

**PROCEEDINGS OF THE REGISTRAR OF CO-OPERATIVE  
SOCIETIES, THIRUVANANTHAPURAM, KERALA**

***(FINAL ORDER FOR THE MERGER OF MALAPPURAM DCB WITH KSCB)***

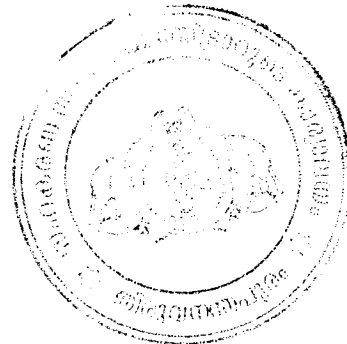
Office of the Registrar of Co-operative Societies,  
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No. CB (5) 6394/2020

Dated.12.01.2023  
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Sub: - Department of Co-operation – Delaying of Short Term Co-operative Credit Structure in Kerala - Merger of Malappuram District Co-operative Bank with Kerala State Co-operative Bank (KSCB) Ltd. in public interest - orders issued.

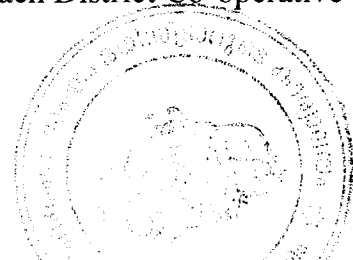
- Read:-1) RBI Letter No. DCBR.CO.RCBD.No. 1007/19.51.007/2018-19 dated 03.10.2018.  
2) G.O(Rt.) No.36/2018/Co-op, dated 12.10.2018  
3) Proceedings No. CB(5)/784/2019 of the Registrar of Co-operative Societies dated 29/11/2019.  
4) The Kerala Co-operative Societies (Amendment) Act, 2021 (Act 34 of 2021)  
5) The Kerala Co-operative Societies (Amendment) Ordinance, 2022 (Ordinance No. 11/2022)  
6) This office letter No. 6394/2020/-CB(5) dated 12/01/2022  
7) This office letter No. 6394/2020/-CB(5) dated 05/03/2022  
8) This office letter No. 6394/2020/-CB(5) dated 30/05/2022  
9) This Office notice No. 6394/2020/-CB(5) dated 23/12/2022



- 10) This office notice and proposed merger order No. 6394/2020/-CB(5) dated 23/12/2022 served to member societies of Malappuram District Co-operative Bank
- 11) This office notice and proposed merger order No. 6394/2020/-CB(5) dated 23/12/2022 published on 24/12/2022 in Malappuram District edition of the 'Deshabhimani' and 'Mathrubhoomi' Malayalam dailies.
- 12) Objections and suggestions against the proposed merger order filed by 72 primary societies in Malappuram District.
- 13) Letter No. PGA 2/2022-23/1127 dated 03.01.2023 of the President of Malappuram District Co-operative Bank
- 14) Interim Order of the Hon'ble High Court of Kerala dated 12.01.2023 in WP(C) No. 12/2023 filed by Sri. M. Saidalvi Master & Others and WP(C) No. 173/2023 filed by Sri. U.A.Lathif MLA & Others
- 15) Letter regarding W.P.(C) No. 12& 173/2023/F dated 12.01.2023 from the Special Government Pleader(Co-operation), Office of the Advocate General, Ernakulam, Kochi.
- 16) This office proceedings No. CB(5)297/2023 dated 12.01.2023 by which the objections filed by the member societies and others were disposed off.

The Government vide reference (2) cited have taken a policy decision to delayer the Short Term Co-operative Credit Structure from three tier to two tier, considering significant changes occurred in the Short Term Co-operative Credit System (STCCS) worldwide. An Expert Committee chaired by Prof. M.S. Sriram, IIM Bangalore was appointed to study the various aspects of delayering the STCCS from existing three tier to two tier. The Expert Committee had submitted a detailed report to Government. They had pointed out certain lacunae on the Credit Structure as detailed below:

“At present, the status of adoption of technology of the three tier co-operative banking structure is not completely ready to make the requirements of a modern bank. It will be absolutely expensive for each District Co-operative Bank



to acquire, continuously update, upgrade and maintain the technology solution on stand-alone basis. The modern banking which includes multiple channels, services, products and analytic, require several enterprise applications to be plugged into the core banking solution. It also requires a large number of approvals to be obtained. These approvals will require updating the technology solutions deployed on a continuous basis. A merged structure would be able to navigate this space much better and significantly cut costs”.

