Reserve Bank eases universal bank licence norms

Biz houses allowed to invest less than 10%

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IN a major relaxation, the Reserve Bank of India (RBI) has proposed continuous authorisation of universal banking licences with adequate safeguards as opposed to the existing practice of selective issuance.

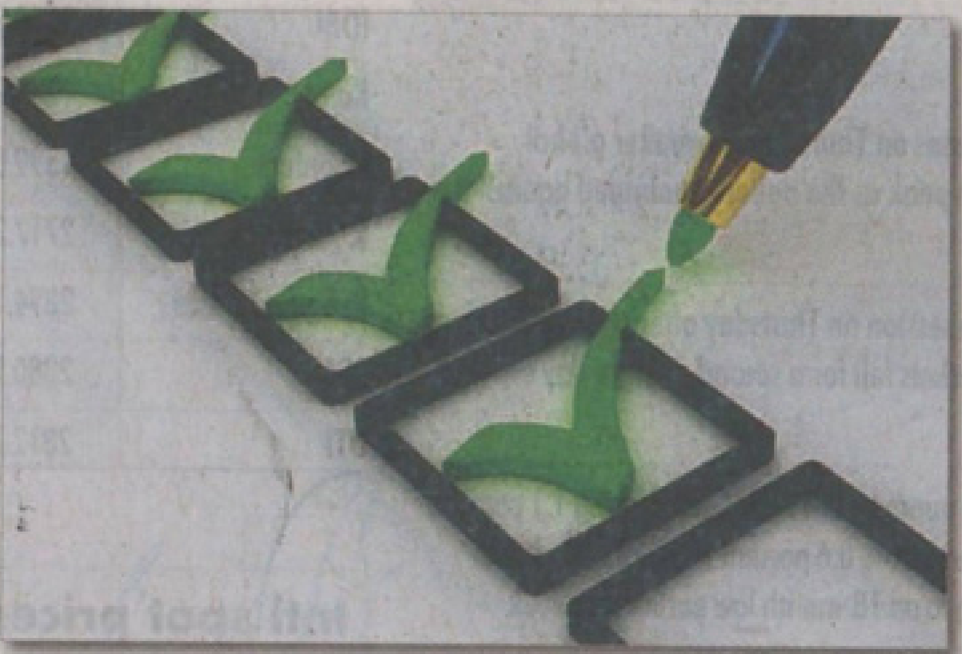
RBI's draft guidelines for on-tap universal bank licences released on Thursday also relaxed several other conditions, including the eligibility of promoters. In a departure from the February 22, 2013, guidelines, resident individuals and professionals having 10 years of experience in banking and finance are eligible to promote universal banks as per the latest draft norms.

Even as the draft norms continue to exclude large industrial/business houses as eligible entities, the apex bank has sought to allow them to invest less than 10 per cent in a bank.

A non-operative financial holding company (NOFHC) has now been made non-mandatory in case of promoters being individuals or standalone promoting/converting entities who/which do not have other group entities. As per the latest guidelines, an NOFHC is now required to be owned by the promoter/promoter group to the extent of at least 51 per cent of its total paid-up equity capital, instead being wholly owned by the promoter group.

Also, existing specialised activities such as insurance, mutual funds, stock broking and infrastructure debt funds have been permitted to be made available from a separate entity proposed to be held under the NOFHC, subject to prior approval from the RBI and subject to it being ensured that similar activities are not conducted through the bank as well.

"Recognising the need for having an explicit policy on banking structure in India in line with the recommendations of the Narasimham Committee, Raghuram G Rajan Committee and other viewpoints, RBI came out with a policy discussion paper, Banking structure in India — the way forward, on August 27, 2013," RBI said.



