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Promoting Sustainable Financial Inclusion In India Through Small Finance Banks

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Abstract:
Banks must adopt practices and strategies that value long-term, responsible access to financial services for everyone. This is called "sustainable financial inclusion." It means that everyone has long-term access to financial goods and services, with the goal of boosting economic growth, lowering poverty, and making sure that people are socially and environmentally responsible. The aim of this study is to find out how sustainable measures of financial inclusion affect the growth of small finance banks in India. It does this by using information from different RBI website sources. Achieving the goals of the sustainable financial inclusion plan will be shown by the growth of indicators such as account penetration, digital financial inclusion, and geographic reach. Lots of new accounts are being started, which means that more transactions are happening in savings, current, and term accounts. However, growth is seen more in savings and current accounts as compared to term accounts. Digital financial inclusion can positively impact sustainable financial inclusion by enhancing accessibility, and efficiency, and reducing environmental footprints. Bank branches' coverage has grown over the years. Even though there has been some progress, the government needs to keep making it easier for things to move faster. This is because achieving sustainable financial inclusion leads to more security and faster economic growth.
Keywords: *Sustainable Financial Inclusion, Small Finance Banks, Financial Inclusion, Progress of SFBs.*

1. INTRODUCTION

In an attempt to promote financial inclusion, India nationalized its public sector banks in 1969, however, the initiative was not entirely successful (Dua et al., 2019). Since it was not feasible to implement all of the RBI's recommended financial inclusion programs utilizing branch banks promptly, it was necessary to meet impoverished individuals through technology(Sikdar & Kumar, 2016). With mobile penetration in the majority of the nation's remote areas, financial inclusion through mobile services may emerge as a feasible option. In 2015, the RBI licensed ten new small finance banks (SFBs) and eleven new payment banks following feasibility assessments and technological financial inclusion monitoring (Pillai & Kumar, 2018).

Small Finance Banks (SFBs) have become more important in recent years as key players in promoting long-term financial inclusion. This has caused a paradigm change in the global financial landscape. For larger economic growth goals, these specialized banks are the best way to meet the financial needs of people who are on the outside and not well served. This introduction aims to delve into the strategies and approaches that Small Finance Banks can adopt to promote sustainable financial inclusion, emphasizing the pivotal role they play in empowering individuals, micro-entrepreneurs, and communities hitherto excluded from mainstream financial services. Small Finance Banks, as financial institutions, are expressly designed to serve the unbanked and underbanked sections of society. Their mandate goes beyond mere financial intermediation; it encompasses a commitment to social and economic upliftment. This commitment is reflected in their tailored products and services, designed to meet the unique needs of those often excluded from traditional banking.

One of the key pillars of sustainable financial inclusion through Small Finance Banks is the adoption of technology and innovative banking solutions. Digital channels, mobile banking, and agent networks

enable these banks to reach geographically remote areas, providing individuals with access to financial services that were once considered out of reach. This digital revolution not only enhances accessibility but also drives down transaction costs, making financial services more affordable for a broader spectrum of the population. Small finance banks in India leverage various digital financial inclusion tools to promote sustainable financial inclusion like mobile banking app, UPI, Micro ATMs, (AEPS), SMS Banking, Online Account Opening, Digital KYC, Microfinance Software Solutions, Agent Banking, Financial Literacy Apps. Digital financial inclusion consists of two important elements: the "deployment of digital technology and financial inclusion primarily designed to facilitate the financially excluded and underprivileged populations" (Ozili, 2022, p.3). Digital financial services provided by formal digital financial institutions include facilities like credit, insurance, payments, savings, investments, securities, withdrawals, transfers, account statements, cards, and updated bank accounts (GPFI, 2016). Accessing formal financial services can escalate costs for the low-income group, but adopting digital technology can lower the cost (Patwardhan et al., 2018).
Furthermore, a fundamental aspect of sustainable financial inclusion is the promotion of financial literacy and education. Small Finance Banks play a pivotal role in conducting outreach programs, workshops, and training sessions that empower individuals with the knowledge needed for sound financial decision-making.
Financial inclusion is how easy it is for people and businesses to get and use financial goods and services. People who don't have bank accounts or don't have enough money in their accounts will be brought into the official financial system. Whereas Financial inclusion that is sustainable looks at more than just getting people access to financial services. It also looks at how these programs will work and affect people in the long run. It takes into account sustainability in the economic, social, and natural areas.
The primary focus of financial inclusion is on expanding access to basic financial services such as savings accounts, credit, insurance, and payment mechanisms. Sustainable financial inclusion incorporates practices that empower individuals and communities economically, socially, and environmentally. It looks at the positive, lasting effects on livelihoods and the overall well-being of the population.
In summary, financial inclusion is a foundational step towards sustainable financial inclusion, but the latter extends the focus beyond access to services, aiming for enduring positive impacts on economic, social, and environmental aspects.

