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**STANDING COMMITTEE ON FINANCE
(2013-14)**

FIFTEENTH LOK SABHA

**MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)**

**‘POLICY ON NEW LICENCES IN THE
BANKING SECTOR’**

SEVENTY NINTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2013/ Agrahayana, 1935 (Saka)

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**MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)**

‘POLICY ON NEW LICENCES IN THE BANKING SECTOR’

Presented to Hon’ble Speaker on 18 October, 2013

Presented to Lok Sabha on 09 December, 2013

Laid in Rajya Sabha on 09 December, 2013



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2013/ Agrahayana, 1935 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON FINANCE (2013-14)

Shri Yashwant Sinha - Chairman

MEMBERS

LOK SABHA

2. Shri Suwendu Adhikari
3. Dr. Baliram
4. Shri Sudip Bandyopadhyay
5. Shri Udayanraje Bhonsle
6. Shri Gurudas Dasgupta
7. Shri Nishikant Dubey
8. Shri Rahul Gandhi
9. Shri Deepender Singh Hooda
10. Shri Chandrakant Khaire
11. Shri Bhartruhari Mahtab
12. Dr. Chinta Mohan
13. Shri Sanjay Brijkishorlal Nirupam
14. Shri Prem Das Rai
15. Shri S.S. Ramasubbu
16. Adv. A. Sampath
17. Shri Thakur Anurag Singh
18. Shri Subodh Kant Sahai*
19. Dr. M. Thambidurai
20. Shri Shivkumar Udasi
21. Shri Dharmendra Yadav

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Rajeev Chandrasekhar
24. Smt. Renuka Chowdhury
25. Shri Piyush Goyal
26. Shri Satish Chandra Misra
27. Dr. Mahendra Prasad
28. Shri Ravi Shankar Prasad
29. Shri P. Rajeeve
30. Shri Praveen Rashtrapal
31. Dr. Yogendra P. Trivedi

SECRETARIAT

- | | |
|---------------------------------|-----------------------|
| 1. Shri A.K. Singh | - Joint Secretary |
| 2. Shri Ramkumar Suryanarayanan | - Additional Director |
| 3. Shri Kh. Ginlal Chung | - Committee Officer |

* Nominated as Member of the Standing Committee on Finance w.e.f 16th September, 2013

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee, present this Seventy Ninth report on the subject 'Policy on New Licences in the Banking Sector'.

2. The Committee took evidence of the representatives of the Reserve Bank of India at their sittings held on 9 April, 2013.

3. The Committee, at their sittings held on 27 September, 2013 considered and adopted the draft report and authorized the Chairman to finalise the same and present it to the Speaker/Parliament.

4. The Committee wish to express their thanks to the officials of the Ministry of Finance (Department of Financial Services) and the Reserve Bank of India (RBI) for furnishing the requisite material and information which were desired in connection with the examination of the subject. The Committee wish to express their thanks to representatives of the Reserve Bank of India for appearing before the Committee.

5. For facility of reference, the observations/recommendations of the Committee have been printed in thick type in the body of the Report.

New Delhi;
27 September, 2013
05 Asvina, 1935 (Saka)

YASHWANT SINHA,
Chairman,
Standing Committee on Finance.

REPORT

I BACKGROUND

Financial sector reforms were initiated in India in the early nineties based on the recommendations of Narasimham Committee (1991). With a view to injecting competitiveness and improving efficiency and productivity in the banking sector, the Committee had recommended that the Reserve Bank of India (RBI) should permit establishment of new banks in the private sector. In this backdrop, guidelines for licensing of new banks in the private sector were issued by RBI in January, 1993 and 10 new banks were set up in the private sector.

1.2 **Local Area Bank Scheme** was introduced in August 1996 pursuant to announcement made by the then Finance Minister in his budget speech. Its objective was to bridge the gaps in availability of credit and to enhance the framework of institutional credit in the rural and semi-urban areas, and also provide efficiency and competitive financial intermediation services in the areas of operation comprising three contiguous districts. Out of 6 LABs that were licensed, one LAB's license was cancelled in January 2002 for grave irregularities observed, and another LAB whose financial position was found to be unsatisfactory, was amalgamated with a Public sector Bank under section 45 of the Banking Regulation Act, 1949 in August 2004. As such, only 4LABs are presently functioning.

1.3 **Subsequently, the 1993** guidelines were revised in January 2001 and two more banks were set up in the private sector. While granting 'in principle' approval to two applicants in January 2002 to set up banks in the private sector under the 2001 guidelines, the Reserve Bank in its Press Release dated January 30, 2002 indicated that it would consider inviting fresh applications for new banks in the private sector after three years after further reviewing the working of the private sector banks. It was also indicated that the guidelines issued in 2001 may be revised if considered necessary.

Consolidation phase in India

1.4 Since the issue of guidelines on entry of new banks in the private sector in 2001, there was a phase of consolidation in the private sector banking scenario. 15

amalgamations, of which, 9 voluntary and 6 compulsory, took place with other stronger banks. Many of these private sector banks had been amalgamated with other strong banks either due to weak financials or voluntarily for the purpose of creating a stronger and larger bank. Further, a conducive environment for voluntary amalgamation was created by way of issue of a circular on dated May 11, 2005 on the subject, detailing with the process for such amalgamations. It was, therefore, felt that the immediate need was to consolidate and strengthen the banking system and leverage its strength for financial inclusion, than setting up of new banks in the private sector banks.

II RECOMMENDATIONS OF COMMITTEES

2.1 Meanwhile, certain recommendations were made by Committees for setting up new banks in the private sector. Some of the recommendations are as under:

High Level Investment Commission

2.2 The February 2006 report of The High Level Investment Commission, constituted by the Government of India in December 2004 with the objective of enhancing both foreign and domestic investment levels in India, has, among other things, recommended permitting of ownership in Indian banks up to 15 percent by Indian corporates, and also to increase the limit of holdings by any one foreign bank up to 15 percent in private banks.

High Level Committee on Fuller Capital Account Convertibility

2.3 The July 2006 report of The High Level Committee on Fuller Capital Account Convertibility, constituted by the Reserve Bank of India in March 2006 under the chairmanship of Shri S. S. Tarapore, has recommended that RBI should evolve policies to allow, on a case by case basis, industrial houses to have a stake in Indian banks or promote new banks. The policy may also encourage non-banking finance companies to convert into banks. It has also recommended that after exploring these avenues until 2009, foreign banks may be allowed to enhance their presence in the banking system.

Committee on Financial Sector Reforms

2.4 The September 2008 report of The High Level Committee on Financial Sector Reforms, constituted by the Government of India in August 2007 under the chairmanship of Dr. Raghuram G. Rajan, has recommended allowing more entry to

private well-governed deposit-taking small finance banks with stipulation of higher capital adequacy norms, a strict prohibition on related party transactions, and lower allowable concentration norms (loans as a share of capital that can be made to one party). Such measures would also increase financial inclusion by reaching out to poorer households and local small and medium enterprises.

While the recommendations were examined, a letter dated December 3, 2009 was sent to the Government on the recommendations of the High Level Committee on Financial Sector Reforms with particular reference to Local Area Banks. The letter indicated that there were entry level constraints in respect of exercising due diligence on the promoters of Local Area Banks. Further, the findings of the Review Group headed by Shri G. Ramachandran, former Finance Secretary, Government of India in July 2002 that the LABs had not made any significant impact on the local communities in their areas of operation, the fundamental weaknesses inherent in the business model of the LABs and the operational disadvantages due to the limited area of operation were also mentioned. It was also indicated that, alternatives to small banks by way of leveraging technology and use of Business Correspondents and Business Facilitators models would be more suitable to achieve financial inclusion and to reach the rural households.

III RATIONALE FOR NEW BANKS

Welfare and Productivity

3.1 It is generally accepted that greater financial system depth, stability and soundness contribute to economic growth. But beyond that, for growth to be truly inclusive requires broadening and deepening the reach of banking. A wider distribution and access of financial services helps both consumers and producers raise their welfare and productivity. Such access is especially powerful for the poor as it provides them opportunities to build savings, make investments, avail credit, and more important, insure themselves against income shocks and emergencies.

Average Population Coverage by Commercial Banks

3.2 As of March 31, 2009, the Indian banking system comprised 27 public sector banks, 7 new private sector banks, 15 old private sector banks, 31 foreign banks,

86 Regional Rural Banks (RRBs), 4 Local Area Banks (LABs), 1,721 urban cooperative banks, 31 state co-operative banks and 371 district central co-operative banks.

3.3 The average population coverage by a commercial bank branch in urban areas improved from 12,300 as on June 30, 2005 to 9,400 as on June 30, 2010 and in rural and semi urban areas from 17,200 as on June 30, 2005 to 15,900 as on June 30, 2010. The all India weighted average during the same period improved from 15,500 to 13,400.

Promotion of Financial Inclusion

3.4 Though the Indian financial system has made impressive strides in resource mobilization, geographical and functional reach, financial viability, profitability and competitiveness, vast segments of the population, especially the underprivileged sections of the society, have still no access to formal banking services.

3.5 The Reserve Bank is therefore considering providing licences to a limited number of new banks. A larger number of banks would foster greater competition, and thereby reduce costs, and improve the quality of service. More importantly, it would promote financial inclusion, and ultimately support inclusive economic growth, which is a key focus of public policy.

IV EARLIER GUIDELINES FOR LICENSING OF BANKS

4.1 When financial sector reforms were initiated in India in the early nineties, guidelines for licensing of new banks in the private sector were issued in January 1993. *(Annexure I)*

4.2 Again the guidelines for licensing new banks were revised in January 2001; the objective was to instill greater competition in the banking system to increase productivity and efficiency. *.(Annexure I)*

4.3 The revised 2001 guidelines by and large were still cautious in nature. Large industrial houses were not permitted to promote new banks. However, individual companies, directly or indirectly connected with large industrial houses were permitted to own 10 percent of the equity of a bank, but without any controlling interest.

4.4 An NBFC with good track records was considered eligible to convert into a bank, provided it was not promoted by a large industrial house and satisfied the prescribed minimum capital requirements, a triple A (AAA) or its equivalent, credit rating in the previous year, capital adequacy of not less than 12 percent and net Non Performing Assets (NPA) ratio of not more than 5 percent. The initial minimum paid up capital was prescribed at Rs. 200 crore to be raised to Rs.300 crore within three years of commencement of business.

4.5 Promoters were required to contribute a minimum of 40 percent of the paid up capital of the bank at any point of time, with a lock-in period of five years. However, if the promoter's contribution to the initial capital was more than the minimum 40 percent, they were required to dilute their excess stake after one year of the bank's operations.

4.6 Non Resident Indians (NRIs) were permitted to participate in the primary equity of a new bank to the maximum extent of 40 percent. However, the equity participation was restricted to 20 percent within the above ceiling of 40 percent, in the case of a foreign banking company or finance company (including multilateral institutions) acting as a technical collaborator or a co-promoter.

GUIDELINES FOR BANKING LICENSE

2013	2001	1993
Non Operative Finance Holding Companies (NOFHC) Registration with RBI as NBFC. NOFC to own Bank	Registration under Rule 11 of Banking regulation (Companies) Rules 1949 (Form III)	Registration as public ltd. company under Company Act, 1956
Large industrial houses can apply for banking license	Specified that no large industrial house can apply for license	--
Spell out exposure norms	--	--

Capital adequacy Rs. 5 billion	Capital adequacy Rs. 200 crore to be raised to Rs. 300 crore in 3 years	Capital adequacy Rs. 100
Number of license to be issued – no restriction	Number of license to be issued restricted to 2 or 3	Number of license to be issued no restriction
Mandated that 25% of banks be unbanked/rural areas	-	Free to open branches anywhere as long as capital adequacy norms and prudential norms
High level Advisory Committee to screen and examine the applications yet to be set up	Details of the Chairman, members of the High level Advisory Committee to screen and examine the readily given	No such high level committee was formed

V RBI'S EXPERIENCE WITH THE 12 NEW PRIVATE BANKS

5.1 10 new banks were set up in the private sector after the 1993 guidelines and 2 new banks after the 2001 revised guidelines. Out of these, four were promoted by financial institutions, one each by conversion of co-operative bank and NBFC into commercial banks, and the remaining six by individual banking professionals and an established media house.

5.2 Out of the four banks promoted by individuals in 1993, only one has survived with muted growth. One bank has been compulsorily merged with a nationalized bank due to erosion of networth on account of large capital market exposure. The other two banks have voluntarily amalgamated with other private sector banks over a period of 10 to 13 years due to the decisions of the majority shareholders arising out of poor governance and lack of financial strength.

5.3 Out of the remaining six banks that were licensed in 1993, one bank promoted by a media group has voluntarily amalgamated itself with another private sector bank within five years of operations and four banks promoted by financial institutions have either merged with the parent or rebranded and achieved growth over a period of time. The bank that was converted from a Cooperative bank has taken some time in aligning itself to the commercial banking and is endeavoring to stabilize itself.