Relaxed guidelines

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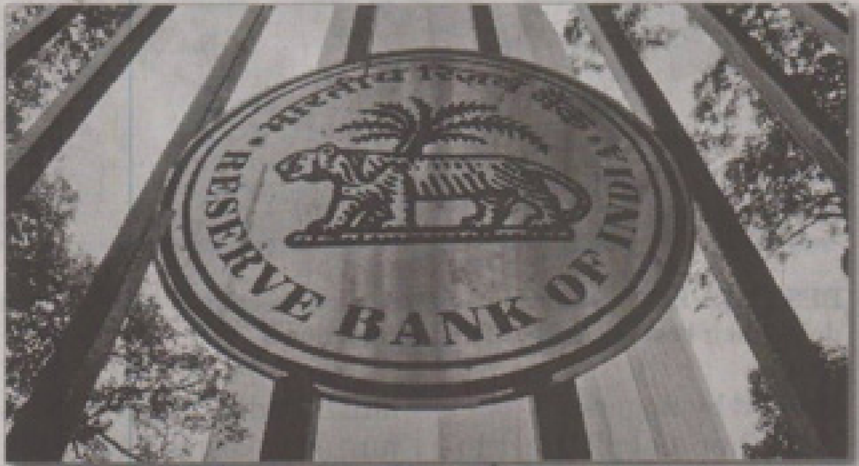
Turn to P3

RBI's move to have adverse effect on PSBs, says expert

From P1



"On a thorough examination of the pros and cons, the discussion paper made a case for reviewing the current 'Stop and Go' licensing policy and considering a 'continuous authorisation' policy on the grounds that such a policy would increase the level of competition and bring new ideas in the system," the RBI added.

"The feedback on the discussion paper broadly endorsed the proposal of continuous authorisation with adequate safeguards...Based on the experience of licensing two universal banks in 2014 (IDFC Bank and Bandhan Bank) and that of granting in-principle approvals for small finance banks and payments banks, the Reserve Bank has now worked out a new framework for granting licences for universal banks on a continuous basis," the apex bank said.

As for the eligibility of promoters, existing non-banking financial companies (NBFCs) that are 'controlled by residents' and have a successful track record for at least 10 years are among those who can apply for an on-tap licence. In addition, individuals/professionals who are 'residents' and have 10 years of experience in banking and finance would be considered as eligible promoters. Entities/groups in the private sector that are 'owned and controlled by residents and have a successful track record for at least 10 years, provided that if such entity/group has total assets of Rs 5,000 crore or more, the non-financial business of the group does not account for 40 per cent or more in terms of total assets / in terms of gross income, the central bank said.

"It is a welcome move and it will have a far-reaching implication on the financial sector. It will open doors for many new players to come into the banking sector and will help many large NBFCs and large corporate houses to start banks. It will be interesting to see how this will affect the small finance bank space," said Vimal Bhandari, MD & CEO, IndoStar Capital, a Mumbai-based NBFC.

According to an expert, RBI's move will have an adverse effect on public sector banks as they will have to compete with new private players in garnering deposits and selling retail loans. Already, the banking space is getting competitive with the RBI issuing licenses to 11 payment banks and 10 small finance banks and two universal bank licences to Bandhan Bank and IDFC Bank.

According to the 'fit and proper' criteria contained in the draft norms, promoter/promoting entity/promoter group should have a past record of sound financials, credentials, integrity and a minimum 10 years of successful track record.

As for the capital requirement and foreign shareholding, the initial minimum paid-up voting equity capital for a bank shall be Rs 500 crore and thereafter, the bank shall have a minimum net worth of Rs 500 crore at all times. The promoter/s and the promoter group/NOFHC, as the case may be, shall hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked-in for a period of five years from the date of commencement of business of the bank.

The promoter group shareholding shall be brought down to 15 per cent within a period of 12 years from the date of commencement of business of the bank, according to RBI's draft norms. Foreign shareholding in the bank will be as per the existing norms and at 74 per cent as per the current norms.

"The bank shall comply with the provisions of Banking Regulations Act, 1949 and the existing guidelines on prudential norms, as applicable to scheduled commercial banks. The bank is precluded from having any exposure to its promoters, major shareholders who have shareholding to the extent of 10 per cent or more of paid-up equity shares in the bank, the relatives of the promoters as also the entities in which they have significant influence or control," the central bank said.

The bank should get its shares listed on the stock exchanges within six years of the commencement of business. The business plan submitted by the applicant should be realistic and viable and address how the bank proposed to achieve financial inclusion.

The draft norms stipulate that the bank shall open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999 as per the latest census). The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic scheduled commercial banks. The board of the bank should have a majority of independent directors.

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