

# Small Finance Banks

[UPSC Notes]

## What is Small Finance Bank?

SFBs are commonly known as finance banks. Small finance banks are regulated by the Reserve Bank of India (RBI), meaning they must follow specific rules and regulations. Small Finance Banks are not-for-profit organisations owned by the government or state governments, who also own all other commercial banks in India.

- The RBI gives the small finance banks special privileges, such as lower interest rates than other banks can offer their customers regarding loans made within their jurisdiction (this allows them access).
- Small finance banks are not allowed to lend money to large corporations; they can only lend money to small businesses. It was done by the government so that these types of financial institutions would not compete for the same customers as commercial banks.

## List of Small Finance Banks in India

### 1. Capital Small Finance Bank (India's first small finance bank)

- Capital Small Finance Bank (formerly Capital Local Area Bank Ltd) is India's first small finance bank that started its banking operations in April 2016 in Jalandhar, Punjab.
- The bank got its license of a Small Finance Bank from the Reserve Bank of India (RBI) in March 2016.
- Managing Director of Capital Small Finance Bank: Sarvjit Singh Samra
- Headquarter of Capital Small Finance Bank: Jalandhar, Punjab.
- Tagline: Vishwas Se Vikas Tak

### 2. Equitas Small Finance Bank

Formerly Equitas Holdings P Limited started its banking operations with 3 branches in Chennai in September 2016. The bank got its license as a Small Finance Bank from the Reserve Bank of India (RBI) in July 2016.

- PN Vasudevan is the Managing Director & CEO of Equitas Small Finance Bank.
- Headquarter of Equitas Small Finance Bank – Chennai, Tamil Nadu.
- Tagline - Its Fun Banking

### 3. Utkarsh Small Finance Bank

- It was formerly known as Utkarsh Micro Finance

- It started its operations with five branches across Varanasi, Patna, Delhi-NCR, and Nagpur in January 2017.
- The bank got its license as a Small Finance Bank from the Reserve Bank of India (RBI) in November 2016.
- Govind Singh is the Managing Director & CEO of Utkarsh Small Finance Bank.
- Headquarter of Utkarsh Small Finance Bank: Varanasi, UP
- Tagline: Apki Umeed Ka Khata

#### 4. Suryoday Small Finance Bank

Formerly Suryoday Micro Finance Ltd) started its banking operation in January 2017 in Belapur, Navi Mumbai. The bank got its license as a Small Finance Bank in November 2016.

- Baskar Babu Ramachandran is the Managing Director & CEO of Suryoday Small Finance Bank.
- Headquarter of Suryoday Small Finance Bank: Belapur, Navi Mumbai.
- Tagline: A Bank of Smiles.

#### 5. Ujjivan Small Finance Bank

A subsidiary of Ujjivan Financial Services Ltd) started its banking operations in February 2017 in Bengaluru, Karnataka. The bank got its license of a Small Finance Bank in November 2016.

- Samit Ghosh is the Managing Director & CEO of Ujjivan Small Finance Bank.
- Headquarter of Ujjivan Small Finance Bank: Koramangala, Bengaluru, Karnataka.
- Tagline: Bharosa, Aap Ke Bharose Par

#### 6. ESAF Small Finance Bank

It was formerly known as ESAF Microfinance and Investments Private Ltd.

- It started its banking operations in Thrissur, Kerala in March 2017.
- The bank got its license as a Small Finance Bank from the Reserve Bank of India (RBI) in November 2016.
- Headquarter of ESAF Small Finance Bank: Thrissur, Kerala.
- ESAF will be the first bank to be given a banking license in Kerala since its independence.
- Tagline: Joy of Banking

Note: On 28 Dec 2018, Esaf Small Finance Bank received the Reserve Bank approval to operate as a scheduled bank.

#### 7. AU Small Finance Bank

- It started its banking operation as a Small Finance Bank in April 2017.
- The bank got its license in December 2016.
- Sanjay Agarwal is the Managing Director & CEO of Au Small Finance Bank.
- Headquarter of Au Small Finance Bank: Jaipur, Rajasthan.
- Tagline: Chaloo Aage Badhe

#### 8. Fincare Small Finance Bank

- It was previously known as Disha Microfin Limited and started its banking operations in September 2017, with about 25 operational branches across Gujarat, Tamil Nadu, Karnataka and Andhra Pradesh.
- Rajeev Yadav is the Managing Director & CEO of Fincare Small Finance Bank.
- Headquarters: Bengaluru, Karnataka.
- Tagline: Banking on More.

