

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:954

ANSWERED ON:28.11.2014

NEW BANKING LICENCE

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Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India (RBI) has taken a decision to review the condition of financial sector to further liberalise the banking industry;

(b) if so, the details thereof;

(c) whether the companies applied for banking licences, expressed any objection to RBI guidelines to open 25 per cent of their branches in rural areas; and

(d) if so, the details thereof along with the steps taken by the Government in this regard?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JAYANTSINHA)

(a) & (b): The Reserve Bank of India (RBI) last came out with a set of guidelines for licensing of new banks in the private sector on February 22, 2013. The process of licensing culminated with the announcement by the RBI vide its Press Release dated April 2, 2014 that it would grant 'in-principle' approval to two applicants who would set up new banks in the private sector within a period of 18 months. While preparing these guidelines, RBI recognised the need for an explicit policy on banking structure in India keeping in view the recommendations of the Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) (1998), Committee on Financial Sector Reforms (Chairman: Dr. Raghuram G. Rajan) (2009) and other viewpoints. The earlier two rounds of bank licensing took place in 1993 and 2003.

Accordingly, RBI had issued a discussion paper on Banking Structure in India - The Way Forward on August 27, 2013. The Discussion Paper has taken into consideration the specific requirements of the Indian economy as well as the lessons learnt from the global crisis particularly relating to banking structure while reviewing the Indian banking structure. The discussion paper articulated issues relating to continuous authorizations for bank licensing, need for small banks and having various categories of differentiated bank licences.

Further, a Committee under the Chairmanship of Shri Nachiket Mor, Director Central Board, RBI has given a report on Comprehensive Financial Services for Small Businesses and Low Income Households recommending, among other things, that differentiated banks, such as, Payment Banks may be set up for enhancing financial inclusion.

Further, it was announced in the Budget Speech of 2014-15 that RBI will create a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganised sector, low income households, farmers and migrant work force.

RBI has now decided to allow new 'Small Banks' in the private sector as small banks can play an important role in the supply of credit to micro and small enterprises, agriculture and banking services in unbanked and under-banked regions in the country. Further recognising the need for small savings accounts and payment / remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users, by enabling high volume-low value transactions in deposits and payments / remittance services in a secured technology driven environment, RBI has decided to allow 'Payments Banks'.

Accordingly, draft guidelines on payments banks and small banks as differentiated or restricted banks were placed on RBI website on July 17, 2014 for suggestions and comments. RBI has received suggestions and comments on the draft guidelines during July/August 2014.

(c) & (d): As per the Guidelines of RBI for Licensing of New Banks in the Private Sector dated February 22, 2013, it was stipulated that the bank shall open at least 25 per cent of its branches in unbanked rural centres (populations upto 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. Prima facie, all the applicants had submitted Business Plans in line with RBI's above stipulations, However some of the entities expressed difficulty in adhering to the stipulation of opening 25% branches in unbanked rural centers.