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A Study on the Role of Small Finance Banks in Promoting Financial Inclusion

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***Abstract* – Financial inclusion has become one of the most important drivers of inclusive economic growth, particularly in developing economies like India. A large segment of the Indian population, especially those living in rural and semi-urban areas, has traditionally been excluded from formal financial systems due to various barriers such as low income, lack of financial awareness, inadequate banking infrastructure, and reliance on informal sources of credit. These challenges have led to financial inequality and limited economic opportunities for underserved populations. In order to address these issues and promote inclusive growth, the concept of financial inclusion has gained prominence, focusing on providing affordable and accessible financial services to all sections of society. In this context, Small Finance Banks (SFBs) were introduced as a significant initiative to enhance financial inclusion. These banks are specifically designed to serve the needs of low-income groups, small business owners, micro-entrepreneurs, and rural populations. The primary objective of SFBs is to provide basic banking services such as savings accounts, deposits, loans, and digital banking facilities to individuals who are often neglected by traditional commercial banks. By targeting underserved segments, SFBs play a crucial role in bridging the gap between formal financial institutions and economically weaker sections of society.**

***Keywords* – Small Finance Banks, Financial Inclusion ,Inclusive Banking, Return on Assets (ROA) , Return on Equity (ROE).**

I. Introduction

Financial inclusion is the process of providing individuals and businesses, particularly those from economically weaker and underserved sections of society, with access to affordable, appropriate, and reliable financial products and services. These services include savings accounts, credit, insurance, payment systems, and other essential banking facilities, delivered in a responsible and sustainable manner. In a developing country like India, financial inclusion is a key driver of inclusive economic growth, poverty reduction, and social development.

Despite the expansion of the banking sector, a large section of India's population has remained outside the formal financial system due to factors such as low income, limited financial literacy, inadequate banking infrastructure, and geographical constraints. To address these challenges, the Reserve Bank of India introduced Small Finance Banks (SFBs) as a specialized category of banks aimed at expanding access to financial services for underserved and unbanked populations.

Small Finance Banks combine the customer-focused approach of microfinance institutions with the regulatory standards and stability of commercial banks. By offering affordable savings accounts, small-value loans, digital banking services, and other essential financial products, SFBs primarily serve low-income households, small business owners, micro-entrepreneurs, and rural communities. Through these efforts, they play a vital role in promoting financial inclusion, reducing the gap between formal banking institutions and underserved populations, and supporting economic empowerment and inclusive development.

II. LITERATURE REVIEW

S. Ghose (2020) This study examines the spatial dimension of financial inclusion in India and highlights how physical distance from formal banking infrastructure continues to affect account usage, credit access, and service penetration. The article shows that even when policy intent is strong, access gaps remain significant in remote and underserved areas. Its relevance to the present study lies in explaining why differentiated banking models such as Small Finance Banks are important. SFBs can reduce this distance barrier by locating branches and service points closer to low-income communities. The article is useful because it shifts the discussion from simple account opening to actual access and

usage. It also helps establish that financial inclusion is not only a supply-side issue but also a geographic and institutional challenge, making localized banking models highly relevant in the Indian context. The study focuses on geographical barriers but ignores the role of Small Finance Banks. It also lacks recent data on digital banking advancements.

S. Gupta (2020) This article reviews the broader progress of financial inclusion in India and discusses the institutional, policy, and practical developments that have shaped outreach in recent years. It explains how government schemes, banking expansion, and technologyenabled platforms contributed to widening formal financial access. At the same time, it identifies enduring barriers such as low literacy, uneven rural penetration, and insufficient financial awareness. For the present study, this article provides a strong baseline for 4 understanding the environment in which Small Finance Banks operate. It shows that the success of inclusion requires more than policy announcements; it depends on delivery mechanisms that can reach excluded groups effectively. This makes SFBs important because they are designed to serve small borrowers, micro-enterprises, and low-income households. The article is helpful in framing the macro-level inclusion background before analyzing bank-specific contributions. The research provides a general overview of financial inclusion but does not include bankspecific analysis. It fails to evaluate the contribution of SFBs.

