A STUDY ON THE AWARENESS AND PERCEPTION ABOUT SMALL FINANCE BANK WITH SPECIAL REFERENCE TO ESAF SMALL FINANCE BANK

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ABSTRACT

The Indian financial system is becoming more and more complex and dynamic as the changes are taking place in the business environment. Approximately, 35% of the adult population in India has an account with any formal financial Institution. This means, around 500 million people do not have access to even a bank account. The Central Government’s flagship program Pradhan Mantri Jan Dhan Yojana (PMJDY), with its mission to provide at least one bank account for every household in India, seems set to change the financial inclusion landscape considerably. Realising that financial inclusion will remain a dream unless a paradigm change is introduced, the Reserve Bank of India (RBI), on 27th November 2014, released guidelines for a new class of banking entity called “Small Finance Banks”. Small Finance Banks (SFBs) by definition will cater to the diverse needs for financial services amongst the low-income people. This paper tries to study the conversion of Micro Finance Institution into SFBs with special reference to ESAF Small Finance Bank and its awareness level in rural areas of Thrissur district of Kerala.

Keywords: Financial Inclusion; Small Finance Bank; PMJDY

INTRODUCTION

The dynamism of the real economy demands for a flexible and competitive banking system to meet up the demands for various constituents of the economy. The Indian economy has grown manifold in the last few decades and there has been progressive liberalization and globalization of the economy. But there is still a huge chunk of population that remains unbanked or informally banked. An inclusive development and growth of the economy requires the extension of financial services to all sections of the society. In a developing country like India, the growth is accelerated by entrepreneurship, which can in turn be encouraged by improving financial opportunities to MSMEs. As per a research estimation by KPMG, by the year 2020, the MSME contribution to GDP is expected to increase from current 8 per cent to 15 per cent and the generate employment levels to the extent of 50% of the overall employment, more than doubling the current MSME workforce of 106 million across agricultural, manufacturing and services sectors. Thus, there is a requirement to ensure that the financial needs of small businesses, unorganized sector, low income households and farmers are met. Small finance banks are very important segments for providing these services to meet the credit and remittance needs of this priority sector.

A previous experimentation was done by RBI for improving financial inclusion in 1996 by licensing Local Area Banks. LABs were conceived as low cost structures for providing efficient and competitive financial intermediation services in rural and semi urban population. But LABs have since become
high cost structures with cost income ratios ranging from 58.24, so the RBI extended its experimentation by licensing Small Finance Banks in September 2015.

SIGNIFICANCE OF THE STUDY

There are a lot of changes happening in all the sectors of our economy, especially financial sector. Recently Central Government and RBI have sanctioned opening up of new forms of financial institutions such as NIDHI, Payment Banks and Small Finance Banks. The main aim of served by these banks are towards small and marginal farmers, micro and small business units, and unorganized sector firms. As there are other firms also, such as micro finance companies with the same objective, the researcher think that it is interesting to study the awareness level of rural people and the role of Small finance bank in rural area to cater the needs of above mentioned sections of the economy.

OBJECTIVE

1. To study the new beginnings in banking sector, especially Small Finance Bank.
2. To understand the awareness level and perception of the rural people about this bank.
3. To study the operation and strategy of first small bank in Kerala, namely ESAF

METHODOLOGY

Both primary and secondary data were used for the study.

A Questionnaire is used to collect required data from the respondents in rural area. The area for the study was Valappad Panchayath, in Thrissur District of Kerala state. Personal Interview with Branch Managers and officials of ESAF Small Finance Bank were also conducted to collect required data.

Required secondary data were collected from various books, articles and websites of various dailies, and official websites of entities like ESAF SFB, ESAF Microfinance and Investments (P) Ltd, etc.

Sampling & Sample Size

Convenient sampling was used to select required number of respondents from rural area. The sample size was 50 respondents from Valappad Panchayath in Thrissur District of Kerala State, India.

Analysis and Interpretation

Various tools like percentage, weighted mean score analyses were used to analyze the collected data. Charts and diagrams were also used to present the results.

