

Urban Banks Department

Regulation and Supervision of Primary (Urban) Cooperative Banks (UCBs)

Primary Cooperative Banks, popularly known as Urban Cooperative Banks (UCBs) are registered as cooperative societies under the provisions of, either the State Cooperative Societies Act of the State concerned or the Multi State Cooperative Societies Act, 2002. They are regulated and supervised by the Registrar of Cooperative Societies (RCS) of State concerned or by the Central Registrar of Cooperative Societies (CRCS), as the case may be. The applicability of banking laws to cooperatives societies since March 1, 1966 ushered in 'duality of control' over UCBs between the Registrar of Cooperative Societies/Central Registrar of Cooperative Societies and the Reserve Bank of India. The Reserve Bank regulates and supervises the banking functions of UCBs under the provisions of Banking Regulation Act, 1949(AACS). Within the Reserve Bank, a separate department, viz. Urban Banks Department, has been entrusted with these functions. Urban Banks Department functions in close coordination with other regulators viz., RCSs and CRCS. The functions of the department can be broadly divided into (i) regulatory (ii) supervisory and (iii) developmental.

The Reserve Bank has been vested powers to issues licence to UCBs under Section 22 and 23 Banking Regulation Act, 1949 (AACS) to carry on banking business and to open new places of business (branches, extension counters, etc.) respectively. For this purpose, guidelines on the eligibility criteria for issue of banking licence / branch licence are issued to UCBs from time to time. As a regulator, the Reserve Bank has prescribed prudential norms in various areas, e.g. capital adequacy, income recognition, asset classification and provisioning, exposure to single/group borrowers, exposures to sensitive sectors, loans and advances, investments, liquidity requirements, etc. Considering the heterogeneity in the sector, a differentiated regulatory regime is being adopted by Reserve Bank in certain aspects by grouping the UCBs under two Tiers (Tier I and II) based on their branch network, area of operation and the level of deposits.

The Banking Regulation Act, 1949(AACS) provides for submission of periodical returns by UCBs to the Reserve Bank of India. Further, under the powers vested in the Reserve Bank, it has prescribed various other periodical returns to be submitted by UCBs.

The Reserve Bank carries out on-site inspections and off-site surveillance of UCBs. It also issues directions and operational instructions to UCBs, wherever necessary to streamline the functioning and to protect the interests of the depositors.

As a part of developmental functions, the Reserve Bank imparts training to the officials of UCBs to upscale their knowledge, skill and expertise.

The Reserve Bank has entered into memorandum of understanding (MOU) with Central Government and various State Governments for harmonization of regulation and supervision.

The circular instructions issued to UCBs from time to time are placed in the Reserve Bank's website. Further, for discharge of its functions, the Bank has prepared operation manual, Job Cards, manual for on-site inspection of UCBs, manual of instructions for UCBs, etc. and issues internal circulars/instructions from time to time.