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Urban Cooperative Banks in India: Regulation and Structure

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Urban Cooperative Banks in India: Regulation and Structure

This lesson explains who regulates Urban Cooperative Banks (UCBs) in India. It covers the law, the 2020 Act, the four tiers and the PMC Bank case. It also covers deposit insurance and the exam traps. Facts run to 8 October 2026.

Must know: who regulates UCBs and why

1 What is an Urban Cooperative Bank, and who regulates it?

Urban Cooperative Banks (UCBs) are primary cooperative banks. RBI says they are registered as cooperative societies. The registration is under a State Cooperative Societies Act or the Multi State Cooperative Societies Act, 2002.



The Reserve Bank of India tower in Mumbai. RBI regulates the banking functions of UCBs. Photo: Pinakpani, Wikimedia Commons, CC BY-SA 4.0.

RBI’s history page says the term UCB is not formally defined. It refers to primary cooperative banks in urban and semi-urban areas.

Who looks after the society side?

The Registrar of Cooperative Societies (RCS) of the state, or the Central Registrar (CRCS), regulates and supervises a UCB. Which one applies depends on the case.

RBI's history page lists registration, management, audit and liquidation as State matters. They follow the respective State Acts.

Who looks after the banking side?

The Reserve Bank regulates and supervises the banking functions of UCBs. It does so under the Banking Regulation Act, 1949.

- RBI's Urban Banks Department has been given this work.
- RBI issues licences to UCBs under Sections 22 and 23 of the Act.
- RBI prescribes prudential norms, such as capital adequacy and asset classification.
- RBI's history page lists licensing, area of operations and interest rates as RBI matters.

What is "duality of control"?

RBI says banking laws have applied to cooperative societies since 1 March 1966. That brought "duality of control" over UCBs. The two controllers are the Registrars and RBI.

Is a "local board" the regulator?

No. RBI's page names only the Registrars and RBI. It does not name local boards set up by State Governments.

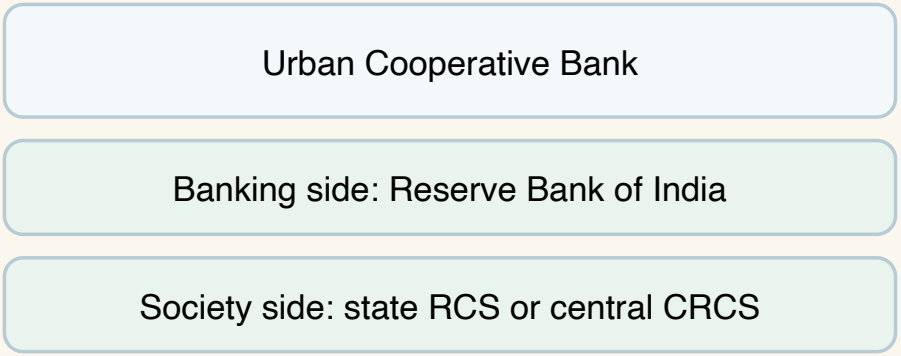


Illustration: Two controllers, one bank.

> **Quick check 1.** Local boards set up by State Governments regulate the banking functions of UCBs. *(True or False?)* See answer ↓

Sources: rbi.org.in

2 Why do both the Union and the States have a say over cooperative banks?

The Constitution splits the subject between two lists. The Supreme Court explained this on 5 May 2020. The case was Pandurang Ganpati Chaugule v. Vishwasrao Patil Murgud Sahakari Bank.

Which entries matter?

- **Entry 45 of List I** covers “banking”. List I is the Union List.
- **Entry 32 of List II** covers “incorporation, regulation and winding up” of cooperative societies. List II is the State List.

What did the Supreme Court hold?

- Cooperative banks are governed by law under Entry 45 of List I, as far as “banking” goes.
- Matters outside banking, such as incorporation, regulation and winding up, relate to Entry 32 of List II.
- Cooperative banks are covered by the term “banking company” in Section 5(c) read with Section 56 of the Banking Regulation Act.
- The SARFAESI Act applies to cooperative banks.