2. LITERATURE REVIEW

Boateng. K, (2018) in their paper titled "Ghana's Progress on Reaching out to the Unbanked Through Financial Inclusion" discussed that authorities of Ghana had consciously installed vicinity regulations and packages to facilitate the merchandising of financial inclusion. Financial inclusion goals are being met as more bank offices open, more ATMs are stocked, more people get debit and credit cards, and more people open cell phone cash accounts. The study concluded that although there had been a few successes, there is a need for the government to preserve the supply of allowing surroundings for quicker development since the achievement of financial inclusion strengthens balance and quicker financial growth.
Jorge Caiado et al, (2020) in their paper titled "Contribution of digital financial services to financial inclusion in Mozambique: an ARDL model approach" looked at how digital financial services helped people in Mozambique get access to money using (ARDL) model from January 2011 to September 2019. According to the study, digital financial services are very important for achieving sustainable financial inclusion in India. They do this by making it easier for people who aren't getting enough financial services to receive and use financial services.
Chu et al., (2023) in their paper titled "Can Digitalization Foster Sustainable Financial Inclusion? Opportunities for Both Banks and Vulnerable Groups examined the effects of bank digitalization on sustainable financial inclusion and explored underlying incentive mechanisms in banks: profit-driven and risk aversion. The consequences of the basic model reveal that bank digitalization has wonderful effects on financial inclusion. They have a look at the development of digitalization and give a theoretical and empirical guide for banks to assemble digitalization and realize sustainable financial inclusion, which contributes to the "triple-win" monetary ecology for boosting banks performance, growing the rights of

vulnerable groups and promoting sustainable improvement at some point of society.
Yang & Zhang, (2020) in their paper titled "Digital Financial Inclusion and Sustainable Growth of Small and Micro Enterprises- Evidence Based on China's New Third Board Market Listed Companies" examined the mechanism and effect of digital financial inclusion on the sustainable growth of small and micro enterprises in China. For this purpose, it makes use of the records from China's New Third Board Market listed companies from 2011 to 2018 and the digital financial inclusion index of Peking University. The effects show that the development of digital financial inclusion facilitates the promotion of the sustainable growth of small and micro businesses, mainly in private, high-tech industries, and competitive markets.

Aloulou et al., (2023) in their paper titled" Fintech use, digital divide, and financial inclusion "analyze the effect of FinTech utilization on financial inclusion amid the virtual divide. This study uses the version of virtual inequality and the unified idea of recognition and use of technology (UTAUT2). Data from an online survey with 282 responses is used in a structural equation modeling method. The results confirm the positive effect of fintech on financial inclusion, as well as the impact of overall performance expectations and situations that make behavior goals easier to realize. Furthermore, the results indicate that the digital divide was shaped by factors such as access, finances, and power, which included FinTech to a lesser extent.
Objective of the Study: To examine how Small Finance banks are contributing to sustainable financial inclusion in India.

3.RESEARCH METHODOLOGY

The purpose of this study is to find out what effects different measures of sustainable financial inclusion have on the growth of small finance banks in India. This means that the study design is descriptive. The study uses data that was already out there. It comes from the RBI website's index on the Indian economy. The period under consideration for the study is five years from 2019 to 2023. Data collected has been arranged in the form of tables and charts for further analysis to drive the conclusion.

