

## RBI revises Supervisory Action Framework for Primary (Urban) Co-operative Banks (UCBs)

This is in reference to the circular Cir No. 3/12.05.001/2014-15 dated November 27, 2014 on Supervisory Action Framework (SAF) for UCBs. On a review it has been decided by RBI to further rationalize the Supervisory Action Framework (SAF) to make it more effective in bringing about the desired improvement in the UCBs as also expeditious resolution of UCBs experiencing financial stress. Reserve Bank will continue to monitor asset quality, profitability and capital/net worth of UCBs under the revised SAF.

The main features of the revised SAF are as follows:

- **Thresholds/triggers and Supervisory Action:** The revised SAF envisages initiation of corrective action by the UCB and/or supervisory action by the Reserve Bank on breach of the specified thresholds (triggers) in respect of the specified financial parameters/indicators. The actions mentioned in the following paragraphs may be taken on breach of the specified thresholds.
- **Asset quality:** A UCB may be placed under SAF when its Net NPAs exceed 6% of its net advances. Depending on the severity of stress, Reserve Bank may take one or more of the following actions:
  1. Advising the UCB to submit a Board-approved Action Plan for reducing its Net NPAs below 6%.
  2. Restriction on declaration/payment of dividend/donation without prior approval of RBI.
  3. Reduction in exposure limits for fresh loans and advances
  4. Advising the Board of Directors of the UCB to review the progress under the Action Plan on quarterly/monthly basis; among others.

- **Profitability:** A UCB may be placed under SAF when it incurs losses for two consecutive financial years or has accumulated losses on its balance sheet. Depending on the severity of stress, Reserve Bank may take one or more of the following actions:
  1. Advising the UCB to submit a Board-approved Action Plan for restoring the profitability and/or wiping out the accumulated losses
  2. Prohibition on declaration/payment of dividend/donation
  3. Restriction on incurring capital expenditure beyond a specified limit, without prior approval of the Reserve Bank; among others.
- **Capital to Risk-weighted Assets ratio (CRAR):** A UCB may be placed under SAF when its CRAR falls below 9%. Depending on the severity of stress, Reserve Bank may take one or more of the following actions:
  1. Advising the UCB to submit a Board-approved Action Plan for increasing the CRAR to 9% or above within 12 months.
  2. Advising the UCB to submit a Board-approved Action Plan for increasing the CRAR to 9% or above within 12 months.
  3. Seeking a Board-approved proposal for merging the UCB with another bank or converting itself into a credit society.
  4. Prohibition on declaration/payment of dividend/donation.
  5. Reduction in exposure limits for fresh loans and advances; among others.

### **Implementation of the revised SAF**

- Supervisory action will normally be initiated on the basis of the financial position of UCBs as assessed during the statutory inspection. However, action may also be taken on the basis of the reported/audited financial position which may be subsequently reviewed, if necessary, on the basis of the statutory inspection findings.

- Although supervisory action taken will primarily be based on the criteria specified under the revised SAF, Reserve Bank will not be precluded from taking appropriate supervisory action in case stress is noticed in other important indicators/parameters or in case of serious governance issues. Reserve Bank will also not be precluded from taking any supervisory actions other than those indicated in this circular, based on merits of each case.
- The revised SAF will be implemented with immediate effect. Supervisory action already taken under the earlier SAF will be reviewed and revised instructions, if any, will be issued to the UCBs concerned.

**The Revised Supervisory Action Framework for Primary (Urban) Co-operative Banks (UCBs), 2020 released by RBI is attached for your kind reference.**

Please contact for any query related to this mail to Ms Preeti Rajput, Research Associate at [preeti.rajput@phdcci.in](mailto:preeti.rajput@phdcci.in) with a cc to Dr S P Sharma, Chief Economist at [spsharma@phdcci.in](mailto:spsharma@phdcci.in) and Ms Surbhi Sharma, Associate Economist at [surbhi@phdcci.in](mailto:surbhi@phdcci.in), PHD Chamber of Commerce & Industry.

Warm Regards,

Dr S P Sharma

Chief Economist

PHD Chamber of Commerce and Industry

PHD House, 4/2 Siri Institutional Area

August Kranti Marg, New Delhi-110016, India

Tel: +91 49545454

Fax: +91 11 26855450

Email: [spsharma@phdcci.in](mailto:spsharma@phdcci.in)

Website: [www.phdcci.in](http://www.phdcci.in)

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PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400  
Fax : +91-11-2685 5450, 49545451 • E-mail : phdcci@phdcci.in • Website : www.phdcci.in, CIN: U74899DL1951GAP001947



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