3. Urban Co-Operative Banks- Economy

RBI proposes reopening urban co-operative banks' licenses; favours large credit societies The RBI has proposed reopening the licensing window for new Urban Co-operative Banks (UCBs) after two decades, targeting large co-operative credit societies with a 12% Capital Adequacy Ratio (CRAR) and strong financials. This move aims to expand the sector while enforcing strict eligibility to prevent the financial instability that led to the licensing freeze in 2004.

Introduction- Reopening the Licensing Window

The Reserve Bank of India (RBI) has proposed reopening the licensing window for new Urban Co-operative Banks (UCBs). This marks a significant shift, as the RBI had previously stopped issuing new licences around 2004.

Reason for Previous Halt- The issuance of licences was paused after observing that many newly licensed UCBs became financially unsound within a short period of their inception.

Current Objective- The new proposal aims to allow strong co-operative societies to transition into banks under strict financial criteria.

1. Key Proposals for New UCB Licences

The RBI has outlined stringent financial and operational metrics that applicants must meet to qualify for a banking license.

Eligibility Criteria

1. The proposal is restricted only to large co-operative credit societies.
2. Applicants must have a minimum of 10 years of active operation.
3. They must demonstrate a good financial track record for at least the past 5 years.

Capital Adequacy Requirements

Metric- The Capital to Risk-Weighted Assets Ratio (CRAR) measures a bank's capital adequacy by expressing its capital funds as a percentage of its risk-weighted assets.

Threshold- New applicants must maintain a CRAR of at least 12%.

Asset Quality Standards

Metric- The Net Non-Performing Assets (NNPA) ratio indicates the quality of the bank's loan portfolio after provisioning.

Threshold- The NNPA ratio must not exceed 3% at the time of applying for the license.

2. Understanding Urban Cooperative Banks (UCBs)

Registration- UCBs are primarily cooperative societies registered under either the State Cooperative Societies Act or the Multi-State Cooperative Societies Act (depending on their area of operation).

Licensing- While they are registered as societies, they are granted a banking license by the RBI under the Banking Regulation Act, 1949 to operate as primary cooperative banks.

3. Current Status of UCBs in India (As of March 31, 2025)

The sector has shown growth in deposits and improvement in asset quality.

Total Count- There are 1,457 Urban Cooperative Banks currently operating in India.

Financial Growth-

   a. Total Assets- Stood at Rs 7.38 lakh crore.
   b. Total Deposits- Reached Rs 5.84 lakh crore, marking a significant increase from 2015 figures.

Asset Quality Indicators

1. Gross NPA Ratio- 6.2%
2. Net NPA Ratio- 0.7% (indicating healthy post-provisioning status)
3. Provisioning Coverage Ratio**-** 90.1% (showing a strong buffer against bad loans)

4. Regulatory Framework- The "Dual Control" System

UCBs operate under a unique framework where regulatory powers are split between the RBI and government authorities.

Banking Regulation (RBI) - Since 1966, the RBI has regulated the banking functions of UCBs.

Responsibilities- Licensing, capital adequacy norms, loan policies, prudential norms, and ensuring overall financial stability.
Administrative Regulation (RCS) - The Registrar of Cooperative Societies (RCS) regulates the administrative and management aspects.
Responsibilities- Incorporation, management elections, and audits, monitored under the supervision of either the State Government or the Central Government (for multi-state UCBs).

5. Tiered Regulatory Structure

To ensure effective oversight proportional to size, the RBI classifies UCBs into four tiers based on deposit size.

a. Tier 1 UCBs- Deposit size up to ₹100 crore.
b. Tier 2 UCBs- Deposits more than ₹100 crore and up to ₹1,000 crore.
c. Tier 3 UCBs- Deposits more than ₹1,000 crore and up to ₹1,000 crore.
d. Tier 4 UCBs- Deposits exceeding **₹**10,000 crore.

6. Challenges in Granting UCB Licences

Despite the push for new licences, structural and governance issues persist within the sector.
Governance Risks - Small UCBs often suffer from weak governance, including management fraud and a lack of domain knowledge among board members. Court interventions have occasionally slowed down governance reforms despite amendments to the Banking Regulation Act (1949).
Capital Constraints
Volatility- The capital structure is volatile due to the specific characteristics of cooperative shares (which can be withdrawn).
Investment Barriers- The **"**one member, one vote" principle acts as a deterrent for attracting growth capital, as large investors cannot secure proportional voting rights.

7. Comparison- UCBs vs. Commercial Banks

Aspect	**Urban Cooperative Banks (UCBs)**	**Commercial Banks**
Ownership	Owned by their members, who act as both depositors and borrowers (Cooperative principle).	Owned by shareholders, which can include the Government (PSBs), private investors, or institutions.
Regulation	Subject to Dual Regulation- RBI regulates banking; State/Central Govt (RCS) regulates management.	Regulated solely by the RBI under the Banking Regulation Act, 1949.
Voting Rights	Follows the "One Member, One Vote" principle, regardless of shareholding size.	Follows the "One Share, One Vote" principle; voting power is proportional to shares held.
Lending Focus	Primarily lend to small traders, MSMEs, salaried persons, and self-employed individuals in urban/semi-urban areas.	Have a diversified portfolio covering large industries, infrastructure, retail, agriculture, and services.

Source- https-//indianexpress.com/article/business/rbi-reopening-urban-co-operative-banks-licenses-large-credit-societies-10471845/