

No ceiling on number of new bank licences: P. Chidambaram

With 26 public and private sector companies applying for bank licences, Finance Minister P Chidambaram has said that there was no ceiling on the number of entities which can be permitted to operate a bank.

"I don't think there is a ceiling. I don't think there is a number in mind. It all depends upon how many applicants are eligible applicants. The fact that somebody applies doesn't mean he is an eligible applicant," he said.

"If there are very few eligible applicants, then the number of banks that will get licences will also be few. I don't think that the Governor has any ceiling in mind," he said.

On whether India needs large banks or large number of banks, the Finance Minister said there is a case for both.

"A large number of banks will mean more competition and a quicker reaching into the country and faster financial inclusion.

"Large banks will mean that we are able to finance large projects using our own bank resources rather than depending upon foreign bank resources. So, both are required in this country," he said.

Yesterday, RBI announced that 26 entities, including Tata Sons, LIC Housing Finance, Aditya Birla Nuvo, Department of Posts, Reliance Capital, L&T Finance and Bajaj Finserv, applied for grant of bank licences.

The RBI had issued guidelines for 'Licensing of New Banks in the Private Sector' on February 22 and came out with clarifications in the first week of June.

RBI Governor D Subbarao had earlier said that "our effort will be to make that judgement as transparent as objective as contestable as possible...I want to say that not everybody who is fit and proper will be given a (bank) licence because we expect the number of eligible applicants will be much larger than what is meaningful number of licences we can give".

In its clarification, the RBI had said the entities getting licences to open new banks will be given 18 months to open branches, and promoters would have to transfer their

holdings to the non-operative financial holding company (NOFHC) in a stipulated period.

The NOFHC envisages holding of the bank and other regulated financial services entities of the promoters under the NOFHC and prudential exposure norms for the entities.

The Reserve Bank is expected to grant new licences by March next year.

India has 26 public sector banks, 22 private sector banks and 56 regional rural banks.

Ten banks were licenced on the basis of guidelines issued in January 1993. The guidelines were revised in January 2001 based on the experience gained from the functioning of these banks, and fresh applications were invited.

Of the 10 licences issued in 1993, four banks merged with other lenders over a period of time. Times Bank merged with HDFC Bank, while Global Trust Bank was amalgamated with the state-owned Oriental Bank of Commerce.

Centurion Bank took over Bank of Punjab to become Centurion Bank of Punjab, which merged with HDFC Bank in 2008.

(Financial Express)