Therefore the committee had suggested to establish a strong, vibrant, technology driven and professionally managed universal bank in the Co-operative Sector with proper governance and business plans by merging District Co-operative Banks (DCBs) with Kerala State Co-operative Bank (KSCB). In Kerala, the District Co-operative Banks were functioning in the middle layer in the 3 tier system without having a competitive advantage in the banking system. The CD ratio of all the District Co-operative Banks went low due to lack of professionalism, absence of business diversification, low level technology adoption and inability to compete with other players in the market. That was the reason which has led to the appointment of Expert committee to study the situation and later, the decision was taken by Government regarding delayering the Co-operative Sector. Government have decided so for the following benefits.

- Delayering of one of the tier will help in unlocking the statutory fund requirement for CRR and SLR and these funds can be used for more productive uses.
- The merged entity will be able to provide all technology driven modern banking products and services at much cheaper rate after addressing all regulatory requirements like prudential norms and compliance to KYC etc.
- Most of the District Co-operative Banks are not on a uniform platform. So there is a need to move to a more advanced and cost effective unified platform to compete and survive in the market which can only be addressed through amalgamation.

- The proposed entity will be able to deliver the modern banking products such as mobile banking, internet banking, ATM facilities etc., at lesser rate than the rate being charged by new generation banks.

The need of the hour is to re-build the image to make it a strong, vibrant, technology driven and professionally managed full service universal bank in the cooperative sector with proper governance system and business plan in place to carry out the mainstream banking activities catering to the needs of the people of Kerala.

The merged entity will assume the role of a universal bank serving distinct segment of customers viz.

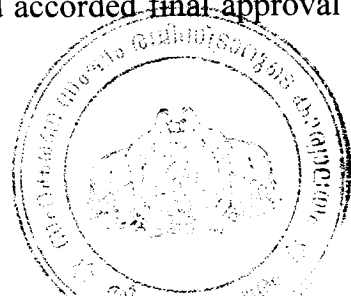
- To the PACS and its members, it will provide financial, technical and support services.
- The merged entity will be the bank of first preference for all the banking needs of the co-operative sector including milk, rubber, coir, consumer, labour, weavers, and a host of other cooperatives in Kerala.
- The merged entity will transform itself into a universal bank by providing all technology enabled banking services to the public, including treasury operations, merchant banking, foreign currency transactions etc. Open to all individuals including those who are not members of PACS.
- The merged entity shall also offer banking services to institutions and body corporate like what is being offered by any other main stream bank.

Moreover Government expects that after delayering there will be drastic reduction of interest cost on agricultural loans which will ultimately benefit the farmers. The borrowers especially the farmers will be benefitted as the lending activity at rural; semi-urban as well as the urban areas will be considerably increased through wide networks. Thus all concerned will

benefit from this exercise of delayering by which Government have taken a policy decision as well as lead role. RBI has also agreed in this delayering.

Accordingly, Government have submitted a detailed proposal to RBI seeking approval for merging 14 District Co-operative Banks with Kerala State Co-operative Bank, by transferring the assets and liabilities of District Co-operative Banks to Kerala State Co-operative Bank. On the basis of the said application, RBI, vide reference 1<sup>st</sup> cited had accorded in principle approval to amalgamate 14 District Co-operative Banks with Kerala State Co-operative Bank, subject to the fulfilment of 19 conditions. While according sanction for the amalgamation of District Co-operative Banks with Kerala State Co-operative Bank, RBI has suggested that the due process as required under the provisions of the State Cooperative Societies Act and the State Cooperative Societies Rules as adopted by the State of Kerala, be followed.

Meanwhile the Kerala Co-operative Societies Act, 1969, had amended which came into effect on 8<sup>th</sup> January 2019, by incorporating a new section 14A, permitting the transfer of assets and liabilities of District Co-operative Banks to Kerala State Co-operative Bank, by a resolution passed by a simple majority of members present and voting in the General Body Meeting of District Co-operative Banks. General bodies of 13 District Co-operative Banks have passed resolutions giving assent for the transfer of their assets and liabilities to Kerala State Co-operative Bank. Malappuram District Co-operative Bank had not adopted the resolution under section 14A of Kerala Co-operative Societies Act, 1969. In that background, a formal application seeking final approval for amalgamation of 13 District Co-operative Banks, who have adopted the resolution under section 14 A of Kerala Co-operative Societies Act with Kerala State Co-operative Bank, was submitted to RBI by the Government. Accordingly, RBI had accorded final approval to the



proposal of Government of Kerala to amalgamate 13 District Co-operative Banks with Kerala State Co-operative Bank on 7.10.2019.

