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A STUDY ON OPERATIONAL EFFICIENCY OF SMALL FINANCE BANKS IN INDIA SUCCESS AND FAILURES OF SFB

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ABSTRACT
Small Finance Banks (SFBs) in India have emerged as pivotal institutions driving financial inclusion and fostering economic empowerment, particularly among underserved and marginalized segments of society. This abstract delves into the role and significance of SFBs in the Indian financial landscape. SFBs, conceptualized under the Reserve Bank of India's guidelines, are designed to cater to the banking needs of small businesses, micro and small industries, unorganized sectors, low-income households, and other sections traditionally excluded from mainstream banking services. Since their inception, SFBs have played a crucial role in extending formal financial services to the unbanked and underbanked population, thereby fostering inclusive growth and development. This paper examines the distinctive features of SFBs, including their focus on microfinance, priority sector lending, and technology-driven banking solutions tailored to the needs of their target customer base. Furthermore, it analyzes the regulatory framework governing SFBs, highlighting the regulatory flexibility granted to them to promote innovation and financial inclusion. Through a comprehensive review of literature and empirical evidence, this abstract elucidates the impact of SFBs on financial access, income generation, and poverty alleviation. It also discusses the challenges and opportunities faced by SFBs in scaling their operations, ensuring sustainability,

and maintaining compliance with regulatory requirements. In conclusion, this abstract underscores the transformative potential of SFBs in advancing financial inclusion, reducing inequality, and fostering sustainable development in India. It emphasizes the need for continued policy support, innovation, and collaboration among stakeholders to maximize the positive impact of SFBs on the economy and society.

INTRODUCTION:

Overview of the small finance banking sector in India.

The small finance banking sector in India emerged as a result of the government's efforts to enhance financial inclusion and cater to the banking needs of underserved and unbanked segments of the population. Here's an overview of the small finance banking sector in India:

Background:

The Reserve Bank of India (RBI) introduced the concept of small finance banks (SFBs) in 2014 as part of its efforts to promote financial inclusion.

SFBs were envisioned to provide basic banking services to small farmers, micro and small industries, unorganized sector entities, low-income households, and other segments of the population that typically lacked access to formal banking services.

Regulatory Framework:

SFBs are regulated by the RBI under the Banking Regulation Act, 1949.

They are required to comply with prudential norms and regulations applicable to other commercial banks, with certain relaxations and concessions to enable them to better serve their target customer segments.

The RBI issues specific guidelines and regulations governing the licensing, operations, and reporting requirements of SFBs.

OBJECTIVES:

The primary objective of SFBs is to promote financial inclusion by providing a range of banking services, including savings accounts, remittances, credit, insurance, and payment services, to underserved segments of the population.

They aim to address the banking needs of small borrowers, including micro and small enterprises (MSEs), farmers, women, low-income households, and others who are often excluded from the formal financial system.

Business Model:

SFBs typically adopt a lean and technology-driven business model to keep operating costs low while reaching out to a large customer base.

They often leverage technology such as mobile banking, internet banking, and agent banking to expand their reach and provide convenient banking services to customers in remote and rural areas.

Many SFBs focus on developing innovative products and delivery channels tailored to the needs of their target customers, such as small-ticket loans, micro-insurance, and digital payment solutions.

Performance:

Since their inception, SFBs have made significant strides in expanding their branch network, customer base, and loan portfolio.

They have played a crucial role in extending credit to underserved segments, including small businesses, farmers, and low-income households, thereby contributing to economic growth and development.

The performance of SFBs is regularly monitored by the RBI, and they are required to maintain specified priority sector lending targets and comply with other regulatory requirements.

Challenges and Opportunities:

SFBs face various challenges, including competition from established banks, managing credit risk in serving high-risk customer segments, and achieving profitability while maintaining affordability for customers.

However, they also have significant opportunities for growth, given the vast untapped market potential and increasing demand for financial services among underserved populations.

Overall, the small finance banking sector in India plays a vital role in promoting financial inclusion and inclusive growth, and its continued development is essential for realizing the vision of a more inclusive and equitable financial system.

Importance Of Studying Financial and Operational Efficiency.

