ASSOCHAM Comments and views on the
Draft guidelines on
"Licensing of New Banks in the Private Sector:

1	<u>**KEY FEATURES**</u> <u>**Eligible Promoters**</u>	<u>**GUIDELINES**</u> Entities / groups in the private sector owned and controlled by residents, with diversified ownership, <u>sound credentials and integrity and having successful track record of at least 10 years will be eligible to promote banks</u>. Entities / groups having significant (10 per cent or more) income or assets or both from real estate construction and / or broking activities individually or taken together in the last three years will not be eligible.	<u>**ASSOCHAM COMMENTS AND VIEWS**</u> 1.It needs clarification if the Applicant promoter shall be single promoter or can there be a consortium of promoters 2. Clarity needed for meaning of the term "promoter group"? 3. Meaning of the term "successful track record" for at least 10 years in their businesses-Basis to determine the "successful track record"? 4. The guidelines stipulate that the entities in real estate and stock broking would not be eligible for banking license. 5. ASSOCHAM is of the view that , "Stock broking" companies can be considered eligible for banking license. This is due to the following key factors: (a) *Stock Broking companies are under strict supervision and continuous monitoring by the regulator SEBI* *(b) Further, Stock Broking companies have good knowledge of financial services industry and this can surely come handy in running a successful banking business* *(c) Also, the Stock Broking companies have deep penetration into various geographies of the country and have the experience of understanding the needs of clients in various regions. This can help in*

			achieving the objective of "financial inclusion", which is one of the key objectives in new banking licensing guidelines. *(d) Further, considering the fact that various financial services companies have exposure to broking business, it would be logical to keep the benchmark of 10% (of revenues / assets) on prospective basis, instead of retrospective basis. <u>In fact some of the existing banks have subsidiaries involved in Broking business and this will create uneven playing field for the new banks.</u>* *6. The guidelines also suggest that "applicants will be required to list group companies undertaking key business activities". Clarity on the following points is needed:* *(a) Whether such listing of group companies is a pre-condition for being eligible for banking license? Else, what would be the time frame within which such listing of group companies can be achieved after issuing banking license?* *(b) Further, what would be the basis to determine "key business activities"?*

(iii)	**Minimum Capital requirements**	Minimum capital requirement will be ` 500 Crores. Subject to this, actual capital to be brought in will depend on the business plan of the promoters. NOHC shall hold minimum 40 per cent of the paid-up capital of the bank for a period of five years from the date of licensing of the bank. Shareholding by NOHC in excess of 40 per cent shall be brought down to 20 per cent within 10 years and to 15 per cent within 12 years from the date of licensing of the bank.	1. Considering the massive requirement of funds to deploy for technology and initial gestation period, initial minimum paid-up capital of Rs 500 Crores is appreciated. 2. Further, considering the heavy investment needed for technology up gradation for the future purposes, there can be a stipulation suggesting that minimum capital requirement *shall be hiked to Rs 1000 Crs from Rs.500 Crs within 5 years of starting the bank*. This can help to ensure only serious and resourceful entities are eligible to apply. New Banks may have to invest heavily in technology and to take steps to achieve financial inclusion and to scale up the operations on viable lines over time. 3. Stipulation that NOHC shall hold minimum 40 per cent of the paid up capital of the bank for a period of five years from the date of licensing of the bank would ensure promoters' economic interest during the crucial start up phase. Further, the reduction in share holdings over time suggested, would serve the cause of necessary diversification.
(iv)	**Foreign Shareholding in the bank**	The aggregate non-resident shareholding in the new bank shall not exceed 49 per cent for the first 5 years after which it	1. The cap of 49% for the first 5 years is a welcome move. However, the clarity on what would be the status of limit of FII holding after first 5 years is required, to help the foreign shareholders to form their

		will be as per the extant policy.	long term investment decisions
4	**Other Conditions:**	The exposure of bank to any entity in the promoter group shall not exceed 10 per cent and the aggregate exposure to all the entities in the group shall not exceed 20 per cent of the paid-up capital and reserves of the bank. The bank shall get its shares listed on the stock exchanges within two years of licensing. The bank shall open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999 as per 2001 census) Existing NBFCs, if considered eligible, may be permitted to either promote a new bank or convert themselves into banks.	1. ASSOCHAM feel that the mandatory requirement of new bank to get listed within two years of licensing is not pragmatic and feasible. Especially, considering the fact that the new banks need to develop their presence and acceptability in the unbanked areas that may take considerable time for the banks to establish their operational and strategic performance before accessing listing. To achieve such operational and strategic performance, "two years" period may be too short to list a bank. Hence, this period may be extended to at least "5 years". 2. It is suggested Banks should not be permitted to undertake any exposure on any entity / ies in the promoter group. Combining banking and industrial activity provides enough room for connected lending, mutual compensatory dealings and self dealing. In case this is sought to be permitted, then prior authorisation of RBI on the lines of erstwhile Credit Authorisation Scheme (CAS) should be stipulated as a pre condition. 3. ASSOCHAM welcomes RBI's move to insist banks to open branches in unbanked areas to achieve financial inclusion. While the limit of 25% branches in unbanked

			areas is welcome for ASSOCHAM, only submission is that this limit shall be gradual and progressive in nature. Meaning thereby, to start with, in the first year probably this limit can be 10%, second year may be 15%, third year 20% and fourth year 25%. This gives enough time for the bank to get its feet right and also to stabilize the viability required for a branch in unbanked area. 4. Further, there should be some method by which the banks are compensated suitably for the lower profitability from the branches in unbanked areas. This could be by way of relaxations in SLR / CRR /Capital adequacy norms for resources mobilised from the rural areas, or by way of providing some incentive for each branch opened in the unbanked rural areas say by passing on / giving priority / access to some portion of low cost funds of Govt Deptts / PSUs etc. It may not be out of place to note that there are lots of financially excluded people in urban areas too. In the absence of incentives, the objective of financial inclusion, by new banks would remain a distant dream as what could not be achieved by existing private sector banks over decades, cannot be expected to be achieved by these banks in a short time horizon.