Analysis and Interpretation: Account Penetration, Digital Financial inclusion, and Geographic Outreach are some important parameters to measure sustainable financial inclusion. Based on analysis and interpretation, the following findings have emerged:

Account Penetration / Customer Base Growth:-This measures the population served by small finance banks with active savings or deposit accounts.

Table 1: Growth of No. of Accounts (in Thousands) Opened in Small Finance Banks

Years	2019	2020	2021	2022	2023

Types of Accounts	No of Accounts	Amount	No of Accounts	Amount	No of Accounts	Amount	No of Accounts	Amount	No of Accounts	Amount
Current A/C	143	**1825**	275	**2238**	349	**3731**	476	**5501**	656	**7100**
\Saving A/C	6779	**7196**	13513	**10284**	19523	**22202**	26425	**43543**	32109	**54575**
Term A/C	720	**28456**	2034	**50145**	2512	**61843**	2986	**72011**	3875	**99530**
Total Deposit	**7643**	**37477**	**15823**	**62667**	**22385**	**87776**	**29886**	**121055**	**36640**	**161206**

Sources-RBI (Data Base on Indian Economy)

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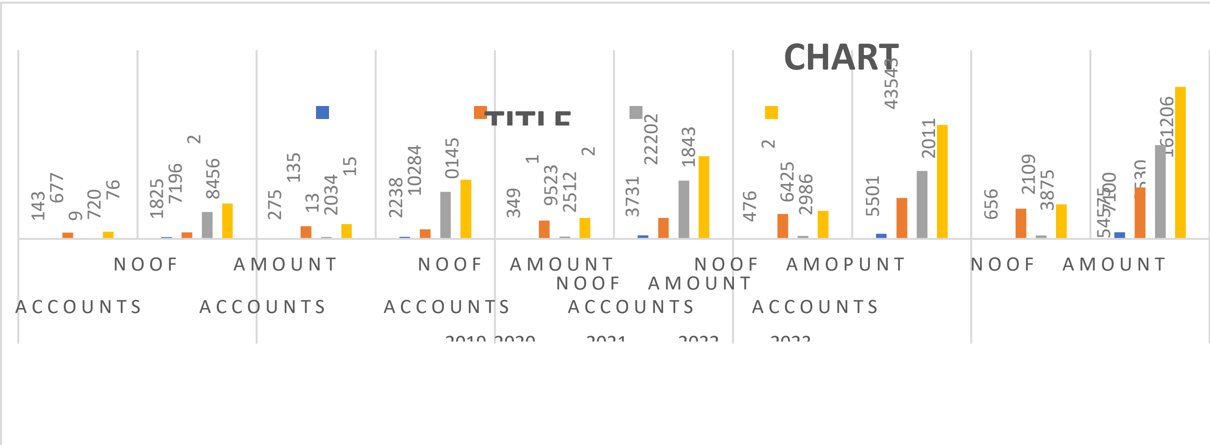

Table 1 and chart show that no. of accounts opened under Small Finance Banks in India has increased during the period 2019 to 2023 for all three types of accounts. The total number of transactions in savings, current, and term accounts goes up when more accounts are started. This is because more people are managing their money. If we look at the separate accounts (Current, Saving, and Term) growth is seen more in Saving Accounts and Current Accounts.

Table 2: Growth of current A/C Deposits in Small Finance Banks (No. of Accounts in Thousands and Amount in Crores)

Years	2019		2020		2021		2022		2023	
Population Group	No. of Accounts	Amounts	No. of Accounts	Amounts	No. of Accounts	Amounts	No. of Accounts	Amounts	No. of Accounts	Amounts
Rural	13	62	26	70	26	113	34	138	45	189
Semi-urban	47	248	86	312	103	552	132	870	165	1111
Urban	46	446	84	639	109	1049	152	1577	199	1898
Metropolitan	37	1069	79	1217	110	2018	157	2916	247	3902
ALL-INDIA	**143**	**1825**	**275**	**2238**	**349**	**3731**	**476**	**5501**	**656**	**7100**
Haryana	4	56	9	116	12	249	16	288	22	359

