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# RBI Cancels Licence of Sarvodaya Co-operative Bank

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The Reserve Bank of India (RBI) cancelled the banking licence of Mumbai-based Sarvodaya Co-operative Bank Ltd. on 12 May 2026 due to inadequate capital, weak earning prospects, and failure to comply with several provisions of the Banking Regulation Act, 1949. Following the cancellation, the bank ceased all banking operations, including acceptance and repayment of deposits, with effect from the close of business on May 12, 2026. RBI also requested the Commissioner for Cooperation and Registrar of Cooperative Societies, Maharashtra, to initiate the winding-up process and appoint a liquidator for the bank.

## Reasons Behind Cancellation of Licence

RBI stated that the co-operative bank did not have sufficient capital and viable earning potential to continue operations safely. The central bank also observed persistent non-compliance with regulatory requirements under the Banking Regulation Act. According to RBI, allowing the bank to continue functioning would adversely affect public interest and depositors' interests.

## Relief for Depositors

RBI clarified that depositors of the bank would be protected under the Deposit Insurance and Credit Guarantee Corporation (DICGC) insurance scheme.

## Key Details

Deposit insurance coverage limit: ₹5 lakh per depositor

Around 98% of depositors are expected to receive the full amount of their insured deposits

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As of 31 March 2026, DICGC had already paid approximately ₹26.72 crore towards insured deposits.

### **What is DICGC?**

The Deposit Insurance and Credit Guarantee Corporation (DICGC) is a wholly owned subsidiary of RBI that provides insurance cover on bank deposits.

Important Facts

Established: 1961

Headquarters: Mumbai

Deposit insurance cover increased from ₹1 lakh to ₹5 lakh in 2020

### **Covers:**

Savings deposits

Current deposits

Fixed deposits

Recurring deposits

The insurance amount includes both principal and interest.

### **About Urban Co-operative Banks (UCBs)**

Urban Co-operative Banks are financial institutions registered as co-operative societies and primarily operate in urban and semi-urban areas.

Features of UCBs

Owned and managed by members

Provide banking services to local communities

### **Regulated by:**

RBI (banking operations)

State Registrar of Co-operative Societies (management and administration)

UCBs play an important role in financial inclusion, especially for small businesses and middle-income groups.

### **Banking Regulation Act, 1949**

#### **The Banking Regulation Act, 1949 empowers RBI to:**

Grant and cancel banking licences

Supervise banking operations

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Ensure financial stability

Protect depositors' interests

Issue directions to banks

Section 22 of the Act deals with licensing of banking companies, while Section 56 extends certain provisions to co-operative banks.

### **Challenges Faced by Co-operative Banks:**

#### **Urban Co-operative Banks in India often face:**

Poor governance

Political interference

Weak capital base

High Non-Performing Assets (NPAs)

Limited professional management

In recent years, RBI has increased regulatory oversight after several co-operative bank crises.

### **Deposit Insurance**

#### **Deposit insurance helps:**

Protect small depositors

Maintain confidence in the banking system

Prevent panic withdrawals during bank failures

Winding Up of a Bank

#### **When a bank's licence is cancelled:**

A liquidator is appointed

Assets are sold

Depositors are repaid according to legal procedures