A custodian bank is a specialised financial entity that hold individuals or firm's asset and is not engaged in traditional banking services.

In India, there are around 19 custodians with deposits of 45,000 crore but with very limited flexibility and security.

But, after LPG reforms of 1991, and a great progress of global custodian market a need is felt to provide banking licence to make custodian banks

(i) credit to GDP ratio in India is around 56% far below than China 150% and traditional banks are unable to reach the demand.

(ii) Growing finance sector - with instruments like digital India, KYC, Differential bank like payment bank, mutual funds etc creates perfect opportunity for custodian banks.

(iii) Cope with Global Framework - Global custodians have 60 to 70% share of Indian capital market due to under developed custodian banks in India.

→ This increase transaction cost.

→ Diversion of investment to other countries.

→ Delayes in transaction.

(iv) Level playing field

→ Custodian bank will provide gateway to category III investors of SEBI, who are small like family.

→ Instead of passing through foreign custodian, investors will directly come through Indian custodian.

(v) Custodian bank will provide easy cash management services to Indian diaspora for remittances.

Thus most of the credit enhancing service can be achieved by custodian banks, and RBI needs to allow them in a - specialised and differentiated way.