Does Part IXB reach every cooperative?

On 20 July 2021, the Supreme Court decided Union of India v. Rajendra N. Shah. It said Part IXB of the Constitution is operative only as far as multi-State cooperative societies are concerned.

What legal question did the 2020 Bill raise?

The PRS brief asked whether regulating management, audit, capital and winding up is part of regulating “banking”. The brief links this to whether Parliament can legislate on it.

Sources: api.sci.gov.in; prsindia.org

3 How did UCBs begin, and when did banking law apply to them?

RBI’s history page traces UCBs to the close of the nineteenth century. It says the movement was inspired by the cooperative movement in Britain and the cooperative credit movement in Germany.

What was the Anyonya Sahakari Mandali?

RBI's page says the first known mutual aid society in India was probably the Anyonya Sahakari Mandali. It was organised in the princely State of Baroda in 1889. The page calls it a mutual aid society.

When did urban credit societies start?

- The Cooperative Credit Societies Act, 1904 gave the real impetus, says RBI's page.
- The page says the first urban cooperative credit society was registered in Canjeevaram (Kanjivaram) in the Madras province. The month was October 1904.
- The Bombay Urban Co-operative Credit Society was established on 23 January 1906.
- The Government of India Act, 1919 transferred "Cooperation" from the Government of India to the Provincial Governments.

When did the Banking Regulation Act apply?

RBI's history page says large cooperative banks with paid-up share capital and reserves of Rs 1 lakh came under the Act. This was with effect from 1 March 1966. RBI's Urban Banks page also dates duality of control from 1 March 1966.

What came in 1968?

RBI's history page says UCBs were extended the benefits of deposit insurance in 1968.

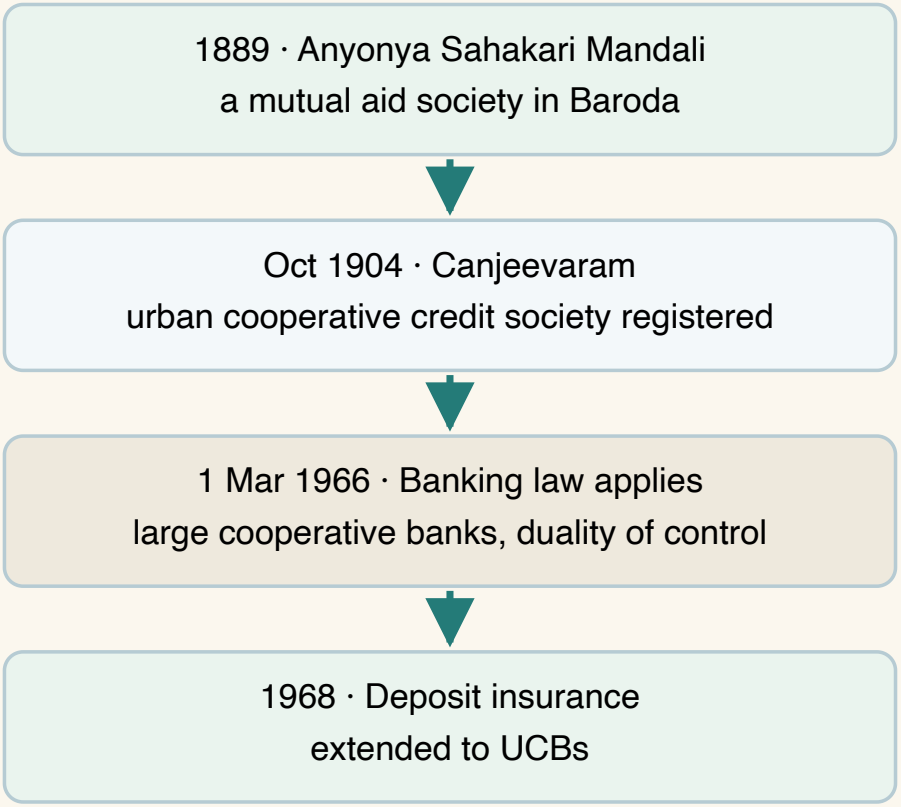


Illustration: Dates as given on RBI's history page.