LITERATURE REVIEW & THEORETICAL FRAMEWORK

Prantik Ray,(2016) XLRI Jamshedpur, India, Small Banks in India—Issues and Challenges. This paper discusses the need for financial inclusion of a large priority sector in India that is left unbanked or informally-banked. It discusses the RBI policy to further financial inclusion and the recent licensing of Small Finance Banks in order to achieve so. Small finance banks start with great promise of catering to rural and urban poor and the unbanked segment of population but they also face huge challenges in terms of building the required capacity, infrastructure to service a wide variety of clients and also to train its existing manpower to reorient themselves for offering a more full-fledged service than a typical MFI. The paper attempts to study the guidelines through which the RBI has licensed these banks, the backdrop of this new experiment and the issues and concerns shared by a wide body of stakeholders. The paper would also like to cite the example of Ujjivan, a leading NBFC-MFI, which has got the small bank license and based on the interactions with the key executives and other stakeholders of the firm the paper would like to elucidate the kind of future scenario the new entrants in the banking field would likely to encounter.
FORMS OF NEW INITIATIVES

SMALL FINANCE BANKS (SFB)

RBI granted “in principle” approval to the 10 applicants to set up Small Finance Bank. RBI gets 72 applications for small banks. The small banks are to provide a whole suite of basic banking products such as deposits and supply of credit, but in a limited area of operation.

Features of SFB

Objective- The objective of these banks is to increase financial inclusion by provision of savings vehicles to underserved and unserved sections of the population. Supply of credit to small farmers, micro and small industries, and other unorganized sectors through high technology –low cost operations.

Registration- The small bank shall be registered as a public limited company under the Companies Act, 2013

Validity- The In-Principle approval granted will be valid for 18 months to enable the applicants to comply with the requirements under the guidelines and fulfill other conditions as may be stipulated by the RBI.

Eligibility- Resident individuals with 10 years of experience in banking and finance, companies and societies will be eligible as promoters to setup small finance banks. NBFCs, Micro Finance Institutions (MFIs), and Local area Banks can convert their operations into those of a small finance bank.

Capital Requirement- The Minimum paid-up capital required for a small finance bank shall be 100 crores.

Operation- Small banks will offer both deposits as well as loan products. They cannot setup subsidiaries to undertake non-banking financial services activities. For the first three years, 25% of branches should be in unbanked areas. For the initial three years, prior approval will be required for branch expansion.

Loans & advances- The maximum loan size and investment limit exposure to single/ group borrowers /issuers would be restricted to 15 percent of total capital funds. Loans and advances of up to Rs.25 lakhs, primarily to micro enterprises, should constitute at least 50% of the loan portfolio.

Foreign Shareholding- The foreign shareholding in the small finance bank would as per the FDI policy for private sector banks as amended from time to time.

Other Key highlights of Small Finance Banks

- Small Finance Banks (SFBs) shall primarily undertake basic banking activities including acceptance of deposits and lending credit to unserved and underserved sections
- SFBs shall be subject to all prudential norms and regulations applicable to commercial banks, including maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)
- SFBs are required to extend 75% of their Adjusted Net Bank Credit (ANBC) to Priority Sector Lending (PSL)
- SFBs should ensure that at least 50% of its loan portfolio constitutes loans and advances of up to Rs.25 lakhs.

Small Finance Bank- Current Scenario in India

Eight out of the 10 entities granted the in-principle approval by the RBI, are microfinance institutions. The exceptions are Capital Local Area Bank Ltd, which operates in five districts of Punjab, and Au Financiers. Local-area banks are institutions that lend in contiguous districts, mobilizing rural savings and making them available for local investments. Au Financiers is a non-banking financial company.
Conversion of Micro Finance Institutions in to SFB- Advantages

For microfinance firms that give tiny loans to low-income earners, the key incentive for converting into small finance banks will be the access they gain to deposits; they will also be able to offer a wider range of loan products to customers.

Challenges

One challenge will be the prudential norms they have to adhere to. Small finance banks will be subject to most of the prudential norms that scheduled commercial banks have to adhere to. For instance, they need to maintain a cash reserve ratio (CRR), or portion of deposits to be set aside with the central bank, and statutory liquidity ratio (SLR), or the portion of deposits to be invested in government securities, as stipulated for commercial banks.

Seventy-five percent of the credit advanced by small finance banks will need to go to sectors that are considered part of the so-called priority sector, which includes agriculture, small enterprises and low-income earners. Commercial banks have to mandatorily lend 40% of their net bank credit to such sectors.

Small finance banks will also have to ensure that 50% of their loan portfolio constitutes advances of up to Rs.25 lakhs.

Such banks can eventually apply to RBI to transit into universal banks once they have established a satisfactory track record. Such a transition would be subject to due diligence by the banking regulator.

The minimum paid-up equity capital for small finance banks was set at Rs.100 crore and the minimum initial contribution from promoters fixed at 40%.

