Bimal Jalan Committee

- Constitution of committee: This is an advisory committee constituted by RBI and headed by former Reserve Bank of India governor Bimal Jalan. Committee is screening the 25 bank licence applications. The central bank issued guidelines for licensing of new banks on 22 February 2013.
- Subject matter: To scrutinize applications for new bank licences and to examine the fit and proper criteria, business plans and corporate governance practices of applicants applying for new bank Licenses. The central bank issued guidelines for licensing of new banks on 22 February 2013.
- Submission of Report: In initial stage, the applications were scrutinized by RBI to ensure eligibility of the applicants under the Guidelines. Thereafter, the applications were referred to the High Level Advisory Committee (HLAC). The HLAC submitted its recommendations to RBI on February 25, 2014 for its consideration. The report contains names of entities eligible for bank licences.

- **Submission of report:** On April 2nd 2014, RBI grants in-principle approvals to IDFC and Bandhan Financial Services for new bank licences based on Jalan Committee Report.

MAJOR RECOMMENDATIONS

- **Eligible Promoters:** Entities / groups in the private sector, entities in public sector and Non-Banking Financial Companies (NBFCs) shall be eligible to set up a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC).
- **'Fit and Proper' criteria:** Entities / groups should have a past record of sound credentials and integrity, be financially sound with a successful track record of 10 years. For this purpose, RBI may seek feedback from other regulators and enforcement and investigative agencies.
- **Corporate structure of the NOFHC:** The NOFHC shall be wholly owned by the Promoter / Promoter Group. The NOFHC shall hold the bank as well as all the other financial services entities of the group.

- **Regulatory framework:** The bank will be governed by the provisions of the relevant Acts, relevant Statutes and the Directives, Prudential regulations and other Guidelines/Instructions issued by RBI and other regulators. The NOFHC shall be registered as a non-banking finance company (NBFC) with the RBI and will be governed by a separate set of directions issued by RBI.
- **Foreign shareholding in the bank:** The initial aggregate non-resident shareholding has been restricted to 49% for the first 5 years.
- **Corporate governance of NOFHC:** At least 50% of the Directors of the NOFHC should be independent directors. The corporate structure should not impede effective supervision of the bank and the NOFHC on a consolidated basis by RBI.
- **Prudential norms for the NOFHC:** The prudential norms will be applied to NOFHC both on stand-alone as well as on a consolidated basis and the norms would be on similar lines as that of the bank.
- **Exposure norms**: The NOFHC and the bank shall not have any exposure to the Promoter Group. The bank shall not invest in the equity / debt capital instruments of any financial entities held by the NOFHC.

- **Business Plan for the bank:** The business model of the applicant should be realistic and viable and should address how the bank proposes to achieve financial inclusion.
- The **initial paid-up capital** for new banks has been pegged at **INR 500 crores**, with the promoter NOFHC holding not less than 40% of capital, along with a 5 year lock-in period. Then progressive reduction of shareholding of promoter NOFHC to 15% within 12 years.
- The bank shall get its **shares listed** on the stock exchanges **within three years** of the commencement of business by the bank.
- **Other conditions for the bank :**

- The bank shall open at least 25 per cent of its branches in unbanked rural centres (population upto 9,999 as per the latest census).
- The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks.
- Banks promoted by groups having 40 per cent or more assets/income from non-financial business will require RBI's prior approval for raising paid-up voting equity capital beyond INR 10 billion for every block of INR 5 billion.

- Any **non-compliance** of terms and conditions will attract penal measures including cancellation of licence of the bank.
- **Additional conditions for NBFCs promoting / converting into a bank :** Existing NBFCs, if considered eligible, may be permitted to promote a new bank or convert themselves into banks.

Muddle Areas for applicants…

- In view of the new guidelines, many corporate houses will have to float a new holding company structure to become eligible for a banking licence.
- 10-year track record of the promoter group to assess credentials and integrity for 'fit and proper' criteria.
- The bigger challenge will be in reducing the holding to 15 per cent within 12 years (banking being a long-gestation business it may result in offloading of stake holding cheaply).

- Opening of at least 25 per cent of its branches in unbanked rural areas.
- FDI limit has been kept at 49% for the first 5 yrs.

