

Auditors play a crucial role in independently validating the bank's financial position and internal controls. Their observations must not be treated as routine or transactional. Engage with them meaningfully. Understand the concerns they raise and ensure that necessary corrective action is taken - not just in form, but in spirit.

Likewise, the inspection reports issued by the Reserve Bank should be viewed as a tool for strengthening your bank - not as a fault-finding exercise. These inspections are a critical last line of defence, aimed at identifying risks before they become unmanageable.

As Directors, it is essential that you read these reports carefully, discuss them thoroughly at the Board level, and ensure time-bound action on the issues flagged. Avoid the temptation to look for comfort in favourable metrics alone. Instead, focus on understanding the root causes of any weaknesses and most importantly, in fixing them decisively.

Embracing Technology with Responsibility

The fourth area I want to highlight is the growing importance of technology - and the need to adopt it with foresight and responsibility.

In recent years, customer expectations have changed dramatically. Digital payments, mobile banking, and round-the-clock service are no longer luxuries - they are now basic expectations.

Many UCBs are eager to offer internet and mobile banking, and that is a welcome aspiration. However, digital services require a strong and secure technological foundation. If the underlying systems are weak, the infrastructure outdated, or the staff unprepared, the bank - and its customers - become vulnerable to serious risks such as fraud, data breaches, and prolonged service disruptions.

Cybersecurity is not just a technical issue - it is a governance issue. The Board must be fully aware of the bank's digital capabilities and its cyber risk profile. Any decision to expand digital offerings must be based on a realistic assessment of readiness and must be accompanied by appropriate investment in systems, processes, and people.

Digital transformation should not be about ticking a box or keeping up with trends. It must be a strategic choice, aligned with your bank's risk appetite, customer profile, and operational capacity. Above all, it must be anchored in a commitment to provide secure and uninterrupted service for your depositors.

Supporting Collective Strength through the Umbrella Organisation

The fifth area I want to highlight is the importance of collective action - and the opportunity that now lies before the sector through the Umbrella Organisation.

In today's environment, the challenge of limited scale has become more pressing for UCBs - particularly in areas such as technology adoption, cybersecurity, risk management, and compliance. As banking becomes more technology-intensive and regulatory expectations rise, the cost of staying competitive and secure is increasing. For many individual UCBs, making the necessary investments while maintaining profitability is becoming increasingly difficult. The creation of the National Urban Cooperative Finance and Development Corporation Ltd. (NUCFDC) - as an Umbrella Organisation - was a response to this evolving challenge.

The Umbrella Organisation is envisioned as a shared platform that can support member banks with common technology solutions, centralised services, capacity-building programmes, and improved access to modern tools and expertise. It can be a force multiplier - especially for smaller UCBs - allowing them to benefit from economies of scale while retaining their unique identity and local focus. NUCFDC is also expected to provide certain fund-based facilities to member banks such as supporting them in capital enhancement, providing refinance, and addressing short term liquidity requirements.

The success of this initiative, however, depends on broad-based and active participation. The cooperative movement has always drawn its strength from unity. The Umbrella Organisation offers an opportunity to renew that spirit - by building shared resilience for a digital and dynamic future.

Conclusion

Let me conclude by reiterating that Urban Cooperative Banks matter. You represent a model that is built not just on profit, but on purpose.

As the financial landscape evolves, however, the expectations from you, especially as Directors, are also rising. Governance must be sharper. Risks must be better understood and managed. Technology must be adopted thoughtfully and securely. Above all, the trust of your depositors must remain non-negotiable.

Therefore, each of you has both the opportunity and the responsibility to shape the future of your institution.

The Reserve Bank stands with you - as a regulator, as a guide, and as a partner. Let us work together to ensure that UCBs remain a strong, resilient, and vibrant part of India's financial system.

Thank you, Jai Hind.