

RBI Press Release

Indian Promoters' can hold 49 per cent in Private Banks

(June 7, 2002)

In order to provide a level playing field, it has been decided to raise the maximum limit of shareholding of Indian promoters in private sector banks from 40 per cent to 49 per cent of their paid up capital.

In terms of the revised guidelines for entry of new private sector banks issued on January 3, 2001 promoters' contribution for setting up a new bank was restricted to 40 per cent of the paid up capital of the bank at any point of time. In case the initial contribution to capital was in excess of the minimum proportion of 40 per cent, promoters were required to dilute their excess stake after one year of the bank's operation. Promoters' contribution included the equity of the Indian shareholder and foreign co-promoter, if any. In the case of new private sector banks established under the earlier guidelines issued on January 22, 1993, the licensing conditions prescribed by the Reserve Bank of India stipulated that the promoters' equity should be brought down to 40 per cent of the paid up capital of the bank within a stipulated period.

Further, the Reserve Bank of India had, in February 2002, clarified that Foreign Direct Investment (FDI) up to 49 per cent from all sources would be permitted in private sector bank under the automatic route subject to the conformity with the guidelines issued from time to time. Consequently, FDI through strategic investment or private placement in a private sector bank could go up to 49 per cent of the bank's equity. This would be higher than the limit of 40 per cent prescribed for promoters leading to an anomalous situation *vis-a-vis* equity holding of Indian promoters.

The position was, therefore, re-examined in consultation with Government of India and the maximum limit of shareholding of Indian promoters in private sector banks has now been raised to 49 per cent of their paid up capital in order to provide a level playing field. The other licensing conditions for entry of new banks and those stipulated for FDI will remain the same.