6. Governance in Urban Cooperative Banks – Polity

The Union Minister of Cooperation inaugurated 'Co-Op Kumbh 2025', an international conference on the future of India's urban cooperative banking sector, and adopted the Delhi Declaration 2025.

About the Conference

Cooperative Kumbh 2025 is an international conference focused on the urban cooperative credit sector, especially Urban Cooperative Banks (UCBs) and Credit Societies. Purpose - Strengthen collaboration, promote innovation, digital transformation, and redesign policy frameworks for the cooperative financial ecosystem.

Nodal Authorities

Nodal Ministry - Ministry of Cooperation, Government of India.

Host Organisation - National Federation of Urban Cooperative Banks and Credit Societies (NAFCUB).

Theme - "Digitalising Dreams – Empowering Communities". Emphasises technology-driven, inclusive, member-centric cooperative banking.

Global Context - Aligns with the United Nations' International Year of Cooperatives 2025, reinforcing global recognition of cooperatives as engines of inclusive development.

About NAFCUB

Institutional Profile - Apex promotional body for Urban Cooperative Banks (UCBs) and Credit Societies. Registered as a Multi-State Cooperative Society in February 1977.

Role - Represents UCBs before RBI, GoI, and international cooperative forums. Provides training, policy advocacy, capacity-building, and sector-level coordination.

Major Announcements at Cooperative Kumbh 2025

Digital Initiatives Launched

Sahkar Digi-Pay – Enables even small UCBs to offer full-scale digital payment services.

Sahkar Digi-Loan – Automates loan processing, underwriting, and credit management for urban cooperatives.

Goal - Bridge the digital divide between large banks and small cooperative entities.

Expansion Target

Aim - One UCB in every Indian city with a population > 2 lakh, within 5 years. Purpose - Strengthen credit delivery and financial inclusion in rapidly growing urban centres.

Delhi Declaration 2025 — Roadmap to 2030

Nature of the Document - Adopted at Cooperative Kumbh 2025. Provides a strategic blueprint for the UCB and urban credit society ecosystem for 2025–2030.

Key Pillars of the Delhi Declaration

Digital Transformation - Push UCBs into the mainstream digital banking space through unified platforms, cyber-security standards, AI-led credit scoring.

Regulatory Strengthening - Harmonise rules across states, improve corporate governance, enhance supervisory compliance.

Capital Adequacy & Risk Management - Align Tier-4 UCBs with global Basel norms; strengthen capital buffers.

Institutional Capacity Building - Leadership training, financial literacy, and professionalisation of cooperative management.

Inclusive Finance Mission - Improve access to credit for low-income groups, MSMEs, and micro-entrepreneurs.

Cooperative Digital Infrastructure (CDI) - Create a shared digital backbone similar to India Stack for cooperative entities.

Understanding Urban Cooperative Banks (UCBs)

Basic Definition - Financial institutions owned and democratically controlled by their members. Operate on cooperative principles of mutual benefit, community focus, and ethical banking.

Registration & Regulatory Framework

Registered Under - State Cooperative Societies Act, or Multi-State Cooperative Societies Act, 2002.

Governed By

Banking Regulation Act, 1949 (since 1966 amendment),

Banking Laws (Co-operative Societies) Act, 1955,

Registrar of Cooperative Societies (RCS) for administrative controls.

Operational Model - Collect funds through member shares and deposits. Provide credit, savings, and other banking services. Follow democratic control - one member = one vote. Profit distribution - dividends to members.

Characteristics of Cooperative Banks

Ownership - Belong to their member-shareholders; no external profit-oriented stakeholders.

Control - Board of Directors elected by members; democratic governance.

Profit Distribution - Surplus shared as dividends; reinvestment in community-oriented initiatives.

Services - Savings accounts, recurring deposits, fixed deposits, gold loans, housing loans, MSME credit, micro-loans, and insurance facilitation.

Community Orientation - Serve local communities, especially low-income households, small entrepreneurs, and self-employed individuals.

