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REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

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APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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FINANCIAL INCLUSION AND ROLE OF PAYMENT AND SMALL FINANCIAL BANKS

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ABSTRACT

Financial inclusion is poor in India if one were to compare India with BRIC countries and world at large in spite of focused efforts of Government of India and RBI (Reserve Bank of India) in this direction. The population having bank account in India is 53% while its higher in Brazil, Russia, China and world at large 68.1%,67.4%,78.9% and 61.5% respectively. This research establishes that Payment Banks and small financial Banks will help to bring poor and unbanked in to the banking network. Small financial Banks would help the poor, Micro and Small Scale organisation to get credit easily and this would free them from the clutches of moneylenders and exploitation. The main limitation of this research is that its theoretical research. An empirical study would be required to find out how far the objective of financial inclusion has been achieved by establishment of Payment Banks and Small financial Banks.

KEYWORDS
financial inclusion, payment banks, small finance banks.

INTRODUCTION
Well-functioning financial systems serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. Inclusive financial systems allowing broad access to financial services, with-out price or non price barriers to their use are especially likely to benefit poor people and other disadvantaged groups. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs and small enterprises must rely on their limited earnings to pursue promising growth opportunities. This can contribute to persistent income inequality and slower economic growth. Worldwide, 50 percent of adults reported having an individual or joint account at a formal financial institution. But while account penetration is nearly universal in high-income economies, with 89 percent of adults reporting that they have an account at a formal financial institution, it is only 41 percent in developing economies. Globally, more than 2.5 billion adults do not have a formal account, most of them in developing economies.

FINANCIAL INCLUSION
Financial inclusion is the delivery of financial services at affordable cost to the vast section of disadvantaged and low income groups (for example no frill accounts). RBI Governor Raghuram Rajan outlined, in conceptual terms, what inclusion should be. "Simplicity and reliability in financial inclusion in India, though not a cure all, can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians," he said. Further, "in order to draw in the poor, the products should address their needs a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the money lender, easy to understand life and health insurance and an avenue to engage in savings for the old age."

STATEMENT OF PROBLEM
Financial inclusion is poor in India if one were compare India with BRIC countries and world at large in spite of focused efforts in this direction by Government of India (GOI) and Reserve Bank of India (RBI).

INDIA AND WORLD
Financial inclusion is poor in India as mentioned above if one were to compare India with BRIC countries and world at large. Percentage of population having bank account (as indicated in Table 1 below) in India it is 53.1% while its higher in Brazil, Russia, China and world at large 68.1%, 67.4%, 78.9% and 61.5% respectively. Only 43.1% of Indian women have bank accounts in contrast 76.4% Chinese women have bank accounts. As for adults in rural India picture is not good either. Only 50.1% of the adults in rural India have bank accounts while 74.3% of rural people in China have bank accounts. As per World Bank report in 2011, In India 35.2% of adult population had financial Institute Account and in 2015 it had increased by 17.6% and reached to 52.8%. Government of India (GOI) and RBI has played a major role by taking various measures like No Frills Accounts, Simplification of KYC norms, Use of Intermediaries, Introduction of General Credit Cards, Use of Technology, Use of Regional Language, One-time Settlement, Financial Education.

TABLE 1: PERCENTAGE OF POPULATION HOLDING BANK ACCOUNT (% age 15+)

Particulars	World	India	Brazil	Russia	China
Account (% age 15+)					
All adults	61.5	53.1	68.1	67.4	78.9
Women	58.1	43.1	64.8	70.2	76.4
Adults belonging to the poorest 40%	54	43.9	58.5	61.8	72
Young adults (% ages 15–24)	46.3	43.2	52.6	54.4	74.2
Adults living in rural areas	56.7	50.1	63	61.2	74.3
Financial Institution Account (% age 15+)					
All adults	60.7	52.8	68.1	67.4	78.9
All adults, 2011	50.6	35.2	55.9	48.2	63.8

Source: The Little data book on financial inclusion 2015, World Bank Group

PERFORMANCE OF STATES IN INDIA
Committee on Comprehensive Financial Services for Small Businesses and Low Income Households" was set up by the RBI in Sep 2013 under the chairmanship of Nachiket Mor, an RBI board member. As per the report submitted by the committee 'financial inclusion in urban and rural India is very grim'. Overall, 45 per cent of the urban residents and 32 per cent of the rural residents having bank accounts. There is also significant variation from district to district even within that. In an urban context the current penetration of individual bank accounts, as proportion of the population of people above the age of 18 years, ranges from 10 per cent in Imphal East district of Manipur to 688 per cent in Wayanad district of Kerala, while in the rural context it ranges from close to 0 per cent in the districts of Nagaland to 89 per cent in Solan in Himachal Pradesh.

