

On Tap Licenses for Banks

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In News: Recently, The Reserve Bank of India (RBI) announced the names of eight applicants for universal bank and small finance bank “on-tap” licences.

What is On-Tap Licensing?

- The RBI would accept applications and issue licences for Small Finance Banks (SFBs) all year if it had a “on-tap” facility.
- The policy allows aspirants to apply for a small finance bank licence at any time, provided they meet the RBI’s requirements.
- On tap licensing refers to the practice of granting license throughout the year.

What is universal banking ?

- It is a banking system in which banks provide a wide range of financial services such as investment banking, commercial banking, construction banking, insurance, and other financial services such as merchant banking, mutual funds, factoring, housing finance, and insurance, among others.

The RBI’s universal bank licencing requirements are as follows:

- Individuals/professionals who are residents’ who have a minimum of 10 years of senior-level experience in banking and finance.
- A bank’s initial paid-up voting equity capital must be at least \$5 billion. Following that, the bank must maintain a minimum net worth of \$5 billion at all times.
- Person promoters or standalone promoting/converting companies that do not have other community entities are

not required to have a Non-Operative Financial Holding Company (NOFHC).

- The Promoter/Promoter Group must hold at least 51 percent of the total paid-up equity resources of the NOFHC. Other than the promoters/promoter party, no shareholder shall have substantial influence or control over the NOFHC.
- Within six years of the bank's start of operation, the bank must have its shares listed on stock exchanges.
- The bank is prohibited from having any exposure to its promoters, major shareholders who own 10% or more of the bank's paid-up equity shares, the promoters' family, or organisations over which they have considerable power or control.
- At least 25% of the bank's branches must be located in underserved rural areas.
- The bank must adhere to the priority sector lending goals and sub-targets that currently apply to domestic scheduled commercial banks.
- A majority of the bank's board of directors should be independent.
- The Reserve Bank's in-principle approval will be valid for 18 months from the date of granting in-principle approval and will then immediately lapse.

Additional

Link: <https://journalsofindia.com/on-tap-licensing-of-small-finance-banks/>