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STUDY ON ROLE OF SMALL FINANCE BANKS WITH RESPECT TO FINANCIAL INCLUSION

KEY WORDS: Financial Inclusion, Small Finance Bank, Banking Services, Reserve Bank of India, Local Area Banks

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ABSTRACT

Financial Inclusion is providing the financial services at affordable cost to vulnerable and unbanked section of the society in comparison to financial exclusion where those services are not available due to less affordability and lack of reach to this under privileged section of society. This paper explores the role of Small Finance Banks in promoting financial inclusion, emphasizing their unique characteristics and strategies. It also emphasizes how Small Banks contribute to economic growth and development by increasing the participation of individuals in the formal financial sector through financial inclusion.

INTRODUCTION

Financial inclusion simply means ensuring that everyone, regardless of background, has cost-effective access to the nation's financial services. It focuses on integrating the integrating disadvantaged and vulnerable social sectors into the economy and giving them with benefits, thereby increasing the country's GDP (Gross Domestic Product) through an increased the clientele of financial institutions thus, future earnings will be substantial, and this cycle will continue. It aids in bolstering GDP growth by stabilizing the financial system, promoting savings among rural inhabitants, and integrating needy individuals into the formal banking sector. [1] Chakrabarty defined "Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players". [2] Starting from the fiscal year 2005-06, the Reserve Bank of India (RBI) has been giving greater significance to financial inclusion in its annual policy. The RBI defines financial inclusion as a systematic effort to provide way to appropriate financial products and services for all part of society, including weaker groups like weaker sections and low-income groups. The aim is to ensure that this access is affordable, fair, transparent, and facilitated by mainstream institutional players.[3] Financial inclusion entails ensuring that underprivileged segments and individuals with low incomes have affordable access to financial services and credit whenever required.[4] Financial inclusion means broadly accessible, diverse, and affordable financial services. These include financial services as well as insurance and stock investments.[5] The path to achieving financial inclusion began in July 1969 with the nationalization of 14 commercial banks, followed by the nationalization of six more commercial banks in 1980.For the purpose of improving banking services in rural regions, the establishment of regional rural banks took place in 1975.Subsequently, in April 2010, after the liberalization of the banking sector, comprehensive banking reforms were introduced, encompassing the issuance of both universal and specialized banking licenses. These reforms aimed to broaden the reach of financial services to rural communities [6] Since 1975, both the Government of India (GOI) and the Reserve Bank of India (RBI) have been instrumental in enabling the inclusion of individuals in the financial system. This has been achieved through the introduction of various innovative financial services, including Kisan Credit Cards (KCCs), the Banking Correspondent-Banking Facilitator Model, the SHG-Bank Linkage Programme, Direct Benefits Transfer, USSD Mobile Banking, and Regional Rural Banks. Additionally, initiatives like Rashtriya Mahila Kosh and Rashtriya Swasthya Bima Yojana have also been implemented to further support financial inclusion efforts.[7] To ensure the triumph of the financial inclusion initiative in India.[8] Because of organisational constraints and financial illiteracy, all these financial institutions have not been able to fully serve the entire population, especially rural women and small customers.

The RBI's Small Finance Bank (SFB) is a new initiative designed to attract unbanked and underbanked persons into the banking system.[9] Recognizing the crucial impact small finance banks can have in improving financial access for micro and small enterprises, extending banking services to under banked regions, as well as supporting agricultural sectors, the Reserve Bank of India (RBI) has chosen to authorize the establishment of new private "Small Finance Banks".[10]

Under this system (SFBs), the Reserve Bank of India authorized licenses to private sector Small Finance Banks. The main objective behind establishing these SFBs was to promote financial inclusion by effectively utilizing deposits and offering credit to micro, small, and unorganized businesses with minimal processing costs (RBI, 2014). [11] In pursuit of this goal, the Indian government has implemented many measures to accomplish financial inclusion, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), the MUDRA Programme, and the establishment of Microfinance Institutions. In September 2013, the Reserve Bank of India (RBI) formed a committee led by Dr. Nachiket Mor with the aim of enhancing financial inclusion..[12] The "Comprehensive Financial Services for Small Businesses and Low-Income Households" report, also known as the Nachiket Mor Committee Report, introduced two main banking system models for the country: the horizontally differentiated banking system (HDBS) and the vertically differentiated banking system (VDBS). These models are cantered around the fundamental aspects of payments, deposits, and credit, with the objective of meeting the varied requirements of micro businesses and low-income households.[13]

