



## New Committee to Screen New Bank Licences

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### Why in News

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The **Reserve Bank of India (RBI)** has set up a five-member **Standing External Advisory Committee (SEAC)**, headed by former RBI Deputy Governor Shyamala Gopinath, for evaluating applications for universal banks and **Small Finance Banks (SFBs)**.

The **Standing External Advisory Committee (SEAC)** will be comprising eminent persons with experience in banking, financial sector and other relevant areas.

### Key Points

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- **About the Committee:**
  - **Tenure:** The committee will have a tenure of three years.
  - **Secretariat of the Committee:** The secretarial support to the committee would be provided by RBI's Department of Regulation.
  - **Functions:** The applications for universal banks and SFBs will first be evaluated by the RBI to ensure prima facie eligibility of the applicants, after which the SEAC will evaluate the applications.

- **Small Finance Banks (SFBs):**

- Small Finance Banks are the financial institutions which provide **financial services to the unserved and unbanked region** of the country.
- They are registered as a public limited company under the Companies Act, 2013.
- **Scope of Activities:**
  - The small finance bank shall primarily undertake **basic banking activities of acceptance of deposits and lending** to small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
  - It can also undertake other **non-risk sharing simple financial services activities**, not requiring any commitment of own funds, such as the distribution of mutual fund units, insurance products, pension products, etc.
  - The small finance bank can also become an **Authorised Dealer in foreign exchange business** for its clients' requirements.
  - There will **not be any restriction in the area of operations of SFBs**; however, preference will be given to those applicants who, in the initial phase, set up the bank in a cluster of under-banked States/districts, such as in the North-East, East and Central regions of the country.

- **Universal Banks:**

- Universal Banks are the financial entities like **the commercial banks, Financial Institutions, Non-Banking Financial Companies (NBFCs)**, which undertake multiple financial activities under one roof, thereby creating a financial supermarket.
- The entities focus on leveraging their large branch network and offer a wide range of services under a single brand name/Bank's name.
- According to the guidelines on **on-tap licensing of universal banks** issued in August 2016, resident individuals and professionals having 10 years of experience in banking and finance at a senior level are eligible to promote universal banks.
  - However, large industrial houses are excluded as eligible entities but are permitted to invest in the banks up to 10%.
  - A **non-operative financial holding company (NOFHC)** has been made non-mandatory in case of promoters being individuals or standalone promoting/converting entities who/which do not have other group entities.

- **Related Development:**

Earlier, an internal working group of the RBI in 2020 had proposed an **overhaul of licensing policy for private banks** and suggested **allowing large corporate and industrial houses to float banks** in India after suitable amendments to the **Banking Regulation Act, 1949**.

However, former RBI Governor Raghuram Rajan has criticised the proposal saying it would lead to “**connected lending (a situation in which the bank's controlling owner extends loans of inferior quality at lower interest rates to himself or his connected parties)**”.

### **Non-Operative Financial Holding Company**

- Non-Operative Financial Holding Company (NOFHC) means a **non-deposit taking NBFC**.
- As per the Banking Guidelines, promoter or promoter group will be permitted to set up a new bank only through a wholly-owned Non-operative Financial Holding Company (NOFHC).
- Such NOFHC holds the Bank as well as all other financial services companies regulated by RBI or other financial sector regulators based on permissible regulatory prescriptions.

### **On-tap Licensing of Universal Bank**

- An ‘on-tap’ facility means the RBI will accept applications and grant licenses for banks throughout the year.
- The policy allows aspirants to apply for universal bank license at any time, subject to the fulfillment of the set conditions.

**Source:IE**