

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2507
ANSWERED ON:23.08.2013
FDI HIKE IN BANKING AND INSURANCE SECTOR
Singh Shri Dhananjay

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has any proposal to hike Foreign Direct Investment (FDI) in the banking and insurance sectors;
- (b) if so, the details thereof along with its objectives thereof;
- (c) whether the Government has received any representation from the bankers and bank staff unions in this regard; and
- (d) if so, the details thereof and the action taken by the Government thereon?

Answer

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

(a) and (b): In terms of Reserve Bank of India (RBI) circular dated 28.02.2005 and Government of India Press Note dated 05.03.2004, the aggregate foreign investment in private sector banks for all sources (FDI, FII and NRI) cannot exceed 74%. At all times, at least 26% of the paid-up capital of the privates sector banks will have to be held by resident Indians. Within the 74% limit, while a ceiling of 10% will be applicable for investment by an individual FII, a ceiling of 24% will be applicable to the aggregate investment by all FIIs. However, the ceiling of 24% can be raised to 49%, with the approval of Board / General Body of the Bank.

Similarly, while a ceiling of 5% will be applicable for investment by an individual NRI portfolio investment, a ceiling of 10% will be applicable to the aggregate investment by all NRIs. However, the ceiling of 10% can also be raised to 24% with the approval of Board / General Body of the bank. In case of the banks which would be licensed in terms of RBI's guidelines dated 22.02.2013, the foreign shareholding will be allowed only up to a ceiling of 49% of the paid-up voting equity capital for the first five years from the date of licensing of the bank. Further, no non-resident shareholder, directly or indirectly, individually or in groups, or through subsidiary, associate or joint venture will be allowed to hold 5% or more for a period of five years from the date of commencement of the business of the banks. After the expiry of five years, the aggregate foreign shareholding would be as per the extant FDI policy.

The foreign investment ceiling for nationalised banks, State Bank of India and its associate banks is 20%. There is no proposal to hike the foreign investment ceiling in the banking sector.

As regards the FDI limit in insurance sector, the Government introduced the Insurance Laws Amendment Bill, 2008 in the Parliament which, inter-alia, provides the aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees in Indian Insurance Companies from 26% to 49% except in case of insurance co-operative societies where the limit continues to be 26% as at present.

(c): No representation has been received in the recent past from the bankers or bank staff unions to hike FDI in banking sector.

(d): In view of reply to (c) above, does not arise.