Ethical Orientation - Emphasise collectivism, mutual help, equality, sustainable practices.

Classification - RBI's 4-Tier Structure for UCBs (N.S. Vishwanathan Committee, 2021)

Tier 1 - Deposits up to ₹100 crore.

Tier 2 - Deposits between ₹100 crore–₹1,000 crore.

Tier 3 - Deposits between ₹1,000 crore–₹10,000 crore.

Tier 4 - Deposits above ₹10,000 crore (systemically important UCBs; closest to commercial banks).

Purpose - Better regulatory differentiation, risk-based supervision, and improved capital standards.

Status of Urban Cooperative Banks in India

Sector Presence

1. 1,457 Urban Cooperative Banks
2. 34 State Cooperative Banks (StCBs)
3. 351 District Central Cooperative Banks (DCCBs)
4. 1 Industrial Cooperative Bank

Credit to Agriculture - UCBs contribute **11%** of total institutional agricultural credit.

Deposit Base - Deposit base approx. ₹5.26 trillion.

Share in Banking Sector - 94% of all banking entities by number are cooperatives. Hold 3.24% of deposits and 2.69% of advances.

Financial Inclusion Impact - Serve 85.2 million depositors and 6.7 million borrowers. Major lifeline for small traders, artisans, MSMEs, street vendors, and urban working-class families.

N.S. Vishwanathan Committee (2021) — Key Recommendations

CRAR (Capital Adequacy) - Flexible 9%–15% CRAR, depending on UCB tier. Tier-4 - Align with Basel III norms.

Loan Ceilings - Separate ceilings for -

1. Housing loans
2. Gold-loans
3. Unsecured loans

Objective - prevent concentration risk.

Consolidation Strategy - RBI should encourage voluntary mergers. Mandatory mergers or reconstruction for weak UCBs not meeting prudential norms.

Resolution Framework - RBI empowered under BR Act to -

1. Prepare compulsory amalgamation plans
2. Reconstruct failing UCBs

3. Protect depositors via timely intervention

Supervisory Action Framework (SAF) - Move from 3-indicator (CRAR, NPAs, profitability) → to 2-indicator model (NNPA + CRAR). Purpose - Focus only on solvency and asset quality for early warning systems.

Umbrella Organization (UO) - Strong apex body with minimum ₹300 crore capital. Functions -

1. Provide liquidity support
2. Offer shared digital technology
3. Provide risk management services
4. Strengthen governance

Example - Similar to cooperative structures in Canada and Netherlands.

Significance of Urban Cooperative Banks (UCBs)

Financial Inclusion - Primary lenders for -

1. Small businesses
2. Street vendors
3. Low-income workers
4. MSMEs
5. Women entrepreneurs

Promotion of Savings - Encourage thrift through recurring deposits and small savings instruments.

Local Focus - Deep community roots; better knowledge of local borrowers. Quick decision-making compared to large banks.

Priority Sector Lending (PSL) Mandate - UCBs must allocate at least 60% of loans to priority sectors -

1. Small business
2. Housing
3. Education
4. Weaker sections
5. Micro enterprises

Economic Empowerment - Channel local savings into local investments. Support small industries, create jobs, revive informal economic clusters.

Cooperative Values - Emphasise democracy, equality, mutual help, grassroots financial empowerment.

Why Cooperative Kumbh 2025 Matters

Sector Revitalization - UCBs require modernisation to stay competitive with commercial banks and fintechs.

Digital Leap - Sahkar Digi-Pay & Digi-Loan bring small cooperatives into the digital banking ecosystem.

National Financial Inclusion Goals - Helps meet -

1. RBI's Inclusive Credit vision
2. Government's cooperative strengthening mission
3. UN SDGs (Decent Work, Reduced Inequalities)

Urbanization Needs - With rising urban populations, UCBs can become key credit providers for informal and semi-formal sectors.

Policy Convergence - Delhi Declaration 2025 aligns cooperative banking with broader financial sector reforms till 2030.