

Role of Small Finance Banks in Achieving Financial Inclusion in India

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Abstract: *Small Finance Banks (SFBs) play a crucial role in promoting financial inclusion (FI) by extending banking services to underserved sections of society. This study analyzes the role of SFBs in achieving FI in India during 2018–2023 using five key indicators namely Priority Sector Lending, Number of Customers, Financial Awareness Beneficiaries, Mobile Banking Transactions, and Mudra Yojana Disbursements. Secondary data collected from annual reports and RBI publications were analyzed using Microsoft Excel through mean and ranking methods. The findings show that all SFBs have positively contributed to FI, with Ujjivan SFB leading overall, followed by AU and ESAF SFBs. The study concludes that SFBs are instrumental in advancing inclusive growth; however, strengthening financial literacy, digital infrastructure, and rural outreach is essential to sustain their impact.*

Keywords: *Small Finance Banks, Financial Inclusion, Ranking Analysis, Digital Banking.*

I. INTRODUCTION

Financial inclusion (FI) has become a central focus of India's developmental policy, aiming to provide equitable access to affordable financial services for all sections of society, particularly the rural and low-income population. It serves as a key driver of economic growth, poverty reduction, and social empowerment. FI is defined as "the process of providing timely and adequate credit and other financial services at an affordable cost to weaker sections and low-income groups" (Rangarajan, 2008). Despite considerable progress, a large section of India's population still lacks access to formal financial institutions, underscoring the need for targeted interventions (Kangayan & Dhevan, 2020). The Government of India (GOI) and the Reserve Bank of India (RBI) have undertaken several initiatives to extend financial access to the excluded population. The Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in 2014, represents a major milestone in this direction, enabling millions to open bank accounts and participate in the formal financial system. However, the availability of bank accounts alone does not ensure meaningful inclusion; true inclusion requires access to credit, savings, insurance, and digital financial tools (Ravikumar, 2019). Recognizing this broader need, the RBI introduced a new category of banks Small Finance Banks (SFBs) in 2014 to serve as specialized institutions catering to the needs of the financially underserved segments of the population.

SFBs received licenses in 2015 and are designed to provide comprehensive financial services to micro and small enterprises, marginal farmers, and low-income households (Ali & Kaveri, 2021; Jayadev et al., 2017; Ray & Shantanu, 2021). These banks operate with a focus on high-technology, low-cost operations to ensure efficient outreach in unbanked areas. By

extending savings, credit, and remittance services to informal sector entities, small entrepreneurs, and microenterprises, SFBs have become vital players in bridging the gap between traditional banking and informal credit systems. Their operations not only encourage savings and entrepreneurship but also contribute to employment generation and local economic development (Jayadev et al., 2017; Ray & Shantanu, 2021).

Given their unique mandate and operational model, SFBs are instrumental in achieving India's inclusive growth objectives. They help reduce dependence on informal sources of credit, expand digital financial services, and strengthen the microfinance ecosystem. However, the extent of their contribution varies depending on geographic coverage, technological adoption, and the scale of operations. Against this background, the present study aims to analyze the contribution of SFBs in the achievement of FI in India during the period 2018–2023. Using key indicators such as Priority Sector Lending, Number of Customers, Financial Awareness Beneficiaries, Mobile Banking Transactions, and Mudra Yojana Disbursements, the study evaluates the comparative performance of selected SFBs. The analysis provides insights into how effectively these banks are fulfilling their inclusion mandate through credit outreach, digital expansion, and financial literacy efforts.

II. LITERATURE REVIEW

FI is increasingly regarded as a cornerstone of inclusive and sustainable economic development. Within this framework, SFBs were established to extend formal financial services to marginalized and low-income segments that remain beyond the reach of traditional banking. Over the years, researchers have examined the effectiveness of SFBs in fulfilling this mandate from economic, social, and operational perspectives.

Several studies affirm the significant contribution of SFBs in widening access to formal finance and supporting rural and semi-urban communities. Chaturvedi (2022) observed that small finance institutions have enhanced banking penetration and improved the social and economic well-being of rural borrowers through accessible credit delivery. Likewise, Nandhini and Rathnamani (2021) and Ravikumar (2019) highlighted that SFBs serve as a vital bridge between financial institutions and excluded populations, offering essential services such as savings, credit, and remittances. The literature also points to challenges in sustaining inclusive growth. Kittu and Chittawadagi (2018, 2019, 2020) found that while SFBs hold strong potential for financial inclusion, concerns persist regarding staff skills, technological advancement, and cost-efficient operations. Mohanty (2018) emphasized the need for customized financial products and digital delivery mechanisms suited to rural markets, while Kishore (2015) regarded the creation of SFBs as a major reform initiative to strengthen India's financial inclusion agenda.

