

# Info Capsule

December 09, 2019



THE INSTITUTE OF  
Company Secretaries of India

भारतीय कम्पनी सचिव संस्थान

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## ***RBI releases “Guidelines for ‘on tap’ Licensing of Small Finance Banks in the Private Sector” dated 5<sup>th</sup> Dec, 2019***

RBI released “Guidelines for Licensing of Small Finance Banks in the Private Sector” on November 27<sup>th</sup>, 2014 with the objectives of setting up of small finance banks to further financial inclusion by

- (a) Provision of savings vehicles, and
- (b) Supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

Consequently, the Reserve Bank issued in-principle approval to ten applicants and they have since established the banks. It was mentioned in the guidelines that after gaining experience in dealing with these banks, RBI would consider receiving the applications on a continuous basis. In the Second Bi-monthly Monetary Policy Statement, 2019-20 dated June 06, 2019, it was announced that the Draft Guidelines for ‘on tap’ Licensing of such banks will be issued. Accordingly, the draft guidelines were published on the RBI website on September 13, 2019 inviting comments from the stakeholders and members of the public. Taking into consideration the responses received, the final guidelines have now been issued.

In this context, RBI released “Guidelines for ‘on tap’ Licensing of Small Finance Banks in the Private Sector”.

The major changes from the earlier guidelines are as under:

- (i) The licensing window will be open on-tap;
- (ii) Minimum paid-up voting equity capital / net worth requirement shall be ₹ 200 crore;
- (iii) For Primary (Urban) Co-operative Banks (UCBs), desirous of voluntarily transiting into Small Finance Banks (SFBs) initial requirement of net worth shall be at ₹ 100 crore, which will have to be increased to ₹ 200 crore within five years from the date of commencement of business. Incidentally, the net-worth of all SFBs currently in operation is in excess of ₹ 200 crore;
- (iv) SFBs will be given scheduled bank status immediately upon commencement of operations;
- (v) SFBs will have general permission to open banking outlets from the date of commencement of operations;
- (vi) Payments Banks can apply for conversion into SFB after five years of operations, if they are otherwise eligible as per these guidelines.

The details are available at: [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=48807](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=48807)