

UNIT 2 - Small Finance Banks- Role In Financial Inclusion



New Small Finance Banks in India

Recently two microlenders, Suryoday Micro Finance Private Limited, Navi Mumbai and Utkarsh Micro Finance Private Limited started operations as new Small Finance Banks. They will offer interest rates of more than 6% to compete with commercial lenders for saving bank deposits as most of the commercial banks offer 4% on savings accounts.

Main Objectives of Small Finance Banks(SFBs)

- The SFBs in India primarily focus on accepting Saving Deposits and micro lending to small business companies, marginal and small farmers, Micro, Small & Medium Enterprises(MSME), and other unorganised sector companies, currently underserved by scheduled commercial banks; through high technology-low cost operations.
- RBI estimates give a specific data that around 90% of small businesses in India have no links with formal financial institutions.
- Therefore, the SFBs are very crucial to provide financial inclusion to sections of the Indian Economy which are currently not being served by other Public Sector and Private Banks.

Understanding the Concept of Small Finance Banks(SFBs)

Small Finance Bank(SFB) is a type of bank in India which is globally known as 'Niche Banks'. The SFBs are registered as a public limited company under the Companies Act, 2013. They are licensed under Section 22 of the Banking Regulation Act, 1949. Also, SFBs can be given scheduled bank status once they commence their operations, and qualify the requirements as per Section 42(6) (a) of the Reserve Bank of India Act, 1934. The SGBs are scaled down versions of scheduled commercial banks , with both deposit-taking and loanmaking functions.

According to RBI guidelines for Licensing of Small Finance Banks in the Private Sector,

- An SFB must have a minimum paid-up equity capital of Rs. 100 crore.
- Resident individuals/professionals with 10 years of experience in banking and finance; and companies and societies owned and controlled by residents are eligible to set up small finance banks. Existing Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), and Local Area Banks (LABs) that are owned and controlled by residents can also opt for conversion into small finance banks.
- The foreign shareholding in the small finance bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.

Key Terms:

Niche Banks:

Those banks which serve the needs of a specific demographic segment of the population. They typically target a specific market or type of customer(just like small finance banks). In India we have two categories of Niche Bank- Payments Banks and Small Finance Banks.

Payments Banks:

It is a new model of banks conceptualised by the Reserve Bank of India (RBI). This type of bank can only accept(cannot lend) a limited amount of deposit. Currently, this amount is limited to Rs. 1 lakh per customer.

These banks can also issue ATM cards but they have no permission of issuing Credit Cards.

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