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RBI Proposes New Guidelines to Expand Urban Co-operative Banks' Operations

July 29, 2025

– Categories: Finance



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The Reserve Bank of India (RBI) has released a draft circular introducing revised business authorization norms for Urban Co-operative Banks (UCBs). The proposed framework, titled Enhanced Compliance and Business Authorization (ECBA), is set to replace the current criteria that define a Financially Sound and Well Managed (FSWM) UCB.

Under the ECBA framework, UCBs will be allowed to expand their area of operations based on a set of clearly defined financial and compliance benchmarks. These include maintaining a capital adequacy ratio above regulatory requirements, keeping net non-performing assets below 3 percent, and registering net profits over the previous two financial years. Additionally, compliance with cash reserve ratio, statutory liquidity ratio, and income recognition norms is mandatory.

The draft also outlines that Tier 3 and Tier 4 UCBs with a minimum net worth of ₹50 crore, meeting ECBA standards, may be permitted to expand operations beyond their home state. Qualified banks will be allowed to open branches in up to three additional districts within their home state or, with prior RBI approval, in up to two other states per year. Expansion outside the state will require the ability to open at least five branches in each new state.

For UCBs operating within their home district, the RBI proposes no prior approval requirement, provided the banks meet ECBA standards. This move is intended to provide more flexibility and encourage healthy expansion among cooperative banks.

The RBI has invited public feedback on the draft circular until August 25, 2025.

This proposal comes as part of RBI's broader efforts to modernize the regulatory framework for cooperative banks. Earlier this year, the central bank raised the limit on small-value loans and adjusted exposure norms for UCBs in sectors like residential housing and commercial real estate. Additionally, priority sector lending requirements were revised, increasing the mandated lending to targeted groups to 60 percent of a bank's net credit.

Analysts suggest that the ECBA framework is a step toward a more performance-based regulatory approach for UCBs, offering greater operational freedom to well-managed institutions while reinforcing accountability and risk control.

The proposed changes reflect RBI's ongoing commitment to improving the governance, efficiency, and reach of India's cooperative banking sector.