Reserve Bank of India

Entry of Corporate and certain NBFC's into banking spaces recommended by Internal Working Group

November 20, 2020

Relevant to all MMFSL

Background

- Currently, banking regulations make it mandatory for promoters of private sector banks to reduce their ownership to 40% within three years and to 15% in 15 years.
- The committee also recommended giving banking licences to large corporates or industrial houses after necessary amendments to the Banking Regulation Act, 1949 and strengthening of the supervisory mechanism for large conglomerates.

Key Highlights

- The committee, headed by PK Mohanty, has said "large corporates and industrial houses may be allowed as promoters of banks only after necessary amendments to the Banking Regulation Act, 1949" and strengthening of the supervisory mechanism for large conglomerates, including consolidated supervision.
- This is to prevent connected lending and exposures between the banks and other financial and non-financial group entities, it added.
- The RBI has been against allowing corporate houses to set up or run commercial banks. On non-promoter shareholding, the panel has suggested a uniform cap of 15 percent of the paid-up voting equity share capital of the bank may be prescribed for all types of shareholders.
- For payments banks intending to convert to a small finance bank (SFB), track record of three years of experience as payments bank may be considered as sufficient, the working group said.
- SFBs and payments banks may be listed within six years from the date of reaching net worth equivalent to the prevalent entry capital requirement prescribed for universal banks or 10 years from the date of commencement of operations, whichever is earlier, it has proposed.

- The minimum initial capital requirement for licensing new banks should be enhanced from Rs 500 crore to Rs 1,000 crore for universal banks and from Rs 200 crore to Rs 300 crore for small finance banks. The initial voting capital should be raised from Rs 150 crore to Rs 300 crore in five years, it said.
- Non-operative financial holding companies (NOFHC) should continue to be the preferred structure for all new licenses to be issued for universal banks. However, it should be mandatory only in cases where the individual promoters, promoting entities and converting entities have other group entities, the IWG said.
- While banks licensed before 2013 may move to an NOFHC structure at their discretion, once the NOFHC structure attains a tax-neutral status, all banks licensed before 2013 should move to the NOFHC structure within five years from announcement of tax-neutrality, it has proposed.
- According to the committee, till the NOFHC structure is made feasible and operational, the concerns with regard to banks undertaking different activities through subsidiaries, joint ventures and associates need to be addressed through suitable regulations.
- Banks currently under NOFHC structure should be allowed to exit from such a structure if they do not have other group entities in their fold.

For Further Reading

1. https://indianexpress.com/article/business/banking-and-finance/rbi-committee-for-conversion-of-large-nbfcs-into-banks-entry-of-corporates-7059560/
2. https://www.livemint.com/industry/banking/rbi-panel-suggests-raising-cap-on-promoter-stake-in-private-banks-11605870007403.html
3. https://www.gktoday.in/current-affairs/rbi-mohanty-panel-for-bank-license-to-large-corporate-houses/