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3 small banks set to start operations

By [Shilpy Sinha](#), ET Bureau | Updated: Sep 02, 2016, 07:32 AM IST

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MUMBAI: Three out of the 10 provisionally licensed small banks are set to begin operations in the next few months as they have met the regulatory requirements and put in place the systems needed.

The Reserve Bank of India has issued the final licence to [Capital Local Area Bank](#), [Suryodaya](#) and newly listed [Equitas](#). This could also see some competition for deposits in smaller towns against the developed ones. "We are ready and will be rolling out our operations in a few days," said PN Vasudevan, managing director of Equitas.

"We will be starting by converting 412 branches. Two others have got the final licence to start operations," he said. The licensees had to meet several eligibility criteria including foreign institutional investors limit, lending to priority sector and ticket size. The foreign investment limit of Equitas has come down from 93% to 47%.

RBI had said that 50% of the loan portfolio should constitute loans of Rs 25 lakh, which most small finance banks comply with. Capital Local Area Bank started operations as Capital Small Finance Bank earlier this year.

These institutions are transitioning their business model to become a small finance bank. They plan to get their existing customers to open accounts with them. Others including AU Financiers and [Ujjivan Financial Services](#) are awaiting their final licence to start the bank.

Competition in the [banking](#) sector is set to intensify given the increase in the number of small finance banks and payments banks over the next few years. These companies are likely to focus on the rural and semi-urban retail segments. The expected rise in the number of private sector banks over the medium term could result in a decline in the share of public sector banks, which held more than 70% of the market as on March 31, 2016.

"The RBI's focus on financial inclusion should help the end consumer in terms of more options," credit rating agency ICRA said in a report. "Given the significant capital constraints and the weak asset quality profile of [PSBs](#) (public sector banks) currently, their market share could drop by 5-10% by March 2021," it said.

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