HISTORICAL PERSPECTIVE

Even after 70 years of independence, a large section of Indian population still remains unbanked. In spite of focused efforts in this direction by Government of India(GOI) and Reserve Bank of India (RBI).

- 1954: All-India Rural Credit Survey Committee report -suggested Multi-agency approach for financing the rural and agricultural sector;
- 1963: Formation of Agricultural Refinance Corporation.
- 1969: Nationalization of 14 major Private Banks – The flow of agricultural and rural credit witnessed a rapid increase.
- 1972: Mandatory system of Priority Sector Lending. (PSL)
- 1975: Establishment of Regional Rural Banks (RRBs)
- 1980: Nationalisation of 6 more private banks.
- 1982: Establishment of NABARD through the transfer of RBI's agricultural credit department Provision of bank credit under Govt. Sponsored Subsidy Schemes Linking Agricultural Credit Targets at 18% with individual bank's net bank credit
- 1990: Implementation of the concept of Village level credit planning for 15 to 20 villages allotted to each of rural, semi-urban and urban branches of PSBs and RRBs under Service Area Approach
- Formulation of potential linked credit plan for each district annually by National Bank for Agriculture and Rural Development (NABARD)
- Agricultural Debt Relief Scheme and Financial Sector Reforms
- Self-help group(SHG) -Bank Linkage as the most suitable model in Indian context a/c to NABARD
- 2000-Reforms sharply focused on Agricultural credit
- Doubling the flow of agricultural credit implementation of agricultural credit package
- Annual Special Agricultural Credit Plan.

COMMITTEE ON FINANCIAL INCLUSION

KHAN COMMISSION

RBI set up in Khan Commission 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06) and urged banks to review their existing practices to align them with the objective of financial inclusion. RBI also exhorted the banks and stressed the need to make available a basic banking 'no frills' account either with 'NIL' or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population

RANGARAJAN COMMITTEE

The above committee mentioned 4 major reasons for lack of financial inclusion

- *Inability to provide collateral security*
- *Poor credit absorption capacity,*
- *Inadequate reach of the institutions*
- *Weak community network*

The committee expressed the need to organize Urban/peri-Urban poor people into Neighbourhood Groups (NHGs) on the same pattern as has been adopted for the rural poor. (Need to extend the mandate of NABARD to cover beyond rural areas). Alter the emphasis somewhat from the large Bank led, public sector dominated, mandate ridden and branch-expansion-focused strategy to Micro Banks.

2nd ARC (Administrative reforms commission) on Financial Inclusion

- Innovation is critical for financial inclusion. This would mean developing newer financial products in terms of loans, savings and insurance services etc. which are tailored to the needs of the poor.
- Extension of the RRB network to the remaining non-financed areas would considerably speed up the process of inclusive banking and help in extending micro-finance to local SHGs.
- High penetration of telecom connectivity in India, together with the latest mobile technology could be used to enhance financial inclusion in the country.
- Micro Finance Institutions (MFIs)should handle thrift / saving and money transfer only as business correspondents of Scheduled Banks, but not in their individual capacity as a micro-finance lender as it involves hard earned savings of the poorest of the society

Four models of SHG-Bank Linkage

- SHG-Bank linkage promoted by a mentor institute (Eg: Self-Help Promotion Agencies & NGOs)
- SHG-Bank direct linkage – Very less frequent because of meagre initial savings of SHGs
- SHG-Mentor Institution linkage (indirect linkage)
- SHG-Federation model – Cluster of SHGs forming a federation to attain economic sustainability.

