



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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March 1, 2012

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

Madam / Dear Sir,

Supervisory Action Framework for Urban Cooperative Banks (UCBs)

You are aware, that the Reserve Bank of India (the Bank) conducts inspection of UCBs under the provisions of the Banking Regulation Act, 1949 (AACS) (the Act), to assess the financial position of a bank and its adherence to the various provisions of the Act and directions/instructions issued thereunder. It also monitors the financial position of UCBs based on periodical returns/statements submitted by them. Further, the Reserve Bank initiates supervisory actions based on its assessment of the financial position of a bank. The existing supervisory framework, viz., Graded Supervisory Action is based on the Grade and the financial position of a bank. With the introduction of a revised supervisory rating model for UCBs based on CAMELS pattern from March 31, 2009, in the place of the Grading System, the framework of supervisory action has to be realigned.

2. The revised Supervisory Action Framework (SAF) envisages, in the initial stage of deterioration in the financial position, self corrective action by the management of the UCBs themselves and supervisory action by the Reserve Bank in case the financial position of the bank does not improve.

Self Corrective Action by UCBs

3. If the CRAR falls below 9% or there is deterioration in asset quality or decline in profits, liquidity constraints etc. the management of the bank should identify the cause of deterioration and take necessary corrective actions, on their own, with a view to improve the financial position of the bank. Such corrective action should be prompt as any delay could be detrimental

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बैंक हिन्दी में पत्राचार का स्वागत करता है —



to the interest of the depositors and other stake holders of the bank. The corrective action should include measures for augmenting capital, close monitoring of the NPAs and its recovery especially the large NPAs, improving profitability by curtailing expenses, mobilizing low cost deposits, etc. depending on the nature of the deficiency. The UCBs should also prepare time bound specific action plan for bringing about necessary improvement in its functioning and the Board of Directors should monitor the progress in implementation of the action plan in every meeting of the Board.

Supervisory Action by the Reserve Bank of India

4. UCBs may note that if necessary steps are not taken to improve their financials or the steps taken do not result in the required improvement in the financial position of the bank, the Reserve Bank will step in and initiate supervisory actions as it deems necessary. The supervisory actions which would be taken by the Reserve Bank would be in two stages.

4.1 In the first Stage, the Reserve Bank would commence active monitoring of the performance of the bank. The active monitoring would become necessary when one or more of the following circumstances exists in a bank:

- (i) Capital adequacy is less than 6%.
- (ii) Incurred loss for two consecutive years.
- (iii) Gross NPAs exceed 10% of the advances.
- (iv) Concentration of deposits i.e. where 20 top deposits / depositors exceed 30% of total deposits.
- (v) Credit Deposit ratio exceeding 70%.

The monitoring would be done by directing the UCBs to submit to the Regional Office of the Reserve Bank, an action plan for improving their performance in the specific areas where there is a deterioration or cause of concern (CRAR, profitability, Gross NPA, CD ratio, concentration of deposits, as the case may be) and returns, pertaining to the specified weak area, at quarterly/half-yearly intervals.



4.2 In the second stage the supervisory action would be in the form of pre-emptive action aimed at arresting further deterioration in the financial position of the bank. The extent and nature of supervisory action would depend on the level of capital adequacy and the extent of erosion in deposits, if any, in the bank. The supervisory action would increase in terms of severity as the financials deteriorate and could include restriction on pre-mature withdrawal of deposits, freeze in the level of advances /deposits, prohibition in acceptance of deposits, issue of show cause for cancellation of banking license etc.

4.2.1 If the CRAR of a UCB falls below 4%, but its net worth continues to be positive, the bank will not be permitted to increase its aggregate advances beyond the level of advances as on a specified date.

4.2.2 If the financials of a UCB further deteriorates resulting in the net worth turning negative, then the Bank would initiate further action depending on the extent of deposit erosion.

(i) Deposit erosion up to 10% - The bank will be advised to explore options for merger with another bank. The bank will not be permitted to increase its aggregate deposits beyond the level of deposits as on a specified date. The bank will also be prohibited from premature payment of all term deposits.

(ii) Deposits erosion beyond 10% and up to 25% - When all options for revival of the bank are exhausted, the bank will be prohibited from acceptance of fresh deposits and repayment of deposits by issue of all inclusive Directions under Section 35 A of the Act. Renewals of deposits however will be permitted.

(iii) Deposit erosion in excess of 25% - A show cause notice will be issued for cancellation of the licence of the bank.

5. On certain occasions, notwithstanding the financial position of the bank, issue of Directions, including all inclusive Directions under Section 35A of the Act would be considered if there are exceptional circumstances viz. run on a bank, reports of severe liquidity crunch, complaints of non-payment or preferential payment of matured deposits, market information regarding dissension in management etc.



6. UCBs may note that the SAF does not preclude the Reserve Bank from taking any action as it deems necessary, including cancelling the licence of a bank, at any stage of the SAF.

7. A copy of this circular may be placed in the next meeting of the Board of Directors and a confirmation to that effect should be sent to the Regional Office concerned.

Yours faithfully

(A. Udgata)
Chief General Manager- in- Charge

Withdrawn w.e.f November 16, 2021