

Co-operative Banking Supervision



Dashboard- All India

- ▶ As per Trends & Progress report (December 2023), Total 1502 UCBs, of which 240 UCBs in NRO
- ▶ 12 Tier-3 UCBs in NRO. 90 UCBs under SAF- NRO. 7 UCBs under AID- NRO
- ▶ At end-March 2023, an overwhelming majority of UCBs were in the Tier 1 category (898). Six UCBs are under Tier 4 contributed more than a fifth of the sector's deposits
- ▶ Out of total 1502 UCBs, 1321 UCBs are maintaining CRAR more than 12% as at March 2023.
- ▶ The capital position of UCBs has been continuously improving in the post-pandemic period, with their CRAR increasing to 17.5% in March 2024.
- ▶ Total Assets of UCBs – 6.80 lakh crore –March 2023
- ▶ Total Deposits- 3.30 lakh crore- March 2023
- ▶ Total Loans- 5.33 lakh crore- March 2023

Revised Regulatory Framework

- ▶ Expert Committee on UCBs was constituted under Chairmanship of **Shri N. S. Vishwanathan**, former DG, RBI. (Revised Regulatory Framework dated July 19, 2022)
- ▶ The Circular on categorization of UCBs for regulatory purposes (December 1, 2022)
- ▶ Tier 1 UCBs operating in a single district shall have minimum net worth of ₹2 crore. All other UCBs (of all tiers) shall have minimum net worth of ₹5 crore.

Old Structure	Revised Structure
Tier-1 (Deposit Size less than 100 crore)	Tier-1 – Salary Earners Bank (irrespective of deposits), Unit UCBs and other UCBs having deposits less than 100 crore
Tier-2 (All other banks)	Tier-2 UCBs having deposit more than 100 crore and up to 1000 crore
	Tier -3 – UCBs having deposits more than 1000 crore and up to 10k crore
	Tier 4- UCBs having deposits more than 10,000 crore.

CRAR- Minimum Regulatory Requirement

Tier	Minimum CRAR	
Tier -1	9% on an on-going basis	
Tier 2 to 4*	12% on an on-going basis	
* Tier 2 to 4 UCBs which do not meet minimum CRAR requirement (phased manner)		
10%	March 31, 2024	Phased manner in 3 years
11%	March 31, 2025	
12%	March 31, 2026	

Dual Regulation- Synopsis

- ▶ Cooperative Bank is inherently a Cooperative Society
- ▶ Board of Directors comprised of elected representatives of the members of the society
- ▶ Conduct of Election of Directors are under jurisdiction of Central/ State Governments
- ▶ After Amendment of Banking Regulation Act in 2020, RBI regulations over UCBs were strengthened.
- ▶ After the amendment in 2020, RBI has powers to supersede the UCB's Board.
- ▶ Appointment of Statutory Auditors and CEO- Prior Approval of RBI is required.
- ▶ Amendments of bye-laws- RBI's NOC is required
- ▶ The tenure of Directors should not be more than 8 Years (Abeyance -Sub-judice)
- ▶ To ensure professionalism, Board should have **at least 2 professional directors**
- ▶ Constitution of Board of Management- UCBs with deposit size of ₹100 crore and above shall constitute BoM which will also be a mandatory requirement for allowing such banks to expand their area of operation and open new branches. UCBs with a deposit size less than ₹100 crore and Salary Earners' Banks are exempted from constituting BoM

Existing Supervisory Action Framework

Parameters	Stage 1	Stage 2	Stage 3
NNPA	> 6% but less than equal to 9%	> 9% but \leq 12 %	> 12%
CRAR	Less than 9% but more than 6%	Less than 6% but more than 4.50%	Less than 4.50% but networth greater than ₹1 lakh
Profitability	Incurred losses during two consecutive years or Accumulated loss in Balance sheet		

Mandatory Actions	Trigger points	
Reduce single and group exposure limits by 25% of applicable regulatory limit	NNPA- Stage 2	CRAR- Stage 1
Reduce single and group exposure limits by 50% of applicable regulatory limit	NNPA -Stage 3	CRAR- Stage 2
Stop giving fresh loans and advances having Risk weight more than 100%	NNPA-Stage 3	CRAR- Stage 1
CAPEX restriction of ₹50,000 for banks having DTL more than ₹100 crore.	Profitability	CRAR stage 1
₹25,000/- for banks having DTL less than ₹100 crore		CRAR Stage 2
Do not incur any capex	CRAR- Stage 3	
Linking deposit rates with SBI rates	Profitability	CRAR Stage 1
Do not expand the balance sheet size and deposit size	CRAR- Stage 3	

