

PRESS RELEASE



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**RBI unveils Roadmap for Presence of Foreign Banks in India
And Guidelines on Ownership and Governance in Private Banks**

The Reserve Bank of India (RBI) today released the roadmap for presence of foreign banks in India and guidelines on ownership and governance in private sector banks. Shri P Chidambaram, Minister of Finance, Government of India, in his speech announcing the Union Budget for 2005-2006 today, stated that the "RBI has prepared a roadmap for banking sector reforms and will unveil the same."

Accordingly, the following three documents have been released:

- (a) Roadmap for presence of foreign banks in India along with
- (b) Annex for setting up of wholly owned banking subsidiaries and
- (c) Guidelines on ownership and governance in private sector banks

Roadmap for Presence of Foreign Banks in India

It may be recalled that the Ministry of Commerce and Industry, Government of India had, on March 5, 2004 revised the existing guidelines on foreign direct investment (FDI) in the banking sector. These guidelines also included investment by non-resident Indians (NRIs) and FIIs in the banking sector.

As per the guidelines the aggregate foreign investment from all sources was allowed up to a maximum of 74 per cent of the paid up capital of the bank while the resident Indian holding of the capital was to be at least 26 per cent. It was also provided that foreign banks may operate in India through only one of the three channels, namely (i) branch/es (ii) a Wholly owned Subsidiary or (iii) a subsidiary with an aggregate foreign investment up to a maximum of 74 per cent in a private bank. In consultation with the Government of India, RBI has released the road map for presence of foreign banks in India to operationalise the guidelines.

The roadmap is divided into two phases. During the first phase, between March 2005 and March 2009, foreign banks will be permitted to establish presence by way of

setting up a wholly owned banking subsidiary (WOS) or conversion of the existing branches into a WOS.

To facilitate this, RBI has also issued detailed guidelines. The guidelines cover, *inter alia*, the eligibility criteria of the applicant foreign banks such as ownership pattern, financial soundness, supervisory rating and the international ranking. The WOS will have a minimum capital requirement of Rs. 300 crore, i.e., Rs 3 billion and would need to ensure sound corporate governance. The WOS will be treated on par with the existing branches of foreign banks for branch expansion with flexibility to go beyond the existing WTO commitments of 12 branches in a year and preference for branch expansion in under-banked areas. The Reserve Bank may also prescribe market access and national treatment limitation consistent with WTO as also other appropriate limitations to the operations of WOS, consistent with international practices and the country's requirements.

During this phase, permission for acquisition of share holding in Indian private sector banks by eligible foreign banks will be limited to banks identified by RBI for restructuring. RBI may if it is satisfied that such investment by the foreign bank concerned will be in the long term interest of all the stakeholders in the investee bank, permit such acquisition. Where such acquisition is by a foreign bank having presence in India, a maximum period of six months will be given for conforming to the 'one form of presence' concept.

The second phase will commence in April 2009 after a review of the experience gained and after due consultation with all the stakeholders in the banking sector. The review would examine issues concerning extension of national treatment to WOS, dilution of stake and permitting mergers/acquisitions of any private sector banks in India by a foreign bank in the second phase.

Guidelines on Ownership and Governance For Private Banks

It may be recalled that the Reserve Bank had released a draft policy framework for ownership and governance in private sector banks on July 2, 2004 for discussion and feed back. These guidelines emphasised desirability of diversified ownership in banks, 'fit and proper' status of important shareholders, directors and the CEO and the need for a minimum capital / net worth criteria. Suitable transition arrangements had been provided while keeping the policy and the processes transparent and fair. The guidelines have remained in the public domain for a sufficient length of time and have been widely debated. There is a general consensus on the need for good governance and management in the banking system and desirability of diversified ownership to the extent possible while keeping the overriding objective of ensuring fit and proper status of owners and directors. Certain issues were also raised on the application of the framework to existing banks and the need for enabling shareholding higher than 10 per cent to facilitate restructuring in the banking system and consolidation.

Based on the feedback received and in consultation with the Government of India, the Reserve bank has now finalized the guidelines on ownership and governance. The guidelines provide for higher levels of shareholding, *inter alia*, for ensuring restructuring and consolidation simultaneous with compliance of fit and proper criteria. The present policy of acknowledgement for acquisition / transfer of shares by FIIs will continue based upon the guidelines on acknowledgement of acquisition / transfer of shares issued on February 3, 2004 and RBI may seek certification from the concerned FII of all beneficial interest.

While implementing the above policies it will be ensured by RBI that the approach is consultative, processes are transparent and fair, and a non-disruptive path is followed.

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Chief General Manager

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