

The Role of Small Finance Bank for Achieving Financial Inclusion in India Impact Growth of Our Economy

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Abstract: It is estimated that globally over 2.5 billion people are excluded from to access to monetary administrations of which 33% is in India. In spite of the fact that the span and extent of banking has along these lines expanded, the tremendous interest for monetary administrations stays insatiate. It's anything but an issue of worry that even with 150 homegrown business banks including 19 Public Sector Banks, 20 Private Sector Banks, 44 Foreign Banks, 4 Local Area Banks, 56 Regional Rural Banks and more than 2,700 Co-employable Banks working 40% of the grown-ups have formal ledgers. Financial consideration plays a big part in the country's inclusive growth the expansion of our economic system. The expansion of India's agriculture sector is crucial. The availability of high-quality financial services in rural areas will allow a huge number of rural households to expand their businesses. The examination of Small Finance Banks and their role in achieving financial inclusion in India is the topic of this research and there are issues.

Keywords: Affordability, Banking services, Differentiated digital banking, Financial inclusion, Indian economy, Small finance banks.

I. INTRODUCTION

Small Finance Banks on September 17, 2015 The Federal Reserve System Bank of India (RBI) has granted in theory approval to 10 entities to line up small finance banks to provide basic banking services to small farmers and micro industries. The in-principle approval will enable these entities suits the principles on Small Finance Banks and may be valid for 18 months.

Concept of Small Bank: Small financing banks have aided the development of basic financial services in the rural and

underserved sectors of the economy (Rajan, 2016). To qualify as a minor bank, it must have a minimum paid-up capital of 100 cores. Banks are licensed by section 22 of the Banking Regulation Act 1934, as per the Companies Act of 2013. Small Finance Banks play a crucial role in properly channeling savings in an efficient and effective manner in rural and semi-urban areas of India, which are exhibiting promising indicators in overall development, as per section 42 (6)(a) of The Federal Reserve System Bank of India Act 1934. The people who live there. Small banks may be interested in a demographic that is outside the reach of other commercial banks. Individuals, corporations, trusts, and societies all contribute to the promotion of these banks.

II. OBJECTIVES OF THE STUDY

- The study's main goal is to examine the function of small finance banks in the Indian economy.
- Examine the financial inclusion impact of Small Finance Banks.
- To gain an understanding of the financial performance of a limited group of Small Finance Banks.
- To look out solutions to help unbanked sectors with their financial challenges.

III. LIMITATIONS OF STUDY

- It is limited to a small number of Small Finance Banks.
- The study's scope is limited to determining the impact of Small Finance Banks on financial inclusion.

IV. RESEARCH METHODOLOGY

The foremost objective is to understand role of Small Finance Banks in Indian Economy also to hunt out the challenges faced

by Small Finance Banks. The research design is descriptive research design. The secondary data was mainly collected from different websites of SFBs, articles and journals. Hypothesis tested for the research is $H_0 =$ there is no contribution of Small Finance Banks in Indian Economy. $H_1 \neq 0$: there's contribution of Small Finance Banks in Indian Economy.

Rationale of the Study: The efforts of monetary inclusion by the Centre and RBI are increasing day by day. The govt. of India is spending the huge sum of money for bringing every citizen of our country to the formal banking sector through various schemes of monetary inclusion like JAM, (Jan Dhan, Adhaar and Mobile Banking). RBI has issued the Differentiated Banking Licenses to varied micro finance institutions and nonbanking financial institutions to start out Payment Banks/ Small Finance Banks. The need arises to review the impact of Small Financial Banks on financial inclusion.

V. REVIEW OF LITERATURE

Abijith S. and Raghavendra N. (2018), "Refer to the Empirical Study of Small Financial Banks Selected by Small and Medium-Sized Enterprises in Mysore", introduced the introduction, functions, challenges and roles of small financial banks, and introduced consumer levels notice.

