

GROWTH OF SMALL FINANCE BANKS AND ITS CONTRIBUTION TO FINANCIAL INCLUSION IN INDIA

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Abstract

In India being a developing country the most of the people are not getting the systematic and structured financial products and services from the formal financial institutions. Many poor people are exploited by the rich money lenders who are lending the money without getting license from Reserve Bank of India. These vulnerable people need to be protected to achieve the economic growth in India. Still most of the poor people are unaware of saving their hard earned money in the proper channels available in the financial markets. It would be the barrier for the economic development of the country. This barrier can be removed by the implementation of financial inclusion. Financial inclusion has a vital place in the economic growth of the country. Introduction of Small Finance Banks is the one of the methods of financial inclusion implemented by government of India under the guidance of Reserve Bank of India. The growth of Small Finance Banks can be a symptom of the success of the financial inclusion. In this article the endeavor has been taken to find the growth of Small Finance Banks and its contribution to financial inclusion in India.

Key Words: Commercial bank, Economic growth, Financial inclusion, NBFC, ND, Small Finance Banks.

INTRODUCTION

The economic development of a country is mainly depends upon the financial strength of the society. This can be achieved only through the availability of financial products and services to all the people of the country. In India still vulnerable group of people are there without getting the financial products and services from the organized financial institutions. A good economic system should make all financial products and services available to all unprivileged and under privileged group of people so that the economic development of the country can be attained. The government of India and Reserve Bank of India are taken necessary steps to include all the people in financial inclusion. The financial inclusion is a method of providing the basic financial products and services to all the people in the society without any discrimination about gender, income, wealth etc. Many schemes were introduced by government of India in association with Reserve Bank of India to effect the financial inclusion. Introduction of Small Finance Bank is one among all the significant steps towards financial inclusion.

Small Finance Banks are considered as a type of differential banks or niche banks. The main purpose of these banks is serving the particular segment of people. Similar to all other commercial banks these banks can accept deposits from public and lend loan to the needy. Moreover all the other basic activities of the banking such as distribution of units of mutual funds, different products of insurance and / or pension fund, etc also can be undertaken by Small Finance Banks. Small Finance Banks can undertake all these activities only after getting prior approval from Reserve Bank of India. The main difference between all other commercial banks and Small Finance banks is the former is the universal banking and the latter is the segment banking. Small Finance Banks are public limited companies under private sector and registered under the Companies Act 2013. These banks are licensed and governed by Banking Regulation Act 1949. Small Finance Banks are given commercial bank status once they started their business.

OBJECTIVES OF THE STUDY

The following are the main objectives of the study

- To find the growth of Small Finance Banks
- To ascertain the contribution of Small Finance Banks in financial inclusion

HISTORY AND GROWTH OF SMALL FINANCE BANKS

On July 10, 2014 in Union budget 2014-15 the announcement was made by government of India regarding the introduction of Small Finance Banks. The draft guidelines for Small Finance Banks were issued by Reserve Bank of India on July 17, 2014 for getting comments from interested entities and the general public. On November 27, 2014 the final guidelines were issued by Reserve Bank of India for licensing and other regulations of Small Finance Banks. Announcement was made to inform the interested parties to submit applications before January 16, 2015 to start the Small Finance Banks. In the month of February 2015 RBI released the applicants list consist of 72 applicants who are applied for the license to start the Small Finance Bank. This applicants list was evaluated by an external advisory committee to provide license under the head of UshaThorat. As per the report given by this committee provisional licenses were given by RBI to ten entities on 17th September 2015 to commence Small Finance banks. A Small Finance Bank can get the status of scheduled bank if it fulfills all the compliances of RBI Act 1934 Section 42 (6) (a). The following are the list of Small Finance Banks which are started under the recommendation of this external advisory committee.

- Capital Small Finance Bank Limited
- Equitas Small Finance Bank Limited
- Suryoday Small Finance Bank Limited
- Ujjivan Small Finance Bank Limited
- Utkarsh Small Finance Bank Limited
- Au Small Finance Bank Limited
- Esaf Small Finance Bank Limited
- Fincare Small Finance Bank Limited
- Jana Small Finance Bank
- North East Small Finance Bank Limited

Capital Small Finance Bank Limited

The first small Finance Bank in India is 'Capital Small Finance Bank Limited'. It's headquarter is at Jalandhar. It was started on 24th April 2016. This bank was converted from the India's largest local area bank named 'Capital Local Area Bank' with 47 branches. This local area bank was in operation since 14th January 2000. To serve common man seven days branch banking was introduced by the Capital Small Finance Bank Limited with extended banking hours. The number of branches was increased to 158 within a short span of time in the states of Punjab, Delhi, Rajasthan, Haryana and Union Territory of Chandigarh. The scheduled bank status was granted by RBI on 16th February 2017.