Arora et al. (2018) underscored the role of financial literacy and awareness campaigns in ensuring the success of inclusion programs, suggesting that SFBs can complement government efforts through educational initiatives. Jayanthi (2021) and Prakash (2021) further found that SFBs have positively influenced deposit mobilization, credit expansion, and employment creation, though their contributions vary by institution. Recent works by Bamba et al. (2024) and Mehta et al. (2024) reveal a growing emphasis on sustainable and technology-enabled inclusion, noting that digital finance, fintech partnerships, and innovation-driven outreach have improved the reach and efficiency of SFB operations. Collectively, the existing research establishes that SFBs are central to India's inclusion framework; however, disparities remain in their technological adaptation, outreach intensity, and regional performance.

To address this gap, the present study undertakes a comparative quantitative assessment of selected SFBs to evaluate their relative contribution to FI using key operational and outreach indicators for the period 2018–2023.

III. RESEARCH METHODOLOGY

The present study is descriptive and analytical in nature and is based on quantitative secondary data. The objective of the study is to analyze the contribution of SFBs in the achievement of FI in India. Data have been collected for eight SFBs AU,

Ujjivan, Equitas, ESAF, Utkarsh, Suryoday, Capital, and North East for the period 2018–2023 from secondary sources such as the annual reports of respective banks, RBI publications, and other reliable documents.

To assess the level of FI, five key indicators were selected: Priority Sector Lending, Number of Customers, Financial Awareness Beneficiaries, Mobile Banking Transactions, and Mudra Yojana Disbursements. The collected data were analyzed using Microsoft Excel, employing mean and ranking methods to evaluate the relative performance of each bank. The findings have been presented through tables to facilitate comparison and interpretation of the overall contribution of SFBs toward FI.

IV. DATA ANALYSIS

4.1 Priority Sector lending

Priority Sector Lending represents a critical indicator of financial inclusion as it reflects the flow of institutional credit to economically weaker and underserved segments such as agriculture, small enterprises, and low-income groups. The Reserve Bank of India mandates that at least 75 percent of the Adjusted Net Bank Credit of SFBs be directed toward priority sectors. A higher PSL percentage therefore indicates a stronger commitment toward inclusive lending and rural development, showcasing the bank's role in bridging the financial accessibility gap. The data in Table 1 reveal that all SFBs have maintained PSL levels above the regulatory norm, demonstrating active participation in inclusive credit delivery. North East SFB leads with the highest mean PSL of 106.3 percent, followed by ESAF SFB (88.0 percent) and Capital SFB (86.9 percent), reflecting their extensive lending to priority and small borrower segments. Ujjivan and AU SFBs also performed commendably, whereas Equitas and Suryoday recorded relatively lower PSL ratios. The overall analysis indicates that SFBs have effectively achieved their inclusion objective by channelizing credit toward marginalized and unserved groups of society.

Table 1: Priority sector lending

banks/year	2018	2019	2020	2021	2022	2023	Mean	Rank
AU	70%	79%	85%	87%	87%	94%	84%	5
UJJIVAN	124%	90.18%	75.02%	57.66%	78.91	80.05%	84.30%	4
EQUITAS	78.37%	133.51	64.04	52.28%	68.77	91.00%	81.33%	7
SURYODAY	49.70%	112.10%	103.67%	20.87%	23.31	172.05%	80.28%	8
CAPITAL	99.30%	81.28	80.91	92.54	78.85	88.46	86.89%	3
ESAF	99.83	92.56	86.39%	80.64	74.95	93.43%	87.97%	2
NORTH EAST	99.84	127.85%	95.63	104.60%	90.61	119.44%	106.33%	1
UTKARSH	91.90	92.82	77.93%	78.17%	78.57%	83.42%	82.14%	6

4.2 Number of Customers

The number of customers served by a financial institution is a vital measure of its outreach and accessibility dimension of FI. A growing customer base indicates greater penetration of formal banking services and expansion of the bank's service network among rural, semi-urban, and low-income populations. Therefore, this indicator reflects how far SFBs have succeeded in extending the reach of financial services to previously unbanked individuals. The analysis in Table 2 shows a consistent rise in the customer base of all SFBs from 2018 to 2023. Ujjivan SFB ranked first with a mean of 57.32 lakh customers, followed by ESAF SFB (44.89 lakh) and Equitas SFB (34.36 lakh), indicating broad outreach and diversified operations. AU SFB and Utkarsh SFB also exhibited notable growth due to expansion of branch networks and adoption of digital on-boarding systems. Meanwhile, Capital and North East SFBs have smaller customer bases owing to limited geographic coverage. The overall increase in customer numbers highlights that SFBs are progressively contributing to financial inclusion by widening access to formal banking facilities.