5.4 The two banks licensed in the second phase have been functioning for less than 10 years and their transition from the settling stage has been fairly smooth.

5.5 In respect of their experience with new private banks since 1993 RBI submitted as under:

“..... over these 17 years ... banks promoted by individuals, though banking professionals, either failed or merged with other banks or had muted growth.”

5.6 RBI further added that:

“Only those banks that had adequate experience in broad financial sector, financial resources, trustworthy people, strong and competent managerial support could withstand the rigorous demands of promoting and managing a bank.”

Banks licensed under the 1993 and 2001 guidelines

Sl. No.	Name of the bank	Date of licence	Name of the promoters	Present position of the bank
1	Axis Bank LTD.	28-02-1994	Financial institutions : SUUTI and LIC	Still functioning
2	IndusInd Bank Ltd.	2-04-1994	Individuals : Hindujas, through a number of companies representing Sindhi community	Still functioning with muted growth
3	ICICI Bank Ltd.	17-05-1994	Financial institutions : ICICI	Still functioning
4	Global Trust Bank Ltd.	2-09-1994	Individuals : group of professionals led by Dr. Jayant Madhab and Ramesh Gelli	Compulsorily merged with Oriental Bank of Commerce due to erosion of networth
5	HDFC Bank Ltd.	5-01-1995	Financial institutions : HDFC group	Still functioning
6	Bank of Punjab Ltd.	5-04-1995	Individuals : principal shareholders of Punjab & Sind Bank prior to nationalisation	Voluntary amalgamation with Centurian Bank on 1-10-2005
7	Times Bank Ltd.	26-04-1995	Times of India Group	Voluntary amalgamation with HDFC Bank Ltd. on 26-2-2000
8	DCB Ltd.	31-05-1995	Conversion of a Co-operative bank – promoter Agha Khan	Still functioning
9	Centurion Bank Ltd.	13-06-1995	Individuals : Demerger of an NBFC, promoter Shri Ahuja, ex-Citi Bank man and others	Voluntary amalgamation with HDFC Bank Ltd. on 23-5-2008
10	IDBI Bank Ltd.	28-09-1995	Financial institutions : IDBI	Still functioning

Banks licensed under 2001 guidelines

Sl.	Name of the bank	date of licence	Promoter group	Present position of
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No.				the bank
1	Kotak Mahindra Bank Ltd.	6-02-2003	NBFC	Still functioning
2	Yes Bank Ltd.	24-05-2004	Individuals along with Rabo Bank	Still functioning

Performance of Kotak Mahindra Bank Ltd. and Yes Bank Ltd. under priority sector over the last three years

(Rupees in crore)

Name of the bank	As on last Friday of March	Priority sector	Priority sector as % of ANBC	Total Agriculture	Total Agriculture as % of ANBC	Weaker Sections	As % of ANBC
Kotak Mahindra Bank	2009	6473	41.2	2588	16.5	906	5.8
	2010	6990	41.2	3586	19.5	1395	8.2
	2011	8991	42.5	4186	19.5	1982	9.4
Yes Bank	2009	4020	42.6	2255	22.8	649	6.9
	2010	5687	45.7	3969	23.9	616	5.0
	2011	10163	45.7	5888	20.1	1389	6.2

Branch network of Kotak Mahindra Bank Ltd. and Yes Bank Ltd. in 2005 and 2011

Bank name	31-3-2005						31-3-2011					
	Metro	Urban	Semi-urban	Rural	% of rural and semi urban to total	Total	Metro	Urban	Semi-urban	Rural	% of rural and semi urban to total	Total
Kotak Mahindra Bank Ltd	39	10	6	-	10.91%	55	156	81	55	30	26.40%	322
Yes Bank Ltd.	2	-	-	-	0	2	65	70	54	25	36.92%	214
All scheduled commercial banks	9328	11474	15387	32093	69.54%	68282	15635	17573	22229	33277	62.57%	88714

VI LESSONS RECENT GLOBAL FINANCIAL CRISIS (

6.1 A constellation of regulatory practices, accounting rules and incentives magnified the credit boom ahead of the recent global financial crisis. The same factors accelerated the downturn in markets and intensified the crisis. Macroeconomic stability and financial stability were generally treated as separate and unrelated constructs with the former focusing on preserving low and stable

inflation, while the latter dealing with the firm-level supervision of the formal banking sector. In this process, not only was the growing shadow financial sector ignored, but also factors such as the interconnectedness within the complex financial system, especially between banks and the financial institutions, the systemic risk arising out of too-big-to-fail entities and system-wide liquidity needs. Though the **epicentre of the crisis lay in the sub-prime mortgage market** in the US, it was transmitted rapidly throughout the globe, destabilizing financial markets and banking systems. The crisis eventually impacted the broader macro-economy, affecting economic growth and employment throughout the world.

6.2 The magnitude of this crisis has clearly signaled the need for major overhaul of the global financial regulatory architecture, the importance and need for improving quality and level of capital, risk management and governance standards, having strong domestic (indigenous) banks, avoiding large and complex banking structures

VII PROPOSAL FOR ADDITIONAL BANKING LICENSES

7.1 The Union Finance Minister, in his budget speech for the year 2010-11 had announced that *'The Indian banking system has emerged unscathed from the crisis. We need to ensure that the banking system grows in size and sophistication to meet the needs of a modern economy. Besides, there is a need to extend the geographic coverage of banks and improve access to banking services. In this context, I am happy to inform the Honourable Members that the RBI is considering giving some additional banking licences to private sector players. Non Banking Financial Companies could also be considered, if they meet the RBI's eligibility criteria.'*

7.2 Subsequently, in line with the above announcement, the Governor, Reserve Bank of India indicated in the Annual Policy Statement for the year 2010-11 that the Reserve Bank will prepare a discussion paper marshalling the international practices, the Indian experience as well as the extant ownership and governance (O&G) guidelines and place it on the Reserve Bank's website by end-July 2010 for wider comments and feedback. The Reserve Bank also noted that detailed discussions would be held with all stakeholders on the discussion paper and guidelines would be finalised

based on the feedback. All applications received in this regard would be referred to an external expert group for examination and recommendations to the Reserve Bank for granting licenses.

VIII DISCUSSION PAPER ON ENTRY OF NEW BANKS

8.1 RBI released a Discussion Paper on Entry of New Banks in the Private Sector on its website on August 11, 2010 based on international practices of granting licenses to new banks and its experience with licensing of 12 new private sector banks consequent to issue of guidelines in 1993 and 2001. The paper sought views/comments of banks, non-banking financial institutions, industrial houses, other institutions and the public at large. Suggestions and comments were invited on the following aspects delineated in the Discussion Paper:

- i) Minimum capital requirements for new banks and promoters contribution
- ii) Minimum and maximum caps on promoter shareholding and other shareholders
- iii) Foreign shareholding in the new banks
- iv) Whether industrial and business houses could be allowed to promote banks
- v) Should Non-Banking Financial Companies be allowed conversion into banks or to promote a bank
- vi) Business model for the new banks

8.2 The issue of permitting industrial/business houses to promote banks was extensively covered in the Discussion Paper detailing the various approaches, their pros and cons and possible safeguards to address the downside risk of industrial houses promoting banks. The pros and cons are summarized as under:

Pros:

- i) Industrial and business houses can be an important source of capital and can provide management expertise and strategic direction to banks as they have done to a broad range of non-banking companies and other financial companies.
- ii) Large industrial and business houses have already been permitted to operate in other financial services sectors, such as insurance companies, asset management

companies and other non-banking finance companies including loan and leasing companies. Many of the largest private sector companies in these segments are fully or partially owned by industrial and business houses. Thus, the industrial and business houses with their presence in the above mentioned sectors, are already competing with banks both on the assets and liabilities side.

iii) Industrial and business houses have a long history of building and nurturing new businesses in highly regulated sectors such as Telecom, Power, Automobiles, Defence, infrastructure projects like Airports, Highways, Dams, Ports.

iv) Equity of large industrial and business houses is widely held and all are listed on the stock exchanges and are accordingly subject to Companies laws, SEBI laws and regulations on transparency, disclosure and corporate governance.

v) Permitting industrial and business houses to own a limited number of banks should not lead to undue concentration of control of banking activities as the Indian banking system is largely composed of public sector and private sector banks.

Cons:

i) Allowing industrial and business houses to promote banks creates conflicts of interest through self dealing at the expense of bank clients. Conflicts of interest could also arise from transactions between the bank and its affiliates.

ii) As large industrial and business conglomerates have cross holding among their group entities engaged in diverse activities in India and abroad, dealing with complex structures of the industrial / business houses poses difficulties in supervision and regulation.

iii) Banking being highly leveraged business and dealing with public money, it makes sense to keep Industry / business and banking separate.

iv) The industrial and business houses may not be committed to attaining broader objectives of financial development particularly ensuring financial inclusion and providing services to all sections of society.

v) Possible concentration of economic power in all major areas and finance could be potential threat to financial stability.

8.3 It was indicated in the Discussion Paper that additional safeguards were necessary to address downside risks of allowing industrial and business houses to promote banks. Therefore, the Discussion Paper suggested strengthening of 'fit and proper' criteria for the promoters, mandating of majority of independent directors in the Board with a part time Chairman, stronger corporate governance norms, strengthening of banking regulation & supervision, a more competitive banking market and stringent prudential regulations and disclosure requirements could mitigate the risks of affiliations of banks with the industrial and business houses. It is pertinent to mention that certain vital amendments to the Banking Regulation Act, 1949 have been proposed to strengthen the regulations in this regard.

8.4 Detailed discussions on issues flagged in the discussion paper were also held on October 7 and 8, 2010 with the stakeholders viz, Confederation of Indian Industry (CII), Finance Industry Development Council (FIDC), Indian Banks' Association (IBA), The Associated Chambers of Commerce and Industry of India (ASSOCHAM), Federation of Indian Chambers of Commerce & Industry (FICCI), Indian Merchant Chambers (IMC), Micro Finance Institutions Network (MFIN), Consultants, All India RRB Officers' Federation, etc. The gist of the comments / suggestions received from the public as well as emerging out of the discussions with the stakeholders was placed in the RBI website on December 23, 2010

IX DRAFTING OF GUIDELINES ON LICENSING OF NEW BANKS IN THE PRIVATE SECTOR

9.1 Based on the feedback and suggestions received from public, stakeholders, experience gained from the functioning of the banks licensed under the guidelines of 1993 and 2001, extensive internal discussions, draft guidelines were prepared and sent to the MoF, GOI vide D.O letter dated March 3, 2011. Thereafter, a meeting was held by Secretary, Department of Financial Services with our Deputy Governor on March 29, 2011 where certain clarifications were called for. After the clarifications were furnished, the draft guidelines were amended and forwarded to the

Government for their comments. Government had furnished their final comments on the draft guidelines vide letter dated August 12, 2011.

Suggestions from Government

9.2 The main areas where the Government had sought clarifications / suggested a few amendments were as under:

(a) In order to enable banks to consolidate their position and access the market in a staggered fashion, the time given for dilution of promoters' stake from 40% to 15% could be slightly elongated from 5 years to, say, 10 years. MoF had further recommended vide their letter dated August 12, 2011 that an elongated time span and a two stage dilution of the promoters' stake from 40% to 20% over a period of 5 years (after the lock-in period of 5 years) and the remaining 5% over next 2 years may be considered.

(b) To enable the promoters to raise capital from all available sources, it may be explored if FDI upto the extent permissible under the policy is allowed after 5 years.

(c) Instead of naming the penal measures (viz. imposition of penalty, removal of CEO and other officials, supersession of the Board, moratorium on branch expansion, etc., and withdrawal of use of brand and logo of the group), it would be better to state that deterrent action will be taken as per the licensing conditions and relevant law.

(d) Instead of indicating that promoters from Real Estate and Broking sectors would not be eligible for promoting banks, the risks associated with the sectors may be mentioned.

(e) The stipulation for opening 25% branches in unbanked rural centres upto 9,999 population may be too onerous for the banks and Tier 4 centres (with population upto 19,999) may also be included.

6.3 The first three suggestions of the Government were accepted. As regards the other two suggestions, it was felt that naming the two sectors in the ineligible category was required. However, the risks involved in the real estate and broking sectors were elaborated by suitably amending the draft guidelines. Further, the stipulation for opening 25% branches in unbanked rural centres upto 9,999 was retained as the same was prescribed even for the existing banks as announced in the Monetary Policy statement 2011-2012.

9.3 Accordingly, the draft guidelines were amended and finalized, and placed in the RBI website on August 29, 2011 for inviting views/comments from banks, non-banking financial institutions, industrial houses, other institutions and the public at large by October 31, 2011.

9.4 Since certain amendments to the Banking Regulation Act, 1949 in respect of removal of restriction of voting rights and concurrently empowering RBI to approve acquisition of shares and or voting rights of 5% or more in a bank to persons who are 'fit and proper'; empowering RBI to supersede the Board of directors and facilitating consolidated supervision were considered necessary, the same were taken up with the Government.

