

# RBI outlines rules for foreign banks' India operations

The RBI on Wednesday released the roadmap for foreign banks operating in India, with a focus on shifting them towards operating via a wholly owned subsidiary (WOS) model. Currently, all foreign banks in India are operating through the branch model.

While it is mandatory for foreign banks that have entered the country after August 2010 to convert to the subsidiary model, for banks that have been in the country since before August 2010, incentives are being provided to push them towards converting their branch operations into subsidiaries.

"They will be incentivised to convert into WOS because of the attractiveness of the near-national treatment afforded," the RBI said.

The branch expansion guidelines, as applicable to domestic scheduled commercial banks, would generally be applicable to WOS of foreign banks, except that they will require prior approval of RBI for opening branches at certain locations that are sensitive from the perspective of national security. An incentive in the form of a branch in a Tier-1 centre would be given for opening of a branch in Tier-2 to Tier-6 centres of districts of underbanked states, RBI said.

To prevent domination by foreign banks, restrictions would be placed on further entry of new WOS of foreign banks or capital infusion, when the capital and reserves of the WOS and foreign bank branches in India exceed 20% of the capital and reserves of the banking system.

Importantly, the RBI says that a WOS looking to enter into mergers and acquisition transactions with any private sector bank in India would be permitted, subject to regulatory approvals, to the overall foreign investment limit of 74%.

At a meeting in Washington last month, RBI governor Raghuram Rajan had indicated that foreign banks may be allowed to acquire smaller private banks to improve their reach and presence, The statement had led to a sharp rise in stock prices of banks like Karnataka Bank, Lakshmi Vilas Bank and Dhanalaxmi Bank, considered to be possible acquisition targets.

Separately, an existing foreign bank that chooses to convert its branches into the WOS model will need to have a minimum net worth of R500 crore, RBI has stipulated.

(The Indian Express)