S. Gupta and K. S. Thakur (2020) This study evaluates India's financial inclusion progress through the PMJDY framework and examines how large-scale account opening initiatives changed the inclusion landscape. The article emphasizes that PMJDY played a major role in bringing millions into the formal banking system, especially low-income households. However, it also suggests that the real test of inclusion lies in active usage, savings behavior, transaction frequency, and access to complementary products such as insurance and credit. This literature is important for the present topic because Small Finance Banks function within the post-PMJDY ecosystem, where access has widened but service quality and credit inclusion still require attention. The study helps distinguish between numerical inclusion and meaningful inclusion. It supports the argument that SFBs can deepen the next stage of inclusion by moving customers from passive account ownership to active participation in formal finance and structured borrowing. The study emphasizes account opening under PMJDY but ignores actual usage of banking services. It does not consider the sustainability role of SFBs.

Bhagirathi Nayak (2020) This empirical work analyzes the impact of financial inclusion at the state level and highlights how inclusion affects local development, financial access, and social participation. The study is valuable because it shows that financial inclusion outcomes vary by regional conditions, institutional strength, and awareness levels. Its findings imply that uniform national policies may not be sufficient unless they are adapted to local realities. This insight is directly relevant to Small Finance Banks, which are expected to function as regionally responsive institutions with deeper engagement in underserved markets. By focusing on a state-specific context, the article demonstrates how 5 branch outreach, financial literacy, and suitable credit products can influence outcomes. It strengthens the present study by showing that inclusion must be analyzed in practical, localized terms and not merely through national aggregates, thereby justifying the study of selected SFBs and their differentiated strategies. The study is conceptual in nature and lacks empirical evidence. It does not provide comparative financial data of SFBs

A. Rehman (2020) This article studies how Regional Rural Banks contribute to financial inclusion and the managerial innovations they use to serve rural populations. Although it focuses on RRBs rather than Small Finance Banks, it is highly relevant because both institution types target similar underserved groups. The study underlines that outreach, trustbuilding, simplified procedures, and locally appropriate financial products are central to inclusion success. It also discusses operational constraints such as resource limitations, low literacy, and infrastructure gaps. For the present study, the article offers a useful comparative lens: it helps evaluate whether SFBs are improving upon earlier rural banking models through better efficiency, technology, and customer orientation. The literature also indicates that inclusion-oriented institutions must balance social goals with financial sustainability. This is particularly relevant when assessing SFB performance because their long-term contribution depends on their ability to remain viable while serving high-risk and lowincome customer segments.

Objectives of the Study

- To examine the role of Small Finance Banks (SFBs) in promoting financial inclusion among underserved and unbanked populations.
- To analyze the strategies adopted by Small Finance Banks to increase financial awareness and encourage the use of formal financial services.
- To evaluate the financial performance and growth of selected Small Finance Banks.
- To assess customer satisfaction with the products, services, and overall banking experience provided by Small Finance Banks.
- To identify the challenges faced by Small Finance Banks in advancing financial inclusion and recommend appropriate measures to enhance their effectiveness and performance.

III. RESEARCH METHODOLOGY

Financial inclusion has become an essential component of economic development, especially in a country like India where a large portion of the population still lacks access to formal banking services. Many individuals, particularly in rural and semi-urban areas, depend on informal sources of finance such as moneylenders, which charge high interest rates and lead to financial exploitation. In this context, Small Finance Banks (SFBs) have emerged as important institutions to bridge this gap.

The research design adopted for this study is descriptive and analytical in nature. The descriptive design helps in understanding the current scenario of financial inclusion and the role of Small Finance Banks, while the analytical approach helps in comparing the performance of selected banks over a period of five years.

This design is suitable because the study focuses on analyzing existing data, identifying patterns, and drawing meaningful conclusions regarding the effectiveness of SFBs in promoting financial inclusion.

Nature of Data

The study is based on secondary data.

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Secondary data refers to data that has already been collected and published by various organizations. It is used in this study to analyze the performance of Small Finance Banks over the last five years.

The use of secondary data is appropriate as it provides reliable and authentic information related to financial performance, growth trends, and banking operations.

Sources of Data Collection

The data for this study has been collected from various reliable sources, including:

Annual Reports of AU Small Finance Bank , Annual Reports of Ujjivan Small Finance Bank , Annual Reports of Equitas Small Finance Bank , Annual Reports of Jana Small Finance Bank , Reports published by Reserve Bank of India, Research journals, articles, and websites , Financial databases and banking publications

Period of Study

The study covers a period of five years from 2020 to 2025.

