

# RBI MANDATES SYSTEM-BASED ASSET CLASSIFICATION FOR UCBS

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System-based asset classification refers to asset classification (downgrading as well as upgrading) carried out by computerized systems of a bank in an automated manner

The Reserve Bank of India (RBI) on Wednesday asked urban co-operative banks (UCBs) with assets of 2,000 crore or more to implement system-based asset classification from 30 June 2021.

System-based asset classification refers to asset classification (downgrading as well as upgrading) carried out by computerized systems of a bank in an automated manner.

"In order to improve the efficiency, transparency and integrity of the asset classification process, it has been decided to implement system-based asset classification in urban co-operative banks (UCBs)," RBI said in a notification.

It said that UCBs with assets of 1,000 crore or above but less than 2,000 crore as on 31 March 2020, having self-assessed themselves as being under "Level III or Level IV" on comprehensive cyber security framework for UCBs shall implement it from 30 September 2021.

"For smooth implementation of the system, all concerned UCBs may conduct pilot/parallel run and evaluate the results for accuracy/integrity of the asset classification in compliance with the applicable RBI instructions so as to ensure that they are ready for implementation of the system-based asset classification from the appointed date," RBI said.

According to the central bank, urban cooperative banks not meeting the criteria are also encouraged to voluntarily implement the system-based asset classification in their own interest.

In March, RBI had lowered the single borrower and group exposure limit for urban cooperative banks (UCBs) to 15% and 25% of tier I capital, respectively, to reduce concentration risks arising out of such large loans. Existing norms allowed 15% for single borrowers and 40% to group exposures of a bank's total capital, including tier I and tier II capital.

UCBs came into focus in September 2019, when RBI put severe curbs on Punjab and Maharashtra Cooperative (PMC) Bank, including cash withdrawals, amid a probe into accounting lapses.

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