Sources-RBI (Data Base on Indian Economy

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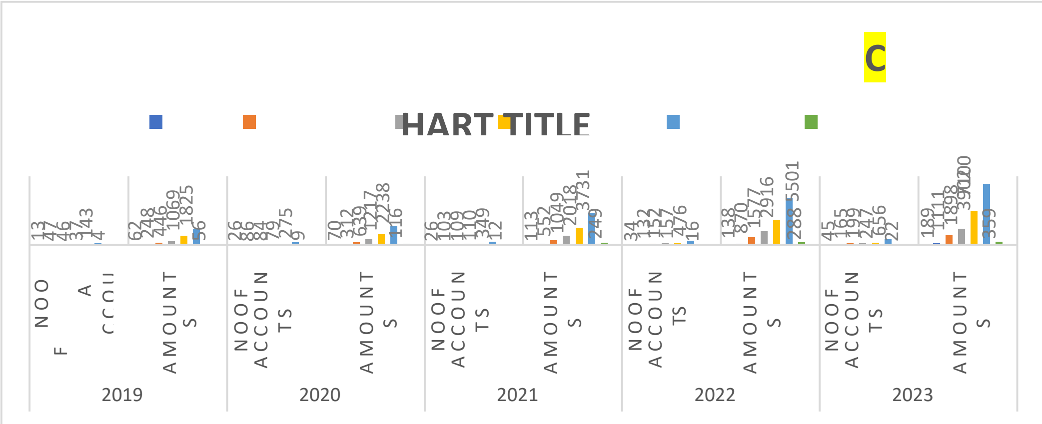
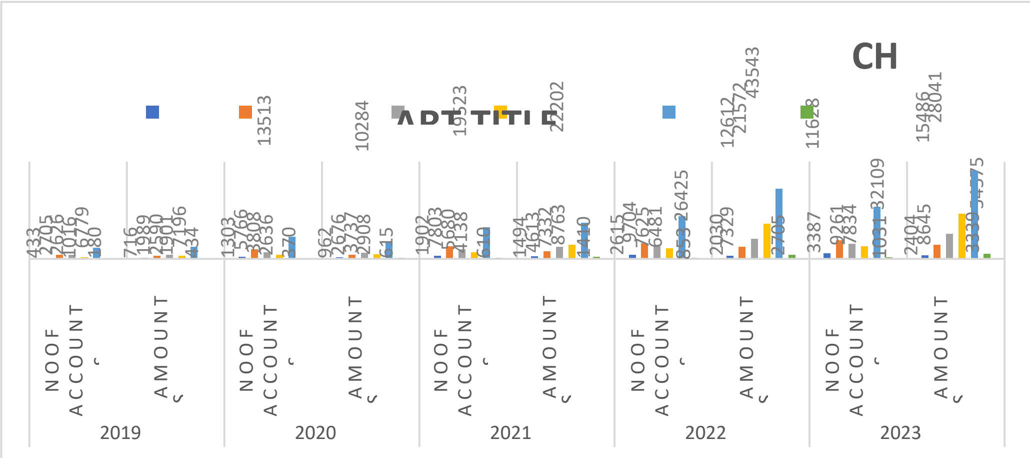


Table 2 and the chart show the growth in the amounts of transactions in the current account for Haryana and all of India across different population groups that are rural, urban, semi-urban, and metropolitan during the period 2019 to 2023. Semi-urban and Urban areas experience faster transactional growth as compared to Rural and metropolitan areas. From 2019 to 2023, Semi-urban areas had the highest growth at 348%, followed by Urban areas at 326%, whereas rural areas contributed a smaller share i.e. 2.6% to the total amount of transactions in the current account by 2023. Analyzing transaction data across different population segments in both Haryana and the entire country helps financial institutions and policymakers understand regional disparities and design strategies to enhance sustainable financial inclusion/ foster balanced economic development.