> **Quick check 2.** Banking laws have applied to cooperative societies since 1 March 1966. *(True or False?)* See answer ↓

Sources: rbi.org.in

Good to know: PMC Bank, the 2020 Act and the tiers

4 What happened at PMC Bank, and why does it matter?

On 23 September 2019, RBI issued directions to the Punjab and Maharashtra Co-operative Bank Ltd (PMC Bank). RBI used its powers under Section 35A of the Banking Regulation Act.

What did the directions say?

- Depositors could withdraw no more than Rs 1,000 from each account.
- The directions were to stay in force for six months.
- RBI said the directions should not, by themselves, be read as a cancellation of the banking licence.
- The bank continued banking business, with restrictions.

How is PMC Bank linked to the 2020 law?

The PRS brief says the Finance Minister discussed the need for the Bill. The Minister highlighted the PMC Bank crisis. The Bill replaced the Ordinance promulgated on 26 June 2020.

How did the PMC Bank case end?

The Government sanctioned a scheme to amalgamate PMC Bank with Unity Small Finance Bank Ltd. It came into force on 25 January 2022. All PMC Bank branches then worked as Unity Small Finance Bank branches.

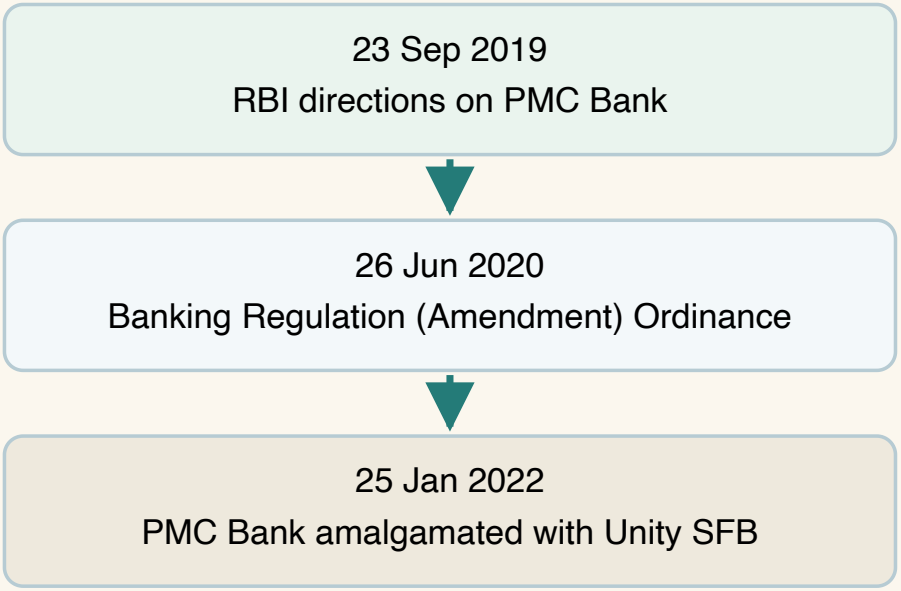


Illustration: Three steps, in order.

> **Quick check 3.** RBI cancelled the licence of PMC Bank on 23 September 2019. *(True or False?)* See answer ↓

Sources: rbi.org.in; prsindia.org

5 What did the Banking Regulation (Amendment) Act, 2020 change?

The Banking Regulation (Amendment) Act, 2020 is Act No. 39 of 2020. It is dated 29 September 2020. It is deemed to have come into force on 26 June 2020.

Section 4, as it relates to primary cooperative banks, is deemed in force from 29 June 2020.

What new power came on capital?

With RBI's prior approval, a cooperative bank may issue equity shares, preference shares or special shares. It may also issue unsecured debentures or bonds with an initial maturity of not less than ten years.

These can go to a member or to any other person residing within its area of operation.

What changed on mergers?

The change amended Section 45 of the Banking Regulation Act. It enables a scheme of reconstruction or amalgamation even without an order of moratorium.

What did not change?

- The amendments do not affect the existing powers of State Registrars under state cooperative laws.
- They do not apply to Primary Agricultural Credit Societies.

