



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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Reserve Bank of India (Urban Co-operative Banks – Undertaking of Financial Services) Directions, 2025 (Updated as on October 05, 2026)

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In exercise of the powers conferred by Sections 35A read with Section 56 of the Banking Regulation Act, 1949, and all other provisions/laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.

Chapter I – Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Urban Co-operative Banks – Undertaking of Financial Services) Directions, 2025.
2. ¹These Directions shall come into force with immediate effect.

B. Applicability

3. These Directions shall be applicable to Urban Co-operative Banks (hereinafter collectively referred to as 'UCBs' and individually as 'a UCB') operating in India. *In this context, Urban Co-operative Banks shall mean Primary Co-operative Banks as defined under Section 5(ccv) read with Section 56 of Banking Regulation Act, 1949.*

C. Definitions

4. In these directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below:
 - (1) '**Debtor company**' means any company to which a UCB currently has or previously had a loan or investment exposure (excluding equity instruments) anytime during the preceding twelve months;
 - (2) '**Equity instrument**' means equity shares, compulsorily convertible preference shares (CCPS) and compulsorily convertible debentures (CCD);
 - (3) '**Financial Services Company**' means a company engaged in the 'business of financial services';

Explanation: The 'business of financial services' shall include –

¹ Modified w.e.f. January 01, 2026.



- (i) the forms of business enumerated in clauses (a), (c), (d), (e) of sub-Section (1) of Section 6 of the Banking Regulation Act, 1949 and notified under clause (o) of sub-Section (1) of Section 6 of the Banking Regulation Act, 1949, read with Section 56(e) of the Banking Regulation Act, 1949;
- (ii) the forms of business enumerated in clause (c) and clause (f) of Section 45 I of Reserve Bank of India Act, 1934;
- (iii) business of credit information as provided under the Credit Information Companies (Regulation) Act, 2005;
- (iv) operation of a payment system as defined under the Payment and Settlement Systems Act, 2007;
- (v) operation of a stock exchange, commodity exchange, derivatives exchange or other exchange of similar nature;
- (vi) operation of a depository as provided under the Depositories Act, 1996;
- (vii) business of an asset reconstruction company as provided under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
- (viii) business of a merchant banker, portfolio manager, stock broker, sub-broker, share transfer agent, trustee of trust deeds, registrar to an issue, merchant banker, underwriter, debenture trustee, investment adviser and such other intermediary as provided in the Securities and Exchange Board of India Act, 1992 and the regulations made thereunder;
- (ix) business of a credit rating agency as defined in the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999;
- (x) business of a collective investment scheme as defined under the Securities and Exchange Board of India Act, 1992;
- (xi) business of managing a pension fund;
- (xii) business of an authorised person as defined under the Foreign Exchange Management Act, 1999; and
- (xiii) such other business as may be specified by RBI from time to time.



- (4) **‘Government Securities’** shall have the same meaning as defined in the Government Securities Act, 2006;
 - (5) **‘Joint Venture’** shall have the same meaning as defined in terms of the Accounting Standards of the Institute of Chartered Accountants of India;
 - (6) **‘Mutual Fund’** shall have the same meaning as defined in SEBI (Mutual Funds) Regulations, 1996;
 - (7) **‘Non-Financial Services Company’** means a company engaged in businesses other than those specified in clause (3) above;
 - (8) **‘Pension Fund Management’** means management of a pension fund as defined in the Pension Fund Regulatory Development Authority (Exit and Withdrawals under National Pension System) Regulations, 2014;
 - (9) **‘Portfolio Management Services’** means the service offered by a portfolio manager as defined in the SEBI (Portfolio Managers) Regulations, 1993;
 - (10) **‘Referral Services’** means the arrangement between a UCB and a third-party financial product provider, for referring the customers of the bank to the third-party financial product provider; and
 - (11) **‘Subsidiary’** means a subsidiary as defined in terms of the Accounting Standards of the Institute of Chartered Accountants of India.
5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934, or any statutory modification or re-enactment thereto, or [Glossary](#) of Terms published by RBI or as used in commercial parlance, as the case may be.