TIME FOR TREAT AS WELL

- There is also a requirement to compulsorily list shares on stock exchanges within three years of the commencement of business by the bank. This is good news as small investors would be able to share in the fruits of capital appreciation in a banking stock if - they stay invested over the long term.

- Banks promoted by groups with 40 per cent or more of their assets and income in non-financial businesses will be required to take the RBI's approval to raise equity capital beyond Rs 1,000 crore for every block of Rs 500 crore.

ANALYSIS OF JALAN COMMITTEE's RECOMMENDATIONS

- RBI's granting of two licences out of an applicant pool of 25 is a cautious - and welcome – approach, marking the first such issuance in a decade and the latest move to heighten competition in the country's Rs 81-trillion (US$ 1.31 trillion) Banking Industry. With more players to join the fray, it has the potential to become the fifth largest banking industry in the world by 2020 and the third largest by 2025, according to an industry report.

- Private Sector Banks, particularly New Private Sector Banks have played an important role in the Indian banking sector by increasing the efficiency of the domestic banking system and bringing in more sophisticated financial services and financial inclusion.

Nachiket Mor Committee

- Constitution of committee: The Reserve Bank of India (RBI), on September 23, 2013, had appointed the Committee to propose measures for achieving financial inclusion and increased access to financial services. The Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by Dr.Nachiket Mor, submitted its final report on December 31, 2013.
- Committee proposed that Following things are to be achieved by 1st january, 2016:

- *provide each Indian resident above the age of 18 with an individual, full-service electronic bank account,*
- *set up widely distributed Electronic Payment Access Points offering deposit and withdrawal facilities at reasonable cost,*
- *Provide each low-income household convenient access to formally regulated providers that can provide suitable:*

(a) credit products, (b) investment and deposit products, (c) insurance and risk management products at a reasonable price,

- to provide every customer the legally protected right to be offered suitable financial services.

Major Recommendations of the Committee are:

- ***Wide-spread payment network and universal access to savings:*** The Committee recommended that every resident receive a Universal Electronic Bank Account at the time of registering for an Aadhaar card. It recommended that RBI prohibit banks from refusing to open an account and that Aadhaar be made the universal basis for authentication. The Committee proposed the setting up of Payments Banks whose primary purpose will be to provide payments services and deposit products to small businesses and low income households. These banks will be restricted to holding a maximum balance of Rs 50,000 per customer and will be required to have a minimum entry capital of Rs 50 crore.
- It further proposed the setting up of Wholesale Banks which will lend to corporates and purchase securitised retail and small-business loans. These banks will only accept deposits larger than Rs 5 crore and will require minimum entry capital of Rs 50 crore.
- ***Sufficient access to affordable formal credit:*** The Committee recommended a number of steps to be taken to help banks manage their credit exposures effectively, including allowing banks to purchase portfolio insurance. Universal reporting of information with credit bureaus should be mandatory for all loans, especially kisan credit cards and general credit cards.

- banks price farm loans based on risk and that any waivers be provided by the government through direct benefit transfer and not through interest subsidies or loan waivers.
- A State Finance Regulatory Commission be set up into which all state level financial regulators will be merged.
- The Non-Performing Asset reporting provisions and other regulations for Non- Banking Finance Companies (NBFCs) be aligned with those of banks.
- to ease funding constraints of NBFCs including relaxation of External Commercial Borrowings and equity investment rules. Further, it proposed the removal of barriers to the transition of NBFCs into banks by including more sectors in the Priority Sector Lending (PSL) classification.
- ***Priority Sector Lending:*** The Committee suggested that investment by banks in bonds and equities and provision of guarantees to PSL beneficiaries be counted towards meeting the banks' PSL targets.
- It recommended the removal of the cap on interest rate on loans at the base rate plus 8% per annum. It also recommended that the PSL target be revised from 40% to 50% of credit provided.

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- ***Customer protection issues:*** The Committee proposed that financial service providers be required to commit capital against customer protection risk.
- It proposed that firms be made liable to ensure suitability of products issued to customers and that RBI frame regulations regarding the same.
- It proposed the setting up of a unified Financial Redress Agency (FRA) that will handle customer grievances across all financial products in coordination with their respective regulators.

Thank you!