Small Finance Banks vs Commercial Banks

Objectives of Small finance banks:

The prime objective of a small finance bank would be to undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections of the population.

The SFBs provide services to small business units, small and marginal farmers, micro and small industries and unorganized sector entities through high technology & low-cost operations, While the Scheduled Commercial banks provided banking services to all sections of the society.

Other conditions:

- SFBs are required to open at least 25% of its branches in a financial year in unbanked rural areas, similar to the scheduled commercial banks.
- Further, the Small finance banks are required to extend 75% of its ANBC to priority sector, whereas the SCBs extend 40 % of its ANBC to priority sector.

The differences between the targets of priority sector lending for

Scheduled commercial banks and Small finance banks are as follows:

Category	Scheduled commercial banks	Small Finance Banks
Total Priority Sector	40 percent of ANBC, Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	75 percent of ANBC While 40 per cent of ANBC should be allocated to different sub-sectors under PSL as mentioned below, the balance 35 per cent can be allocated to any one or more sub-sectors under the PSL, where the banks have a competitive advantage.
Agriculture	18 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. In the 18 percent target for Agriculture, a target of 8 percent of ANBC is prescribed for Small and Marginal Farmers.	18 percent of ANBC (Adjusted Net Bank Credit) In the 18 percent target for Agriculture, a target of 8 percent of ANBC is prescribed for Small and Marginal Farmers.
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	7.5 percent of ANBC
Advances to Weaker Sections	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	10 percent of ANBC

SFBs should comply with the following common guidelines for all categories of advances under the priority sector.

i. Rate of interest

The rates on interest on bank loans will be as per directives issued by our Department of Banking Regulation from time to time.

ii. Service charges

No loan related and adhoc service charges/inspection charges should be levied on priority sector loans up to 25,000. In case of eligible priority sector loans to Self-help groups/ Joint Liability Groups, this limit will be applicable per member and not to the group as a whole.

iii. Receipt, Sanction/Rejection/Disbursement Register

A register/ electronic record should be maintained by the bank, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The record should be made to be available to all inspecting agencies.

iv. Issue of Acknowledgement of Loan Applications

The Small Finance Banks should provide acknowledgement for loan applications received under priority sector loans. Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.

Micro, Small and Medium Enterprises (MSME) sector :

- Advances are given to Micro, Small and Medium Enterprises (MSME) sector shall be quantified in computing achievement under the overall Priority Sector target of 75 percent of Adjusted Net Bank Credit (ANBC).

  Loans provided above 5 crores per borrower/unit to Micro and

Small Enterprises and 10 crores to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006, will not be calculated in computing achievement under the overall Priority Sector targets as above.