

To address issues faced by them, small finance banks plan to set up separate industry body

K Ram Kumar Mumbai | Updated on June 03, 2020 Published on June 03, 2020

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Small finance banks (SFBs) are planning to join forces to set up a separate industry body so that the common issues being faced by them can be better represented to the Reserve Bank of India (RBI) and the government.

The proposed body is also expected to work towards developing a common brand identity for the SFB segment so that these banks are recognised by all stakeholders, including current and potential customers, as protecting depositors' interests and lending responsibly.

Currently, the 10 SFBs, which commenced operations in the 2016-2017 period, are members of the Indian Banks' Association (IBA). The association has been the voice of the Indian banking industry since 1946.

The proposed move to form a separate industry body also comes in the backdrop of the RBI drawing up a scheme for voluntary transition of eligible urban co-operative banks (UCBs). The expectation is that a few UCBs will convert into SFBs and the number of such niche banks will increase further.

Challenges

“The challenges we face are a little different from the mainstream banks – public sector and private sector banks.

“For example, we are required to extend 75 per cent of our credit to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank. For the mainstream banks, the PSL target is 40 per cent,” said a senior SFB official.

Elaborating on the challenges, the official observed that SFBs’ loans to microfinance institutions (MFIs) do not qualify for the PSL tag.

PSL includes loans given by banks to sectors such as agriculture, micro, small and medium enterprises, export credit, education, housing, social infrastructure, and renewable energy.

Referring to SFBs’ cost of borrowing and consequently lending rate being relatively higher vis-a-vis private sector bank (PvSBs), the official explained that the pool of loans a SFB sells to a PvSB is classified as PSL only if the average lending rate of the pool is less than or equal to the buying bank’s lending rate.

Further, given that the markets have turned volatile, regulatory intervention is needed vis-a-vis the stipulation regarding mandatory listing of SFBs within three years of their net worth reaching ₹500 crore.

Emulating MFIN

In seeking to promote a separate industry body, SFBs may be taking a leaf out of MFIN's (Microfinance Institutions Network) book. MFIN is the industry body for non-banking finance companies registered with the RBI as microfinance institutions.

MFIN's primary objective is to work towards the robust development of the microfinance sector by promoting a supportive regulatory environment, client protection, responsible lending, and good governance.

It may be pertinent to mention here that barring two SFBs (Au SFB and Capital SFB), the remaining eight were members of MFIN prior to their conversion from NBFC-MFI to SFB.

A letter from the Editor

Published on June 03, 2020