Chapter II – General Guidelines

A. Role of the Board

6. The Board of a UCB desirous of undertaking insurance business as corporate agent without risk participation shall pass a resolution approving the proposal to that effect. The Board shall approve proposal, if any, for entering into contracts (including for longer-terms) with insurance companies for undertaking insurance business on a referral basis (without risk participation and with sharing of physical space). Further, Board of a UCB desirous of undertaking mutual fund business shall pass a resolution to that effect.
7. The Board of a UCB desirous of applying for AD Category-I/II license shall approve and pass a resolution to that effect.
8. The Board of a UCB desirous of providing online trading facility to its demat account holders shall pass a resolution confirming that the UCB shall not offer investment tips or recommendations to customers, nor undertake portfolio management services, while providing online trading facilities to demat account holders.
9. The Board shall approve a comprehensive policy covering merchant acquisition and customer grievance redressal mechanism for deployment of third-party point-of-sale terminals.
10. The Board shall frame and approve a detailed policy on customer grievance redressal mechanism, including an escalation matrix for resolution of complaints, prior to undertaking issuance of Pre-paid Payment Instruments.

B. Investments in Alternative Investment Funds (AIFs)

B.1 General Requirements

11. A UCB's investment policy shall have suitable provisions governing its investments in an AIF Scheme, compliant with extant law and regulations.

B.2 Limits on Investments and Provisioning

12. A UCB shall not individually contribute more than 10 percent of the corpus of an AIF Scheme.
13. The aggregate contribution by all Regulated Entities (REs) in any AIF Scheme shall not be more than 20 percent of the corpus of that scheme.



In this context, 'RE' shall mean:

- (1) Commercial Banks (including Small Finance Banks, Local Area Banks);
 - (2) Regional Rural Banks;
 - (3) Urban Co-operative Banks;
 - (4) State Co-operative Banks / Central Co-operative Banks;
 - (5) All-India Financial Institutions;
 - (6) Non-Banking Financial Companies (including Housing Finance Companies);
14. Where a UCB contributes more than five percent of the corpus of an AIF Scheme that has downstream investment (excluding equity instruments) in a debtor company of the UCB, the UCB shall be required to make 100 percent provision to the extent of its proportionate investment in the debtor company through the AIF Scheme, subject to a cap equivalent to UCB's direct loan and / or investment exposure to the said debtor company.
15. Notwithstanding the provisions of paragraph 14, where a UCB's contribution is in the form of subordinated units, it shall deduct the entire investment from its capital funds – proportionately from both Tier-1 and Tier-2 capital (wherever applicable).

B.3 Exemptions

16. ²The RBI may, in consultation with the Government of India, by way of a notification, exempt certain AIFs (Annex I) from the scope of these Directions on AIF contained in Part B of Chapter II, except for paragraph 11.
17. [Deleted]³.
18. [Deleted]⁴.

² Modified w.e.f. January 01, 2026.

³ Deleted w.e.f. January 01, 2026.

⁴ Deleted w.e.f. January 01, 2026.



Chapter III – Financial Services

A. Mutual Funds Distribution as Agents

19. A UCB shall be permitted to enter into agreements with Mutual Funds (MFs) for marketing their units subject to the following terms and conditions:
- (1) A UCB shall act as an agent of the customers and shall be responsible for forwarding the investors' application for purchase / sale of MF units to the Mutual Fund / the Registrar / the transfer agents.
 - (2) The purchase of MF units shall be at the customers' risk and the UCB shall not guarantee any assured return on such investments.
 - (3) A UCB shall neither acquire such units of Mutual Fund from the secondary market nor shall it buy back units of Mutual Funds from its customers.
 - (4) A UCB holding custody of MF units on behalf of their customers shall ensure that its own investment, where permitted, are kept distinct from the investments belonging to its customers.
 - (5) The distribution of Mutual Fund units shall be restricted to branches of the UCB.
 - (6) A UCB shall comply with the extant KYC / AML guidelines in respect of the applicants.
20. A UCB shall report the details of the tie-up together with a copy of the agreement entered into with the Mutual Fund, to the concerned office of Department of Supervision, RBI within a period of ten days from the date of entering into the arrangement.
21. A UCB shall disclose to its customers details of all types of commissions / fees (in any form) received from the various mutual fund companies for marketing / referring their products to them.

B. Insurance Business as Corporate Agent without risk Participation

22. Eligibility Conditions: A UCB shall be permitted to undertake insurance business as corporate agent without risk participation subject to the following conditions:
- (1) A UCB shall not have violated individual and group exposure norms prescribed by RBI;



- (2) A UCB shall have complied with RBI instructions on loans and advances to directors, their relatives, and associated firms;
 - (3) Appropriate Board Resolution in this regard; and
 - (4) A UCB complies with the minimum CRAR regulatory requirement.
23. A UCB shall not adopt any restrictive practice of compelling its customers to opt for a particular insurance company in respect of products marketed by it. A UCB shall disclose to its customers details of all types of commissions/fees (in any form) received from the insurance company for marketing their products to them.