Equitas Small Finance Bank Limited

The Bank came into existence on 5th September 2016. It is the wholly owned subsidiary of Equitas Holdings Limited. It's headquarter is at Chennai. Equitas Holdings Limited is registered with RBI as CIC-ND-SI (Core Investment Company - Non-Deposit Taking - Systemically Important). The main focus of Equitas Small Finance Bank Limited is to provide the financial solutions to the Micro and small enterprises and the individuals to whom the formal financial services are not reached properly. Equitas Small Finance Bank has spread its 744 branches in 15 states and union territories of India.

Suryoday Small Finance Bank Limited

Suryoday is a Sanskrit word meaning Sun rise. It signifies a new beginning or a new dawn for the commitment to the financial inclusion. Suryoday Microfinance Pvt Ltd was started in the year 2008 and then it was converted into Suryoday Small Finance Bank Limited and it started to function from 23rd January 2017. Its headquarter is at Navi Mumbai. The endeavour of the bank is to provide the best banking experience to the entire sections of the society. There are 32 branches across the 6 states and union territories of India namely Gujarat, Madhya Pradesh, Maharashtra, Orissa, Pondicherry and Tamil Nadu.

Ujjivan Small Finance Bank Limited

Ujjivan Small Finance Bank Limited commenced its operation on the grant of license from RBI on 1st February 2017. It was set up by Ujjivan Financial Services Limited, a NBFC which is in operation since 2005. Its headquarter is at Bangalore. The bank has more than 575 branches across the twenty four states and union territories of India with over 56.6 lakh customers. In the year 2019 it has the best IPO in the financial service sector with 170 times of oversubscription in the last 4 years. It is a scheduled bank under the RBI Act, 1934. This bank is committed to digital and financial inclusion across the languages and regions through the digital interfaces and by creating the initiatives of financial literacy.

Utkarsh Small Finance Bank Limited

Utkarsh Microfinance Pvt Ltd was started its operation as NBFC-MFI-ND-SI in September 2009 at Varanasi. Its headquarter is also in Varanasi. On 30th April 2016 RBI granted in-principle approval to start a Small Finance Bank. The final license to start the banking operation was granted by RBI on 25th November 2016. A Business Transfer Agreement (BTA) was made on 21st January 2017 to start Small Finance Bank. Its banking operations are started on 23rd January 2017 with 5 branches. The holding company was upgraded by RBI on 3rd May 2018 as NBFC-CIC-ND-SI. As of now with 543 banking outlets the bank has operating across sixteen states and two union territories of India. It has more than 27 lakhs customers.

Au Small Finance Bank Limited

Au Financiers India Ltd is a ND – NBFC was founded in 1996 at Jaipur by a Chartered Accountant Mr. Sanjay Agarwal who is a merit holder and a first generation entrepreneur. It took part in the economic growth by providing vehicle loans, housing loans and business loans to its customers especially to the individuals who are in low and middle class. On 19th April 2017 Au Financiers India Ltd was converted into AU Small Finance Bank. Its headquarter is at Jaipur. This bank stands for financial inclusion, immediate action for urgency and progress for all. In its journey the main focus is given to find the solutions for customers' needs. There are 403 branches for AU Small Finance Bank in 17 states and union territories of India.

ESAF Small Finance Bank Limited

In 1992, Shri. K. Paul Thomas had started ESAF, a Non-Government Organisation (NGO). Its headquarter is at Chennai. A Micro Enterprises Development (MED) Services was launched by him in 1995, and then it is converted into ESAF Microfinance and Investments Pvt. Ltd., in 2008. In order to bring the awareness about 'Securing the future by spending wisely' among unserved and underserved segment people, ESAF started Financial literacy mission. In October 2015, to set up a Small Finance Bank RBI issued in-principle license to ESAF Microfinance and Investments Pvt. Ltd., after evaluating the contributions of ESAF in the economic growth of rural areas of India. RBI issued the final license to commence the banking business in November 2016. On 10th March 2017 ESAF Small Finance Bank started its banking business. In June 2018 permission was given by RBI to start NRE (Rupee) Account. On 27th December 2018, ESAF Small Finance Bank became a Scheduled Bank. It has 500 branches in 22 states across India.