X. GUIDELINES FOR LICENSING OF NEW BANKS IN THE PRIVATE SECTOR ISSUED ON FEBRUARY 22, 2013

10.1 The draft guidelines were placed on the RBI's website on August 29, 2011 for comments. The comments received on the draft guidelines have been examined. The guidelines have been finalized taking into account the important amendments in December 2012 to the Banking Regulation Act, 1949, the suggestions/comments received on the draft guidelines and in consultation with the Government of India.

While preparing these guidelines, the Reserve Bank recognizes the need for an explicit policy on banking structure in India keeping in view the recommendations of the Narasimham Committee, Raghuram Rajan Committee and other viewpoints. Accordingly, the Reserve Bank has come out with the guidelines as shown below:

Guidelines

(A) Eligible Promoters

(i) Entities / groups in the private sector that are 'owned and controlled by residents' [as defined in Department of Industrial Policy and Promotion (DIPP) Press Note 2, 3 and 4 of 2009 / FEMA Regulations as amended from time to time] and entities in public sector shall be eligible to promote a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC).

(ii) Promoters / Promoter Groups with an existing non-banking financial company (NBFC) will be eligible to apply for a bank licence. If considered eligible for promoting a bank, they will have to comply with the requirements

laid down in these guidelines as also the conditions specified in paragraph 2 (L) below.

(B) 'Fit and Proper' criteria

Promoters/ Promoter Groups as defined in these guidelines should be 'fit and proper' in order to be eligible to promote banks through a wholly owned NOFHC. RBI would assess the 'fit and proper' status of the applicants on the basis of following criteria:

(a) Promoters/ Promoter Groups should have a past record of sound credentials and integrity;

(b) Promoters/ Promoter Groups should be financially sound and have a successful track record of running their business for at least 10 years.

*(c) Promoter / Promoter Groups' business model and business culture should not be misaligned with the banking model and their business should not potentially put the bank and the banking system at risk on account of group activities such as those which **are speculative in nature or subject to high asset price volatility.***

(C) Corporate structure of the NOFHC

(i) Promoter / Promoter Group will be permitted to set up a bank only through a wholly-owned Non-Operative Financial Holding Company (NOFHC).

(ii) The capital structure of the wholly-owned NOFHC set up by Promoter / Promoter Groups in Private Sector shall consist of :

a) voting equity shares not exceeding 10 per cent of the total voting equity shares of the NOFHC held by any individual belonging to the Promoter Group, along with his relatives (as defined in Section 6 of the Companies Act 1956) and along with entities in which he and / or his relatives hold not less than 50 per cent of the voting equity shares, and

b) companies forming part of the Promoter Group whereof companies in which the public hold not less than 51 per cent of the voting equity shares shall hold not less than 51 per cent of the total voting equity shares of the NOFHC.

(iii) The NOFHC shall hold the bank as well as all the other financial services entities of the Group regulated by RBI or other financial sector regulators. The objective is that the Holding Company should ring fence the regulated financial services entities of the Group, including the bank from other activities of the Group i.e., commercial, industrial and financial activities not regulated by financial sector regulators and also that the bank should be ring fenced from other regulated financial activities of the Group. Thus, only non-financial services companies / entities and non-operative financial holding company

in the Group and individuals belonging to Promoter Group will be allowed to hold shares in the NOFHC. Financial services entities whose shares are held by the NOFHC cannot be shareholders of the NOFHC.

(iv) The general principle is that no financial services entity held by the NOFHC would be allowed to engage in any activity that a bank is permitted to undertake departmentally. In this context, it is clarified that :

(a) RBI requires certain specialised activities, such as, insurance, mutual funds, stock broking, infrastructure debt funds, etc. to be conducted through a separate Subsidiary / Joint Venture / Associate structure;

(b) There are certain activities such as credit cards, primary dealers, leasing, hire purchase, factoring, etc., which a bank can conduct either from within the bank or through a separate outside structure (Subsidiary / Joint Venture / Associate).

Accordingly, the activities at (a) above and activities at (b) above which are to be carried outside the bank will have to be carried out through separate financial entities under the NOFHC.

(v) RBI will have to be satisfied that the corporate structure does not impede the financial services entities held by the NOFHC from being ring fenced, that it would be able to supervise the bank, the NOFHC, and its Subsidiaries / Joint Ventures / Associates on a consolidated basis, and that, it will be able to obtain all required information relevant for this purpose, smoothly and promptly. However, the primary supervision of the entities held by the NOFHC will be by the sectoral regulators.

(vi) The NOFHC shall not be permitted to set up any new financial services entity for at least three years from the date of commencement of business of the NOFHC. However, this would not preclude the bank from having a subsidiary or joint venture or associate, where it is legally required or specifically permitted by RBI.

(vii) Only those regulated financial sector entities in which a Promoter Group has significant influence or control will be held under the NOFHC.

(viii) The Promoter / Promoter Group entities / individuals associated with Promoter Group shall hold equity investment, in the bank and other financial entities held by it, only through the NOFHC.

(ix) Shares of the NOFHC shall not be transferred to any entity outside the Promoter Group. Any change in shareholding (by the Promoter Group) with in the NOFHC as a result of which a shareholder acquires 5 per cent or more of the voting equity capital of the NOFHC shall be with the prior approval of RBI.

(D) Minimum voting equity capital requirements for banks and shareholding by NOFHC

(i) *The initial minimum paid-up voting equity capital for a bank shall be **Rs 5 billion**. Any additional voting equity capital to be brought in will depend on the business plan of the Promoters.*

(ii) *The NOFHC shall hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked in for a period of five years from the date of commencement of business of the bank.*

(iii) *Shareholding by NOFHC in the bank in excess of 40 per cent of the total paid-up voting equity capital shall be brought down to 40 per cent within three years from the date of commencement of business of the bank.*

(iv) *In the event of the bank raising further voting equity capital during the first five years from the date of commencement of business, the NOFHC should continue to hold 40 per cent of the enhanced voting equity capital of the bank for a period of five years from the date of commencement of business of the bank. Voting equity capital, other than the holding by NOFHC, could be raised through public issue or private placements.*

(v) *The shareholding by NOFHC shall be brought down to 20 per cent of the paid-up voting equity capital of the bank within a period of 10 years, and to 15 per cent within 12 years from the date of commencement of business of the bank.*

(vi) *The capital requirements for the regulated financial services entities held by the NOFHC shall be as prescribed by the respective sectoral regulators. The bank shall be required to maintain a minimum capital adequacy ratio of 13 per cent of its risk weighted assets (RWA) for a minimum period of 3 years after the commencement of its operations subject to any higher percentage as may be prescribed by RBI from time to time. On a consolidated basis, the NOFHC and the entities held by it shall maintain a minimum capital adequacy of 13 per cent of its consolidated RWA for a minimum period of 3 years.*

(vii) *The bank shall get its shares listed on the stock exchanges within three years of the commencement of business by the bank.*

(E) Regulatory framework

(i) *The bank will be governed by the provisions of the Banking Regulation Act, 1949, Reserve Bank of India Act, 1934, Foreign Exchange Management Act, 1999, Payment and Settlement Systems Act, 2007, other relevant Statutes and the Directives, Prudential regulations and other Guidelines/Instructions issued by RBI and other regulators from time to time, including the regulations of SEBI regarding public issues and other guidelines applicable to listed banking companies.*

(ii) *The NOFHC will be registered as a non-banking financial company (NBFC) with the RBI and will be governed by a separate set of directions issued by RBI.*

(iii) The financial entities held by the NOFHC will be governed by the applicable Statutes and regulations prescribed by the respective financial sector regulators.

(F) Foreign shareholding in the bank

Notwithstanding the current FDI policy, where foreign shareholding in private sector banks is allowed up to a ceiling of 74 per cent of the paid-up voting equity capital, the aggregate non-resident shareholding from FDI, NRIs and FIIs in the new private sector banks shall not exceed 49 per cent of the paid-up voting equity capital for the first 5 years from the date of licensing of the bank. No non-resident shareholder, directly or indirectly, individually or in groups, or through subsidiary, associate or joint venture will be permitted to hold 5 per cent or more of the paid-up voting equity capital of the bank for a period of 5 years from the date of commencement of business of the bank. After the expiry of 5 years from the date of commencement of

(G) Corporate governance of NOFHC

The NOFHC should comply with the corporate governance guidelines as issued by RBI from time to time. Such guidelines may include the following:

(i) No NOFHC shall have as a Director in its Board of Directors, any person who is a Director in any other NOFHC or a bank other than a banking company under it.

(ii) No NOFHC shall be managed by any person-

(a) who is a Director in any other company not being

(i) a subsidiary of the NOFHC or

(ii) a company registered under Section 25 of the Companies Act, 1956 (1 of 1956) or

(b) who is engaged in any other business or vocation.

(iii) NOFHC shall comply with such soundness standards in terms of corporate governance including 'fit and proper' criteria, as applicable to banks to the extent they are appropriate.

(iv) At least 50 per cent of the Directors of NOFHC shall be totally independent of the Promoter or Promoter Group entities and their major customers and major suppliers.

(v) The Independent Directors referred to above shall have special knowledge or practical experience in respect of one or more of the following matters, namely,

(a) Accountancy, (b) Agriculture, rural economy and co-operation, (c) Banking, (d) Insurance, (e) Economics, (f) Finance, (g) Micro, Small and

Medium Enterprises (MSME), (h) Law; or, (i) any other matter, the special knowledge of, and practical experience in, which would, in the opinion of the Reserve Bank, be useful to NOFHC.

- (vi) NOFHC shall be managed professionally with adequate corporate governance standards.*
- (vii) Ownership and management shall be separate and distinct in the NOFHC, the bank and entities regulated by RBI.*
- (viii) The source of funds for Promoters' and Promoter Groups' equity in the NOFHC shall be transparent and verifiable.*
- (ix) NOFHC shall ensure that there is a policy in place for ascertaining the 'fit and proper' criteria for appointment of Directors of the NOFHC.*
- (x) NOFHC shall undertake a process of due diligence to determine the suitability of the person for appointment and/or continuing to hold appointment as a Director on its Board based on qualification, expertise, track record, integrity and other 'fit and proper' criteria.*
- (xi) NOFHC shall obtain from every Director, a Deed of Covenant and a declaration and undertaking in its favour, as may be specified by RBI.*
- (xii) NOFHC shall obtain an annual declaration from its Directors that the information provided has not undergone change and where there is any change, obtain requisite details from them forthwith.*
- (xiii) NOFHC shall have a Nomination Committee to perform due diligence in respect of its Directors.*
- (xiv) Nomination Committee shall scrutinize Deed of Covenant and declaration and undertaking submitted by each of its Directors and on a continuing basis perform due diligence in respect of each of its Directors and the NOFHC shall report to the Reserve Bank if any of its directors fails to fulfill the 'fit and proper' criteria as specified by Reserve Bank from time to time.*
- (xv) NOFHC shall have a Remuneration Committee of the Board to decide on the compensation payable to the key management executives of NOFHC.*

(H) Prudential Norms for the NOFHC

The prudential norms will be applied to NOFHC both on stand-alone as well as on a consolidated basis. Some of the major prudential norms are as under:

(i) NOFHC on a stand-alone basis

- (a) Prudential norms for classification, valuation and operation of investment portfolio.*
- (b) Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances.*
- (c) The NOFHC for the purpose of its liquidity management can make investments in bank deposits, money market instruments, government securities and actively traded bonds and debentures.*

(d) The NOFHC shall create a reserve fund and shall, out of the balance of profit each year as disclosed in the profit and loss account and before any dividend is declared, transfer to the reserve fund a sum equivalent to not less than 25 per cent of such profit.

(e) Any dividend proposed to be paid by the NOFHC to its shareholders shall be payable only out of the profits and further subject to meeting the following conditions:

- Compliance with all prudential norms prescribed for the NOFHC both on stand-alone as well as consolidated level.
- There are no serious observations by any of the regulators / supervisors of the NOFHC as well as of entities held under it.
- The financial statements of the NOFHC both on stand-alone and consolidated level shall be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

(f) The NOFHC shall closely monitor its liquidity position and interest rate risk. For this purpose, the NOFHC shall prepare a structural liquidity statement (STL) and interest rate sensitivity statement (IRS).

(g) The NOFHC may have a leverage up to 1.25 times of its paid-up equity capital and free reserves. The actual leverage assumed within this limit should be based on the ability of the NOFHC to service its borrowings from its dividend income.

(ii) NOFHC on a consolidated basis

(a) NOFHC shall maintain capital adequacy and other requirements on a consolidated basis based on the prudential guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF) issued under Basel II framework and Guidelines on Implementation of Basel III Capital Regulations in India, when implemented.

(b) The NOFHC shall prepare consolidated financial statements and other consolidated prudential reports in terms of the Guidelines for ‘consolidated accounting and other quantitative methods to facilitate consolidated supervision’ contained in circular DBOD.No.BP.BC.72 /21.04.018/2001-02 dated February 25, 2003 and in terms of Scope of Prudential Consolidation indicated under Basel III Capital Regulation.

