प्रेस प्रकाशनी PRESS RELEASE

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RBI releases Guidelines for Licensing of Small Finance Banks in the Private Sector

The Reserve Bank of India released on its website today, the Guidelines for Licensing of Small Finance Banks in the Private Sector.

Key features of the Small Finance Bank guidelines are:

i) **Objectives:**

The objectives of setting up of small finance banks will be to further financial inclusion by (a) provision of savings vehicles, and (ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

ii) **Eligible promoters:** Resident individuals/professionals with 10 years of experience in banking and finance; and companies and societies owned and controlled by residents will be eligible to set up small finance banks. Existing Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), and Local Area Banks (LABs) that are owned and controlled by residents can also opt for conversion into small finance banks. Promoter/promoter groups should be 'fit and proper' with a sound track record of professional experience or of running their businesses for at least a period of five years in order to be eligible to promote small finance banks.

iii) **Scope of activities :**

a. The small finance bank shall primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

b. There will not be any restriction in the area of operations of small finance banks.

iv) **Capital requirement:** The minimum paid-up equity capital for small finance banks shall be Rs. 100 crore.

v) **Promoter's contribution:** The promoter's minimum initial contribution to the paid-up equity capital of such small finance bank shall at least be 40 per cent and gradually brought down to 26 per cent within 12 years from the date of commencement of business of the bank.

vi) **Foreign shareholding:** The foreign shareholding in the small finance bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.

vii) **Prudential norms :**

a. The small finance bank will be subject to all prudential norms and regulations of RBI as applicable to existing commercial banks including requirement of maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). No forbearance would be provided for complying with the statutory provisions.

b. The small finance banks will be required to extend 75 per cent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank.

c. At least 50 per cent of its loan portfolio should constitute loans and advances of upto Rs. 25 lakh.

viii) **Transition path:** If the small finance bank aspires to transit into a universal bank, such transition will not be automatic, but would be subject to fulfilling minimum paid-up capital / net worth requirement as applicable to universal banks; its satisfactory track record of performance as a small finance bank and the outcome of the Reserve Bank's due diligence exercise.

ix) **Procedure for application:** In terms of Rule 11 of the Banking Regulation (Companies) Rules, 1949, applications shall be submitted in the prescribed form (Form III) to the Chief General Manager, Department of Banking Regulation, Reserve Bank of India, 13th Floor, Central Office Building, Mumbai – 400 001. In addition, the applicants should furnish the business plan and other requisite information as indicated. Applications will be accepted till the close of business as on January 16, 2015. After experience gained in dealing with small finance banks, applications will be received on a continuous basis. However, these guidelines are subject to periodic review and revision.

x) **Procedure for RBI decisions :**

a. An External Advisory Committee (EAC) comprising eminent professionals like bankers, chartered accountants, finance professionals, etc., will evaluate the applications.

b. The decision to issue an in-principle approval for setting up of a bank will be taken by the Reserve Bank. The Reserve Bank's decision in this regard will be final.

c. The validity of the in-principle approval issued by the Reserve Bank will be eighteen months.

d. The names of applicants for bank licences will be placed on the Reserve Bank's website.

Background

It may be recalled that in the Union Budget 2014-2015 presented on July 10, 2014, the Hon'ble Finance Minister announced that:

"After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal banks in the private sector in the current financial year. RBI will create a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force".

Accordingly, the draft guidelines for licensing of small banks in the private sector were formulated and released for public comments by RBI on July 17, 2014.

Several comments and suggestions were received from interested parties and public on the draft guidelines. Considering the feedback received, the guidelines have been finalised.

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Alpana Killawala
Principal Chief General Manager

Related Press Releases	
Feb 04, 2015	RBI releases Names of Applicants of Small Finance Banks and Payments Banks
Feb 04, 2015	RBI announces External Advisory Committee for evaluating Applications of Small Finance Banks and Payments Banks
Jan 01, 2015	RBI extends last date of receipt of applications for Licensing of Small Finance Banks and Payments Banks
Jan 01, 2015	Clarifications to the queries on the Guidelines for Licensing of Small Finance Banks and Payments Banks
	Form III - Form of application for a licence to commence banking business by a company incorporated in India and desiring to commence banking business
Dec 08, 2014	RBI to post on its Website Clarifications on Guidelines on Licensing of Small Finance Banks and Payments Banks
Nov 27, 2014	RBI releases Guidelines for Licensing of Payments Banks
Jul 17, 2014	RBI releases Draft Guidelines for Licensing of Payments Banks and Small Banks