

RBI clears decks for universal banking

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Issues new norms for 'on-tap' licensing; large industrial houses barred

Mumbai, August 1:

The Reserve Bank of India on Monday unveiled guidelines for 'on-tap' licensing of new private banks, opening the door for entities such as Edelweiss Financial Services, JM Financial, LIC Housing Finance, Magma Fincorp, Muthoot Finance, Shriram Capital and UAE Exchange & Financial Services, which had missed the bus in the last round, to float universal banks.

The guidelines in respect of promoter eligibility, corporate structure, foreign shareholding, dilution of promoter group shareholding and listing on the stock exchanges appear liberal as compared to the 2013 guidelines under which IDFC Ltd and Bandhan Financial Services were allowed to set up banks.

Under the new guidelines, resident individuals and professionals with 10 years' experience in banking and finance are eligible to promote universal banks. Previously, only entities/groups in the private sector, entities in the public sector and non-banking financial companies (NBFCs) were eligible.

Large industrial houses are excluded as eligible entities, but can invest in the (universal) banks up to 10 per cent. A universal bank is a bank offering retail, wholesale and investment banking services under one roof.

Under the new guidelines, a Non-Operative Financial Holding Company (NOFHC) is not mandatory for setting up a bank in case the promoters are individuals or stand-alone promoting/converting entities who/which do not have other group entities.

The RBI has said that in case a bank is to be set up through an NOFHC, a promoter/promoter group should hold not less than 51 per cent of the total paid-up equity capital in the holding company. Earlier, entities/groups had to set up a bank through a wholly owned NOFHC.

Entities/groups in the private sector that are 'owned and controlled by residents' and have a track record of at least 10 years, are eligible as promoters. If such entity/group has total assets of ₹ 5,000 crore or more, the non-financial business of the group should not account for 40 per cent or more in terms of total assets/gross income.

Existing NBFCs 'controlled by residents' with a track record of at least 10 years are also eligible as promoters. However, any NBFC, which is a part of the group that has total assets of ₹ 5,000 crore or more and where the non-financial business accounts for 40 per cent or more is not eligible.

Paid-up capital

The initial minimum paid-up voting equity capital has been left unchanged at ₹ 500 crore. However, thereafter, the bank must have a minimum net worth of ₹ 500 crore at all times.

The criteria requiring promoter/s and the promoter group / NOFHC to hold at least 40 per cent of the paid-up voting equity capital, which will be locked-in for five years from commencement of business, remains unchanged. The promoter group shareholding will need to be brought down to 15 per cent within 15 years (from 12 years earlier).

The (universal) bank has to get its shares listed on the stock exchanges within six years (from three years earlier) of the commencement of business.



The current aggregate foreign investment limit is 74 per cent will apply to universal banks. Under the earlier regime, the aggregate non-resident shareholding could not exceed 49 per cent for the first five years.

George Antony, Managing Director, UAE Exchange India, said: "...The final call on application for the universal banking licence will be decided post the board meeting to be convened shortly."

New guidelines

RBI allows resident Indian individuals/senior professionals to promote banks

Non-Operative Financial Holding Company structure not mandatory for individuals or standalone entities

Promoters have to hold a minimum of 51% in NOFHC down from the earlier 100%

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