Prompt Corrective Action (PCA) framework

- The PCA Framework shall be applicable to all UCBs under Tier 2, Tier 3 and Tier 4 categories.
- Tier 1 UCBs shall be covered under extant SAF. The exemption of Tier 1 UCBs from the PCA Framework shall be reviewed in due course.
- The provisions of the PCA Framework will be effective from April 1, 2025.
- UCB will be placed under PCA based on the Reported / Audited and/or Assessed figures. However, RBI may impose PCA on any bank during a year (including migration from one threshold to another) in case the circumstances warrant it.
- Exit from PCA and Withdrawal of restrictions under PCA - will be considered:
 - a) if no breaches in any risk threshold of the parameters are observed as per four continuous quarterly financial statements, one of which should be the audited annual financial statement (subject to assessment by RBI);
 - b) Based on the supervisory comfort of the RBI, including an assessment of sustainable improvement in key financials of the bank.

PCA Matrix

PCA matrix – Parameters, Indicators and Risk Thresholds				
Parameter	Indicator	Risk Threshold 1	Risk Threshold 2	Risk Threshold 3
Capital (Breach of CRAR)	Minimum CRAR *	Up to 250 bps below the applicable Indicator (If less Than 7.50%)	More than 250 bps but not exceeding 400 bps below the applicable Indicator (6% -7.50%)	In excess of 400 bps below the applicable Indicator (Less than 6%)
Asset Quality	Net Non-Performing Advances (NNPA) Ratio	>=6.0% but <9.0%	>=9.0% but < 12.0%	>=12.0%
Profitability	Net profit	Incurred losses during two consecutive years	--	--

* For Tier 2 to 4 UCBs as per the glide path up to March 31, 2026

Financially Sound and Well Managed Bank

1	The CRAR shall be at least 1% above the minimum CRAR applicable to an UCB as on the reference date.		
	Tier	As on Reference date	Minimum CRAR +1%
	1		9% +1% = 10%
	2 to 4	March 31, 2023	9% +1% =10%
		March 31, 2024	10%+1% =11%
		March 31, 2025	11%+1% =12%
		March 31, 2026	12%+1% =13%
2	NNPA less than 3%		
3	Net profit for at least three out of the preceding four years subject to it not having incurred a net loss in the immediate preceding year;		

Benefits for FSWM Banks

- Eligible to get regulatory approvals with prior permissions such as opening new branches, shifting of branches, membership to NDS-OM, acquisition of premises etc.
- General permission to open branches up to 10% of existing number of branches in a year

PSL Target and Sub-Targets


PSL targets and sub-targets for UCBs were revised in 2020. The phase-in time for achievement of the PSL target and sub-target was extended by two years, i.e., up to March 31, 2026

UCBs are now required to contribute to the Rural Infrastructure Development Fund (RIDF) or other eligible funds in lieu of shortfalls in PSL targets/ sub-targets with effect from **March 31, 2023**, instead of March 31, 2021.

Financial Year ended	March 31, 2024	March 31, 2025	March 31, 2026
Overall PSL Target (% of ANBC or CEOBSE, whichever is higher)	60%	65%	75%
Sub-target for advances to weaker sections [#] ,	11.50%	11.75%	12.00%

@ The targets for March 31, 2023 (at 60 %) shall continue till March 31, 2024.

The sub-target set for March 31, 2023 (at 11.50%) shall continue till March 31, 2024.

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- To incentivise UCBs to meet PSL targets, the Reserve Bank increased the monetary ceiling of **gold loans that can be granted under the bullet repayment scheme from Rs 2 lakh to Rs 4 lakh** for UCBs that met the overall PSL target and sub-targets as on March 31, 2023, and continue to meet the same as per the revised schedule.

Exposure limits- Limits for Loans

Single Borrower exposure limit	15% of tier-1 capital
Group of connected borrower exposure limit	25% of tier -1 capital

- At least 50% of Total loans should be comprised of Small Value Loans, i.e., loans of value not more than ₹25 lakh or 0.2% of their **Tier I capital**, whichever is higher, subject to a maximum of ₹1 crore, per borrower. The target date for complying with the above requirement was **March 31, 2024. Now extended by 2 years**

March 31, 2025	March 31, 2026
40%	50%

Exposure limits- Limits for Loans

Unsecured Loans

Criteria	DTL up to 10 Cr	DTL above 10 Cr & up to 50 Cr	DTL above 50 Cr & up to 100 Cr	DTL above 100 Cr
CRAR=9% +	1.00 lakh	2.00 lakh	3.00 lakh	5.00 Lakh
CRAR less than 9%	0.25 lakh	0.50 lakh	1.00 lakh	2.00 lakh

➤ The total unsecured loans should not exceed 10 per cent of its total assets as per the audited balance-sheet as on 31 March of the preceding financial year.

