RBI's recommendation on Banks ownership

ICICI direct Research

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Result Preview

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Ownership guidelines and corporate structure of Indian private sector banks. RBI accepts 21 recommendations of Internal Working Group (IWG), some with partial modifications. The recommendations accepted are as follows:

- The cap on promoters' stake in long run of 15 years may be raised from the current levels of 15% to 26% of the paid-up voting equity share capital of the bank.

  View: Promoters like the Hinduja Group, HDFC Limited and the Aga Khan Fund will be allowed to increase their stake in IndusInd Bank, HDFC Bank and DCB Bank, respectively, to 26%, if they so choose to
- Non-promoter shareholding cap shall be increased from 10% to 15% for financial institutions / entities but will remain at 10% for non-financial institutions / entities.

  View: Key shareholders such as LIC, which has 8.37% stake in SBI, for example, will be allowed to increase their stake to 15%, if they so choose to.
- Banks currently under Non-Operative Financial Holding Company (NoFHC) structure may be allowed to exit from such a structure if they do not have other group entities in their fold.

  View: It may be noted that banks licenced before 2013 and which operate group entities, e.g. SBI, Kotak Mahindra Bank, are not covered by the 21 recommendations accepted.
- Whenever a new licensing guideline is issued, if new rules are more relaxed, benefit should be given to existing banks, immediately. If new rules are tougher, earlier licensees should transition to new guidelines but the transition path should be finalized in consultation with earlier licensees to ensure compliance in non-disruptive manner.

  View: This means if the NoFHC structure attains tax neutral status, any adherence to the NoFHC norm from earlier licensees such as SBI, and Kotak Mahindra Bank would be non-disruptive in nature.

Other key points accepted by RBI:

- No change to existing initial lock-in requirement for promoter, which will remain at 40% of paid-up voting equity share capital for 5 years.
- There will be no need to fix cap on promoter holding for first 5 years.
- No intermediate sub-targets for promoter holding between 5-15 years but submission of a dilution schedule will be mandatory.
- Monitoring mechanism to be devised to ensure that the control of promoting entity / major shareholder does not fall into the hands of someone not fit and proper.
- Pledge of shares during minimum lock-in period that brings shareholding below prescribed minimum is to be disallowed.
- If invoking of a pledge leads to transfer of shares greater than 5% stake, the voting rights of the acquirer will be restricted to 5% till the latter applies to the RBI for regularization.
- Minimum requirement in terms of number of years of track record for an NBFC converting to a universal bank, for SFB converting to a universal bank and for a Payments Bank converting to an SFB will continue as is at 10 years, 5 years and 5 years, respectively.
- Minimum net worth requirement for licencing of new banks would be raised from ₹500 crore to ₹1000 crore for universal banks, from ₹200 crore to ₹300 crore for SFBs and from ₹100 crore to ₹150 crore for UCBs converting to SFBs but will rise to ₹300 crore in 5 years.

- There will be uniform usage of the term 'paid-up voting equity share capital' in all guidelines of the RBI.
- SFBs to be set up in the future should be listed within 6 years of reaching net worth equal to that prescribed as entry level capital for universal banks or 8 years from commencement of operations.
- Universal banks should continue to be listed within 6 years of commencement of operations.

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