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RESERVE BANK OF INDIA

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RBI decides to grant “in-principle” approval for banking licences

The Reserve Bank of India (RBI) has decided today to grant “in-principle” approval to two applicants viz., IDFC Limited and Bandhan Financial Services Private Limited, to set up banks under the Guidelines on Licensing of New Banks in the Private Sector issued on February 22, 2013 ([Guidelines](#)). These two applicants were also recommended as suitable for grant of “in-principle” approval by the High Level Advisory Committee (HLAC) set up by the RBI. The HLAC had also recommended that in the case of Department of Posts which has applied for licence, it would be desirable for the RBI to consider the application separately in consultation with the Government of India. The RBI has accepted the recommendation of the HLAC.

The “in-principle” approval granted will be valid for a period of 18 months during which the applicants have to comply with the requirements under the Guidelines and fulfil the other conditions as may be stipulated by the RBI. On being satisfied that the applicants have complied with the requisite conditions laid down by the RBI as part of “in-principle” approval, they would be considered for grant of a licence for commencement of banking business under Section 22(1) of the Banking Regulation Act, 1949. Until a regular licence is issued, the applicants would be barred from doing banking business.

Background

In the budget speech of the Union Finance Minister for the year 2010-11, it was announced, *inter alia*, that there was a need to extend the geographic coverage of banks and improve access to banking services and that RBI was considering giving some additional banking licences to private sector players. Subsequently, RBI issued Guidelines for licensing of new banks on February 22, 2013.

After withdrawal by two applicants, 25 applications have been considered. Following the Guidelines, a HLAC was set up on October 30, 2013 chaired by former RBI Governor, Dr. Bimal Jalan and comprising three members (viz. Shri C.B. Bhavé, former Chairman, SEBI; Smt. Usha Thorat, former Deputy Governor, RBI; and Shri Nachiket Mor, Director, RBI Central Board) to screen the applications, and to recommend licences only to those applicants who comply with the Guidelines.

In the first stage, the applications were scrutinised by RBI to ensure eligibility of the applicants under the Guidelines. Thereafter, the applications were referred to the HLAC. The HLAC submitted its recommendations to RBI on February 25, 2014 for its consideration.

The RBI assessed the quantitative and qualitative aspects of the applicants as per the criteria laid down in the Guidelines. This included analysis of the financial statements of the key entities in the group, 10 year track record of running their businesses, proposed business model for the bank as well as the applicants' demonstrated capabilities for running a bank, plan for expanding inclusion, and culture of compliance and integrity demonstrated by the applicant in its past activities. Based on all this, the RBI took a view of the "fit and proper" status of the applicant.

The decision to grant "in-principle" approval has been taken after consulting the Election Commission, given that the Code of Conduct for the coming elections is in force.

RBI's approach in this round of bank licences could well be categorised as conservative. At a time when there is public concern about governance, and when it comes to licences for entities that are intimately trusted by the Indian public, this may well be the most appropriate stance. Going forward, RBI intends to use the learning from this licensing exercise to revise the Guidelines appropriately and move to give licences more regularly, that is, virtually "on tap". It will also frame categories of differentiated bank licences, building on its prior discussion paper, and this will allow a wider pool of entrants into banking. RBI believes that some of those entities who did not qualify in this round for a full-fledged banking licence could well apply in future rounds or could apply for differentiated licences under the proposed framework.

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