Small finance banks play a pivotal role in addressing the financial requirements of underserved segments of society, including small business units, small and marginal farmers, small-scale enterprises, and disorganized sectors. These groups, which often face limited access to financial services, are frequently neglected by Scheduled Commercial Banks and Non-Banking Financial Institutions..[14]Small finance banks play a vital role in catering to the financial needs of underserved segments of society, such as small business units, small and marginal farmers, small-scale enterprises, and unorganized sectors. These groups, which often lack sufficient access to financial services, are frequently overlooked by Scheduled Commercial Banks and Non-Banking Financial Institutions. [15] A Small Finance Bank

(SFB) is a specialized banking institution dedicated to promoting financial inclusion through the provision of technologically advanced products and services designed specifically to serve to the requirements of marginalized individuals and businesses. [6]

The Committee presented recommendations regarding the establishment of various types of Small Finance Banks, which are recognized as banking institutions. In line with the Committee's suggestions, the Reserve Bank of India (RBI) issued guidelines in 2014, inviting interested institutions to establish Small Finance Banks. On September 16, 2015, the RBI provided "in principle" approval to eleven entities, comprising Microfinance Institutions (MFIs), Non-Banking Financial Companies (NBFCs), and Local Area Banks (LABs), for the establishment of Small Finance Banks.

The primary aim behind the creation of these banks was to prioritize the welfare of economically disadvantaged sectors within society. Small Finance Banks were entrusted with vital banking functions, including mobilizing deposits and providing loans to underserved segments, such as small business units, small and marginal farmers, micro- and small-scale industries, and unorganized retail businesses.[12]The main aim behind setting up Small Finance Banks was to offer financial assistance to individuals with low incomes.

As of March 16, 2019, India has several Small Finance Banks, including AU Small Finance Bank, Capital Small Finance Bank, Fincare Small Finance Bank, Equitas, ESAF, Suryoday, Ujjivan, Utkarsh, North East Small Finance Bank, and Jana Small Finance Bank. These banks were introduced with the objective of addressing the financial requirements of individuals belonging to economically disadvantaged backgrounds.[16] The main goal of establishing these banks is to foster financial inclusion among underprivileged part of the population who are currently underserved by conventional banking institutions.

These marginalized groups include small businesses, small and marginalized farmers, micro- and small-scale enterprises, as well as the unorganized sector. Small Finance Banks possess the ability to carry out similar functions to regular commercial banks, albeit on a smaller level, and with a dedicated emphasis on serving to the needs of the low-income sector. [17]

The primary revenue for a Small Finance Bank is derived from offering loans to its target customers. It is a requirement for an SFB to allocate at least fifty percent of its loan allocation to loans and advances amounting to Rs. 25 lakhs or less. [18] These organisations have been providing services to underserved and unserved communities in various regions of the country. The awarding of a banking licence would turn "Banking for the Unbanked" into a full-service financial institution, therefore bolstering their operations. It is a watershed moment on the path to financial inclusion for all.[19]

MATERIALS AND METHODS

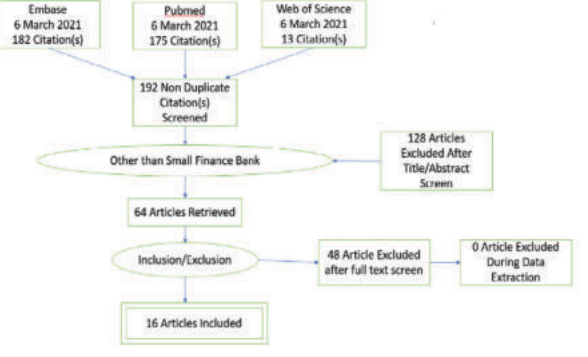

Fig. 1. Flowchart showing the search strategy and inclusion of studies from the peer reviewed data bases.

Table 1:Main Discoveries:The Importance of Small Finance Banks in Advancing Financial Inclusion in India.