Jeeban Jyotin Mohanty (2018), "Using Small Financial Banks (SFB) to Achieve Financial Inclusion in India", focuses on the needs and importance of small financial banks. In his research, he analyzed that small financial banks have huge potential in areas with no bank accounts and underserved areas, and they play an important role in the development of the small, medium and micro enterprise sector.

Viswan M. G. (2017), "Study on the Early Warning and Perception of Small Financial Banks Paying Special Attention to Small Financial Banks", focuses on the rural population's early warning level of small financial banks and the operation of small financial banks in Kerala. Collected primary and secondary data. The result of this research is to find weak areas of economic development.

Pinal Barot (2017), "Financial Inclusion in India" raises the importance of financial inclusion, and its opportunities and challenges in India are also focused on the monetary area.

International J. Application. Reservoir administration & ECON., 1 (4): 112, 2018. The use of new banking technology to insert financial inclusion and the implementation of a licensing policy for fast payment services. Research Rationale the Center and the Reserve Bank of India are increasingly working on currency inclusion.

The government of India is spending huge sums of money to enable all citizens of our country to enter the formal banking industry through various programs including currencies, such as JAM (Jan Dhan, Adhaar and Mobile Banking).

The Reserve Bank of India has granted differentiated banking licenses to various microfinance institutions and non-bank

financial institutions to activate payment banks/small financial banks. It is necessary to examine the impact of Small Financial Banks on financial inclusion.

IIMBWP No. 474 In this paper, Professor Charan Singh RBI, Professor of Economics and Science at the Indian Institute of Management in Bangalore, studied the concept of currency inclusiveness as a challenge to the Indian economy because most of the agricultural population is still not included in inclusive growth.

Purvis Shahand Medha Dubhashi explained that the origins of this inclusive finance approach can often be traced to the United Nations initiative, which broadly describes the main goals of inclusive finance, such as access to selected currency services, including savings.

10 Small Finance Banks Entities are:

1. Au Financiers (India) Ltd
2. Capital Local Area Bank
3. Disha Microfin Private Ltd
4. Equitas Holdings P Limited
5. ESAF Microfinance and Investments Private Ltd
6. Janalakshmi Financial Services Private Limited
7. RGVN (North East) Microfinance Limited
8. Suryoday Micro Finance Private Ltd
9. Ujjivan Financial Services Private Ltd
10. Utkarsh Micro Finance Private Ltd

VI. CHALLENGES FACED BY SMALL FINANCE BANKS

As we all know, small financial banks play an important role in enhancing financial inclusion. These banks have many advantages, such as providing loans to small borrowers to help meet the needs of unbanked areas. SFB's operating expenses are very low. In addition to these benefits, small financial banks face some challenges in developing specific capabilities, serving different customer infrastructure, and training existing employees. Due to the local nature of the business, small financial banks have a higher risk, so attention has been paid to permit only experienced participants in this field. It is observed that the banks that have done well in the past are all driven by financial institutions. India's financial and economic conditions are better than other countries in the world. Credit, market, and liquidity risk studies have shown that Indian banks are generally flexible and able to withstand the test of global changes well. Banks are expected to play a key role in the Indian economy. The Indian banking industry has recently witnessed the deployment of innovative banking models such as payment banks and small financial banks. The basic goal of a fixed SFB is to provide credit facilities for small business units, small farmers, micro and small industries, and unorganized sectors, and to improve domestic financial inclusion. Small financial banks provide financial services at low transaction costs. It is difficult for commercial banks to open branches in every village, so they