NACHIKET MOR COMMITEE

Committee on Comprehensive Financial Services for Small Businesses and Low Income Households" was set up by the RBI in Sep 2013 under the chairmanship of Nachiket Mor, an RBI board member.

Key Recommendations

1. Providing a universal bank account to all Indians above the age of 18 years by January 1, 2016. To achieve this, a vertically differentiated banking system with payments banks for deposits and payments
2. Wholesale banks for credit outreach**.** These banks need to have Rs.50 crore by way of capital, which is a tenth of what is applicable for new banks that are to be licensed.
3. Aadhaar will be the prime driver towards rapid expansion in the number of bank accounts. Monitoring at the district level such as deposits and advances as a percentage of gross domestic product (GDP).
4. Increase the Priority Sector Lending Mandate The Mor committee has recommended that the priority sector lending mandate for banks should be raised from the current 40 per cent to 50 per cent. At the same time, the banks must be freed from all pricing and other restrictions.
5. Allow differentiated Licenses **—**The committee has taken ahead the case of differentiated banking licences. It has proposed that three new categories of banks viz. payment, wholesale investment and wholesale consumer should be allowed. At the same time, the regulations for non-banking financial companies, or NBFCs should be streamlined.
6. Meaningful Financial Inclusio**n —**The Nachiket Mor committee has suggested two specific district-level penetration metrics viz. the credit- GDP and life cover-GDP ratios to monitor the meaningful financial inclusion.

DEEPAK MOHANTY

The Reserve Bank of India (RBI) on 15 July 2015 constituted a committee to work out a five-year (medium-term) action plan for financial inclusion. The 14-member panel is headed by RBI executive director Deepak Mohanty.

Midterm recommendations by the committee

- Sukanya Shiksha Scheme:
- Aadhaar linked credit account
- Bank's traditional business model should be changed with greater reliance on mobile technology to improve 'last mile' service delivery.
- Nurturing self-help groups (SHGs): Corporates should be encouraged to nurture SHGs as part of Corporate Social Responsibility (CSR) initiative.

- Government should replace current agricultural input subsidies on fertilizers, irrigation and power by a direct income transfer scheme as a part of second generation reforms. Agricultural interest subvention Scheme: It should be phased out.
- Crop Insurance: Government should introduce universal crop insurance scheme covering all crops starting with small and marginal farmers with monetary ceiling of Rs. 2 lakhs.
- Multiple Guarantee Agencies should be encouraged to provide credit guarantees in niche areas for micro and small enterprises (MSEs)
- Unique identification of MSME.

SOME RECENT MEASURES TAKE FOR FINANCIAL INCLUSION BY PRESENT GOVERNMENT

1. The government's latest plan of action, as envisaged in the (Comprehensive Financial Inclusion Plan) CFIP or Sampoorn Vittiya Samaveshan, hopes to extend coverage of basic financial services all excluded households. In the first phase, the CFIP will endeavour to provide universal access to all the beneficiaries through sub-service areas (SSAs). Each SSA will consist of 100-1,500 families in a cluster of villages and each SSA will be serviced by a Business Correspondents agent (BCA) whose task it will be to facilitate account opening and smooth banking operation.
2. A smart card (RuPay card) will be issued to enable customers to operate their accounts even without BCs. Simultaneously suitable awareness will be created among the financially excluded.
3. There is a proposal to make available a pension scheme for identified individuals in the unorganised sector and offer microfinance products through government-owned insurance companies.
4. The Prime Minister announcement of The Pradhan Mantri Jan-Dhan Yojana, on Independence Day speech. Is based substantially on the CFIP.
5. Gold monetization scheme.
6. MUDRA (Micro Units Development & Refinance Agency Ltd.)
7. DBT (Direct Benefit Transfer)
8. The RBI very recently has given approval to 11 Payment banks and 10 Small financial bank

OBJECTIVES OF STUDY

1. Find out if poor immigrant workers can be bought under banking fold with help of payment banks.
2. Find out if payment banks can help in direct transfer of wages and subsidy to the poor and unbanked.
3. Find out if unbanked poor farmers and micro and small industries can be bought into the banking system.

