

## **Statement on the feedback received for draft Master Direction (MD)**

### **Subject: Business Authorization for Co-operative Banks (Directions), 2025**

#### **1. Eligibility Criteria for Business Authorization (ECBA)**

- a) **Para 4.2 (c)** - As per the proposed ECBA, the banks having “Net profits during the preceding two financial years, without any accumulated losses in the balance sheet” would not be considered in compliance with ECBA.

**Feedback:** The requirement of not having ‘accumulated losses’ may be removed.

**RBI Comments: Accepted.** Considering that the CRAR is already a condition for ECBA which factors in ‘accumulated losses’, it has been decided to accept the feedback and the directions have been modified accordingly.

- b) **Para 4.2 (f)** - As per the proposed ECBA, the banks under any Directions/ Supervisory Action Framework/PCA of RBI/NABARD, as the case may be, in the previous or current financial year, would not be considered in compliance with ECBA.

**Feedback:** The reference to prior period may be removed.

**RBI Comments: Accepted.** Removal from Supervisory Action Framework/PCA demonstrates that bank has complied with the prescribed thresholds, and the specific concerns have been addressed satisfactorily. The condition has been suitably modified to include that a bank should not be under any Directions/Supervisory Action Framework/PCA of RBI/NABARD, as the case may be, at the time of declaring the bank as ECBA compliant/ submission of any application for authorization to Reserve Bank.

#### **2. Opening of Branches under Automatic Route**

- a) **Para 7.4 (b)**: - Automatic Route: “The eligible UCBs are permitted to open new branches up to 10 per cent of the number of full-fledged branches (at the end of the previous financial year) in a financial year, subject to a maximum of five branches without having the need to take permission from Reserve Bank of India. However, if the total number of full-fledged branches

(at the end of the previous financial year) is less than 10, the bank will be eligible to open at least one branch.”

**Feedback:** To increase branches to be opened under automatic route to 15%-20% and opening of branches without any upper cap.

**RBI Comments: Accepted.** On a review, it has been decided to increase the branches to be opened under automatic route from 10% to 15%. This would particularly enable the smaller banks to have a meaningful business expansion. Further, with an objective to provide greater flexibility to larger banks, it has been decided to increase the maximum cap from 5 to 10 branches.

- b) **Para 7.5:** RCBs are eligible for opening branches only under the Prior Approval Route.

**Feedback:** To consider permitting RCBs to also open branches under automatic route.

**RBI Comments: Accepted.** The facility of opening branches under automatic route has been extended to RCBs on the similar lines as available for UCBs, with safeguards aligned with their tiered co-operative structure.

- c) **Para 7.3 (e):** “A UCB in compliance with ECBA may, at its discretion, open one Controlling Office for a cluster of not less than 40 branches within the area of operation, without prior approval of the Reserve Bank”.

**Feedback:** In the case of multi-state UCBs, the number of branches in some states is low with considerable distance from the Head Office. To ensure effective oversight, the requirement of a minimum of 40 branches may be reconsidered.

**RBI Comments: Accepted.** UCBs have the option to approach the RBI with appropriate justification for establishing a Controlling Office if they are not in compliance with the above condition. However, to enhance the operational agility of the banks, it has been decided to accept the suggestion and lower the threshold for eligibility to 30 branches.

### 3. Headroom Capital

**Paras 7.4 and 7.5:** As against the current requirement of headroom capital based on population of the centre in which a branch is proposed to be opened, the draft proposed a uniform headroom capital requirement of ₹2 crore for opening branches at any centre.

**Feedback:** Feedback was to either remove the requirement, revert to old population-centre wise requirements, or to lower the uniform threshold.

**RBI Comments: Not Accepted.** The requests were analysed in detail. The uniform headroom capital requirement of ₹2 crore has been prescribed to ensure responsible and sustainable business expansion, particularly in light of the liberalised limits under the general permission route for branch openings. This approach replaces the previous tier-based methodology set 15 years back, which, when adjusted for inflation, would have significantly increased capital requirements in high-population centres. The proposed uniform capital requirement is nearer to the inflation adjusted capital requirement for erstwhile Category B Centre. Further, a uniform approach ensures sufficient capital is in place to absorb potential risks and shocks associated with business growth and meeting the increasing costs related to investments in technology, core banking systems (CBS), and cybersecurity. The uniform, population-agnostic framework, coupled with the flexibility of opening, shifting and closure of the branches, empowers the co-operative banks to exercise informed commercial judgment in their operational decision-making.

### 4. Doorstep Banking:

**Para 10.2 (Annex V):** Mode of Delivery for Doorstep Banking can be through own employees or through agents.

**Feedback:** There are some apprehensions that mis-selling by agents providing doorstep banking services may increase.

**RBI Comments: Partially Accepted.** Doorstep banking is a customer centric measure aimed at helping differently abled, senior citizens etc. to have a seamless access to banking services. With a view to balance convenience and ease of doing banking with prudence, all banks are being permitted to offer

doorstep banking services through their permanent employees. The banks having deposits over ₹1000 crore and above have been permitted to engage agents also.

**5. Shifting, Acquisition, Surrender of Leased Premises, etc. of UCBs not complying with Section 11(1) of BR Act, 1949 (AACS)**

**Para 11.1:** The draft proposes prior approval requirements for certain activities on UCBs not complying with provisions of section 11 (1) of BR Act, 1949.

**Feedback:** To consider extending these guidelines to RCBs as well.

**RBI Comments: Accepted.** Similar guidelines exist for UCBs. To bring parity with UCB guidelines and as a prudent measure, it has been decided to extend these guidelines to RCBs as well.

**6. Norms for inclusion of a UCB and a StCB in the Second Schedule to the Reserve Bank of India Act, 1934**

**Para 13:** The draft provides the eligibility norms for inclusion of UCBs and StCBs in the Second Schedule to the Reserve Bank of India Act, 1934.

**Feedback:** Requests were received to consider DCCBs for inclusion.

**RBI Comments: Not Considered,** as it is outside the scope of this Direction.