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Revised Regulatory Framework for Urban Co-operative Banks (UCBs)

The Reserve Bank of India had constituted the Expert Committee on Urban Co-operative Banks (the Committee) on February 15, 2021 under the Chairmanship of Shri N. S. Vishwanathan, former Deputy Governor, Reserve Bank to examine the issues in urban co-operative banking sector, provide a medium term road map, suggest measures for faster resolution of UCBs and recommend suitable regulatory/ supervisory changes for strengthening the sector by leveraging the recent amendments to Banking Regulation Act, 1949 (As Applicable to Cooperative Societies). The report submitted by the Expert Committee was placed on the RBI's website on August 23, 2021 inviting comments of stakeholders and members of public. The recommendations of the Committee have since been examined for implementation duly factoring the feedback received.

2. The Committee, *inter alia*, recommended a four-tiered regulatory framework based on size of deposits of the banks and their area of operations. The differentiated regulatory approach was mainly recommended for key parameters such as net worth, Capital to Risk-weighted Assets Ratio (CRAR), branch expansion and exposure limits. Membership in an Umbrella Organization (UO) also formed a vital part of the recommendations.

3. While examining the recommendations, Committee's vision of turning UCBs into friendly neighborhood banks and the heterogeneity of the sector have been duly kept in view. In order to make the sector more robust and support its orderly growth, the capital requirements have been suitably recalibrated. Further, a suitable glide path has also been provided for a non-disruptive transformation of the sector. The measures for strengthening the sector are also being supplemented by offering more operational flexibility to strong UCBs to serve their desired role in credit intermediation.

4. The major recommendations which have been accepted are as follows:

(i) It has been decided to adopt a simple four-tiered regulatory framework with differentiated regulatory prescriptions aimed at strengthening the financial soundness of the existing UCBs[1]. Specifically, a minimum net worth of ₹ 2 crore for Tier 1 UCBs operating in single district and ₹ 5 crore for all other UCBs (of all tiers) has been stipulated. This is expected to strengthen the financial resilience of the banks and enhance their ability to fund their growth. As per the data reported by UCBs as on March 31, 2021, most of the banks already comply with the requirement. The UCBs which do not meet the requirement, will be provided a glide path of five years with intermediate milestones to facilitate smooth transition to revised norms.

(ii) The minimum CRAR requirement for Tier 1 banks is retained at the present prescription of 9% under current capital adequacy framework based on Basel I. For Tier 2, Tier 3 and Tier 4 UCBs, while retaining the current capital adequacy

[1] **Tier 1** - All unit UCBs and salary earner's UCBs (irrespective of deposit size), and all other UCBs having deposits up to Rs.100 crore; **Tier 2** - UCBs with deposits more than Rs.100 crore and up to Rs.1000 crore; **Tier 3** - UCBs with deposits more than Rs.1000 crore and up to Rs.10,000 crore; **Tier 4** - UCBs with deposits more than Rs.10,000 crore.

framework, it has been decided to revise the minimum CRAR to 12% so as to strengthen their capital structure. The increase in CRAR requirement is reasonable as these UCBs do not have full capital charge for market risk and currently maintain no capital charge for operational risk. As per the data reported by the banks as on March 31, 2021, most of UCBs have CRAR more than 12% (1274 banks out of 1534)[2]. Further, the banks that do not meet the revised CRAR will be provided with a glide path of three years for achieving the same in a phased manner. Accordingly, these banks will have to achieve a CRAR of 10% by the financial year ended March 31, 2024, 11% by March 31, 2025; and 12% by March 31, 2026.

(iii) In order to boost growth opportunities in the sector, it has been decided to introduce automatic route for branch expansion to UCBs which meet the revised Financially Sound and Well Managed (FSWM) criteria and permit them to open new branches up to 10% of the number of branches as at the end of the previous financial year. While the branch expansion proposals under the prior approval route will also continue to be examined as hitherto, the process will be simplified to reduce the time taken for granting approvals for opening new branches.

(iv) In respect of housing loans, it has been decided to assign the risk weights on the basis of Loan to Value (LTV) Ratio alone which would result in capital savings. This will be applicable to all Tiers of UCBs.

(v) Revaluation Reserves will be considered for inclusion in Tier-I capital subject to applicable discount on the lines of scheduled commercial banks.

(vi) In order to examine the issues concerning recommendation for capital augmentation under the provisions of Section 12 of the Banking Regulation Act, 1949 (as amended) (as applicable to co-operative societies), a Working Group comprising the representatives from RBI, SEBI and Ministry of Co-operation, Government of India has been constituted.

(vii) The Committee has also made certain recommendations regarding Umbrella Organization for UCB Sector which will be examined once the entity is fully operational.

5. A list of recommendations which are accepted fully, accepted partially with suitable modifications and those under further examination, is furnished in the **Annex**. The revised instructions, wherever necessary, will be issued separately in due course.

(Yogesh Dayal)
Chief General Manager

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[2] https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications