

Have the Services of Small Finance Banks Reached the Beneficiaries Effectively? Evidence from Rural Regions

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Abstract:

Financial inclusion is the process of providing financial services at affordable rates to the weaker sections of the society. Small finance banks (SFBs) are one of the recent initiatives of Reserve Bank of India to promote Financial Inclusion. Despite these efforts, the extent of financial inclusion among the marginalized and rural segments of the country is still a major challenge. This study is an attempt to understand the extent to which the efforts of the SFBs have effectively reached the intended audience. The study was undertaken in the rural regions of five towns in the state of Tamil Nadu. The study showed that the awareness about basic banking services was high, but that of the specialised services of the SFBs was low. The study provides a better understanding of Financial Inclusion and provides insights which help identify the contribution made by the SFBs in the overall wellbeing of the beneficiaries.

Keywords — Small Finance Banks, Financial Inclusion, Banking Services, Accessibility, Rural Regions

I. INTRODUCTION

Financial inclusion is an essential prerequisite for any nation to achieve economic growth and broader development goals. Its importance is evident from the fact that financial inclusion has been identified as an enabler for 7 of the Sustainable Development Goals (SDGs) laid out by the United Nations depends. Financial inclusion refers to the process that assures that all individuals and businesses in an economy have easy access to banking products and services at an affordable cost. It includes access to transactions, payments, savings, credit and insurance products and services. Access to such facilities helps in efficient allocation of productive resources, generate economic activity, improve

economic growth, generate employment and also aid in effective delivery of social schemes.

In India, financial inclusion has been the agenda of the Government and the Reserve Bank of India since the 1950's through several schemes, specifically targeting the vulnerable and neglected sections of the economy in rural India. Several measures such as opening bank branches in unbanked regions, ensuring last-mile banking connectivity through facilitators, promoting digital transactions etc. have helped in improving financial inclusion in the country.

II. ROLE OF SMALL FINANCE BANKS

To further boost the efforts, the Government initiated differentiated Private financial institutions, the "Small Finance Banks" (SFB's) with a specific

agenda to improve financial inclusion since 2014. The focus of SFBs was to act as a savings vehicle and ensure access to credit to small firms, farmers, low income groups and migrant work force through technology intensive measures at a low cost. At present there are about 12 SFBs in the country and have proliferated across the nation. At this juncture, it is essential to understand the extent to which these SFB's have contributed to financial inclusion, specifically in the rural segments. This study aims at analysing the role of SFBs in financial inclusion in small towns in the state of Tamil Nadu.

III. LITERATURE REVIEW

The process of ensuring that individuals, particularly the poor, have access to basic financial services in the official financial sector is known as financial inclusion. Small Finance Banks (SFBs) are defined as financial institutions that cater to the diversified needs of low-income people. For four reasons, policymakers and researchers have paid close attention to financial inclusion. One, financial inclusion is regarded as a major strategy for achieving the United Nations' sustainable development goals (Adegbite et al., 2020); two, financial inclusion aids in the improvement of social inclusion in many societies (Nihinlola, 2020). ; three, financial inclusion can aid in the reduction of poverty levels to a desired minimum (Inoue, 2019); and finally, financial inclusion has other socio-economic benefits (Cabeza-García, 2019). Several countries' policymakers continue to devote large resources to raising the level of financial inclusion in their countries in order to eliminate financial exclusion (Evans, 2018; Chen et al., 2020; Belayeth Hussain et al., 2019).

Financial inclusion has been a topic of research in the past two decades. Developing and developed economies are focusing on financial inclusion for economic resilience. Say et al., (2013) addressed the issue of financial exclusion in a holistic manner and stated that it is critical to guarantee that everyone has access to a variety of financial services. Financial inclusion in advanced economies is more about having access to fair and transparent financial

products and a focus on financial literacy. Raina (2014) discussed that financial literacy and credit counselling would assist the poor in practicing frugal living and encourage them to save, obtain credit, use the funds, make timely loan repayments, find a better livelihood, earn income, and thus integrate into society. Chittawadagi and Kittu (2014) explained that there is a huge untapped potential demand in rural areas and other unbanked areas that has to be serviced. As a result, the Reserve Bank of India and the Government of India must focus more on financial services to rural areas and promote awareness programs aimed at ensuring that weaker parts and low-income groups have access to timely financial services and appropriate credit at a reasonable cost.