Research Type/Name	Study Population and Duration (Abstract what paper is about)	Type of intervention	Outcomes assessed/ Findings	Reference
Assessment of Functions: Small Finance Banks and Their Impact on Financial Inclusion in India.	This article focuses on an efficient financial system, for which the Indian government has enacted a number of programmes, ranging from Jandhan Yojana to the issuance of licences to local banks to function as Little Banks in India.	Review	Small Finance Banks present the government with a chance to expand its reach, strengthen its brand reputation, and efficiently implement policies in sectors and markets that lack adequate services. The present needs of the Indian economy revolve around the four pillars of financial services: awareness, affordability, accessibility, and accountabilitySmall banks play a crucial role in establishing a financially inclusive and resilient economy in India. As a result, there exists a significant connection between financial inclusion and economic growth.	[8]
The Contribution of Small Finance Banks in India towards Financial Inclusion.	This article deals into the evolution and accomplishments of Small Finance banks over the years.	Review	Small finance banks play a pivotal role in advancing financial inclusion in India by strategically locating over 95% of their branches in rural and semi-urban areas.They extend their services to individuals across various economic strata, including those with limited incomes.	[16]
Small Finance Bank in India: An Initial Analysis of Their Development	This paper showcases the expansion of small and medium-sized businesses (SFBs) in India, emphasizing their growth in terms of branch numbers, geographic reach, and business scale.	PRELIMINARY STUDY	Through the establishment and progress of Equitas SFB and Capital SFB, the foremost Small Finance Banks (SFBs) that originated as Microfinance Institutions (MFI) and Local Area Banks (LAB) respectively, the Southern and Northern regions initially witnessed a favorable geographic focus. Nevertheless, as new SFBs emerge and extend their operations to diverse regions of the country, it is anticipated that the distribution will achieve greater equilibrium by the conclusion of the 2020-21 period. Furthermore, by 2020-21, there will be a heightened presence of branches in semi-urban and rural areas.	[12]

Small Financial Institutions and the Inclusive Development of our Economy	In this article, we explore the active contributions of Small Finance Banks in India towards the progress of financial inclusion.	Review	Striking a harmonious balance between long-term maintainability and the goals of financial inclusion is crucial for the prosperity of specialized banks. The importance of adopting a comprehensive approach to tackle financial exclusion is becoming more apparent. In this context, banks have a substantial role in promoting financial product awareness, providing financial education and guidance, assisting with money management and debt counseling, encouraging savings habits, and facilitating access to affordable credit.	[6]
The Emergence and Growth of Small Finance Banks in India: Boosting Financial Inclusion	This research paper examines the expansion of Small Finance Banks (SFBs) in India and their impact on improving access to financial services. The study adopts an analytical and descriptive approach, drawing upon data from various sources.	Review	According to the guidelines, 75% of the loans provided by Small Finance Banks (SFBs) should be allocated to the priority sectors. Remarkably, over 80% of the loans disbursed by the ten operational SFBs have been directed towards the priority sector. The primary focus of these loans remains on Small and Medium-sized Businesses (SMBs), followed by the agricultural sector. This vividly demonstrates the crucial role played by SFBs in advancing financial inclusion. In the fiscal year 2019-20, SFBs demonstrated improved asset quality, resulting in considerable enhancements in provisioning and contingency requirements, and a rise in their Capital to Risk-Weighted Assets Ratio (CRAR). The Reserve Bank of India (RBI) implemented several measures throughout the year to enhance the accessibility of these specialized banks. The number of employees within an organization serves as a key indicator of its contribution to economic growth and job creation.	[18]
Leveraging India's Small Finance Bank (SFB) for the Attainment of Financial Inclusion	In this study, an examination is conducted on multiple aspects of financial exclusion, while emphasizing the pivotal role of Small Finance Banks in supporting the government's efforts to improve financial accessibility. The report underscores the significance and pertinence of Small Finance Banks in realizing financial inclusion in India. Furthermore, it sheds light on the transformative hurdles encountered by Microfinance Institutions (MFIs) during their conversion into Small Finance Banks.	Review	In order to leverage the immense potential of the rural market, Small Finance Banks need to create suitable offerings, develop a strong strategy, and establish a dependable distribution network to effectively attract potential customers. Additionally, it becomes crucial to implement cost-effective mobile technology solutions that are tailored to meet the needs of underserved regions.	[19]
Small Finance Banks: An Innovative Categorization of Unique Banking Institutions	The organizations authorized to establish new banks have a proven track record of success as microfinance institutions (MFIs). Nevertheless, the transition into small finance banks presents significant challenges, particularly in terms of managing distinct asset and liability products. Nonetheless, these challenges also present opportunities for growth and development. This study provides a minute examination of the unique characteristics of the specific banks introduced by the Reserve Bank of India.	Review	While small finance banks may encounter competition from established universal banks, they also have the potential to pose a threat by attracting rural deposits and challenging the priority sector commitments of existing banks. Many of these microfinance institutions (MFIs) have already established an extensive reach and can restructure their microfinance operations to leverage the significant opportunities presented by the new small finance bank format.	[10]