C. Insurance Business on Referral basis without risk Participation (Sharing of Physical Space)

24. A UCB is permitted to undertake insurance business on a referral basis, without any risk participation through its network of branches.

C.1 Conditions for Undertaking Referral Business

25. Under the referral arrangement, a UCB shall provide physical infrastructure within its branch premises to insurance companies for selling their insurance products to the UCB's customers with adequate disclosure and transparency, and in turn earn referral fees on the basis of premia collected. The above permission shall be subject to the following conditions:
- (1) A UCB shall comply with the relevant IRDAI regulations for undertaking referral business with insurance companies;
 - (2) A UCB shall not adopt any restrictive practice of compelling its customers to opt for a particular insurance company, particularly in respect of assets financed by the UCB. The customers shall be allowed to exercise their own choice of insurer;
 - (3) A UCB desirous of entering into referral arrangement, in addition to complying with IRDAI regulations, shall also enter into an agreement with the concerned insurance company for allowing use of its premises and making use of the existing infrastructure of the UCB;
 - (4) The initial agreement shall be for a maximum period of three years at the first instance and the UCB shall have the discretion to renegotiate the terms or replace it by another agreement after the initial period, depending on its satisfaction with the service;



- (5) Upon completion of the initial period, a UCB shall be free to sign a longer-term contract with the approval of its Board;
 - (6) Participation by a customer in insurance products shall be purely on a voluntary basis and the same shall be stated in a prominent way in all publicity material distributed by the UCB. There shall be no direct or indirect linkage between the provision of banking services offered by the UCB to its customers and use of the insurance products; and
 - (7) The risk, if any, involved in referral arrangement shall not be transferred to the business of the UCB.
26. A UCB shall not require prior approval from the RBI to undertake referral business.

C.2 Disclosure of Commission and Fees to Customers

27. In order to ensure transparency and protect the interest of customers, a UCB shall mandatorily disclose to customers the details of all commissions, fees, or any other form of remuneration received, if any, from the respective insurance companies whose products are being referred to.

D. Conduct of Foreign Exchange Business

28. A UCB shall be eligible to apply for a license as Authorized Dealers (AD) Category I / II subject to compliance with the following norms:

(1) AD Category-I

- (i) A UCB shall be included in the Second Schedule to RBI Act 1934;
- (ii) A UCB shall have a minimum net worth of ₹200 crore;
- (iii) The CRAR shall not be less than 12 percent;
- (iv) The gross NPA shall not exceed 10 percent;
- (v) A UCB shall have made profit in the preceding three years;
- (vi) A UCB shall have no defaults in maintenance of CRR / SLR requirements;
- (vii) A UCB shall have sound internal control systems; and
- (viii) A UCB shall have an elected board of management with at least two professionals.

(2) AD Category II

- (i) A UCB shall have a minimum net worth of ₹10 crore;



- (ii) The CRAR shall not be less than nine percent;
- (iii) The gross NPAs shall not exceed 10 percent;
- (iv) A UCB shall have made profit in the preceding three years;
- (v) A UCB shall have no defaults in maintenance of CRR / SLR requirements;
- (vi) A UCB shall have sound internal control systems; and
- (vii) A UCB shall have an elected board of management with at least two professional directors.

29. A UCB fulfilling the above-mentioned eligibility criterion and willing to apply for AD authorisation shall submit its application through *Pravaah* Portal (<https://pravaah.rbi.org.in>) to Department of Regulation, RBI with the document / information as specified under:

- (1) A copy of the latest audited balance sheet;
- (2) Net worth computation and a certificate from a Chartered Accountant certifying the same;
- (3) Certified copies of the balance sheets and profit and loss accounts of the UCB for the last three years;
- (4) A declaration to the effect that no proceedings have been initiated by any law enforcing agency against the UCB or its Directors;
- (5) A Board resolution for conducting AD Category-I/II activities and for applying to RBI for the license;
- (6) A report on KYC / AML systems prevalent in the UCB; and
- (7) Details of the availability of skilled manpower and infrastructure, the internal control / audit system and risk management systems put in place by the UCB.