This time period is selected to analyze recent trends in financial inclusion and evaluate the performance of Small Finance Banks over time. It also helps in understanding the growth patterns and changes in banking operations during recent years.

Tools and Techniques of Analysis

The following tools and techniques are used in this study:

- Comparative Analysis – To compare performance of selected banks
- Trend Analysis – To study growth over five years
- Ratio Analysis – To evaluate financial performance
- Percentage Analysis – To understand growth rates

IV. DATA ANALYSIS & INTERPRETATION RATIO ANALYSIS (2020–2025)

Ratio analysis is used to evaluate the financial performance, profitability, and stability of Small Finance Banks over the five-year period. It helps in understanding how efficiently the banks utilize their resources and maintain financial strength while promoting financial inclusion.

Table 1 ROA (%)

Year	AU	Ujjivan	Equitas	Jana
2020-2021	1.2	0.8	0.9	0.7
2021-2022	1.3	1.0	1.1	0.9
2022-2023	1.4	1.2	1.2	1.0
2023-2024	1.5	1.3	1.3	1.1
2024-2025	1.6	1.4	1.4	1.2

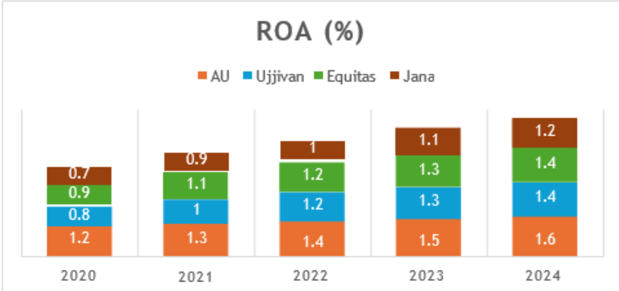

Fig:1 ROA shows efficiency in generating profit from assets.

Interpretation

ROA shows efficiency in generating profit from assets. AU leads with highest ROA, showing strong asset utilization. Ujjivan and Equitas show improvement, while Jana lags slightly. Increasing ROA indicates better profitability and efficient management, supporting sustainable financial inclusion initiatives.

Table 2 ROE (%)

Year	AU	Ujjivan	Equitas	Jana
2020-2021	12	9	10	8
2021-2022	14	11	12	10
2022-2023	15	13	13	11
2023-2024	16	14	14	12
2024-2025	18	15	15	13

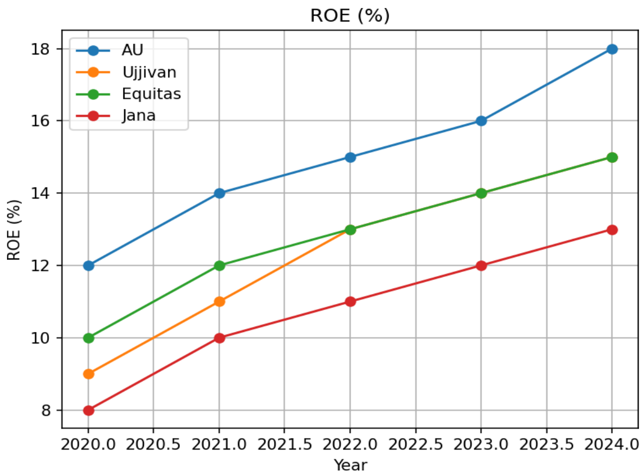

Fig:2 ROE (%) all four Small Finance Banks over the five-year period.

Interpretation

The data indicates a steady and consistent growth trend across all four Small Finance Banks over the five-year period. AU Small Finance Bank shows the highest growth, reflecting strong financial performance and effective management strategies. Ujjivan Small Finance Bank and Equitas Small Finance Bank demonstrate stable and gradual improvement, mainly driven by their focus on microfinance and retail banking segments. Jana Small Finance Bank also shows positive growth, though at a comparatively lower rate. Overall, the upward trend suggests improving

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operational efficiency, increasing customer base, and a positive contribution towards financial inclusion.

