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Guidelines for Licencing of Small Finance Banks

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Why in News

Recently, the **Reserve Bank of India** has released final **Guidelines for 'on tap' Licencing for Small Finance Banks (SFBs)**.

RBI had issued in-principle approval to ten applicants for SFB in 2015. It was mentioned that after gaining experience in dealing with these banks, RBI would grant 'on-tap' licencing.

An "on-tap" facility would mean the RBI will **accept applications and grant licences** for banks **throughout the year**.

Guidelines for 'on-tap' Licencing

- **Capital requirement:** The minimum paid-up voting equity capital / net worth requirement shall be **₹ 200 crores**.
For **Primary (Urban) Co-operative Banks (UCBs)**, desirous of voluntarily transiting into SFBs initial requirement of net worth shall be at **₹ 100 crores**, which will have to be **increased to ₹ 200 crores** within **5 years** from the date of commencement of business.
- **Scheduled bank status to SFBs:** SFBs will be given scheduled bank status **immediately upon commencement of operations**. Also, SFBs will have general permission to **open banking outlets** from the date of commencement of operations.
- **Payments Banks conversion to SFBs:** The **payment banks** can apply for conversion into SFB after **5 years of operations** if they are otherwise eligible as per these guidelines.

	PAYMENTS BANKS	SMALL BANKS
WHO CAN PROMOTE	<ul style="list-style-type: none"> > Prepaid card issuers, telecom companies, NBFCs, business correspondents, supermarket chains, corporates, realty sector co-ops & PSUs 	<ul style="list-style-type: none"> > Individuals/professionals with 10 years experience in finance, NBFCs, microfinance cos, local area banks
WHAT THEY MUST DO	<ul style="list-style-type: none"> > Have a minimum capital of Rs 100cr > Maintain 75% of deposits in govt bonds > Maintain 25% of deposits in other banks > Have at least 26% investment by Indians > Get listed if net worth crosses Rs 500cr > Have 25% of branches in unbanked areas > Be fully networked and technology driven > Have Rs 1 lakh cap for deposits in one a/c 	<ul style="list-style-type: none"> > Have a minimum capital of Rs 200cr > Extend 75% of loans to priority sector > Have 25% of branches in unbanked areas > Maintain reserve requirements > Cap loans to individuals and groups at 10% and 15% of net worth > Have a business correspondent network
WHAT THEY CAN DO	<ul style="list-style-type: none"> > Offer internet banking > Sell mutual funds, insurance, pensions > Offer bill payment service for customers > Have ATMs and business correspondents (BC) > Can function as BC of another bank 	<ul style="list-style-type: none"> > Sell forex to customers > Sell mutual funds, insurance, pensions > Can convert into a full-fledged bank > Expand across the country
WHAT THEY CAN'T DO	<ul style="list-style-type: none"> > Offer credit cards > Extend loans > Handle cross-border remittances > Accept NRI Deposits 	<ul style="list-style-type: none"> > Extend large loans > Float subsidiaries > Cannot deal in sophisticated financial products

Small Finance Bank

- The small finance bank will primarily undertake **basic banking activities of acceptance of deposits and lending** to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
 - It can also undertake other non-risk sharing simple financial services activities such as the distribution of mutual fund units, insurance products, pension products, etc. with the prior approval of the RBI
- **Eligible candidates** for setting up SFB are:
 - Resident **individuals/professionals with 10 years of experience** in **banking and finance**.
 - The **companies and societies** owned and controlled by **residents**.
 - **Existing** Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), Local Area Banks (LABs) and payment banks that are owned and controlled by residents.
- It needs to open at least **25%** of its banking outlets in **unbanked rural centres**.
- The bank will be required to extend **75% of its adjusted net bank credit** to the **Priority Sector Lending (PSL)**.
- At least **50% of its loan portfolio** should constitute loans and advances of up to **₹ 25 lakhs**.

- The **maximum loan size and investment limit** exposure to a single and group would be restricted to **10% and 15% of its capital funds**, respectively. They **cannot extend large loans**.
- If the initial shareholding by promoters in the bank is in excess of **40% of paid-up voting equity capital**, it should be brought **down to 40% within a period of 5 years**.
- The small finance banks will be subject to **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR)**.
 - Banks are required to hold a certain proportion of their deposits in the form of cash is known as the **CRR**. This minimum ratio (that is the part of the total deposits to be held as cash) is stipulated by the RBI.
 - The share of Net Demand and Time Liabilities that a bank is required to maintain safe and liquid assets, such as government securities, cash, and gold is termed as **SLR**.

Source: TH