

# **Licensing of Urban Co-operative Banks (UCBs)**

## **A DISCUSSION PAPER**

**RESERVE BANK OF INDIA**

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## Preface

It has been more than two decades since the licensing of Urban Co-operative Banks (UCBs) was put on hold by Reserve Bank of India (RBI), as it was found that a large number of the newly licensed UCBs became financially unsound within a short period. As the operating environment has changed and the UCB Sector has transformed significantly since then, issuance of any new UCB license requires fresh licensing guidelines for the Sector after a thorough discussion on the subject. Therefore, following announcement was made in the [Monetary Policy Statement by the Governor on October 1, 2025.](#)

*“Since 2004, licensing for Urban Co-operative Banks (UCBs) had been paused. Considering the positive developments in the sector during the last two decades and in response to the growing demand from the stakeholders, we propose to publish a discussion paper on licensing of new UCBs.”*

This Discussion Paper (DP) initiates the process and seeks larger stakeholders' participation in the discussion.

## 1 Background

A co-operative society, whether registered under any State Co-operative Societies Act or under the Multi-State Co-operative Societies Act, is required to obtain a license under Section 22, read with Section 56 of the Banking Regulation Act, 1949, from RBI to carry out any banking business. A co-operative society that has been given a banking license as a primary co-operative bank is commonly referred to as an urban co-operative bank (UCB). UCBs form the largest cohort of banks by number regulated by the RBI.

## 2 Evolution of UCBs

- 2.1 The UCBs were brought under the ambit of the RBI in 1966 by an amendment to the Banking Regulation Act, 1949 (BR Act).
- 2.2 After the liberalisation of licensing norms in May 1993, till June 2001, 823 UCB licenses were issued by the RBI. In the backdrop of the vulnerabilities<sup>1</sup> seen in the sector, a screening committee set up by the RBI in June 2001, recommended that it should be made mandatory for all new UCBs to come into being through a process of graduation from a co-operative credit society on the strength of a demonstrated and verifiable track record. In the light of the experience and the prevailing financial health of the UCB sector, it was decided in June 2004 to consider issuance of fresh licenses only after a comprehensive policy on UCBs, including an appropriate legal and regulatory framework for the sector, is put in place, and a policy for improving the financial health of the urban co-operative banking sector is formulated.
- 2.3 The Banking Regulation (Amendment) Act, 2020 bestowed additional powers on the RBI by bringing them on par with commercial banks, primarily to address the weakness in governance. Subsequent to these amendments, RBI issued revised tiered regulatory framework for

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<sup>1</sup> It was observed that 31 per cent of these newly licensed UCBs became financially unsound within a short span of time. Since then, number of UCBs has declined steadily from 2,104 (December 31, 2003) to 1,457 (March 31, 2025).

UCBs on December 01, 2022 (*now part of the [Reserve Bank of India \(Urban Co-operative Banks – Licensing, Scheduling and Regulatory Classification\) Guidelines, 2025 dated December 4, 2025](#)*) wherein the UCBs were segmented into four tiers based on deposit size, i.e. Tier 1 (Deposits size less than ₹100 crore), Tier 2 (Deposits ₹100 crore and above but less than ₹1,000 crore), Tier 3 (Deposits ₹1000 crore and above but less than ₹10,000 crore) and Tier 4 (Deposits ₹10,000 crore and above).

- 2.4 As an institutional mechanism for supporting the sector, the concept of an Umbrella Organisation (UO), initially mooted in 2004-05, has been put in place with the formation of the National Urban Co-operative Finance and Development Corporation (NUCFDC). The UO that has become functional since February 2024 is expected to address the technology gaps in UCBs through shared service provision and also help smaller UCBs with their investment and liquidity management and support.
- 2.5 Over the years, Reserve Bank consolidated the UCBs, through amalgamation and closure of non-viable entities.
- 2.6 Based on available disaggregated data since 2020-21, all the 57 insolvent UCBs whose banking license were cancelled were in Tier 1-3.
- 2.7 At present there are 82 weak UCBs under supervisory restrictions; while 28 very weak UCBs have been placed under the All-Inclusive Directions (AID), 32 UCBs are under Prompt Corrective Action (PCA) and 22 UCBs are under Supervisory Action Framework (SAF). These are also in Tier 1 to Tier 3.
- 2.8 Over the years, several high-level committees formed by RBI have visited the matter of re-opening of UCB licenses and have come out with various recommendations.
- 2.9 Some of the Committees who examined various issues since 2004 and their key recommendations relating to licensing issue are as under:

2.10 Expert Committee on Licensing of New Urban Co-operative Banks (YH Malegam – 2011) recommended differentiated minimum capital requirements for new UCBs ranging from ₹0.5 crore to ₹5 crore based on a base case of ₹10 crore of deposit for a bank. While the committee preferred existing societies with good financial record for banking license, it did not restrict licensing for newly set up societies particularly in unbanked or inadequately banked centres.