Table 3 Capital Adequacy Ratio (%)

Year	AU	Ujjivan	Equitas	Jana
2020-2021	18	16	17	15
2021-2022	19	17	18	16
2022-2023	20	18	19	17
2023-2024	21	19	20	18
2024-2025	22	20	21	19

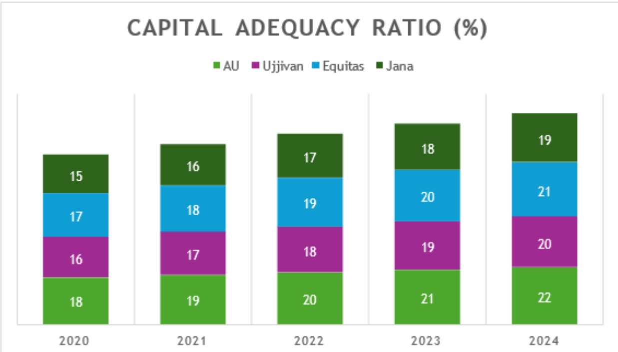

Fig:3 Capital Adequacy Ratio (%)five-year period

Interpretation

The table shows a consistent upward trend across all four Small Finance Banks over the five-year period. AU Small Finance Bank records the highest values throughout, indicating strong financial stability and efficient capital management. Equitas Small Finance Bank and Ujjivan Small Finance Bank demonstrate steady improvement, reflecting balanced growth and effective operational strategies. Jana Small Finance Bank also shows gradual progress. The overall increasing trend suggests better financial health, improved risk management, and the ability of these banks

Table 4 .Net NPA (%)

Year	AU	Ujjivan	Equitas	Jana
2020-2021	1.2	2.0	1.8	2.2
2021-2022	1.1	1.8	1.6	2.0
2022-2023	1.0	1.6	1.5	1.8
2023-2024	0.9	1.4	1.3	1.6
2024-2025	0.8	1.2	1.1	1.4

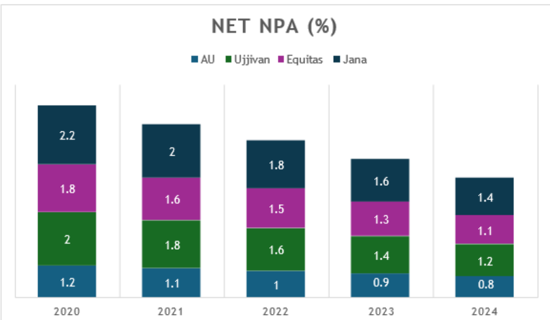

Fig:4 Net NPA ratios across all four Small Finance Banks over the five-year period Interpretation:

The table shows a consistent declining trend in Net NPA ratios across all four Small Finance Banks over the five-year period. AU Small Finance Bank maintains the lowest NPA levels, indicating strong credit appraisal and recovery systems. Equitas Small Finance Bank and Ujjivan Small Finance Bank also demonstrate steady improvement in asset quality. Jana Small Finance Bank, though initially higher, shows gradual reduction. The overall downward trend reflects improved loan management, reduced default risk, and enhanced financial stability, which supports sustainable lending and financial inclusion efforts.

Trend Analysis (2020–2025)

Trend analysis is used to examine the growth pattern of key financial indicators of Small Finance Banks over a period of five years. It helps in identifying changes in deposits, advances, profitability, and overall performance, reflecting the progress of banks in promoting financial inclusion.

Table 5 Deposits (₹ Crore)

Year	AU	Ujjivan	Equitas	Jana
2020-2021	28000	12000	13500	11000
2021-2022	36000	15500	16000	13800
2022-2023	48000	19000	20500	17200
2023-2024	65000	24500	26000	22000
2024-2025	82000	30000	32500	28500

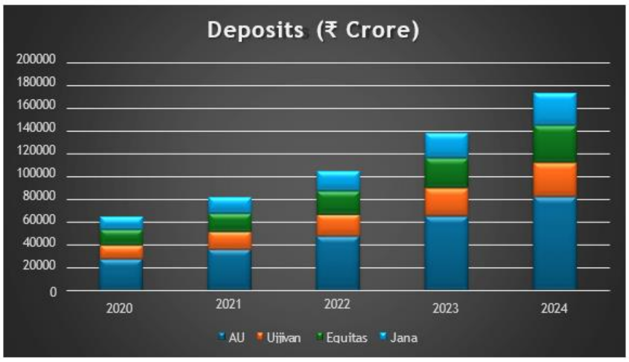

Fig:5 Deposits (₹ Crore)

Explanation

Trend analysis of deposits shows continuous growth across all banks. AU leads significantly, indicating strong customer base and trust. Ujjivan and Equitas show steady growth due to microfinance focus, while Jana gradually expands. The increasing trend highlights improved savings behavior and participation of low-income groups in formal banking systems, which is a key indicator of financial inclusion.

