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A Study of the Role and Challenges of SFB's in India

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Abstract: *SFB [Small finance bank] plays an important role in banking sector. The basic banking services like accepting deposits and lending money to small farmers, small businessman and underserved section of the society provided by SFB's. The financial institution requires a license from RBI to start operation as a small finance bank. This paper has been drafted to throw light on history of small finance bank, role of small finance bank in achieving Financial Inclusion, threats and challenges of small finance bank in India. The research design used in this paper is descriptive in nature.*

Keywords: *Small Finance Bank, RBI, Banking Services, Financial Inclusion.*

I. INTRODUCTION

SFB [Small Finance Bank] promotes the financial inclusion in banking sector. It provides basic banking facility to small farmers, small businessmen like hawkers and the unlinked sections of the society. The RBI decided to set up SFB's [small finance bank] in 2015.

Concept of SFB [Small Finance Bank]

Small finance bank typically a niche banking segment India. The small finance bank were started on 17 July, 2014 under the guidance of RBI [Reserve Bank of India]. The main reason behind to set up small finance bank in India to promote the financial inclusion. It offers the basic banking services like accepting the deposits and money lending to marginalized farmers, small businessmen, SME's [small and medium enterprises] and unorganized sector. The SFB [Small finance bank] has required obtaining license under the section 22 of the Banking Regulation Act, 1949 to start its operation as SFB. There were 12 SFB [small finance bank] in India.

Table-1 The List of Small Finance Banks working in India

Sr.No.	Name of Banks	Commenced	Headquarters	Original Licensee/Promoter
1	Ujjivan Small Finance Bank	1/02 2017	Bangalore	Ujjivan Financial Services Pvt Ltd
2	Jana Small Finance Bank	29 /03/ 2018	Bangalore	Janalakshmi Financial Services Pvt Ltd
3	Equitas Small Finance Bank	05/09/2016	Chennai	Equitas Holdings Pvt Ltd
4	AU Small Finance Bank	19/04/20 17	Jaipur	Au Financiers India Ltd
5	Capital Small Finance Bank	24/04/2016	Jalandhar	Capital Local Area Bank Ltd
6	Fincare Small Finance Bank	21/07/2017	Bangalore	Disha Microfin Pvt Ltd
7	ESAF Small Finance Bank	17/03/2017	Thrissur	ESAF Microfinance
8	North East Small Finance Bank	17/10/ 2017	Guwahati	RGVN North East Microfinance Ltd
9	Suryoday Small Finance Bank	23/01/2017	Navi Mumbai	Suryoday Microfinance Pvt Ltd
10	Utkarsh Small Finance Bank	23/01/ 2017	Varanasi	Utkarsh Microfinance Pvt Ltd
11	Shivalik Small Finance Bank	26/04/2021	Noida	Shivalik Mercantile Co-operative Bank Ltd
12	Unity Small Finance Bank	1/11/ 2021	Mumbai	Centrum Financial Services Limited and BharatPe

II. PRUDENTIAL NORMS OF SFB'S [SMALL FINANCE BANK]

As per the guidelines of RBI small finance bank have to follow these norms:-

1. Small Finance banks have to maintained SLR and CRR requirements like commercial banks.
2. The SFB's [small finance bank] has to require 200 crore as minimum paid up capital.
3. Small finance bank requires to 25% of their branches in rural and unbanked areas.
4. Promoters of small finance bank must be resident individual / professional that has to require 10 years' experience in banking and finance.
5. Small Finance bank can lend upto 25 lakh rupees.
6. As per the guidelines of RBI small finance bank require to lend to the priority sector 75% of the Adjusted Net Bank Credit.

III. HISTORY OF SMALL FINANCE BANK

Reserve bank of India (RBI) has made initial guidelines to set up small finance bank on 17 July, 2014 and feedback was asked from general public and the RBI [Reserve Bank of India] issued final guidelines on 28 Nov., 2014. The interested organizations can apply for small finance bank license in January, 2015. RBI listed 72 entities in February, 2015 that applied to obtain small finance bank license.

To evaluate these applications an advisory committee led by usha throat was set up. In September 2015 RBI gave provisional license to 10 entities, in which 8 were microfinance NBFC.

RBI decided to convert these 10 entities into SFB's [Small Finance Bank] within the one year. Finally the first small finance bank Capital small Finance bank was set up in April 2016. RBI Approved first urban cooperative bank SMCB [Shivalik Mercantile Co-operative Bank] to transform into a SFB [Small Finance Bank] in April, 2021.

IV. REVIEW OF LITERATURE

The review of literature plays an important role in any research. Various studies have been conducted time to time. An effort has been made to review various studies to find the research gap.

