
CASE NOTE:

Case Name: Reserve Bank of India v. Salem Urban Co-operative Bank Ltd.

Date of Order: 26.12.2025

Introduction:

The matter involves the Reserve Bank of India (RBI) V. Salem Urban Co-operative Bank Ltd. originates from the RBI's supervisory and regulatory action executed under the Banking Regulation Act, 1949, with particular emphasis on sections Section 47A(1)(c) alongside Sections 46(4)(i) and 56. This is not a conventional adversarial legal proceeding but rather an administrative enforcement process driven by inspection findings.

Facts in brief:

The Reserve Bank of India (RBI) established in 1935, is a central bank and primary monetary authority of India which regulates the country's currency, credit, and financial system, ensuring stability and economic growth. The RBI plays a crucial role in formulating monetary policy, managing foreign exchange, and supervising financial institutions.

Salem Urban Co-operative Bank Ltd., founded in the year 1906 is a co-operative financial institution based in Salem, Tamil Nadu, India, making it amongst the eldest Urban Co-operative Banks in Tamil Nadu.

The Reserve Bank of India issued license to Salem Urban Co-operative Bank to carry on banking business and since then, it operates under the regulatory framework of the Reserve Bank of India and the Tamil Nadu Co-operative Societies Act, providing community-focused banking services to local individuals and small businesses.

RBI conducted a statutory inspection of the said bank with reference to its financial status dated 31.03.2025.

During the inspection, the RBI identified certain irregularities and instances of non-compliance with its directions. A key finding was the bank's failure to adhere to its directives concerning 'Framework for Compromise Settlements and Technical Write-offs'.

The guidelines prescribed by the RBI are designed to regulate how banks handle stressed assets, including non-performing assets (NPAs), and ensure that settlements or write-offs are executed in a transparent, consistent, and accountable manner.

The Salem Urban Co-operative Bank Ltd. in the inspection, it was observed by the RBI that, the bank did not follow the prescribed procedures and norms while dealing with such financial matters. This non-compliance raised concerns about the bank's internal control mechanisms and adherence to regulatory discipline.

Following the detection of deficiencies, the RBI initiated formal proceedings against the bank under the provisions of Banking Regulation Act, 1949, particularly sections Section 47A(1)(c) read with Sections 46(4)(i) and 56.

RBI issued a notice to the bank advising it to show cause as to why penalty should not be imposed on it for its failure to comply with the said directions and in line with the principles of natural justice for an opportunity to explain its position and justify its actions.

The Salem Urban Co-operative Bank Ltd. submitted its reply to the RBI to the notice issued and oral submissions were made during the personal hearing, addressing the concerns raised during the inspection.

After evaluating the bank's reply and material on record, the RBI concluded that the explanations provided were not satisfactory and that the violations were substantiated, warranting imposition of monetary penalty.

Issues:

1. Whether the bank's non-compliance with RBI directions on the Framework for Compromise Settlements and Technical Write-offs amounted to a violation attracting penalty under the Banking Regulation Act, 1949?
2. Whether the penalty affects the validity of customer transactions or agreements?

RBI's Reasoning and Analysis:

The Banking Regulation Act, 1949 applies on Salem Urban Co-operative Bank Ltd. as it comes under section Section 56(a)(i) of the act, it refers to a banking company which shall be construed as references to a co-operative bank. Section 47A(1)(c) of the Act empowers Reserve Bank to impose penalty if a contravention or default of nature is made in complying with any requirement or of any order, rule, or direction made or condition imposed.¹

RBI clarified that the bank's methods for handling technical write-offs and compromise settlements were not compliant with the regulations. This non-compliance revealed a failure to follow prudential standards intended to guarantee responsibility and openness when managing non-performing asset. The penalty was levied for non-compliance with RBI directions on the 'Framework for Compromise Settlements and Technical Write-offs'. The action is not meant to rule on the legality of any transaction or arrangement the bank has with its clients; rather, it is based on shortcomings in regulatory compliance. Further, RBI's ability to take further action against the bank is unaffected by the implementation of this financial penalty.

Final Decision and Order:

The Reserve Bank of India exercised its powers under section 47A(1)(c) read with Sections 46(4)(i) and 56, to impose a monetary penalty. By an order dated 26.12.2025, RBI levied a penalty of Rs. 50,000/- (Rupees fifty thousand only) on Salem Urban Co-operative Bank Ltd. as the bank, without following the required minimum cooling period, approved non-agricultural loans to members who had previously benefited from compromise settlements.

RBI's action is completely based on non-compliance with the regulatory measure and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers.²

¹ The Banking Regulation Act, 1949. <https://www.indiacode.nic.in/bitstream/123456789/1885/1/aa1949-10.pdf>.

² *Reserve Bank of India*. <https://rbi.org.in/commonman/English/scripts/PressReleases.aspx?Id=3874>. Accessed 7 Apr. 2026.

Analysis:

The order reflects a regulatory enforcement action focused on ensuring adherence to established banking norms and maintaining the integrity of financial institutions. RBI conducted a statutory inspection of the bank with reference to its financial position dated 31.03.2025. RBI clarified that Salem Urban Co-operative Bank Ltd. did not follow its requirements based on the directions issued under 'Framework for Compromise Settlements and Technical Write-offs' which were sufficient to attract penal action determining the failure to follow regulatory directions constituting a breach under section 47A(1)(c) read with sections 46(4)(i) and 56 the Banking Regulation Act, 1949.

The Bank had sanctioned non-agricultural loans to members, who had previously availed compromise settlements, without adhering to the prescribed minimum cooling period.³ Compromise settlements involve partial repayment of loans of the total contractual amount owed, which is accepted as full and final settlement, meaning the liability ends.⁴ RBI issued a notice to the bank to show cause as to why penalty should not be imposed on it for its failure to comply with the said directions. The process followed a consideration of the bank's reply and a personal hearing ensuring principles of natural justice and due process of law. RBI held that even though the violation may appear procedural, such defaults may undermine financial discipline and regulatory integrity. Similarly, RBI on the same date i.e. 26.12.2025, imposed a monetary penalty of Rs. 1,00,000/- (Rupees One Lakh only) on the District Co-operative Central Bank Ltd., Warangal, Telangana for contravention of provisions of section 20 read with section 56 of the Banking Regulation Act, 1949 upon inspection and supervisory findings of contravention of statutory provisions.⁵ Following the measures under the Banking Regulation Act, 1949, RBI determined that the penalty of Rs. 50,000/- (Rupees Fifty Thousand only) imposed on Salem Urban Co-operative Bank Ltd. was appropriate and limited to regulatory non-compliance and does not affect the validity of any transactions or agreements entered into by the bank with its customers.

³ *Reserve Bank of India*. <https://rbi.org.in/commonman/English/scripts/PressReleases.aspx?Id=3874>. Accessed 7 Apr. 2026.

⁴ *Notifications - Reserve Bank of India*. <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12513&Mode=0>. Accessed 7 Apr. 2026.

⁵ *Reserve Bank of India*. <https://rbi.org.in/commonman/English/scripts/PressReleases.aspx?Id=3875>. Accessed 7 Apr. 2026.