Poojary and Rodrigues (2010) have explored financial inclusion as a poverty reduction tool to sustain poor people's living standards and give them with an entrepreneurial environment to help them rise out of poverty. In addition, it has been discovered that approximately 80% of rural households do not have access to formal credit. Hastak and Gaikwad (2015) have highlighted that financial inclusion is important for India's social and economic development. It was also mentioned that, throughout the last decade, many developing countries have considered financial inclusion to be a top priority. Jain (2015) has understood that people will be able to engage more effectively in the economic and social processes as a result of inclusive growth. Financial access will bring international market players to our country, resulting in more jobs and business prospects.

In India, Reserve Bank of India has introduced the concept of Small Finance Banks (SFBs). The aim of SFBs is to serve the financial needs of people in the country who have low income (Ravikumar, 2019). Different financial products are developed to meet the requirements of people in different segments and geographical regions. Kishore (2015) suggested that the creation of small finance institutions is a huge step toward financial inclusion, which is one of the government's most valued goals. Despite a number of issues and problems, these new specialised banks,

along with the previously announced payment banks, constitute a viable plan for furthering the financial inclusion agenda. Data and information for the study were gathered from various reports of committees set up by the Government of India, the Reserve Bank of India, and other authorities. Viswanathan (2014) has explained that the Indian financial system is getting increasingly complicated and dynamic as the business environment evolves.

Abijith and Raghavendra (2018) suggested that importance of a small financing bank in economic development is crucial. More small financial banks in rural areas would improve the MSME sector's performance. Jayadev et al., (2017) conducted a study on the recent innovation in the Indian banking structure and stated that the challenges include building low cost liability portfolio, technology management, and balancing the regulatory compliances. Khan (2018) stated that small finance banks will aid in the competitiveness and inclusion of banking for both borrowers and depositors. However, for geographically distant locations where having a physical presence may not be practicable, depending entirely on digital signatures, electronic verification, and making customer onboarding easier are all viable options.

Dadhich and Tanwar (2019) studied the growth of small finance banks in achieving financial inclusion and found that despite the banking sector's phenomenal growth over the previous two decades, there are still portions of it that are uninformed and unacknowledged. Ravikumar (2019) has found that in terms of branch establishment, lending, deposit mobilisation, and operational expenses, small finance banks face numerous problems. Despite all of the problems listed, Small Finance Banks must survive and thrive in order to achieve their stated goal of Financial Inclusion. Maity and Sahu (2018) have examined the role of Indian Banks in Financial Inclusion. According to the findings of their research, both public and private sector banks in India are working well to promote financial inclusion.

A. Research Rationale

The thorough literature review has presented enough evidence that the small finance banks are mid-way through their aim of achieving financial inclusion. People are aware to some extent about the Small finance banks that are operating for quite some time. Yet they are not completely aware of the operations of a small finance bank and the objective of their implementation. Hence it is significant to study the awareness level about the small finance banks in providing financial inclusion among the people in small towns. The aim of this study is to understand the awareness of the people about the serviced offered by the small finance banks.

IV. RESEARCH METHODOLOGY

This study was based on primary data, that was collected using a questionnaire. The questionnaire consisted of three segments, the first segment focused on the basic demographic details of the respondents, the second pertained to the awareness about various banking products and services offered by scheduled commercial banks and the SFBs. The third segment focused on the satisfaction of the respondents about the services of the SFBs. The sample size for the study was 285 respondents from rural regions of five small towns in the state of Tamil Nadu. The SFBs had a significant presence in the towns that were selected for the study. It also has a good sum of rural population that seeks the services of Small finance banks for their personal and / or business operations. A pilot study was undertaken with 50 respondents and based on the results some questions were added and some were paraphrased and the final questionnaire was prepared.

V. ANALYSIS AND DISCUSSION

A. Demographic Analysis of Respondents

TABLE I
DEMOGRAPHIC ANALYSIS OF RESPONDENTS

Category	Percentage
Gender	
Male	53%
Female	47%
Age	
Less than 30	26%
30-50	40%
More than 50	34%

Education	
No Education	9%
Primary	28%
Secondary	25%
Higher Secondary	22%
Degree	12%
Master degree	4%

The sample had almost an equal representation of male and female respondents. Majority (74%) of the respondents were more than 30 years old. The maximum number of respondents (75%) has only school education.

