New banks to increase financial inclusion, improve service efficiency, enlarge capital base and create new jobs: FICCI Survey

NEW DELHI, July 4, 2013. The RBI's decision to allow new players in the banking sector has received a big thumbs up from Indian industry. The move will induct new processes and technology, improve efficiency, enlarge the capital base to meet the credit needs of the economy and generate huge employment opportunities, says **FICCI's Survey on New Bank Licenses.**

The survey which drew responses from existing banks, NBFCs, corporate and industrial houses and other stakeholders reveals that a majority (88%) of the respondents feel that RBI condition for an applicant applying for a banking license to set up at least 25% of its branches in unbanked rural centres with a population of less than 9,999 will play a significant role in expansion of banking services to mid cities and rural India and hence help in increasing financial inclusion in India.

The setting up of new banks is considered significant in view of the fact that only 35% of Indian population have formal bank accounts as compared to an average of 41% in developing economies.

Nearly 70% of India's population lives in villages. However, a vast majority of approximately 6,50,000 villages in India do not have a single bank branch thus leaving a huge chunk of rural population in the hands of money lenders. The total number of branches in rural India stood at 37,471 and the total banking outlets in villages after taking into account the Branches, Business Correspondents and other modes was just 1,81,753 (as on March, 2012).

The Survey notes that apart from improving financial inclusion in India, new banks can potentially be the game changers in the following ways: one, they can bring in the new processes and technology and will play a significant role in driving competition. It will also encourage existing players to improve efficiency; two, new players with sound financial base will bring in the much needed capital that is required to support the credit needs of the economy and they will generate huge employment opportunities.

On being asked to provide any other parameters that the respondents felt were significant and should be therefore considered by RBI before issuing the license, the top three parameters that emerged are Sound financial position and financial track record of promoters and all the group companies (53%); Deep understanding and experience in financial services including fiduciary financial services (29%); Binding all compulsions such as opening up of branches in unbanked areas, PSL targets, Basel norms and limited exposure to sensitive sectors (29%).

69% of the respondents felt that corporate/ industrial houses should be given licenses while the remaining 31% felt that they should not be allowed to operate as banks.

Irrespective of the fact that the new banks will help in consolidation of the banking sector, 58% of the total respondents felt that new banks should start afresh completely while only 42% of the respondents felt that new banks should acquire existing smaller banks and grow.

59% of the respondents felt that the process of issuing bank licenses to new players should be an ongoing process.

30% of the respondents felt that the time line for reviewing a new bank application should be 6-12 months.

72% of the respondents felt that the recommendations of the advisory committee after its review of a new application should be considered seriously by RBI Board in granting license to an applicant rather than it being binding on the RBI Board.

Asked about who should be part of the Advisory Committee that will be formed by RBI, an overwhelming 69 per cent of the respondents wanted to have public policy experts and financial sector experts on the committee.

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