Table 2: Number of customers (in lakhs)

banks/year	2018	2019	2020	2021	2022	2023	Mean	Rank
AU	7.5	12.3	17.2	20.2	27.5	38.6	20.55	5
UJJIVAN	41.9	46.7	54.4	59.2	64.8	76.9	57.31667	1
EQUITAS	17.5	20.7	24.19	39	56.88	47.88	34.35833	3
SURYODAY	8.5	11.5	14.6	14.9	19.2	23.1	15.3	6
CAPITAL	3.8	4.5	5.2	5.8	6.5	7.41	5.535	8
ESAF	25.03	32.75	40.74	46.83	56	68	44.89167	2
NORTH EAST	5.21	5.88	5.6	5.7	4.8	8	5.865	7
UTKARSH	15	20	25	29	30	35	25.66667	4

4.3 Mobile Banking transactions

Mobile banking transactions represent the usage dimension of FI, showcasing how effectively customers utilize formal financial channels for digital payments, transfers, and other services. Higher transaction volumes indicate widespread adoption of technology-driven banking and reflect customer trust, convenience, and engagement with digital finance systems. As shown in Table 3, there has been a substantial increase in mobile banking transactions across all SFBs during 2018–2023. AU SFB reported the highest mean transaction volume (₹108.20 million), followed closely by Ujjivan SFB (₹105.40 million), reflecting advanced technological capabilities and strong digital penetration. Capital and Equitas SFBs occupy mid-ranking positions, whereas North East and Utkarsh SFBs reported lower digital activity due to infrastructural and regional limitations. The results confirm that digitalization has emerged as a key driver of inclusion, enabling SFBs to deliver efficient, affordable, and accessible banking services.

Table 3: Mobile banking transaction (Volume)

banks/year	2018	2019	2020	2021	2022	2023	Mean	Rank
AU	168380	2647220	24675946	77501795	196775454	347448200	108202832.5	1
UJJIVAN	1297056	9184223	30088362	85889422	181414618	324548161	105403640.3	2
EQUITAS	1003533	1366704	1790410	2710293	3464893	3625982	2326969.098	4
SURYODAY	70013	276347	452611	755384	2102021	4262474	1319808.333	5
CAPITAL	1,28,343	149394	578802	2610654	6520249	11512742	3583364	3
ESAF	86035	353371	991430	1466321	1684264	2118138	1116593.167	6
NORTH EAST	1050	13469	55613	62042	54982	81943	44849.83333	7
UTKARSH	6965	6169	173592	486880	737641	1353791	460839.6667	8

4.4 Mudra Yojana Disbursement

The Pradhan Mantri Mudra Yojana (PMMY) serves as a crucial government initiative for promoting entrepreneurship and self-employment among small borrowers. Disbursements under Mudra loans indicate the extent to which banks are supporting micro and small enterprises, thereby promoting productive financial inclusion and livelihood generation. The data in Table 4 reveal that Ujjivan SFB had the highest mean Mudra disbursement (₹7,449.85 crore), highlighting its major contribution to credit facilitation for micro-entrepreneurs. Utkarsh SFB and AU SFB also performed well, with average disbursements of ₹4,371.39 crore and ₹3,744.39 crore, respectively, indicating strong credit flow to small business segments. ESAF and Equitas SFBs reported moderate levels of disbursement, while Capital SFB recorded the lowest mean, suggesting a narrower lending scope. Overall, the performance under the Mudra Yojana confirms that SFBs play a vital role in promoting access to small-ticket credit for employment and income generation in underserved communities.

Table 4: Mudra Yojana Disbursement (crore)

banks/year	2018	2019	2020	2021	2022	2023	Mean	Rank
AU	4598.26	3830.56	4675.36	2905.78	2932.08	3524.29	3744.388	3
UJJIVAN	4292.12	6567.1	7101.54	6442.73	7809.56	12486.03	7449.847	1
EQUITAS	1566.11	2816.74	3143.32	1766.88	3447.1	4273.54	2835.615	5
SURYODAY	1251.95	1545.82	1418.22	1622.13	2593.29	3469.93	1983.557	7
CAPITAL	84.83	69.37	54.34	16.41	15.47	19.07	43.24833	8
ESAF	717.77	1389.54	2424.28	2375.59	5467.25	5007.69	2897.02	4
NORTH EAST	1127.27	1918.31	1703.97	2207.64	2759.55	3449.44	2194.363	6
UTKARSH	3313.12	3218.73	4333.32	3110.74	4989.57	7262.83	4371.385	2

