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## RBI's Internal Working Group reviews ownership, corporate structure of private banks

The RBI had constituted an internal working group on June 12 to review extant ownership guidelines and corporate structure of Indian private sector banks. Terms of reference included review of the eligibility criteria for individuals/entities to apply for banking license; examination of preferred corporate structure for banks and, review of norms for long-term shareholding in banks by promoters and other shareholders. These steps are in right direction and beneficial for the sector in the long-term but we believe these measures have played out in the recent price rally.

The internal working group has submitted its report. Key recommendation included:

- **The cap on promoters' stake in the long run (15 years) may be raised from the current level of 15% to 26% of paid-up voting equity share capital of the bank**

**View:** If this gets implemented it would bring criteria for other banks at par with Kotak Mahindra Bank that was given an exception. This would be positive for IndusInd Bank as the promoter was looking to increase stake (14.7% currently) but was unable to due to regulation while the bank was also in need of capital. Hence, this move addresses both concerns for IndusInd. It is neutral for Kotak Mahindra Bank.

- **Large corporate/industrial houses may be allowed as promoters of banks only after necessary amendments to the Banking Regulation Act, 1949, and strengthening of the supervisory mechanism**

**View:** If this happens we could see stiff competition in the banking sector with large groups and deep pockets like Reliance, Tata, Birla entering the banking space. However, we believe this may not happen in the near term at least as changes in banking regulation act and other procedural things may require time. Also, RBI has been very stringent on giving licence to large corporate houses due to their inter-linkages and diversified presence in various industries that may require higher supervision to avoid lending within the group.

- **Well run large non-banking finance companies (NBFCs), with an asset size of ₹ 50,000 crore and above, including those which are owned by a corporate house, may be considered for conversion into banks subject to completion of 10 years of operations and other criteria**

**View:** This will allow large NBFCs who are willing to go for banking licence and have the desired criteria. We believe this would be a positive for companies like Bajaj Finance, M&M Finance, Shriram Transport and L&T Finance who can apply for the banking licence if the opportunity materialises.

- **For payments banks intending to convert to a small finance bank, track record of three years of experience as payments bank may be considered as sufficient**

**View:** This opens up a gateway for entities for journey from payments bank to small finance bank to universal banks, though it would be a long process. This could potentially increase competition, especially in the micro lending space.

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- **Banks licensed before 2013 may move to an NOFHC structure at their discretion. Once the NOFHC structure attains a tax-neutral status, all banks licensed before 2013 shall move to the NOFHC structure within five years from announcement of tax-neutrality**

**View:** This implementation may not be so straightforward and immediate as NOFHC structure to attain tax neutrality would require amendments in the Income Tax Act. However, if implemented, banks like SBI, Kotak Mahindra, etc, would have to move into this structure as they have other business like insurance, AMC, securities, etc. Hence, there could be a chance of holding company discount even for banking business. No immediate impact for SBI, Kotak Mahindra, Axis Bank.

- **Banks currently under NOFHC structure may be allowed to exit such a structure if they do not have other group entities in their fold**

**View:** If implemented, this will be a positive for Equitas SFB, AU SFB, Ujjivan SFB and Bandhan Bank as they can roll bank into a single entity and can get away with holding company discount. IDFC Ltd can also benefit if the AMC business is sold off.

- **The minimum initial capital requirement for licensing new banks should be enhanced from ₹ 500 crore to ₹ 1000 crore for universal banks and from ₹ 200 crore to ₹ 300 crore for small finance banks**

**View:** If this guideline is implemented it will increase capital requirement and can act as a small entry barrier. It is neutral for the sector.

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