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Conversion of NBFC's into banks

Why in news?

RBI is pushing for the conversion of large NBFC's into banks due to IL&FS and DHFL failure.

Why this Conversion is required?

- It creates uniform entities in the financial sector.
- It helps in greater regulation.
- It will lead to a higher share of the private sector in the banking (which accounts for 30 %of deposits and 36% advances).
- Even **internal working group** set up to review the ownership structure in the financial sector has suggested the relaxation of existing ownership norms for the conversion of NBFCs into banks.

Who can apply for a banking licence?

- NBFCs with an asset size of 50,000 crore and credible operating experience.
- Payments banks can convert into small finance banks provided they have a good track record of three years.
- Banks which are currently under a non-operative holding financial company structure can exit, if they don't have other group entities in their fold.
- In order to encourage new entrants, industrial houses are allowed to set up banks, provided the laws and supervision systems prevent transactions between connected entities.

Why conversion to banks is a flawed process?

- NBFCs serve the last mile which is ignored by banks and they account for a quarter of non-food credit.
- It is futile to expect NBFCs to attract low cost deposits, when the other bank regulations such as CRR and priority sector lending obligations apply.
- Despite the new tighter regulation, it is wrong to assume that NBFC's are away from the supervision.
- Even YES Bank, Lakshmi Vilas Bank failed despite laws & audit.
- Today some large business houses management are dominated by promoter family.
- The regulations should be framed such that only groups with a sound

professional and transparent management with strong governance are allowed.

- On the whole, Governance is related to the RBI's supervision capacity, rather than ownership pattern or the promoters' stake.

Source: Business Line