FICCI SUPPORTS ALLOWING CORPORATE SECTOR TO PARTICIPATE IN BANKING BUSINESS

Financial Inclusion needs a push; Corporate Sector experience could be well utilised

New Delhi, October 8, 2010: FICCI delegation led by **Mr Ashwin Dani, Vice President, FICCI & Vice Chairman, Asian Paints Ltd.** and comprising **Dr Ajit Ranade, Chief Economist, Aditya Birla Group, Mr Sunderajan, MD, Shriram Capital and Ms Dipti Neelkantan, COO, J M Financial** met RBI on the issue of new bank licenses today. Mr Dani and the delegation strongly supported allowing Industrial houses to set up Banks albeit with a good track record in financial services business of at least 10 years and sufficient safeguards.

Additionally, **FICCI also suggested a few safeguards pertaining to exposure of applicants to the Property sector. The following safeguards are proposed:**

i) The property exposure in terms of assets should not be more than 10% of the total assets of the group.
ii) The ownership and control of the property arm should be separate from that of the Financial Services business (including the bank). There should be no common directors between the property arm and Financial Services arm of the group.
iii) There should be strict prohibition of any inter-company transactions between the Bank and the real estate arm.

FICCI strongly feels that entry of new private sector banks will greatly help in the cause of financial inclusion, as well as fulfil the need for large banking capital required for economic growth. “Corporate sector has done tremendous work in serving rural India and this experience could be successfully leveraged through banking business”, said Mr Dani.

The FICCI delegation also emphasised the need for minimum capital of Rs. 1000 crore to ensure entry of only serious and long term players.

FICCI has also recommended that upfront ownership by the promoter be maintained at a minimum of 40% with a maximum share of 100% upon commencing banking operations. The higher upfront ownership will allow promoters to leverage expertise and provide clear directions without the complexities of managing partnerships. It will also allow them to take a long term view of their business which is critical for financial inclusion. Eventually in 5-7 years promoters be allowed to keep a minimum 26% as an end state. This would ensure balance between the need to ensure long-term commitment by keeping control over key decisions with the need to reduce operating control.

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