RBI prescribes Rs 500-cr initial capital for foreign bank subsidiaries

Foreign Banks seeking to set up subsidiaries in India would need at least Rs 500 crore as initial paid-up voting equity capital or net worth. Though foreign lenders would be incentivised to convert their branches here into wholly-owned subsidiaries, subsidiarisation wouldn't be mandatory.

The wholly-owned subsidiaries of foreign banks would be given "near-national treatment", including for the opening of branches, the Reserve Bank of India (RBI) said on Tuesday. Currently, the banking regulator is finalising the scheme of subsidiarisation; it would release the guidelines in this regard by mid-November.

"The scheme of subsidiarisation of foreign banks in India, which aims to reduce the risk they pose to the system while giving them near-national treatment as promised in the past, would be placed on our website within two weeks. It will be guided by the two cardinal principles of reciprocity and a single mode of presence," RBI Governor Raghuram Rajan said at the central bank's second quarter review of monetary policy.

In January 2011, RBI had released a discussion paper on the presence of foreign banks in India. Currently, foreign lenders are present only in the form of branches or representative offices.

As of March, 43 foreign banks operated in India, through a network of 333 branches; and, 47 foreign lenders were present in through representative offices. According to its commitments to the World Trade Organization, India has to allow 12 new foreign bank branches in a year.

In August, the central bank had said it expected foreign banks that became systemically important by the virtue of their balance sheet size to voluntarily opt to convert their branches into wholly-owned subsidiaries. It had also indicated for new foreign banks, subsidiarisation would be made mandatory, under certain conditions.

"I think we will really have to wait for the policy (on subsidiarisation). To a large extent, what is being said is not different from what has been said before—foreign banks will be nudged into becoming wholly-owned subsidiaries, the terminology of near-national treatment has remained in the refrain. So, we will have to really wait for two weeks to see what near-national treatment means," said Naina Lal Kidwai, director for the Asia-Pacific region and country head (India), HSBC.

Among foreign banks, HSBC has the second-largest presence in India, with a network of 50 branches.

"We are opening branches. It all depends on where those (new) branches (are allowed) and what strictures come with those openings. There are still some tax-related issues that need resolution, which I think would be resolved. But I do think we also have to juxtapose this against the general environment because there is an impression that foreign banks would just go out there and gobble up every bank. Believe me, that is not the scenario that would to pan out," Kidwai said.

The announcement on the proposed release of subsidiarisation norms led to speculative buying of shares of mid-sized private banks, as investors expected these lenders to be possible acquisition targets for foreign banks. Karnataka Bank shares gained about six per cent, while City Union Bank, Lakshmi Vilas Bank and Dhanlaxmi Bank shares rose 2.5-5.1 per cent in Tuesday's trade.

"In the past decade, over a dozen M&As (mergers and acquisitions) have taken place in the banking space. But almost all these, except one or two, were for issues of governance and profit and loss. It was almost the last option for some of these banks. Not too many banking M&As have happened for the creation of value...Also, if you focus on the principle of reciprocity, as mentioned in the statement, I doubt many foreign banks will become wholly-owned subsidiaries. I don't think the world has become very liberal; every country still wants to protect its own banks," said N Kamakodi, managing director and chief executive, City Union Bank.

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