

OPENING DOORS RBI proposes minimum ₹500 cr capital for on-tap licences for universal banks, but many big conglomerates may still not make the cut

Professionals, Fin Cos may Get Licence to Bank

Our Bureau

Mumbai: Professionals and finance companies will get a chance to set up banks but many large business houses which have long dreamt of owning such institutions may not be so lucky.

The Reserve Bank has come out with draft rules that propose a minimum capital of ₹500 crore for granting on-tap licence to new "universal banks" which can function like high-street lenders offering loans, accepting deposits and carrying out fee-based services.


While opening the doors to professionals with a minimum experience of 10 years and giving large non-banking finance companies an opportunity to convert into banks, RBI has said industrial houses and conglomerates that have more than 40% of total business from non-financial activities will be barred from promoting banks.

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On-Tap Permits

New Rules

 Resident individuals and banking professionals with 10 years of experience in banking and finance can apply to start a new bank

 Companies with assets not less than ₹5,000 cr and which derive at least 60% of their gross income or total assets from financial business are eligible

Who Gains?



Non-banking finance companies such as Edelweiss, SKS Microfinance, SREI, IIFL and LIC Housing Finance

What Next?



These are draft guidelines on which comments have been sought from banks, NBFCs, industrial houses & the public. RBI will accept suggestions till June 30

What About Companies?

GROUPS SUCH AS M&M, Anil Ambani's Reliance Group, Aditya Birla Group and L&T may not make the cut as most of their assets/income is from non-financial businesses

HOWEVER, THESE groups are permitted to take up to 10% stake in the new banks



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►► From Page 1

Conglomerates with total assets of ₹5,000 crore and having 60% of their business in financial services can apply for a banking licence, according to the new rules.

In fact, RBI has also spelt out that corporates will not be allowed to hold more than 10% in a bank.

While the proposed rules reflect RBI's willingness to allow more banks and foster competition, the restrictions bring to the fore the regulator's reluctance to let large business houses run banks. Several influential business groups have been lobbying for years to bag banking licences. However, RBI had always felt corporate ownership of banks could work against the interest of the institution and pose a risk to the system.

"Enabling provisions are fairly liberal for a large number of non-banking finance companies and some select corporates, who can look at the opportunity," said Vimal Bhandari, chief executive officer, Indostar Capital. "This will enhance the level of competition in the banking system having ramifications for existing players."

While granting new banking licences, RBI will give preference to entities with diversified shareholding.

Last year, RBI approved the formation of 20 new institutions — small and payments banks — to improve disbursement of small-ticket loans and ser-



vices such as remittances. It has also encouraged mobile and digital banking with the aim to reach the unbanked. Only two applicants — IDFC and Bandhan — were given the permission to set up full-fledged commercial banks.

According to the draft norms, promoters' stake will be locked at 40% for the first five years and the bank will have to be listed within six years. At the end of five years, the promoters' excess stake has to be lowered to 40%. The stake must be brought down to 30% after 10 years of operations and to 15% after 12 years.

While individuals will not have to float a 'non-operative financial holding company' to own a bank, business entities must form a holding company where promoters hold a minimum 51% stake. Such a holding company will not be permitted to set up any new financial services entity for at least three years from the date of commencement of business.

The entities will also be required to have 25% of branches in unbanked rural centres.