

The [Reserve Bank of India](#) (RBI) has allowed for the voluntary transition of large multi-State [urban cooperative banks](#) (UCBs) into joint-stock companies. It has also allowed other UCBs that meet certain criteria to become Small [Finance Banks](#) (SFBs).

The High-Powered Committee on [Urban Cooperative Banks](#) (UCB), chaired by R Gandhi, the then Deputy Governor of Reserve Bank, had recommended the same in August 2015. Taking these recommendations into consideration, it has been decided to allow the voluntary transition of UCBs meeting the prescribed criteria into SFBs, said the central bank in its 'Statement on Developmental and Regulatory Policies'.

“Demand from some quarters (was) that we must allow them (UCBs) to corporatise. Since SFBs also have the same mandate of ‘financial inclusion’ as part of their fundamental business model, we will come out with a detailed scheme on this conversion of UCBs into SFBs,” said [RBI](#) Deputy Governor N S Vishwanathan at the Monetary Policy press conference. The small [finance](#) banks are required to extend 75 per cent of their Adjusted Net Bank Credit (ANBC) to the priority sector lending (PSL).

“Though UCBs were set-up as small banks offering banking services to people of small means belonging to the lower and middle classes, a well laid out transition path is required for at least the larger UCBs to convert themselves into universal/ niche commercial banks due to the changing financial landscape in the country and providing further growth opportunity to well managed UCBs, said the R Gandhi report.

The report also said that the aspirations of large UCBs should be kept in check. The other key considerations are conflicts of interest, the decline in cooperativeness, regulatory arbitrage, limitations on raising capital, limited resolution powers of RBI, the capital structure of UCBs and opportunities for growth that will accrue after such conversions.

Co-operative banks (UCB) operate under a 'dual control' regime with supervision of both the [RBI](#) and the State Governments. The report highlighted that the weak resolution regime with respect to UCBs and non-availability of powers to the [RBI](#) to regulate and supervise UCBs at par with commercial banks restrains RBI from relaxing regulatory regimes, which in turn is a hurdle for UCB's commercialisation.

The report had recommended that the growth of the sector has to be in a carefully calibrated manner, consistent with the legal framework and regulatory parameters and their limitations.