Did RBI gain "direct supervisory power" in 2020?

No. RBI regulated the banking functions of UCBs from 1 March 1966. The 2020 Act added powers, among them on capital and on reconstruction or amalgamation.

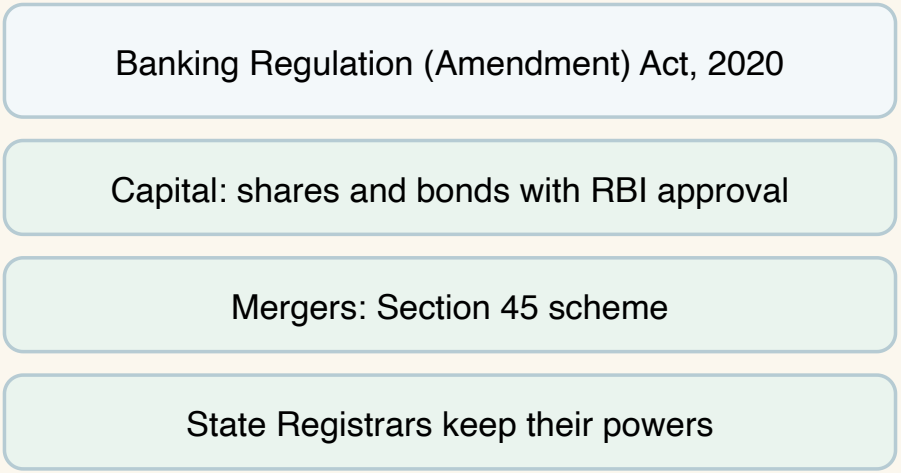


Illustration: Three points from the Act and the PIB note on the Ordinance.

> **Quick check 4.** The 2020 changes to Section 45 allow a scheme of reconstruction or amalgamation even without an order of moratorium. *(True or False?)* See answer ↓

Sources: PRSINDIA.org; pib.gov.in; rbi.org.in

6 How do the four tiers of UCBs work?

RBI released the Revised Regulatory Framework for UCBs on 19 July 2022. It came from the Expert Committee on UCBs. N. S. Vishwanathan, a former Deputy Governor of RBI, chaired the Committee. RBI constituted it on 15 February 2021.

RBI circulars of 1 December 2022 adopted a four-tiered framework. It replaced the two-tiered framework.

Which UCB sits in which tier?

Tier	UCBs in the tier
Tier 1	All unit UCBs and salary earners' UCBs, whatever their deposits. All other UCBs with deposits up to Rs 100 crore.
Tier 2	Deposits above Rs 100 crore, up to Rs 1,000 crore.
Tier 3	Deposits above Rs 1,000 crore, up to Rs 10,000 crore.
Tier 4	Deposits above Rs 10,000 crore.

Deposits are reckoned from the audited balance sheet as on 31 March of the previous financial year. A UCB that moves to a higher tier may get a glide path of up to three years.

What minimum capital must each tier keep?

Tier	Minimum CRAR	Minimum net worth
Tier 1	9 per cent	Rs 2 crore if it operates in a single district. Rs 5 crore otherwise.
Tiers 2 to 4	12 per cent	Rs 5 crore

What glide paths did the circulars set?

- A UCB below the net worth norm must reach at least 50 per cent of it by 31 March 2026. It must reach all of it by 31 March 2028.

- A Tier 2 to 4 UCB below 12 per cent CRAR was to reach 10 per cent by 31 March 2024. The next steps were 11 per cent by 31 March 2025 and 12 per cent by 31 March 2026.
- Revaluation reserves may count as Tier 1 capital at a discount of 55 per cent, if conditions are met.

What else came with the framework?

RBI’s release added an automatic route for branch expansion. It is for UCBs that meet the revised Financially Sound and Well Managed (FSWM) criteria. They may open new branches up to 10 per cent of the number of branches at the end of the previous financial year.

