

BHARAT SCHOOL OF BANKING

SMALL AND PAYMENT BANK

Small Banks

The objectives of setting up of **Small Banks** are to further **financial inclusion**, by providing -

- Provision of **savings** facilities to **under-served** and **un-served** sections of the population
- **Supply of Credit** to **small business** units, **small farmers**, **micro** and **small industries**, and other **unorganized sector** entities, in their limited area of operations, through **high technology - low cost** operations

Activities of Small Banks -

1. The **area of operations** of the **small bank** will normally be restricted to **contiguous districts** in a **homogenous cluster** of states/UTs so that the **bank** has the '**local feel**' and **culture**. Branch **expansion** for **first 3 years**, need **RBI's** prior approval.
2. Primarily undertake basic **banking** activities, like **acceptance** of **deposits** and **lending** to small farmers, small businesses, micro and small industries and unorganized sectors.
3. It can also undertake other **simple financial activities** with the **prior approval** of **RBI**.
4. It cannot set up **subsidiaries** to undertake **non-banking financial services (NBFC)** activities.

Capital Requirements -

The **minimum paid-up** capital is **Rs. 100 crore**.

Funds Deployment -

In view of the inherent **risk** (since it can **lend**) of a small bank, it shall be required to maintain a **minimum Capital Adequacy Ratio (CAR)** of **15 %** of its **Risk Weighted Assets (RWA)** on a continuous basis. However, as **small banks** are not expected to deal with **sophisticated products**, the **CAR** will be computed under simplified **Basel I** standards.

Payments Bank

The objectives of setting up of **Payments Banks** are to further **financial inclusion**, by providing -

- **Small Savings** accounts
- **Payments / remittance** services to **migrant labor** workforce, **low income** households, **small businesses**, other **unorganized sector** entities and other **users**.

Activities of Payment Banks -

1. They can accept **Demand Deposits**, but will initially be restricted to hold a **maximum** balance of **Rs. 1,00,000** per individual **customer**
2. Issuance of **ATM / Debit Cards**, but they cannot issue **Credit Cards**
3. **Payments** and **remittance** services through various **channels**
4. They can act as **Business Correspondents (BC)** of another bank (following **RBI** guidelines)

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5. Distribution of **non-risk sharing** simple financial products, like **Mutual Funds (MF)** units and **insurance** products, etc.
6. They cannot undertake **lending** activities (means cannot disburse **loans**)

Capital Requirements -

The **minimum paid-up** capital is **Rs. 100 crore**.

Funds Deployment -

Apart from amounts maintained as **Cash Reserve Ratio (CRR)** with RBI, it will be required to **invest minimum 75 %** of its **demand deposits** in **Statutory Liquidity Ratio (SLR)** eligible **government securities / T-bills** with maturity up to **1 year**, and hold **maximum 25 %** in **current** and **time/fixed** deposits with other **Scheduled Commercial Banks (SCBs)** for operational purposes and liquidity management.

Small Banks vs. Payment Banks

1. **Small Banks** can accept **demand and time deposits** from public as **commercial banks** do (**Savings, Current, Fixed, Recurring deposits**, etc.)
But, **Payment Banks** can take only **demand deposits** (**Savings and Current deposits**), and cannot issue **Credit cards** (however, can issue **Debit cards**)
2. **Small Banks** can give **loans** only to **small business** units, **small farmers, micro and small industries**, and other **unorganized sectors**, but not to **large industries**.
But, **Payment Banks** cannot give any type of **loans** to public, but can **invest** in **government securities** or **T-bills**.
3. The **target** of **Small Banks** is to **supply credit** to **small business** units, **small farmers, micro and small industries**, and other **unorganized sector** entities, in their limited area of operations. And provisions for **savings** for **poor** people.
The **target** of **Payment Banks** is **payments / remittance** services to **migrant labor** workforce, **low income** households, **small businesses**, other **unorganized sector** entities, and **savings** for poor people.