

## **RBI Introduces ECBA Framework for Urban Co-operative Banks**

The Reserve Bank of India (RBI) has introduced the **Eligibility Criteria for Business Authorisation (ECBA)** framework. This new regulatory regime replaces the earlier Financially Sound and Well Managed (FSWM) norms for urban co-operative banks (UCBs). The ECBA aims to strengthen governance and operational standards for UCBs seeking permissions to expand their business activities.

A bank will be considered as fully complying with ECBA if it meets the following conditions, based on the audited financial statements as of 31 March of the immediately preceding financial year:

- a. Regulatory minimum applicable CRAR for the bank;
- b. Net NPAs of not more than 3%;
- c. Net profits during the preceding two financial years, without any accumulated losses in the balance sheet;
- d. No default in the maintenance of CRR/ SLR during the preceding and current financial year;
- e. Core Banking Solution (CBS) fully implemented;
- f. The bank should not have been under any Directions/Supervisory Action Framework/PCA of RBI/NABARD, as the case may be, in the previous or current financial year; and
- g. (Applicable only to UCBs)-The bank should have at least two professional directors on the Board as prescribed in the "[Master Circular on Board of Directors - UCBs](#)" dated April 01, 2025, as amended from time to time.

## **SUMMARY**

### ***Recent Regulatory Changes***

The RBI's ECBA framework sets clear eligibility conditions for UCBs to open new branches, ATMs, and processing centres. It mandates compliance based on audited financials as of 31 March of the preceding financial year. The framework came into public consultation in July 2025 with feedback invited until August 25.

### ***Capital and Asset Quality Requirements***

Under ECBA, banks must maintain the minimum regulatory capital adequacy ratio (CAR) of 9% by Tier-1 UCBs and 12% by Tier 2, Tier 3 and Tier 4 UCBs. Net non-performing assets (NPAs) should not exceed 3%.

This ensures banks remain financially sound and capable of absorbing losses without risking depositor funds.

### ***Profitability and Reserve Norms***

Banks must report net profits for the last two consecutive financial years. There should be no accumulated losses on the balance sheet. Additionally, compliance with cash reserve ratio (CRR) and statutory liquidity ratio (SLR) norms is mandatory, without any defaults in the current or previous financial year.

### ***Operational and Governance Standards***

Banks must fully implement Core Banking Solutions (CBS) to ensure technology-driven efficiency. They should not be under any RBI supervisory actions or Prompt Corrective Action (PCA) frameworks. The board must include at least two professional directors to enhance governance quality.

### ***Compliance Monitoring and Reporting***

Each UCB must assess its ECBA compliance annually based on audited financial statements. The board must approve the compliance status and notify the RBI within 15 calendar days of the board resolution. The ECBA compliance validity extends up to 30 September of the following financial year.

### ***Expansion and Area of Operation***

Large UCBs in Tier 3 and Tier 4 categories with a minimum net worth of Rs 50 crore may expand beyond their state of registration. Expansion is allowed to a maximum of two states per financial year, subject to RBI approval and capital adequacy for at least five branches per state. Within their state, UCBs can extend operations to three districts without prior RBI permission. Extension to the entire district of registration is permitted without any approval.

### ***Classification of Urban Co-operative Banks***

The RBI classifies UCBs into four tiers based on deposit size. Tier 3 banks have deposits between Rs 1,000 crore and Rs 10,000 crore. Tier 4 banks hold deposits exceeding Rs 10,000 crore. This classification guides regulatory focus and compliance requirements under the ECBA.

***Source: RBI***