



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA

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## RBI releases Draft Guidelines for Licensing of Payments Banks and Small Banks

The Reserve Bank of India released on its website today, the Draft Guidelines for "[Licensing of Payments Banks](#)" and Draft Guidelines for "[Licensing of Small Banks](#)". The Reserve Bank has sought views/comments on the draft guidelines from all interested parties and general public. Suggestions and comments on the draft guidelines may be sent by August 28, 2014 to the Chief General Manager, Reserve Bank of India, Department of Banking Operations and Development, Central Office, 13<sup>th</sup> floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai-400001 or can be [emailed](#) by clicking here.

Final guidelines will be issued and the process of inviting applications for setting up of Payments Banks and Small Banks will be initiated after receiving feedback, comments and suggestions on the draft guidelines.

Both, payments banks and small banks are "niche" or "differentiated" banks; with the common objective of furthering financial inclusion. While small banks will provide a whole suite of basic banking products, such as, deposits and supply of credit, but in a limited area of operation, payments banks will provide a limited range of products, such as, acceptance of demand deposits and remittances of funds, but will have a widespread network of access points particularly to remote areas, either through their own branch network or through Business Correspondents (BCs) or through networks provided by others. They will add value by adapting technological solutions to lower costs.

The entities eligible to set up a Payments Bank include existing non-bank Pre-paid Instrument Issuers (PPIs), Non-Banking Finance Companies (NBFCs), corporate BCs, mobile telephone companies, super-market chains, companies, real sector cooperatives, and public sector entities. The entities eligible to set up a small bank include resident individuals with ten years of experience in banking and finance, companies and societies, NBFCs, Micro Finance Institutions and Local Area Banks.

The eligible entities should be "fit and proper" in order to be eligible to promote payments banks and small banks. The Reserve Bank would assess the 'fit and proper' status of the applicants on the basis of their past record of sound credentials and integrity; financial soundness and successful track record of at least five years in running their businesses.

The minimum paid up capital requirement of both payments banks and small banks is kept at Rs. 100 crore, of which the promoters' initial minimum contribution will be at least 40 per cent, to be locked in for a period of five years. Shareholding of the promoters should be brought down to 40 per cent within three years, 30 per cent

within a period of 10 years, and to 26 per cent within 12 years from the date of commencement of business of the bank.

## **Background**

The Reserve Bank last came out with a set of [guidelines for licensing of new banks in the private sector in February 2013](#). The process of licensing culminated with the announcement by the Reserve Bank ([Press Release dated April 2, 2014](#)) that it would grant “in-principle” approval to two applicants who would set up new banks in the private sector within a period of 18 months.

While announcing the decision to grant “in-principle” approval to the two applicants, the Reserve Bank also indicated that going forward, it intends to use the learning experience from this licensing exercise to revise the guidelines appropriately and move to grant licences more regularly. Further, the Reserve Bank would work on a policy of having various categories of “differentiated” bank licences which will allow a wider pool of entrants into banking.

Further, in the Union Budget 2014-2015 presented on July 10, 2014, the Hon’ble Finance Minister announced that:

*“After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal banks in the private sector in the current financial year. RBI will create a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force”.*

Taking into account the above, the draft guidelines on payments banks and small banks as differentiated or restricted banks have been prepared. The Reserve Bank is working on the guidelines for continuous authorisation of universal banks and will come out with these separately.

**Alpana Killawala**  
**Principal Chief General Manager**

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