RBI exhorts urban coop banks to become small-finance banks

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UCBs with a minimum net worth of ₹50 crore and a CRAR of 9% and above are eligible for a voluntary transition

In a bid to encourage voluntary transition of eligible urban co-operative banks (UCBs) into small finance banks (SFBs), the Reserve Bank of India, in a report, said that scheduled UCBs (SUCBs) were comparable with SFBs in terms of net worth and gross loans and advances as of March-end 2018.

In keeping with the fast-paced changes in the banking space and in order to facilitate growth, the RBI, in September 2018, announced a scheme for voluntary transition of UCBs into SFBs.

This is aimed as a step forward to provide a full suite of products/services, sustain competition, raise capital, etc. Accordingly, this scheme has been introduced for voluntary transition of a UCB into an SFB by way of transfer of assets and liabilities.

“UCBs are increasingly facing competition from new players like payments banks, SFBs and NBFCs...The Reserve Bank introduced a scheme for voluntary transition of UCBs into SFBs to strengthen regulation and increase opportunities for growth...This will enable them to roll out most of the products which are currently permissible to commercial banks and help them in getting a pan-India presence,” said the Report on Trend and Progress of Banking in India 2017-18.

UCBs with a minimum net worth of ₹50 crore and a CRAR (credit to risk-weighted assets ratio) of 9 per cent and above are eligible for the voluntary transition. Upon commencement of business, the converted entity must have a minimum net worth of ₹100 crore, and the promoters should hold at least 26 per cent of the paid-up equity capital.

The converted entities also need to maintain a CRAR of 15 per cent on a continuous basis. Additionally, they are required to comply with all SFB guidelines such as ensuring that 75 per cent of adjusted net bank credit (ANBC) goes towards priority sector lending (PSL) and 50 per cent of the loan portfolio constitutes loans up to ₹25 lakh.

"In terms of the regulatory regime, both SFBs and UCBs comply with the same CRR (cash reserve ratio) and SLR (statutory liquidity ratio) norms as scheduled commercial banks (SCBs); however, while UCBs are subjected to Basel-I norms, SFBs and UCBs transiting into SFBs need to be Basel-III compliant, maintaining a liquidity coverage ratio and a net stable funding ratio in line with SCBs," said the report.

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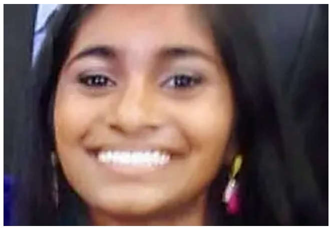
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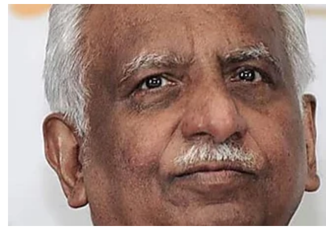
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