Some of the SFBs received ‘in principle’ license from RBI are:

1. Au Financiers India Ltd., Jaipur
2. Capital Local Area Bank Ltd., Jalandhar
3. Disha MicroFin (P) Ltd., Ahamedabad
4. Equitas Holdings (P) Ltd., Chennai
5. ESAF Micro finance and Investments (P) Ltd., Chennai

NIDHI COMPANY

A Nidhi Company is one that belongs to the non-banking Indian finance sector and is recognized under section 406 of the Companies Act, 2013. Their core business is borrowing and lending money between their members. They are also known as Permanent Fund, Benefit Funds, Mutual Benefit Funds and Mutual Benefit Company. They are regulated by Ministry of Corporate Affairs. Reserve Bank of India is empowered to issue directions to them in matters relating to their deposit acceptance activities. However, in recognition of the fact that these companies deal with their shareholder-members only.

Nidhi companies existed even prior to the existence of companies Act 1913. The basic concept of Nidhi is “Principle of Mutuality” (“Paraspara Sahayata”). Thus they function for the common benefit advantage of all their members/ share holders. These companies are more popular in South India, and 80% of Nidhi companies are located in Tamil Nadu.

Governing Law

Nidhi companies are governed by Nidhi Rules, 2014. They are incorporated in the nature of Public Limited Company and hence, they have to comply with two set of norms, one of Public limited company as per Companies Act, 2013 and another is for Nidhi rules, 2014. No RBI approval is necessary to register the company, as RBI has specifically exempted this category of NBFC in India to comply with its core provisions such as registration with RBI etc.
PAYMENTS BANKS

It is a new model of banks conceptualized by the RBI. These banks can accept a restricted deposit, which is currently limited to ₹1 lakh per customer and may be increased further. These banks cannot issue loans and credit cards. Both current account and savings accounts can be operated by such banks. Payments banks can issue services like ATM cards, debit cards, net-banking and mobile-banking. Airtel has launched India's first live payments bank. Paytm is the second such service to be launched in the country. India Post Payments Bank is the third entity to receive payments bank permit after Bharti Airtel and Paytm.

The minimum capital requirement is ₹100 crore. For the first five years, the stake of the promoter should remain at least 40%. Foreign share holding will be allowed in these banks as per the rules for FDI in private banks in India. The voting rights will be regulated by the Banking Regulation Act, 1949. The voting right of any shareholder is capped at 10%, which can be raised to 26% by Reserve Bank of India. Any acquisition of more than 5% will require approval of the RBI. The majority of the bank's board of directors should consist of independent directors, appointed according to RBI guidelines.

The bank should be fully networked from the beginning. The bank can accept utility bills. It cannot form subsidiaries to undertake non-banking activities. Initially, the deposits will be capped at ₹100,000 per customer, but it may be raised by the RBI based on the performance of the bank. The bank cannot undertake lending activities. 25% of its branches must be in the unbanked rural area. The bank must use the term "payments bank" in its name to differentiate it from other types of bank. The banks will be licensed as payments banks under Section 22 of the Banking Regulation Act, 1949, and will be registered as public limited company under the Companies Act, 2013.

On 23 September 2013, Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by Nachiket Mor, was formed by the RBI. On 7 January 2014, the Nachiket Mor committee submitted its final report. Among its various recommendations, it recommended the formation of a new category of bank called payments bank. On 17 July 2014, the RBI released the draft guidelines for payment banks, seeking comments for interested entities and the general public. On 27 November, RBI released the final guidelines for payment banks.

In February 2015, RBI released the list of entities which had applied for a payments bank license. There were 41 applicants. It was also announced that an external advisory committee (EAC) headed by Nachiket Mor would evaluate the license applications. On 28 February 2015, during the presentation of the Budget it was announced that India Post will use its large network to run payments bank. The external advisory committee headed by Nachiket Mor submitted its findings on 6 July 2015. The applicant entities were examined for their financial track record and governance issues. On 19 August 2015, the Reserve Bank of India gave “in-principle” licenses to eleven entities to launch payments banks. Some of them are Aditya Birla Nuvo, Airtel M Commerce Services, Cholamandalam Distribution Services, and Department of Posts etc.

ESAF SMALL FINANCE BANK- HISTORY & COMPANY PROFILE

ESAF Micro Finance is one among the top ten Micro Finance companies in India. Over the last 24 years, the Company has assisted over two million families through loan disbursements of more than 66 billion. Currently, it has a membership base of over one million. The Company has an extensive distribution network of 264 branches, majority of them located in the rural areas. Based in Mannuthy, Thrissur, the registered office of the Company is located in Chennai.