(c) The consolidated NOFHC shall adhere to the instructions on disclosure in Financial Statements - Notes to Accounts 11.

(d) The consolidated NOFHC shall prepare a structural liquidity statement (STL), interest rate sensitivity statement (IRS).

(I) Exposure norms

(i) Exposure norms for stand-alone NOFHC

- (a) NOFHC shall not have any credit and investment (including investment in equity/ debt capital instrument) exposure to any entity belonging to the Promoter Group except those held under it.*
- (b) NOFHC shall not have any equity, debt capital and credit exposure to any entity outside the Group including other NOFHCs or other banks, financial and non-financial entities.*
- (c) NOFHC's exposure for the purpose of its liquidity management [please refer to paragraph 2 (H) (i) (c)] to non-Group entities will be within the extant exposure limits.*

(ii) Exposure norms for consolidated NOFHC

- (a) The consolidated NOFHC shall adhere to all the exposure norms on the consolidated basis such as single and group borrower exposure limits, capital market exposure limit etc, as applicable to bank groups.*
- (b) The consolidated NOFHC's investments in the capital instruments issued by banking, financial and insurance entities outside its Group together with the unconsolidated financial and insurance entities within the Group should not exceed 10 per cent of its consolidated capital funds.*

(iii) Exposure norms for the bank

- (a) The bank cannot take any credit and investments (including investments in the equity/debt capital instruments) exposure on the Promoters / Promoter Group entities or individuals associated with the Promoter Group or the NOFHC.*
- (b) The bank shall not invest in the equity / debt capital instruments of any financial entities under the NOFHC.*
- (c) The bank's credit and investment (other than equity / debt capital instruments) exposure to financial entities under the NOFHC will be subject to Intra-Group Transactions & Exposures (ITEs) norms.*
- (d) The bank cannot invest in the equity of other NOFHCs.*

- (e) *The bank's investments in equity / debt capital instruments of other banks / financial institutions including other NOFHCs¹⁸ should be guided by the extant cross holding norms.*
- (f) *The bank's permissible exposures will be as per extant exposure norms.*
- (g) *Investment in equity by the bank in the entities engaged in financial and non-financial activities, outside the Promoter Group would be subject to a limit of 10 per cent of the investee entity's paid-up share capital or 10 per cent of the bank's paid-up share capital and reserves, whichever is less, and the aggregate of all such investments should not exceed 20 per cent of the bank's paid-up share capital and reserves.*

(iv) Exposure norms for the financial entities (other than bank) held by the NOFHC

There is a need for the financial entities held by the NOFHC to follow certain overarching principles in order to avoid round tripping of funds and to avoid circular movement of funds in the banking group, such as :

- (a) *The financial entities held by NOFHC shall not have any credit and investments (including investments in the equity/debt capital instruments) exposure to the Promoters / Promoter Group entities or individuals associated with the Promoter Group or the NOFHC.*
- (b) *The financial entities held by NOFHC shall not make investment in the equity / debt capital instruments amongst themselves.*
- (c) *The entities held by the NOFHC cannot invest in equity instruments of other NOFHCs.*

(J) Business Plan for the bank

- (a) *Applicants for new bank licences will be required to furnish their business plans for the banks along with their applications. The business plan will have to address how the bank proposes to achieve financial inclusion.*
- (b) *The business plan submitted by the applicant should be realistic and viable. In case of deviation from the stated business plan after issue of licence, RBI may consider restricting the bank's expansion, effecting change in management and imposing other penal measures as may be necessary.*

(K) Other conditions for the bank

- (i) *The Board of the bank should have a majority of independent Directors.*
- (ii) *Any acquisition of shares which will take the aggregate holding of an individual / entity / group to the equivalent of 5 per cent or more of the paid-up voting equity capital of the bank, will require prior approval of RBI.*

- (iii) *No single entity or group of related entities, other than the NOFHC, shall have shareholding or control, directly or indirectly, in excess of 10 per cent of the paid-up voting equity capital of the bank.*
- (iv) *Without prejudice to the requirements under paragraph 2 (I) (iii) (a), the bank shall maintain arm's length relationship with Promoter / Promoter Group entities, and the major suppliers and major customers of these entities.*
- (v) *In taking a view on whether an entity belongs to a particular Promoter Group or not or whether the entities are linked / related to the Promoter Group, RBI will be guided by the provisions of the Banking Regulation Act, 1949, Accounting Standards and other related factors. The decision of the RBI in the matter will be final.*
- (vi) *The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks. For this purpose, the bank should build its priority sector lending portfolio from the commencement of its operations.*
- (vii) *The bank shall open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999 as per the latest census) to avoid over concentration of their branches in metropolitan areas and cities which are already having adequate banking presence.*
- (viii) *The bank should operate on Core Banking Solutions (CBS) from the beginning with all modern infrastructural facilities.*
- (ix) *The bank should have a high powered Customer Grievances Cell to handle customer complaints.*
- (x) *Banks promoted by Groups having 40 per cent or more assets / income from non-financial business will require RBI's prior approval for raising paid-up voting equity capital beyond `10 billion for every block of `5 billion. RBI while examining such proposals would primarily look into whether the corporate governance standards are adequate, whether information from Promoter Group has been forthcoming to facilitate consolidated supervision and whether the Board members remain 'fit and proper'.*
- (xi) *The compliance of terms and conditions laid down by RBI is an essential condition of grant of licence. Any non-compliance will attract penal measures including cancellation of licence of the bank.*

(L) Additional conditions for NBFCs promoting / converting into a bank

The Promoters / Promoter Groups with an existing NBFC, if considered eligible for a bank licence, will have three options:

- (a) *Promote a bank, if some or all the activities undertaken by the NBFC are not permitted to be undertaken by banks departmentally. In such cases, the activities undertaken by the NBFC which banks are*

allowed to undertake departmentally, will have to be transferred to the new bank, or

- (b) Convert the NBFC into a bank, if all the activities undertaken by it are allowed to be undertaken by a bank departmentally. In such a case, the NBFC shall have a minimum networth of Rs 5 billion, or*
- (c) Convert the NBFC into a bank and divest the activities which banks are not allowed to undertake departmentally. In such a case, the bank shall have a minimum networth of Rs 5 billion.*

Under the above options, the Promoters will have to set up a NOFHC. The NOFHC and the bank set up under it should comply with all the requirements laid down in the guidelines. RBI will consider allowing the bank to take over and convert the existing NBFC branches into bank branches only in the Tier 2 to 6 centres. Existing branches of the NBFC in Tier 1 centres may be allowed to convert into bank branches only with the prior approval of RBI and subject to the existing rules / methodology applicable to domestic banks regarding opening of branches in these centres and also subject to maintaining 25 per cent of the bank branches in unbanked rural centres (population up to 9,999 as per the latest census) required of all banks as specified in 2 K (vii) above.

XI. COMMENTS FURNISHED BY MINISTRY OF FINANCE AND RBI

Reasons for revising guidelines:

11.1 On being asked the reasons that has prompted the RBI to revise guidelines, the Governor RBI made the following oral submission while deposing before the Committee on 09.04.2013 as stated under:

“Sir, you have asked a question about why was it necessary for the Reserve Bank to revise the guidelines. As you know, we have formulated the guidelines in the year 2001 and this is 2012-13. A lot of things have changed. In India and around the world, the financial sector has changed, the corporate sector has changed, our understanding of regulation is changed, our regulatory capability has improved in certain respects, we are aware of our deficiencies in certain respects. So, taking into account the changed circumstances, we revise the guidelines to reflect the changed circumstances.”

Reasons for allowing industrial houses to apply for banking license:

11.2 On being asked the reasons why large industrial houses are allowed to apply for banking license in the revised guidelines, the Governor RBI made the

following oral submission while deposing before the Committee on 09.04.2013 as stated under:

“Why we had to allow corporates into the banking space? I want to briefly explain this issue. **Firstly**, industrial and business houses have already been allowed entry into other financial service sectors and are competing with both banks on asset and liability sides.

They have non-bank finance companies, they have management companies, they have insurance companies, and mutual funds. So, they are already in the financial sector.

Second, industrial and business houses have a long and credible history of building and nurturing new businesses in highly regulated sectors like telecom, power, airports, highways and ports.

Third, industrial and business houses can be an important source of capital. Also, we wanted to leverage on their entrepreneurial abilities, business experience and management expertise.

Fourth, there are some inherent safeguards. The equities of large industrial investment houses are widely held. They are listed on the Stock Exchanges. They are subject to Company Laws and SEBI regulations on transparency, disclosure and corporate governance.

Moreover, with huge business interests across a variety of sectors and regions, industrial and business houses can be expected to be quite keen on not compromising their business reputation. That itself, we believe, will act as a safeguard.

Finally, Sir, there is the frequently cited apprehension that allowing industrial and business houses will result in concentration of control of the Indian banking system. Given that our banking system is composed of public sector banks and non-industry promoted private sector banks, the probability of such concentration resulting is quite low.”

11.3 The Governor, RBI further added:

“.....the Finance Minister did not explicitly said ‘corporates’ but we have decided to allow corporates. There is quite a sizeable opinion and some of it is quite learnt about not to allow corporate sector banking. We had issued a discussion paper; we had consulted with all stakeholders; we had consulted with experts; and after extensive consultation, extensive discussion and after extensive internalization of all that; we have decided to allow corporates into banking. It is for reasons that I had indicated earlier because they are able to bring in capital; they are able to bring in business experience, expertise,

knowledge, etc. Could we have done without corporates? That is the question that we should ask ourselves. The answer that I got by and large is perhaps not. At this point of time, if we had opened up for application it is quite likely that we would not have got sufficient number of credible applications if we had excluded corporate.”

Safeguards:

11.4 While deposing before the Committee, the Governor, RBI submitted further that the counsel of the Committee during the earlier meeting has been noted well for compliance and the following safeguards are put in place:

“ First, the guidelines stipulate that the promoter or promoter group should be financially sound, have sound credentials and integrity, and a successful track record for at least ten years. RBI will conduct due diligence on these aspects and where considered necessary seek feedback from other regulators and enforcement and investigative agencies.

Second, we require that the promoter or promoter group’s business model and business culture should not be misaligned with the banking model and that their business interests should not potentially put the bank and the banking system at risk on account of group activities which might be speculative in nature or subject to high asset price liability/volatility.

If permitted to go ahead, the promoter or promoter group is required to first set up a wholly owned non-operative financial holding company (NOFHC) which will hold the new bank as well as other regulated financial service entities of the group.

The objective of this holding company structure is two-fold, partly in response to your question, first to ring fence the regulated financial service entities of the group, including the bank, from other commercial, industrial and financial activities of the group which are not regulated by financial sector regulators. Second, to ring fence the bank from other regulated financial activities of the group.

The fourth safeguard is that the NOFHC will be required to be registered with the Reserve Bank, that is, the holding company, as an NBFC. It will be regulated by the Reserve Bank and will be required to comply with the corporate governance guidelines and prudential norms issued from time to time.

Fifth, the guidelines require that the bank should be widely held. Accordingly, it is prescribed that the shareholding of the NOFHC, the holding company, in the bank should be diluted to 15 per cent over 12

years. Further, no single entity or group of related entities, other than the holding company, will be allowed to have shareholding or control directly or indirectly in excess of ten per cent of the paid up capital of the bank. Any acquisition of shares which takes the aggregate holding of an individual or an entity or group to the equivalent of five per cent or more of the paid up share capital of the bank will require the Reserve Bank's prior approval. Additionally, the bank is required to list its shares within three years from the commencement of business to have diversified ownership and ensure accountability and transparency through adequate disclosures.

Finally, consequent to the amendments to the Banking Regulation Act, the Reserve Bank is now empowered to call for information relating to the business or affairs of any associated enterprise of the banking company and also to cause an inspection of its books of account. The amendments also empower the Reserve Bank to supersede the boards of banks' to secure proper management."

Fit and Proper

11.5 In reply to a query as to how "fit and proper" be evaluated and whether this criteria is too ambiguous and subjective, RBI gave the following oral reply:

"Sir, the other broad-ranging questions have been: How will you evaluate fit and proper? Can it be objective? Or, is it, by definition, subjective? Will it not be ambiguous? One hon. Member also said that there is virtually no corporate in the country and that there is no record with Prosecution and the Enforcement Agencies.

We were aware of that. We thought about it before we put the English in those guidelines.

On the first question, Sir, we will try and make them as objective as possible. But it is not possible to be completely objective; it is not possible to come out with the manual and say that these are the fit and proper criteria, and inherently if there is some subjectivity in this.

..... if there is some subjectivity, the test for us, the challenge for us will be: "Are you transparent? Are you open? Is your decision contestable?" Those are the three criteria, we have to fulfil.

We again discussed internally and we are trying to make the process such that it passes these tests of being transparent, contestable and open. "

11.6 On the issue RBI further submitted the following in their post evidence reply as stated under:

“The requirements spelt out in the guidelines for assessing ‘fit and proper’ criteria are:

(a) Promoters/ Promoter Groups should have a past record of sound credentials and integrity;

(b) Promoters/ Promoter Groups should be financially sound and have a successful track record of running their business for at least 10 years.

