



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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RBI grants “In-principle” Approval to 10 Applicants for Small Finance Banks

The Reserve Bank of India (RBI) has today decided to grant “in-principle” approval to the following 10 applicants to set up small finance banks under the “[Guidelines for Licensing of Small Finance Banks in the private sector](#)” (Guidelines) issued on November 27, 2014.

Names of selected applicants

1. Au Financiers (India) Ltd., Jaipur
2. Capital Local Area Bank Ltd., Jalandhar
3. Disha Microfin Private Ltd., Ahmedabad
4. Equitas Holdings P Limited, Chennai
5. ESAF Microfinance and Investments Private Ltd., Chennai
6. Janalakshmi Financial Services Private Limited, Bengaluru
7. RGVN (North East) Microfinance Limited, Guwahati
8. Suryoday Micro Finance Private Ltd., Navi Mumbai
9. Ujjivan Financial Services Private Ltd., Bengaluru
10. Utkarsh Micro Finance Private Ltd., Varanasi

The “in-principle” approval granted will be valid for 18 months to enable the applicants to comply with the requirements under the Guidelines and fulfil other conditions as may be stipulated by the RBI. On being satisfied that the applicants have complied with the requisite conditions laid down by it as part of “in-principle” approval, the RBI would consider granting them 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 cannot undertake any banking business.

Selection process

The RBI has selected these applicants after three different committees contributing to the final decision, backed by detailed case study for each applicant. The selection process involved the following steps:

A preliminary scrutiny of all the applications involving *prima facie* eligibility including the ability to raise the minimum initial capital and the status of ownership and control by residents as per the Guidelines was carried out by the RBI team. The findings of the preliminary scrutiny were presented to an External Advisory Committee (EAC) constituted under the Chairmanship of Smt. Usha Thorat, former Deputy Governor of the RBI. The EAC recommended applications to be taken up for detailed examination based on *prima facie* eligibility vis-à-vis the Guidelines.

The detailed scrutiny involved assessment of financial soundness, proposed business plan, fit and proper status based on due diligence reports received from the regulators, investigative agencies, banks, etc. An important factor was proposed reach into unbanked areas and underserved sections of the population. The EAC held detailed discussions in multiple sittings on the applications based on the information presented to it. The EAC then submitted its recommendations to the RBI.

An Internal Screening Committee (ISC), consisting of the Governor and the four Deputy Governors of the RBI thereafter examined the applications. The ISC also deliberated on the rationale of the recommendations made by the EAC. After scrutinising all the applications, the ISC made its independent recommendations to the Committee of the Central Board (CCB) of the RBI. In the meeting of the CCB held on September 16, 2015, the external members of the CCB went through the notes, recommendations of EAC and ISC and decided the list of applicants for granting in-principle approval. The Chairman of the EAC was also invited to explain the rationale for the Committee's recommendations.

Going forward, the Reserve Bank intends to use the learning from this licensing round to appropriately revise the Guidelines and move to giving licences more regularly, that is, virtually “on tap”.

Background

It may be recalled that the Committee on Financial Sector Reforms (Chairman: Dr. Raghuram G. Rajan), 2009 had examined the relevance of small banks in the Indian context. The Committee had opined that there was sufficient change in the environment to warrant experimentation with licensing of small banks. It recommended allowing more entry to private well-governed deposit-taking small finance banks (SFBs) offsetting their higher risk from being geographically focussed by requiring higher capital, a strict prohibition on related party transactions, and lower allowable concentration norms. This was reiterated in the policy [discussion paper on Banking Structure in India – The Way Forward](#) that was placed by the Reserve Bank of India on its website on August 27, 2013.

In the Union Budget 2014-2015 presented on July 10, 2014, the Hon’ble Finance Minister announced that:

“After making suitable changes to current framework, a structure will be put in place for continuous authorisation of universal banks in the private sector in the current financial year. RBI will create a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganised sector, low income households, farmers and migrant work force”.

[Draft guidelines for licensing of small finance banks](#) were released for public comments on July 17, 2014. Based on the comments and suggestions received on the draft guidelines, [final guidelines for licensing of small finance banks](#) were issued on November 27, 2014. The Reserve Bank also issued [clarifications to the queries](#) (numbering 176) on the guidelines on January 1, 2015. The Reserve Bank received [72 applications for small finance banks](#). Subsequently, Microsec Resources Private Limited, Kolkata withdrew its application. In respect of another application made by

Shri Ajay Singh Bimbhet and others, two of the co-promoters withdrew their candidature and thereby the application was deemed to have been withdrawn.

Additional Details

The guidelines provided that after initial screening for *prima facie* eligibility, the applications would be referred to an External Advisory Committee (EAC) constituted for the purpose. Accordingly, to screen the applications, and to recommend licences only to those applicants who comply with the Guidelines, the Reserve Bank, on February 4, 2015, set up [an EAC chaired by Smt. Usha Thorat](#), former Deputy Governor, Reserve Bank of India. EAC had three members: Shri M. S. Sahoo, former member SEBI; Shri M. S. Sriram, Professor at Indian Institute of Management (IIM) Bangalore and Shri M. Balachandran, Chairman, National Payments Corporation of India. Later, as Shri M. S. Sahoo, recused himself from the Committee on account of his appointment as a member of Competition Commission of India, the Reserve Bank, in April 2015, appointed Shri Ravi Narain, Vice Chairman, National Stock Exchange of India Limited to the Committee.

Alpana Killawala

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