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Tata, Reliance, LIC among the major players

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The much-hyped application procedure for procuring new banking licences in the country came to an end on Monday evening as the Reserve Bank of India (RBI) announced that 26 corporate houses sent in their applications.

The apex bank received applications from both private and public players, including Tata Sons, Aditya Birla Nuvo, Reliance Capital, L&T Finance Holdings, LIC and Department of Posts. The applicants are a mix of the famous and much lesser known entities with non-banking finance companies making for maximum participation as 14 of them contend for the licences. The remaining applicants include four brokerage houses, two corporate players, two micro-finance institutions and a government department. However, RBI has not yet specified the number of licences that will be issued.

"We have completed the first stage of the procedure and have received 26 applications from various entities. These will now undergo an initial sifting process in which they will be checked for completion of documents, technical qualification, etc.," said Alpana Killawala, chief general manager, communications department, RBI.

Following the sifting process, the applications will then be evaluated by an external committee that is yet to be set up by the apex bank. This committee will make recommendations to the central bank which will then undertake its own due diligence before granting the licences.

The announcement for granting new banking licences to corporate houses was made by the apex bank in February this year. The move is aimed at fuelling the financial inclusion programme so as to make financial services accessible by all.

The response, analysts say, was more or less as per expectations because of the stringent regulations and guidelines that RBI had put in place.

"The initial euphoria was definitely there and this was evident from the number of clarifications sought by the prospective applicants. However, since RBI took a tough stand and refused to dilute any of the norms relating to capital structure, CRR and SLR requirements, etc a lot of corporate houses, including Mahindra, dropped the idea of applying," said Vipul Jhaveri, partner Deloitte.

Another banking expert Sangeet Shukla, senior advisor, Indian Banks' Association said, "Following the announcement of the guidelines by the apex bank, the prospective applicants must have undertaken a self-analysis. Keeping the RBI's stern stance on the guidelines in the background they must have reached the conclusion that they wouldn't get through all of RBI's 'fit and proper'

Author

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criteria which is why they gave up the idea (of applying).”

While the number-crunchers in the country are making wild guesses on the number of licences that RBI would finally grant, both Jhaveri and Shukla want to steer clear. “The apex bank decided to issue new licences with two objectives in mind- first, fresh capital infusion in the banking sector and second, the social objective of financial inclusion. It is up to the apex bank to decide how many new entrants will it need to fulfil these objectives,” Jhaveri said.

Analysts further agreed that while there were some surprise elements and the not-so-known entities, it could still be anybody’s game.

“It is difficult to pick out strong contenders because the key lies in the kinds of business plans the applicants have submitted,” said C S Jog, former general manager (credit), Punjab National Bank and now executive director, Resurgent India, a financial consultancy.

In addition, TT Ram Mohan, faculty member, Finance and Accounting at IIM, Ahmedabad said, “It’s hard to say who the strong contenders are because that depends on what is the RBI’s primary criterion for selection. If the criterion is simply deep pockets, then the corporate houses would be strong contenders but if the criterion is financial inclusion, then public sector entities such as LIC and Department of Posts will be in the reckoning.”

The RBI governor had earlier announced that the decision-making process was a time-consuming one and that the final announcement of winners is likely to be made by the first quarter of next year.

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