WLTF Banks

What is the issue?

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RBI specified eligibility criteria of projects that can be funded by WLTF

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What are WLTF banks?

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- In April 2017, the RBI released a discussion paper on setting up of wholesale and long-term finance (WLTF) banks.
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- The objective of these banks is to fund long-term infrastructure and corporate projects.
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- This banks will fill the funding gaps which are left by the commercial banks.
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What is the need for this new type of banks?

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- The Indian banking system has significantly high percentage of non-performing assets (NPAs).
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- Recently, the RBI also identified 12 insolvent accounts, which are responsible for 25 per cent of the NPAs in the Indian banking system.
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- Due to the ongoing NPA issues, commercial banks are already wary to take further long-term exposures, thus creating a critical funding gap for huge projects.
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How this banks are designed?

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- The RBI proposes an initial minimum capital of Rs 1,000 crore.
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- In the long term, these banks are funded appropriately to the risk in their assets.
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- The promoter group for WLTF banks has deep expertise in appraising long-term credits and tackling associated challenges.
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What are the issues with WLTF banks?

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- This banks will be counter-productive for the commercial banks.
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- There will be greater challenges for payment banks and small finance banks.
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- The funds which are received by small marginal banks from RBI will be diverted due to this new banks.
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How WLTF banks can be made successful?

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- These banks can raise current account and deposits above Rs 10 crore as one of the funding sources.
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- The best-suited source of capital for WLTF banks would be insurance companies, pension funds, sovereign wealth funds, international capital markets and long-term bond markets.
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- Selecting the right promoter group for granting the licence holds the

efficiency of this banks.
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- Framing suitable financial structures for raising long-term funds would go a long way in making WLTF banks a success.
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Source: Business Standard

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