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RBI-Kotak stand-off: Review panel for ownership norms among key proposals

BY PTI | MAR 10, 2019, 03.34 PM IST

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MUMBAI: Amid calls for changes to the contentious ownership norms for private sector lenders, the RBI is likely to look into various proposals including setting up of a [review panel](#) and making the regulations more friendly towards Indian control of home-grown banks.

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The move is significant as it comes in the wake of the regulator having been dragged to the Bombay High Court by [Kotak Mahindra Bank](#). Its peer [Bandhan Bank](#) merged with Gruh Finance, in a deal widely considered to have been driven by the need to comply with the promoter [shareholding](#) norms.

"RBI has received at least three proposals and one of them relates to setting up a review committee on ownership norms for private sector banks and all options are being explored," a source said.

Other proposals relate to individual cases including granting more time and more possible routes to meet the norms, unlike the review panel one which would have wider ramifications for the entire sector, the source added.

The common viewpoint on both sites is that the stand-off with Kotak Mahindra Bank needs to be resolved at the earliest as it might be sending a wrong impression to the investor community, including the foreign institutions.

An email sent to the banking regulator did not elicit a response immediately. Governor Shaktikanta Das had recently declined to answer a specific question on whether the RBI is mulling a re-look at the promoter shareholding norms, citing that the matter is subjudice.

It can be noted that KMB had taken the unprecedented action of dragging the RBI to court last year, days ahead of the December 31 deadline to get the promoter holding down to 20 per cent from the around 30 per cent loomed.

The Bombay High Court has refused any temporary relief to KMB and the matter is scheduled to come up for hearing on Tuesday.

The bank had proposed one preference share route to reduce the promoter shareholding in August 2018, only to be shot down by the regulator.

In late December, there was also speculation of billionaire investor Warren Buffet's Berkshire Hathway entering KMB.

Kotak has found support from the right-wing bodies, who have been urging the RBI to not insist on the promoter holding requirements, saying this will naturally increase the foreign investors' play in the Indian banks.

The Centre for Economic Policy Research (CEPR), a right-leaning think tank, has said it is high time for a review of regulations and for re-working the model of governance and ownership norms for [Indian private sector banks](#).

The Swadeshi Jagaran Manch (SJM) has also said there was an urgent need for a rethink on the regulatory framework for private bank ownership so that it remains in Indian hands.

"None of us want Indian homegrown banks to go into hands of foreign players," the SJM had said recently.

Almost all major private sector lenders have ownership of over 50 per cent by foreign investors collectively. The RBI wants the banks to have a diversified ownership in best interest of governance practices and also limits the voting rights in cases.

In the last few months, Kotak group has successfully tapped into foreign money like getting a USD 500 million commitment from the [Abu Dhabi Investment Authority](#) (ADIA) to invest in stressed assets in the country.

In case of Bandhan Bank, the micro-lender turned commercial bank announced a deal months after facing regulatory pressure for not

complying with promoter shareholding requirements.

The RBI had refused to allow the lender from automatically opening branches and had also frozen CEO C S Ghosh's remuneration.

The bank responded with the all-share Gruh deal, which brought down the promoter shareholding to 60 per cent, which is still higher than the 40 per cent requirement. In media interactions, the bank management has sounded confident of meeting the 40 per cent level.

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