30. Fresh authorizations for UCBs to function as FFMC shall not be granted.

E. Online Trading Facility to Demat Account Holders

E.1 Eligibility

31. A Scheduled UCB, shall be eligible to provide online trading facility to its demat account holders by entering into a tie-up with a broking entity with prior approval of the RBI, subject to fulfilling the following criteria:



- (1) The assessed net worth of the UCB shall not be less than ₹500 crore as per last inspection report;
- (2) A UCB shall be Financially Sound and Well Managed, as per criteria prescribed in our [Reserve Bank of India \(Urban Co-operative Banks - Branch Authorisation\) Directions, 2025](#),
- (3) A UCB shall be registered with SEBI as Depository Participant; and
- (4) A UCB shall have fully implemented Core Banking Solutions (CBS) and shall be offering Internet Banking services to its customers.

E.2 Application Procedure

32. A UCB fulfilling the criteria prescribed in paragraph 31 above and desirous of providing online trading facility to its demat account holders shall submit its application through *PRAVAAH* Portal (<https://pravaah.rbi.org.in>) to Department of Regulation, RBI with a copy of Board Resolution to the effect that they shall not be offering tips / recommendations to their customers for on-line trading and shall also not be undertaking portfolio management services.

F. Point of Presence (PoP) Services under Pension Fund Regulatory and Development Authority (PFRDA)

F.1 Eligibility

33. A Scheduled UCB classified as Financially Sound and Well Managed in terms of the criteria given in our [Reserve Bank of India \(Urban Co-operative Banks - Branch Authorisation\) Directions, 2025](#), shall be eligible to undertake the activity of providing Point of Presence (PoP) Services for National Pension System (NPS) regulated by Pension Fund Regulatory and Development Authority (PFRDA) subject to the following conditions:
 - (1) A UCB shall have a minimum net worth of ₹100 crore as per immediate preceding inspection report of the RBI;
 - (2) A UCB shall have fully implemented Core Banking Solutions (CBS);
 - (3) A UCB shall have no strictures (penalty / letter of warning / displeasure / cautionary advice) imposed on them during the last five years by the RBI / Registrar of Co-operative Societies (RCS) / Central RCS; and
 - (4) A UCB shall have at least 25 branches spread across a minimum of 25 districts in three or more states with IT infrastructure and electronically linked to Central Record keeping Agency (CRA).



F.2 Application Procedure

34. A UCB fulfilling the criteria prescribed in paragraph 33 above and desirous of undertaking activity of providing PoP Services shall submit its application through *PRAVAAH* Portal (<https://pravaah.rbi.org.in>) to Department of Regulation, RBI.
35. A UCB acting as 'PoP' shall exercise due care in the discharge of its functions as any act of commission (like misappropriation of subscription received) or omission (to remit in time the subscriptions received) on the part of the UCB acting as agent and failure to comply with the provisions of the Pension Fund Regulatory and Development Authority (PFRDA) Act, 2013 may entail imposition of penalty by PFRDA. A UCB acting as PoP shall ensure adherence to all the instructions issued by PFRDA from time to time.

G. Merchant Acquisition Business

G.1 Deployment of Third Party PoS Terminals

36. A UCB not intending to act as Point of Sale (POS) acquiring bank is permitted to deploy third party POS terminals without prior approval of RBI subject to fulfilling the following criteria:
 - (1) A UCB is licensed by RBI and is Core Banking Solution (CBS) compliant;
 - (2) The CRAR is not less than nine percent in the preceding financial year;
 - (3) A UCB has recorded a net profit in the preceding financial year;
 - (4) The Board of a UCB consists of at least two professional directors;
 - (5) A UCB has a Board approved customer grievance redressal mechanism;
 - (6) A UCB has put in place a policy approved by the Board for merchant acquisition for card transactions;
 - (7) There are no restrictions imposed on the UCB for accepting deposits / withdrawals by the RBI;
 - (8) A UCB obtains consent from its merchant customers before offering third party POS terminals and discloses the settlement process; and
 - (9) A UCB reports the operationalization of third-party POS terminals to the respective Department of Supervision, RBI within a month, along with the necessary documents.



