

Recommendations of the High Power Committee - Review of Branch Licensing Policy

BL(PCB)No.47/ 07.01.00 / 2000-1

April 26, 2001
Vaisakha 6,1923(S)

Chief Executive Officers of
Primary (Urban) Co-operative Banks
(except Salary Earners' Banks)

Dear Sir,

Recommendations of the High Power Committee - Review of Branch Licensing Policy

Reserve Bank of India had constituted a High Power Committee on Urban Co-operative Banks (UCBs) under the Chairmanship of Shri K. Madhava Rao, to review the performance of UCBs and suggest necessary measures to strengthen them. One of the terms of reference to the Committee was to review the existing policy relating to branch licensing of UCBs. The recommendations made by the Committee in this regard have been examined. Based on these recommendations, Branch Licensing Policy has been revised and is given in the following paragraphs:

2. Licensed urban co-operative banks, which are not classified as weak/sick may apply for allotment of centres under the Annual Action Plan (AAP) to Urban Banks Department, Central Office, Reserve Bank of India, Mumbai. The Annual Action Plan will be for a period of twelve months beginning 1st April of the year. Before applying for allotment of centres the urban banks should ensure that they satisfy the following criteria.

- i. Capital to Risk Assets Ratio (CRAR) of banks should not be less than that prescribed by RBI from time to time. (This condition will come into force only after application of CRAR to UCBs);
- ii. Banks should have posted net profits during each of the preceding 2 years;
- iii. their net NPAs should be less than 10% of their net loans and advances as on the last balance sheet date and they should have made requisite provisions as per RBI guidelines;
- iv. Banks should have achieved the target prescribed by RBI for priority sector advances;
- v. Banks should have demonstrated track record of compliance with provisions of B.R. Act 1949 (AACS), R.B.I. Act, 1934 and the instructions/ directions issued by RBI from time to time. They should maintain requisite level of CRR and SLR and also ensure timely submission of statutory and other returns.

3. Banks which have been organised as unit banks and have been extended relaxation in the entry point capital (Please see RBI circular UBD.No.1/08.00.00/ 2000-01, dated 30 August 2000) would be eligible to open branches only after augmenting their owned funds to the level required for opening a new bank (other than a unit bank) at the place where the bank was organised or where the branch is desired to be opened, whichever is higher. For instance, if a unit bank was organised at category `D' centre and it intends to open a branch at `B' category centre, such a bank's owned funds should necessarily be raised to entry point capital prescribed for `B' category centre.

4. Similarly if a bank, other than a unit bank, desires to open a branch at a higher category centre than the centre at which it was established within the district of its registration, the owned funds of

the bank should atleast be equivalent to the entry point capital prescribed for that centre. Illustratively, if a bank situated at `C' category centre intends to open a branch at `B' category centre, in the same district, its owned funds should be equivalent to the entry point capital prescribed for `B' category centre. Further, an Urban Co-operative Bank which desires to open a branch at a centre other than its district of registration but within the state of registration, must have owned funds not less than the entry point capital applicable for organisation of a new Urban Co-operative Bank (other than a unit bank) at the highest category centre in that State. Illustratively, if a bank registered in district `X' desires to open a branch in district `Y' within the state of registration then its owned funds should not be less than the entry point capital applicable for highest category centre in the State.

5. As some of the existing banks may not be in a position to immediately augment their owned funds to the desired level for being eligible for branch expansion such banks will be allotted centres on restricted basis on their complying with entry point norms prescribed vide our circular UBD.No.RCS. NBL.4/08.00.00/ 97-98 dated 21 March 1998. However, they will have to raise their owned funds to the prescribed level (Please see our circular UBD.No.1 /08.00.00/2000-01 dated 30 August 2000) by 31 March 2003, failing which they will not be eligible for further branch expansion.

6. Urban co-operative banks which satisfy the norms indicated above, may prepare Annual Action Plans for opening new branches / upgradation of extension counters into full fledged branches for the next 12 months, with the approval of their Boards of Directors. Their applications should be forwarded along with annexure I, II and III (enclosed to this circular) to the Central Office of the Urban Banks Department, Mumbai with a copy to the concerned Regional Office of Urban Banks Department. Annexure III indicating classification of assets and provisions made against non-performing assets should be duly certified by statutory auditors or Chartered Accountants. On scrutiny of Action Plans and other information/ particulars, banks which comply with our prescribed norms would be allotted centres for opening of branches.

7. It has been observed that some banks open extension counters without complying with the norms laid down in this regard and subsequently approach Reserve Bank of India for upgradation of the same into full-fledged branches. It has been decided that in future, such banks would not be allotted centres unless they close unauthorised extension counters. Further, a centre where a bank has opened an unauthorised extension counter, such a centre would not be considered for opening a branch in future.

8. Scheduled urban co-operative banks which comply with the norms indicated at para 2 above, may open mobile/ satellite offices. Such of the scheduled UCBs, which desire to open mobile/satellite offices may indicate the same in annexure II along with other centres where they intend to open branches.

9. Banks have been making frequent requests for change of allotted centres due to various reasons. In order to give more flexibility to banks in this regard, it has been decided that henceforth banks need not indicate the exact address of the proposed branch in the Annual Action Plan but only indicate the name of the town/city within their area of operation, in the order of their preference, where they desire to open branches. Centres would be allotted strictly in the order of preference given by banks. However, once a centre is allotted no request for change in the allotted centre would be entertained. Banks are, therefore, requested to choose the centres at which they wish to open branches after careful consideration of business potential and availability of premises at such centres. After making arrangements for opening of branch/es, banks should approach the concerned Regional Offices of Urban Banks Department under whose jurisdiction they operate, in form V, indicating the exact postal address of the place where the branch is to be opened, for issuance of licence within a period of 6 months from the date of allotment of the centre. Similarly, banks are required to open branches within the validity period of the licence. No request for extension of time will be entertained except in the circumstances beyond the control of the banks.

10. It has also been observed that some of the urban co-operative banks have been submitting separate applications for each centre. It may be carefully noted that all centres where a bank desires to open branches under the AAP should be indicated in Annexure II enclosed to this circular and only one application need be sent. Similarly some of the banks are submitting

statements/ Annexures which are not required/ called for. Banks are, therefore, advised to submit only the requisite information/ data indicated in this circular.

11. It may be carefully noted that in case the information/particulars furnished by a bank is found to be incorrect, Reserve Bank of India would take a serious view in the matter and the bank would be liable for penal action, including debarring it from allotment of centres for the next 3 years.

12. This circular supersedes our previous instructions contained in circulars UBD No.RBL(PCB)38/07.01.00/95-96 dated 8 January,1996 and circular UBD. No. BL (PCB) 45/07.01.00/ 95-96 dated 23 February, 1996.

Yours faithfully,

[M.M.S. Rekhrao]

Chief General Manager

Encl. As above