(c) Promoter / Promoter Groups’ business model and business culture should not be misaligned with the banking model and their business should not potentially put the bank and the banking system at risk.

These are indicative criteria and overall qualitative judgment on ‘Fit and Proper’ criteria for the applicants would be made based on the feedback on applicant Groups from other regulators, and enforcement and investigative agencies like Income Tax, CBI, Enforcement Directorate, etc. as deemed appropriate, and RBI’s own expertise.

The applications will also be subjected to a multi-layer scrutiny by RBI’s own internal department and which will screen the applications for prima facie eligibility of the applicants. Thereafter, the applications will be referred to a High Level Advisory Committee, comprising of eminent persons with experience in banking, financial sector and other relevant areas, which will submit its recommendations to RBI for consideration. Thereafter, the decision to issue an in-principle approval for setting up of a bank will be taken by RBI.” *

11.7 The important parameters for the proposed new bank license are as under:

- (i) **Eligible Promoters:** Entities / groups in the private sector, entities in public sector and Non-Banking Financial Companies (NBFCs) shall be

eligible to set up a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC).

- (ii) **'Fit and Proper' criteria:** Entities / groups should have a past record of sound credentials and integrity, be financially sound with a successful track record of 10 years. For this purpose, RBI may seek feedback from other regulators and enforcement and investigative agencies.
- (iii) **Corporate structure of the NOFHC:** The NOFHC shall be wholly owned by the Promoter / Promoter Group. The NOFHC shall hold the bank as well as all the other financial services entities of the group.
- (iv) **Minimum voting equity capital** requirements for banks and shareholding by NOFHC: The initial minimum paid-up voting equity capital for a bank shall be ₹5 billion. The NOFHC shall initially hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked in for a period of five years and which shall be brought down to 15 per cent within 12 years. The bank shall get its shares listed on the stock exchanges within three years of the commencement of business by the bank.
- (v) **Regulatory framework:** The bank will be governed by the provisions of the relevant Acts, relevant Statutes and the Directives, Prudential regulations and other Guidelines/Instructions issued by RBI and other regulators. The NOFHC shall be registered as a non-banking finance company (NBFC) with the RBI and will be governed by a separate set of directions issued by RBI.
- (vi) **Foreign shareholding in the bank:** The aggregate non-resident shareholding in the new bank shall not exceed 49 percent for the first 5 years after which it will be as per the extant policy.

- (vii) **Corporate governance of NOFHC:** At least 50 percent of the Directors of the NOFHC should be independent directors. The corporate structure should not impede effective supervision of the bank and the NOFHC on a consolidated basis by RBI.
- (viii) **Prudential norms for the NOFHC:** The prudential norms will be applied to NOFHC both on stand-alone as well as on a consolidated basis and the norms would be on similar lines as that of the bank.
- (ix) **Exposure norms:** The NOFHC and the bank shall not have any exposure to the Promoter Group. The bank shall not invest in the equity / debt capital instruments of any financial entities held by the NOFHC.
- (x) **Business Plan for the bank:** The business plan should be realistic and viable and should address how the bank proposes to achieve financial inclusion.
- (xi) Other conditions for the bank :
- The Board of the bank should have a majority of independent Directors.
 - The bank shall open at least 25 per cent of its branches in unbanked rural centres (population upto 9,999 as per the latest census)
 - The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks.
 - Banks promoted by groups having 40 per cent or more assets / income from non-financial business will require RBI's prior approval for raising paid-up voting equity capital beyond `10 billion for every block of `5 billion.

- Any non-compliance of terms and conditions will attract penal measures including cancellation of licence of the bank.

(xii) **Additional conditions for NBFCs promoting / converting into a bank:**

Existing NBFCs, if considered eligible, may be permitted to promote a new bank or convert themselves into banks.

(xiii) **Procedure for RBI decisions:**

- At the first stage, the applications will be screened by RBI. Thereafter, the applications will be referred to a High Level Advisory Committee, the constitution of which will be announced shortly.
- The Committee will submit its recommendations to RBI. The decision to issue an in-principle approval for setting up of a bank will be taken by RBI.
- The validity of the in-principle approval issued by RBI will be one year.
- In order to ensure transparency, the names of the applicants will be placed on the RBI website after the last date of receipt of the applications.”

11.8 The Reserve Bank of India and the Ministry of Finance submitted the same and identical written reply as above.

Capital Requirement:

11.9 The minimum capital requirement for the new banks prescribed under the 2013 guidelines is Rs.500 crore *vis-a-vis* Rs.200 crore (to be increased to RS 300 core in three years) prescribed in 2001 and Rs 100 crore prescribed in 1993. On being asked if RBI should raise the amount of capital requirement and make it more stringent so that only serious and people willing to commit large amount should have come forward to set up new banks, RBI inter alia submitted the following in their post evidence reply:

“The guidelines issued in 1993 for licensing of new banks in the private sector had prescribed Rs. 100 crore as minimum capital and the 2001 guidelines raised this to Rs. 200 crore to be increased to Rs.300 crore

over three years from commencement of business. Taking into account the lapse of time since the last guidelines issued in January 2001 and inflation since then, it was thought to have the minimum capital requirement at more than Rs. 300 crore.

Though having a higher minimum capital requirement for new banks would ensure that the banks operate on a strong capital base, and only serious parties with sufficient financial backing would evince interest in setting up new banks, such banks should also be required to play a more meaningful role in financial inclusion. However, with too high minimum capital requirements, it is more likely that some serious promoters with financial inclusion in mind would not have the wherewithal to set up a bank and those promoters who would have higher capital would focus on more profitable large ticket size commercial banking than seriously committing to financial inclusion. To strike a balance between the twin objectives of adequate capital and financial inclusion, based on deliberations, discussion with bankers, consultants and other experts, it was decided to have a minimum capital of Rs.500 crore.”*

XII RECOMMENDATION OF STANDING COMMITTEE ON FINANCE ON POLICY ON NEW BANKING LICENCE

12.1 The 43rd report of the SCF (page 27 para 32) contains recommendation as under

‘While broadly endorsing the proposals contained in the Bill as measures to facilitate growth with regulation in banking sector, the Committee would like to emphasise that the recent failures of some major private banks internationally and the lessons learnt from them should not be lost sight of, while formulating the new policy on banking licences as per the mandate proposed in the Bill. The Committee would like the stability of the banking system to be preserved, while nurturing growth and development of the banking sector as a whole. Key issues and concerns such as banking

penetration, coverage and financial inclusion should remain paramount and the entire banking industry including banks in the private sector should be clearly mandated to achieve the desired objectives in this regard.'

12.2 The Ministry of Finance (DFS) has furnished their comments as follows:

In the above recommendation the SCF has laid emphasis that the recent failures of some major private banks internationally and the lessons learnt from them should not be lost sight of, while formulating the new policy on banking licences.

The following safeguards and prudential regulations applicable to the new banks, the parent NOFHC and the consolidated bank built-in the new bank licensing policy guidelines would serve as adequate safeguards to deal with conflict of interest situations.

(i) 'Fit and Proper' criteria :

Entities / groups are required to comply with the 'fit and proper' criteria, to be eligible to promote banks. It has been stipulated that entities / groups should have a past record of sound credentials and integrity, be financially sound with a successful track record of 10 years. For ascertaining these aspects, RBI may seek feedback from other regulators and enforcement and investigative agencies.

Further, it has been mentioned in the guidelines that Promoter / Promoter Groups' business model and business culture should not be misaligned with the banking model and their business should not potentially put the bank and the banking system at risk on account of group activities such as those which are speculative in nature or subject to high asset price volatility.

The above criteria ensure that there are stringent 'fit and proper' norms for entry into the banking sector.

(ii) Corporate structure of the NOFHC :

RBI will have to be satisfied that the corporate structure does not impede the financial services entities held by the NOFHC from being ring fenced, that it would be able to supervise the bank, the NOFHC, and its Subsidiaries / Joint Ventures / Associates on a consolidated basis, and that, it will be able to obtain all required information relevant for this purpose, smoothly and promptly. However, the primary supervision of the entities held by the NOFHC will be by the sectoral regulators. The newly inserted Section 29A of the Banking Regulation Act, 1949 empowers the

Reserve Bank of India to call for information from the associate companies and also cause inspection of their books of account.

The NOFHC shall not be permitted to set up any new financial services entity for at least three years from the date of commencement of business of the NOFHC. Since setting up a bank is challenging, this has been stipulated from the prospective of stability so that the new bank become stable before the Promoters/Promoter Groups diversify into new businesses.

The guidelines require the corporate structure of the Promoter Group to be such that the NOFHC will be wholly owned by the Promoter / Promoter Group and that all the other financial services entities of the group are brought under the NOFHC. The companies forming part of the Promoter Group whereof companies in which the public hold not less than 51 per cent of the voting equity shares, shall hold not less than 51 per cent of the total voting equity shares of the NOFHC.

The objective for the above corporate structure is to ring fence the regulated financial services entities of the Group, including the bank from other activities of the Group i.e., commercial, industrial and financial activities not regulated by financial sector regulators and also that the bank should be ring fenced from other regulated financial activities of the Group.

(iii) Corporate Governance of HOFHC

The capital holding pattern prescribed for the NOFHC is to ensure that the majority holding (51 percent or more) in the NOFHC by the Promoter / Promoter Group is through the Promoter Group companies in which the public holding is a minimum of 51 percent. This stipulation is from the prospective of ensuring better corporate governance of the NOFHC.

Specific corporate governance standards have also been laid down for the NOFHC, with requirements like having a minimum of 50 percent of independent directors, 'fit and proper' criteria for Directors, as applicable to the Directors of banks, requirement of special knowledge or practical experience, etc.

(iv) Exposure norms :

In order to address the risk of self dealing by promoters, it has been stipulated under the exposure norms that the NOFHC and the bank and any other regulated financial sector entity held under the NOFHC shall not have any exposure to the Promoter Group.

These norms have been stipulated to obviate the chances of self dealing.

(v) **Capital requirements for banks and shareholding by NOFHC :**

The requirements under this stipulation is that although the promoters (through the NOFHC) will be allowed to initially hold a minimum of 40 per cent of the paid-up voting equity capital of the bank, the shareholding of the NOFHC is required to be brought down to 15 per cent within 12 years.

This has been stipulated to ensure that the promoters do not have substantial stake in the bank in the long run and the shareholding in the bank is well diversified.

Further, the bank has been required to get its shares listed on the stock exchanges within three years of commencement of business to ensure that they follow SEBI norms on disclosure and transparency.

(vi) **Other conditions for the bank :**

In order to ensure that the banks are professionally run with adequate corporate governance standards, certain other stipulations have been prescribed some of them are as specified below:

- The Board of the bank should have a majority of independent Directors.
- Banks promoted by groups having 40 per cent or more assets / income from non-financial business will require RBI's prior approval for raising paid-up voting equity capital beyond Rs.10 billion for every block of Rs.5 billion.
- RBI while examining such proposals would primarily look into whether the corporate governance standards are adequate, whether information from Promoter Group has been forthcoming to facilitate consolidated supervision and whether the Board members remain 'fit and proper'.

The bank should operate on Core Banking Solutions (CBS) from the beginning with all modern infrastructural facilities.

It has been also stated in the guidelines that any non-compliance of terms and conditions will attract penal measures including cancellation of licence of the bank.

Further, the amendments to the BR Act, 1949 that have been carried out give RBI the power to supersede the Boards of the banks in public interest or for preventing the affairs of any banking company being

conducted in a manner detrimental to the interest of the depositors or the banking company or for securing proper management of the banking company.”

XIII SOCIAL OBLIGATION

13.1 In reply to a specific query as to whether adequate social obligations including financial inclusion have been mandated upon the new licencees, the Ministry inter-alia furnished the following reply as stated below:

“The SCF has observed that while nurturing growth and development of banking sector as a whole, key issues and concerns such as penetration, coverage and financial inclusion should remain paramount and the entire banking industry including banks in the private sector should be mandated to achieve the desired objectives in this regard.

Accordingly, RBI has proposed in the new bank licensing guidelines, norms relating to issues such as business plan orientation towards financial inclusion, compliance with priority sector targets, minimum 25 per cent branch presence at rural unbanked centers etc, as detailed below:

- (i) RBI has mandated that the applicants for new bank licencees should furnish their business plans for the banks along with their applications and that business plan will have to address how the bank proposes to achieve financial inclusion. This will be a vital input in deciding about grant of bank licence in case many applicants meet the eligibility and ‘fit and proper’ criteria.
- (ii) RBI will have to comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks. For this purpose, RBI is required to build its priority sector lending portfolio from the commencement of its operations.

RBI is required to open at least 25 percent of its branches in unbanked rural centers (population up to 9,999 as per the latest census) to avoid over concentration of their branches in metropolitan areas and cities which are already having adequate banking presence.”