4.5 Financial awareness beneficiaries

Financial awareness and literacy programs are essential components of FI as they empower individuals to make informed financial decisions. By conducting awareness camps, training sessions, and literacy programs, SFBs aim to educate rural and low-income households about savings, credit, and digital finance. The extent of beneficiaries covered under such initiatives reflects the intensity of banks' non-financial inclusion efforts. The data in Table 5 highlight that Ujjivan SFB reached the maximum number of beneficiaries under financial awareness programs, with a mean of 6.6 lakh participants, followed by AU SFB and ESAF SFB. These banks have been proactive in conducting financial literacy camps and community outreach initiatives. Suryoday and Capital SFBs showed moderate participation, whereas Equitas and North East SFBs recorded comparatively lower figures. The findings suggest that while SFBs have made significant progress in enhancing financial literacy, greater emphasis is required on continuous engagement and rural outreach to deepen awareness levels.

Table 5: Financial awareness beneficiaries

banks/year	2018	2019	2020	2021	2022	2023	Mean	Rank
AU	2000	23000	3,00,000	5,00,000	1,15,000	11900	158650	2
UJJIVAN	725000	1085510	204100	666380	11,28,659	1,71,548	663532.8	1
EQUITAS	32,014	29531	39,513	12,617	21,072	41,051	29299.67	8
SURYODAY	65000	1,12,937	1,18,000	26,539	11,614	34,071	61360.17	4
CAPITAL	40607	65570	79030	24080	35008	50306	49100.17	5
ESAF	24,000	90621	30477	13890	90994	168097	69679.83	3
NORTH EAST	15,230	20,245	11197	52450	15000	76500	31770.33	7
UTKARSH	20509	28394	42816	32,116	1,08,839	74,830	51250.67	6

4.6 Overall contribution to financial inclusion

The overall contribution of SFBs has been evaluated by combining the ranks of five key indicators such as Priority Sector Lending, Number of Customers, Financial Awareness Beneficiaries, Mobile Banking Transactions, and Mudra Yojana Disbursements. The results in Table 6 show that Ujjivan SFB secured the first position with the lowest average rank, reflecting its strong performance across all inclusion parameters. AU SFB and ESAF SFB followed, indicating consistent growth in outreach and digital adoption. Utkarsh, Capital, and Equitas SFBs recorded moderate performance, while North East and Suryoday SFBs ranked lower due to their limited scale and operational reach. Overall, the findings suggest that although all SFBs contribute positively toward financial inclusion, the extent of their impact varies depending on their network expansion, digital initiatives, and participation in developmental schemes.

Table 6: Overall contribution to financial inclusion

Bank	Priority Sector Lending	Number of Customers	Mobile Banking Transactions	Mudra Yojana Disbursement	Financial Awareness Beneficiaries	Avg. rank	Overall rank
AU	5	5	1	3	2	3.2	2
UJJIVAN	4	1	2	1	1	1.8	1
EQUITAS	7	3	4	5	8	5.4	5.5
SURYODAY	8	6	5	7	4	6.0	8
CAPITAL	3	8	3	8	5	5.4	5.5
ESAF	2	2	6	4	3	3.4	3
NORTH EAST	1	7	7	6	7	5.8	7
UTKARSH	6	4	8	2	6	5.0	4

V. CONCLUSION

SFBs play a vital role in strengthening India's financial ecosystem by extending formal banking services to low-income groups, micro-entrepreneurs, and underserved communities. They were established with the core objective of promoting FI, particularly by ensuring access to affordable credit and financial literacy in unbanked and underbanked areas. In this context, the present study analyzed the contribution of SFBs toward achieving FI in India during the period 2018–2023. The analysis was based on five major indicators including Priority Sector Lending, Number of Customers, Financial Awareness Beneficiaries, Mobile Banking Transactions, and Mudra Yojana Disbursements using secondary data compiled from bank reports and RBI publications.

The results revealed that all SFBs have positively contributed to financial inclusion, though with varying intensity. Ujjivan SFB emerged as the top performer, followed by AU and ESAF SFBs, reflecting their strong performance in inclusive lending, customer outreach, and digital adoption. Utkarsh, Equitas, and Capital SFBs showed moderate progress, while Suryoday and North East SFBs recorded relatively lower inclusion levels, mainly due to their limited operational reach and scale. The findings suggest that while SFBs have made significant strides in advancing access to financial services, there remains a need to further enhance financial literacy, improve technological penetration, and expand rural outreach. Policymakers and bank management should focus on capacity-building programs, region-specific financial education, and digital infrastructure development to sustain the inclusion momentum. Strengthening these areas will enable SFBs to play a more effective and enduring role in India's journey toward inclusive and equitable financial growth.

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