ESAF Micro Finance and Investments Private Limited is engaged in the business of microfinance activities. It had taken over the Micro Finance business of Evangelical Social Action Forum (ESAF) as on 31st March, 2008. The main beneficiaries of the financial assistance given by the company are weaker sections of the society, mainly women who are organized into joint liability groups.
The company was originally registered on 27th September 1996 at Chennai by name Pinnai Finance & Investments Private Limited and the present name was adopted in 2007 after take over by the Promoters of ESAF Society. The company is registered with Reserve Bank of India as a Non-Banking Financial Company-Non-Deposit taking (NBFC – ND ) vide certificate No:B.-07-0062 dated 22 August, 2007. RBI had approved its conversion into a Non-Banking Financial Company – Micro Finance Institution NBFC-MFI with effect from 7th January 2014. It has about 285 branches spread over Kerala, Tamilnadu, Maharashtra, Chhattisgarh, Madhya Pradesh, Jharkhand, Bihar, Pondicherry, Karnataka and West Bengal.

The loan products of the Company include Income Generation Loan (IGL), General Loan, Home Improvement Loan, Jeevandhara Loan, Nirmal Loan, Grihajyothi Loan, Vidyajyothi Loan, Dairy Loan, Mobile Loans and Suryajyothi Loans. The Company is an aggregator for NPS Lite Scheme administered by the Pension Fund Regulatory and Development Authority of India (PFRDA). It got appointed as an aggregator for the Mahatma Gandhi Pravasi Suraksha Yojana (MGPS) as well. The Company has started business Correspondent Service during the year 2015-16.

The Reserve Bank of India vide letter dated 7th October 2015, has issued to the company an in-principle approval for setting up a Small Finance Bank, in accordance with Section 22 of the Banking Regulation Act, 1949. Accordingly the company has formed a subsidiary company on 5th May 2016 in the name of “ESAF Small Finance Bank Ltd”. The formal inauguration of ESAF SFB was done on 17th March 2017 with the opening of 15 branches across the state. R. Prabha is the Chairman and Mr. Paul Thomas K is the MD and CEO of ESAF Small Finance Bank.

DATA ANALYSIS & INTERPRETATION

Data collected are analyzed with the help of weighted mean score and other tools. All the data collected relating to demographic and income level of respondents were not presented here. Only relevant data relating to basic research objectives are detailed below:

Table 1: Gender of respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Female</td>
<td>40</td>
<td>80</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Primary data

Since majority of beneficiaries of ESAF Microfinance are women, the researcher deliberately selected more number of female respondents.

Table 2: Having account with any commercial Bank

<table>
<thead>
<tr>
<th>Responses</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data

All of the respondents have at least one bank account.
Only 46% of the respondents have account with any NBFCs or MFI.

Table4: Awareness Level of Respondents

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Statements (Awareness About)</th>
<th>Awareness Level</th>
<th>Total</th>
<th>Total weighted score</th>
<th>Weighted Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Very High (5)</td>
<td>High (4)</td>
<td>Medium (3)</td>
<td>Low (2)</td>
</tr>
<tr>
<td>1</td>
<td>Meaning of Financial inclusion</td>
<td>17</td>
<td>24</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Micro Finance Institutions-ESAF</td>
<td>19</td>
<td>13</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>Loan products of ESAF</td>
<td>20</td>
<td>16</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>New initiatives (Payment banks, SFBetc.)</td>
<td>14</td>
<td>24</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Functions of SFB</td>
<td>4</td>
<td>8</td>
<td>7</td>
<td>29</td>
</tr>
<tr>
<td>6</td>
<td>Conversion of ESAF MFI into Small Finance Bank</td>
<td>22</td>
<td>12</td>
<td>9</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Primary data

In the above Likert’s five point analysis table, the opinions on awareness level are studied. For Complete knowledge about the statements, a value of 5 is assigned; similarly for High Awareness level, value assigned is 4; for Moderate awareness level, value is 3; for Low awareness level value assigned is 2; and for the unawareness or very low, value assigned was 1.
Overall awareness level of the respondents is high in most of the cases since the weighted mean score is around the value 4. But they don’t have much knowledge about the detailed functions of Small Finance Bank since the mean value is only 2.66. But they are highly aware about conversion of ESAF MFI into SFB due to their publicity campaign.