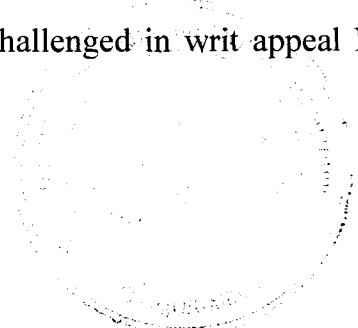
Section 74H of the Kerala Co-operative Societies Act empowers the Registrar of Co-operative Societies to order the amalgamation of District Co-operative Banks in Kerala with the Kerala State Co-operative Bank on the basis of resolution passed by the general body as provided under section 14A of the Act

Thus after completing the statutory requirements, Registrar of Co-operative Societies had issued order to accept the resolutions passed by General Bodies of District Co-operative Banks under Section 14A of the Act and accorded sanction vide reference (2) cited to amalgamate 13 District Co-operative Banks with Kerala State Co-operative Bank, by transferring assets and liabilities of District Co-operative Banks to Kerala State Co-operative Bank, based on the above mentioned resolution. The amalgamated entity came into existence on 29/11/2019 and started functioning with the brand name “Kerala Bank” as per its byelaw adopted by the first general body which was convened on 20.01.2020.

After the amalgamation of 13 District Co-operative Banks with the Kerala State Co-operative Bank, Malappuram District Co-operative Bank was functioning as separate entity, as they had not approved resolution under Section 14A of the Kerala Co-operative Societies Act. On adoption of two-tier system in Short Term Co-operative Credit Structure, District Co-operative Banks cannot function under the Kerala Co-operative Societies Act as they were functioning in the past. Moreover Primary Co-operative Societies of Malappuram District who are the members of the Malappuram District Co-operative Bank will be prevented from enjoying the benefit of Interest, cost reduction and cost effectiveness in operation. They will not be able to provide modern banking facilities such as ATM, RTGS, and NEFT in a cost effective manner. Thus interest rate on deposit and loan in

Malappuram and nearby districts will become different. This will eventually lead to huge loss for the Co-operative sector of Malappuram District. Moreover the employees of the Malappuram District Co-operative Bank have represented Government to merge the Malappuram District Co-operative Bank with Kerala State Co-operative Bank. They have also filed a Writ Petition before the Hon'ble High Court seeking order for the merger for getting the benefits of merger process to the district. A good number of the Primary Co-operatives also represented the same to Government so that they can become members of a strong, technology driven and vibrant co-operative financial institution. As integrated IT Platform is suggested by RBI as one of its conditions for merger, if Malappuram District Co-operative Bank stands apart from this, the entire state will not get the benefit. It is difficult to include Malappuram District Co-operative Bank and its member societies in this platform in future. Because of all these reasons, on public interest Government desires to extend all the benefit of delayering to PACS and other Co-operative institutions functioning in the Malappuram District, as well. Hence steps to merge Malappuram District Co-operative Bank has been taken. To facilitate this action, which is taken on public interest Kerala Co-operative Societies (Amendment) Act, 2021 (Act of 34 of 2021) was passed.

The amalgamation of 13 District Co-operative Banks in the State with the Kerala State Co-operative Bank was challenged by various primary co-operative banks, individual members of the primary banks and others in W.P.(C) Nos. 39749/2017, 5902/2018, 9491/2019, 19166/2019, 6736/2019 & connected cases. The vires of amended statutory provisions and process involved in the amalgamation by Act 1/2019 was under challenge. The learned Single Judge vide judgment dated 29.11.2019 dismissed the writ petitions upholding the validity of the amended statutory provisions. The judgment of the learned Single Judge was challenged in writ appeal No.



2504/2019 and connected cases. Vide judgment dated 03.06.2022, the Division Bench of the Hon'ble High Court of Kerala dismissed the appeals as the subject matter involved in the cases become infructuous.

Nine Writ Petitions (Nos.33596/2019, 571/2020, 1916/2020, 6639/2020, 11753/2020, 20371/2020, 20400/2020, 21265/2020 and 4882/2021) were filed Against the Ordinance issued by the Government amending the Kerala Co-operative Societies Act, to merge Malappuram District Co-operative Bank with Kerala State Cooperative Bank. These Writ Petitions have been disposed through court order WP(c) No.33596/2019 and connected cases dated 28.4.2021 by the Hon'ble Court with a direction to "expedite the process of merger of Malappuram District Cooperative Bank with Kerala State Co-operative Bank, so that the benefits of the amended provisions are extended to the petitioners in the above Writ Petitions". Against this judgment of single bench, Writ Appeals (WA Nos.708, 709, 711, 713, 715, 716, 717 of 2021) were filed before the division bench, in which status quo was ordered as per the interim order dated 04.05.2021. In the final judgment of the above cases (WA Nos.708, 709, 711, 713, 715, 716, 717 of 2021) against WP(c) No.33596/2019 dated 25.02.2022, Division Bench of the Hon'ble High court closed all the proceedings in the Writ Appeals.

