

New Licensing Policy for Urban Co-operative Banks (UCBs)

Reserve Bank of India has recently reviewed the licensing policy for Urban Co-operative Banks (UCBs) pursuant to the recommendations of the High Power Committee constituted for examining the existing licensing policy among other regulatory issues. The thrust of new licensing policy and revised entry point norms are delineated below:

Revised policy approach

The thrust of revised licensing policy is on strong start up capital and corporate governance. Accordingly, it has been decided to revise the entry point norms (EPN), and prescribe 4 categories of EPN based on population criteria. Revised EPN are set out in Annexure 'A'.

Besides EPN, corporate governance assumes significant importance in running UCBs on sound lines, following eligibility criteria have been prescribed for promoters of new UCBs.

- (a) There should at all times be at least two directors with suitable banking experience or persons with relevant professional qualifications i.e., Chartered Accountants with banking experience.
- (b) The promoters should not be defaulters to any financial institution/bank/cooperative bank/cooperative society, etc.
- (c) No criminal proceedings should have been instituted against the promoters
- (d) Promoters should not be associated as director with any chit fund/NBFC/ cooperative bank.

Viability Norms

RBI have examined the relevance of continuance of existing viability standards in the context of application of prudential norms and relative regulatory prescriptions for UCBs and it has been decided to dispense with these norms. Hence, the viability norms prescribed in our circular dated May 25,1993 stand withdrawn for the existing as well as new banks.

Unit Banks

Many UCBs function as unit banks (single branch banks) confining to compact geographical locations. The initial infrastructure expenditure required for unit banks may be relatively lower than the banks which intend to open branches. It has, therefore, been decided to prescribe 50% relaxation in entry point capital for the banks which propose to set up as unit banks i.e. 'Single branch bank is given without any branches. EPN prescription for unit banks has been furnished in Annexure 'B'. However, an UCB which subsequently desires to open a branch/branches has to necessarily enhance its capital to the level required for setting up of a new bank as applicable to the centre where its registered office is located or where the branch is proposed to be opened, whichever is higher.

Relaxation in EPN for special categories of banks

The relevance of continuation of relaxation in EPN for banks organised by mahilas, SCs/STs, banks organised in less/least developed areas, North Eastern States, Sikkim, Daman, Diu, Andaman & Nicobar Islands, Lakshadweep regions and tribal and desert areas declared by the specified authority of the State concerned has been re-examined in the context of HPC recommendations and it has been decided to continue with the existing relaxation in EPN to these categories of banks. The EPN for these categories of banks are given in Annexure 'B' & 'C'. Less/Least developed areas are required to be notified as backward by the respective

State Government. It is needless to mention that the criteria for determining the backwardness should be based on socio-economic indices rather than strength of urban co-operative banking movement in that area. It is also clarified that membership of Mahila Banks should exclusively confine to women and they should not resort to enrolment of male members as 'A' category or nominal members. In the case of banks organized by SCs/STs, at least 51% of the credit deployed by such banks should necessarily go to SC/ST members of such banks. It is also clarified that promoters cannot seek multiple relaxation in EPNs on the grounds of special category and for organisation of unit banks. Illustratively, if promoters desire to set up a bank in less developed area of 'D' category centre, they have to mobilise Rs.12.5 lakh entry point capital irrespective of the fact whether the proposed bank intends to function as a unit bank or multi-branch bank.

Annexure – A

(Rs. In lakh)

Entry Point Norms for General Category

	A	B	C	D
Share Capital	400	200	100	25
Membership	3000	2000	1500	500

Category of Centre

Population

A	Over 10 lakh
B	5 lakh and above but less than 10 lakh
C	1 lakh and above but less than 5 lakh
D	Less than 1 lakh

Annexure – B

Entry Point Capital / Norms for Unit Banks / Banks Organised by Mahilas / SCs / STs and in less Developed States

(Rs. in lakh)

	A	B	C	D
Share Capital 50% of EPN	200	100	50	12.50
Membership	3000	2000	1500	500

Category of Centre

Population

A	Over 10 lakh
B	5 lakh and above but less than 10 lakh
C	1 lakh and above but less than 5 lakh
D	Less than 1 lakh

Annexure – C

Entry Point Norms for Banks organised in least developed States / North-Eastern States / tribal regions

(Rs. in lakh)

	A	B	C	D
Share Capital (33.33% of EPN)	133.33	66.67	33.33	8.33
Membership (66.67% of normal membership)	2000	1334	1000	334

Category of Centre

Population

A	Over 10 lakh
B	5 lakh and above but less than 10 lakh
C	1 lakh and above but less than 5 lakh
D	Less than 1 lakh