UCB *Finsight*

Navigating Change-Building Stronger UBCs

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RBI Ends 22-Year Freeze

On-Tap Licensing Returns for Urban Co-operative Banks

-By Dinesh Gupta, Founder & Chief Consultant, DSB Law Group

Reference: Governor's Statement on Developmental & Regulatory Policies (5 Aug 2026)

What Happened

RBI Governor Sanjay Malhotra confirmed on 5 August 2026 that draft on-tap licensing guidelines for UCBs will shortly be issued for stakeholder consultation, building on the discussion paper released in January 2026. Licensing has been frozen since 2004 after several UCBs turned financially unsound; the sector will now be opened on an ongoing basis, mirroring the approach used for universal banks.

Why Now

Sector gross NPAs fell to Rs. 21,769 crore as of 31 March 2026, a six-year low. The National Urban Cooperative Finance and Development Corporation, operational since February 2024, now supports technology, liquidity and capital mobilisation across UCBs, while governance has been strengthened through tighter board oversight and professional management norms.

What DSB Recommends

Prospective promoters should build capital adequacy, clean asset books and fit-and-proper governance well ahead of the draft norms. Existing UCBs should benchmark themselves against the proposed capital, CRAR and net NPA thresholds to stay competitive. DSB Law Group will issue a dedicated advisory once the guidelines are formally released.

22 yrs	Rs.300 cr	≤12%	≤3%
Licensing freeze since 2004	Capital Proposed minimum	Minimum CRAR required	net NPA ceiling

To know more: **Click Here**

> RBI's move to end the 22-year licensing freeze marks a decisive shift toward stronger, better-governed and more resilient Urban Co-operative Banks.

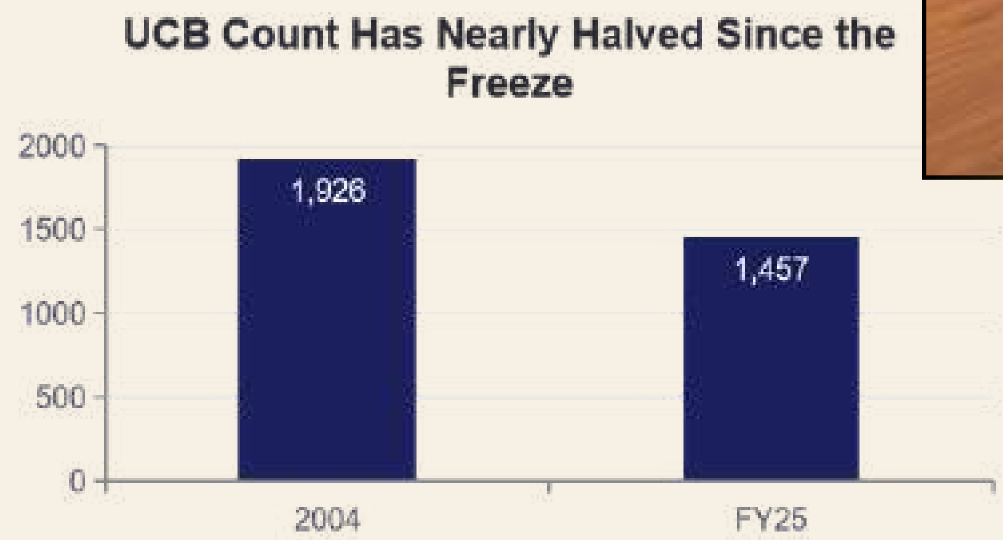
UCB Sector Snapshot
The Numbers Behind the Reform

Reference: RBI disclosure to Parliament; Amendment Directions, 2026

Asset Quality at a Six-Year Best
Sector GNPAs fell to Rs. 21,769 crore as of 31 March 2026, the lowest level in six years, per Parliament disclosures.

Lending Headroom Widened
RBI has proposed raising the unsecured advances ceiling for UCBs to 20% of total advances, from 10% of total assets earlier.

Governance Tenure Reform
A three-year cooling-off period is proposed for cooperative bank directors after ten consecutive years on the board, up from the earlier eight-year cap.



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1,457 UCBs stood at the end of March 2025, down from 1,926 in 2004, as RBI consolidation continued via mergers, closures, and licence cancellations.

Reopening the Door

New Eligibility Norms for Urban Co-operative Bank Licences

By CA Kanika Gupta, Chief Executive Officer, DSB Law Group, Delhi

Reference: Governor's Statement on Developmental & Regulatory Policies (5 Aug 2026)

Policy Shift

RBIis proposing new norms to reopen UCB licensing after nearly two decades. The 2004 freeze followed weak finances, governance lapses and rising NPAs, and was meant to stop sector-wide fragility from spreading. RBI now appears ready to admit tightly screened entrants under a stronger risk-based framework.