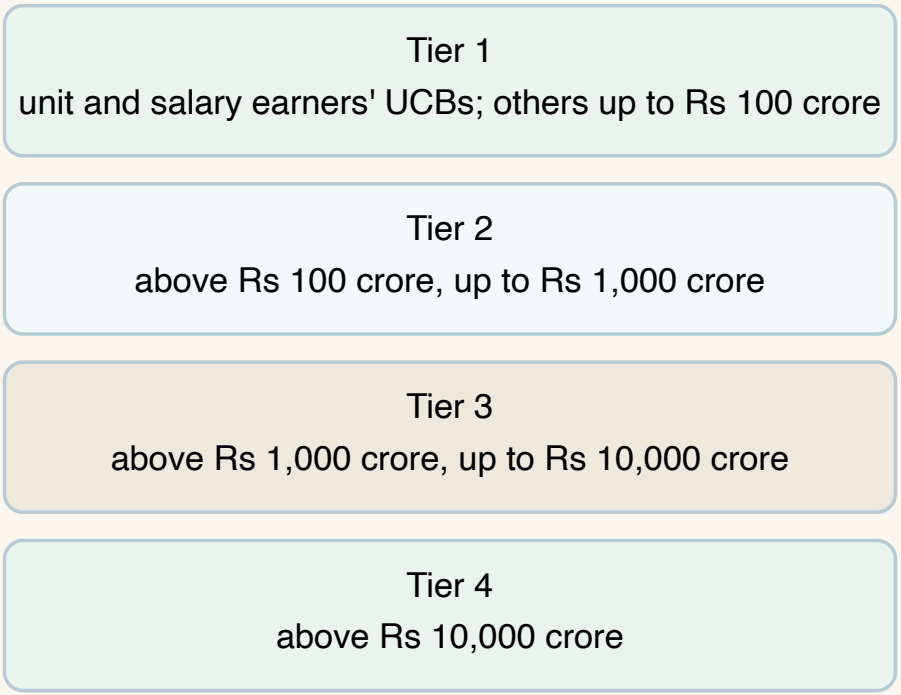


Illustration: Tiers by deposit size, as in RBI's circular.

Quick check 5. Tier 1 UCBs must keep a minimum CRAR of 12 per cent. *(True or False?)* See answer ↓

Sources: rbi.org.in

7 What did the Malegam Committee suggest about new UCB licences?

RBI placed the Report of the Expert Committee on Licensing of New UCBs on its website on 12 September 2011. Y. H. Malegam chaired the Committee. RBI asked for comments by 31 October 2011.

What did the Committee propose?

- **Entry capital** from Rs 50 lakh up to Rs 500 lakh, depending on the category of the UCB.
- **A Board of Management** in addition to the Board of Directors.
- **Two separate Umbrella Organizations** for the sector.

The top figure of Rs 500 lakh was for a UCB that wishes to operate in more than one State. This was after five years of successful operations.

Have new UCB licences been issued lately?

PIB said on 7 August 2024 that new licences have not been issued since 2004 for UCBs. That was the position in August 2024.

Sources: rbi.org.in; pib.gov.in

Current affairs: newer rules, bodies and limits

8 What newer rules, bodies and limits apply to UCBs?

What is NUCFDC?

PIB's note of 10 February 2026 says NUCFDC is a non-deposit taking NBFC. It was set up as an Umbrella Organization for UCBs. It provides Information Technology infrastructure and operational support.

PIB's note of 7 August 2024 says RBI gave in-principle approval to NAFCUB to set up the Umbrella Organization as an NBFC. It says NUCFDC obtained registration from RBI on 8 February 2024. It adds that the Vishwanathan committee recommended a strong apex entity for UCBs.

What are the priority sector targets?

RBI's Master Direction sets UCB targets as a share of ANBC or CEOBSE, whichever is higher.

- Total priority sector: 60 per cent.
- Micro enterprises: 7.5 per cent.

- Advances to weaker sections: 12 per cent.

In June 2023, RBI extended the timeline for UCBs to meet these targets by two years, up to 31 March 2026. The 60 per cent deadline of 31 March 2023 moved to 31 March 2024.

How much deposit insurance do depositors get?

