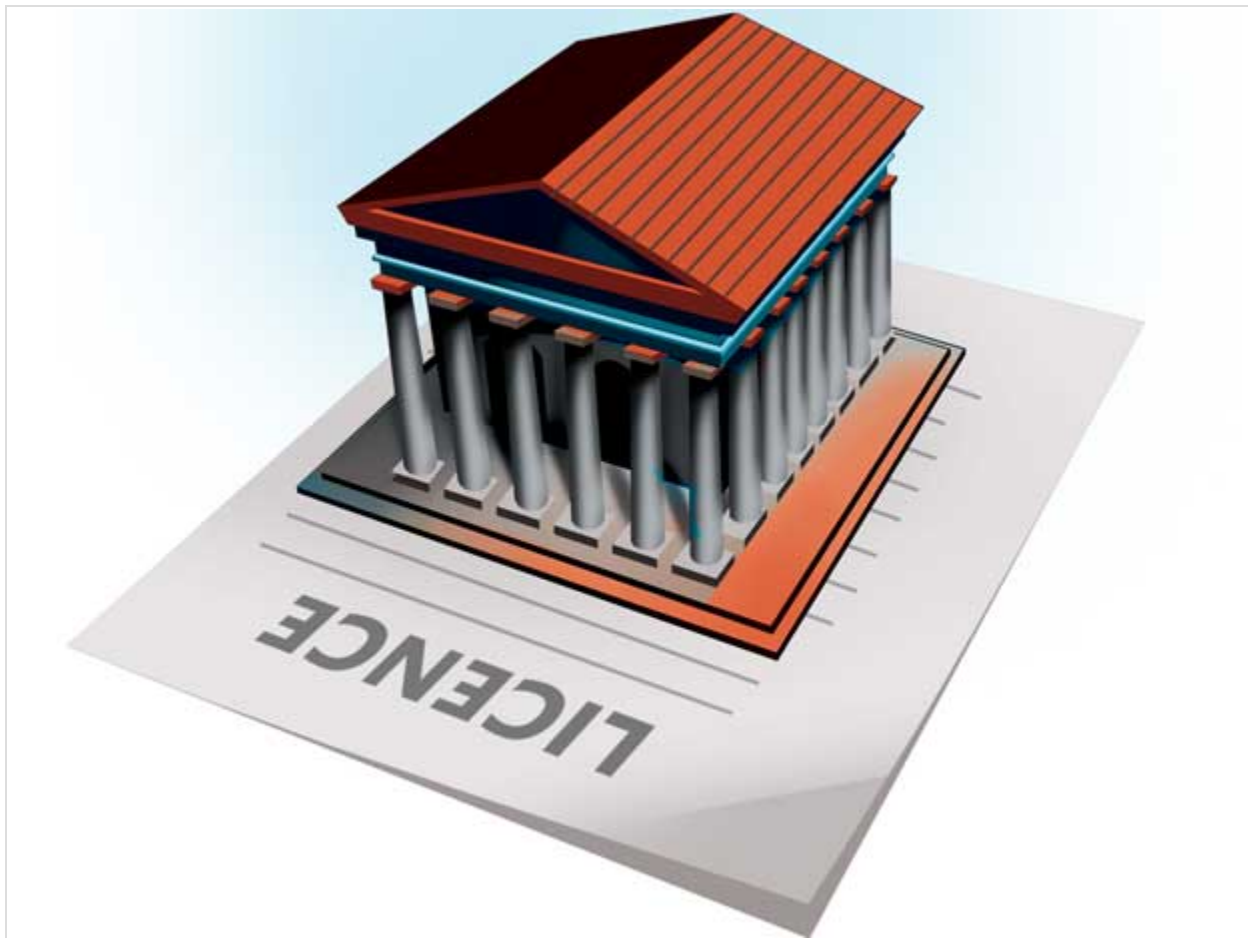


RBI ushers in on-tap bank licence

Conglomerates can hold only 10% stake; focus on NBFCs not controlled by large groups

Anup Roy | Mumbai August 02, 2016 Last Updated at 00:59 IST



In

what could be Raghuram Rajan's last banking reform before he bows out in the first week of September, the Reserve Bank of India (RBI) on Monday released the final guidelines for on-tap licensing of universal banks in the private sector, under which it ring-fenced the banking system from large industrial houses, excluding them from floating banks in the future. But conglomerates have been allowed to hold up to 10 per cent in the lenders.