➤ Housing Loan

Tier	Maximum Housing Loan Limit
Tier-1	₹60 lakh per individual borrower
Tier 2-4	₹140 lakh per individual borrower

➤ -

Cyber Security Framework

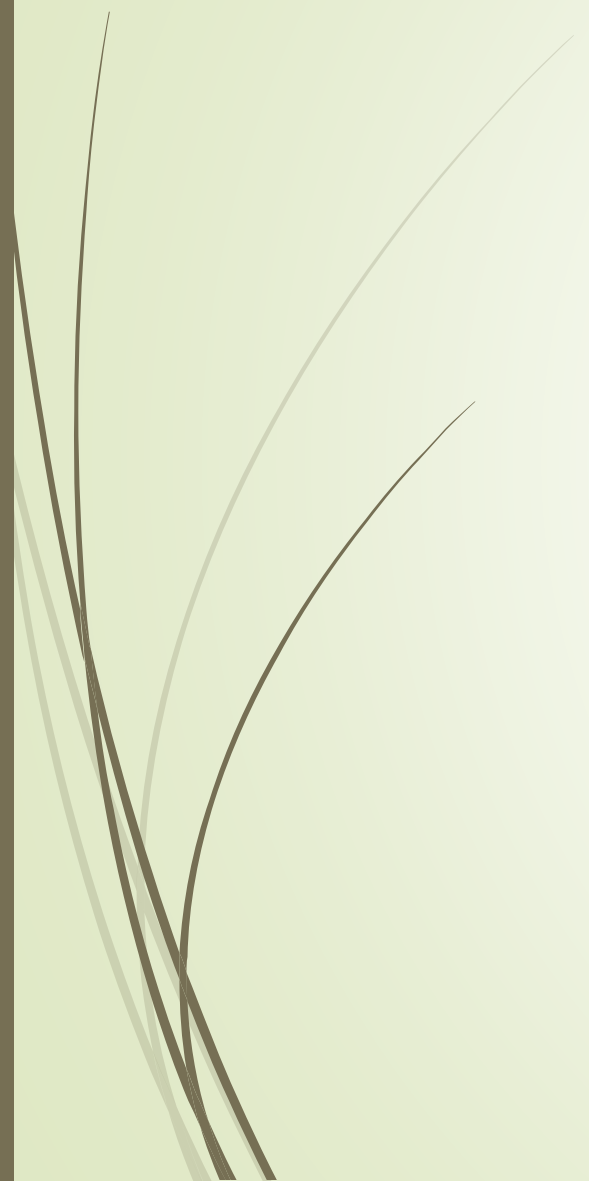
Level	Criteria for UCBs	Regulatory Controls
Level -1	All UCBs	Bank specific email domain with DMARC controls 2 Factor Authentication -CBS
Level -2	UCBs (sub-membership of CPS and offering Internet Banking or Mobile Banking Direct Member of CTS/UPI/IMPS	Additional controls include Data Loss Prevention Strategy, Anti-Phishing, VA/PT of critical applications.
Level -3	Any one of below criteria ✓ Direct Membership of CPS ✓ Having own ATM switch ✓ Having SWIFT Interface	Additional controls include Advanced Real-time Threat Defence and Management, Risk based transaction monitoring
Level -4	Additional criteria Hosting Data center or providing software support to other banks	Additional controls include setting up of a Cyber Security Operation Center (C-SOC) (either on their own or through service providers), IT and IS Governance Framework

Recent Developments

- ▶ DAKSH- SUP TECH tool
- ▶ SAKAR- Supervisory Assessment of KYC/ AML Risks
- ▶ Centralized Information Management System (CIMS)- next-generation data warehouse (Replacing XBRL Portal)
- ▶ PRAVAAH- Platform for Regulatory Application, Validation and Authorisation- Separate RSG-DOR to be established in select Regional Offices.

Enforcement Department

- Examine the observations in Risk Assessment Reports of REs
- Seek clarifications from DOS or DPSS
- Issue SCN to the REs
- Enforcement Actions (impose Penalty) on REs
- Enforcement action against various types of REs based on their **size**, **complexity**, **interconnectedness**, **range of activities** and **seriousness of violations**.
- Total Enforcement Actions in FY 2023-24 → 281 penalties aggregating 86.11 crore
- Number of Penalties (Top 4) [CBs → NBFCs → PSBs → PvtBs]
- Amount of Penalty (Top 4) [PvtBs → PSBs → CBs → NBFCs]



Thank You..