DICGC insures deposits up to Rs 5,00,000 per depositor per bank, for principal and interest. PIB says this holds for all cooperative banks. RBI's FAQ adds that the cover is for the same right and capacity.

How can two UCBs merge by choice?

RBI issued the UCB Voluntary Amalgamation Directions, 2025 on 28 November 2025.

- RBI considers only proposals where the amalgamating UCB protects all deposits of the amalgamated UCB.
- The CRAR of the amalgamating UCB after the merger must meet the minimum.
- Two-thirds of the total Board members of both UCBs must approve the decision.

Sources: pib.gov.in; rbi.org.in

Exam practice: traps and PYQ

9 Which traps and which question matter for the exam?

What are the common traps?

- **Local boards.** RBI's page names the Registrars and RBI as the two authorities.

- **1966 and 2020.** Banking laws applied from 1 March 1966. The 2020 Act added powers, among them on capital and on amalgamation.
- **Two tiers or four.** RBI's older page groups UCBs under two tiers. The circulars of 1 December 2022 adopted four.
- **PMC Bank.** The directions of 23 September 2019 were not a cancellation of licence.
- **Anyonya.** RBI's page calls it a mutual aid society.
- **Constitution.** "Banking" is Entry 45 of List I. Incorporation, regulation and winding up of cooperatives is Entry 32 of List II.

Who handles which side?

Authority	What it handles
RBI	Licensing, banking functions and prudential norms.
State RCS or CRCS	Registration, management, audit and liquidation.

What did UPSC ask in 2021?

UPSC's official answer key for Series A gives option (b), 2 and 3 only. Statement 1 does not match RBI's page. Statement 2 matches the 2020 Act, with RBI's prior approval. RBI says banking law applied from 1 March 1966.

The full paper is at UPSC CSP 2021 General Studies Paper I.

Sources: rbi.org.in; PRSINDIA.org; api.sci.gov.in; upsc.gov.in; pib.gov.in

Review the feedback after each answer. The understanding-check score lasts for this page session.

Reset the checks when you want another attempt. This score is separate from the Native Practice score below.

Questions to think through

If RBI handles banking, what is left for the State Registrar?

RBI's history page puts registration, management, audit and liquidation with the State Governments. The 2020 amendments do not affect the existing powers of State Registrars.

Was the licence of PMC Bank cancelled in 2019?

No. RBI said the directions of 23 September 2019 should not, by themselves, be read as a cancellation of licence. The bank joined Unity Small Finance Bank on 25 January 2022.

Can a Tier 1 and a Tier 3 UCB face different capital rules?

Yes. Tier 1 UCBs keep a minimum CRAR of 9 per cent. Tier 2 to 4 UCBs keep 12 per cent.

Which Constitution entries explain dual control?

Banking sits in Entry 45 of List I. Incorporation, regulation and winding up of cooperatives sit in Entry 32 of List II. The Supreme Court set this out on 5 May 2020.

Practice MCQs

1. Which authority regulates the actual banking functions of Urban Cooperative Banks (UCBs) in India, such as licensing and capital adequacy?

A. NABARD

B. State Registrar of Cooperative Societies

C. SEBI

D. Reserve Bank of India

See answer ↓

2. The Banking Regulation Act, 1949 was extended to cooperative banks, including Urban Cooperative Banks, with effect from which date?

A. 26 June 2020

B. 1 March 1966

C. 1 April 1949

D. 19 July 2022

See answer ↓

3. Under the Banking Regulation (Amendment) Act, 2020, what new capital-raising power did Urban Cooperative Banks gain?

A. Issuing equity and preference shares, with the RBI's prior approval

B. Borrowing unlimited amounts from NABARD without collateral

C. Issuing government-guaranteed bonds without RBI approval

D. Directly listing their shares on a stock exchange

See answer ↓

4. The Banking Regulation (Amendment) Act, 2020 followed the crisis at which cooperative bank?

A. Yes Bank

B. Punjab and Maharashtra Co-operative (PMC) Bank

C. Lakshmi Vilas Bank

D. IL&FS

See answer ↓

5. Which statement best describes RBI's Revised Regulatory Framework for Urban Cooperative Banks, released on 19 July 2022?

