Payments banks may be allowed to convert into small finance banks

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Reserve Bank of India comes out with draft norms for ‘on-tap’ licensing of SFBs

The Reserve Bank of India may allow existing payments banks to convert into small finance banks (SFBs) if they meet the eligibility criteria, according to the RBI’s draft guidelines for ‘on-tap’ licensing for SFBs.

This proposal comes against the backdrop of five of the 11 applicants that were granted ‘in-principle’ licence in August 2015 to start a payments bank either deciding against such ventures or giving up the licence after commencing operations.

In the draft guidelines for SFBs, the RBI has proposed doubling the minimum paid-up equity capital to ₹200 crore and lowering the promoter’s stake to 15 per cent in 15 years.

If an existing payments bank desires to convert into an SFB, and meets the eligibility criteria mentioned in Paragraph 3 of these guidelines, it can submit an application.

To encourage urban co-operative banks (UCBs) to convert into SFBs, the RBI has pegged the minimum net worth lower at ₹100 crore from the date of commencement of business. However, they will have to increase their minimum net worth to ₹200 crore within five years.

The draft guidelines stipulate that the promoters should hold at least 40 per cent of the paid-up voting equity capital of the bank, which will be locked in for five years from the date of commencement of business.

If the initial shareholding is over 40 per cent, it should be brought down to 40 per cent within five years. Gradually, the promoter's stake should be lowered to 30 per cent in 10 years and 15 per cent in 15 years.

Under the current guidelines for SFBs, the promoters have to reduce their stake to 26 per cent within 12 years of the date of commencement of business of the bank.

"Whether a promoter ceases to be a promoter or could exit from the bank, after completing the lock-in period of five years, would depend on the RBI's regulatory and supervisory comfort/discomfort and SEBI regulations in this regard," the draft norms further said.

The RBI had originally issued guidelines for SFBs in November 2014, and at present, there are 10 such banks operating. In its second bi-monthly monetary policy in June this year, the RBI had announced plans to come out with norms for on-tap licensing of SFBs.

Resident individuals and professionals, singly or jointly, each having at least 10 years of experience in banking and finance at a senior level, and companies and societies in the private sector that are owned and controlled by residents with a successful track record of running their businesses for at least five years, will be eligible as promoters to set up SFBs, the RBI has said.

Further, existing NBFCs, micro finance institutions and local area banks in the private sector that are controlled by residents and have a successful track record of five years can also opt for converting into SFBs.

"However, joint ventures by different promoter groups for the purpose of setting up SFBs small finance banks would not be permitted,"the RBI has said, adding that proposals from public sector entities and large industrial house and business groups, including from NBFCs promoted by them, autonomous boards and bodies set up under enactment of a State legislature, state financial corporations, subsidiaries of development financial institutions, will also not be entertained.

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