



## RBI's Regulation for UCBs

**For Prelims:** [Urban Co-operative Banks \(UCBs\)](#), [Reserve Bank India \(RBI\)](#), [Priority Sector Lending \(PSL\)](#), [Ministry of Cooperation](#), [Multi-State Cooperative Societies Act, 2002](#), Banking Regulations Act, 1949, Banking Laws (Co-operative Societies) Act, 1955, [Supervisory action Framework \(SAF\)](#).

**For Mains:** Issues faced by Cooperatives banks in India, the revival of UCBs on the line of PSBs, need of Cooperatives banks to boost the cooperative culture in Agriculture.

### Why in News?

To strengthen 1,514 [urban co-operative banks](#), the [Reserve Bank India](#) has notified four key measures, including giving them two years more to meet the priority sector lending targets.

### What are the Key Measures taken by RBI?

#### ▪ Four Key Measures:

- Allowing **UCBs to open new branches without prior approval from RBI**, up to 10% (maximum 5 branches) of the number of branches in the previous financial year.
- Allowing UCBs to do **One-Time Settlement at par with commercial banks**.
- Extending the **timeline for UCBs to achieve [Priority Sector Lending \(PSL\)](#) targets by two years**, up to March 31, 2026.
  - The excess deposits, if any, after clearing the shortfall of PSL during FY 2022-23 will also be refunded to the UCB.
- Notifying a nodal officer for closer coordination and focused interaction between RBI and the cooperative sector.

#### ▪ Possible Effects:

- These initiatives will **further strengthen the UCBs**, which work in urban areas and were facing hardships in achieving PSL targets.
- The Ministry of Cooperation is committed to strengthening cooperatives and treating them at par with other forms of economic entities.

### What is Cooperatives Banks in India?

- It is an institution **established on a cooperative basis to deal with the ordinary [banking business](#)**. Cooperative banks are **founded by collecting funds through shares, accepting deposits, and [granting loans](#)**.
- They are **Cooperative credit societies** where members from a community group together to extend loans to each other, at favorable terms.
- They are registered under the **Cooperative Societies Act of the State** concerned or the **[Multi-State Cooperative Societies Act, 2002](#)**.
- The Co-operative banks are governed by the,
  - **[Banking Regulations Act, 1949](#)**.
  - **Banking Laws (Co-operative Societies) Act, 1955**.
- They are broadly divided into **Urban and Rural cooperative banks**.

## What are Urban Cooperative banks (UCB)?

- The term Urban Cooperative Banks (UCBs) is not formally defined but refers to primary cooperative banks **located in urban and semi-urban areas.**
- The Urban Cooperative Banks (UCBs), the [Primary Agricultural Credit Societies \(PACS\)](#), Regional Rural Banks (RRBs), and Local Area Banks (LABs) could be **considered as differentiated banks as they operate in localized areas.**
- Till 1996, these banks were allowed to lend money only for non-agricultural purposes. This distinction does not hold today.
- These banks were **traditionally centred on communities and local workgroups as they essentially lent to small borrowers and businesses.** Today, their scope of operations has widened considerably.

## What are Recent Developments?

- In January 2020, the RBI revised the [Supervisory action Framework \(SAF\)](#) for UCBs.
- In June 2020, the Central government approved an Ordinance to bring all urban and multi-state cooperative banks **under the direct supervision of RBI.**
- In 2022 RBI has announced 4 tier regulatory framework for categorization of UCBs
  - **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 and
  - **Tier 4** with UCBs of deposits more than Rs 10,000 crore.

## UPSC Previous Year Question (PYQ)

### Prelims:

**Q. With reference to 'Urban Cooperative Banks' in India, consider the following statements: (2021)**

1. They are supervised and regulated by local boards set up by the State Governments.
2. They can issue equity shares and preference shares.
3. They were brought under the purview of the Banking Regulation Act, 1949 through an Amendment in 1966.

**Which of the statements given above is/are correct?**

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

**Ans: (b)**

### Mains:

**Q. The concept of cooperative federalism has been increasingly emphasized in recent years. Highlight the drawbacks in the existing structure and the extent to which cooperative federalism would answer the shortcomings. (2015)**

**Q. "In the villages itself no form of credit organization will be suitable except the cooperative society." – All India Rural Credit Survey. Discuss this statement in the background of agricultural finance in India. What constraints and challenges do financial institutions supplying agricultural finance face? How can technology be used to better reach and serve rural clients? (2014)**

[Source: BS](#)

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