A. Four tiers, sorted by deposit size

B. Three tiers, sorted by branch count

C. It abolished all UCB categories

D. It applies only to multi-state cooperative banks

See answer ↓

6. In the Seventh Schedule, which entry covers "banking"?

A. Entry 45 of List I, the Union List.

B. Entry 32 of List II, the State List.

C. Entry 45 of List II, the State List.

D. Entry 32 of List I, the Union List.

See answer ↓

7. DICGC insures a depositor's principal and interest in one bank up to which maximum amount?

A. Rs 3,00,000

B. Rs 8,00,000

C. Rs 1,00,000

D. Rs 5,00,000

See answer ↓

Answer Key

1. **D.** The correct answer is the Reserve Bank of India. RBI says it regulates and supervises the banking functions of UCBs. It does so under the Banking Regulation Act, 1949. RBI issues their licences under Sections 22 and 23 of the Act. It also prescribes norms such as capital adequacy. The state or central Registrar handles the society side. RBI's history page lists registration, management, audit and liquidation as State matters. ↑ Q1
2. **B.** The correct answer is 1 March 1966. RBI's Urban Banks page says banking laws have applied to cooperative societies since 1 March 1966. RBI's history page says large cooperative banks came under the Banking Regulation Act from that date. The date 26 June 2020 belongs to the 2020 Act, which is deemed in force from then. The date 19 July 2022 is when RBI released its revised framework. ↑ Q2
3. **A.** The correct answer is issuing equity and preference shares, with the RBI's prior approval. Section 12 of the Banking Regulation Act, as amended in 2020, allows this. The same section covers unsecured debentures or bonds of initial maturity not less than ten years. Every such issue needs RBI's prior approval. The shares go to a member or a person residing within the bank's area of operation. The PRS brief also says the Bill enables cooperative banks to issue equity shares. ↑ Q3
4. **B.** The correct answer is the Punjab and Maharashtra Co-operative (PMC) Bank. The PRS brief says the Finance Minister introduced the Bill to protect depositors' interest. He highlighted the crisis at the Punjab and Maharashtra Co-operative Bank. RBI already regulated the banking functions of UCBs from 1 March 1966. The 2020 Act added powers on capital and on reconstruction or amalgamation. ↑ Q4
5. **A.** The correct answer is four tiers, sorted by deposit size. RBI released the Revised Regulatory Framework on 19 July 2022. RBI's circular of 1 December 2022 adopted a four-tiered framework instead of the two-tiered one. Its annex sorts UCBs by deposits. So 19 July 2022 is the release date. The circulars of 1 December 2022 adopted the framework. ↑ Q5

6. **A.** The correct answer is Entry 45 of List I, the Union List. The Supreme Court judgment of 5 May 2020 says cooperative banks are governed by law under Entry 45 of List I. This holds as far as banking goes. It places incorporation, regulation and winding up of cooperative societies under Entry 32 of List II. The PRS brief names the same two entries. ↑ Q6
7. **D.** The correct answer is Rs 5,00,000. RBI's FAQ says each depositor in a bank is insured up to a maximum of Rs 5,00,000. This covers principal and interest held in the same right and capacity. PIB's note of 10 February 2026 says DICGC insures deposits up to Rs 5,00,000 per depositor per bank. It says this holds for all cooperative banks. ↑ Q7

Quick-check answers

1. **False.** RBI regulates the banking functions of UCBs under the Banking Regulation Act, 1949. RBI's page names only the Registrars and RBI. ↑ 1
2. **True.** RBI's Urban Banks page and RBI's history page both give 1 March 1966. ↑ 2
3. **False.** RBI issued directions on 23 September 2019. RBI said they should not, by themselves, be read as a cancellation of the banking licence. ↑ 3
4. **True.** PIB's note of 27 June 2020 says the Section 45 amendment enables such a scheme even without making an order of moratorium. ↑ 4
5. **False.** Tier 1 UCBs keep 9 per cent. Tier 2 to 4 UCBs keep 12 per cent. ↑ 5

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