provide every citizen with a low-cost banking service platform through mobile SFB. SFB offers higher deposit interest rates and provides credit at lower interest rates. This can benefit low-income groups and small businesses. For customers, the major draw will be the ease of banking. SFB also benefits the government by reducing black money in the economic system. It will encourage people to use E-money. These banks are providing financial literacy to rural residents, especially women. SFB will reduce its dependence on cash, thus opting for a cashless economy. According to RBI estimates, 90% of small businesses cannot use financial institutions. Commercial banks primarily provide funds or loans for large and medium industries for home, educational, or vehicle purposes. But small businesses can hardly generate funds. Small financial banks can solve these problems. RBI expects them to become low-cost and technology operators, which will also bring new innovations to the banking system. However, due to the transfer of funds in savings accounts, SFB has affected commercial banks and has also reduced the income from conventional commissions such as cash transfers, check withdrawals, creation of demand drafts or transactions at ATMs. SFB needs to invest 75% of its deposits in government departments, which can lower the legal liquidity ratio. New banks increasingly rely on new technologies, which can reduce costs, improve service efficiency, and prevent fraud opportunities. SFB will not affect the industrial and corporate sectors, but will affect the retail business of existing banks. The new bank will target low-income groups in rural areas. So there

is a contest between Rural Bank and SFB.

VII. ANALYSIS AND INTERPRETATION

Data as per RBI Census: Quanta Analytics as on August 2019. (Ref. Rural Report Card “The Branches have not spread much” Business Lines, August 10th 2019). (Just 1/3 of the banks in India are located in rural areas).

TABLE I: BANKS IN INDIA BY POPULATION

Particulars	Rural	Semi Urban	Urban	Metropolitan
Banks in India by Population	30.95	28.94	20.89	34.59
Population Per Bank	20,900	7,800	6,200	4,900

Note: Based on the population size, the location of a bank branch is classified as under:

Rural: Population less than 15,000

Semi Urban: Above 15,000 and less than 1 lakh

Urban: Above 1.5 lakh and less than 10 lakh

Metropolitan: 10.5 lakh and above

TABLE II: BANKS BY REGION

	Central	Eastern	North-Eastern	Northern	Southern	Western
Bank by Region	15,955	14,181	1,885	10,041	12,820	6,920
Population Per Bank by Region	25,400	22400	23,300	15,900	14,800	16,800

TABLE III: BANKS IN RURAL INDIA BY BANK GROUP

Small Finance Banks	2.54%
Local Area Banks	0.2%
Foreign Banks	0.2%
National Banks	45.44%
New Private Sector Banks	9.03%
SBI and its Associates	18.02%
Regional Rural Banks	32.47%
Other Public Sector Banks	0.1%
Old Private Sector Banks	4.91%

Interpretation:

- As per the quanta analysis the bank branches have not spread much in rural areas.
- Only 1/3 of branches spread in rural areas.
- The population served per bank is way higher in rural areas compared to urban branches.

- This report represents banks by located based on region in central India has the greatest number of rural branches and in the north eastern region is very less spread bank branches to rural areas.
- A majority of the banks in rural areas are in the public sector banks.
- North eastern region is the worst in terms of population served.

VIII. FINDINGS AND SUGGESTION

SFBs are functioning as business correspondent of other banks. SFBs can perform most the function that a bank performs but on a little level. Small Finance bank doesn't concentrate more on advertisement. Small Financial Banks play a big role in generation of sustainable challenges in rural and semi-urban areas. From the study it had been found that the majority of consumers aren't conscious of financial inclusion and little finance banks. Around 500 million people don't have access to even a basic checking account. the

most function of Small Finance Banks is to supply financial services at a lower cost by innovative and ingeniously technology.

IX. CONCLUSION AND POLICY IMPLICATIONS

The success of the coin listing is highly dependent on financial knowledge. Support from small financial banks can help the government reschedule workshops and educate people about finances. As financial intermediaries, small banks can bring unaffected economic sectors into the realm of the formal economic system.

This is a win-win situation for the bank. You have created new opportunities to expand your business and enhance your brand equity in underserved areas and target segments. On the other hand, the government is also preparing to successfully implement its policies. The current requirement of the Indian economy is 4A (Aware, Affordable, Accessible and Responsible) financial services. Small banks can help create a strong financial inclusive economy in India. How is there a direct connection between inclusive finance and economic processes.

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