

**GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA**

UNSTARRED QUESTION NO:1815
ANSWERED ON:29.11.2002
NEW BANKS IN RURAL SECTOR
LAXMINARAYAN PANDEY

Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

- (a) whether a committee constituted by the RBI has recommended not to open new banks in rural areas;
- (b) if so, the reasons therefor;
- (c) the other main recommendations of the Committee; and
- (d) the reaction of the Government thereto?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO VITHOBA ADSUL):

(a) and (b) Reserve Bank of India (RBI) has reported that a Review Group on the working of the Local Area Bank scheme was constituted by them in July 2002. The Review Group has submitted its report on 1st October 2002. The Review Group has opined that since the current LABs only recently commenced functioning, some more time needs to be given to them to observe their performance and help them to overcome their weaknesses. The Review Group has suggested certain measures to strengthen the existing LABs and has recommended that till these measures are put through to strengthen the existing LABs and they are placed on a sound basis, there should be no licensing of new LABs.

(c) and (d) The other main recommendations of the Review Group are given below:

- (1) LABs with their present capital base cannot become viable institution. The existing LABs should be asked to reach net worth of at least Rs. 25 crore over a period of 5 years.
- (2) LABs should also be enjoined to maintain a minimum capital adequacy of 15 percent.
- (3) LABs should be prohibited from trading in Government securities and other papers during their formative years, say for a period of 5 years.
- (4) LABs should not be permitted to engage the services of agents and quasi-agents for achieving their business outreach.
- (5) Scheduling of LABs may be considered after they have reached higher capital and capital adequacy and after watching their performance for some time.
- (6) LABs should be treated on par with Cooperative banks in the matter of opening of branches falling within their charter. The recommendations of the Review Group have been put in RBI website for obtaining comments, based on which appropriate decisions would be taken in due course.