



4-Tier Structure for Urban Cooperative Banks

Why in News

Recently, a [Reserve Bank of India](#) (RBI)-appointed committee has suggested a **four-tier structure for the Urban Cooperative Banks (UCBs)**.

- In June 2020, the Central government approved an Ordinance to bring all [urban and multi-state co-operative banks under the direct supervision of the RBI](#).
- In January 2020, the RBI [revised the Supervisory Action Framework \(SAF\) for UCBs](#).

Key Points

▪ **Categorisation of UCBs:**

- Based on the cooperativeness' of the banks, availability of capital and other factors, UCBs may be **categorised into four tiers for regulatory purposes:**
 - **Tier 1** with all unit UCBs and salary earner's UCBs (irrespective of deposit size) and all other UCBs having **deposits up to Rs 100 crore**.
 - **Tier 2** with UCBs of **deposits between Rs 100 crore and Rs 1,000 crore**.
 - **Tier 3** with UCBs of **deposits between Rs 1,000 crore and Rs 10,000 crore**.
 - **Tier 4** with UCBs of **deposits more than Rs 10,000 crore**.
- The minimum [Capital to Risk-Weighted Assets Ratio \(CRAR\)](#) for them could vary from 9% to 15% and for Tier-4 UCBs the [Basel III](#) prescribed norms.

▪ **Umbrella Organisation:**

- The committee has proposed **setting up an Umbrella Organisation (UO) to oversee co-operative banks** and suggested that they should be allowed to open more branches if they meet all regulatory requirements.
- The **UO should be financially strong** and be well governed by a professional board and senior management, both of which are fit and proper.

▪ **Reconstruction:**

- Under the Banking Regulation (BR) Act, 1949 the **RBI can prepare a scheme of compulsory amalgamation or reconstruction of UCBs**, like banking companies.

▪ **Supervisory Action Framework:**

- **SAF should follow a twin-indicator approach** - it should consider only asset quality and capital measured through Net [Non-Performing Assets](#) and CRAR - instead of triple indicators at present.

- The **objective of the SAF should be to find a time-bound remedy to the financial stress of a bank**.

- **If a UCB remains under more stringent stages of SAF** for a prolonged period, it may have an **adverse effect on its operations** and may further erode its financial position.

▪ **Need of Reform:**

- **Restrictive Policies:**

- Owing to **lack of the desired level of regulatory comfort** on account of the structural issues including 'capital' and the gaps in the statutory framework, the **regulatory policies for co-operative banks have been restrictive** with regard to their business operations, which, to some extent, has been one of the reasons affecting their growth.
 - With the enactment of the [Banking Regulation \(Amendment\) Act, 2020](#), the statutory gaps have been addressed to a very large extent.

- **Financial Inclusion:**

- Given the importance of the sector in **furthering financial inclusion and considering the large number of its customer base**, it is **imperative that the strategies adopted for the regulation of the sector are comprehensively reviewed** so as to enhance its resilience and provide an enabling environment for its sustainable and stable growth in the medium term.

Co-operative Banks

- **About:**

- [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.
- They are **registered under the Co-operative Societies Act** of the State concerned or under the **Multi-State Co-operative Societies Act, 2002**.
- The Co-operative banks are governed by the
 - Banking Regulations Act, 1949.
 - Banking Laws (Co-operative Societies) Act, 1955.

- **Features of Co-operative Banks:**

- **Customer Owned Entities:** Co-operative bank members are both customer and owner of the bank.
- **Democratic Member Control:** These banks are owned and controlled by the members, who democratically elect a board of directors. Members usually have equal voting rights, according to the cooperative principle of "one person, one vote".
- **Profit Allocation:** A significant part of the yearly profit, benefits or surplus is usually allocated to constitute reserves and a part of this profit can also be distributed to the co-operative members, with legal and statutory limitations.
- **Financial Inclusion:** They have played a significant role in the financial inclusion of unbanked rural masses. They provide cheap credit to masses in rural areas.

Basel III Norms

- **About:**

- Basel III is an **internationally agreed set of measures** developed by the **Basel Committee on Bank Supervision** in response to the financial crisis of 2007-09. The measures aim **to strengthen the regulation, supervision and risk management of banks**.
- BCBS members are committed to implementing and applying standards in their jurisdictions within the time frame established by the Committee.

- **Three Pillars:** Basel 3 measures are based on three pillars:

- **Pillar 1:** Improve the banking sector's ability to absorb ups and downs arising from

- financial and economic instability
- **Pillar 2:** Improve risk management ability and governance of banking sector
 - **Pillar 3:** Strengthen banks' transparency and disclosures

[Source: IE](#)

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