Jana Small Finance Bank

On 24th July 2006, Janalakshmi Financial Services Private Limited was founded as a microfinance institution. It was the largest of all microfinance companies in India. Its headquarter is at Bangalore. In 2016 during the demonetisation of Indian currency, it suffered huge losses of Rs.2,504 crore. It received

in-principle license in 2015 and final license in April 2017 from RBI to start Jana Small Finance Bank. It was converted into Jana Small Finance Bank on 28th March 2018. The bank's first profitable quarter after demonetization was September 2019. It has 500 branches across 22 states and union territories of India.

North East Small Finance Bank Limited

RGVN (North East) Micro Finance Limited, received the 'In-principle approval' from RBI on 16th September 2015 to set up **North East Small Finance Bank Limited**. On July 25, 2016 it received the final license from RBI and on 17th October 2017 commenced its banking business. It was started as a wholly owned subsidiary banking company of **RGVN (North East) Microfinance Limited**. **Its headquarter is at Guwahati. It was the one and only institution which received the license from RBI to start Small Finance Bank in North-Eastern states of India.** IDBI Bank, SIDBI Venture Capital Limited, M/s DiaVikas Capital, M/s RNT Associates Private Limited, Norwegian Micro finance Initiative and M/s PI Venture LLC are the reputed organisations expressed their willingness to have the partnership with RGVN (North East) Microfinance Ltd., to establish **North East Small Finance Bank Limited**. **The main motive behind the establishment of this bank is to serve the deprived segment of people and organisations. It has 128 branches in eight states and union territories across India.**

CONTRIBUTION OF SMALL FINANCE BANKS IN FINANCIAL INCLUSION

The main and foremost reason for the introduction of Small Finance Bank is to provide the financial services to the people who are not getting the basic financial services such as loan facilities and deposits avenues from the organized financial institutions. Still there are many people in India to whom the financial services are not yet reached. An endeavor is taken in this article to know the contribution of Small Finance Banks in financial inclusion. To ascertain the contribution of Small Finance Banks in financial inclusion necessary ratios are calculated and the mean value of the ratios for each bank is also calculated. The contribution of Small Finance Banks in financial inclusion is ranked on the basis of the result of the mean value of the ratios.

Ratio of deposits to total liabilities

The main business of the banks is accepting deposits from public and lending the loans to needy persons. Inducing the savings habit among the unprivileged people is very much important for effective financial inclusion. The saving habit of the public can be measured by the amount of the deposits accepted by the banks. Hence Ratio of deposits to total liabilities has been calculated to find the percentage of deposits on the total liabilities of the bank. This ratio gives the information about the percentage of public money on its total liabilities utilized by the bank for its business. It is the ratio of total deposits accepted by the bank and its liabilities. The Table 1 and chart 1 show the ratio of deposits to total liabilities for all the Small Finance Banks from the year 2017 to 2020.

TABLE 1: RATIO OF DEPOSITS TO TOTAL LIABILITIES

BANKS	PERCENTAGE					RANK
	2017	2018	2019	2020	MEAN	
Capital Small Finance Bank Limited	87.41	85.04	84.87	83.43	85.19	1
Equitas Small Finance Bank Limited	20.78	42.10	57.14	55.86	43.97	8
Suryoday Small Finance Bank Limited	-	34.64	42.36	53.10	43.37	9
Ujjivan Small Finance Bank Limited	-	39.82	53.70	58.55	50.69	7
Utkarsh Small Finance Bank Limited	-	48.50	60.77	55.67	54.98	5
Au Small Finance Bank Limited	-	42.07	59.54	62.08	54.56	6
Esaf Small Finance Bank Limited	-	-	61.16	74.22	67.69	3
Fincare Small Finance Bank Limited	-	-	-	65.40	65.40	4
Jana Small Finance Bank Limited	-	-	-	68.23	68.23	2
North East Small Finance Bank Limited	-	-	-	43.06	43.06	10

Source: Compiled and calculated from 'Statistical Tables related to banks in India', RBI publication

From the Table 1 and Chart 1 it can be concluded that the mean value of Ratio of deposits to total liabilities of Capital Small Finance Bank Limited is 85.19%. It is highest among all the Small Finance Banks. North East Small Finance Bank Limited has the lesser mean value among all and it is only 43.06%. The highest percentage shows the highest contribution and the lowest percentage shows the lowest contribution of Small Finance Banks in financial inclusion.

