

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:812

ANSWERED ON:27.02.2015

NEW BANK LICENCES

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Will the Minister of FINANCE be pleased to state:

- (a) the existing guidelines issued by the Reserve Bank of India (RBI) for licensing of new banks in private sector including foreign banks;
- (b) whether the RBI has invited application for grant of licenses as per the guidelines;
- (c) if so, the details thereof including the number of applications received by the RBI for starting new banks in the country including from corporate houses along with their present status;
- (d) the time by which all these applications are likely to be cleared by the Government/RBI; and
- (e) the manner in which RBI has ensured that the banks in the private sector including foreign banks fulfil the prescribed social obligations?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JAYANT SINHA)

(a) to (c): The Reserve Bank of India (RBI) came out with a set of guidelines for licensing of new banks in the private sector on February 22, 2013. The last date for submitting the application for grant of New Bank License was 01.07.2013. Consequently 27 applications were received for setting up of a new bank. After withdrawal of applications by Value Industries Limited, Aurangabad and TATA Sons Limited, Mumbai, there were 25 applications. RBI vide Press release dated April 2, 2014, granted "in-principle" approval to two applicants viz., IDFC Limited and Bandhan Financial Services Private Limited, to set up banks under the Guidelines.

RBI has not invited any application from any foreign bank in the recent past. The existing guidelines on licensing of foreign banks requires that foreign banks may operate in India through only one of the three channels, namely (i) branch/es (ii) a Wholly owned Subsidiary or (iii) a subsidiary with an aggregate foreign investment up to a maximum of 74 per cent in a private bank. Further, RBI has released a framework for setting up of Wholly Owned Subsidiaries (WOS) by foreign banks in India on November 6, 2013.

Subsequent to grant of in-principle approval to the two applicants, RBI has placed on its website the final guidelines on "Payments Banks" and "Small Finance Banks" as differentiated banks on November 27, 2014 inviting applications for setting up of Payments Banks and Small Finance Banks in private sector. These banks are "niche" or "differentiated" banks, with the common objective of furthering financial inclusion.

RBI received 72 and 41 applications for small finance banks and payments banks respectively as on February 02, 2015, the last date for receipt of applications. The details were placed on RBI website on February 4, 2015.

(d): As per the guidelines for Small Finance Banks and Payments Banks, the applications will be initially screened by RBI to ensure prima facie eligibility of the applicants. Thereafter, an Expert Advisory Committee (EAC) will evaluate the applications. The EAC will submit its recommendations to RBI for consideration. The decision to issue an in-principle approval for setting up of Payments Bank/ Small Finance Bank will be taken by RBI. The time by which the applications would be cleared would depend on the time taken for completion of the approval process.

(e): In view of the objective for which small finance bank will be set up, it will be required to extend 75 per cent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by RBI. While 40 per cent of its ANBC should be allocated to different sub-sectors under PSL as per the extant PSL prescriptions, the bank can allocate the balance 35 per cent to any one or more sub-sectors under the PSL where it has competitive advantage. The Small Finance Banks are required to open at least 25 per cent of their branches in unbanked rural centres (population upto 9,999 as per the latest census).

The Payments Banks will be required to have at least 25 per cent of access points in rural centres.

Presently, domestic scheduled commercial banks are required to achieve priority sector lending target of 40 per cent of the aggregate bank advances. The same would be applicable for new WOS of foreign banks. Foreign banks with 20 or more branches in the country are being brought on par with domestic banks for priority sector targets in a phased manner over a five year period starting from April 1, 2013. For foreign banks with less than 20 branches the overall target is fixed at 32 per cent.