Table 5: Perception of Respondents about ESAF MFI & SFB

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Statements</th>
<th>Opinion of respondents</th>
<th>Total</th>
<th>Total weighted score</th>
<th>Weighted Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Loan products of ESAF are attractive</td>
<td>Strongly Agree(5)</td>
<td>Agree(4)</td>
<td>Neutral (3)</td>
<td>Disagree (2)</td>
</tr>
<tr>
<td>2</td>
<td>Procedure for loan sanctioning is Easy</td>
<td>Strongly Agree(5)</td>
<td>Agree(4)</td>
<td>Neutral (3)</td>
<td>Disagree (2)</td>
</tr>
<tr>
<td>3</td>
<td>Interest rate is affordable</td>
<td>Strongly Agree(5)</td>
<td>Agree(4)</td>
<td>Neutral (3)</td>
<td>Disagree (2)</td>
</tr>
<tr>
<td>4</td>
<td>Repayment schedule is comfortable</td>
<td>Strongly Agree(5)</td>
<td>Agree(4)</td>
<td>Neutral (3)</td>
<td>Disagree (2)</td>
</tr>
<tr>
<td>5</td>
<td>ESAF provides financial help to mutual liability group of women</td>
<td>Strongly Agree(5)</td>
<td>Agree(4)</td>
<td>Neutral (3)</td>
<td>Disagree (2)</td>
</tr>
<tr>
<td>6</td>
<td>Conversion of ESAF MFI into SFB will be beneficial for the poor.</td>
<td>Strongly Agree(5)</td>
<td>Agree(4)</td>
<td>Neutral (3)</td>
<td>Disagree (2)</td>
</tr>
<tr>
<td>7</td>
<td>I am overall satisfied with loan products of ESAF.</td>
<td>Strongly Agree(5)</td>
<td>Agree(4)</td>
<td>Neutral (3)</td>
<td>Disagree (2)</td>
</tr>
</tbody>
</table>

Source: Primary data
In the above Likert’s five point analysis table, the opinions and perception of respondents towards ESAF SFB are studied. For Strongly agree the statement, a value of 5 is assigned; similarly for agree, value assigned is 4; for neutral, value is 3; for disagree, value assigned is 2; and for strongly disagree, value assigned was 1.

Majority of the respondents agree with the statements except in the case of Interest rate. The respondents agreed with the easy loan sanctioning procedure and repayment schedule of ESAF’s loan products. The people also think that the conversion of MFI into SFB would help to extend more financial services for the poor. The overall satisfaction level is Neutral/moderate since the value is 3.200

OTHER MAJOR FINDINGS OF THE STUDY

1. The Central Government and RBI always try to include the weaker sections of the community to the mainstream of financial services and economic development.
2. Payment banks, Small finance bank and Nidhis are the main forms of new initiatives by the RBI. All these initiatives are aimed to cater the financial needs of weaker sections of the society, thereby enhancing the financial inclusion program.
3. Regarding the awareness level on various financial initiatives and institutions, the respondents have high level of understanding as the weighted mean score is around the value 4.
4. Almost all respondents have good knowledge about ESAF microfinance and its operations. People are not much aware about the functions of SFB, but they were able to comment on ESAF MFI since it has been functioning since last 5 years in Valappad Panchayat.
5. ESAF Microfinance has a network of 285 branches in 93 districts spread over 11 States. They will be converted into customer service centers or ultra-small branches or satellite offices of the SFB.

SUGGESTIONS

1. The current interest rate of MFI loans are 20-22%. The Government and RBI should take necessary steps to reduce the interest rate of loans provided by SFB formed by conversion of MFI.
2. With additional scrutiny by the RBI, the SFBs will require to strengthen their governance structures.
3. Banking Agents model can be devised to attract and help people for account opening, loan sanctioning etc

CONCLUSION

Small Finance Banks reiterate the Reserve Bank of India’s commitment to achieve financial inclusion by supporting the development of institutions that offer innovative ‘high technology, low-cost operations’ driven financial services. Eight out of the 10 institutions who have been granted provisional licenses are MFIs that have a track record of providing scalable microcredit services. ESAF Small Finance Bank is the first one in Kerala by conversion of ESAF Micro Finance. The researcher made a sample study on the awareness and perception of this bank among the people of Valappad Panchayath in Thrissur District of Kerala. The study reveals that there is high awareness and a positive attitude among the respondents towards ESAF. There are tremendous opportunities for NBFC-MFIs transforming into Small Finance Banks. SFBs will also need to approach their technology requirements with a different lens compared to the traditional banks as the former will be serving a customer base that is markedly different from that of a typical commercial bank. Hence, there is a need for cost-effective mobile-based technology deployments that are better suited to reach underserved areas. The performance of the Small Finance Banks in the next five years will, in a way, determine the path that the microfinance sector will take.
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