प्रेस प्रकाशनी PRESS RELEASE

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RESERVE BANK OF INDIA
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May 05, 2016

**RBI releases "Draft Guidelines for 'on tap' Licensing of Universal Banks in the Private Sector"**

The Reserve Bank of India today released on its website, "Draft Guidelines for 'on tap' Licensing of Universal Banks in the Private Sector". It has sought views/comments on the draft guidelines from banks, non-banking financial institutions, industrial houses, other institutions and the public at large. Suggestions and comments on the draft guidelines may be sent by June 30, 2016 to the Chief General Manager, Reserve Bank of India, Department of Banking Regulation, Central Office, 13th floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai-400001. Suggestions/comments can also be emailed by clicking here.

Final guidelines will be issued and the process of inviting applications for setting up of new universal banks in the private sector will be initiated after receiving feedback, comments and suggestions on draft guidelines.

In a departure from the earlier guidelines on universal banks dated February 22, 2013, the present guidelines include (i) resident individuals and professionals having 10 years of experience in banking and finance as eligible persons to promote universal banks; (ii) large industrial/business houses are excluded as eligible entities but permitted to invest in the banks to the extent of less than 10 per cent; (iii) Non-Operative Financial Holding Company (NOFHC) has now been made non-mandatory in case of promoters being individuals or standalone promoting/converting entities who/which do not have other group entities; (iv) The NOFHC is now required to be owned by the promoter/promoter group to the extent of at least 51 per cent of the total paid-up equity capital of the NOFHC, instead being wholly owned by the promoter group; and (v) Existing specialised activities have been permitted to be continued from a separate entity proposed to be held under the NOFHC subject to prior approval from the Reserve Bank and subject to it being ensured that similar activities are not conducted through the bank as well.

**Key features of the guidelines:**

**(I) Eligible Promoters**

(i) Existing non-banking financial companies (NBFCs) that are 'controlled by residents' and have a successful track record for at least 10 years.

(ii) Individuals / professionals who are 'residents' and have 10 years of experience in banking and finance.

(iii) Entities / groups in the private sector that are 'owned and controlled by residents' [as defined in FEMA Regulations, as amended from time to time] and have a successful track record for at least 10 years, provided that if such entity / group has total assets of ₹50 billion or more, the non-financial business of the group does not account for 40 per cent or more in terms of total assets / in terms of gross income.

**(II) 'Fit and Proper' criteria**

Promoter/promoting entity/promoter group should have a past record of sound financials, credentials, integrity and have a minimum 10 years of successful track record.

**(III) Corporate structure**

The requirement of Non-Operative Financial Holding Company (NOFHC) is not mandatory for individual promoters or standalone promoting/converting entities who/which do not have other group entities. Individual promoters/promoting entities/converting entities that have other group entities, shall set up the bank only through an NOFHC. The NOFHC shall be owned by the promoter/promoter group to the extent of not less than 51 per cent of the total paid-up equity capital of the NOFHC. Specialised activities would be permitted to be conducted from a separate entity proposed to be held under the NOFHC subject to prior approval from the Reserve Bank and subject to being ensured that similar activities are not conducted through the bank.

**(IV) Minimum capital requirement**

The initial minimum paid-up voting equity capital for a bank shall be ₹5 billion. Thereafter, the bank shall have a minimum net worth of ₹5 billion at all times.

The promoter/s and the promoter group/NOFHC, as the case may be, shall hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked-in for a period of five years from the date of commencement of business of the bank. The promoter group shareholding shall be brought down to 15 per cent within a period of 12 years from the date of commencement of business of the bank.

**(V) Foreign shareholding in the bank**

The foreign shareholding in the bank would be as per the existing foreign direct investment (FDI) policy subject to the minimum promoter shareholding requirement indicated in paragraph (IV) above. At present, the aggregate foreign investment limit is 74 per cent.

**(VI) Corporate governance prudential and exposure norms**

The bank shall comply with the provisions of Banking Regulations Act, 1949 and the existing guidelines on prudential norms as applicable to scheduled commercial banks. The bank is precluded from having any exposure to its promoters, major shareholders who have shareholding to the extent of 10 per cent or more of paid-up equity shares in the bank, the relatives of the promoters as also the entities in which they have significant influence or control.

**(VII) Business plan for the bank**

The business plan submitted by the applicant should be realistic and viable and address how the bank proposes to achieve financial inclusion.

**(VIII) Other conditions**

The bank shall get its shares listed on the stock exchanges within six years of the commencement of business by the bank.

The bank shall open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999 as per the latest census). The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic scheduled commercial banks. The board of the bank should have a majority of independent directors.

**(IX) Procedure for application**

- The licensing window will be open on-tap, and the applications in the prescribed form along with requisite information could be submitted to the Reserve Bank at any point of time.
- The applications will be referred to a Standing External Advisory Committee (SEAC) to be set up by the Reserve Bank.
- The Committee will submit its recommendations to the Reserve Bank for consideration.
- The decision to issue an in-principle approval for setting up of a bank will be taken by the Reserve Bank.
- The validity of the in-principle approval issued by the Reserve Bank will be 18 months from the date of granting in-principle approval and would thereafter lapse automatically.
- The Reserve Bank's decision in this regard will be final.
- In order to ensure transparency, the names of the applicants for bank licences and the names of applicants that are found suitable for grant of in-principle approval will be placed on the Reserve Bank's website periodically.

**Background**

It may be recalled that the Reserve Bank of India (RBI) had last issued guidelines for licensing of new banks in the private sector on February 22, 2013. Consequently, the Reserve Bank issued in-principle approval to two applicants and they have since established the banks.

Recognising the need for having an explicit policy on banking structure in India in line with the recommendations of the Narasimham Committee, Raghuram G. Rajan Committee and other viewpoints, the Reserve Bank came out with a policy discussion paper on *Banking Structure in India – The Way Forward* on August 27, 2013. After a thorough examination of the pros and cons, the discussion paper made out a case for reviewing the current 'Stop and Go' licensing policy and for considering a 'continuous authorisation' policy on the grounds that such a policy would increase the level of competition and bring new ideas into the system. The feedback on the discussion paper broadly endorsed the proposal of continuous authorisation with adequate safeguards. The first Bi-monthly Monetary Policy Statement 2014-15 announced on April 1, 2014, among other things, then indicated that after issuing in--principle approval for new licences, the Reserve Bank will start working on the framework for on-tap licensing as well as differentiated bank licences, Building on the Discussion Paper and using the learning from the recent licensing process, such as, the experience of licensing two universal banks in 2014 and granting in-principle approvals for Small Finance Banks and Payments Banks, the Reserve Bank has now worked out the framework for granting licences to universal banks on a continuous basis.

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**Press Release : 2015-2016/2581**