New Private Banks

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In News: Finance Minister Nirmala Sitharaman on Tuesday said in Parliament that permission to new private banks for conducting government-related business will be given under the RBI guidelines.

Eligible promoters

- Only entities / groups in the private sector that are owned and controlled by residents shall be eligible to promote banks.
- Promoters / promoter groups with a track record for at least 10 years in running their businesses.
- Banking is essentially based on fiduciary principles as depositors' money is involved. It therefore becomes imperative that the fit and proper assessment framework for bank promoters is much more comprehensive in scope as compared to other sectors.
- Entities/groups that have significant (10% or more) income or assets or both from/ in such activities, including real estate construction and broking activities taken together in the last three years, shall not be eligible to promote banks.
- Applicants will be required to list group companies undertaking key business activities.

Corporate structure

- Promoter / promoter groups will be permitted to set up a new bank only through a wholly-owned Non-Operative Holding Company (NOHC) which will hold the bank as well as all the other financial services companies regulated by RBI or other financial sector regulators.
- Financial services companies belonging to the promoter group would be held by the NOHC and would not have shareholding in it.

- The NOHC will be registered as a non-banking finance company (NBFC) with the Reserve Bank and will be governed by a separate set of prudential guidelines.
- The NOHC will not be permitted to borrow funds for investing in companies held by it.

Minimum capital requirements and holding by NOHC

- The initial minimum paid-up capital for a new bank shall be `500 crore.
- The NOHC shall hold a minimum of 40% of the paid-up capital of the bank which shall be locked in for a period of five years from the date of licensing of the bank.
- Shareholding by NOHC in the bank in excess of 40% of the total paid-up capital shall be brought down to 40% within two years from the date of licensing of the bank.
- In the event of the bank raising further capital during the first five years from the date of licensing, the NOHC should continue to hold 40% of the enhanced capital of the bank for a period of five years from the date of licensing of the bank.
- The shareholding by NOHC shall be brought down to 20% of the paid up capital of the bank within a period of 10 years and to 15% within 12 years from the date of licensing of the bank and retained at that level thereafter.

Foreign Shareholding in the Bank

- The aggregate non-resident shareholding from FDI, NRIs and FIIs in the new private sector banks shall not exceed 49% for the first 5 years from the date of licensing of the bank.
- No non-resident shareholder, directly or indirectly, individually or in groups, will be permitted to hold 5% or more of the paid up capital of the bank.
- After the expiry of 5 years from the date of licensing

of the bank, the foreign shareholding would be as per the extant policy.

- Currently, foreign shareholding in private sector banks is allowed up to a ceiling of 74% of the paid up capital.

Other conditions

- Shareholding of 5% or more of the paid up capital of the bank by individuals / entities / groups will be subject to prior approval of RBI.
- No single entity or group of related entities, other than the NOHC, shall have shareholding or control, directly or indirectly, in excess of 10% of the paid up capital of the bank.
- The exposure of the bank to any entity in the promoter group shall not exceed 10% and the aggregate exposure to all the entities in the group shall not exceed 20%, of the paid-up Capital and Reserves of the bank, subject to compliance with the provisions of Section 20 of the Banking Regulation Act, 1949.
- In taking a view on whether an entity belongs to a particular promoter group or not or whether the entities are linked / related to the promoter group, the decision of RBI shall be final.
- The top management of the bank shall have expertise in the financial sector, preferably, banking.
- The bank should operate on Core Banking Solution (CBS) from the beginning.
- The bank shall get its shares listed on the stock exchanges within two years of licensing of the bank.
- The bank shall be required to maintain a minimum capital adequacy ratio of 12% for a minimum period of 3 years after the commencement of its operations subject to such higher percentage as may be prescribed by RBI from time to time.
- The bank shall comply with the priority sector lending

targets and sub-targets

- The bank shall open at least 25 percent of its branches in unbanked rural centres (population up to 9,999 as per 2001 census).