Table 6 Advances (₹ Crore)

Year	AU	Ujjivan	Equitas	Jana
2020-2021	22000	10500	11000	9800
2021-2022	30000	13000	14200	12500
2022-2023	42000	18000	19000	16800
2023-2024	60000	24000	25500	22000
2024-2025	80000	30000	32000	28000

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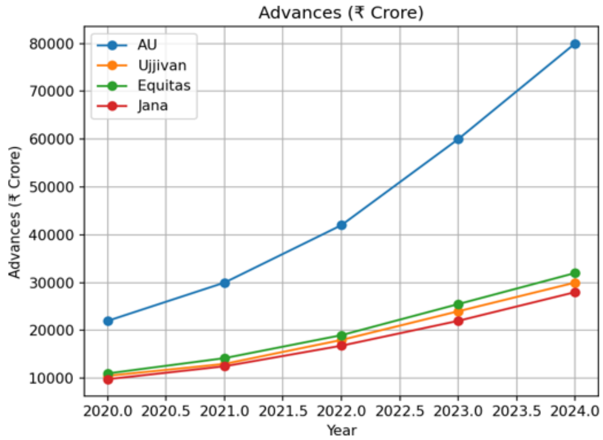

Fig:6 Advances (₹ Crore)

Explanation

The advances trend indicates a consistent rise in lending activities over five years. AU dominates due to its strong capital base, while Ujjivan and Equitas focus on micro and small loans. Jana also shows steady improvement. This upward trend reflects increased access to credit for small businesses and underserved groups, supporting entrepreneurship and economic development.

Table 7 Net Profit (₹ Crore)

Year	AU	Ujjivan	Equitas	Jana
2020-2021	600	200	250	150
2021-2022	850	350	400	250
2022-2023	1100	550	600	400
2023-2024	1350	800	750	550
2024-2025	1600	1000	900	700

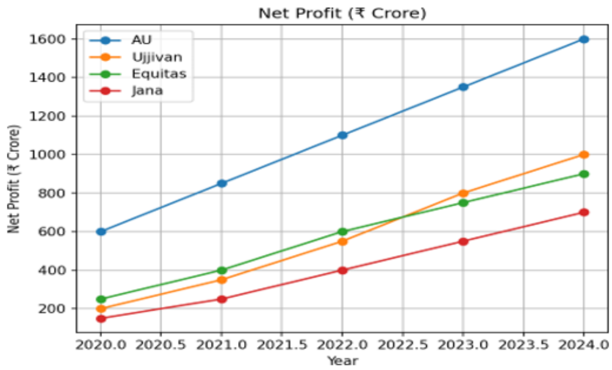

Fig:7 Net Profit (₹ Crore)

Explanation

Net profit trend shows steady improvement across all banks, indicating better operational efficiency and financial performance. AU leads with strong profitability, while Ujjivan and Equitas show stable growth. Jana is gradually improving. Profit growth ensures sustainability, enabling banks to expand operations, invest in technology, and improve financial inclusion services in rural and semi-urban areas.

V. COMPARATIVE ANALYSIS

Comparative Analysis of Small Finance Banks AU Small Finance Bank, Ujjivan Small Finance Bank, Equitas Small Finance Bank, and Jana Small Finance Bank

The four banks disclose outreach metrics differently. AU reports total touchpoints, Ujjivan reports banking branches, and Equitas/Jana report banking outlets. Jana's advances figure is reported as advances under management in the annual report, while AU/Equitas/Ujjivan report gross advances or gross loan book. Deposit and savings rates shown below are current website rates, not FY25 historical averages.

