

Growth and Development of Small Finance Banks and its Role in Promoting Financial Inclusion in India

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ABSTRACT

The Indian Banking Sector is broadly classified into Commercial Banks, Small Finance Banks, Payment Banks and Cooperative Banks. Small Finance Banks (SFB) is a type of niche banks in India. The aim of these banks is to provide financial inclusion to sections of the economy not being served by other banks such as small business units, small and marginal farmers, micro and small industries and unorganized sector entities. SFB, the segment of banking created by Reserve Bank of India under the guidance of Government of India with an objective of furthering financial inclusion. Financial inclusion plays a major role in inclusive growth of the country. The growth of our economy is dependent on the growth of the rural India. The availability of quality financial services in rural areas will enable the large number of rural households to fund their livelihoods. The objective of this research paper is to study the progress of SFB in India and its role in promoting financial inclusion. The present study is analytical and descriptive in nature and is based on the secondary data. The study concludes that there is tremendous growth in the small finance banks and it contributes towards the economic development. It promotes financial inclusion by providing easy access to masses to banking services and helps in extending banking service to the unbanked rural villages.

Key Words: Small Finance Banks, Financial Inclusion, Inclusive Growth, Economic Development.

INTRODUCTION

The Indian Banking Sector is broadly classified into Commercial Banks, Small Finance Banks, Payment Banks and Cooperative Banks. Small Finance Banks (SFB) is a type of niche banks in India. SFB implemented on September 16, 2015 approved by Reserve Bank of India (RBI) with minimum capital requirement of Rs. 100 crores. The aim of these banks is to provide financial inclusion to sections of the economy not being served by other banks such as small business units, small and marginal farmers, micro and small industries and unorganized sector entities. SFB is a specific segment of banking created by RBI under the guidance of Government of India with an objective of furthering financial inclusion. The main objective behind setting up small finance bank by Reserve Bank of India was to drive the objective of financial inclusion by making provision of savings and to provide credit to disadvantaged sections that are not served by other banks through high- end technology and low cost operations. It is mandatory for SFB to set up at least 25 per cent of its branches in the unbanked remote and rural areas. SFBs should ensure that at least 50 percent of its loan portfolio constitutes loans and advances of maximum up to Rs. 25 lakhs.

Commercial banks can offer loans to all the customers where as a SFB should provide 75% of the loans to priority sectors. A commercial bank can earn revenue by loans and transaction charges. The main source of income for SFB is by lending services to the target customers. Financial inclusion plays a major role in inclusive growth of the country. The growth of our economy is dependent on the growth of the rural India. The availability of quality financial services in rural areas will enable the large number of rural households to fund their livelihoods. Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). Financial Inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan).

STATEMENT OF THE PROBLEM

Needs of different business entities are directly supported by Nationalised Banks, Scheduled Banks, Private Banks, Foreign Banks and Co-operative Banks with well designed policies. The main objective behind setting up small finance bank by Reserve Bank of India was to drive the objective of financial inclusion by making provision of savings and to provide credit to disadvantaged sections that are not served by other banks through high- end technology and low cost operations. Is SFB provides financial inclusion and plays a role in the inclusive growth of the country? What is the role of SFB in promoting financial inclusion?

OBJECTIVES OF THE STUDY

- To study the progress of SFB in India.
- To understand the role of SFBs in promoting financial inclusion.

RESEARCH METHODOLOGY

The present study is analytical and descriptive in nature and is based on the secondary data which is collected from Annual Reports, Banks Websites, books, journals and news papers.

ANALYSIS & FINDINGS

Small Finance Banks operational in India at end March 2020

AU Small Finance Bank Ltd (AUSFB)

AU Financiers founded in Jaipur in 1996 by Mr. Sanjay Agarwal as a non deposit taking Non Banking Finance Company effectively worked on funding economic growth especially for the under- served and unserved low and middle class individuals. In 2015 when RBI came out with the SFB licensing guidelines, AU was the strongest of the 10 selected entities and transformed into AUSFB in April 2017. Today it stands tall as a scheduled commercial bank and a fortune India 500 company that is enabling to convenient banking experience with many industries. The total deposits mobilised by the bank by end March 2020 is Rs. 26,163.93 crores and the total advances disbursed is Rs. 26,992.42 crore. It is spread over 11 states with 647 touch points and 17,112 employees working. It has executed the requirements of key licensing guidelines- 85% loans to priority sector and 60% of loans value less than Rs. 25 lakhs and 335 of the branches are at rural locations.

