

'Small finance bank model in the slow lane'

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The small finance bank model may still be testing the water some 10 years since its launch. According to banking experts, the regulator has taken a cautious approach in granting approvals.

Unity Small Finance Bank was the last one to get a licence in the category in November 2021. As of December 2023, there were 12 small finance banks in the country. However, last month, the Reserve Bank of India approved the amalgamation of Fincare Small Finance Bank and AU Small Finance Bank (AUSFB).

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CAUTIOUS APPROACH

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Aruna Sharma, a former member of the RBI committee on digital payments, said that SFBs

help," said a senior executive of a private sector bank. The main reason for slow approvals is that existing models of small finance banks are not tested out

which have already got licence are yet to stabilise. Sharma, a retired IAS officer, said: "After recent issues related to compliance, you have seen that many banks are being penalised on a regular basis. So, the regulator is adhering strongly on compliance issues."

An internal screening committee, comprising the

governor and deputy governors of the RBI, reviews all applications and sends its recommendations to the committee of the central board of the RBI for a final decision. Even if an applicant fulfills the eligibility criteria, the RBI retains the authority to reject an application.

As of the third quarter of FY2024, the total net profit of 11 small finance banks, except North East Small Finance Bank, stood at ₹1,525 crore, up 23 per cent from ₹1,240 crore in the corresponding period last year.

Investment information and rating agency ICRA expects the growth of SFBs to remain steady at around 22-25 per cent in FY2025.

"It remains important for the industry to further improve the granularity of its deposit base and build a stable retail deposit franchise, to support the envisaged growth," said Karthik Srinivasan, Senior Vice President & Group Head, Financial Sector Ratings, ICRA Ltd.