

Draft Reserve Bank of India (Urban Co-operative Banks – Licensing, Scheduling and Regulatory Classification) Guidelines, 2025

DRAFT FOR COMMENTS

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Reserve Bank of India (Urban Co-operative Banks – Licensing, Scheduling and Regulatory Classification) Guidelines, 2025

A. Licensing of Urban Co-operative Banks (UCBs)

1. No fresh proposals for organization of new UCBs or for conversion of co-operative credit societies into UCBs will be considered by Reserve Bank of India.

In this context, Urban Co-operative Banks shall mean Primary Co-operative Banks as defined under section 5(ccv) read with Section 56 of Banking Regulation Act, 1949.

B. Revised Regulatory Framework - Categorization of Urban Co-operative Banks (UCBs) for Regulatory Purposes

B.1 Introduction:

2. Given the heterogeneity in the cooperative sector, a tiered regulatory framework is required to balance the spirit of mutuality and co-operation more prevalent in banks of smaller sizes and those with limited area of operation vis-à-vis the growth ambitions of the large-sized UCBs to spread their area of operation and undertake more complex business activities.

The Reserve Bank of India had constituted the [Expert Committee on Urban Co-operative Banks](#) to examine the issues in urban cooperative banking sector and to review regulatory/ supervisory approach for strengthening the sector. Based on the recommendations of the Expert Committee, RBI had released the [Revised Regulatory Framework for Urban Co-operative Banks \(UCBs\) on July 19, 2022](#).

Accordingly, a four-tiered regulatory framework has been issued on December 01, 2022, replacing the earlier two-tiered framework, for categorization of UCBs. This categorization serves as the basis for differentiated regulatory prescriptions to strengthen the financial soundness of the UCBs.

B.2 Categorization of UCBs:

3. The UCBs have been categorized into following four tiers for regulatory purposes:
 - (1) Tier 1 - All unit UCBs and salary earners' UCBs (irrespective of deposit size), and all other UCBs having deposits up to ₹100 crore;
 - (2) Tier 2 - UCBs with deposits more than ₹100 crore and up to ₹1000 crore;
 - (3) Tier 3 - UCBs with deposits more than ₹1000 crore and up to ₹10,000 crore;
 - (4) Tier 4 - UCBs with deposits more than ₹10,000 crore.
4. The deposits referred to above shall be reckoned as per audited balance sheet as on 31st March of the immediate preceding financial year.
5. If a UCB transits to a higher Tier on account of increase in deposits in any year, it may be provided a glide path of upto a maximum of three years, to comply with higher regulatory requirements, if any, of the transited higher Tier.

C. Second Schedule to the Reserve Bank of India Act, 1934- Norms for inclusion

C.1 Introduction:

6. Subsequent to issuance of revised categorization norms for UCBs for regulatory purposes on December 01, 2022, along with the criteria for classifying a UCB as Financially Sound and Well Managed (FSWM), it was decided to revise the eligibility norms for inclusion of UCBs in the Second Schedule to the Reserve Bank of India Act, 1934 to bring them in conformity with the Revised Regulatory Framework. Accordingly, revised norms under clause (a) of sub-section (6) of section 42 of the Reserve Bank of India Act, 1934 were issued on January 17, 2024.

C. 2 Norms for inclusion

7. Government of India notification F.No.3/16/2023-AC dated September 04, 2023 has been published in Gazette of India on September 23, 2023 notifying that licensed Tier 3 and Tier 4 Primary (Urban) Co-operative Banks, fulfilling the criteria stipulated for Financially Sound and Well Managed Urban Co-operative Banks by the Reserve Bank of India, subject to maintenance of minimum deposits required for categorisation as a Tier 3 Urban Co-operative Bank for two consecutive years, would be the eligible financial institutions for the purpose of sub-clause (iii) of clause (a) of sub-section (6) of section 42 of the Reserve Bank of India Act, 1934.
8. Such eligible UCBs satisfying the following criteria shall be considered for inclusion in the Second Schedule:
 - (1) CRAR of at least 3 per cent more than the minimum CRAR requirement applicable to the UCB; and
 - (2) No major regulatory and supervisory concerns.
9. The information at 25(a) shall be based on the assessed financials and findings of RBI inspection report or audited financial statements, whichever is latest. Such eligible UCBs may submit their application for inclusion in the Second Schedule to the Reserve Bank of India Act, 1934 to the concerned Regional Office of Department of Supervision (in case of UCBs under jurisdiction of Mumbai office, the application should be sent to Department of Supervision, RBI, Central Office) of the Reserve Bank along with the following documents (two sets):
 - (1) Copy of resolution passed by the Annual General Body/Board of Directors to make an application to RBI for inclusion in the Second Schedule to the Reserve Bank of India Act, 1934 and containing the name(s) of bank official(s) authorized to correspond with RBI in this regard; and
 - (2) Major financial details of the bank together with copies of the published balance sheet for the last three years.