HYPOTHESIS

Payment banks and small financial banks will help in financial inclusion strategy

RESEARCH METHODOLOGY

Secondary data from World Bank report, RBI Report, other papers and use of simple statistical tools

PAYMENT BANKS

The objectives of setting up of payments banks will be to further financial inclusion by providing (i) small savings accounts and (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

KEY FEATURES OF THE PAYMENTS BANKS GUIDELINES ARE

Eligible promoters

- Existing non-bank Pre-paid Payment Instrument (PPI) issuers; and other entities such as individuals / professionals; Non-Banking Finance Companies (NBFCs), corporate Business Correspondents(BCs), mobile telephone companies, super-market chains, companies, real sector cooperatives; that are owned and controlled by residents; and public sector entities may apply to set up payments banks.
- A promoter/promoter group can have a joint venture with an existing scheduled commercial bank to set up a payments bank. However, scheduled commercial bank can take equity stake in a payments bank to the extent permitted under Section 19 (2) of the Banking Regulation Act, 1949.
- Promoter/promoter groups should be 'fit and proper' with a sound track record of professional experience or running their businesses for at least a period of five years in order to be eligible to promote payments banks.

Scope of activities

- Acceptance of demand deposits. Payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer.
- Issuance of Automated Teller Machines(ATM)/debit cards. Payments banks, however, cannot issue credit cards.
- Payments and remittance services through various channels.
- BC of another bank, subject to the Reserve Bank guidelines on BCs.
- Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc.

Deployment of funds

- The payments bank cannot undertake lending activities.
- Apart from amounts maintained as Cash Reserve Ratio (CRR) with the Reserve Bank on its outside demand and time liabilities, it will be required to invest minimum 75 per cent of its "demand deposit balances" in Statutory Liquidity Ratio(SLR) eligible Government securities/treasury bills with maturity up to one year and hold maximum 25 per cent in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

Capital requirement

- The minimum paid-up equity capital for payments banks shall be Rs. 100 crore.
- The payments bank should have a leverage ratio of not less than 3 per cent, i.e., its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves).

Promoter's contribution: The promoter's minimum initial contribution to the paid-up equity capital of such payments bank shall at least be 40 per cent for the first five years from the commencement of its business.

Foreign shareholding: The foreign shareholding in the payments bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.

Other conditions:

- The operations of the bank should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms.
- The bank should have a high powered Customer Grievances Cell to handle customer complain

APPROVAL FOR PAYMENT BANKS

The Reserve Bank received 41 applications for payments banks. On August 19, 2015 The Reserve Bank of India decided to grant "in-principle" approval to the following 11 applicants to set up payments banks. Names of selected applicants were as follows:

1. Aditya Birla Nuvo Limited
2. Airtel M Commerce Services Limited

3. Cholamandalam Distribution Services Limited
4. Department of Posts
5. Fino PayTech Limited
6. National Securities Depository Limited
7. Reliance Industries Limited
8. Shri Dilip Shantilal Shanghvi
9. Shri Vijay Shekhar Sharma
10. Tech Mahindra Limited
11. Vodafone m-pesa Limited

BENEFITS OF PAYMENT BANKS

1. Help the poor immigrant workers to transfer money to remote villages

TABLE 2: DOMESTIC REMITTANCES IN THE PAST YEAR (% age 15+)

Particulars	India	Brazil	Russia	China
Sent remittances	9.9	5.8	12.9	15.5
Sent remittances via a financial institution (% senders)	..	....	48.5	34.3
Sent remittances via a mobile phone (% senders)	..	....	8	10.1
Sent remittances via a money transfer operator (% senders)	..	....	28	15.0
Received remittances	9.8	6.4	12	17.6
Received remittances via a financial institution (% recipients)	..	..	36.2	27.3
Received remittances via a mobile phone (% recipients)	..	..	6.9	6.0
Received remittances via a money transfer operator (% recipients)	..	..	19.1	12.3

Source: The Little data book on financial inclusion 2015, World Bank Group

If we look at the Table 2 above, we find that 9.9% of the Indian population sent remittance and 9.8% received remittance, while for china it is 15.5% and 17.6% respectively. if we want improve domestic remittance payment banks can help in this goal by making it easier for anyone to get a bank account. Therefore, the cash limit in the accounts is set to just Rs. 1 lakh, payment banks can Issue ATM/debit cards and provide payments and remittance services through various channels. Sunil Sood CEO, Vodafone further stated that they want to provide bank accounts to people in the villages, to bring them into the digital economy, to send money, buy goods and services, through the digital economy. The real effect will come to remittances within the country, as it will become easier for people to send money home to smaller towns and villages while working in the city.

