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08 April, 2013

Dear Shri Sinha,

I will not be able to attend tomorrow's Sitting of the Standing Committee on Finance, where the RBI Governor is deposing, as I am down with flu.

However, I am attaching herewith a list of questions as Annexure I, for which I would like responses from the RBI Governor.

Yours Sincerely,

RAJEEV CHANDRASEKHAR

Shri Yashwant Sinha
Hon'ble Member of Parliament and
Chairman – Standing Committee on Finance
Government of India
New Delhi



Annexure I

Questions on Guidelines for Licensing of New Banks in the Private Sector

1. Given the serious threat that money laundering represents to national security and many other important issues, including the democracy and integrity of the nation, what steps is the RBI taking to investigate the presence of money laundering within the Indian private banking sector, following recent media exposes about alleged complicity of top private banks in money laundering?
2. Is it not the sole, unambiguous and irrevocable responsibility of the Chief Executive Officers/MDs of the banks for all matters of compliance – major or minor - including instances of money laundering anywhere in the bank?
3. Is the RBI Governor aware of the serious threat that western democracies like USA and UK view the banking sector being used for money laundering, including the recent cases of fining HSBC and UBS for US\$1.9 billion and US\$780 million, respectively, by USA for exposing the country to money laundering risks?
4. When is the investigation expected to be completed and the report made public? What steps is the RBI taking to ensure that the integrity of the Indian banking system is strengthened and is unquestioned on the specific issue of money laundering?
5. How many applications have been received by the RBI since its guidelines of 22 January, 1993? What was the basis of selecting the 12 banks who have been given licenses, and more importantly, rejecting others? Is the information relating to such applications, the selection procedure and the reasons for rejection available in the public domain?
6. After the guidelines were revised in January 2001, how many applications were received, and again, what was the basis of rejecting them while granting only 2 licenses? Has the reason for the rejections or selections been made public? If not, why?
7. In the latest guidelines issued by RBI for private banks dated 22 February, 2013, Section 4 "Procedure for RBI Decisions" states:
"(ii) Licenses shall be issued on a very selective basis to those who conform to the above requirements, who have an impeccable track record and who are likely to conform to international and domestic standards of customer service and efficiency."
 - a) Please define "impeccable track record"?
 - b) Please explain why the word "likely" has been used and how will the selection committee determine what an applicant is "likely" to do in the future?



- c) Please clarify what are the “best international and domestic standards of customer service and efficiency” that RBI plans to apply, and why this is not specified so that the applicants know what the RBI means by “best standards”?
8. Under the “Fit and Proper Criteria” prescribed in Section 2(B), it states that the promoters should have a *“past record of sound credentials and integrity”* and they should *“be financially sound and have a successful track record of running their businesses for at least 10 years”*. Also, *“promoters’ business model and business culture should not be misaligned with the banking model”*.
- a) How will the RBI decide “sound credentials”?
- b) How does the RBI define “successful track record of running businesses”? Please explain if it is by revenue, customer satisfaction, innovation, creation of shareholder value, or a combination of many?
- c) Please clarify further on “business culture should not be misaligned with banking model”?
9. Under section 4(iii), the guidelines state that :
- “RBI may apply additional criteria to determine the suitability of applications, in addition to the ‘fit and proper’ criteria”*.
- a) Please clarify what these ‘additional criteria’ are and why this is not known in advance.
- b) Will this not violate the test of “legitimate expectations” and Article 14?
10. Under Section 4(vi), the RBI requires companies to begin banking within one year of receiving *“in principle approval”*. Please explain how many licenses the RBI proposes to grant and the timeline for the same.
11. Section 2(K)(vii) states :
- “The bank shall open at least 25% of its branches in unbanked rural centres”*.
- a) However, the guidelines fail to mention by when such rollout needs to occur. If not, one company may decide to do this after 15 years, and yet qualify. By then, the meaning of branch banking could have been vitiated due to technology.
12. Like the telecom licenses, the banking licenses have a massive financial value attached to it (approx. between Rs.3,000-5000 crores). Please clarify if there will be an entry fee for these licenses after the applicant has passed the fit and proper criteria. If not, why?