Studying the financial and operational efficiency of small finance banks (SFBs) is crucial for several reasons:

1. **Promoting Financial Inclusion**: SFBs are mandated to serve underserved and unbanked segments of the population. Assessing their efficiency helps understand how effectively they are fulfilling this mandate by providing accessible and affordable financial services to these marginalized groups.
2. **Resource Allocation**: Efficient allocation of resources is vital for sustainable banking operations. Studying financial efficiency allows policymakers, regulators, and SFB management to identify areas of inefficiency and allocate resources more effectively, whether it's capital, human resources, or technology investments.
3. **Profitability and Sustainability**: Efficiency directly impacts profitability and sustainability. By studying operational efficiency, SFBs can optimize processes, reduce costs, and enhance productivity, thereby improving their bottom line and ensuring long-term viability.
4. **Risk Management**: Efficient operations contribute to better risk management. Understanding the financial efficiency of SFBs helps assess their ability to manage credit risk, liquidity risk, and operational risk, which are critical for maintaining financial stability and resilience.
5. **Customer Satisfaction and Retention**: Operational efficiency directly influences the quality of service delivery. By studying operational efficiency, SFBs can identify bottlenecks, streamline processes, and enhance service quality, leading to improved customer satisfaction and retention.
6. **Competitiveness**: In a competitive banking landscape, efficiency is a key determinant of competitiveness. Studying the financial and operational efficiency of SFBs helps benchmark their performance against peers and identify areas for improvement to remain competitive in the market.
7. **Regulatory Compliance**: Regulatory authorities often impose efficiency-related requirements on banks. Studying efficiency helps SFBs ensure compliance with regulatory

standards, such as capital adequacy ratios, priority sector lending targets, and other prudential norms set by regulators like the Reserve Bank of India (RBI).

8. **Policy Formulation and Decision Making**: Insights gained from studying efficiency can inform policy formulation and strategic decision-making at both the institutional and regulatory levels. Policymakers can use this information to design effective policies and regulations that promote the growth and stability of the small finance banking sector.

In summary, studying the financial and operational efficiency of small finance banks is essential for enhancing financial inclusion, optimizing resource allocation, improving profitability and sustainability, managing risks, enhancing customer satisfaction, maintaining competitiveness, ensuring regulatory compliance, and informing policy formulation and decision-making.

OBJECTIVES OF STUDY

1. To identify the financial services offered by Small Finance Banks in India.
2. To study the impact of capital structure on the financial performance of Small Finance Banks.
3. To analyze the customer's perspective towards Small Finance Banks.
4. To evaluate the satisfaction of customers on Small Finance Banks in India.

RESEARCH METHODOLOGY

The research which methodology involves a systematic and structured approach to collect , analyse and interpret data for the purpose of answering research questions or testing hypotheses.

DATA SOURCES

The validity of research depends on the systematic method of collecting data and analyzing it in a sequential order. Both secondary data were collected for this study. The first phase of the study is to analyze the impact of capital Structure on the Financial Performance of Small Finance Banks in India. A methodology has been adopted to induce the objectives, which mainly analyze the level of the banks' performance.

The study's second Phase is to analyse the Customer's perspective and level of satisfaction towards Small Finance Banks in India. In order to fulfil the objectives, a sample study was undertaken by using a well-framed Questionnaire. Besides, a discussion has been made with the officials of the banks to collect data. Primary data has been collected from respondents having their accounts in different Small Finance Banks in India by filling up well-structured questionnaire through personal meeting with respondents. To measure the financial performance the data collected from the audited financial reports.

Sampling distribution

S. No.	Name of Small Finance Bank	Number of Branches in India
1	ESAF Small Finance Bank	644
2	Equitas Small Finance Bank	860
3	Ujjivan Small Finance Bank	575
4	Jana Small Finance Bank	607

5	Fincare Small Finance Bank	919
6	Suryoday Small Finance Bank	31
Total		3636

SCOPE OF THE STUDY

There are a lot of changes happening in all the sectors of our economy, especially financial sector. Recently Central Government and RBI have sanctioned opening up of new forms of financial institutions such as Payment Banks and Small Finance Banks.The main aim of served by these banks are towards small and marginal farmers, micro and small business units, and unorganized sector firms. Small Finance Banks are the one of the new initiative by the RBI in order to provide the financial assistance to the underserved people of the community. This will leads to the financial inclusion which ultimately directs to the economical development of the country. The Indian economy has grown manifold in the last few decades and there has been progressive liberalization and globalization of the economy.

However, a huge chunk of the population remains unbanked or informally banked. Inclusive economic development and growth require the extension of financial services to all sections of society.

NEED FOR THE STUDY

Banks play a vital role in the economic progress of a country. In this modern scenario, the banking sector plays a vital role among the various services sectors. Their ability make a positive contribution in igniting a process of growth depends largely on the way the banking policies are pursued and the banking structure is resolved. Especially in India, after the globalization era, an excess of banks entered the Indian markets. Though the hands of private banking sectors are dominated by providing competitive services, the role of public sector banks are inevitable in India. Customer satisfaction is the core of banking sectors. In today's world where innovative financial services are being offered, the roles of Small Finance Banks are highly essential for the potential growth.