B. Reasons for Choosing Small Finance Banks

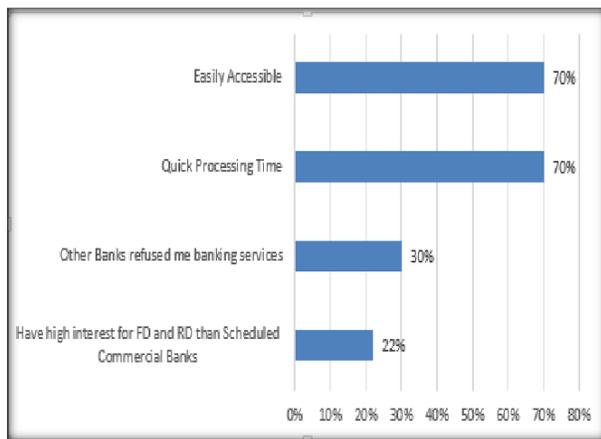


Fig. 1 Reasons for Choosing SFBs

The analysis of the data shows that the major reasons for choosing the SFBs were easy accessibility and the quick processing time. About 30% of the respondents said that they chose the SFB as other banks had refused to take them in as customers. This shows that the SFBs have been able to reach even customers who are unable to meet the requirements of other scheduled commercial banks. SFBs have been able to attract customers due to the high interest rates that they offer for Fixed and Recurring Deposits. About 22% of the respondents quoted this a reason for them to choose SFBs.

C. Level of Awareness

The study found that the respondents were aware of all the services provided by SFBs. Among the services, a high level of awareness was observed for deposits, loans, money transfer and ATM services.

However, majority of the respondents were not aware of the Insurance and Savings Products offered by SFBs.

TABLE II
AWARENESS LEVEL OF RESPONDENTS (%)

Services & Products	Very High	High	Neutra l	Low	Very Low
Bank Deposit	17.30	40	33.30	9.30	0
Loans	14.66	34.66	30.70	18.70	1.30
Insurance	8.00	24.70	28.70	36.00	2.60
Money Transfer	29.30	31.30	25.70	11.30	2.40
ATM	43.30	17.30	14.00	18.00	7.30
Savings Products	12.3	28.9	41.5	23.5	3.8

D. Usage of Banking Services

Further analysis was done to understand the extent to which the respondents were using the services of the SFBs. Table 3, shows that customers used SFBs predominantly for obtaining loans (86.5%) and for making Time Deposits (68.4%). A high level of usage (76.7%) was also found for the ATM services of the SFBs. As the awareness of the Insurance and Savings products was low, the study found that the usage of such services of SFBs was also low. This shows that the initiatives of the banks have yielded benefits in terms of raising awareness and usage about the basic banking services such as loans, deposits and ATMs offered by SFBs. But, awareness about add-on services such as Insurance products and Savings Products have not yet reached majority of the customers. Special initiatives will therefore be required to promote these services and increase their reach among the customers.

TABLE III
USAGE OF BANKING SERVICES (%)

Services & Products	Yes	No
Bank Deposit	68.4	32.6
Loans	86.5	13.5
Insurance	36.8	63.2
Money Transfer	55.5	44.5
ATM	76.7	23.3
Savings Products	33.5	66.5

The usage of various basic financial services among the respondents is high. This shows that almost all the people have started using these ATM /credit card services. Thus, the above table and charts explain

that the financial inclusion is being implemented well.

E. Awareness on Various Business Based Services

TABLE IV
AWARENESS ON BUSINESS BASED SERVICES (%)

Services & Products	Very High	High	Neutral	Low	Very Low
MSME Loans	1.30	23.30	24.70	38.70	12
Zero Balance account	0	16	12	51.30	20.70
Cashless Solutions for Businesses	0	18	22.70	36.70	22.70
Cash management counselling	4	13.33	24.6	15.33	42.66

Table IV, shows that level of awareness about specific business solutions provided by the SFBs. As rural regions have numerous businesses in the agricultural sector and operated by self-help groups, these services of SFBs to such businesses will ensure that they are able to expand their business operations. The above table explains that, the modern services such as Cashless Solutions that are available as a result of financial inclusion have not reached its beneficiaries. The Zero Balance Account helps businesses to operate without the fear to maintain a certain minimum average / quarterly balance in the account. As most of the rural businesses belong the micro and small category, and are seasonal, this facility will be a boon to them. However, those study found that the awareness on the availability of zero balance accounts with SFBs was low.

