Printed from
THE TIMES OF INDIA

Allow large corporate houses to set up banks, says RBI panel

TNN | Nov 21, 2020, 04.03 AM IST

Allow large corporate houses to set up banks, says RBI panel

MUMBAI: An internal committee of the Reserve Bank of India (RBI) on Friday proposed an overhaul of the licensing policy for private banks and suggested allowing large corporate and industrial houses to float banks in India after suitable amendments to the Banking Regulation Act, which should be aimed at preventing concentration of risks and unabated lending among group companies.
For years, the question of allowing conglomerates to float banks has been a contentious issue with the banking laws barring it and large corporates pushing back.

The RBI committee has also recommended that after 15 years, promoters should be allowed to hold up to 26%, instead of the current cap of 15%, a move that will help the promoters exploit the upside in a bank. Currently, there are at least three private lenders with over 26% promoter holding.

ALSO READ
Tatas, Aditya Birla look to reopen banking account

Further, large and well-managed non-banking finance companies (NBFCs), with assets of over Rs 50,000 crore, may be allowed to convert into banks, the five-member committee said. The committee said that such NBFCs, with at least a 10-year track

record, may be allowed to convert into banks. It also made it easier for payments banks to convert to small finance banks (SFBs) by reducing the track record to three years from five years now.

“The idea is to ensure that there is enough capital for private sector banks in line with the vision of a $5 trillion economy. In addition, we have sought to ensure a level-playing field between the new entrants and existing players,” Sachin Chaturvedi, a member of the panel, told TOI.

In the past several of the large corporate houses in India had applied for banking license but had either backed out or were denied by RBI.

The committee has also proposed a review of the “fit and proper” norms, which is the deciding factor in the regulator allowing or rejecting an application. Over the years, RBI has been selective in issuing fresh bank licences.

CAPITAL BOOST IN PUSH FOR $5TN ECONOMY

Proposed holding norms in private banks

1. Large corporates and industrial houses may float banks after the Banking Regulation Act is amended
2. Stake held by banks' promoters may also be hiked from 15% to 26%
3. Well-run NBFCs with over ₹50k cr assets and 10-year track record may convert to banks
4. Payments banks can convert to small finance banks after three years of operations

Room for NBFCs

Non-banking financial cos (NBFCs) eligible for conversion to banks

- Bajaj Finance
- Indiabulls Housing Finance
- Shriram Transport Finance

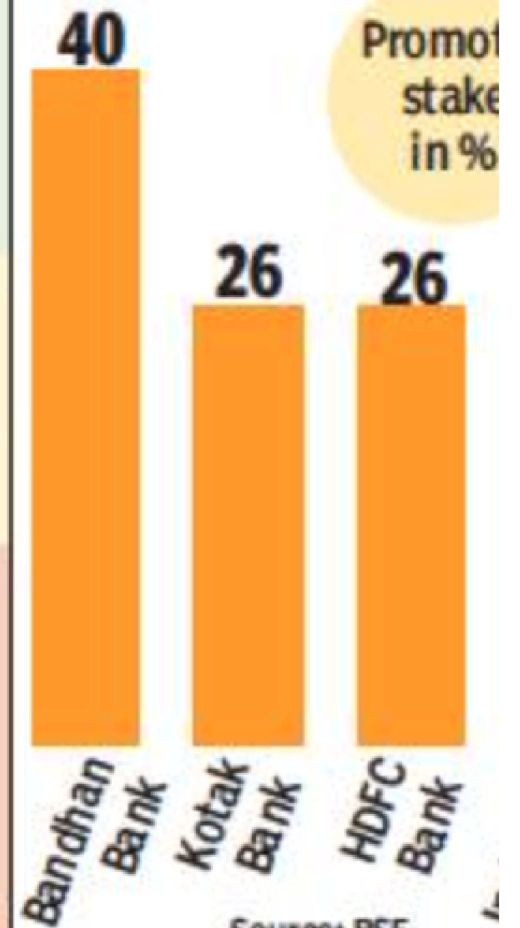
These NBFCs could qualify if the Banking Regulation Act is amended:

- Tata Capital
- Aditya Birla Finance
- L&T Finance

Large NBFCs that won't be eligible for a bank licence:

- **Bajaj Finserv:** As it is a holding co
- **LIC Housing:** Parent co LIC holds majority stake in IDBI Bank
- **PNB Housing:** PNB is a bank already

Private banks with hig[h] promoter holding



The question of higher ownership for promoters of private banks has also been a highly contentious as well as a contested

issue. In 2018, the promoters of Kotak Bank, Uday Kotak & family, had moved the Bombay high court against RBI rule to impose a 15% cap on the promoters' holding. Earlier this year, after the RBI allowed the family to hold up to 26% stake in the bank with the voting rights capped, the court case was withdrawn. On June 12 this year, the RBI set up the panel to have a fresh look at the ownership structure of all private sector banks.

Industry watchers said that it would take about six to nine months for the proposals to be made into rules. Once the rules are made on the lines of the proposals, there would be 3-4 NBFCs which could apply to become banks while another 3-4 finance companies promoted by large business houses could become banks. For large companies to float banks, the law has to be changed which could take longer, they said.

The panel also suggested that the current rule of the promoters of a bank has to hold a minimum of 40% in the lender for the first five years, should continue. The panel, while proposing a hike in promoter holding in private banks to 26% also said that the promoters could voluntarily choose to bring down their holding further after the five-year lock in.

"No intermediate sub-targets between 5-15 years may be required. However, at the time of issue of licences, the promoters may submit a dilution schedule which may be examined and approved by (the RBI)," the panel said.

The report also suggested that the promoters should not be allowed to pledge the bank's shares during the lock-in period, since this "amounts to bringing the unencumbered promoters' shares below the prescribed minimum threshold."

The panel also proposed that the initial paid-up voting equity share capital, net worth required to set up a new universal bank, may be increased to Rs 1,000 crore. It also said the initial paid-up voting equity share capital, net worth required to set up a new SFB, may be increased to Rs 300 crore. And for urban cooperative banks transiting to SFBs, the initial paid-up capital or net worth should be Rs 150 crore which has to be increased to Rs 300 crore in five years.