Hence, it generates interest for bankers and curiosity for researchers. The new concept of bank marketing assigned due weight age to customer's satisfaction. In a proper sense, the feature of changed concept aimed at having a full view of customer's needs, fulfilling the identified needs in the best possible manner by necessary services, discovery of potential customers and conducting the activities at the branches on the basis of market segmentation.

REVIEW OF THE LITERATURE

(JASIR, 2022) The study on A Study on financial analysis of small Finance Banks, small finance are a new entrant into the Indian banking system with a differentiated focus on financial inclusion. A preliminary assessment of these banks brings out a rapid growth in their branches and asset base marked by a healthy asset quality and high return on assets. These banks have been reasonably successful in reaching out to under-served sectors. The small finance banks (SFBs) are likely to register a marginal improvement in the growth rate of their assets under management (AUM) in financial year 2021-22(FY22) to 20 per cent from 18 per cent growth witnessed in FY21, this growth rate will still be lower than the compound annual growth rate (CAGR) of around 30 per cent during FY16-FY20.

(Ray, 2021) The study on Financial analysis of small finance banks in India through CAMEL rating Banking performance is assessed by implementing a regulatory banking supervision framework. CAMEL rating system is used to evaluate the overall performance of the banks and to determine their strengths and weaknesses. Small finance banks are a result of RBI's efforts to promote niche banking. These are the financial institutions which provide basic banking service of acceptance of deposits and lending. The aim behind these to provide financial inclusion to sections of the economy such as small business units, small and marginal farmers, micro and small industries and unorganised sector entities which are not being served by other banks in unbanked and under-banked regions.

(Paramasivan, 2021) The study Impact of Capital structure on financial performance ,The purpose of this research is to look into the effect of financial leverage on the financial performance of small Indian banks. Return on assets and return on equity are the dependent variables in this research. The independent variables in this study are debt ratio, debt to equity ratio, interest coverage ratio, and cash coverage ratio. From 2017 through 2021, a sample of six small financial banks was used. Secondary data is the type of information that is utilised.

(Sharma, 2021) Study on Small Finance Banks in Order to Attain Financial Inclusion in India, In India there are several private and public sector banks at providing their innovative financial services to their customers. In spite of that there are so many people are excluded from the financial inclusion especially rural people, labours and other financially weaker section of the society.

FINDINGS OF STUDY

- The trend purchases from 2018-2021.In the Equitas shows that list of trends 156 in the year 2022, followed by Ujjivan shows that list of trends 337 in the year 2022, Suryody shows that list of trends 661 in the year 2022 and AU small finance shows that list of trends 502 in the year 2022.
- The trend reserve & surplus from 2018-2021.In Equitas shows that list of trends 124 in the year 2022, followed by Ujjivan shows that list of trends 362 in the year 2022, Suryody shows that list of trends 297 in the year 2022 and AU small finance shows that list of trends 232 in the year 2022.
- The trend loans & advance from 2018-2021.In the Equitas shows that list of trends 312 in the year 2022, followed by Ujjivan shows that list of trends 346 in the year 2022, Suryody shows that list of trends 175 in the year 2022 and AU small finance shows that list of trends 349in the year 2022.

SUGGETIONS

- A consistent high ratio is needed for the revenue and operation to convert to cash.
- The depreciation rate is to be modified to manipulate the earnings other ways volatility of the same flag off risks.
- Expenses must be written off directly from the balance sheet instead of being routed through profit loss statement this helps in inflating the profit.
- A high yield depicts proper statement of cash and equivalents.
- A low ratio is needed to display sub-stained capex.

CONCLUSION

Small Finance Banks are a new entrant into the Indian banking system with a differentiated focus on financial inclusion. This study on the financial performance of financial institution named Au small finance bank, Sarvodaya Small Finance Bank, Equities finance bank and Ujjivan small finance bank. The secondary data will be collected with the help of annual reports of the listed companies after IPO issuing.

In this study, A good and efficient financial performance needs suggestions like A consistent high ratio is needed for the revenue and operation for getting converted to cash, The depreciation rate is to be modified to manipulate the earnings other ways volatility of the same Flagg off risks, Expenses must be written off directly from the balance sheet instead of being routed through profit loss statement this helps in inflating the profit, A high yield depicts proper statement of cash and equivalents. A low ratio is needed to display sub-stained capex. The cash generated by the business must be siphoned off to check whether reported earnings or revenue are believable, and Faster growth in auditors' remuneration with regard to company operations must raise concerns surrounding the auditor’s objective.

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