The focus, as elaborated in the draft guidelines on May 5, continued to be towards non-banking finance companies (NBFC) which are not controlled by large groups.

For this purpose, RBI defined large group NBFC as an entity which is a part of a group having total assets of Rs 5,000 crore or with the non-financial business of the group not accounting for 40 per cent

or more in terms of total assets or gross income. However, experts still see some standalone NBFCs wanting to become banks to improve their cost of funds, especially those that compete with banks in the same space.

“Those who have pricing advantage would still not want to become a bank, but there are only a handful of such NBFCs,” said Abhishek Bhattacharya, director and co-head, financial institutions at India Ratings.

According to Bhattacharya, the new banks would mostly be focused on niche areas, but even then the RBI would not be in a hurry to dole out licences before fully assessing how Bandhan Bank and IDFC Bank, the latest two entrants, fared in the game.

Certainly, awarding payments bank licence did not work out well for the central bank as after giving 11 licences, three said they were not interested anymore. UAE Exchange India, one universal banking licence aspirant, prefers universal licence over payments banks.

“Universal banks are a better choice compared to payment banks or small banks because these can provide full-fledged banking. Giving out more universal bank licence will give boost to the economy and help it grow further,” said George Antony, the managing director of UAE Exchange.

“A final call on application for the universal banking licence will be taken after the board meeting to be convened shortly,” Antony said.

PAVING THE WAY FOR NEW BANKS

- Resident individuals with 10 years of experience in banking and finance sector eligible to promote banks
- Banks should be floated under a Non-Operative Financial Holding Company (NOFHC)
- NOFHC not mandatory for individuals or standalone promoters who do not have other group entities
- Not less than 51% of the total paid-up equity capital of the NOFHC shall be owned by the promoter/promoter group
- Existing specialised activities can be carried out under NOFHC, provided the bank does not do so
- Minimum capital requirement is Rs 500 crore
- Foreign shareholding capped at 74%
- Shares should be listed within six years of the commencement of business by the bank
- Business plan should spell out clearly how the bank aims to achieve financial inclusion
- The bank shall open at least 25% of its branches in un-banked, rural centres

Nirmal Jain, the chairman and founder of IIFL Group said the company had applied for a banking licence once and therefore has interest in floating a bank. But Jain did not commit before discussing the issue at the company board level.

“These are once in a lifetime decisions and cannot be decided in a hurry. But now that it is on-tap, there is no rush,” Jain said.

A senior official with Muthoot Finance said the group would also want to apply for a universal licence.

RBI's agenda in doling out new banks is financial inclusion and the on-tap licence guidelines make it amply clear. "The business plan will have to address how the bank proposes to achieve financial inclusion," RBI said in its guidelines.

The central bank said that it would also prefer to give licence to any resident individuals and professionals having 10 years of experience in banking and finance at a "senior level."

The central bank allowed the promoter groups to bring down their stake in the bank to 15 per cent in 15 years, against 12 years proposed in the draft.

An internal screening committee, consisting of the governor and the deputy governors, will examine the applications and would then submit the recommendations to the RBI board for the final decision.

"Applicants aggrieved by the decision of the committee of the central board can prefer an appeal against the decision," the RBI said in its final guidelines.

This is a departure from the central bank's usual practice as the decision is usually final and binding on the applicants. Certainly this was the case till the draft version. While the new bank has to be floated through a Non-Operative Financial Holding Company (NOFHC), such an entity is not compulsory in case of promoters being individuals or standalone promoting entities which do not have other group entities.

The promoter group should hold at least 51 per cent of the total paid-up equity capital of the NOFHC. In fact, no shareholder, other than the promoters/promoter group, "shall have significant influence and control in the NOFHC," the guidelines said.

"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," the central bank said in its guidelines.

The minimum paid-up equity capital for a bank would be Rs 500 crore. The promoter group should have at least 40 per cent of the paid up voting rights in the bank, to be locked in for five years from the date of commencement of business of the bank, which then should be brought down to 15 per cent in 15 years. The foreign shareholding in the bank would be as per the existing foreign direct investment (FDI) policy, which at present caps it at 74 per cent.