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Small bank model has proven a success: Panelists

AJAY KANWAL
JANA SFB

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RAJEEV YADAV
FINCARE SFB

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PN VASUDEVAN
EQUITAS SFB

"In many places, the regulations for SFBs are tighter than banks, in other areas the regulations are as strict as banks. This is as if we are punished"

BASKAR BABU
SURYODAY SFB

"Just because we are a small finance bank does not mean we are small in technology, processes and compliance"

SAMIT GHOSH
UJJIVAN SFB

"The crisis proved our resilience. Compared to private sector banks that got licences in the 70s and 80s, all of us now survive on an individual basis"

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MFIN

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ANUP ROY AND ASHLEY COUTINHO
Mumbai, 27 October

Small finance banks (SFBs) have emerged stronger after weathering the demonetisation and Covid-19 crises, proving that the model is a successful one.

This was the conclusion on the fourth day of the *Business Standard* BFSI Insight Summit, where the chiefs of the country's top SFB brainstormed about the future of these entities, along with the lessons learnt from the Covid crisis. The topic of the discussion was "SFBs: Can they make it big?"

"Can India afford SFBs not becoming big?" asked Alok Misra, chief executive officer and director of Microfinance Institutions Network (MFIN).

If India has to grow to a $5 trillion economy, credit must grow by 25 per cent every year. However, in traditional banks, "growth has been stagnant and dragged by legacy," Misra said. Therefore, the bulk of the credit growth has to be shouldered by SFBs and non-banking financial companies (NBFCs).

"Like everyone else, I was a sceptic. After five years, my scepticism has disappeared, and I am very bullish on it," said Misra, while endorsing the SFBs' good corporate governance practices, as well as focus on inclusiveness, customer-centric approach, and digitisation, which are driving people to these banks.

The heads of the SFBs were confident of making it big in the future, and as former deputy governor of the Reserve Bank of India (RBI) R Gandhi predicted in his keynote address, many of them wanted to turn into financial conglomerates, focused on a mix of niche products.

"For us, becoming big is not the most important feature. That will happen naturally. But we want to be the best in class in terms of customer service, governance and digitisation. The market is very large indeed," said Ajay Kanwal, managing director and CEO of Jana SFB.

The Covid-19 pandemic indeed tested the resilience of the sector. In real-time stress tests, the SFBs found their capital was more than adequate, according to R Baskar Babu, co-founder and CEO of Suryoday SFB.

"Covid has given us double or triple Black Swan shock. But in our stress tests, we found we have more capital than we needed. The digital acceleration, however, would have not happened if not for Covid. Because of the crisis, digitisation advanced three-four years," said Babu.

"The crisis proved our resilience. Compared to private sector banks that got licences in the 1970s and '80s, all of us now survive on an individual basis. Having gone through two crises is a remarkable achievement," said Samit Ghosh, founder of Ujjivan SFB.

"Obviously, there will be high credit costs, which we will have to manage. But we are well capitalised," said Ghosh.

It took 18 months for Ujjivan to recover from the impact of demonetisation. The possibility of a third wave of Covid led by the festive season, though, is an uncertainty for the sector, he said.

The SFBs chiefs were also forthcoming on their expectations from the RBI.

PN Vasudevan, founder and MD of Equitas SFB, said the regulator should not hold the same yardstick for SFBs that it uses for universal banks.

"In many places, the regulations for SFBs are tighter than banks, in other areas the regulations are as strict as banks. This is as if we are punished," said Vasudevan. "The regulator and our association must have very serious, free and fair, discussions on issues," he said.

For example, in the case of micro, small and medium enterprises (MSME) schemes like Udyami Mitra, the SFBs have to register the beneficiaries for loans and link their Aadhar, whereas NBFCs do not have any such obligations.

"After five years there should be a review and we need to discuss what kind of regulatory framework is needed," said Vasudevan.

The regulator must also give some leeway to SFBs in terms of restructured loans. If a Covid-impacted stressed borrower asks for fresh loans later on, what should the SFBs do? asked Kanwal.

"Getting government deposits would be a great idea if we are into financial inclusion," Kanwal said.

Rajeev Yadav, MD and CEO of Fincare SFB, said initially there was a fear that the moratorium would hit the SFBs hard, "but it played out very well".

The Emergency Credit Line Guarantee Scheme (ECLGS) scheme targeted towards the MSME sector could have encompassed agricultural borrowers too, felt Yadav. As a result, the SFBs had to discriminate between two sets of borrowers even as both were under stress.

"There could have been a special programme for April to June EMI as well. We needed to do some MFI tuning to meet the needs of agri and non-agri customers," said Yadav.

The SFBs also acknowledged the rapid emergence of fintech companies. They said they should ideally collaborate with them, and not treat them as outright competitors.

"The fintech revolution is not just about customer experience, but also about the product. Buy now, pay later is not only a service, but it is also a product," said Yadav.

"Banks across the world are the lousiest users of technology. Fintechs are our serious threat. The solution really lies in doing tie-ups, and trying to become more agile," said Ghosh.

Collaboration with fintech is fine, but "it is important to remember that we are not reduced to being a back-office," Vasudevan said.