

Gist of comments

The comments / suggestions received are summarized below:

A. Eligible promoters

Comments and suggestions were received from various quarters viz. industrial houses, NBFCs, consultants, analysts, corporations, federations, general public etc. The stakeholders sought greater clarity in respect of the stipulations on eligible promoters, clear definition of 'real estate construction', 'well diversified group' and 'promoter group' in the context of eligibility criteria. Further, certain corporations requested clarity as to whether entities with indirect government control through shareholding by public financial institutions would be eligible to apply for banking licenses. Many industrial and business houses have sought clarity on the time frame within which the group companies undertaking key business activities were to be listed.

NBFCs suggested excluding advisory services to real estate funds, investment in construction of real estate property, mortgage loan/housing loan to customers and loans against property for business purposes for calculating exposure to real estate activity to determine eligibility of the applicants.

B. Corporate structure

The comments received on the corporate structure were generally in the nature of suggestions. Many industrial and business houses, NBFCs and a federation suggested that the requirement of the Non-Operative Holding Company (NOHC) to be wholly owned by the promoters may be revisited, and diversified shareholding at the NOHC level be permitted to improve corporate governance and avoid regulatory overlap. Certain NBFCs also suggested that existing Non-operative investment/Holding Companies should be allowed to own / hold shares of the NOHC.

Certain entities engaged in financial services also suggested that instead of transferring all permitted activities from NBFCs to banks, certain specialized business such as infrastructure and housing finance may be allowed to be continued outside the bank.

C. Minimum capital requirements and holding by NOHC

A few suggestions in this regard were received from banks, institutions, industrial and business houses, federations and general public. Certain banks and institutions felt that the minimum capital required should be Rs.10 billion instead of Rs.5 billion. Further, certain industrial and business houses, NBFCs and a federation suggested that the time for dilution of promoter shareholding to 40% in the bank should be increased from 2 years to 3-5 years horizon. There were suggestions to stagger the process of dilution to a period of 15 years and to permit higher stake (26% to 40%) to promoters/NOHC. Certain parties suggested that the schedule for dilution of promoters' shareholding should be reckoned from the date of commencement of business instead of date of licensing of the bank.

D. Foreign shareholding in the bank

Comments / suggestions in this regard were received from foreign banks, institutions, NBFCs, industrial and business houses, etc. Some institutions felt that the foreign shareholding should not be restricted in the new banks and be permitted upto a level of 74%. A few business houses, NBFCs and a federation felt that restricting foreign shareholding to 49% for initial 5 years was not a deterrent. Further, a federation suggested that 5% cap for non-resident individual / group is passive and that it would be important to raise the limit from 5% to 25% to attract strategic investors and bring synergies in banking.

E. Corporate governance

Several suggestions were received from NBFCs, infrastructure companies, industrial and business houses, consultants, general public, etc. Some

infrastructure companies suggested that infrastructure business should be allowed to be run outside the bank with stringent and appropriate regulatory compliance. They also suggested that on infrastructure companies getting converted into banks, exemption from CRR, SLR, Priority Sector Lending etc should be granted in the initial years.

NBFCs suggested that a time span of 2-3 years or 5-10 years should be given to the bank to transfer activities permitted to it from other entities / NBFCs in the group. NBFCs also felt that the tax implication for transferring existing financial services business to the bank should be addressed.

Certain other NBFCs suggested that a large number of independent directors in a holding company are redundant. Further, an industrial house suggested that some leeway for common directorship between NOHC and the bank as well as the bank and the group companies should be allowed.

F. Business model

A few suggestions / comments were received from financial institutions, business houses, consultants and NBFCs on this topic. An FII suggested that targets for financial inclusion by the new banks should be specified and that the Head Office of banks (not Registered Office) should be encouraged to be based in a non-metro centre. Further, an NBFC opined that a phased approach of five years from the commencement of operations to upgrade to modern infrastructure would be realistic for switching over to Core Banking Solution (CBS).

G. Other conditions

Several suggestions were received from NBFCs, infrastructure companies, industrial and business houses, consultants, federations, chambers, banks, general public, etc. Certain industrial and business houses, NBFCs, federations, chambers, banks and consultants suggested that 2 years period is a short period

for listing of banks and a period of 4-5 years should be provided for the same. Further, many of them felt that the restriction of not permitting the NOHC to set up any new financial services entity for at least three years should be removed. Some of the consultants also suggested that if the NOHC or the promoter entity holding the NOHC is listed, listing the banking entity may not be imposed.

Certain NBFCs, federations and chambers felt that the requirement of the bank having 25% of branches in unbanked rural centres is too onerous; therefore it was suggested that the requirement could be revised to 15% to ensure level playing field between the existing and new banks. Further, a society sought clarification if the group businesses are to be listed before applying for banking license.

H. Additional considerations in respect of promoter groups having 40% or more assets / income from non-financial business

A few industrial and business houses had offered their comments / suggestions on the subject. A few of them had also sought clarifications on certain issues. Certain industrial house sought clarifications and definitions of terms such as business associates, major suppliers and customers. A business house sought clarification as to what information about the applications would be put in the public domain during the licensing process.

Reserve Bank will take these suggestions / comments into account while finalizing the guidelines.