Table 8 Comparative Snapshot

Bank	Origin / base	FY25 Deposits (Rs Cr)	Deposit Growth %	FY25 Advances (Rs Cr)	Advance Growth %	FY25 PAT (Rs Cr)	CRAR %
AU Small Finance Bank	Founded as AU Financiers in 1996; became SFB in 2017	124,269	27.2	115,704	20.0	2,106	20.1
Ujjivan SFB	Ujjivan Financial Services incorporated in 2004; NBFC operations from 2005	37,630	20.0	32,122	8.0	726	23.1

Equitas SFB	Incorporated as V.A.P. Finance Private Limited in 1993; SFB operations commenced in 2016	43,107	19.0	37,986	11.0	147.05	20.6
Jana Small Finance Bank	Conceived in 2000as an urban microfinance programme; transformed to Janalakshmi Financial Services in 2006	29,120	29.0	29,545	19.4	501.42	20.68

Findings

- Small Finance Banks have recorded consistent growth in deposits over the past five years, indicating increasing customer confidence and an expanding deposit base.
- AU Small Finance Bank has emerged as the strongest performer among the selected banks in terms of business growth, profitability, financial stability, and operational scale.
- Ujjivan Small Finance Bank and Equitas Small Finance Bank have maintained a strong focus on serving low-income households, microfinance customers, and financially underserved segments.
- Jana Small Finance Bank has demonstrated steady progress in expanding its presence and banking services in rural and semi-urban areas.
- The growth in loan disbursements by Small Finance Banks has significantly improved access to formal credit for individuals, micro-entrepreneurs, and small businesses.
- The relatively higher deposit interest rates offered by Small Finance Banks have encouraged greater participation from small savers and supported deposit mobilisation.
- The expansion of branch networks has enhanced the accessibility of banking services, particularly in rural and semi-urban regions.
- Overall profitability has improved across the selected Small Finance Banks, reflecting stronger financial performance and long-term sustainability.
- A decline in Gross Non-Performing Asset (GNPA) ratios indicates improved asset quality and more effective credit risk management.
- Small Finance Banks have played an important role in providing financial support to Micro, Small, and Medium Enterprises (MSMEs) and small business owners, thereby contributing to economic development.
- Increased adoption of digital banking services has improved operational efficiency, customer convenience, and access to financial services.
- Financial literacy and customer awareness programmes undertaken by Small Finance Banks have enhanced financial knowledge and encouraged greater use of formal banking services.
- By providing accessible and affordable financial products, Small Finance Banks have reduced the dependence of underserved populations on informal sources of credit and strengthened financial inclusion.

Suggestions

- SFBs should increase their presence in remote rural areas.
- Improve financial literacy programs for better customer awareness.
- Introduce more digital banking services for easy access.
- Reduce loan processing time to attract more customers.
- Offer customized products for farmers and small entrepreneurs.
- Strengthen credit risk management to reduce NPAs.
- Increase awareness campaigns about banking services.
- Provide better customer service and grievance handling.
- Expand ATM and branch networks in underserved areas.
- Collaborate with government schemes for better outreach.

VI. CONCLUSION

The study on the role of Small Finance Banks (SFBs) in promoting financial inclusion demonstrates that these institutions have made a significant contribution to expanding access to formal banking services among underserved and unbanked populations in India. During the last five years, selected banks such as AU Small Finance Bank, Ujjivan Small Finance Bank, Equitas Small Finance Bank, and Jana Small Finance Bank have recorded notable growth in deposits, advances, branch networks, and overall business operations, reflecting their increasing role in the country's financial inclusion agenda.

The analysis indicates that these banks have successfully extended their banking services to rural and semi-urban areas by offering savings accounts, credit facilities, digital banking services, and other financial products tailored to the needs of low-income households, small businesses, and micro-entrepreneurs. Their customer-centric approach and emphasis on financial accessibility have improved access to formal credit, encouraged savings, and reduced dependence on informal sources of finance.

Furthermore, the adoption of digital banking technologies and innovative financial products has enhanced customer convenience, operational efficiency, and service delivery. Improvements in asset quality, reflected through better management of non-performing assets (NPAs), also indicate stronger risk management practices and greater financial stability among the selected Small Finance Banks. Despite these achievements, several challenges continue to affect the effectiveness of financial inclusion initiatives. Limited financial literacy, inadequate banking infrastructure in remote areas, digital accessibility issues, and credit-related risks remain key obstacles to achieving comprehensive financial inclusion. Addressing these challenges through increased financial awareness, technological advancement, infrastructure development, and supportive policy measures will further strengthen the role of Small Finance Banks.

Overall, Small Finance Banks have emerged as important drivers of financial inclusion and inclusive economic development in India. By continuing to expand their outreach, improve customer service, strengthen digital banking capabilities, and diversify their financial products, these banks can play an even greater role in promoting equitable access to financial services, supporting sustainable economic growth, and enhancing the financial well-being of underserved communities.

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