

On tap licensing of Small Finance Banks

January 6, 2020

Source: *PRS India*

The Reserve Bank of India (RBI) has released guidelines for on tap licensing of small finance banks in the country.

What is on tap licensing?

On tap licensing refers to the practice of **granting license throughout the year.**

Current process of licensing

- Currently, there is no on tap licensing window for small finance banks.
- The current process for licensing is governed by the 2014 guidelines by RBI on licensing of small finance banks in the private sector

Key highlights of the guidelines

The guidelines provide for:

- **Eligibility:** Non-banking financial companies, microfinance institutions and local area banks in the private sector (which are controlled by residents) can opt for conversion into small finance banks. They should have an experience of at-least five years in the area. Public sector entities, large industrial house or business groups, and autonomous bodies will not be eligible for licensing. Small finance banks will be given scheduled bank status (banks listed in the RBI Act, 1934 and eligible for borrowing from the RBI) immediately upon commencement of operations.
- **Scope of activities:** Small finance banks may accept

deposits and lend to small businesses. They may also undertake financial services such as mutual funds, insurance products, and pension products, with the prior approval of the RBI.

- **Minimum capital requirements:** The minimum equity capital required for setting up a small finance bank will be Rs 200 crore (up from Rs 100 crore currently). Further, small finance banks should maintain a minimum capital to risk-weighted assets ratio (bank's total capital as a percentage of its total risk weighted assets) of 15%.

Other requirements: Small finance banks will be required to **extend 75% of its net bank credit to sectors eligible for priority sector lending** (such as agriculture, micro and small enterprises). Further, at least 50% of loans by these banks should be kept up to 25 lakh rupees, on an ongoing basis.