2. DIRECT TRANSFER OF WAGES AND GOVERNMENT SUBSIDY TO POOR

TABLE 3: USE OF BANK ACCOUNT IN THE PAST YEAR (% age 15+)

Particulars	World	India	Brazil	Russia	China
Used an account to receive wages	17.7	4	22.9	37.9	17.7
Used an account to receive government transfers	8.2	3.6	13.2	14.1	9.5
Used a financial institution account to pay utility bills	16.7	3.4	9.4	12.2	15.1

Source: The Little data book on financial inclusion 2015, World Bank Group

As per Table 3 above only 4% used their account to receive wages and 3.6 % to receive government transfer of subsidy in India. While globally 17.7% of the population used the account to receive wages and 8.2% of the population to receive government transfer. Sunil Sood, Vodafone CEO stated that his company had partnered with several government bodies to run pilots for enabling direct transfer of wages and subsidies. The payment bank licence will enable Vodafone to build on these services and offer and offer a more comprehensive portfolio of banking and financial products and services. The Department of Posts is also important for that same reason - the Department of Posts can reach every village, and connect farmers to banks. There are number of government subsidies and cash programs that are meant to encourage development in villages. The villager to access these payments, would have had to travel for hours to nearby cities in order to visit a bank branch, where the experience was frequently alienating. Instead, the friendly postman could be banking relationship manager.

3. PAYMENT BANKS WILL HELP TO REACH VILLAGES WHERE THERE NO BANKS

TABLE 4: ACCESS TO FINANCIAL INSTITUTION ACCOUNT (% age 15+)

Particulars	World	India	Brazil	Russia	China
Has debit card	40.1	22.1	59.2	44.3	48.6
Has debit card, 2011	30.5	8.4	41.2	37.0	41.0
ATM is the main mode of withdrawal (% with an account)	..	33.1	75.4	67.9	51.2
ATM is the main mode of withdrawal (% with an account), 2011	48.3	18.4	57.5	65.2	33.4

Source: The Little data book on financial inclusion 2015, World Bank Group

The Table 4 above indicates that in 2011 only 8. 4% of the Indian population had debit cards and 18.4% used ATM for withdrawals. Focused financial inclusion measures taken by government has increased it to 22.1% and 33.1% respectively. While china is far ahead of us 48.6% of Chinese population had debit cards and 51.2% of Chinese used ATM for withdrawals in 2015. The payment banks can't issue credit cards but they can issue ATM and debit cards. Since many of the 11 new license holders already operate mobile wallets, the ability to issue an ATM card helps close the loop and makes it easier to convert virtual money into cash, and vice versa. This is also very important when considered from the perspective of financial inclusion, as someone could now fill cash into a m-Commerce bank account from Delhi, and a relative in a small town who holds the debit card could withdraw cash from any ATM, or even in a more rural location, through any point of sale terminal with a "business correspondent", essentially an authorised partner for the bank. It's these partners - and the small convenience shop in a village that sells mobile recharges will serve the purpose of bank branches.

4. BANKING COSTS WILL COME DOWN DUE TO INTENSE COMPETITION

TABLE 5: SAVINGS IN THE PAST YEAR (% age 15+)

Particulars	World	India	Brazil	Russia	China
Saved at a financial institution	22.6	14.4	12.3	15.5	41.2
Saved at a financial institution, 2011	..	11.6	10.3	10.9	32.1
Saved using a savings club or person outside the family	56.5	8.8	3.5	1.6	2.5
Saved any money	23.9	38.3	28	40.7	72.1
Saved for old age	13.8	9.9	3.6	14.6	38.7
Saved for a farm or business	22.3	7	6.9	3.6	21.9
Saved for education or school fees		16	6.1	7.8	29.9

