CRAR of urban co-operative banks to be hiked

RBI move will strengthen the capital base of those with deposits of ₹100 crore and above and align it with commercial banks'

OUR BUREAU

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The Reserve Bank of India (RBI) has decided to increase the capital to risk-weighted assets ratio (CRAR) for urban co-operative banks (UCBs) with deposits of ₹100 crore and above under the current capital adequacy framework to 12 per cent to strengthen their capital structure.

This will align UCBs' capital structures with those of commercial banks. Currently, UCBs have been mandated to maintain a minimum CRAR of 9 per cent on an ongoing basis under the Basel-I Framework.

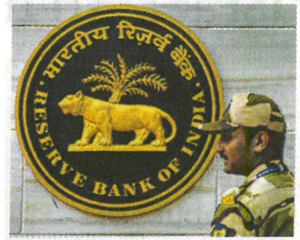
The increase in CRAR requirement, which is based on the recommendations of the Expert Committee on Urban Co-operative Banks (Chairman: NS Vishwanathan, former Deputy Governor, RBI), is reasonable as these UCBs do not have a full capital charge for market risk and currently maintain no capital charge for operational risk, the central bank said.

As per the data reported by the banks as on March 31, 2021, most UCBs have a CRAR of more than 12 per cent (1,274 banks out of 1,534).

Glide path

Banks that do not meet the revised CRAR will be provided with a glide path of three years to achieve the same in a phased manner—achieve 10 per cent CRAR by the end of FY24; 11 per cent by the end of FY25; and 12 per cent by the end of FY26.

The minimum CRAR requirement for Tier 1 banks (with deposits up to ₹100 crore) has been retained at the present prescription of 9 per cent under the current capital adequacy framework based on Basel I. The RBI has decided to accept the Committee recommendation to adopt a simple four-tiered regulatory framework based on deposit size—Tier 1 UCB (up to ₹100 crore); Tier 2 (more than ₹100 crore and up to ₹1,000 crore); Tier 3 (more than ₹1,000 crore and up to ₹10,000 crore); and Tier 4 (more than ₹10,000 crore)—with differentiated regulatory prescriptions aimed at strengthening the financial soundness of the existing UCBs.



Specifically, a minimum net worth of ₹2 crore for Tier 1 UCBs operating in a single district and ₹5 crore for all other UCBs (of all tiers) has been stipulated. The RBI said that this is expected to strengthen the financial resilience of the banks and enhance their ability to fund their growth.

As per the data reported by UCBs to the RBI as on March 31, 2021, most of the banks already comply with the minimum net worth requirement. The UCBs, which do not meet the requirement, will be provided a glide path of five years with intermediate milestones to facilitate a smooth transition to revised norms.

Automatic route

In order to boost growth opportunities in the sector, the central bank will introduce an automatic route for branch expansion for UCBs which meet the revised Financially Sound and Well Managed (FSWM) criteria and permit them to open new branches of up to 10 per cent of the number of branches as at the end of the previous financial year.

While the branch expansion proposals under the prior approval route will also continue to be examined as hitherto, the process will be simplified to reduce the time taken for granting approvals for opening new branches. In respect of housing loans, RBI has decided to assign the risk weights on the basis of the Loan to Value (LTV) Ratio alone, which would result in capital savings for all tiers of UCBs.

UCBs' revaluation reserves will be considered for inclusion in Tier 1 capital subject to an applicable discount on the lines of scheduled commercial banks.

RBI, however, did not accept the committee's recommendation to relax the target dates for achieving Priority Sector Lending (PSL) and small value loans for UCBs with deposits of over ₹100 crore. A revised Supervisory Action Framework for UCBs will be issued, keeping in view the recommendations.

The committee's recommendations relating to UCBs under RBI's All Inclusive Directions; compulsory amalgamation or reconstruction; withdrawal of guidelines on the constitution of the Board of Management, among others, are under examination.

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