



Urban Co-operative Banks

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Why in News

The **Reserve Bank of India (RBI)** has revised the Supervisory Action Framework (SAF) for Urban Co-operative Banks (UCBs). It seeks to ensure expeditious resolution of financial stress faced by some of the UCBs.

- The move comes in the backdrop of the **alleged irregularities in the Punjab and Maharashtra Cooperative (PMC) Bank** causing distress to over 9 lakh depositors.
- The SAF is similar to the **Prompt Corrective Action (PCA)** framework which is imposed on commercial banks.

Co-operative Banks

- **Co-operative Banks**, which are **distinct from commercial banks**, were born out of the concept of co-operative credit societies where members from a community group together to extend loans to each other, at favourable terms.
- Co-operative Banks are broadly classified into **Urban and Rural co-operative banks** based on their region of operation.

Commercial Banks

- A commercial bank is a financial institution which performs the functions of accepting deposits from the general public and giving loans with the aim of earning profit.
- The RBI has specified certain **regulatory trigger points** for initiation of certain structured and discretionary actions with respect of banks hitting such trigger points.

- The trigger points are part of **the Prompt Corrective Action (PCA) Framework**, in terms of three parameters:
 - Capital Adequacy Ratio (CAR),
 - net Non-Performing Assets (NPA) and
 - Return on Assets (RoA),
- The **PCA framework is applicable only to commercial banks** and is not extended to co-operative banks and Non-Banking Financial Companies (NBFCs).

Difference between UCBs and Commercial Banks

- **Regulation: Unlike commercial banks, UCBs are only partly regulated by the RBI.** Their banking operations are regulated by the RBI, which lays down their capital adequacy, risk control and lending norms. However, their management and resolution in the case of distress is regulated by the **Registrar of Co-operative Societies** either under the State or Central government.
- **Borrower can be a Shareholder:** In general for a commercial bank, there is a clear distinction between its shareholders and its borrowers whereas in a UCB, borrowers can even double up as shareholders.

Revised SAF

- UCBs will face restrictions for worsening of **three parameters**:
 - When net Non-Performing Assets (**NPAs**) **exceed 6% of net advances**,
 - When losses are incurred for two consecutive financial years or losses have accumulated on the balance sheets, and
 - If Capital Adequacy Ratio (**CAR**) **falls below 9%**.
- However, RBI can also take action if there are serious governance issues.
- **Possible Restrictions and Actions that can be taken by the RBI**
 - UCBs may be asked to submit a board-approved action plan to correct the situation like reducing net NPAs below 6%, etc.
 - The board of the UCB may be asked to review the progress under the action plan on quarterly/monthly basis and submit the post-review progress report to the RBI.
 - The RBI can impose **restrictions on declaration or payment of dividend or donation** without prior approval if any one of the above mentioned parameters is breached.
 - The RBI may also seek a board-approved proposal for **merging the UCB with another bank** or converting itself into a credit society if CAR falls below 9%.
 - The RBI may also consider issue of **show-cause notice for cancellation of banking licence** when continued normal functioning of the UCB is no longer considered to be in the interest of its depositors/public.

Shivalik Mercantile Co-operative Bank Limited To Convert Into A Small Finance Bank

- The Shivalik Mercantile Co-operative Bank Limited has become the **first Urban Co-operative Bank (UCB)** to be granted 'in-principle' permission by the RBI to convert into a **Small Finance Bank (SFB)**.
- The move comes after the RBI had announced a scheme on voluntary transition of UCBs into a SFB in September, 2018.
- **Small Finance Banks are a specific segment of banking created by RBI** under the guidance of Government of India with an objective of furthering financial inclusion by primarily undertaking basic banking activities to un-served and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganized entities.
 - Like other commercial banks, these banks can undertake all basic banking activities including lending and taking deposits.
 - The RBI issued the guidelines of Small Finance Bank in November 2014.

Source: TH