Table 3: Growth of Saving A/C Deposits in Small Finance Banks (No. of Accounts in Thousands and Amount in Crores)

Years	2019		2020		2021		2022		2023	
Population Group	No. of Accounts	Amounts	No. of Accounts	Amounts	No. of Accounts	Amounts	No. of Accounts	Amounts	No. of Accounts	Amounts
Rural	433	716	1303	962	1902	1494	2615	2030	3387	2404
Semi-urban	2705	1989	5766	2676	7803	4613	9704	7329	11628	8645
Urban	2626	2590	3808	3737	5680	7332	7625	12612	9261	15486
Metropolitan	1016	1901	2636	2908	4138	8763	6481	21572	7834	28041
ALL-INDIA	**6779**	**7196**	**13513**	**10284**	**19523**	**22202**	**26425**	**43543**	**32109**	**54575**
Haryana	180	434	370	615	610	1410	853	**2705**	1031	3339



Sources-RBI (Data Base on Indian Economy

Table 3 and the chart show the growth in the amounts of transactions in savings accounts for Haryana and all of India across different population groups that are rural, urban, semi-urban, and metropolitan during the period 2019 to 2023. Metropolitan and semi-urban areas experience faster transactional growth as compared to urban and rural areas. From 2019 to 2023, Metropolitan areas had the highest growth at 1375%, followed by semi-urban areas at 335%, whereas rural areas contributed a smaller share i.e. 4.4% to the total amount of transactions in the current account by 2023. Analyzing transaction data across different population segments in both Haryana and the entire country helps financial institutions and policymakers understand regional disparities and design strategies to enhance sustainable financial inclusion/ foster balanced economic development.

Table 4: Growth of Term A/C Deposits in Small Finance Banks (No. of Accounts in Thousands and Amount in Crores)

Years	2019		2020		2021		2022		2023	
Population Group	No. of Accounts	Amounts	No. of Accounts	Amounts	No. of Accounts	Amounts	No. of Accounts	Amount	No. of Accounts	Amount
Rural	78	1069	224	1670	215	2137	202	2562	296	3164
Semi-urban	223	3647	652	6870	756	8947	997	10536	1319	14307
Urban	242	6500	591	13366	760	17220	931	20727	1183	29798
Metropolitan	178	17240	568	28239	781	33539	855	38187	1078	52261
ALLINDIA	**720**	**28456**	**2034**	**50145**	**2512**	**61843**	**2986**	**72011**	**3875**	**99530**