A comparison of the awareness level of basic banking services with those of business-based services shows that the level of awareness of business-based services is lower. Though the agenda of the SFBs is to aid in financial inclusion, greater impact will be felt only if the usage of services reaches the last-mile customer.

F. Level of Satisfaction

The level of satisfaction of customers on the various basic services is high. But it is evident from the above table that they are not satisfied with credit

counseling services provided by the SFBs. The dissatisfaction on credit counseling services is evident from the study. The SFBs therefore should increase their customer relationship services to facilitate their access and usage to the bank’s service offerings.

TABLE V
LEVEL OF SATISFACTION

Services & Products	Very High	High	Neutral	Low	Very Low
Bank Deposit	28	16.7	36.7	18.7	0
Loans	2.7	8.7	50	22	6.7
Micro Insurance	2.7	22.7	43.3	19.3	12
Money Transfer	40	48	7.3	4.7	0
Credit Counselling	0	6	22	57.3	14.66

G. Chi-square tests

A Chi-square test was performed to examine the association between educational qualification of the respondent and the level of awareness of banking services.

TABLE VI
EDUCATION & AWARENESS LEVEL OF RESPONDENTS

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	46.643 ^a	12	.000
Likelihood Ratio	53.484	12	.000
Linear-by-Linear Association	6.594	1	.010
N of Valid Cases	285		

As shown in Table VI, the Asymptotic Significance value is 0.000 which is less than 5% level of significance. Hence, there is a significant relationship between educational qualification of the respondent and the level of awareness. The more literate the respondents are the greater the level of awareness.

The Chi-Square test to examine the association between the age of the respondent and the level of awareness (Table VII) of SFBs was significant. So there is a significant relationship between age of the

respondent and the level of awareness of the respondents on SFBs.

TABLE VII
AGE & AWARENESS LEVEL OF RESPONDENTS

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	31.247 ^a	9	.000
Likelihood Ratio	34.364	9	.000
Linear-by-Linear Association	.054	1	.017
N of Valid Cases	285		

Table VIII shows the results of the Chi-Square test to examine the association between gender and awareness level on SFBs. The significance value is less than 5%, indicating that there is a significant relationship between gender of the respondent and the level of awareness.

TABLE VIII
GENDER & AWARENESS LEVEL OF RESPONDENTS

Chi-Square Tests			
	Value	df	Asymptotic Significance 2-sided)
Pearson Chi-Square	18.620 ^a	3	.000
Likelihood Ratio	23.512	3	.000
Linear-by-Linear Association	1.270	1	.036
No of Valid Cases	285		

The requirement of financial services is inevitable to all the people regardless of their age or gender. The awareness of small finance banks and financial inclusion are greatly dependent on the respondent's level of education. The financial inclusion has improved positively in the case of basic financial services. Loans and Deposits are the banking services that are availed by majority of the respondents. Availability of loans is a means of ensuring that people undertake income generating opportunities. But in the case of modern financial services, zero balance accounts, credit counselling services and services to small businesses are yet to reach customers. Awareness programs as an

initiative to improve financial literacy will be a major leap towards financial inclusion.

VI. CONCLUSION

The basic idea behind SFBs is to provide financial services to low income households at an affordable cost not only for financial sustainability but also for the series of virtuous spirals of economic empowerment. SFBs through Financial Inclusion have contributed significantly to poverty alleviation and empowerment of poor, especially in rural areas of our country. This has helped the marginalized sections to pursue opportunities leading to economic and social development of the family, region and the nation. The present study is an attempt to understand the awareness of people about the services offered by the SFBs towards financial inclusion in five towns in Tamil Nadu. Many people are effectively participating and benefiting from the development process. The easy accessibility and quick processing time were major factors that influenced people to approach SFBs for their banking needs. The awareness of basic banking services was high but that of specialized services provided by the SFBs was low. Services such as Insurance and Savings Instruments offered by the SFBs require greater promotional efforts so that it reaches all customers. The growth and proliferation of SFBs will therefore help to liberate the marginalized sections and bring them all to the state of empowerment and development.

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