



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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RBI/2019-20/135

DOR (PCB).BPD. Cir No. 9/12.05.001/2019-20

January 6, 2020

The Chief Executive Officer  
All Primary (Urban) Co-operative Banks

Dear Sir / Madam,

### Supervisory Action Framework for Primary (Urban) Co-operative Banks (UCBs)

Please refer to our [circular UBD.BPD.\(PCB\). Cir No. 3/12.05.001/2014-15 dated November 27, 2014](#) on the captioned subject containing the Supervisory Action Framework (SAF) for UCBs. Keeping in view the experience gained, it has been decided to further rationalize the SAF to make it more effective in bringing about the desired improvement in the UCBs as also expeditious resolution of UCBs experiencing financial stress. Reserve Bank will continue to monitor asset quality, profitability and capital / net worth of UCBs under the revised SAF. The main features of the revised SAF are indicated herein below:

#### 2. Thresholds/triggers and Supervisory Action

The revised SAF envisages initiation of corrective action by the UCB and/or supervisory action by the Reserve Bank on breach of the specified thresholds (triggers) in respect of the specified financial parameters/indicators. The actions mentioned in the following paragraphs may be taken on breach of the specified thresholds.

**2.1 Asset quality:** A UCB may be placed under SAF when its Net NPAs exceed 6% of its net advances. Depending on the severity of stress, Reserve Bank may take one or more of the following actions:

- Advising the UCB to submit a Board-approved Action Plan for reducing its Net NPAs below 6%
- Advising the Board of Directors of the UCB to review the progress under the Action Plan on quarterly/monthly basis
- Advising the UCB to submit the post-review progress report to Reserve Bank
- Restriction on declaration/payment of dividend/donation without prior approval of RBI
- Curtailment of sanction/renewal of credit facilities to sectors/segments having high proportion of NPAs/defaults

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बैंक हिन्दी में पत्राचार का स्वागत करता है।

चेतावनी: भारतीय रिज़र्व बैंक द्वारा ई-मेल, डाक, एसएमएस या फोन कॉल के जरिये कोई भी व्यक्तिगत जानकारी जैसे बैंक खाते का ब्यौरा, पासवर्ड आदि नहीं माँगा जाता है। यह धन रखने या देने का प्रस्ताव भी नहीं करता है। ऐसे प्रस्तावों का किसी भी प्रकार से जवाब मत दीजिए।

Caution: RBI never sends mails, SMSs or makes calls asking for personal information like bank account details, passwords, etc.

It never keeps or offers funds to anyone. Please do not respond in any manner to such offers.

- f) Reduction in exposure limits for fresh loans and advances
- g) Restriction on fresh loans and advances carrying risk-weights more than 100%

**2.2 Profitability:** A UCB may be placed under SAF when it incurs losses for two consecutive financial years or has accumulated losses on its balance sheet. Depending on the severity of stress, Reserve Bank may take one or more of the following actions:

- a) Advising the UCB to submit a Board-approved Action Plan for restoring the profitability and/or wiping out the accumulated losses
- b) Advising the Board of Directors of the UCB to review of progress under the Action Plan on quarterly (or more frequent) basis.
- c) Prohibition on declaration/payment of dividend/donation
- d) Restriction on incurring capital expenditure beyond a specified limit, without prior approval of the Reserve Bank
- e) Measures for reduction in interest and operating/administrative expenses

**2.3 Capital to Risk-weighted Assets ratio (CRAR):** A UCB may be placed under SAF when its CRAR falls below 9%. Depending on the severity of stress, Reserve Bank may take one or more of the following actions:

- a) Advising the UCB to submit a Board-approved Action Plan for increasing the CRAR to 9% or above within 12 months
- b) Advising the Board of Directors of the UCB to review the progress under the Action Plan on quarterly/monthly basis and submit the post-review progress report to Reserve Bank
- c) Seeking a Board-approved proposal for merging the UCB with another bank or converting itself into a credit society
- d) Prohibition on declaration/payment of dividend/donation
- e) Restriction on incurring capital expenditure beyond a specified limit, without prior approval of the Reserve Bank
- f) Measures for reduction in interest and operating/administrative expenses
- g) Reduction in exposure limits for fresh loans and advances
- h) Restriction on fresh loans and advances carrying risk-weights beyond the specified limit
- i) Restriction on expansion of size of the balance sheet
- j) Restriction on fresh borrowings, except for meeting temporary liquidity mismatches
- k) Prohibition on sanction/disbursal of fresh loans and advances other than loans against collateral security of term deposits / NSCs / KVPs / insurance policies
- l) Prohibition on expansion of size of the deposits

**2.4** Actions such as imposition of all-inclusive directions under section 35A of the Banking Regulation Act, 1949 (as applicable to co-operative societies) and issue of show cause notice for cancellation of banking license may be considered by the Reserve bank when continued normal functioning of the UCB is no longer considered to be in the interest of its depositors / public.

### **3. Implementation of the revised SAF**

**3.1** Supervisory action will normally be initiated on the basis of the financial position of UCBs as assessed during the statutory inspection. However, action may also be taken on the basis of the reported/audited financial position which may be subsequently reviewed, if necessary, on the basis of the statutory inspection findings.

**3.2** Although supervisory action taken will primarily be based on the criteria specified under the revised SAF, Reserve Bank will not be precluded from taking appropriate supervisory action in case stress is noticed in other important indicators/parameters or in case of serious governance issues. Reserve Bank will also not be precluded from taking any supervisory actions other than those indicated in this circular, based on merits of each case.

**3.3** The revised SAF will be implemented with immediate effect. Supervisory action already taken under the earlier SAF will be reviewed and revised instructions, if any, will be issued to the UCBs concerned.

**4.** A copy of this circular should be placed before the Board of Directors of your bank in its next meeting and a confirmation thereof should be sent to the concerned Regional Office of Department of Supervision of Reserve Bank of India.

Yours faithfully,

(Neeraj Nigam)  
Chief General Manager