Ratio of demand & savings bank deposits to total deposits

Demand and savings deposits are deposits accepted by the banks and repayable when the customers demand it. Savings bank deposit is the best avenue for the poor people to investment their smidgen of hard earned. Hence it can be considered as the success level of the financial inclusion. Calculation of 'Ratio of demand & savings bank deposits to total deposits' is very much important to know the percentage of demand deposits out of the total deposits. Table 2 and chart 2 show the Ratio of demand & savings bank deposits to total deposits from the year 2017 to 2020 for all Small Finance Banks.

TABLE 2: RATIO OF DEMAND & SAVINGS BANK DEPOSITS TO TOTAL DEPOSITS

BANKS	PERCENTAGE					RANK
	2017	2018	2019	2020	MEAN	
Capital Small Finance Bank Limited	39.54	39.99	38.39	36.31	38.56	1
Equitas Small Finance Bank Limited	17.26	29.23	25.25	20.47	23.05	3
Suryoday Small Finance Bank Limited	-	11.03	11.25	11.45	11.24	7
Ujjivan Small Finance Bank Limited	-	3.68	10.63	13.54	9.28	9
Utkarsh Small Finance Bank Limited	-	5.31	10.01	13.50	9.61	8
Au Small Finance Bank Limited	-	26.93	18.48	14.48	19.96	4
Esaf Small Finance Bank Limited	-	-	13.55	13.66	13.61	5
Fincare Small Finance Bank Limited	-	-	-	11.93	11.93	6
Jana Small Finance Bank Limited	-	-	-	7.40	7.40	10
North East Small Finance Bank Limited	-	-	-	37.43	37.43	2

Source: Compiled and calculated from 'Statistical Tables related to banks in India', RBI publication

The Table 2 and Chart 2 depict that the mean value of Ratio of demand & savings bank deposits to total deposits of Capital Small Finance Bank Limited shows 38.56%. It is highest among all the Small Finance Banks. Jana Small Finance Bank Limited has the lesser mean value among all and it is only 7.40%. The highest percentage shows the highest contribution and the lowest percentage shows the lowest contribution of Small Finance Banks in financial inclusion.

Ratio of priority sector advances to total advances

The sectors that require more concentration to attain the basic needs and development of our country are called priority sectors. Both RBI and government of India mandate the banks to provide timely and adequate loan facilities to these sectors. Higher the amount of loan provided to priority sector the higher will be the financial inclusion. Ratio of priority sector advances to total advances shows the contribution of the bank in priority sector development through which the development of the country can be achieved. Table 3 and chart 3 show the Ratio of priority sector advances to total advances of all Small Finance Banks from 2017 to 2020.

TABLE 3: RATIO OF PRIORITY SECTOR ADVANCES TO TOTAL ADVANCES

BANKS	PERCENTAGE					RANK
	2017	2018	2019	2020	MEAN	
Capital Small Finance Bank Limited	71.53	62.06	69.80	69.26	68.16	8
Equitas Small Finance Bank Limited	87.92	70.13	66.18	68.76	73.25	6
Suryoday Small Finance Bank Limited	-	13.75	13.94	19.41	15.70	10
Ujjivan Small Finance Bank Limited	-	15.52	58.35	54.71	42.86	9
Utkarsh Small Finance Bank Limited	-	91.90	90.13	91.33	91.12	2

Au Small Finance Bank Limited	-	69.62	70.94	74.14	71.57	7
Esaf Small Finance Bank Limited	-	-	92.56	86.32	89.44	3
Fincare Small Finance Bank Limited	-	-	-	83.87	83.87	4
Jana Small Finance Bank Limited	-	-	-	81.80	81.80	5
North East Small Finance Bank Limited	-	-	-	98.21	98.21	1

Source: Compiled and calculated from 'Statistical Tables related to banks in India', RBI publication

The Table 3 and Chart 3 show that the mean value of Ratio of priority sector advances to total advances of North East Small Finance Bank Limited is 98.21%. It is highest among all the Small Finance Banks. Suryoday Small Finance Bank Limited has the lesser mean value among all and it is only 15.7%. The highest percentage shows the highest contribution and the lowest percentage shows the lowest contribution of Small Finance Banks in financial inclusion.

