

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2843
ANSWERED ON:07.02.2014
INVESTMENT BY BANKS
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Will the Minister of FINANCE be pleased to state:

- (a) whether banks are allowed investment in non-financial entities;
- (b) if so, the details thereof;
- (c) whether Reserve Bank of India (RBI) has fixed any limit on the equity investment of a bank in entities not involved in financial services; and
- (d) if so, the details thereof and the reasons therefor?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) to (d): Reserve Bank of India (RBI), vide its circular dated 12.12.2011, has prescribed regulatory ceiling on investment by banks. In terms of this circular, equity investment by a bank in companies engaged in non-financial services activities is subject to a limit of 10 per cent of the investee company's paid up share capital or 10 per cent of the bank's paid up share capital and reserves, whichever is less. Further, the total equity investments of a bank in subsidiaries and other entities that are engaged in financial services activities together with equity investments in entities engaged in non-financial services activities should not exceed 20 per cent of the bank's paid-up share capital and reserves. The ceiling on investment have been stipulated by RBI to ensure that banks through their direct and indirect holdings do not exercise control or have significant influence over non-financial services entities and, thus, engage directly or indirectly in activities not permitted for banks.