Key Requirements

Applicants will need Rs. 300 crore minimum capital, net NPAs below 3%, at least ten years of operations, strong governance and internal controls, proven capital adequacy and earnings strength, and fit-and-proper promoters with active board oversight.

Implications

Strong cooperatives could graduate into full banks, while smaller players may struggle to clear the bar. Disciplined lenders with cleaner books gain a credible path to banking status, and limited, carefully screened approvals should support depositor confidence.

Key Takeaways

For Regulators
Use stricter entry filters to protect depositor confidence; prioritise governance, capital strength and risk controls over volume; keep approvals limited to truly resilient institutions.

For UCBs
Strengthen capital, compliance and governance now; clean up NPAs and improve earnings quality before applying; only well-run, well-capitalised cooperatives are likely to qualify.

> Resuming bank licenses under stringent criteria ensures that only financially sound and well-governed entities enter the sector.

To know more: **Click Here**

Only 3 Co-ops meet ₹10,000 crore Deposit Eligibility for UCB Licences

By CS Megha Sharma, DSB Law Group, Pune

Reference: Governor's Statement on Developmental & Regulatory Policies (5 Aug 2026)

What's Happening

The Reserve Bank of India has proposed a minimum deposit base of ₹10,000 crore for Urban Co-operative Banks seeking an on-tap licence. Out of India's 1,342 currently active UCBs, only three institutions meet this proposed benchmark. This strict new proposal aims to ensure stronger financial soundness, better governance, and increased protection for depositors across the sector.

Why it matters

This regulatory shift raises the entry bar significantly for co-operative banking institutions. By setting a high deposit threshold, the policy actively encourages market consolidation and pushes banks to build much stronger balance sheets. These changes directly support the Reserve Bank of India's broader objective to establish a stable, well-capitalized, and secure co-operative banking sector.

DSB Insight

Higher thresholds will promote institutional quality rather than sheer quantity in future UCB licensing rounds. Urban Co-operative Banks currently falling below the mark should immediately focus their strategies on scale, governance, and compliance readiness. Ultimately, this proposed framework points toward greater market resilience, boosted depositor confidence, and structurally stronger institutions.

To know more:

Click Here

CRR & SLR Framework Updated
Amendment Directions, 2026

By CS Priyanka Chaturvedi, DSB Law Group, Bengaluru

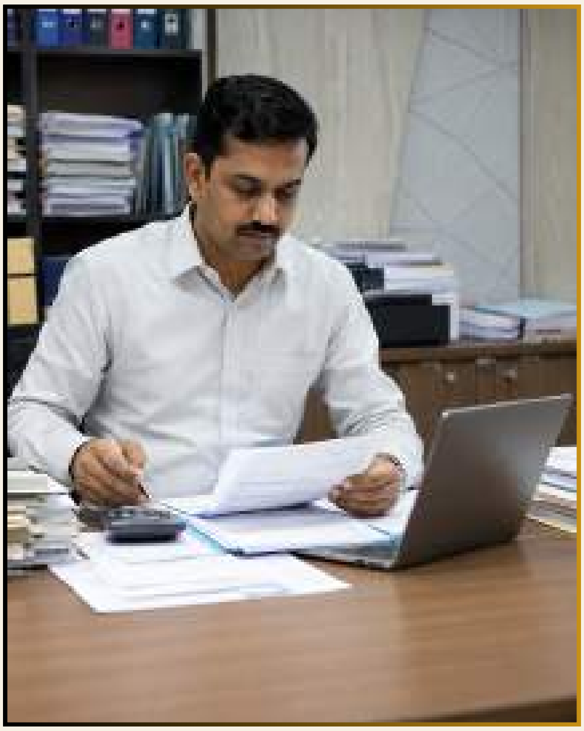
RBI Direction: CRR & SLR (Amendment) Directions for Urban Co-operative Banks, 2026

Why These Amendments Matter

The current amendments keep the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) frameworks fully aligned with modern institutional realities. The revised rules effectively remove outdated ambiguities, streamline regulatory reporting, and encourage institutional modernization within a rapidly evolving banking ecosystem. Ultimately, this forward-looking adjustment ensures that cooperative lenders can remain competitive, secure, and fully aligned with the central bank's overarching stability goals.

Core Framework Elements

The foundational architecture of the regulatory framework has been modernized to encompass a broader spectrum of financial entities. Notably, the list of recognized institutions has been expanded to include diverse development finance institutions, reflecting their growing role in the economy. To accommodate these changes, reporting formats across Annexes I, II, and III have been thoroughly updated to ensure meticulous and standardized data collection. Furthermore, a crucial new reporting item has been integrated to specifically capture deposits under the Standing Deposit Facility (SDF) Scheme, allowing regulators to track liquid balances with significantly higher precision.