Haryana	29	1249	67	2841	88	3512	106	3680	125	5149

Sources- RBI (Data Base on Indian Economy

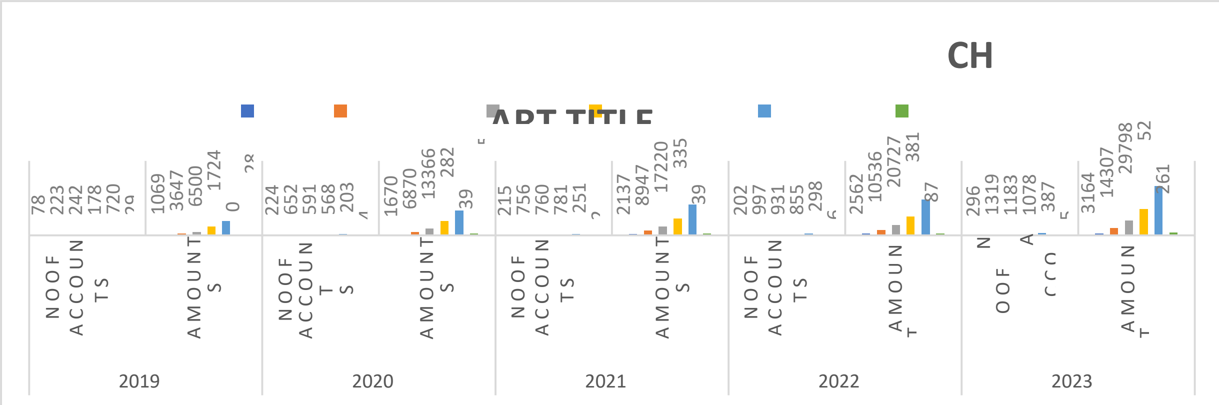


Table 4 and chart shows the growth in the amounts of transactions in Term account for Haryana and all of India across different population groups that are rural, urban, semi-urban, and metropolitan during the period 2019 to 2023. Urban and semi-urban areas experience faster transactional growth as compared to metropolitan and rural areas. From 2019 to 2023, urban areas had the highest growth at 3585%, followed by semi-urban areas at 292%, whereas rural areas contributed a smaller share i.e. 3.1% to the total amount of transactions in the current account by 2023. Analyzing transaction data across different population segments in both Haryana and the entire country helps financial institutions and policymakers understand regional disparities and design strategies to enhance sustainable financial inclusion/ foster balanced economic development.

Geographic Outreach:-To measure the extent to which small finance Banks have established a presence in different areas, to ensure the availability of financial services in rural and remote areas.

Table 5: No. of Branches/Offices Opened by Small Finance Banks

Year / Population Group	2019	2020	2021	2022	2023
Rural	466	812	862	999	1139
Semi-urban	681	1618	1838	1979	2274
Urban	500	1029	1266	1380	1534

Metropolitan	380	730	907	1007	1224
ALL-INDIA	2027	4189	4873	5365	6171
Haryana	87	129	156	171	192

Sources- RBI (Data Base on Indian Economy)

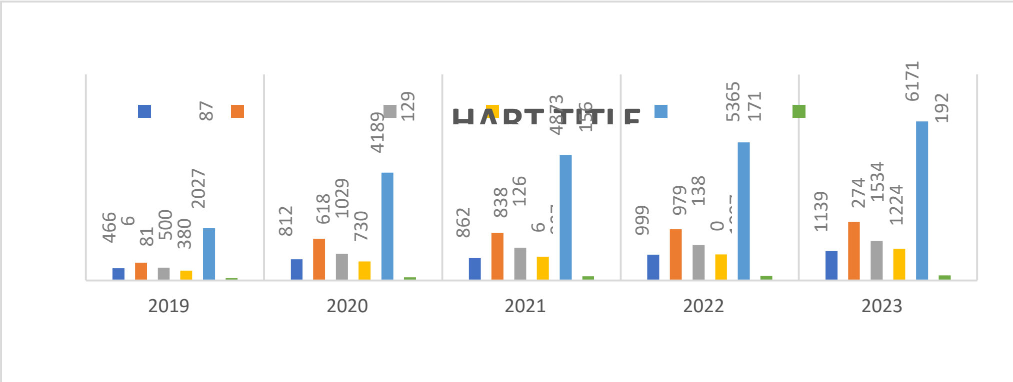


Table 5 and chart show the growth in the number of branches opened by small finance banks for Haryana and all of India across various population groups like rural, semi-urban, and urban areas during the period 2019 to 2023. Semi-urban and metropolitan areas observe faster growth as compared to rural and urban areas. From 2019 to 2023 semi-urban areas had the highest growth at 233.9%, followed by metropolitan areas at 222.1%, followed by urban areas at 206.8%, followed by rural areas at 144.4%.

Digital Financial Inclusion -To measure the extent to which small finance banks adopt digital technologies to enhance financial inclusion, including mobile banking, digital payments, online account access, Biometric Authentication, Aadhar Integration, and Agent Banking. It fixes the problem of not having enough bank branches in rural areas, making it easier for people in more remote rural areas to get banking services (Benami and Carter 2021).

Digital financial inclusion indicators are key metrics used to evaluate the extent to which individuals and communities are included in digital financial services. Some important indicators include mobile phone ownership, internet access, digital literacy, digital payments, digital credit usage (access credit through digital platforms such as online lending apps) digital savings, and investments.

