

## **Small Finance Banks and Micro Finance**

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### **Abstract**

Indian economy is growing by leaps and bounds and has carved out of its distinction for itself among the comity of nations. There has been a progressive liberalisation and globalisation of the economy. But there is a large number people remaining either unbanked or unaware about the banking amenities. Small finance banks and micro finance is a solution in this filed. The significance of the study is that SFB is a rather new experiment in field of banking in the country. It is interesting for academic purpose to analyze the mode of operation of this new stream and the impact it can create on households as well as on the other constituents of the banking sector, especially the co-operative sector. This is examined in the context of the vision of India to become an economic behemoth in the next few years.

**KEYWORDS:** Small Finance Banks, Microfinance, SFB, FDI, Co-operative Bank.

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### **Introduction**

Indian economy is growing by leaps and bounds and has carved out of its distinction for itself among the comity of nations. There has been a progressive liberalisation and globalisation of the economy. But there is a large number people remaining either unbanked or unaware about the banking amenities. Small finance banks and micro finance is a solution in this filed.

### **Microfinance**

Microfinance is a category of financial services targeting individuals and small business that lack access to conventional banking and related services. Microfinance includes micro credit, the provision of small loans to poor clients; savings and checking accounts micro insurance; and payment systems, among other services.

### **Small finance banks**

Small finance banks are a type of niche banks in India. Banks with a small finance bank license can provide basic banking service of acceptance of deposits and lending. The aim behind these to provide financial inclusion to sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries an unorganized sector entities.

### **Significance of the study**

The significance of the study is that SFB is a rather new experiment in field of banking in the country. It is interesting for academic purpose to analyze the mode of operation of this new stream and the impact it can create on households as well as on the other constituents of the banking sector, especially the co-operative sector. This is examined in the context of the vision of India to become an economic behemoth in the next few years. A sudden spurt in the rural and rural and priority sector were experienced after nationalization of banks in 1969 for which banks had a little experience. It is revealed that the performances of the financial

institutions/ banks which are involved in rural credit are deteriorating. This scenario necessitates the evaluation of the emerging banking streams like ESAF and Ujjivan.

## REVIEW OF LITERATURE

- Jeeban Jyotin Mohanty (2017) in the study titled “Leveraging small financial banks (SFB) in achieving Financial Inclusion in India” the main objective of study was to find out the reason for financial exclusion and the need and importance of small finance banks. The methodology used to conduct the study was through secondary source of information which includes journals, articles at RBI, IMF, CGAP, Micro save etc. in his study he has concluded that Small Financial Bank has huge potential in unbanked and underserved areas where local and corporate banks have underperformed. Similarly, small financial bank has a major role in development of MSME (Micro Small and Medium Enterprises) sector.
- Viswan M G (2017) in his study titled “A study on the awareness perception about small financial bank with special reference to ESAF small finance bank”. The major objective of the study is to know the perception and awareness level of rural people about small finance banks and to study the strategies and operation of small finance banks in Kerala. Methodology used to conduct the study is through both primary and secondary data. Primary data was collected through a structured questionnaire with a sample size of 50 respondents and secondary source of information was collected through various books, official websites etc. Major finding of the study was that RBI and central government try to include weaker section of the community into financial inclusion programs for the economic development and majority of the respondents are not aware of about the functions of ESAF small finance bank.
- Pinal Barot (2017) attempts to understand the financial inclusion's importance, its extent, opportunities and challenges in India along with the present status of financial inclusion in the Indian economy. Some of the major problems in our country is that only certain section of the population is using financial services and literacy among the poor and underprivileged makes the financial inclusion process more challenging.
- Jayadev M Himanshu Singh and Pawen Kumar (2016) in their study titled “Small Financial Bank: Challenges” the main objective of the study was to find the challenges which have been faced by Small financial banks in India. Findings from the study is that small finance banks are most likely to change the banking sector in India and the challenges faced by them are meeting mandatory norms and statutory norms of cash reserve ratio and resigning cost – effective banking solutions.
- Prantik Ray (2016) deals with the needs of financial inclusion issues challenges, RBI guidelines for small finance banks. In this paper they discuss the case study regarding the conversion of Ujjivan financial service limited to small finance banks and the way forward for financial banks in India. In this study he concluded that small financial bank has great potential for financial inclusion but the performances of such institutions are not satisfactory.
- “Factors Affecting Access to Financial Services in North East India”- is paper presented in National Seminar on “Financial inclusion for Economic Development in North East India – Issues and Challenges” under the Programme sponsored by UGC at Dibrugarh University on March 7, 2013. The paper

prepared by Chanini Lokho & Manav Saurav under the guidance of Dr. Puja Padhi, IIT Bombay.