(Jayadev et al., 2017) studied the challenges faced by the SFB [small finance bank]. He studied the SFB technology management, low cost liability portfolio, etc.

(Arora & Singh Pahwa, 2018) explores the role of small finance bank for achieving financial inclusion in India. He suggests that the success of financial inclusion depends on the financial literacy. He emphasize that small finance bank should aware the customers about financial products.

(P. B. Banudevi, 2019) studied the challenges faced by small finance bank. There are multiple of challenges faced by SFB like face competition from existing banks, not able to control NPA, lack of awareness among people about financial products.

(Ravikumar & Ravikumar, 2019) finds the role of SFB in promoting the financial inclusion by opening its branches in rural and semi- urban areas by serving low income people group.

(Small & Bank, 2020) examine the effect of SFB on the financial inclusion.

(Patel & Fulwari 2021) analyzed the progress of SFB in India. He finds The SFB branches increased to 5107 across the country during 5 years with CAGR 87.30%.

(Thenissery et al., 2023) studied the challenges and issues faced by small finance bank in debt collection in rural areas.

(Dr. G. Anitha, 2024) studied the profitability and performance of ESFB [Equitas small finance Bank] and USFB [Ujjivan small finance bank] using CAMEL MODEL.

V. RESEARCH OBJECTIVES

1. To study the history of small finance bank
2. To study the role of SFB'S in achieving financial inclusion
3. To study the threat and challenges of SFB'S

VI. RESEARCH METHODOLOGY

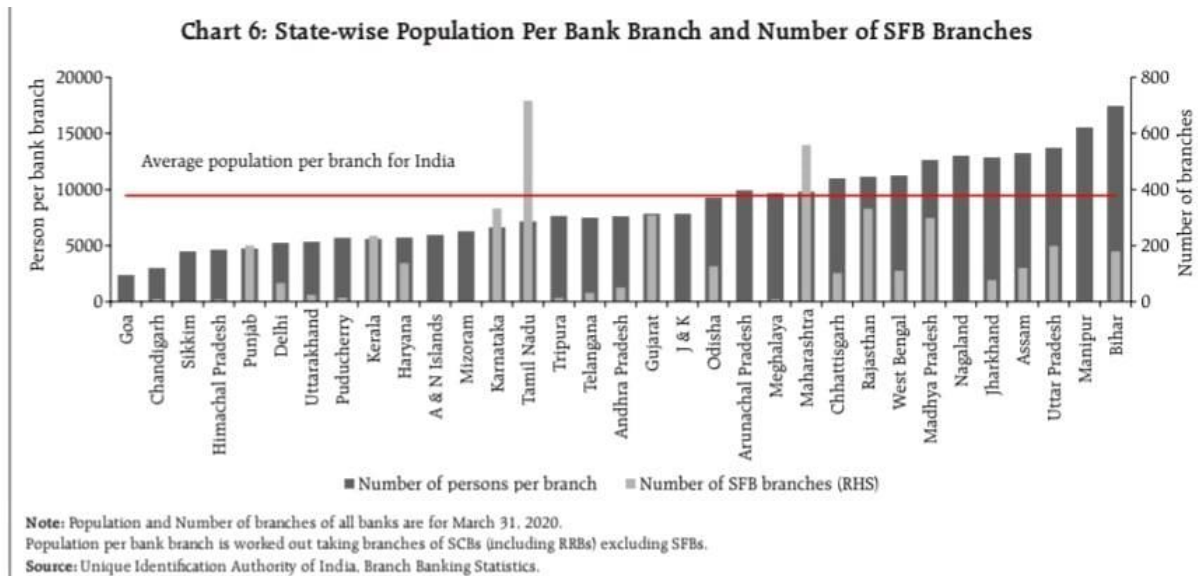
The secondary data is used in this research. The data from published sources and research paper has been used. The research design is descriptive in nature.

VII. ROLE OF SMALL FINANCE BANK IN ACHIEVING FINANCIAL INCLUSION

Small Finance Bank plays an important role in achieving the objective of financial inclusion. The Govt. of India and RBI jointly efforts to achieve the objective of financial inclusion. The Govt. of India launched Pradhan Mantri Jan Dhan Yojna to promote financial inclusion. RBI make efforts like to set up small finance bank to promote financial inclusion. Now the question arises, what is financial inclusion? Financial inclusion means to make available financial services to everyone at reasonable cost.

