Unity Small Finance Bank

Why in news?

The RBI has issued a Small Finance Bank (SFB) license to the consortium of Centrum Financial Services and Digital payments platform BharatPe.

What are SFBs?

- Small Finance Banks is a specific segment of banking created by RBI with to undertake basic banking activities to un-served and underserved sections.
- The draft guidelines for licensing of small banks in the private sector were formulated and released by RBI in 2014.
- **Objectives -** The objectives of setting up of small finance banks will be to further financial inclusion by
    - Provision of savings vehicles
    - Supply of credit to small business units, small and marginal farmers, micro and small industries and other unorganised sector entities, through high technology-low cost operations.
- Eligible promoters include
    - Resident individuals/professionals with 10 years of experience in banking and finance
    - Companies and societies owned and controlled by residents
    - Existing NBFCs, Micro Finance Institutions and Local Area Banks that are owned and controlled by residents can opt for conversion into small finance banks
- There will not be any restriction in the area of operations of small finance banks.
- The minimum paid-up equity capital for small finance banks shall be Rs. 100 crore.

What is the significance of this SFB?

- The RBI has issued a new bank license after a gap of nearly 6 years and the new SFB has been incorporated as ‘Unity Small Finance Bank’.
- The assets and liabilities of Punjab and Maharashtra Co-operative Bank

will be taken over by the new entity.
- This proposal sheds light on the need for traditional lenders to expand their digital infrastructure.

In the buy-now-pay-later (BNPL) and micro-lending models, companies like Paytm, Google Pay, Amazon Pay, etc. have partnered with NBFCs to assess creditworthiness of an existing customer and present it to the lender as a potential borrower.

- For BharatPe, an SFB licence means it could expand its lending portfolio.
- The lending rates offered by SFBs could be attractive for small merchants across the country looking to borrow to fulfil their working capital needs.

Source: The Indian Express, RBI

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