2.11 High Powered Committee on Urban Co-operative Banks (R Gandhi – 2015) recommended UCB licenses only for financially sound and well-managed co-operative credit societies having a minimum track record of 5 years and entry point capital requirement of ₹25 crore to ₹100 crore for various categories of UCBs.

2.12 Expert Committee on Urban Co-operative Banks (NS Vishwanathan – 2021) had suggested that as there are over 1500 UCBs already in existence, the existing UCBs may be allowed to expand their footprint as proliferation of the number of UCBs is not by itself an instrumentality of strengthening the sector. Grant of new licences for setting up UCBs could be considered after the Umbrella Organization (UO) satisfactorily emerges as a stabilising arrangement.

### **3 Current Status of UCBs**

3.1 As on March 31, 2025, the number of UCBs totalled 1457 comprising 838 Tier 1 (57.52%), 535 Tier 2, 78 Tier 3 and six Tier 4 UCBs. In terms of Deposits, Tier 1, Tier 2, Tier 3 and Tier 4 UCBs constituted 11.3%, 30.6%, 34.4% and 23.8% respectively of the total deposits of the sector. As on March 31, 2025, 52 per cent of UCBs held deposits of below ₹100 crore constituting 5.6 per cent of deposits while 7 per cent of UCBs held deposits of above ₹1000 crore constituting 62.5 per cent of the deposits. As on March 31, 2015, 64.7 per cent of UCBs held deposits of below ₹100 crore constituting 9.9 per cent of deposits while 3.6 per cent of UCBs held deposits of above ₹1000 crore constituting 52.1 per cent of the deposits.

- 3.2 The total aggregate assets of the UCBs were ₹7.38 lakh crore, and total deposits ₹5.84 lakh crore as on March 31, 2025 as compared to ₹4.35 lakh crore and ₹3.55 lakh crore respectively in 2015.
- 3.3 The average Capital to Risk-weighted Asset Ratio (CRAR) of the UCBs stood at 18.0 per cent. At present 92 per cent UCBs have CRAR above 12 per cent (regulatory minimum for Tier 2-4 UCBs) as compared to 83 per cent UCBs in 2015.
- 3.4 The asset quality of UCBs, measured by gross non-performing assets (GNPA) ratio, was 6.2 per cent as of March 31, 2025 with Net NPA was at 0.7 per cent and provisioning coverage ratio at 90.1%. The comparative figures for 2015 were 6.02 per cent, 2.66 per cent and 57.7 per cent respectively.
- 3.5 The Return on Assets and the Net Interest Margin were 0.74 per cent and 3.62 per cent as on March 31, 2025 as compared to 0.84 per cent and 2.97 per cent respectively as on March 31, 2015.

#### **4 Key Issues for Discussion**

- 4.1 This Discussion Paper examines certain key issues in the matter of licensing of new UCBs and seeks to elicit response from the stakeholders, particularly on the following key questions-

**Question 1:** Is it the right time to resume licensing of new Urban Co-operative Banks?

**Question 2:** What should be the broad eligibility criteria, if new UCB licensing is to be resumed now?

#### **5 Should licensing of UCBs be resumed?**

##### ***Arguments in favour of resuming licensing***

- 5.1 Proponents in favour of resumption argue that the urban co-operative banking sector has an important role in financial inclusion. It can serve very remote and small towns.

- 5.2 It is further argued that the regulatory and supervisory powers of the RBI have been considerably increased following the amendment to the Banking Regulation Act as noted above.
- 5.3 As noted above, it is also argued that the financial health of the UCBs has considerably improved over the years generally and following consolidation in the sector and closure of weak UCBs.
- 5.4 The Umbrella Organisation is expected to give a fillip in terms of institutional support for capital, knowledge and technology for weak UCBs which is expected to strengthen the sector.

***Arguments against resuming licensing***

- 5.5 There are at the same time arguments against resumption of licensing.
- 5.6 Capital raising remains a problem. The distinct characteristics of shares of UCBs, in terms of refundability and their linkage to borrowing, add to the volatility of such capital and undermine the concept of capital as a loss absorber for the entity. This also challenges the very concept of perpetuity of share capital.
- 5.7 The concept of one member one vote, regardless of shareholding, has been a deterrent in attracting growth capital into the sector and resolution of weak banks. The principle of entry and exit of shareholders at face value does not provide any incentive to investors and makes buying shares of a co-operative bank an unattractive investment proposition.
- 5.8 The contribution of the co-operative banking to the overall banking sector is small. The total deposits of the co-operative banking sector and UCBs are 5.4 percent and 3.1 percent respectively of the banking sector while total advances are 5.6 percent and 3.8 percent respectively.
- 5.9 Though there have been amendments to Banking Regulation Act, 1949, multiple legal challenges to these amendments and related RBI

circulars in various courts have slowed the process of strengthening the governance in UCBs.

