

Small Finance Banks

September 1, 2021

In news— Recently, RBI has received applications from two more entities to set up small finance banks, taking the total number of applicants to six.

Key updates-

- **Cosmea Financial Holdings Private Limited and Tally Solutions Private Limited are the applicants under** the guidelines 2019 for 'on tap' licensing of small finance banks.
- Previously, the RBI had received four applications under the "on-tap" SFB licensing guidelines.
- **Those who had applied for licence for small finance banks (SFBs) were** VSoft Technologies, Calicut City Service Co-operative Bank, Akhil Kumar Gupta, and Dvara Kshetriya Gramin Financial Services.
- In April, RBI said eight institutions and individuals applied for on-tap licences to set up universal banks and small finance banks.

Guidelines for 'on tap' Licensing –

- The RBI released guidelines for 'on tap' Licensing of Universal Banks and Small Finance Banks(SFBs) in the Private Sector, on August 1, 2016, and December 5, 2019, respectively.
- As per the guidelines, the initial **minimum paid-up voting equity capital for a universal bank should be 500 crore.**
- Thereafter, the bank should have a **minimum net worth of Rs 500 crore at all times.**
- The **minimum paid-up voting capital/net worth for SFBs should be Rs 200 crore.**
- For primary urban co-operative banks willing to voluntarily transition into small finance banks, the

initial net worth requirement is at Rs. 100 crore, which will have to be raised to Rs. 200 crore within five years from the date of commencing their business.

Earlier this year, RBI set up a **panel led by former deputy governor Shyamala Gopinath** to evaluate applications for universal and small finance banks, which are mandated to focus on priority sector lending and small loans. The **last time RBI handed out universal bank licences was in 2014, giving them to IDFC Ltd and Bandhan Financial Services.**

About Small Finance Banks (SFB)-

The objectives of setting up of small finance banks will be for **furthering financial inclusion by provision of savings vehicles primarily to unserved and underserved sections** of the population, and **supply of credit to small business units; small and marginal farmers; micro and small industries;** and other unorganised sector entities, through high technology-low cost operations.

Registration, licensing and regulations-

- The small finance bank shall be registered as a public limited company under the Companies Act, 2013.
- It is licensed under Section 22 of the Banking Regulation Act, 1949 and governed by the provisions of the Banking Regulation Act, 1949; Reserve Bank of India Act, 1934; Foreign Exchange Management Act, 1999; Payment and Settlement Systems Act, 2007; Credit Information Companies (Regulation) Act, 2005; Deposit Insurance and Credit Guarantee Corporation Act, 1961.
- The small finance banks are given **scheduled bank status** once they commence their operations.
- **Promoters / Promoter Groups should be 'fit and proper' in order to be eligible to promote small finance banks.**
- RBI would assess the 'fit and proper' status of the applicants on the basis of their past record of sound

credentials and integrity; financial soundness and successful track record of professional experience or of running their businesses, etc. for at least a period of five years.

Some of the operational Small Finance Banks in India are-

1. Ujjivan Small Finance Bank.
2. Janalakshmi Small Finance Bank.
3. Equitas Small Finance Bank.
4. A U Small Finance Bank.
5. Capital Small Finance Bank.
6. ESAF Small Finance Bank.
7. Utkarsh Small Finance Bank.
8. Suryoday Small Finance Bank.
9. Fincare Small Finance Bank.