

New Banking Licence: A Progressive Approach

✉ **Akinchan Buddhodev Sinha**

Assistant Director

Institute of Company Secretaries of India

New Delhi, India

Banking in India has its origin in as early as the vedic period. It is believed that conversion from money lending to banking took place before Manu, the great Hindu jurist, who had brought out a section of his work on deposits and advances that laid down rules pertaining to interest rates. During the Moghul era, the indigenous bankers played a crucial role in lending money and financing foreign trade and commerce. During the East India Company's regime, it was the turn of the agency houses to execute the banking business.

The General Bank of India was the first joint stock bank to be set up in the year 1786, followed by Bank of Hindustan and the Bengal Bank. Since then, the banking industry has gone under massive metamorphosis and has emerged as a cornerstone of Indian economy.

One of the striking features of Indian banking industry is that it is quite distinct from the banking systems in the rest of Asia, due to difference in geographic, social and economic characteristics of the country. It calls for a wider banking network so that people from all walks of life and from different regions of the country can be integrated with the banking system, as the objective of financial inclusion is only possible when every citizen of this big country is brought under the fold of the banking system, thereby enabling utilization of the funds pooled in the form of savings into investments, resulting into capital formation and finally translating into economic development.

New Banking Licence- Blessings & Tasks Ahead

After a stagnant and long decade, the Reserve Bank of India, which is the central bank of India, injected growth in the banking sector by coming up with the idea of issuing new bank licenses. The objective is to take financial services to the masses. No doubt, financial inclusion is not a new concept, as the nationalization of banks in 1969 and emphasis on branch building that followed were efforts to include the financially excluded. Even in the previous round of bank licensing (2003-04) new players were instructed to launch new branches in rural areas too. Moreover, in recent years, the RBI has embraced a planned and structured approach to improve financial inclusion.

Awarding of new banking licenses to new organizations, i.e. Bandhan and IDFC, out of a list of 25 applicants is an initiative towards strengthening the banking system. But what will be important to observe is that whether these two new banks will be successful in discharging the needed obligations. For instance, whether they will be focusing only upon High Net Worth Individuals or on the bottom of the pyramid, i.e. the middle class and rural households. Whether these new players will take care of farmers in the form of extending agricultural loans? What type of savings and loan products they are going to offer and how far they will be customised? What mechanisms they are going to put in place in order to ensure timely recovery of loans, as growing levels of non-performing assets, especially among the public sector banks is proving to be a headache. Thus there are several issues that call for efficient management, otherwise the dream of financial inclusion to some extent may get shattered.

Thus, lot of responsibilities are on the platter and they have to pull up their socks and get involved in the following important tasks:

- a) Preparation of self-set targets, regarding opening of branches in urban, semi-urban and rural areas.
- b) Requirement of business correspondents and chalking out the hiring process.
- c) Drafting of plans regarding which unbanked villages to be covered first, i.e. whether such villages will be from northern, southern, eastern, western or north-eastern regions of the country or whether branches will be started at one go in unbanked villages for all of the mentioned regions, measures to be taken to create awareness about benefits of banking and the need to get associated with it etc.
- d) The products to be offered in the unbanked areas, i.e. to offer basic savings bank deposit (BSBD) accounts, Kisan Credit Cards (KCC) and General Credit Cards (GCC) or only basic savings bank deposit.
- e) Coming to banked areas, what measures have to be taken for enhancing visibility and market penetration especially for setting up of branches in urban and semi-urban areas, where already several public and private sector banks have developed deep roots.
- f) How to ensure the adherence to CAMELS norms, i.e. Capital adequacy, Assets, Management Capability, Earnings, Liquidity and Sensitivity.

Despite the fact that Bandhan, which caters to the financial needs of the underprivileged is already addressing the objectives of financial inclusion to some

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extent, a deeper focus on the mentioned points may offer financial viability and enhanced marketability of its products.

Employment Generation

Moving ahead, the opening of new banks is going to play a pivotal role in creating employment opportunities. Experts opine that BFSI (Banking Financial Services and Insurance) sector is going to create over 20 lakh jobs over the next 5-10 years.

The recent issue of banking licences to IDFC, an infrastructure finance firm, and Bandhan Financial Services, a micro-lender to the underprivileged is all set to make the system robust and poised to create nice career opportunities in the future. The industry will view a lot of fresh recruitment. Thus, there will be a substantial jump in the work force in the area of consumer banking, corporate banking, transaction banking etc. If in the near future, the Reserve Bank of India issues more banking licenses then it will open up a plethora of opportunities for human capital at all levels.

Way-forward

Going by the concentration of banks in India, the urban areas are dominated by the Public sector, Private and Foreign banks while the semi-urban areas are served by the Public sector and Regional Rural Banks (RRBs) in addition to the Co-operative Banks. But as stated above, the matter of concern is either there is minimal presence of banks in rural areas or they do not exist at all. This becomes evident from a study undertaken by Pricewaterhouse Coopers that has clearly stated that a substantial section of population residing in rural areas are unbanked and that it is important to leverage technology to reach it. According to the facts and figures stated in this study, merely 37% of Scheduled Commercial Bank branches function in rural areas with a depressing 40% of the population possessing bank accounts. Further, statistics also reveal that banking reaches only 37% of the population while mobile phone penetration is higher at 50%. There is one bank branch and ATM for every 10,000 people. On the contrary, penetration of mobile phones is 5100 per 10,000. Some more data from a World Bank study that depicts the average population holding accounts with formal financial institutions puts India on the third place with 35%, preceded by Developing Economies (41%) and Worldwide (50%) at second and first places respectively.

If we go by RBI statistics, the banking business is mainly concentrated in the metropolitan region.

- (i) Greater Mumbai (population 12.5 million) alone accounted for 22% of total deposits and 25% of total credit in FY 2010-11.
- (ii) The top six centres namely, Greater Mumbai, Delhi, Chennai, Kolkata, Bangalore and Hyderabad together accounted for 46% of total deposits and 56% of total credit in 2010-11.
- (iii) A geographical distribution revealed that 1/3rd of total credit as of March 2011 was from the western region.
- (iv) A population-wise distribution showed that of the total credit as of March 2011, 68% was from the metropolitan region, 9% from semi-urban areas, and only 6% from rural areas.

The above facts clearly tell that banking in India needs to traverse a long journey. It needs to expand its wings, so that millions who do not have access to it can be brought under its scope. The unbanked populace needs to be provided with an avenue where they can park their surpluses and earn fair returns on their investments. In view of these points, the issuance of new banking licences is a welcome move by the Reserve Bank of India. Now what needs to be done is that more organizations or companies engaged in various sectors should be encouraged to apply for banking licences and after a thorough screening process they need to be awarded with a banking licence so that the network of banking grows. In the first round only two licences got issued against 25 applications, which surprised everyone. One can only hope that when the next round of issuance of new banking licences will commence, the Reserve Bank of India will take a comprehensive view, that is, it should not reject such huge number of applications, as it did in the first round, otherwise it will have a debilitating impact on the growth of the banking sector. However, it does not imply that banking licences should be given to any organization which has fairly good amount of fixed assets and net worth, but only in case the organization's financial statements and other relevant records reflect sound financial position, then it must be awarded with the banking license for a better tomorrow, for a better India..♦

akinchanbsinha@gmail.com