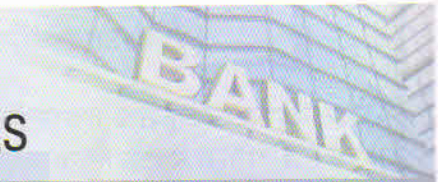
Small Finance Banks
A Step Ahead for Unbanked Areas



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Introduction

Banking sector shapes the economy for development and growth. In India there is a long track record of banks starting with the RBI, presidency banks, network of commercial banks, development of co-operating banks, and establishment of private banks. In spite of this, the need for reaching the under-banked areas and lower section of the population is still felt. To fulfill this need, the new era of small finance banks has emerged in last two decades. The present article is an overview about beginning and development of small finance banks

Small banks are physical banks with a limited region of operation with the goal of providing basic banking products such as pigmy deposits and small loans. Small banks are supposed to use high-tech, low-cost operations to address the loan and remittance needs of small enterprises, farmers, micro and small industries, the unorganized sector, low-income households, and migratory workers. Small Finance Banks (SFBs) are a new form of bank that was launched into the Indian banking system in 2015 to cater to the specialized needs of niche consumers. These banks are working to expand basic banking services and increase financial inclusion in the country.

Evolution of small finance banks

The Reserve Bank of India published a discussion paper titled 'Banking Structure in India – The Way Forward' on August 27, 2013. One of the main points mentioned in the paper was that while expanding banking services to the un-served is difficult, it is worth giving access to bank credit and services through the establishment of small banks in unbanked areas.

Small Finance Banks (SFBs) in Maharashtra

SFBs have a promising role to play in a state like Maharashtra. They are expected to serve the MSME sector through the under-privileged class of borrowers. Following is the list of SFBs operating in different regions in Maharashtra:

- Suryoday Small Finance Bank
- Ujjivan Small Finance Bank
- ESAF Small Finance Bank
- Fincare Small Finance Bank
- Equitas Small Finance Bank Ltd
- Janalakshmi Financial Service Bank

SWOT Analysis

SFB as a model in banking needs to be reviewed for their viability and sustainability.

Strengths:

1) India's 70 % population lives in rural areas. Both public and private sector banks have mainly been serving in urban areas. As a result, the untapped and unbanked rural population can become a significant market for SFBs.

2) The government may quickly accelerate the momentum of financial inclusion by establishing these SFBs that currently interact with rural consumers.

Weaknesses:

1) The lower income category is unable to meet even their basic demands, and they should be brought under the banking umbrella. Despite all the efforts, a large percentage of Jan Dhan Yojana accounts are dormant, with no transactions made within 45 days after account opening.

2) SFBs may lack the use of technology which is needed in modern banking.

Opportunities:

1) Unemployed population can be used to promote financial inclusion into the process delivery mechanism in the form of Business Correspondents (BCs) and Business Facilitators (BFs), and this unemployed population can be used to spread financial literacy and bring about financial inclusion.

2) Existing institutions, such as Grameen banks, can be effectively utilized to increase poor people's access to financial services.

Threats:

SFBs will have to face the rising competition in the financial services. They will also face unique obstacles when they transit from their current Micro Finance Institutions (MFI) status to that of SFBs. MFIs/Non-Banking Financial Company (NBFCs) in India operate on a credit-driven business strategy.

Challenges:

1. High Transformational Costs: SFBs will have added costs of infrastructure, human resources, and organizational change. From a credit-only institution to a diversified financial institution, hiring new staff, training and maximizing the use of existing staff, and other infrastructure are some of the areas that may incur high costs. This will need recurrent and fixed costs, and such broad changes, according to historical information from market sources, will result in a break.

2. Deposit Mobilization Efforts and Costs: SFBs exist in bulk and hence don't have many track records. In this arena, there are two aspects to the challenge. First, they have to compete with existing public sector and regional rural banks. These banks have greater market share. Secondly, with their rural base for business, SFBs will have to struggle for deposit mobilization and other schemes.

3. Competition: SFBs would face stiff competition from existing banks and non-bank financial businesses (NBFCs) seeking to expand their reach to serve the unbanked and under-banked, particularly in semi-urban and rural areas. New initiatives of Government like MUDRA, Start Ups – Stand Ups will have to be taken to these areas.

Conclusion

Small Finance Banks reaffirm the Reserve Bank of India's commitment to achieving financial inclusion by fostering the growth of institutions that provide innovative, high-tech, low-cost financial services. MFIs with a track record of offering scalable microcredit services account for eight of the ten institutions that have been given provisional licenses in banking called Small Finance Banks. The basic goal of the Government vis-a-vis financial inclusion is to be taken ahead by SFBs bearing with their SWOT factors. In a pragmatic state like Maharashtra, this new era of banking will decide the fate of economic developments.

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