# Welcome Clarity

## Why in news?

RBI has decided to amend the ownership and control norms for private banks.

## How RBI streamline licensing, ownership and control norms for private banks so far?

- **Ownership -** The minimum capital has been pegged at INR 500 crore.
- Promoters must have sound credentials and integrity and with a successful track record of 10 years.
- **Control Norms -** RBI present regulations on ownership structure and shareholding appear quite conflicted.
- **Anomaly -** It is not known whether it prefers promoter to invest more in private banks to ensure good governance or favours widely dispersed shareholding to check promoter influence.
- Present regulations try to do a bit of both.
- It mandates that private bank promoters hold at least a 40 % equity stake in the first 5 years
- Overtime RBI dilute their voting rights to below 20 % and 15 % within 10 and 15 years, respectively.
- Private banks promoted at different times are subject to different rules, leading to some promoters using non-equity routes to infuse capital and others legally challenging the regulator on the inconsistency of its rules.
- The RBI’s decision to selectively adopt the recommendations of its Internal Working Group (IWG) is a welcome reform move.

## Why the reforms suggested by IWG of RBI seem welcoming?

- **Ownership** - The RBI insisted a 10-year track record and initial capital requirement of Rs 1,000 crore (instead of Rs 500 crore) for aspirants to universal bank licences.
- This will help **weed out non-serious players** and allow only entities with sufficient fund-raising ability into the fray.
- **Control Norms -** It requires all private bank promoters to hold a minimum 40 % equity stake in the first 5 years
- It will be reduced to 26 per cent within 15 years.

- It makes promoters invest more thereby **facilitating timely equity infusions for stressed banks.**
- But to ensure that individuals don't exercise undue influence over lending decisions, high promoter stakes may need to be counter-balanced by stronger bank boards and compliance functions.

## Does RBI allow large corporate, industrial houses and NBFCs to setup banks?

- RBI hasn't taken a call on this. The regulator may not be wrong.
- Most banking frauds in India have had their origins in connected lending and diversion of funds to group entities.
- Reason being internal checks such as statutory audits and external checks such as RBI's supervisory mechanism, have so far proved unequal to detecting such cases early.
- Having recently taken on the oversight of co-operative banks, small finance banks and proliferating digital lenders in addition to legacy universal banks, the RBI today has its hands full in terms of regulatory capacity.
- It shows that RBI pragmatically wants to set its own house in order, before inviting unknown entities into it.

**Reference**


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