Ujjivan Small Finance Bank (USFB): It is among the leading small finance banks in the country. As a mass market bank, it remains committed to serve the unserved and underserved segments through financial and digital inclusion. Become one-stop destination for financial services and offer personalized customer experience. With technology as a key enabler, Ujjivan Small Finance Bank continues to expand its reach and enhance customer experience. As a 'Responsible Bank', Ujjivan Bank stay invested in creating a sustainable social impact through community development and financial literacy initiatives. Ujjivan Financial Services Limited (UFSL) commenced operations as an NBFC in 2005, with the mission to provide a full range of financial services to the 'economically active poor' who were not adequately served by financial institutions. On receipt of License from RBI, UFSL set up Ujjivan Small Finance Bank (USFB) and commenced its Banking operations from February 1, 2017. It is a 'scheduled bank' included in the Second Schedule to the Reserve Bank of India Act, 1934 and a listed Entity. The Bank has more than 56.6 lakh customers, 16,733 employees, 575+ banking touch points across 244 districts, 24 states and Union Territories - as of December 31, 2020. With alternative channels and digital footprint across internet banking, mobile application, tablet-based origination and phone banking among others, provide 24x7 accesses to full services of the Bank. The total deposits mobilised by the bank end March 2020 is Rs. 10,780.48 crores and the total advances disbursed is Rs. 14,043.64 crores.

Equitas Small Finance Bank Ltd. (ESFB)

ESFB is a new age bank that gives children, youth, families and people across India a new way to bank. ESFB is founded in 2016 by Equitas as a micro finance lender. After receiving license from the RBI on 30th June 2018 ESFB began banking on 5th September 2016 as a subsidiary of holding company Equitas Holdings Ltd. on 4th February 2017 Equitas became a scheduled bank. ESFB has 854 branches and 16,106 employees and the deposits mobilised by the bank end March 2020 is Rs. 10,788.41 crores and the amount of loan disbursed is Rs. 13,747.24 crores.

Utkarsh Small Finance Bank Ltd. (USFB)

Utkarsh commenced its journey from Varanasi as a micro finance institution with four branches having a client base of 8,000 and outstanding portfolio of Rs. 6.3 crores. During 2015-16 received RBI's in- principle approval to start operations as a small finance bank. USFB started commercial banking operations as SFB in

2017. By the end of 2020 the deposit base was Rs. 5,235.21 crores and the amount of loan disbursed is Rs. 6,281.60 crores. With more than 500 banking outlets and the customer base has crossed 2.5 million. 91.79% loans to priority sector and 93.61% loans value less than 25 lakhs.

Evangelical Social Action Forum Small Finance Bank Ltd (ESAFSFB)

ESAF microfinance is non banking finance company and a premier microfinance institute in India. It was established on 11th March 1992 in Thrissur, Kerala. It is the first bank in Kerala to get banking license after independence. With a successful venture since its inception, ESAF Microfinance at present has 3750 employees across 18 states in India. ESAF is successfully running its microfinance business through 454 dedicated branches and has 40.74 lakh customers. The total deposits mobilised by the bank end March 2020 is Rs. 7,028.38 crores and the total amount of loan disbursement was Rs. 6,547.82 crores.

Jana Small Finance Bank (JSFB)

JFSB is a scheduled commercial bank, established in Bangalore in 2008, it has been recognised globally as one of the most innovative financial institution working on financial inclusion. Since inception JFSB's purpose has been to make every Indian prosperous bringing about a positive difference and improving the lives of the urban unserved. JFSB is small finance bank commenced its operations on March, 2018 headquartered in Bangalore. Prior to becoming a bank, the company was India's largest microfinance Institute Janalakshmi Financial Services, founded July 24, 2006. The total amount of Deposits mobilised by the bank end March 2020 was Rs. 9,651.95 crores and the amount of Loan disbursement was Rs. 9,959.24 crores.

Fincare Small Finance Bank (JSFB)

The journey of JSFB was the process of coming together of two NBFC Micro Finance Institutions, Future Financial Services and Disha Microfinance. The bank commenced banking operations on 21st July 2017 with a vision to enable the financial inclusion of the unbanked and under banked base of the pyramid, mass retail and micro and small enterprise segments with the active participation of the affluent. It is a scheduled bank which recognises digital as the currency that is going to radically change India's future and in particular banking with a 3D approach viz Digital, Doorstep and Delightful rates conflict of becoming a force to reckon as a smart bank of choice in India. JSFB at present has been spread over 203 districts in 14 states across India. The total amount of Deposits mobilised by the bank end March 2020 was Rs. 4,653.93 crores and the total amount of Loan disbursed was Rs. 4,815.58 crores.

