RBI releases Discussion Paper on ‘Wholesale & Long-Term Finance Banks’

The Reserve Bank of India today released on its website a Discussion Paper on ‘Wholesale & Long-Term Finance Banks’. The discussion paper explores the scope for setting up more differentiated banks, specifically wholesale & long-term finance banks in the context of having issued in-principle approvals and licences to set up differentiated banks, such as, payments banks and small finance banks.

As envisaged in the discussion paper, the Wholesale and Long-Term Finance (WLTF) banks will focus primarily on lending to infrastructure sector and small, medium and corporate businesses. They will also mobilise liquidity for banks and financial institutions directly originating priority sector assets, through securitisation of such assets and actively dealing in them as market makers. They may also act as market-makers in securities, such as, corporate bonds, credit derivatives, warehouse receipts, and take-out financing, etc. These banks will provide refinancing to lending institutions and shall be present in capital markets in the form of aggregators. They may have negligible retail sector exposure on asset side. The primary sources of funds for these banks could be a combination of wholesale and long-term deposits (above a large threshold), debt/equity capital raised from primary market issues or private placement, and term borrowings from banks and other financial institutions.

Since the scope of activities to be permitted for differentiated banks are mostly a subset of those allowed for universal banks, it needs to be considered whether the niche areas which they are envisaged to serve are currently underserved by the existing players, and whether licensing such specialised banks would result in a net positive for the development of those niche areas and serve the larger public good. In sum, the issues for discussion are: (i) whether there is a need for licensing wholesale & long-term finance banks, (ii) whether the time is opportune for the same, (iii) what would be the net impact of such players on the financial system, and (iv) whether the proposed regulatory framework is appropriate.

Comments on the Discussion Paper may be forwarded to:

The Chief General Manager,
12th Floor, Department of Banking Regulation,
Reserve Bank of India, Central Office,
Shahid Bhagat Singh Marg,
Mumbai – 400001

Or by email latest by May 19, 2017.

Background

In the First Bi-monthly Monetary Policy Statement, 2016-17 dated April 5, 2016, it was announced that in addition to recently licensed differentiated banks, such as, payments banks and small finance banks, the Reserve Bank will explore the possibilities of licensing other differentiated banks, such as, custodian banks and banks concentrating on wholesale and long-term financing. After detailed deliberations, it was felt that no significant advantage will accrue by introducing Custodian Banks at this point of time. Hence, discussion paper on ‘Wholesale & Long-Term Finance Banks’ (WLTF) has been prepared and released for discussion.