The Secretary, Department of Co-operation, Government of Kerala along with the Registrar of Cooperative Societies had met the officials concerned for the suggested consultation of RBI on 26/02/2020 as provided in Section 74(H)(1)(a) and explained the necessity of merging Malappuram District Co-operative Bank with Kerala State Co-operative Bank on public interest. As per reference 6<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> cited the Registrar of Co-operative Societies had addressed the Reserve Bank of India on the matter of merger of Malappuram DCB with Kerala State Co-operative Bank. Only apprehension as expressed by their letter dated 11/11/2022 is the pendency



of the two cases. In response to the same Registrar of Co-operative Societies had informed Reserve Bank of India about the present status of the cases and also the content of the interim order which permits to proceed further.

The WP(C) 28650/2021 filed by Sri. U.A. Latheef & Others and WP(C) 1035/2022 filed by Sri. Kannyan Muhammedali & Others before the Hon'ble High Court of Kerala are against the state enactment (Act 34 of 2021) in relation to amalgamation of district co-operative banks in view of the amendment in the Banking Regulation Act. In WP(C) 28650/2021, the Hon'ble Court has ordered in the interim order dated 14/12/2021 that "merger, if any, shall not be effected without complying the procedure contemplated in Section 74(H) of the Kerala Co-operative Societies Act." At present, there is no court order preventing the Government of Kerala or Registrar of Co-operative Societies from proceeding with the merger process after consulting with RBI as provided under section 74H of the Kerala Co-operative Societies Act. RBI has also mentioned about the above cases to the Registrar of Co-operative Societies.

By Section 74H of the Kerala Co-operative Societies (Amendment) Act, 2021 (Act 34 of 2021) the Registrar of Co-operative Societies is now empowered to pass an order of merger if the District Co-operative Bank has not passed the resolution under Section 14A of the Kerala Co-operative Societies Act.

Therefore as envisaged under Section 74H of the Kerala Co-operative Societies Act, the proposed order of merger has been send to the member societies by registered post and published in two vernacular dailies having wide circulation in the district (Malappuram edition of Deshabhimani and Mathrubhumi dailies published on 24/12/2022) for inviting the objections/suggestions to be submitted in writing within 15 days to the undersigned.

Against the proposed order 72 primary societies in Malappuram District and president of Malappuram District Co-operative Bank have filed objections/suggestions. Those objections were considered separately by the undersigned and after proper scrutiny and evaluation a common order has been issued by which all such objections were rejected vide reference 16<sup>th</sup> cited for the reasons stated therein. Similar objections and suggestions were already raised in the writ petitions filed before the Hon'ble High Court of Kerala in connection with the merger of Malappuram District Co-operative Bank with Kerala State Co-operative Bank and the Honourable Court has not considered those arguments. None of the objectors demanded to conduct a personal hearing on the matter and the provisions in Section 74H of the Kerala Co-operative Societies Act, 1969 does not require to conduct personal hearing on the proposed merger order too. Hence no personal hearing was seen required.

In exercise of the powers conferred under 74 H 1 i(a) of Kerala Co-operative Societies Act, I, on this 12<sup>th</sup> day of January 2023 hereby order on public interest the merger of Malappuram District Co-operative Bank, which has not passed the resolution under Section 14 A of the Kerala Co-operative Societies Act, with Kerala State Co-operative Bank with immediate effect. On merger all the assets and liabilities of Malappuram District Co-operative Bank as it stood immediately before the order of merger shall without any further act, instrument or deed, stood transferred to and vested with Kerala State Co-operative Bank. The shares held by the members of the Malappuram District Co-operative Bank shall deemed to be the shares of Kerala State Co-operative Bank as such.

The Kerala State Co-operative Bank should take all required steps for the governance of the merged entity with immediate effect.



This order will be subject to the final outcome of the WP(C) 28650/2021 filed by Sri. U.A. Lathief & Others, WP(C) 1035/2022 filed by Sri. Kannyan Muhammedali & Others, WP(C) No. 12/2023 filed by Sri. M. Saidalavi Master & Others and WP(C) No. 173/2023 filed by Sri. U.A.Lathief MLA & Others now pending before the Hon'ble High Court.



**Alex Vargheese IAS**

**Registrar of Co-operative Societies**

To

Member Societies of Malappuram District Co-operative Bank

Copy to :

1. Chief Secretary, Government of Kerala. (Through Secretary Co-operation)
2. Secretary to Government, Co-operation Department (with covering letter)
3. Advocate General, Eranakulam (with covering letter)
4. Regional Director, RBI, Thiruvananthapuram (with covering letter)
5. Chief General Manager, NABARD Regional Office, Thiruvananthapuram (with covering letter).
6. President, KSCB
7. Chief Executive Officer, KSCB
8. The Director of Co-operative Audit
9. Chairman, State Co-operative Union
10. Joint Registrar (General), Malappuram
11. General Manager, Malappuram District Co-operative Bank
12. Website/Stock file

