

STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

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To empower the student community...*

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 ho2099@sib.co.in



October 2016

Theme 299

'ON TAP' LICENSING OF UNIVERSAL BANKS IN THE PRIVATE SECTOR



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Email: sibcorporate@sib.co.in | CIN : L65191KL1929PLC001017

South Indian Bank is a member of BCSBI and is committed to treat customers in a fair, transparent and non-discriminatory manner.

Theme No: 299: 'ON TAP' LICENSING OF UNIVERSAL BANKS IN
THE PRIVATE SECTOR

A well informed customer will make the policy makers as well as organizations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of goods and services produced. The "SIB Students' Economic forum" is designed to kindle interest in the minds of younger generation.

The Reserve Bank issued in-principle approval to two applicants and they have since established the banks as per the licenses. Based on the experience of licensing two universal banks in 2014 and that of granting in-principle approvals for Small Finance Banks and Payments Banks, the Reserve Bank released the 'new framework for granting licences for universal banks on a continuous basis. This month we will discuss the 'On tap' licensing of Universal Banks in the Private Sector.

1. Who are the eligible promoters / entities for 'on-tap' licensing of Universal Banks in the Private Sector?

The eligible promoters / entities are:

- i. Resident individuals and professionals having 10 years of experience in banking and finance at a senior level.
- ii. Entities / groups in the private sector that are 'owned and controlled by residents' and have a successful track record for at least 10 years.
- iii. Existing non-banking financial companies (NBFCs) that are 'controlled by residents', that have a successful track record

for at least 10 years will be eligible to convert into a bank or promote a new bank.

2. What are the ‘Fit and Proper’ criteria where promoters are individuals?

- a) Each of the Promoters should have a minimum 10 years of experience in banking and finance at a senior level.
- b) The Promoters should have a past record of sound credentials and integrity.
- c) The Promoters should be financially sound and should have a successful track record for at least 10 years.

3. What are the ‘Fit and Proper’ criteria where promoters are entities / NBFCs?

- a) The promoting entity / promoter group should have a minimum 10 years of experience in running its / their business.
- b) They should have a past record of sound credentials and integrity.
- c) They should be financially sound and should have a successful track record for at least 10 years.
- d) Preference will be given to promoting entities having diversified shareholding.

4. What is the Minimum capital requirement and share holding pattern?

The initial minimum paid-up voting equity capital for a bank shall be Rupees five billion. Thereafter, the bank shall have a minimum net worth of Rupees five billion at all times. The bank shall be required to maintain a minimum capital adequacy ratio of 13 per cent of its risk weighted assets (RWAs).

The promoters and the promoter group / Non-Operative Financial Holding Company (NOFHC), as the case may be, shall hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked-in for a period of five years from the date of

commencement of business of the bank. The promoter group shareholding shall be brought down to 15 per cent within a period of 15 years from the date of commencement of business of the bank.

5. What should be the foreign shareholding in the bank?

The foreign shareholding in the bank should be as per the existing foreign direct investment (FDI) policy subject to the minimum promoter shareholding requirement as indicated in sl. no. (4) above. The aggregate foreign investment limit is 74 per cent.

6. What are the Corporate Governance, prudential and exposure norms?

The bank shall comply with the provisions of Banking Regulations Act, 1949 and the existing guidelines on prudential norms as applicable to scheduled commercial banks. The bank is precluded from having any exposure to its promoters, major shareholders who have shareholding of 10 per cent or more of paid-up equity shares in the bank, the relatives of the promoters as also the entities in which they have significant influence or control.

7. What is the procedure for application?

The licensing window will be open “on-tap”, and the applications in the prescribed form along with requisite information could be submitted to the Reserve Bank at any point of time.

- The applications will be referred to a Standing External Advisory Committee (SEAC) to be set up by the Reserve Bank of India.
- The Committee will submit its recommendations to RBI for consideration. The Internal Screening Committee (ISC), consisting of the Governor and the Deputy Governors, will examine all the applications and then submit its recommendations to the Committee of the Central Board of the Reserve Bank of India for the final decision to issue in-principle approval.
- The validity of the in-principle approval issued by the RBI will be 18 months from the date of granting in-principle approval and would

thereafter lapse automatically.

- Applicants aggrieved by the decision of the Committee of the Central Board can prefer an appeal against the decision to the Central Board of Directors, within one month from the date of receipt of communication from the RBI relating to the application not being considered.
- In order to ensure transparency, the names of the applicants for bank licences and the names of applicants that are found suitable for grant of in-principle approval will be placed on the Reserve Bank's website periodically

8. Explain the regulatory framework of the bank under “on-tap” mechanism?

The bank will be governed by the provisions of the Banking Regulation Act, 1949, Reserve Bank of India Act, 1934, Foreign Exchange Management Act, 1999, Payment and Settlement Systems Act, 2007, Credit Information Companies (Regulation) Act, 2005, Deposit Insurance and Credit Guarantee Corporation Act, 1961, other relevant Statutes and the Directives, Prudential regulations and other Guidelines / Instructions issued by RBI and other regulators from time to time, including the regulations of SEBI regarding public issues and other guidelines applicable to listed banking companies.

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