13.2 While deposing before the Committee RBI Governor made the following oral submission on the issue of social obligation:

“Sir, on financial inclusion, both the Government and the Reserve Bank has been pursuing this as a major priority programme. It is, of course, at the first level. It is a target-driven programme. But at the second level, we are also trying to emphasise the quality of financial inclusion. Opening of a bank branch is just a beginning of financial inclusion. After that, accounts have to

be opened and those accounts have to be put operational. This is not just the supply problem. Our experience has been that we can force banks to go and open a branch and they will. We can force banks to open accounts for all the households in the villages. They have indeed done that. But even then, the households have not been using those accounts actively.”

13.3 On the viability issue of implementation of 25% branches in rural unbanked areas RBI has made the following written submission:

“ Viability of branches depends upon both volume and value of business and sound business strategies of the bank. Setting up a brick and mortar branch in villages to the extent of 25% of the total branches may not threaten the viability of the banks.

It is necessary to ensure that the objective of financial inclusion is achieved without affecting the viability of the banks as they deal with huge public funds. RBI has also instructed the existing scheduled commercial banks to open at least 25% of their branches in unbanked rural centres. In order to ensure that the new banks have a level playing field with the existing banks which is necessary for surviving the competition amongst banks, the same prescription of 25% branches in unbanked rural centres has been mandated for the new banks through the guidelines. Apart from the requirements relating to the branch network, the guidelines also stipulate that the new banks will also be required to fulfill priority sector lending commitments. The new banks can achieve economies of scale through better technology, innovative modes of delivering credit, engagement of business correspondents while adhering to the above prescriptions.”

13.4 RBI has said that new banks are being licensed to achieve the objective of financial inclusion. When the Committee pointed out that the existing banks including public sector and more so the private sector banks have not been able to achieve Priority Sector Lending (PSL) target of 40% and opening of branches in unbanked rural centres, RBI inter alia submitted the following

“As on March 31, 2012, lending to the priority sector by public sector banks was to the extent of 37.2% of adjusted net bank credit (ANBC) whereas in the case of private sector banks, it was higher at 39.4%.

Regarding opening of branches in unbanked rural centres, in compliance with the Monetary Policy 2011-2012, domestic Scheduled

Commercial banks have been advised in July 2011 that while preparing their Annual Branch Expansion Plan (ABEP), the banks should allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centres with population of less than 10000. These instructions were issued as Branch expansion in rural areas is essential to address the existing asymmetries in achieving financial inclusion....., there is adequate monitoring mechanism to ensure that the existing banks open at least 25 percent of the total number of branches in unbanked rural centres.

In the guidelines for new banks, conditions have been stipulated for opening of at least 25 per cent of the bank branches in unbanked rural centres (population up to 9,999 as per the latest census) and that the bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks. Further, the guidelines indicate that compliance of terms and conditions laid down by RBI is an essential condition of grant of licence and any non-compliance will attract penal measures including cancellation of licence of the bank. Therefore, RBI will be able to take penal action in case of non-compliance with the terms and conditions laid down.” *

13.5 Statements showing snapshots of the progress made by the public sector banks and private sector banks, under certain key parameters, for the years ended March 2010, March 2011, March 2012 and March 2013, are given below.

		Public Sector Banks				
SR	Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Year ended March 13	Progress April 10 - March 13
1	Total No. of Branches	59785	63422	68748	73578	13793

2	No. of Rural Branches	20091	21050	22816	24671	4580
3	Total number of correspondents deployed	19448	48581	78057	99127	79679
4	Banking Outlets >2000 -Total	22043	48816	73244	76445	54402
5	Banking Outlets <2000- Total	22036	37749	47126	77583	55547
6	Banking Outlets - Branches	20036	21050	22816	24671	4635
7	Banking Outlets - BCs	23958	65174	96895	126626	102668
8	Banking Outlets - Other Modes	85	341	659	2731	2646
9	Banking Outlets -TOTAL	44079	86565	120370	154028	109949
10	Urban Locations covered through BCs	416	2701	4588	6609	6193
11	BSBDA Total	463.84	642.45	875.02	1162.45	698.60
12	BSBDA Total Amt.	3654.28	4981.20	8255.56	12176.95	8522.67
13	OD facility availed in Basic Savings Bank Deposit A/c (No. in lakh)	1.26	4.80	15.08	24.98	23.72
14	OD facility availed in Basic Savings Bank Deposit A/c (Amt. in crores)	7.84	21.45	53.31	96.21	88.37
15	KCCs-Total-No. in Lakh	156.28	177.68	195.43	200.86	44.58
16	KCCs-Total-Amt In ` Crores	88416.93	113016.78	146395.81	179990.62	91573.69
17	GCC-Total-No. in Lakh	8.96	9.92	12.13	22.37	13.41
18	GCC-Total-Amt In ` Crores	2568.75	2184.11	2698.14	2633.65	64.90
19	ICT A/Cs-BC-Total Transaction -No. in lakhs	175.87	586.45	938.13	1522.13	3046.70
20	ICT A/Cs-BC-Total Transactions - Amt in crores	542.59	5143.51	7862.33	17775.69	30781.53

PrivateSector Banks		Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Year ended March 13	Progress April 10 - March 13
SR	Particulars					
1	Total No. of Branches	10161	11699	13558	15630	5469
2	No. of Rural Branches	1439	1612	1885	2699	1260
3	Total number of CSPs deployed	13594	8748	17710	73920	60326
4	Banking Outlets >2000 -Total	5310	5430	9056	14552	9242
5	Banking Outlets <2000- Total	4869	8188	18108	60830	55961
6	Banking Outlets - Branches	1439	1612	1885	2699	1260
7	Banking Outlets - BCs	8726	11964	23460	68544	59818
8	Banking Outlets - Other Modes	14	42	1819	4139	4125
9	Banking Outlets -TOTAL	10179	13618	27164	75382	65203
10	Urban Locations covered through BCs	17	1056	1287	20484	20467
11	BSBDA Total	39.57	111.36	180.10	267.91	228.34
12	BSBDA Total Amt.	602.86	721.94	1073.58	1470.26	867.40
13	OD facility availed in Basic Savings Bank Deposit A/c (No. in lakh)	0.00	0.00	0.07	0.09	0.09

14	OD facility availed in Basic Savings Bank Deposit A/c (Amt. in crores)	0.02	0.03	2.08	7.00	6.98
15	KCCs-Total-No. in Lakh	2.31	4.17	7.34	14.98	12.67
16	KCCs-Total-Amt In ` Crores	5592.66	10721.09	18755.00	30448.45	24855.80
17	GCC-Total-No. in Lakh	0.04	0.22	0.54	5.64	5.59
18	GCC-Total-Amt In ` Crores	8.09	9.05	33.70	3455.90	3447.82
19	ICT A/Cs-BC-Total Transaction -No. in lakhs	11.55	59.60	254.52	697.38	1011.50
20	ICT A/Cs-BC-Total Transactions -Amt in crores	64.66	379.67	883.22	4580.24	5843.13

XIV TIME LIMIT AND TRANSPARENCY

14.1 Regarding time limit by which the licenses are proposed to be issued, the Govern submitted the following:

“ RBI has released the final guidelines for issue of licences on February 22, 2013, indicating that applications for setting up of banks shall reach on or before July 1, 2013.

- (i) At the first stage, the applications will be screened by RBI to ensure *prima facie* eligibility of the applicants. Thereafter, the applications will be referred to a High Level Advisory Committee (HLAC) to be set up by RBI. The HLAC will comprise eminent persons with experience in banking, financial sector and other relevant areas. The HLAC will set up its own procedures for screening the applications and will reserve the right to call for more information as well as have discussions with any applicant/s and seek clarification on any issue as may be required by it. The HLAC will submit its recommendations to RBI for consideration. The decision to issue an in-principle approval for setting up of a bank will be taken by RBI.
- (ii) Further, extensive due diligence exercise will have to be undertaken on the applicants including seeking feedback on applicants / Groups from other regulators, and enforcement and investigative agencies like Income Tax, CBI, Enforcement Directorate, etc; as deemed appropriate.

Therefore, the time limit by which licenses will granted will depend on the number of applications received and the recommendations of the HLAC. RBI has indicated that is that if the number of applications is reasonable (say around 30 or so), RBI should be able to grant ‘in principle’ approval in the first quarter of 2014.”

14.2 It has been pointed out during the sitting of the Committee held on 09.04.2013 that almost 93 applications for banking license were kept pending from 1993 till 2001

when they lapsed with the issue fresh guidelines. Again when only 2 out of 10 applications were granted license 8 were kept pending. On being asked why whether applications were kept pending for long period and whether response will be given to applicants who are not awarded the license, the Governor RBI inter alia stated as below:

“I believe that we will give a response. Last time, I think, they were kept pending because it was never closed.”

14.3 RBI further submitted the following on the modality as to how it has intended to select entities for granting banking licenses and maintain transparency:

(i) Banking being a highly leveraged business, licences shall be issued on a very selective basis to those who conform to the requirements set out in the guidelines dated February 22, 2013, who have an impeccable track record and who are likely to conform to the best international and domestic standards of customer service and efficiency.

(ii) At the first stage, the applications will be screened by RBI to ensure *prima facie* eligibility of the applicants. RBI may apply additional criteria to determine the suitability of applications, in addition to the 'fit and proper' criteria prescribed in the guidelines. Thereafter, the applications will be referred to a High Level Advisory Committee to be set up by RBI.

(iii) The High Level Advisory Committee will comprise eminent persons with experience in banking, financial sector and other relevant areas.

(iv) The High Level Advisory Committee will set up its own procedures for screening the applications. The Committee will reserve the right to call for more information as well as have discussions with any applicant/s and seek clarification on any issue as may be required by it. The Committee will submit its recommendations to RBI for consideration. The decision to issue an in-principle approval for setting up of a bank will be taken by RBI.

(v) In order to ensure transparency, the names of the applicants for bank licences will be placed on the RBI website after the last date of receipt of the applications.

The names of applicants who have been granted in-principle approval will be listed in the RBI website.”

CLARIFICATIONS TO QUERIES

15.1 Clarifications to queries received on the guidelines have been placed in the RBI website, <http://rbi.org.in>.

A good number of queries have brought out issues relating to the provisions in the guidelines on the eligible promoters, 'fit and proper' criteria, corporate structure of the Non-Operative Financial Holding Company (NOFHC), foreign shareholding and on transition time to the new structure.

As per the guidelines for licensing of new banks in the private sector issued vide RBI Press Release dated February 22, 2013, the validity of the in-principle approval for setting up of the NOFHC / bank was one year from the date of issue and would lapse automatically, thereafter. One being asked to clarify as to whether it would provide more time for a smooth transition from the existing structures to that prescribed in the guidelines as also for meeting the regulatory requirements, *RBI has decided to extend the validity period of the in-principle approval from one year to 18 months. Accordingly, the provisions at para 4(K) (vi) of the guidelines stand modified.*

The queries received from intending applicants brought out several complex issues pertaining to re-organisation of the existing corporate structure, restructuring of businesses and meeting the regulatory requirements. Some of the provisions in the guidelines relate to Non-operative Financial Holding Company (NOFHC) structure which envisages holding of the bank and other regulated financial services entities of the Promoters/Promoter Group under the NOFHC and prudential exposure norms for the regulated entities. These requirements overlap with regulatory norms prescribed by other sectoral regulators like SEBI and IRDA. In this regard queries were raised on adherence to different sector specific requirements. In this regard RBI has stated that "such issues were examined in consultation with SEBI and IRDA. It has been decided that while the structure prescribed in the guidelines is the preferred structure, the intending applicants should approach the other financial sector regulators for

bringing the entities regulated by them under the NOFHC. Their decision in this regard would prevail”.

PART II

OBSERVATIONS/ RECOMMENDATIONS

More Banks

1. The Committee note that with a view to injecting competitiveness and improving efficiency and productivity in the banking sector, the Narsimhan Committee(1991) had recommended that the RBI should permit establishment of new banks in the private sector. Following this, guidelines for licensing of new banks in the private sector were issued by RBI in January, 1993 and 10 new banks were set up in the private sector. Almost a decade later revised guidelines were issued in January 2001, which have begotten two more banks. Subsequent to the announcement made by the Finance Minister in the Budget Speech in 2010-11, RBI has issued fresh/revised guidelines for issuing banking licenses on 22 February, 2013.

2. Out of the 12 new banks set up after 1993 and 2001 guidelines, four were promoted by financial institutions (Axis Bank, ICICI Bank, HDFC Bank, IDBI Bank), one each by conversion of co-operative bank (DCB) and NBFC (Kotak Mahindra) into commercial banks, five by individual banking professionals (GTB Ltd., Bank of Punjab, Centurion, Yes Bank, Indusland Bank) and the remaining one by an established media house (Times Bank). Out of the banks promoted by individuals in 1993, only one has survived with muted growth. One bank has been compulsorily merged with a nationalized bank due to erosion of networth on account of large capital market exposure. The other two banks have voluntarily amalgamated with other private sector banks due to the decisions of the majority shareholders arising out of poor governance and lack of financial strength. The Committee observe that mere issuing of new banking licenses by itself at this juncture cannot guarantee growth in the banking sector, and ipso facto lead to financial inclusion. The Committee are more inclined to assume that criteria/parameters set out in the 1993 guidelines and monitoring thereof may not

have been adequate enough to prevent floundering of some banks in a short period and mergers and muted growth in some.