- 5.10 Analysis of UCBs whose licenses were cancelled during the period 2020-25 reveals many instances related to governance failure or management fraud, especially in small UCBs.
- 5.11 Directors on Boards and Senior Management in UCBs are often found to lack adequate domain knowledge and expertise. Often times, UCBs are being penalised for Director related lending which is prohibited.
- 5.12 A predominant part of the sector suffers from lack of adequate technology, cybersecurity infrastructure, and operational capability. This poses a significant risk to the entire banking system, given the current landscape of cybersecurity threats.

## **6 Eligibility criteria for new UCBs**

- 6.1 Considering the fact that most of the failures of UCBs have been of smaller banks, if licensing is resumed for UCBs, it may be prudent to license only large co-operative credit societies. A large co-operative credit society will have a longer track record. It would have established its governance and put in place sound management practices. As a result, many of the risks cited in the arguments given above against resuming licensing, will be mitigated. Moreover, it may be advisable to make a beginning, learn from experience and take corrective steps, as necessary. From this aspect also, it will be desirable to stipulate stringent eligibility criteria.
- 6.2 Ideally, the governance standards applicable to a bank should be agnostic to the incorporated structure of the bank whether commercial or co-operative. For commercial banks, Companies Act, 2013 and SEBI LODR Regulations provide guardrails for a professional and independent Board. It is imperative to ensure similar guardrails for UCBs. Therefore, statutory amendments may be required in the State Co-operative Society Acts and Multi-State Co-operative Societies Act, providing for specific provisions in the Acts

in the areas of Board composition (to have professional and independent directors), Board functioning, Shareholding (acquisition of more than five percent in a bank) etc. for societies which have a banking license.

### ***Minimum Capital Requirement***

6.3 The Entry Point Norms (EPNs) for licensing of UCB, last reviewed on August 30, 2000, were as follows:

<b>Category of Centre (Population)</b>	<b>A &gt; 10 lakh</b>	<b>B 5-10 lakh</b>	<b>C 1-5 lakh</b>	<b>D &lt; 1 lakh</b>
Share Capital (in ₹ crore)	4.00	2.00	1.00	0.25
Membership	3,000	2,000	1,500	500

6.4 In terms of regulatory framework, UCBs are treated similar to the Small Finance Banks (SFBs) in most aspects, including limitations on loan sizes and priority sector lending targets. The cost of setting up branches and technology infrastructure is also similar, regardless of the type of bank.

6.5 The High-Power committee (HPC) for UCBs (Shri R. Gandhi; 2015) had recommended capital of ₹100 crore for multi-state UCBs, as was applicable to SFBs at that time. This has since been revised to ₹300 crore in 2021 as per the recommendation of the Internal Working Group (IWG) to Review Existing Ownership Guidelines and Corporate Structure for Indian Private Sector Banks. It may be noted that Payments banks, which do not have lending permission, were also required to bring in a minimum of ₹100 crore capital, which was stipulated almost a decade back.

6.6 Considering the adjustment for inflation and the intent of the IWG recommendations, the minimum capital requirement needs to be set higher. Therefore, minimum capital requirement for a co-operative credit society should be ₹300 crore as on the March 31 of the previous financial year to be eligible to apply.

## ***Track Record***

- 6.7 High Powered Committee on Urban Co-operative Banks (R Gandhi – 2015) recommended UCB licenses only for financially sound and well-managed co-operative credit societies having a minimum track record of 5 years.
- 6.8 Five years may be too short a period to judge the performance of a co-operative society. Hence, active operations for at least 10 years and a good financial track record of at least 5 years are desirable from a co-operative credit society to apply. The society must demonstrate a positive and progressive trend in operating and financial parameters in the previous five years.
- 6.9 To analyse the financials, assessed CRAR should not be less than 12% and the Net NPA ratio should not be more than 3% at the time of grant of license to the eligible applicant.

## ***Geographical footprint***

- 6.10 From the perspective of financial viability and risk diversification, it may be desirable that the co-operative credit society seeking a banking license has a wider geographical footprint, ensuring access to a diversified customer base, thereby enhancing the bank's long-term viability and resilience apart from being able to contribute to financial inclusion. Wider footprint is also necessary as these UCBs need to compete effectively with sectoral peers such as SFBs, other commercial banks, and NBFCs, which leverage pan-India operations. Therefore, multi-state co-operative credit societies may be preferred entities, but select uni-state co-operative credit societies which are otherwise compliant with wider footprint may also be considered.

## **7 Submission of comments and Way forward**

- 7.1 After comments on the Discussion Paper are received, RBI will consider issuing a detailed draft guidelines on Licensing of Urban Co-operative Banks for public feedback.

- 7.2 Comments / Feedback on this Discussion Paper, particularly with reference to the key questions raised in the paper and any other matters germane to the subject may be submitted to RBI through '[Connect to Regulate](#)' link on RBI website.
- 7.3 The last date of submission of comments is **February 13, 2026**.