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RBI releases Guidelines for 'on tap' Licensing of Universal Banks in the Private Sector

The Reserve Bank of India today released on its website, ["Guidelines for 'on tap' Licensing of Universal Banks in the Private Sector"](#).

Some of the key aspects of the Guidelines include: (i) resident individuals and professionals having 10 years of experience in banking and finance at a senior level are also eligible to promote universal banks; (ii) large industrial houses are excluded as eligible entities but are permitted to invest in the banks up to 10 per cent; (iii) Non-Operative Financial Holding Company (NOFHC) has been made non-mandatory in case of promoters being individuals or standalone promoting/converting entities who/which do not have other group entities; (iv) Not less than 51 per cent of the total paid-up equity capital of the NOFHC shall be owned by the promoter/promoter group, instead being wholly owned by the promoter group; and (v) Existing specialised activities have been permitted to be continued from a separate entity proposed to be held under the NOFHC subject to prior approval from the Reserve Bank and subject to it being ensured that similar activities are not conducted through the bank as well.

Key features of the guidelines:

(I) Eligible Promoters

(i) Individuals/professionals who are 'residents' and have 10 years of experience in banking and finance at a senior level.

(ii) Entities/groups in the private sector that are 'owned and controlled by residents' [as defined in FEMA Regulations, as amended from time to time] and have a successful track record for at least 10 years, provided that if such entity/group has total assets of ₹ 50 billion or more, the non-financial business of the group does not account for 40 per cent or more in terms of total assets/in terms of gross income.

(iii) Existing non-banking financial companies (NBFCs) that are 'controlled by residents' and have a successful track record for at least 10 years. For the sake of clarity, it is added here that any NBFC, which is a part of the group that has total assets of ₹ 50 billion or more and that the non-financial business of the group accounts for 40 per cent or more in terms of total assets/in terms of gross income, is not eligible.

(II) 'Fit and Proper' criteria

Promoter/promoting entity/promoter group should have a past record of sound financials, credentials, integrity and have a minimum 10 years of successful track record.

(III) Corporate structure

The requirement of Non-Operative Financial Holding Company (NOFHC) is not mandatory for individual promoters or standalone promoting/converting entities who/which do not have other group entities. Individual promoters/promoting entities/converting entities that have other group entities, shall set up the bank only through an NOFHC. Not less than 51 per cent of the total paid-up equity capital of the NOFHC shall be owned by the Promoter/Promoter Group. Specialised activities would be permitted to be conducted from a separate entity proposed to be held under the NOFHC subject to prior approval from the Reserve Bank and subject to being ensured that similar activities are not conducted through the bank. No shareholder, other than the promoters/promoter group, shall have significant influence and control in the NOFHC.

(IV) Minimum capital requirement

The initial minimum paid-up voting equity capital for a bank shall be ₹ five billion. Thereafter, the bank shall have a minimum net worth of ₹ five billion at all times.

The promoter/s and the promoter group / NOFHC, as the case may be, 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. The promoter group shareholding shall be brought down to 15 per cent within a period of 15 years from the date of commencement of business of the bank.

(V) Foreign shareholding in the bank

The foreign shareholding in the bank would be as per the existing foreign direct investment (FDI) policy subject to the minimum promoter shareholding requirement indicated in paragraph (IV) above. At present, the aggregate foreign investment limit is 74 per cent.

(VI) Corporate governance, prudential and exposure norms

The bank shall comply with the provisions of Banking Regulations Act, 1949 and the existing guidelines on prudential norms as applicable to scheduled commercial banks. The bank is precluded from having any exposure to its promoters, major shareholders who have shareholding of 10 per cent or more of paid-up equity shares in the bank, the relatives of the promoters as also the entities in which they have significant influence or control.

(VII) Business plan for the bank

The business plan submitted by the applicant should be realistic and viable and address how the bank proposes to achieve financial inclusion.

(VIII) Other conditions

The bank shall get its shares listed on the stock exchanges within six years of the commencement of business by the bank. 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). The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic scheduled commercial banks. The board of the bank should have a majority of independent directors.

(IX) Procedure for application

- The licensing window will be open on-tap, and the applications in the prescribed form along with requisite information could be submitted to the Reserve Bank at any point of time.
- The applications will be referred to a Standing External Advisory Committee (SEAC) to be set up by the Reserve Bank.
- The Committee will submit its recommendations to the Reserve Bank for consideration. The Internal Screening Committee (ISC), consisting of the Governor and the Deputy Governors, will examine all the applications and then submit its recommendations to the Committee of the Central Board of the Reserve Bank for the final decision to issue in-principle approval.
- The validity of the in-principle approval issued by the Reserve Bank will be 18 months from the date of granting in-principle approval and would thereafter lapse automatically.
- Applicants aggrieved by the decision of the Committee of the Central Board can prefer an appeal against the decision to the Central Board of Directors, within one month from the date of receipt of communication from the Reserve Bank relating to the application not being considered.
- In order to ensure transparency, the names of the applicants for bank licences and the names of applicants that are found suitable for grant of in-principle approval will be placed on the Reserve Bank's website periodically.

Background

It may be recalled that the Reserve Bank of India (RBI) had last issued [guidelines for licensing of new banks in the private sector on February 22, 2013](#). Consequently, the Reserve Bank issued in-principle approval to two applicants and they have since established the banks.

Recognising the need for having an explicit policy on banking structure in India in line with the recommendations of the Narasimham Committee, Raghuram G. Rajan Committee and other viewpoints, the Reserve Bank came out with a policy [discussion paper on Banking Structure in India – The Way Forward on August 27, 2013](#). After a thorough examination of the pros and cons, the discussion paper made out a case for reviewing the current 'Stop and Go' licensing policy and for considering a 'continuous authorisation' policy on the grounds that such a policy would increase the level of competition and bring new ideas into the system. The feedback on the discussion paper broadly endorsed the proposal of continuous authorisation with adequate safeguards. The [first Bi-monthly Monetary Policy Statement 2014-15 announced on April 1, 2014](#), among other things, indicated that after issuing in-principle approval for new licences, the Reserve Bank will start working on the framework for on-tap licensing as well as differentiated bank licences. Building on the Discussion Paper and after carefully examining the views/comments received on the draft guidelines from banks, non-banking financial institutions, industrial houses, other institutions and the public at large, as also, using the learning from the recent licensing process, such as, the experience of licensing two universal banks in 2014 and granting in-principle approvals for Small Finance Banks and Payments Banks, the Reserve Bank has now worked out the framework for granting licences to universal banks on a continuous basis.