Banking Licences to large industrial houses

3. The RBI Governor, while deposing before the Committee had explained the factors that has prompted for revision of the 2001 guidelines. He stated that *“In India and around the world, the financial sector has changed, the corporate sector has changed, our understanding of regulation is changed, our regulatory capability has improved in certain respects, we are aware of our deficiencies in certain respects. So, taking into account the changed circumstances, we revise the guidelines to reflect the changed circumstances”*. One of the major changes in the current guidelines from the earlier one is that the 2013 guidelines for banking license have allowed large industrial houses to apply for banking license, contrary to the guidelines issued in 2001 which had clearly spelt out that large industrial houses were not allowed to apply for banking license. According to RBI, the main reasons for allowing large industrial/business houses to promote banks under 2013 guidelines are that capital requirement can be easily provided by large industrial houses; industrial and business houses have already been allowed entry into other financial service sectors and are competing with banks on both asset and liability sides; industrial and business houses have a long and credible history of building and nurturing new businesses in highly regulated sectors like telecom, power, airports, highways and ports etc. However, the Committee are not convinced with the rationale advanced by RBI. Banking being a highly leveraged business involving public money and public welfare, the Committee are of the considered opinion that it will be more in the fitness of things to keep industry and banking separate. The Committee note that as on March 2013, out of 15630 existing private sector bank branches, only 2699 branches are located in the rural areas i.e. to say only about 17% of the total branches are in the rural areas. Given such a background, the Committee are apprehensive that

industrial/business houses may not be geared to achieve the national objectives of financial inclusion, priority sector lending etc. The Committee are not sure whether the “safeguards” put in place by RBI such as “Fit and Proper” criteria, “Exposure Norms” etc. would be effective enough to prevent banks promoted by industrial houses from “cosying up” to their industrial-owners. The Committee, therefore, urge the Government/RBI to ensure that no recurrence of the pre-nationalised situation happens, when the management of private banks deployed their funds to extend undue favour to their own industrial owners without regard to social priorities determined by Government. As post-nationalisation, great strides have been made in social banking by public sector banks, the Committee desire that this momentum nurtured thus far should be carried forward to extend the geographic coverage of banks and improve access to banking services through the new licenses to be awarded under the 2013 guidelines. This goal of reaching banking services to unbanked areas should thus not be lost sight of while granting licenses to new entities.

Fit and Proper

4. Under ‘Fit and Proper’ criteria it has been stated that entities/groups applying for banking license should have a past record of sound credentials and integrity and be financially sound with a successful track record of 10 years. The Committee feel that this criteria is too ambiguous and too much scope has been left for subjective discretion of RBI. Having such subjective, ambiguous and open-ended criteria may leave the doors open for arbitrariness and invite charges of favouritism. The Committee, would therefore, suggest that a more precise, a coherent and objective yardstick/criteria may be formulated to assess the credentials of divergent entities from different sectors in a uniform manner.

Paid Up Capital

5. The 1993 guidelines stipulate a threshold of Rs.100 crore capital while the 2001 guidelines stipulate Rs.200 crore, which was to be made Rs.300 crore

in three years; and the 2013 guidelines stipulate the same of Rs.500 crore. Considering the expanse of geographical India, the vast unbanked population, the costs of core banking technology, real estate and manpower services, the Committee believe that starting a bank with around Rs.500 crore as capital will limit the operations of the bank and render them vulnerable to under-achieve its mandate. Raising the bar for Capital requirement will also serve the purpose of screening out the less serious players in the sector. Further, the mandated rural branches may also not necessarily bring forth profits immediately. Therefore, in view of the stipulated mandate and the need for sustainability, the banks must equip themselves with adequate capital. The Committee therefore, recommend for raising the minimum capital requirement for the new banks to Rs.1000 crore.

Lending Norms

6. The Committee note that the Reserve Bank of India mandates that the new banks also have to provide 40% of the total advances towards priority sector lending like any other existing private and public sectors banks. The latest guidelines also contain certain exposure norms including the Intra-Group Transactions & Exposures (ITEs) norms. However, the Committee are surprised to note that there is no lending norms prescribed in the guidelines, particularly with regard to lending to entity/entities belonging to or associated with the Promoter or the Promoter Group or even lending within the proposed Non-Operative Financial Holding Company (NOFHC). These norms need to be spelt out clearly so that there is no appropriation of funds to serve the interests of the promoter group. The Committee desire that the pitfalls of appropriation of banking resources for partisan gains should be scrupulously avoided.

Financial Inclusion

7. The Committee note that in respect of business plan it has been stated in the guidelines that *“Applicants for new bank licenses will be required to furnish their business plans for the banks along with their applications. The*

business plan will have to address how the bank proposes to achieve financial inclusion". It has been further stated in the guidelines that ***"The bank shall open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999 as per the latest census) to avoid over concentration of their branches in metropolitan areas and cities which are already having adequate banking presence."*** When the existing private sector banks are not able to have even 20% of their bank branches in the rural areas (Kotak Mahindra Bank had a mere 10.91% while Yes Bank had nil), the Committee cannot understand as to how the new banks will be persuaded to achieve the mandate of opening 25% of their branches in the rural areas. The Committee would therefore like the Reserve Bank of India to have a mechanism of incentive/dis-incentive in place so that this mandate/stipulation can be strictly enforced and it does not remain only on paper, as is the case now. Thus, for every three branches in urban areas, there must be a branch in rural area. Permission to open bank branches could be given in lots of four at a time. This would enable the Reserve Bank of India to properly enforce this norm.

Time Limit And Transparency

8. From the reply furnished by RBI, the Committee understand that though there is no time limit by which the licenses are to be issued, RBI is hopeful of granting licenses "in principle" in the first quarter of 2014. The Committee find it pertinent to point out here that to keep applications pending indefinitely without assigning any reason, as was done earlier, is unjust and unfair. The Committee would thus expect the RBI to promptly respond to those applications for banking licenses which are not accepted and to intimate the reasons for the same to the applicant within a stipulated period. The Committee would also urge the RBI to execute the process of screening and evaluation of applications received for banking license in a well-defined and transparent manner without leaving any room for speculation or conjecture.

Contestability of Decision of RBI

9. The Governor of RBI, while deposing before the Committee stated on the issue of “Fit and Proper” criteria “...if there is some subjectivity, the test for us, the challenge for us will be ...Is your decision contestable?” The Committee are surprised that in spite of the above submission made by the RBI Governor, and also considering the extent of subjective discretion available with RBI in the criteria/guidelines, there is no mechanism provided to facilitate contesting or reviewing RBI decisions. With a view to ensuring fairplay and justice in the licensing process, the Committee recommend that a suitable mechanism may be instituted to enable aggrieved applicants to seek review of decisions.

Conclusion

10. Banking being a highly leveraged business involving public money and public welfare, the Committee are of the considered opinion that it will be more in the fitness of things to keep industry and banking separate. The Committee, therefore desire the Government/Reserve Bank of India to review the licencing guidelines accordingly.

New Delhi;
27 September, 2013
05 Asvina, 1935 (Saka)

YASHWANT SINHA
Chairman,
Standing Committee on Finance.

January 22, 1993

GUIDELINES ON ENTRY OF NEW PRIVATE SECTOR BANKS

For well over two decades, after the nationalization of 14 larger banks in 1969, no banks have been allowed to be set up in the private sector. Progressively, over this period, public sector banks have expanded their branch network considerably and catered to the socio-economic needs of large masses of the population, especially the weaker section and those in the rural areas. The public sector banks now have 91 per cent of the total bank branches and handle 85 per cent of the total banking business in the country. While recognising the importance and the role of public sector banks, there is increasing recognition of the need to introduce greater competition which can lead to higher productivity and efficiency of the banking system. A stage has now been reached when new private sector banks may be allowed to be set up.

It is necessary that while permitting the entry of new private sector banks the following considerations have to be kept in view:

- (a) they sub-serve the underlying goals of financial sector reforms which are to provide competitive, efficient and low cost financial intermediation services for the society at large;
- (b) they are financially viable;
- (c) they should result in upgradation of technology in the banking sector;
- (d) they avoid the shortcomings, such as, unfair preemption and concentration of credit, unauthorized hoarding of economic power, cross holdings with industrial groups, etc., which beset the private sector banks prior to authorization;
- (e) freedom of entry in the banking sector may have to be managed carefully and judiciously.

Based on these considerations, the Reserve Bank has formulated the following guidelines for establishment of new banks in the private sector :-

- (a) Such a bank shall be registered as a public limited company under the Companies Act, 1956.
- (b) The RBI may, on merits, grant a licence under the Banking Regulation Act, 1949 for such a bank. The bank may also be included in the Second Schedule

of the Reserve Bank of India Act, 1934 at the appropriate time. The decision of the RBI in these matters shall be final.

I The bank will be governed by the provisions of the Banking Regulation Act, 1949 in regard to its authorized, subscribed and paid-up capital. The minimum paid-up capital for such a bank shall be Rs.100 crores. The promoters' contribution for such a bank shall be determined by the RBI and will also be subject to other applicable regulations.

(d) The shares of the bank should be listed on stock exchanges.

(e) To avoid concentration of the headquarters of new banks in metropolitan cities and other overbanked areas, while granting a licence, preference may be given to those, the headquarters of which, are proposed to be located in a centre which does not have the headquarters of any other bank.

(f) Voting rights of an individual shareholder shall be governed by the ceiling of 1 per cent of the total voting rights as stipulated by Section 12 (2) of the Banking Regulation Act. However, exemption from this ceiling may be granted under Section 53 of the said Act, to public financial institutions.

(g) The new bank shall not be allowed to have as a director any person who is a director of any other banking company, or of companies which among themselves are entitled to exercise voting rights in excess of twenty per cent of the total voting rights of all the shareholders of the banking company, as laid down in the Banking Regulation Act, 1949.

(h) The bank will be governed by the provisions of the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949 and other relevant statutes, in regard to its management, set-up, liquidity requirements and the scope of its activities. The directives, instructions, guidelines and advices given by the RBI, shall be applicable to such a bank as in the case of other banks. It would be ensured that a new bank would concentrate on core banking activities initially.

(i) Such a bank shall be subject to prudential norms in respect of banking operations, accounting policies and other policies as are laid down by RBI. The bank will have to achieve capital adequacy of 8 per cent of the risk weighted assets from the very beginning. Similarly, norms for income recognition, asset classification and provisioning will also be applicable to it from the beginning. So will be the single borrower and group borrowers exposure limits that will be in force from time to time.

(j) The bank shall have to observe priority sector lending targets as applicable to other domestic banks. However, in recognition of the fact that new entrants may require some time to lend to all categories of the priority sector, some modifications in the composition of the priority sector lending may be considered by RBI for the initial period of three years.

- (k) Such a bank will also have to comply with such directions of the RBI as are applicable to existing banks in the matter or export credit. As a facilitation of this it may be issued an authorized dealer's licence to deal in foreign exchange, when applied for.
- (l) A new bank shall not be allowed to set up a subsidiary or mutual fund for at least three years after its establishment. The holding of such a bank in the

equity of other companies shall be governed by the existing provisions applicable to other banks, viz. –

- (V) 30 per cent of the bank's or the investee company's capital funds, whichever is less, as set out under the Banking Regulation Act, 1949, and
- (ii) 1.5 per cent of the bank's incremental deposits during a year as per RBI guidelines.

The aggregate of such investments in the subsidiaries and Mutual Fund (if and when set up) and portfolio investments in other companies shall not exceed 20 per cent of the bank's own paid-up capital and reserves.

- (m) In regard to branch opening, it shall be governed by the existing policy that banks are free to open branches at various centres including urban/metropolitan centres without the prior approval of the RBI once they satisfy the capital adequacy and prudential accounting norms. However, to avoid over-concentration of their branches in metropolitan areas and cities, a new bank will be required to open rural and semi-urban branches also, as may be laid down by RBI.
- (n) Such a bank shall have to lay down its loan policy within the overall policy guidelines of RBI. While doing so, it shall specifically provide prudential norms covering related party transactions.
- (o) Such a bank shall make full use of modern infrastructural facilities in office equipments, computer, telecommunications, etc. in order to provide good customer service. The bank should have a high powered customer grievances cell to handle customer complaints.
- (p) Such other conditions as RBI may prescribe from time to time.

(V.L.Patil)
Relations Officer

**Guidelines on entry of new banks in the private sector
January 3, 2001**

The guidelines for licensing of new banks in the private sector were issued by the Reserve Bank of India (RBI) on January 22, 1993. Out of various applications received, RBI had granted licences to 10 banks. After a review of the experience gained on the functioning of the new banks in the private sector, in consultation with the Government, it has now been decided to revise the licensing guidelines.

The revised guidelines for entry of new banks in private sector are given below. The guidelines are indicative and any other relevant factor or circumstances would be kept in view while considering an application. With the issue of revised guidelines, applications pending with RBI would be treated as lapsed.