Table 6: Mode of Payments and Channels

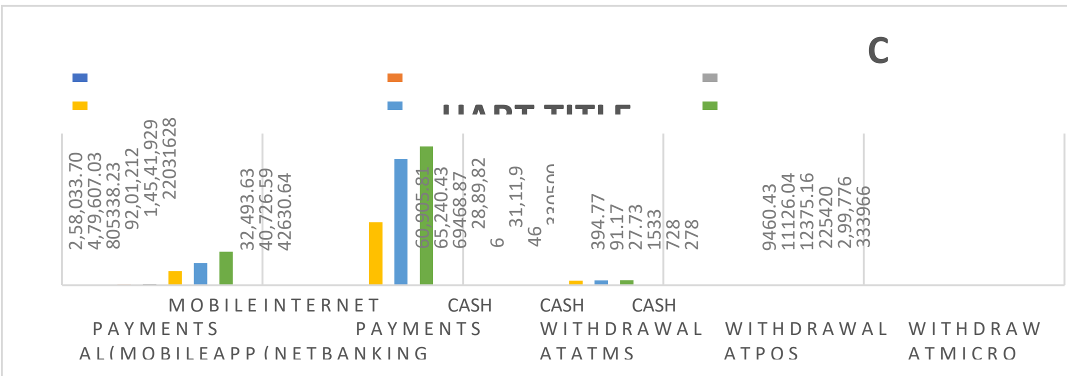
	Volume (lakh)			**Value (₹ crore)**		
Year / Mode of Payment	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**
Mobile Payments (mobile app-based)	2,58,033.70	4,79,607.03	8,05,338.23	92,01,212	1,45,41,929	2,20,31,628
Internet Payments (Net banking based)	32,493.63	40,726.59	42,630.64	4,15,81,497	8,31,59,996	9,15,39,296

Cash Withdrawal at ATMs	60,905.81	65,240.43	69,468.87	28,89,826	31,11,946	33,05,008
Cash Withdrawal at POS	394.77	91.17	27.73	1533	728	278
Cash Withdrawal at Micro ATMs	9460.43	11,126.04	12,375.16	2,25,420	2,99,776	3,33,966

Sources- RBI (Data Base on Indian Economy)

Table 6 and chart show the various modes of digital payments play distinct roles in terms of volume and value of transactions for the period 2020- 21 to 2022-23. Mobile payments show growth of 212% in volume and 139.4% in value while Internet payments show growth of 31.1% in volume and 120% in terms of value. Mobile payments typically handle smaller transactions but have higher volumes while internet payments handle larger transactions but have lower volumes. Cash withdrawal at ATMs shows growth of 14% in volume and 14.3% in value while cash withdrawal at Micro ATMs shows growth of 30.8% in volume and 48.1% in value. Cash Withdrawal at ATMs and Micro ATMs transactions involve both lower volumes and larger values. Cash Withdrawal at POS shows a decline of 93% in volume and 81.8% in value Sustainable financial inclusion often depends on a balanced mix of these modes to cater to diverse user needs and facilitate broader access to financial services.

By monitoring these indicators, policymakers, financial institutions and organizations can assess the progress and effectiveness of efforts aimed at achieving digital financial inclusion, thereby promoting economic empowerment and reducing financial inequality.



CONCLUSION:

In conclusion, Small Finance Banks (SFBs) are making significant strides in contributing towards sustainable financial inclusion through a combination of targeted strategies, technology-driven solutions, and community-centric approaches. The emphasis on microfinance and tailor-made financial products allows SFBs to cope with the specific desires of small businesses and people in marginalized communities. By extending credit, encouraging savings, and imparting available digital banking services, SFBs play a vital position in bringing economic offerings to the ones who have been traditionally excluded from the formal financial sector.

Technology-driven financial inclusion initiatives, which include mobile banking, and virtual wallets, allow SFBs to attain far-away areas, overcoming geographical obstacles and ensuring much broader outreach. This not only strengthens financial accessibility but also assists financial literacy by familiarizing digital tools to populations previously unfamiliar with formal banking. Community engagement initiatives, financial education programs, and the establishment of banking infrastructure in remote areas contribute to a more inclusive financial ecosystem. It is revealed that digital financial inclusion positively affects sustainable development, and the usage of digital finance is the pinnacle of inclusive digital finance.

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