

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:1388  
ANSWERED ON:05.03.2010  
SETTING UP OF LOCAL AREA BANKS  
Basavaraj Shri Gangasandra Siddappa

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Raghuram Rajan Committee has recommended for the setting up of Local Area Banks (LABs) in the country;
- (b) if so, the details thereof;
- (c) whether the Reserve Bank of India has given in-principle approval for setting up of LABs with jurisdiction over three contiguous districts;
- (d) if so, the details thereof; and
- (e) the steps being taken by the Government in this regard?

**Answer**

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI NAMO NARAIN MEENA)

- (a) & (b): The Raghuram Rajan Committee has, inter alia, recommended to allow more entry to private deposit-taking small finance banks to bring local knowledge to bear on the products that are needed locally. The LABs are also expected to offer an entry point into the banking system, which some entities can use to eventually grow into large banks.
- (c) to (e): Licensing of LABs was allowed in 1996 and, accordingly, RBI gave permission for six LABs to be set up of which 4 are still operating in the country. Subsequently, a review group was constituted by RBI which found that LABs had not made any significant impact on the local communities in their areas of operation. The Group also concluded that the LAB model itself has fundamental weaknesses that attracts concentration risk due to the operations of these banks being restricted to a small areas of operation of three contiguous districts. Based on the recommendations of the Group in 2002 and with the concurrence of the Government of India it was decided that no new LABs would be licensed till the existing LABs were placed on sound footing.