Small Finance Banks

Why in News?

The **Reserve Bank of India (RBI)** has recently announced its decision to **reject three applications for setting up** Small Finance Banks as these applications were found not suitable for granting of in-principle approval to set up SFBs.

- RBI received approximately a dozen applications under the guidelines for 'on-tap' Licensing **of Universal Banks and SFBs.**

What are Small Finance Banks?

- **About:**
  - SFBs in India are a category of banks **established to provide basic banking services and credit facilities** to underserved sections of the population, including **small business owners, micro and small industries, farmers, and the unorganized sector.**
    - They are regulated by **RBI.**
    - Example: **Capital Small Finance Bank, Ujjivan, Utkarsh etc.**
  - All prudential norms and regulations of the RBI as applicable to **existing commercial banks,** including the requirement of maintenance of **CRR and SLR** are also applicable to SFBs.
  - Also, according to RBI, if an **SFB aspires to transit into a universal bank,** it has to have **a satisfactory track record of performance for a minimum period of 5 years.**

Note:

- **On-Tap Licencing:** It means that the window for obtaining a bank licence from the RBI is open all year, or that the RBI will accept applications and issue licences to banks at any time.
- **CRR and SLR:** CRR stands for **Cash Reserve Ratio, and SLR stands for Statutory Liquidity Ratio.**
  - Both CRR and SLR are **monetary policy tools** used by central banks to regulate and control the availability of credit in the economy.
  - Under CRR, the **commercial banks have to hold a certain minimum amount of deposit (NDTL)** as reserves with the central bank.
  - SLR is the minimum percentage of deposits that **a commercial bank has to maintain in the form of cash, gold or other securities.**

- **Eligibility:**
  - **Resident individuals/ professionals (Indian citizens)**, singly or jointly, each having at least **10 years of experience in banking and finance at a senior level.**
  - **Companies and societies** owned and controlled by residents.
  - Entities such as microfinance institutions**,** non-banking financial companies (NBFCs), **local area banks and** payment banks that are controlled by residents can also convert into Small Finance Banks.
    - Also, Urban Cooperative Banks**(UCBs)** desirous of converting to SFB may convert to SFB after ensuring compliance with the guidelines.

- **Paid Up Capital Requirement:**
    - The **minimum** paid-up voting equity capital **for small finance banks shall be Rs.200 crore,** except for such small finance banks which are converted from UCBs.
- **Mandate:**
    - **Priority Sector Lending**: Small Finance Banks have to allocate **75% of their total net credit to** priority sector lending**,** as per the RBI guidelines.
        - They will also have to ensure that **50% of their loan portfolio constitutes advances up to Rs 25 lakh.**
        - The maximum loan size and investment limit exposure to single/ group obligor will be restricted to **10% and 15% of its capita funds**, respectively.
    - **Branch Network:** SFBs are required to set up a network of branches in unbanked and underbanked areas, with a particular emphasis on rural and semi-urban regions.
        - Initially, **they need to have at least 25% of their branches in unbanked rural areas.**
- **Regulation:**
    - Small Finance Banks are registered as **public limited company** under **Companies Act 2013**, and are licensed under **section 22 of the Banking Regulation,1949**.
    - They are primarily governed by Banking Regulation Act,1949 **and** RBI Act,1934 **and other relevant statutes.**

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. What is the purpose of setting up of Small Finance Banks (SFBs) in India? (2017)

1. To supply credit to small business units
2. To supply credit to small and marginal farmers
3. To encourage young entrepreneurs to set up business particularly in rural areas.

Select the correct answer using the code given below:

(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

Ans: (a)

Source: ET