The Internal Working Group on Private Sector Banks

December 7, 2020

In news

The Internal Working Group to Review Extant Ownership Guidelines and Corporate Structure for Indian Private Sector Banks submitted its report to the Reserve Bank of India

Terms of Reference of the Group

- Regulations regarding ownership and control in private banks
- Eligibility criteria for entities to apply for banking license, and
- Norms for promoter shareholding.

What are the key recommendations of the group?

Following are the key recommendations of the group:

Retaining the original lock-in of 40% of promoters shareholding:

- The current guidelines require promoters' shareholding to be at least 40% in the first five years of operations of a new bank.
- Thereafter, promoter shareholding must be reduced to a maximum of 30 % within 10 years of commencement of operations of the bank, and to 15% within 15 years.
- The Group recommended retaining the original lock-in of 40%, raising the ceiling on the 15-year promoter shareholding from 15% to 26%, and removing the intermediate targets.

15% ceiling on non promoter shareholding:

- The current guidelines impose different ceilings on long run shareholding for different kinds of investors in private banks.
- But the group recommended a uniform 15% ceiling on long-run, nonpromoter shareholding

Large business houses permitted to be promoters of banks:

- Internal Working Group recommended that large business houses may be permitted to be promoters of banks
- But this would require a legal framework to address lending by the bank to other companies promoted by the same business house
- And ownership by large business houses would also require a framework for consolidated supervision

Conversion to banks permitted:

- Non-banking financial companies (NBFCs), with asset size of over Rs 50,000 crore, including those owned by large business houses may be converted to a bank.
- Provided NBFCs that have been in operation for over 10 years, and would be subject to suitable safeguards to manage potential conflict of interest.

Increased e minimum initial capital requirement:

It recommended increasing the minimum initial capital requirement for licensing new banks for universal banks, from Rs 500 crore to Rs 1,000 crore and for small finance banks, from Rs 100 crore to Rs 300 crore

What is a Non-Banking Financial Company (NBFC)?

A Non-Banking Financial Company (NBFC) **is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities** issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).