

Differentiated Banks in India

Under the recommendations of Dr. Nachiket Mor committee new step for the financial inclusion has been taken in the country. As per the recommendations RBI set up the guidelines for the new categories of banks i.e. Payment Banks and Small Finance Banks.

Payments Banks in India

On the recommendations of Dr. Nachiket Mor committee RBI (Reserve Bank of India) grants license for commencement of banking business under section 22(1) of Banking Regulation Act 1949 and registered as a private company under Companies Act. It is a new model of banks which is conceptualized by the RBI (Reserve Bank of India)

The main objective of setting up of payment banks for the purpose of financial inclusion by providing:

- Small saving account
- Payment services

Features of payment banks

- Non finance company entities and existing non bank prepaid instruments issuer may apply for the payments bank.
- Minimum capital required for the payment banks is Rs. 100 crore.
- Foreign shareholding is allowed to these banks but as per the regulations of FDI (Foreign Direct Investment).
- Payment Banks cannot provide lending services but allowed to distribute financial product such as mutual funds and insurance products.
- The bank must use the term payment bank in its name to differentiate it from other banks.
- 25% of the bank branches of the payment banks must be in unbanked rural areas.

Services provided by the Payment Banks

- Acceptance of deposits (initially restricted to Rs 100,000).
- Payment Banks can provide services like ATM, net banking, debit cards and net banking.
- Current and saving accounts can be operated through this bank.

In 2015, RBI (Reserve Bank of India) grants license to the 11 entities out of 41 entities who applied for the license

Following are the 11 entities which are granted license

- Aditya Birla Nuvo
- Airtel M Commerce Services
- Cholamandalam Distribution Services

- Department of Post
- FINO Pay Tech
- National Securities Depository
- Reliance Industries
- Sun Pharmaceuticals
- Paytm
- Tech Mahindra
- Vodafone M Pesa

Out of above three have surrendered their licenses i.e. Cholamandalam Distribution Services, Sun Pharmaceuticals and Tech Mahindra. Airtel becomes the first to launched live payments banks in India

Small Finance Banks in India

Small Finance Banks are the banks which are globally known as niche bank. It is registered as a public limited company under the Companies Act 2013. Small Finance banks are licensed under section 22 of the Banking Regulations 1949. The main aim of setting up of these banks is to provide financial inclusion to those sections of economy not being served by the banks.

Features of Small Finance Banks in India

- Existing NBFCs (Non Banking Finance Companies), Micro-finance Companies and Local Area Banks may apply for the small finance banks in India.
- Small Finance Banks are established as public limited company in private sector.
- Minimum paid up capital for the small finance banks is Rs 100 crore.
- Small Finance Banks are required to establish its 25% branches in unbanked areas.
- These entities must add the term small finance bank with its name to differentiate it from other banks.
- Foreign Shareholding is allowed as per the FDI (Foreign Direct Investment) policy.

Services provided by Small Finance Banks

- Small Finance Banks can provide basic banking activities such as deposit and lending of funds (There is no such restriction on the amount of deposit)
- Small Finance Banks can also undertake non-risk sharing simple financial services such as distribution of mutual funds, insurance products and pension products

In 2015 RBI grants license to 10 entities through which they have to convert into Small Finance Banks within one year.

Following are the entities:

- Ujjavan
- Janakakshmi

- Equitas
- AU Financiers
- Capital LAB
- Disha
- ESAF
- RGVN
- Suryoday
- Utkarsh