Suryoday Small Finance Bank (SSFB)

SSFB started eight years ago as Suryoday Micro Finance. Today it is among 10 companies and the only one from Maharashtra to obtain small finance bank license from the Reserve Bank of India. SSFB is a new age bank that went live on January 23rd 2017. Its aim is to bring the best banking solutions to the banked, under banked and the unbanked sections of the society. The bank is spread over 12 states with 477 branches and 14 lakhs customer base and 4,695 employees. The total amount of deposits mobilised by the bank end March 2020 was Rs. 2,848.71 crores and the amount of loan disbursed was Rs. 3,531.94 crores.

Capital Small Finance Bank (CSFB)

CSFB is India's first small finance bank, started operations on April 24, 2016. Capital Local Area bank along with nine other entities was granted in- principle approval by the Reserve Bank of India to set up small finance bank on September 16, 2015. Prior to conversion to a small finance bank, Capital Local Area Bank was operating as India's largest local area bank since January 14, 2000. The bank pioneered in bringing modern banking facilities to the rural areas at low cost. The focus to serve common man and the local touch advantage has given the bank a competitive edge over other banks operating in the region. The bank is providing safe, efficient and service oriented repository of savings to the local community while reducing their dependence on money lenders by making need based credit easily available. CSFB is a scheduled commercial bank having 158 branches spread in the state of Punjab and started expansion to the states of Delhi, Haryana, and Rajasthan along with union territory of Chandigarh. The total business of the bank has crossed Rs. 8,588 crores with over 7,66,000 accounts. The bank has 80 percent of its business in rural and semi urban areas with priority sector lending of 80.81 percent. The total amount of deposits mobilised by the bank end March 2020 was Rs. 4,446. 62 crores and the amount of loan disbursed was Rs. 3,308. 31 crores.

North East Small Finance Bank (NESFB)

NESFB is the wholly owned subsidiary of RGVN (North East) Microfinance Ltd. It is the only institution from North Eastern state of India to receive the recognition to small finance bank on September 16, 2015 from the Reserve Bank of India. It was incorporated on July 25, 2016 as a subsidiary to its parent company RGVN (North East) Microfinance Ltd. The bank has commenced its banking business on October 17, 2017. At present bank is having 209 branches spread over nine states in India with 5,56,486 clients. NESFB has

designed various asset liability products to meet the financial needs of the customers who have been deprived from the formal banking and other financial services.

Consolidated Balance Sheet of SFBs

Equity & Liabilities	Amount (Rs. in crores)
Share capital	5,151.00
Reserves & Surplus	11,047.00
Tier II Bonds	3,795.00
Deposits	82,488.00
Borrowings	30,004.00
Other Liabilities & Provisions	4,078.00
Total	1,32,689.00
Assets	
Cash in hand	976.00
Balance with RBI	4,082.00
Other bank balance	8,701.00
Investments	24,203.00
Loans & Advances	90,576.00
Fixed Assets	1,649.00
Other assets	2,580.00
Total	1,32,689.00

Source: Off-site returns (domestic operations) RBI

CONCLUSION

Banking sector plays a significant role in the growth of Indian Economy. The study indicates that there is remarkable growth in the SFBs. While reviewing the progress made by SFBs it can be seen that the total amount of deposits mobilised is Rs. 82,488 crores and the amount of loans and advances amount to Rs. 90,576 crores. The indicator of the progress of the SFB is the deposits mobilised by them. It indicates the trust and faith of the customers in the bank. The loans and advances are the major source of revenue to the banks. It is an important input for agriculture sector, commerce and other productive activities for the socio economic development of the country. As per the guidelines SFB should provide 75% of the loan to the priority sectors. All the ten operational SFBs have provided more than 80 percent of the loans to the priority sector. Within priority sector, their focus remained on MSMEs followed by agriculture. It clearly shows that how SFBs contributes for financial inclusion. During 2019-20, the asset quality of SFBs improved leading to a significant contribution in provision and contingencies requirements even as their CRAR improved. During the year, the RBI initiated several measures to expand the reach of these niche banks. The number of employees working in each organisation shows that it helps in contribution to economic development and employment generation.

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