Ratio of term loans to total advances

Term loans take vital part in the economic development of our country. These loans are repayable by the borrowers at the end of the predetermined period. Term loans facilitate the borrowers for the effective utilization of the borrowed amount up to the prescribed period. Barriers of the economic development of individuals and business entities can be broken by the term loans. Ratio of term loans to total advances is the percentage of term loans provided by the bank in its total advances. Table 4 and chart 4 show the Ratio of term loans to total advances of all Small Finance Banks from 2017 to 2020.

TABLE 4: RATIO OF TERM LOANS TO TOTAL ADVANCES

BANKS	PERCENTAGE					RANK
	2017	2018	2019	2020	MEAN	
Capital Small Finance Bank Limited	31.95	35.29	40.26	43.55	37.76	10
Equitas Small Finance Bank Limited	98.92	98.29	97.59	95.79	97.65	6
Suryoday Small Finance Bank Limited	-	99.45	99.55	98.42	99.14	4
Ujjivan Small Finance Bank Limited	-	83.97	87.97	91.04	87.66	9
Utkarsh Small Finance Bank Limited	-	100.00	97.29	99.38	98.89	5
Au Small Finance Bank Limited	-	88.65	90.43	90.75	89.94	8
Esaf Small Finance Bank Limited	-	-	99.72	99.53	99.63	2
Fincare Small Finance Bank Limited	-	-	-	99.66	99.66	1
Jana Small Finance Bank Limited	-	-	-	94.42	94.42	7
North East Small Finance Bank Limited	-	-	-	99.30	99.30	3

Source: Compiled and calculated from 'Statistical Tables related to banks in India', RBI publication

From Table 4 and chart 4 it can be concluded that among all Small Finance Banks Fincare Small Finance Bank Limited has the highest Ratio of term loans to total advances. It is 99.66%. Capital Small Finance Bank Limited has the lowest percentage of term loans to total advances. Its percentage is only 37.76%. The highest percentage shows the more contribution of the bank to the financial inclusion and the lowest percentage shows the lesser contribution of the bank to the financial inclusion.

OVERALL PERFORMANCE OF SMALL FINANCE BANKS IN FINANCIAL INCLUSION

In order to find the overall performance of Small Finance Banks four ratios namely Ratio of deposits to total liabilities, Ratio of demand & savings bank deposits to total deposits, Ratio of priority sector advances to total advances and Ratio of term loans to total advances were calculated. On the basis of the percentage of ratios the ranks were given to the banks as per the contribution to the financial inclusion. The ranks obtained by the banks in different ratios were added and the total of these ranks were again ranked. The overall performance of the bank in financial inclusion is determined on the basis of this rank. Table 5 shows the overall performance of all Small Finance Banks in financial inclusion.

TABLE 5: CONTRIBUTION TO FINANCIAL INCLUSION

BANKS	RANK OF THE RATIOS					Contribution to financial inclusion
	Ratio of deposits to total liabilities	Ratio of demand & savings bank deposits to total deposits	Ratio of priority sector advances to total advances	Ratio of term loans to total advances	Total	
Capital Small Finance Bank Limited	1	1	8	10	20	4
Equitas Small Finance Bank Limited	8	3	6	6	23	5
Suryoday Small Finance Bank Limited	9	7	10	4	30	8
Ujjivan Small Finance Bank Limited	7	9	9	9	34	9
Utkarsh Small Finance Bank Limited	5	8	2	5	20	4
Au Small Finance Bank Limited	6	4	7	8	25	7
Esaf Small Finance Bank Limited	3	5	3	2	13	1
Fincare Small Finance Bank Limited	4	6	4	1	15	2
Jana Small Finance Bank Limited	2	10	5	7	24	6
North East Small Finance Bank Limited	10	2	1	3	16	3

Source: Calculated from the data published by RBI

Table 5 shows that the contribution of Esaf Small Finance Bank Limited in financial inclusion is best among the all Small Finance Banks. Both Capital Small Finance Bank Limited and Utkarsh Small Finance Bank Limited got the same 4th rank in the contribution to financial inclusion. The contribution of Ujjivan Small Finance Bank Limited in financial inclusion is very low among all the Small Finance Banks.

CONCLUSION

Financial inclusion is very much important to our country to develop the economic conditions of the unprivileged individuals and business entities. Introduction of the Small Finance Bank is the one of the best endeavor of the central government and RBI to include all the people in the financial services provided by organized financial institutions. These banks are contributed its part at its level best. But still there are people in India without getting any benefits from the financial services provided by the formal financial institutions. The central government has to take necessary steps to include these people in financial inclusion by providing awareness about the availability of different secured financial services in organized financial institutions.

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