- Elaine Kempson and Sharon Collected (2012) submitted a report on “Developing a vision for financial inclusion”. This study reviews the world’s progress towards financial inclusion, with a special reference to Latin American economies and develops an evidence-based vision for achieving financial inclusion over a ten-year timeframe. The Personal Finance Research Centre, in close collaboration with Friends Provident Foundation, conducted the research.

- “Anand Sinha: Financial inclusion and urban cooperative banks” is a transcript of the comments by Mr. Anand Sinha, Deputy Governor of the Reserve Bank of India, at the launch of the Financial Inclusion program of Cosmos Bank, Pune, and 6 January 2012. The current policy of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. And he remains that Urban Co-operative Banks have a day to rise up to meet these aspirations, convert the perceived weakness into exciting opportunities and facilitate inclusive growth.

- Anita Gardeva and Elisabeth Rhine (2011) submitted a survey report titled “Opportunities and Obstacles to Financial Inclusion”. The survey pursues the proposition that low-income people deserve high-quality financial services and that these services can best be provided through commercial models that incorporate social purpose. The centre works on behalf of the microfinance industry as a whole, serving as a bridge to leverage private sector interest in microfinance. In collaboration with others, the center works to bring the best minds and expertise to bear on industry problems. We are outcomes-focused, setting specific goals and measures of accountability for real-world change.

#### **Features of Small Finance Banks**

- Existing non – banking financial companies (NBFC), micro finance institutions (MFI) and local area banks (LAB) can apply to become small finance banks.
- They can be promoted either by individuals, corporate, trusts or societies.
- They are established as public limited companies in the private sector under companies act, 2013.
- They are governed by the provisions of Reserve bank of India Act, 1934, Banking regulation Act, 1949 and other relevance statutes.
- The banks will not be restricted to any region.
- They were set up with the twin objectives of providing an institutional mechanism of promoting rural and semi urban savings and for providing credit for viable economic activities in the local areas.
- 75% of its net credit should be in the priority sector lending and 50% of the loans in its portfolio must in Rs. 25 lakh (US\$36,000) range.
- The firms must have a capital of at least Rs.260 crore (US\$14million)
- The promoters should have ten years experienced in banking and finance. The promoter’s state in the paid-up equity capital will be at least 40% initially but must be brought down to 26% in 12 years. Joint ventures are not permitted. Foreign share holding will be allowed in these banks as per the rulers for FDI in private banks in India.

- At net worth of Rs.500 crore (US\$71 million), listing will be mandatory within three years. Small finance banks having net worth of below Rs.500 crore (US\$71 million) could also get their shares listed voluntarily.

### **Objectives of small finance banks**

(1) Provision of saving vehicles primarily to unsaved and underserved section of the population, and

(2) Supply of credit to small business units; Small and marginal farmers; micro and small industries; and other unorganized sector entities, through high technology-low cost operations.

### **Transition Path**

The small finance bank may choose to continue as a differentiated bank. If it aspires to transit into a universal bank, such transition will not be automatic, but would be subject to it applying to RBI for such conversation and fulfilling minimum paid-up capital/ net worth requirement as applicable to universal banks; its satisfactory track record of performance as a small finance bank for a minimum period of five years and the outcome of RBI's due diligence exercise. On transition into a universal bank, it will be subjected to all the norms including NOFHC structure as applicable to universal banks.

### **Conclusion**

Access to financial services plays a critical rule in lifting people out of poverty, in empowering women, and in helping government deliver services to their people." the study conducted revealed that the development-initiated by small finance banks are not single faced, instead it's a multifaceted approach with special focus on the upliftment of rural folk in a holistic manner.

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