2. Guidelines

- (i) The initial minimum paid-up capital for a new bank shall be Rs.200 crore. The initial capital will be raised to Rs.300 crore within three years of commencement of business. The overall capital structure of the proposed bank including the authorised capital shall be approved by the RBI.
- (ii) The promoters' contribution shall be a minimum of 40 per cent of the paid-up capital of the bank at any point of time. The initial capital, other than the promoters' contribution, could be raised through public issue or private placement. In case the promoters' contribution to the initial capital is in excess of the minimum proportion of 40 per cent, they shall dilute their excess stake after one year of the bank's operations. (In case divestment after one year is proposed to be spread over a period of time, this would require specific approval of the RBI). Promoters' contribution of 40% of the initial capital shall be locked in for a period of five years from the date of licensing of the bank.
- (iii) While augmenting capital to Rs.300 crore within three years of commencement of business, the promoters will have to bring in additional capital, which would be at least 40 per cent of the fresh capital raised. The remaining portion could be raised through public issue or private placement. The promoters' contribution of a minimum of 40% of additional capital will also be locked in for a minimum period of 5 years from the date of receipt of capital by the bank.
- (iv) NRI participation in the primary equity of a new bank shall be to the maximum extent of 40 per cent. In the case of a foreign banking company or finance company (including multilateral institutions) as a technical collaborator or a copromoter, equity participation shall be restricted to 20 per cent within the above ceiling of 40 per cent. In cases of shortfall in foreign equity contributions by NRIs, designated multilateral institutions would be allowed to contribute foreign equity to the extent of the shortfall in NRI contribution to the equity. The proposed bank shall obtain necessary approval of Foreign Investment Promotion Board of the Government of India and Exchange Control Department of RBI.
- (v) The new bank should not be promoted by a large industrial house. However, individual companies, directly or indirectly connected with large industrial houses may be permitted to participate in the equity of a new private sector bank up to a maximum of 10 per cent

but will not have controlling interest in the bank. The 10 per cent limit would apply to all inter-connected companies belonging to the concerned large industrial houses. In taking a view on whether the companies, either as promoters or investors, belong to a large industrial house or to a company connected to a large industrial house, the decision of the RBI will be final.

- (vi) The proposed bank shall maintain an arms length relationship with business entities in the promoter group and the individual company/ies investing upto 10% of the equity as stipulated above. It shall not extend any credit facilities to the promoters and company/ies investing up to 10 per cent of the equity. The relationship between business entities in the promoter group and the proposed bank shall be of a similar nature as between two independent and unconnected entities. In taking view on whether a company belongs to a particular Promoter Group or not, the decision of RBI shall be final.

(vii) Conversion of NBFCs into private sector banks

An NBFC with a good track record desiring conversion into a bank should satisfy the following criteria :

- The NBFC should have a minimum net worth of Rs.200 crore in its latest balance sheet which will stand increased to Rs.300 crore within three years from the date of conversion.
- The NBFC should not have been promoted by a large Industrial House or owned/controlled by public authorities, including Local, State or Central Governments.
- The NBFC should have acquired a credit rating of not less than AAA rating (or its equivalent) in the previous year.
- The NBFC should have an impeccable track record in compliance with RBI regulations/directions and in repayment of public deposits and no default should have been reported.
- The NBFC desiring conversion into bank should have capital adequacy of not less than 12 per cent and net NPAs of not more than 5 per cent.
- The NBFC on conversion to a bank will have to comply with Capital Adequacy Ratio and all other requirements such as lending to priority sector, promoters' contribution, lock-in period for promoters' stake, dilution of promoters' stake beyond the minimum, NRI and foreign equity participation, arms length relationship, etc. as applicable to banks.

3. Other Requirements

- (i) The bank shall be required to maintain a minimum capital adequacy ratio of 10 per cent on a continuous basis from the commencement of its operations.
- (ii) In order to ensure level playing field,
- a) the new bank will have to observe priority sector lending target of 40 per cent of net bank credit as applicable to other domestic banks, and
 - b) the new bank will be required to open 25 per cent of its branches in rural and semi-urban areas to avoid over concentration of their branches in metropolitan areas and cities on the same lines as new private sector banks established under guidelines laid down by RBI in January 1993,

- (iii) The promoters, their group companies and the proposed bank shall accept the system of consolidated supervision by the Reserve Bank of India.
- (iv) The new bank shall not be allowed to set up a subsidiary or mutual fund for at least three years from the date of commencement of business.
- (v) The headquarters of the proposed new bank could be in any location in India as decided by the promoters.
- (vi) The new bank shall make full use of modern infrastructural facilities in office equipments, computer, telecommunications etc. in order to provide cost effective customer service. It should have a high powered Customer Grievances Cell to handle customer complaints.
- (vii) The new bank will be governed by the provisions of the Banking Regulation Act, 1949, Reserve Bank of India Act, 1934, other relevant Statutes and the Directives, Prudential regulations and other Guidelines/Instructions issued by RBI and the regulations of SEBI regarding public issues and other guidelines applicable to listed banking companies.

4. Procedure for Applications

- i) In terms of Rule 11 of the Banking Regulation (Companies) Rules, 1949 applications shall be submitted in the prescribed form (Form III). In addition, the applications should furnish a project report covering business potential and viability of the proposed bank, the business focus, the product lines, proposed regional or locational spread, level of information technology capability and any other information that they consider relevant. The project report should give as much concrete details as feasible, based on adequate ground level information and avoid unrealistic or unduly ambitious projections. Applications should also be supported by detailed information on the background of promoters, their expertise, track record of business and financial worth, details of promoters' direct and indirect interests in various companies/industries, details of credit/other facilities availed by the promoters/ promoter company(ies)/other Group company(ies) with banks/financial institutions, and details of proposed participation by foreign banks/NRI/OCBs.

- ii) Applications for setting up new banks in the private sector, along with other details as mentioned above, should reach the following address before March 31, 2001.

**The Chief General Manager-in-Charge,
 Department of Banking Operations and Development,
 Reserve Bank of India,
 World Trade Centre, Centre I,
 Cuffe Parade, Colaba,
 Mumbai 400 005.**

5. Procedure for RBI decisions

- i) In view of the increasing emphasis on stringent prudential norms, transparency, disclosure requirements and modern technology, the new banks need to have strength and efficiency to work profitably in a highly competitive environment. As a number of banks are already functioning, licences will be issued on a very selective basis to those who

conform to the above requirements and who are likely to conform to the best international and domestic standards of customer service and efficiency. Preference will however be given to promoters with expertise of financing priority areas and in setting up banks specialising in the financing of rural and agro based industries. The number of licences to be issued in the next three years may be restricted to two or three of the best acceptable proposals. This number would also include permission granted to any NBFC for conversion into bank. {If the number of acceptable proposals of the highest standards are more than three, this limit may be relaxed on recommendation of the Advisory Committee (see below). In that case the period for issuing new licences may be stretched to four or five years}.

- ii) At the first stage, the applications will be screened by RBI to ensure *prima facie* eligibility of the applicants. Thereafter, the applications will be referred to a high-level Advisory Committee to be set up by RBI comprising

Dr. I.G. Patel, former Governor of
Reserve Bank of India .. Chairman

Shri C.G. Somiah, former Comptroller and
Auditor General of India .. Member

Shri Dipankar Basu, former Chairman of
State Bank of India .. Member

Chief General Manager of the Department of Banking Operations and Development of
RBI will be the Secretary of the Advisory Committee.

- (iii) The Committee will set up its own procedures for screening the applications. The Committee will reserve the right to call for more information as well as have discussions with any applicant/s and seek clarification on any issue as required by it. The Committee will submit its recommendations to RBI for consideration within three months after the last date of receipt of applications by RBI (i.e. 30 June 2001). The decision to issue an in-principle approval for setting up of a bank will be taken by RBI. RBI's decision will be final.
- iv) The validity of the in-principle approval issued by RBI will be one year from the date of granting in-principle approval and would thereafter lapse automatically.
- v) After issue of the in-principle approval for setting up of a bank in the private sector, if any adverse features are noticed subsequently regarding the promoters or the companies/firms with which the promoters are associated and the group in which they have interest, the Reserve Bank of India may impose additional conditions and if warranted, it may withdraw the in-principle approval.

Alpana Killawala
General Manager

MINUTES OF THE THIRTEENTH SITTING OF THE STANDING COMMITTEE ON FINANCE (2012-13)

The Committee sat on Tuesday, the 9th April, 2013 from 1130 hrs to 1500 hrs.

PRESENT

Shri Yashwant Sinha – **Chairman**

MEMBERS

LOK SABHA

2. Dr. Baliram
3. Shri Nishikant Dubey
4. Shri Gurudas Dasgupta
5. Shri Chandrakant Khaire
6. Shri Bhartruhari Mahtab
7. Dr. Chinta Mohan
8. Shri Sanjay Brijkishorlal Nirupam
9. Shri S.S. Ramasubbu
10. Dr. Kavuru Sambasiva Rao
11. Shri Adv. A. Sampath
12. Dr. M. Thambidurai
13. Shri Shivkumar Udasi

RAJYA SABHA

14. Smt. Renuka Chowdhury
15. Shri Piyush Goyal
16. Dr. Mahendra Prasad
17. Shri Ravi Shankar Prasad
18. Shri P. Rajeeve

SECRETARIAT

1. Shri A.K. Singh – Joint Secretary
2. Shri Ramkumar Suryanarayanan – Additional Director
3. Shri Sanjay Sethi – Deputy Secretary
4. Shri Kulmohan Singh Arora – Under Secretary

WITNESSES

Reserve Bank of India (RBI)

1. Dr. D. Subbaroa, Governor
2. Shri Anand Sinha, Deputy Governor
3. Shri B. Mahapatra, Executive Director
4. Shri G.S. Hegde, Principal Legal Adviser
5. Shri S.S. Barik, General Manager

2. The Committee took oral evidence of the representatives of the Reserve Bank of India (RBI) in connection with the examination of the subject 'Policy on New Licences in the Banking Sector'. The major issues discussed broadly related to need to expand existing public sector banks; failure of banks to discharge their responsibilities of financial inclusion/priority sector lending; necessity to revise guidelines to grant banking licence; reasons/justification for allowing large industrial houses/public sector entities into banking sector; subjectivity of the guidelines to decide parameters such as 'impeccable record', 'fit and proper', 'sound credentials and integrity' of applicants; possibility of cross financing by the banks; ensuring opening of 25% of branches in unbanked rural areas; careful scrutiny of applications of large corporate/industrial houses; need to make eligibility criteria objective and stringent; sending response to those whose applications are rejected; ensuring no entity granted new banking licence fails; status /performance of the 12 new private banks issued banking licence as per 1993 and 2001 guidelines, etc. The Chairman directed the representatives of Reserve Bank of India (RBI) to furnish written replies to the points raised by the Members during the discussion.

A verbatim record of the proceedings was kept.

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE SECOND SITTING OF THE STANDING COMMITTEE ON FINANCE (2013-14)

The Committee sat on Friday, the 27th September, 2013 from 1100 hrs to 1310 hrs.

PRESENT

Shri Yashwant Sinha – **Chairman**

MEMBERS

LOK SABHA

2. Dr. Baliram
3. Shri Gurudas Dasgupta
4. Shri Nishikant Dubey
5. Shri Deepender Singh Hooda
6. Shri Chandrakant Khaire
7. Dr. Chinta Mohan
8. Shri S.S. Ramasubbu
9. Adv. A. Sampath
10. Shri Subodh Kant Sahai
11. Dr. M. Thambidurai
12. Shri Shivkumar Udasi

RAJYA SABHA

13. Shri Naresh Agrawal
14. Dr. Mahendra Prasad
15. Shri P. Rajeeve
16. Shri Praveen Rashtrapal
17. Dr. Yogendra P. Trivedi

SECRETARIAT

1. Shri A.K. Singh – Joint Secretary
2. Shri Ramkumar Suryanarayanan – Additional Director
3. Shri Sanjay Sethi – Deputy Secretary
4. Shri Kulmohan Singh Arora – Under Secretary

2. At the outset, the Chairman welcomed Shri Subodh Kant Sahai and congratulated him on his nomination to the Committee for the year 2013-14. The Committee thereafter took up the following draft Reports for consideration and adoption :-

- | | | | | |
|-------|----|----|----|----|
| (i) | XX | XX | XX | XX |
| | XX | XX | XX | XX |
| (ii) | XX | XX | XX | XX |
| | XX | XX | XX | XX |
| (iii) | XX | XX | XX | XX |
| | XX | XX | XX | XX |
| (iv) | XX | XX | XX | XX |
| | XX | XX | XX | XX |

(v) Draft Report on the subject 'Policy on New Licences in the Banking Sector'.

3. The Committee adopted the above draft reports with minor modifications. The Committee authorised the Chairman to finalise the Reports in the light of the modifications suggested and present these Reports to Hon'ble Speaker/Parliament.

The Committee then adjourned.