

On tap' Licensing of Universal Banks and Small Finance Banks (SFBs)

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Reserve Bank of India (RBI) had recently received applications to set up banks under the 'on tap' Licensing of Universal Banks (UBs) and **Small Finance Banks (SFBs)** framework.



[ref- financialexpress]

What is 'on tap' Licensing of Universal Banks and Small Finance Banks (SFBs)?

- **On-tap bank licensing facility** enables a window for making applications for bank licenses at the RBI throughout the year.
- This year-round window was **introduced in 2016** for further **financial Inclusion** and **creation of more financing institutions**.
- Prior to that, **banking licenses** were granted upon invitation of applications by RBI to prospective players.

Who can apply for UB, SFB and UCB licenses?

Strong management track record:

- Any individual/entity with **at least 10 years of experience in banking and finance** at the **senior level** or **private entities** with **10 years of successful track record** are eligible to apply for **on-tap licensing** as Universal Banks (UBs).
- In the case of a **corporate entity applicant**, it must have at **least 5 years of successful track record**.
 - Corporate applicants includes **NBFCs, microfinance institutions, local banks** and **cooperative banks**.

Adequate capital structure:

- Aspiring entities ought to have **assets of Rs. 5000 crore** or above.
- The **required net worth** is **Rs. 500 crore** that has to be **maintained at all times**.
- The **minimum paid-up voting capital/net worth** for **SFBs** should be **Rs 200 crore**.
- The initial **minimum paid-up voting equity capital** for a **universal bank** should be **Rs 500 crore**.
- However, **large industrial houses** are restricted to only invest in UBs up to 10% only.

- In case of **urban co-operative banks** desirous of **voluntarily transiting into SFBs**.
- The initial requirement of **net worth is Rs 100 crore**, which will have to be increased to **Rs 200 crore within five years**.

Soundness of business & technological model:

- RBI emphasizes the entity's track record in conforming to the **best international and domestic standards** of **customer service, integrity, and efficiency**.
 - It implies that RBI would grant the licenses on the basis of discretionary prudential factors, in addition to rule-based eligibility criteria.

About Small finance Banks:

- Small Finance Banks (SFBs) are **focused financial institutions** registered as a **public limited company**.
- They provide banking and credit services to **unserved & unbanked** regions of the country like **marginal farmers, MSMEs**, and other **non-risk sharing financial activities** with RBI's prior approval.

About Universal Banks:

- **UBs are financial entities** like commercial banks, financial institutions, NBFCs, etc. **that undertake multiple financial transactions**.

About Urban Co-operative Banks:

- The Urban Co-operative Banks, refers to **co-operative banks located in Urban & semi-urban areas**.