

# Ease Regulations for New Bank Permits, Brookings Urges India

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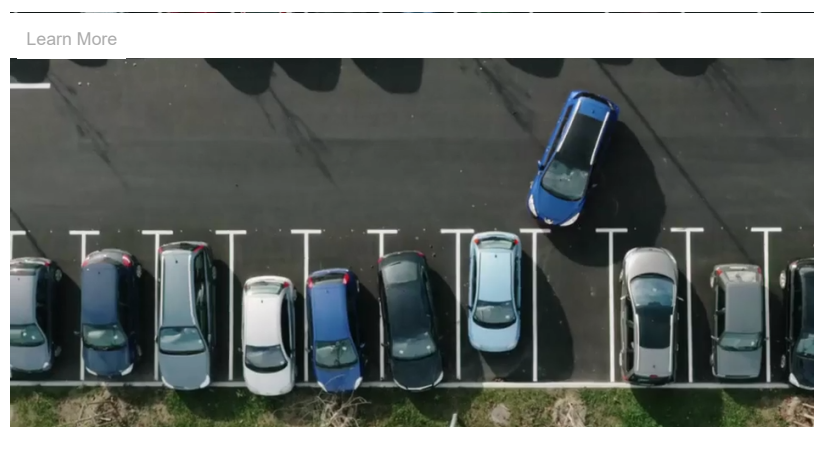
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- High capital requirements dissuading applicants: Brookings
- Indian regulator had issued new bank permits last in 2014

India should make it easier for new banks to open in the South Asian nation, according to a new report from the Brookings Institution.

The Reserve Bank of India could consider easing rules for allocation of permits, including an initial capital requirement of 5 billion rupees (\$79 million) and so-called priority sector lending targets, which include loans to farmers and smaller businesses, that stand at 40 percent of total loans. These norms seem stringent and will dissuade new applications for the permits, the report said.

“India should move toward a more dynamic banking sector that fosters innovation and checks the inefficiencies created by a lack of entry,” said authors Isha Agarwal and Eswar Prasad. “There can be enormous gains from productive reallocation of capital in the banking sector as inefficient banks are driven out of the system, or merged with other banks, and new banks enter the market.”



Read: IMF Calls for Overhaul of India Banks as RBI Sees Bad Loans Rise <<https://www.bloomberg.com/news/articles/2017-12-22/imf-calls-for-overhaul-of-india-banks-as-rbi-sees-bad-loans-rise>>

Brookings also joined the International Monetary Fund in calling for privatization of weaker state-run lenders. The Washington-based think tank said banks must identify and deny credit to borrowers who default despite having the ability to repay.

Bandhan Financial Services Ltd. and IDFC Bank Ltd. were the last two lenders to get licenses when the RBI last issued them in 2014. India had [eased <https://www.bloomberg.com/news/articles/2016-08-01/india-eases-bank-permit-rules-to-allow-for-anytime-applications>](https://www.bloomberg.com/news/articles/2016-08-01/india-eases-bank-permit-rules-to-allow-for-anytime-applications) rules in 2016 to allow applicants to seek permits for setting up banks on a continuous basis, replacing a system that created long delays between approvals.