### 9. North East Small Finance Bank

- The Rashtriya Gramin Vikas Nidhi Microfinance Limited-North East (RGVNMFL-NE), the promoter of North East Small Finance Bank, got the license of Small Finance Bank from the Reserve Bank of India (RBI) in March 2017.
- MD: Rupali Kalita
- Headquarters of North East Small Finance Bank: Guwahati, Assam.
- Tagline: Your Door Step Banker

### 10. Jana Small Finance Bank

- Established: March 2018.
- Headquarters of Jana Small Finance Bank: Bengaluru
- Tagline: Paise Ke Kadar
- MD & CEO: Ajay Kanwal

## Need of Small Finance Banks (SFBs)

Small finance banks are banks that lend to small businesses and individuals. They are regulated by the Reserve Bank of India (RBI), meaning they must follow specific rules and regulations.

The Reserve Bank of India (RBI) introduced the small finance bank policy in 2015 to provide credit to the unserved and underserved population. Some critical criteria for licensing small finance banks include a minimum paid-up equity capital of Rs.100 crores, the net worth of the bank, and geographical remoteness. In order to tap into this potential market, the RBI has granted similar licenses to several small finance banks.

## History of Banking Regulations in India

The Reserve Bank of India (RBI) has been the regulator for banks in India since 1949. In the 1960s, the RBI gave special privileges to small banks and not-for-profit organisations. In 2015, the RBI granted licenses to 10 small finance banks. These banks are regulated like any other banks in India. They can only accept deposits from individuals and small businesses.

## Objective of Small Finance Banks

Small finance banks (SFBs) are financial institutions licensed to provide banking services to the unserved and underserved population. They offer a range of products, including savings accounts, fixed deposits, and term loans to farmers.

- The primary objective of SFBs is to provide a convenient, safe and efficient banking service for their customers who cannot access mainstream financial institutions due to geographical remoteness or socio-economic disadvantage.
- They also provide credit to the unserved and underserved population, with a primary focus on farmers. However, they often cannot access mainstream financial institutions due to geographical remoteness or socio-economic disadvantage.

The Reserve Bank of India (RBI) regulates SFBs, and licensing is on tap. Critical criteria for licensing include a minimum net worth of Rs 100 crore and a maximum foreign investment cap of 74 per cent. The government has also issued mobile banking guidelines, allowing customers to use their mobile phones as credit or debit cards.

## Tap Licensing of Small Finance Banks

On Tap is an initiative by the Reserve Bank of India (RBI) that allows small finance banks to grow faster and offer better customer services. The RBI has decided that all new applicants for permission to set up a new bank should be eligible for an On Tap license from January 1, 2019. It means that if you are planning to start an SFB or apply for one later this year, it will be beneficial for your business if you have an existing relationship with us, as we can help expedite your application process based on our experience in granting similar licenses earlier.

What is the timeline for on-tap licensing? On Tap licensing is valid from January 1, 2019, onwards. The RBI will issue a circular announcing specific dates of each year when applications can be submitted.

### Eligibility Criteria For Tap Licensing

The applicant should be a Limited Company incorporated in India under the Companies Act, 2013. It should have a minimum net owned fund of Rs. 300 crores and a minimum paid-up capital of Rs. 100 crores. It should also have at least 25% of promoters' contribution (both tangible and intangible) towards net worth or paid-up capital

## Criteria for Licensing Small Finance Banks

To be eligible for a small finance bank license, entities should fulfil the following conditions:

1. The banks can only accept deposits from residents and residents of Bhutan, Nepal, Myanmar, and Pakistan.
2. They must have a minimum paid-up equity capital of Rs.100 crores.
3. They must be in existence for at least five years.

## Payments Banks vs Small Finance Banks

Payments Banks and Small Payments Banks are licenced entities of RBI, and India's central bank monitors their operation and direction. However, they differ in many ways.

### Definition:

- Payments banks are similar to commercial banks but operate at small scales, excluding credit risks. They perform maximum banking functions but do not issue credit cards and advance loans.
- On the contrary, Small Finance Banks are financial institutes that aim to provide financial aid to deprived sections with fundamental banking operations.

### Purpose:

- The main objective of establishing the payments banks is to expand financial inclusions by offering minor savings accounts. Also, they aim to provide payment facilities to emigrant labours, low-earning families, small enterprises, and many other unorganised bodies.
- The main objective of establishing small finance banks is the extension of financial inclusions by supplying credits to small enterprises, micro & small farmers and industries, and many other unorganised organisations.

### Statistical Number:

- Six Payments banks are currently active in India till December 2021. Some well-known Payments banks are NSDL Payments Bank, Airtel Payments Bank, etc.
- On the other side, India has 11 Small Finance Banks till December 2021. Capital Small Finance Bank and FINCARE Small Finance Bank are among India's well-known Small Finance Banks.

### Operative Scopes:

- The Payments Banks perform activities such as issuing ATM or Debit Cards and providing mobile banking services. They do not issue credit cards.
- However, the Small Finance Banks perform all the fundamental activities only for underprivileged sections.

### Time Deposits:

- The Payments Banks do not provide time deposit services like FD and RD.
- In contrast, Small Finance Banks provide both FD and RD services.