Penetration and Hurdles Encountered by Small Finance Banks in India	This article delves into the growth and expansion of Small Finance Banks across India and examines the challenges they face during this journey.	Review	SFBs perform well even though they make a minimum amount of profits. NNPA ratio and CAR indicate their sound financial positions over a period of time. SFBs face the challenges of lending restrictions, building distinct business models, low cost financial products and services, acquisition and management of disruptive technologies, cut throat competition, small scale operations and compliance management	[15]
Performance of Small Finance Banks: A Preliminary Analysis*	The paper provides an initial evaluation of SFB performance for early policy inputs.	Preliminar y Study	The empirical results suggest that micro factors, including efficiency, leverage, liquidity, and banking business, play a significant role in influencing the profitability of SFBs during their initial operational stages. Because SFBs are founded with the intention of servicing a particular sector of the nderprivileged population rather than as profit-driven intermediaries, this may be the result.	[11]
Small Financing Banks – Obstacles and Possibilities	In light of how the economy is changing, the article talks about the goals, problems, and future of small financial institutions.	Review	Small Finance Banks are set to bring about a significant overhaul of the Indian banking system. They are expected to enhance competitiveness and inclusivity in banking services for borrowers and depositors, ultimately reducing the overall banking costs for the general population. Moreover, the Reserve Bank of India has granted Small Finance Banks the flexibility to open accounts using digital signatures and electronic verification methods, thereby eliminating the need for physical signatures.This facilitates customer onboarding in remote geographical areas where establishing a physical branch may not be feasible	[17]
Evaluating the Credit Risk of Small Finance Banks in India.	With their extensive reach and service to a significant portion of the population, these banks will contribute to the growth of the country's economy.	Review	Small-finance banks should strive to improve their current ratio since it will assist them in satisfying their short-term obligations. ii. Customers should invest in banks that offer greater interest yields and are able to refund deposits when necessary. iii. The loan portfolios of small finance institutions should be managed with care. This assists in maintaining a healthy asset turnover ratio. iv. The banks should reduce their operational expenditures if operational expenses comprise a significant portion of total expenses. v. The banks' operational expenditures should facilitate optimal development and upkeep.	[14]
Promoting Financial Inclusion in India: The Role of Small Finance Banks	This paper offers an analysis of the historical progression of financial inclusion in India spanning from 1956 to 2016. Additionally, it provides a comprehensive examination of the emergence of new small finance institutions.	Review	The author says that no matter what small finance institutions do, they must make it easier for borrowers because finance always takes advantage of people. He chuckled when he heard that finance was helpful. We may anticipate increased competition in rural banking, and incumbent institutions will need to adapt accordingly.	[1]

DISCUSSION

Nevertheless, given the immense scale of the country, having merely 10 of these banks may prove inadequate.If financial inclusion is to be pushed on a national level in a real and serious way, there needs to be a lot more of them. The Reserve Bank of India stated its intention to authorise further similar banks in the future, based on the initial batch's performance. These banks will undoubtedly increase financial literacy. For analysing Financial Inclusion in the country study can be done on different parameters as well to get complete picture.

CONCLUSION

Financial literacy is crucial for the achievement of financial inclusion. Small finance banks' assistance can assist the government in organizing workshops to financially educate people. The government's unwavering commitment to financial inclusion is exemplified by the establishment of Small Finance Banks, which represents a crucial milestone in realizing this objective. These banks have been granted authorization to cater to the underprivileged and marginalized segments of society. Their presence will foster competition and inclusivity in banking services for borrowers and depositors, ultimately creating banking more accessible to the general public.The RBI also permitted small finance banks to create accounts without needing a wet signature, instead relying solely on digital signatures and electronic verification, easing client onboarding in geographically remote places where building a physical presence may be impractical. Therefore, financial inclusion and economic growth are connected.

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