

Small finance banks could give UCBs stiff competition

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Both categories of banks cater to the same customer segments, say experts



Satish Marathe, National President, Sahakar Bharati

Mumbai, June 10:

Urban co-operative banks (UCBs) could feel the heat of competition from new generation small finance banks (SFBs) as both will be vying to attract almost the same kind of customers, say co-operative sector experts.

That these two categories of banks are focussed on the same customer segments is underscored by the fact that almost 50 per cent of UCBs' total advances are to the priority sector, comprising micro and small enterprises, housing, and agriculture. The RBI has mandated that SFBs extend 75 per cent of their advances to priority sector.

To further the cause of financial inclusion, the RBI issued 'in-principle' approval in September 2015 to 10 applicants, including eight microfinance institutions, to set up SFBs.

The objective of SFBs is to 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.

According to Satish Marathe, National President, Sahakar Bharati, small finance banks will pose a big threat to urban co-operative banks. "About 90 per cent of the loan accounts of urban banks are with limits less than ₹ 5 lakh.

"Now, if the SFBs concentrate on these UCB loans and get them transferred at lower (interest) rates, they will get secured advances. When the borrowers are charged lower rate of interest, longer repayment period and other allurements, they will simply shift to SFBs."

To face this competition, Marathe said UCBs should focus on three areas — technology adoption, which cannot be postponed any further; reduce operational costs (streamline the organisational set-up); and provide advances at very competitive rates.

A top UCB official observed that about 15 years back, urban banks were very active in extending housing loans. But once public sector banks entered the housing finance space, a chunk of urban banks' home loan customers shifted to the former. "This is what will happen to the small advances of UCBs as soon as small finance banks become operational. Small finance banks will make an impact," he said.

Marathe felt that entities that have secured small finance bank licences will ultimately enter the (mainstream) banking sector, one way or another.

“They (SFBs) will establish themselves, show they are growing and eligible to be full-fledged banks and enter the (mainstream) banking sector. That must be the real purpose. That is how I look at it,” he explained.

As at end-March 2015, there were 1,579 UCBs in the country. .

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