Source: The Little data book on financial inclusion 2015, World Bank Group

Table 5 indicates that saving rate in India is 38.3 % out of which only 14.4% saved in financial institutions. While in contrast 41.2% of the population in china saved in financial institution. Payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer. Provide payments and remittance services through various channels. Currently, we pay through our noses for banking services, whether it is above-limit ATM transactions, additional cheque-books, big money transfers, maintenance of minimum balances, or draft issuance fees. These costs will come down as payment banks start offering zero-balance accounts and low-cost services. Currently, efficient private banks like HDFC Bank, ICICI Bank and Axis Bank make huge profits from their low-cost current and savings bank accounts, but a big chunk of this will move to payment banks, who may offer higher savings bank rates of 5-7 percent

5. GOVERNMENT WILL BE BIG BENEFICIARY

The government will be one of the biggest beneficiaries of payment banking, as payment banks will expand its access to cheap funds. Currently, banks are the major investors in government bonds. While this will remain so even with the entry of payment banks, the sheer impact of additional money coming into payment bank accounts which can only invest in short-term government bills of up to one year's maturity means short-term rates will come down, and the government can borrow more cheaply.

6. BANK DEPOSITORS CAN EXPECT TO EARN HIGHER SHORT-TERMS DEPOSIT RATES FROM PAYMENT BANKS

Bank depositors can expect to earn higher short-terms deposit rates from payment banks, and the old 4 percent savings bank norm will probably fade away. This would increase saving rate in India and motivate the unbanked to open account with payment banks

7. CASH LESS BANKING

Mobile banking will create the conditions for cash-less banking. This means, over time, the mobile will perform the same role as credit and debit cards, obviating the need for too many cash payments. Even ATM expansion can now be slowed down in cities, and focused can be on distant villages or towns.

8. THE UNBANKED POOR RURAL POPULATION WILL GET ACCESS TO FINANCIAL PRODUCTS LIKE INSURANCE AND MUTUAL FUNDS

The payment banks can distribute third party financial products such as insurance, mutual funds and pension products; giving access to formal credit products by acting as banking correspondents of banks. With this the unbanked poor will get access to financial product.

SMALL FINANCIAL BANKS

The objective is to further financial inclusion by (a) provision of savings vehicles, and (ii) 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

FINAL GUIDELINES FOR LICENSING OF SMALL FINANCE BANKS

Eligible promoters

Resident individuals/professionals with 10 years of experience in banking and finance; and companies and societies owned and controlled by residents will be eligible to set up small finance banks. Existing Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), and Local Area Banks (LABs) that are owned and controlled by residents can also opt for conversion into small finance banks. Promoter/promoter groups should be 'fit and proper' with a sound track record of professional experience or of running their businesses for at least a period of five years in order to be eligible to promote small finance banks.

SCOPE OF ACTIVITIES

The small finance bank shall primarily undertake basic banking.

PRUDENTIAL NORMS

- The small finance bank will be subject to all prudential norms and regulations of RBI as applicable to existing commercial banks including requirement of maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). No forbearance would be provided for complying with the statutory provisions.
- The small finance banks will be required to extend 75 per cent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank.
- At least 50 per cent of its loan portfolio should constitute loans and advances of upto Rs. 25 lakh.

TRANSITION PATH

If the small finance bank aspires to transit into a universal bank, such transition will not be automatic, but would be subject to fulfilling minimum paid-up capital / net worth requirement as applicable to universal banks; its satisfactory track record of performance as a small finance bank and the outcome of the Reserve Bank's due diligence exercise.

APPROVAL TO 10 APPLICANTS FOR SMALL FINANCE BANKS

The Reserve Bank received 72 applications for small finance banks. On September 16, 2015, Reserve Bank of India (RBI) decided to grant "in-principle" approval to the following 10 applicants to set up small finance banks. Names of selected applicants were as follows

1. Au Financiers (India) Ltd., Jaipur
2. Capital Local Area Bank Ltd., Jalandhar
3. Disha Microfin Private Ltd., Ahmedabad
4. Equitas Holdings P Limited, Chennai
5. ESAF Microfinance and Investments Private Ltd., Chennai
6. Janalakshmi Financial Services Private Limited, Bengaluru
7. RGVN (North East) Microfinance Limited, Guwahati
8. Suryoday Micro Finance Private Ltd., Navi Mumbai
9. Ujjivan Financial Services Private Ltd., Bengaluru
10. Utkarsh Micro Finance Private Ltd., Varanasi

The "in-principle" approval granted will be valid for 18 months to enable the applicants to comply with the requirements under the Guidelines and fulfil other conditions as may be stipulated by the RBI.

