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Changing financial landscape
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Easing entry norms would bring a banking licence within easy reach of an aspirant

Raghuram Rajan, governor, RBI, needs to be lauded for coming out with draft norms permitting banking licences to be available on tap. True, there are several conditions to be fulfilled before the licence is finally received. Also, some of them are pretty onerous – like the requirement to have 10 years track record, ₹500 crore initial capital requirement, diversified shareholding, screening to be done by a external advisory committee and the three-year hiatus for the unsuccessful applicant to reapply. However, the guidelines are in line with the earlier guidelines proposed in 2013, which in turn were based on the recommendations made by the Financial Sector Reforms Committee, chaired by Raghuram Rajan himself way back in 2009.

While the committee had debated over whether the ownership of a banking institution really matters for dispensing credit and ushering in financial inclusion, the RBI in the current draft norms has allowed even an individual having experience of 10 years in this sector to apply for a banking licence. Of course, it is a moot question as to how many individuals would be able to stake claims to put up ₹500 crore initial capital.

NBFCs, albeit a few, have shown enviable performance in face of adversity. Their conservative approach has allowed them to build up sizeable asset base, in many cases well over ₹25,000 crore. RBI's condition of the group having 10 years experience and a asset base of at least ₹5,000 crore would be easily met by groups such as Murugappa's Cholamandalam or Sundaram Finance, Larsen & Toubro or Bajaj. Some of these groups would also meet with the condition that the non-financial business of the groups should not account for more than 40 per cent of the total assets/total income of the group. The last condition would, however, debar some of the bigger groups.

The conditions of having a non-operating financial holding company, compulsory listing of shares of the bank within six years and bringing down the promoter holding, albeit gradually, to a level of 10 per cent are reasonable.

Of course, these are draft norms – and the final version may well take some of the suggestions of the industry. However, the mere thought of having a banking licence on tap will remove the halo enjoyed by some of the existing players. It is true that some of the existing PSU banks may not be able to cope with the growing competition from the new entrants and may well have to embark on overhauling the way in which business is conducted.

While there will be challenges galore for existing banks as the new entrants will not be coming with any baggage and starting afresh on a clean slate, with the backs to their wall, some of the PSU may well embark on a transformation drive, quickly. There will be a lot of whining from the PSU banks and the unions that completion may well spell the death knell of the ailing banks. But Rajan, if allowed to continue for another term, is capable of resisting all pressure, political or otherwise.

However, the new draft norms could possibly lead to a re-rating of the banking sector as a whole. The sector which has not been able to attract the best of talent from the private sector could see more professionals opting to make banking as a career of choice. However the need to groom fresh talent will be a mammoth task by itself. And not many new aspirants would like to poach talent from existing banks or get enough response from entrenched bankers, who are traditionally trained to look at downside risks rather than take meaningful risks!

One thing which the RBI however needs to do is to jettison its thinking that all big industrial groups are unworthy of running a bank. The RBI has to realise that there has been a sea-change in the way business was done, in the pre-liberalisation era of 1991 and now. Size does matter. And big houses like, say, Tatas or Mahindras are a lot more concerned about their reputation than individuals. Using banks as an extended captive financial arm is far more difficult in this era than it was earlier, thanks to higher scrutiny by shareholders and heightened regulatory oversight.

These are, however, small irritants in the context of the changing financial landscape. •

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