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RBI releases Report of Expert Committee on Licensing of New Urban Co-operative Banks (UCBs)

The Reserve Bank of India today placed on its website the [Report of Expert Committee on Licensing of New Urban Co-operative Banks](#) (Chairman: Shri Y.H. Malegam). Suggestions and comments on the Report may please be forwarded by October 31, 2011 to the Chief General Manager-in-Charge, Urban Banks Department, Reserve Bank of India, Central Office, Garment House, First Floor, Dr. Annie Besant Road, Worli, Mumbai – 400 018 (Fax No. 022-24974030) or [emailed](#).

The main recommendations of the Expert Committee are:

- UCBs play a useful role and there is need for a greater presence of UCBs in unbanked districts and in centers having population less than 5 lakh. It is necessary to encourage new entrants to open banks and branches in States and Districts which are unbanked or inadequately banked. It is equally necessary to discourage new entrants from opening branches in Districts and population centers which are already adequately banked.
- The existing well managed co-operative credit societies meeting certain financial criteria like profits, capital adequacy, NPAs' proportion etc. should be given priority for granting licenses as urban co-operative banks particularly in unbanked or inadequately banked centers.

Entry Point Capital Prescription

The proposed entry point norms for the new UCBs are as under:

S.No.	Particulars	Minimum Capital
(a)	UCBs operating in only one state in	₹ 50 Lakh
	(i) North Eastern Regions	
	(ii) In other States but confined to unbanked districts	
	(iii) In other States but confined to 'C' and 'D' category population centers of banked districts	
(b)	UCB operating in only one State with 50% or more branches in 'C' and 'D' category population centers	₹ 100 lakh
(c)	UCB operating in only one State but without requirement to have branches in 'C' and 'D' category population centers	₹ 300 lakh
(d)	UCBs which wishes to operate in more than one State after five years of successful operations	₹ 500 lakh

- Note : (1) In respect of existing co-operative credit societies opting to be converted in to UCBs, the minimum capital required will be as per norms prescribed above or as per RBI's per branch head room capital prescription, whichever is higher,
- (2) Unbanked District means a District without any existing UCB.

Organization Structure of New UCBs

- There should be segregation of the ownership of the UCB as a co-operative society from its functioning as a bank. The new organization structure shall consist of a Board of Management in addition to the Board of Directors.
- The Board of Directors (BoD) would be elected in accordance with the provisions of the respective Co-operative Societies Acts and would be regulated and controlled by the RCS / CRCS.
- The (BoD) will establish a Board of Management (BoM), consisting of persons with professional skills, which shall be entrusted with the responsibility for the control and direction of the affairs of the Bank assisted by a CEO who shall have the responsibility for the management of the Bank.
- RBI would have unfettered powers to control and regulate the functioning of the UCB and of its BoM and of the CEO in exactly the same way as it controls and regulates the functioning of the Board of Directors and the Chief Executive in the case of a commercial bank.
- It should be made a condition of the license that every new UCB should be required to have a Board of Management (BoM) to be appointed by the Board of Directors (BoD) and a Chief Executive Officer (CEO) to be appointed by the BoM. While the BoD will be responsible for laying down the broad contours of strategy, the BoM will be vested with the mandate to direct and control the day-to-day operations of the UCB within the limits set by the BoD. At least 51 per cent of the members of the BoM should have special knowledge or practical experience in the matters specified in Section 10 A(2) of the B. R. Act, 1949.
- Members of the BoD can be members of the BOM provided they fulfill the conditions specified. Members of the BoM can be paid such sitting fees as the BOD may decide subject to a ceiling to be specified by RBI. The BoM to follow a Code of Corporate Governance to be specified by RBI.
- The CEO shall be responsible for the management of the whole or substantially the whole of the affairs of the UCB but shall be subject to the control and direction of the BoM. The appointment of the CEO shall be subject to the prior approval of RBI.
- Audit by a Chartered Accountant to be appointed by the BoM from out of a panel of approved auditors maintained by RBI and subject to rotation after four years.

Umbrella Organization

- There should be two separate Umbrella Organizations viz. a national level organization which provides payments and settlement services and other services normally provided by central banks as also liquidity support to its members; and one or more organizations which provide the management, IT, training and other services which the UCB sector needs.
- The national level UO should preferably be in the form of a multi-state UCB with membership being restricted to and mandatory for all UCBs other than scheduled UCBs.
- Member UCBs should be required to maintain their CRR in the form of deposits with the UO.
- The UO should invest its funds only in the form of balances with RBI, deposits with commercial banks or in SLR securities and in no other form.

- The UO should offer Repos and Reverse Repos facilities to UCBs in the same manner as RBI offers to commercial banks and at the same rates of interest. In turn, it should enjoy Repos and Reverse Repos facilities with RBI.
- UCBs can avail of Repos facilities only to the extent of their excess SLR holdings.
- Until the Payments and Settlements facilities are provided directly to UCBs, the UO will act as a gateway to provide these services for a fee to UCBs. In turn, the UO will be a member of the Payments and Settlement System.
- Being a UCB, the UO would have a Board of Management and will be subject to the regulation, supervision and inspection of RBI.

It was announced in the Annual Policy Statement 2010-11 to set up a Committee comprising all stakeholders for studying the advisability of granting new urban co-operative banking licences under Section 22 of the Banking Regulation Act, 1949 [As Applicable to Co-operative Societies (AACS)]. Accordingly, the Reserve Bank of India constituted an Expert Committee under the Chairmanship of Shri Y.H. Malegam.

The Committee was assigned the following terms of reference:

- i) To review the role and performance of UCBs over the last decade and especially since the adoption of VISION document in 2004,
- ii) To review the need for organization of new UCBs in the context of the existing legal framework for UCBs, the thrust on financial inclusion in the economic policy and proposed entry of new commercial banks into the banking space,
- iii) To review the extant regulatory policy on setting up of new UCBs and lay down entry point norms for new UCBs,
- iv) To examine whether licensing could be restricted only to financially sound and well managed cooperative credit societies through conversion route,
- v) To make recommendations relating to the legal and regulatory structure to facilitate the growth of sound Urban Co-operative Banks especially in the matter of raising capital consistent with co-operative principles;
- vi) To examine the feasibility of an umbrella organization for the Urban Co-operative Banking Sector; and
- vii) To examine other issues incidental to licensing of Urban Co-operative Banks and make appropriate recommendations.