BENEFITS

1. The unbanked poor farmers and micro and small industries will have bought in to the banking system

In India saving rate is 38.3 % out of which only 14.4% saved in financial institutions while in contrast saving rate is higher in china at 72.1% and 41.2% of the population in china saved in financial institution as indicated in the table 5 **(**Savings in the Past Year % age 15+) above. Only 7% of the population saved for farm or business while in china 21.7% of Chinese saved for farm or business. The objectives of setting up of small finance banks is to further financial inclusion by (a) provision of savings vehicles, and (ii) 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.

2. **The unbanked poor farmers and micro and small industries can get credit easily from small financial banks**

TABLE 6: CREDIT IN THE PAST YEAR (% age 15+)

Particulars	World	India	Brazil	Russia	China
Borrowed from a financial institution	10.7	6.4	11.9	10.3	9.6
Borrowed from a financial institution, 2011	9.1	7.7	6.3	7.7	7.3
Borrowed from family or friends	26.2	32.3	5.9	17	25.1
Borrowed from a private informal lender	4.6	12.6	1.1	0.9	1.1
Borrowed any money	42.4	46.3	22.3	30.2	36.3
Borrowed for a farm or business	7.1	9	3.5	1.3	7.0
Borrowed for education or school fees	7.7	9.7	1.7	2.1	4.9
Outstanding mortgage at a financial institution	10.4	3.7	10.5	18.4	8.5

Source: The Little data book on financial inclusion 2015, World Bank Group

The table 6 indicates that only 6.4% of the population in India borrowed from financial institutions while 12.6% population borrowed from private informal money lenders which are high as per global standards. Only 1.1% Chinese population borrowed from private money lenders. This shows that unbanked find it difficult to get credit and are exploited. The small finance banks will be required to extend 75 per cent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL)At least 50 per cent of its loan portfolio should constitute loans and advances of upto Rs. 25 lakh

CURRENT SCENARIO

Payment Banks

Telenor with Dilip Shanghvi of Sun Pharmaceuticals and IDFC, received RBI's approval to set up the payment bank and It plans to start operations in the current year. Mr Ravi Shankar Prasad, Union for communications and technology announced that Department of post would start its operations as payment bank by March 2017.Some universal banks like State Bank of India (SBI) and Kotak Mahindra Bank (KMB) have already teamed up with licensees the former with Reliance Industries and the latter with Bharti Airtel.

Small financial Banks

Capital Local Area Bank could be first to start operations by April, a year ahead of the target date. A number of proposed small finance are targeting full-fledged launch in August-September 2016, much ahead of the deadline of April 2017.

CONCLUSION

This is for the first time in the history of India's banking sector that differentiated licences are being given out by the central bank for undertaking specific activities. Nothing will be the same anymore: the old oligopoly of the big banks will be under threat from the new challengers; banking services will become accessible to nearly all potential customers, rich or poor; costs for customers will come down, and service quality should improve with time as the competitive landscape changes.

While payment banks, driven by mobile connections and technology, will extend the liabilities side of the business by making banking accessible to everyone, small finance banks will enable more focused lending to small businesses and borrowers, thus extending the assets base of the banking system. Payments banks will try to wean away the cheapest deposits of banks, while small banks will target the highest interest-paying borrowers when they expand across the country. The move is seen as a major step in pushing financial inclusion in the country. Bringing more people into the formal banking system has been a stated objective of both RBI and the Government of India.

LIMITATIONS

This is only a theoretical research. An empirical study would need to find out how far the objective of financial inclusion has been achieved by setting up of payment and small banks.

SCOPE FOR FUTURE RESEARCH

An empirical study can be conducted to find out if vertically differentiated banks have really helped in financial inclusion.

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