Governance & Operational Focus

A primary objective of these updates is to drive enhanced transparency through rigorous data reporting and modernized reference standards. By adopting more dynamic regulatory language, the framework now seamlessly allows for notified adjustments, ensuring the system can adapt to macroeconomic shifts without requiring a complete structural overhaul. Clearer institutional classifications, including specific, updated operational criteria for major entities like IDBI Bank Limited; directly eliminate compliance confusion. Together, these strategic changes significantly improve day-to-day reporting accuracy, optimize operational compliance, and heighten the sector's responsiveness to evolving central bank policy tools.

To know more: **Click Here**

Strengthening Credit Discipline: UCB Credit Risk Management

By CS Yogesh Bochiwal, DSB Law Group, Jaipur

Focus Area: Credit appraisal and post-disbursement monitoring

Why It Matters

Thorough due diligence and robust borrower assessment support sound credit decisions. Active monitoring of exposures and portfolio diversification help detect financial stress early, safeguarding bank capital and reducing critical concentration risk.

Governance Expectations

Clear, transparent credit policies and absolute institutional accountability are essential prerequisites for maintaining long-term lending discipline across all branches. Boards of Directors, senior management executives, and independent internal review functions must exercise active, hands-on oversight at every stage of the credit lifecycle to prevent operational lapses, underwriting standard dilution, and compliance failures.

Implementation Focus

Urban Co-operative Banks must rigorously monitor borrower financial health, sector-specific risk exposure, and post-sanction repayment behaviour. Transitioning to continuous credit audits, enforcing stringent risk-mitigation controls, and deploying automated early-warning tracking mechanisms systematically reinforces lending discipline and protects the asset portfolio from deterioration.

Timely Repayment Culture: Encourages on-time EMIs and builds credibility.

Creditworthiness Awareness: Know your score and protect your profile.

Regular Monitoring & Reporting: Consistent tracking keeps records current.

Transparent Lending Practices: Clear terms build trust and reduce disputes.

Strict Action on Defaults: Firm consequences deter delays and default.

Enhancing underwriting standards and credit monitoring reduces asset-deterioration risk across UCB loan portfolios.

Evolving Compliance Landscape for UCBs

By Dinesh Gupta, Founder & Chief Consultant, DSB Law Group

Nature: DSB commentary on the cumulative effect of 2026 UCB regulatory amendments

Flexibility

Phrases such as "as notified" embedded within the regulatory guidelines provide the necessary operational elasticity. This structural room allows the compliance framework to dynamically adapt to sudden policy amendments, evolving market conditions, and the immediate introduction of novel financial instruments without requiring a complete overhaul of existing bank systems.

Monetary Policy Integration

The mandatory incorporation of reporting protocols for the Standing Deposit Facility (SDF) serves to align cooperative entities with national financial benchmarks. This integration brings contemporary, real-time monetary-policy tools directly into the core UCB compliance matrix, ensuring synchronized liquidity management across the banking ecosystem.

Sector Strengthening

On a macro level, these cumulative regulatory amendments systematically reinforce the structural foundations of the co-operative banking sector. By establishing rigid compliance baselines, the policies foster systemic stability, cultivate deeper public trust, and build a resilient framework that accelerates sustainable financial inclusion at the grassroots level.

UCBs should treat these amendments as a governance opportunity, not merely a compliance update, strengthening policies, reporting controls and Board oversight to remain responsive to evolving regulatory and monetary-policy requirements.

OUR VOICES

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ABOUT US

DSB Law Group Pvt. Ltd.

Trusted Legal Advisors. Strategic Business Partners.

A Legacy of Growth and Expertise

Founded in 1967, DSB Law Group has evolved from a specialized taxation practice into a full-service legal and business advisory firm with expertise across corporate law, banking, NBFC regulations, governance, and compliance. Combining legal precision with strategic insight, the firm delivers practical, tailored solutions that help businesses navigate regulatory complexities, strengthen operations, scale sustainably, and create long-term value.

With a strong presence in Punjab for over 25 years, DSB Law Group has been closely associated with the growth and regulatory journey of Co-operative Banks and financial institutions.

Our key areas of support include:

- Co-operative Bank mergers
- RBI regulatory advisory
- Regulatory compliance
- Policy formulation and policy regulation
- Preparation of regulatory and operational documents
- Governance frameworks
- Product designing and structuring
- Business Correspondent frameworks
- Internal audits
- Concurrent audits
- Compliance reviews
- Regulatory and operational policy development

Through this integrated approach, DSB Law Group helps Co-operative Banks strengthen governance, improve operational efficiency, respond effectively to evolving RBI requirements, and build resilient and compliant banking institutions.

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