G.2 Deployment of Own POS Terminals as POS Acquiring Bank

37. A UCB intending to act as POS acquiring bank shall be permitted to deploy its own POS terminals with prior approval of RBI subject to fulfilling the following criteria:
- (1) A UCB shall comply with criteria mentioned in clauses (i) to (vii) of paragraph 36 above;
 - (2) The IT systems and CBS of the UCB shall have been subjected to an IS Audit not earlier than six months from the date of application, certifying that the systems are adequately secure;
 - (3) The assessed net-worth of the UCB shall be more than ₹25 crore as per the last RBI inspection;
 - (4) The Gross NPA of the UCB shall be less than seven percent and net NPAs shall be less than three percent in the preceding financial year;
 - (5) A UCB shall not have been subjected to any monetary penalty by the RBI during the last two financial years and during the year of submitting application;
 - (6) There shall not be any default in the maintenance of CRR / SLR during the preceding financial year; and
 - (7) A UCB shall be a member of authorized card network, such as RuPay, Visa, or MasterCard, etc.
38. A UCB shall comply with instructions and guidelines on Merchant Acquisition for card transactions and POS issued by Department of Payment and Settlement Systems, RBI from time to time.
39. A UCB desirous to deploy their own POS terminals and act as POS acquiring bank shall apply through *PRAVAAH* Portal (<https://pravaah.rbi.org.in>) to Department of Regulation, RBI for necessary permission, with the requisite information and documents.

H. Undertaking of Activity as PAN Service Agents (PSA)

40. A UCB is permitted to act as PAN Service Agent (PSA) by entering into a tie-up with any agency authorised by Income Tax Department, Government of India.



I. Issue of Pre-paid Payment Instruments

41. A licensed UCB desirous of issuing Prepaid Payment Instruments (PPIs) shall have its own ATM network and there should be no restrictions on acceptance or repayment of deposits. Further, issuance of Prepaid Payment Instruments shall be subject to compliance with eligibility criteria and other guidelines as prescribed by Department of Payment and Settlement Systems (DPSS), RBI from time to time.
42. A UCB satisfying the criteria specified in paragraph 41 shall be permitted to issue PPIs, subject to compliance with the following regulatory requirements for this purpose:
- (1) A UCB shall be CBS compliant;
 - (2) The CRAR shall not be less than 10 percent in the current and preceding financial year;
 - (3) Gross NPAs shall be less than seven percent and net NPAs shall not be more than three percent in the current and preceding financial year;
 - (4) Assessed net-worth shall be more than ₹25 crore as per the last RBI inspection;
 - (5) There shall be no default in the maintenance of CRR/SLR during the current and preceding financial year;
 - (6) A UCB should have made a net profit in the preceding financial year;
 - (7) The Board of the UCB shall include at least two professional directors and shall have the following systems and control in place:
 - (i) An internal inspection / audit system for all the branches and the Head Office.
 - (ii) A concurrent audit system in all major branches.
 - (8) Satisfactory adherence to KYC / AML / Combating Financing of Terrorism guidelines issued by the RBI from time to time;
 - (9) A UCB shall not have been subjected to any monetary penalty by the RBI during the last two financial years and in the year of the application; and
 - (10) A UCB shall have satisfactorily implemented a comprehensive Board approved policy on Customer grievance redressal mechanism which includes escalation matrix for resolution of customer complaints.



43. The issuance and operation of prepaid instruments shall also be guided by the instructions issued in this regard by DPSS, RBI from time to time. Eligible UCBs, as indicated in paragraphs 41 and 42 above, desirous to issue PPIs are required to obtain a No Objection Certificate by applying through *PRAVAAH* Portal (<https://pravaah.rbi.org.in>) to Department of Regulation, RBI before applying to DPSS, Central Office, RBI for authorization.



Chapter IV – Repeal and Other Provisions

A. Repeal and saving

44. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to undertaking of financial services as applicable to Urban Co-operative Banks stand repealed as communicated vide [circular DOR.RRC.REC.302/33-01-010/2025-26](#) dated November 28, 2025. The directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
45. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:
- (1) any right, obligation or liability acquired, accrued, or incurred thereunder;
 - (2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
 - (3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

46. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.



C. Interpretations

47. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

(Manoranjan Padhy)

Chief General Manager



Annex I

List of exempted AIFs under Para 16

1. SWAMIH (Special Window for Affordable and Mid-Income Housing) Investment Fund-I
2. AgriSURE - Agri Fund for Start Ups & Rural Enterprises⁵
3. NABVENTURES FUND-II⁶

⁵ Amended w.e.f. April 27, 2026, vide Reserve Bank of India (Urban Co-operative Banks – Undertaking of Financial Services) – Amendment Directions, 2026

⁶ Inserted w.e.f October 05, 2026.