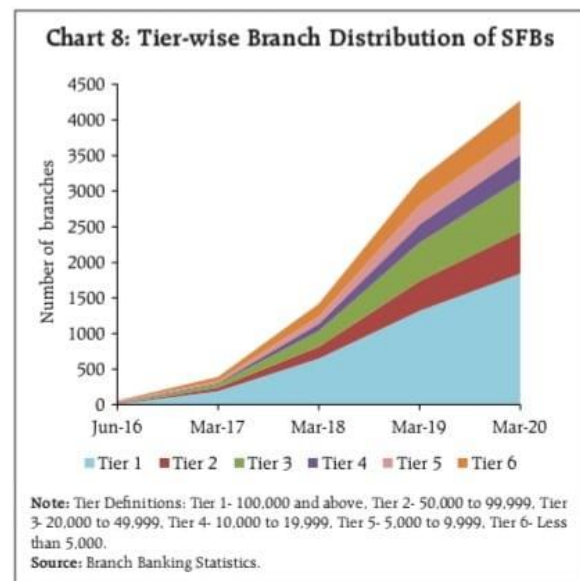
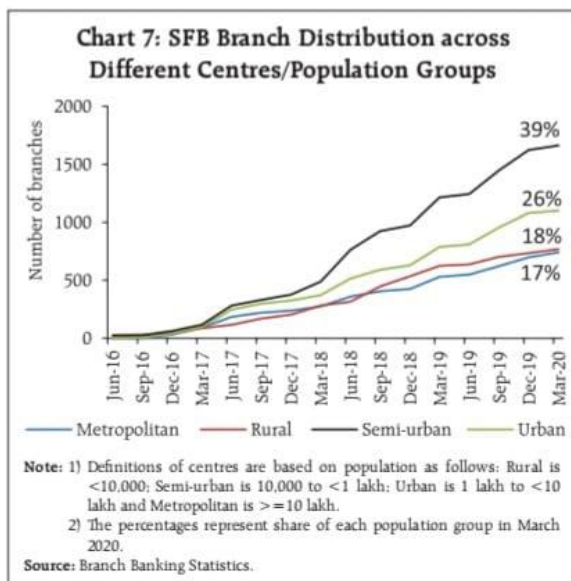
Small finance bank provides basic banking services to small farmers, small businessmen and unorganised sector and unbanked population. It expands their branches in rural areas to provide services to low income group.

At state level, small finance bank open branches at underserved states Madhya Pradesh, Rajasthan. They concentrate in Maharashtra, Karnataka, Tamil Nadu, Punjab and Kerala- states have some of the lowest population per bank branch in the country.



VIII. GREATER FOCUS ON SEMI URBAN AREA

SFB branches has been increase in semi urban areas about 39 per cent of the total SFB [small finance banks] branches were semi-urban areas and 26 per cent in rural areas.



IX. THREATS AND CHALLENGES OF SMALL FINANCE BANK

- Limited Access of Funds:** - Small finance bank have limited access to low cost deposits. To gain customer trust is the biggest challenge. SFB do not offer full range of banking products. There is the biggest challenge for SFB to raise funds.
- Financial Literacy:** - The most of the customers of small finance bank are from rural areas or unbanked areas. They have lack of knowledge about financial products. To make aware about financial products to customers is the biggest challenge for SFB.

3. **Competition:** - Small Finance Bank face competition from scheduled banks and other NBFC. It also faces competition from MUDRA that provides loan upto 10 lakh to small and micro enterprises. Small Finance bank provides loan upto 25 lakh. The main challenge for SFB to differentiate from other banks and NBFC.
4. **To Control NPA:-** The small finance bank provides loan to small farmers and small and micro enterprises. To control NPA in unfavourable monsoon is the biggest challenge for SFB. There is high default risk and credit risk in SFB. Commercial bank could diversify their portfolio to lend money to retail, service and manufacturing sector while SFB would give money to small farmers and unbanked population.
5. **Human Resource Management:** - Small Finance bank requires to train staff to adopt new technology that increases cost. SFB have experience in micro lending institutions have limited exposure to insurance, market deposits etc. It is the biggest challenge for SFB to hire personnel of specialised set of skills in banks.
6. **Adoption of New Technology:** - Small Finance bank have not much capital to invest in new technology. SFB requires to adopt new technology that results in lower operational cost. SFB concentrated in rural and semi urban areas that areas have infrastructure challenge which fails to adopt new technology.
7. **High Cost of Transformation:** - Small finance bank have to bear high cost of infrastructure, human resource cost some of these are like upgradation of MIS system, training of new staff etc.

X. CONCLUSION

Small Finance Banks (SFB) plays an important role in achieving financial inclusion because it set up its branches in rural and semi urban areas. Small finance bank branches increase in semi urban area about 39% of total SFB branches while in rural area about 26% of total SFB branches. It promotes financial inclusion by providing basic banking facilities to those people who are unlinked to banking facilities. And where banking facilities are not reachable to that people. There are various challenges faced by SFB like lack of financial literacy in rural area people, limited access of funds, lack of infrastructure etc. To address these challenges we can achieve the objective of financial inclusion goal.

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