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## A study on customer's awareness and perspective towards selected small finance banks in Coimbatore city

**P Dhanya and Dr. PB Banudevi**

**Abstract**

Bank is type of financial institution which provides services such as accepting deposit and providing credit facilities to their customers. Reserve Bank of India (RBI) is the governing body that has been taking care of the banking industry in our country. Over the past few years our banking industry has gone through numerous changes on such change has been in initiation Small Finance Banks. Small Finance Bank are those banks which perform basic services such as accepting deposit and lending loans to its customers. The main objective of Small Finance bank is to provide financial inclusion to disadvantaged section who are not served by other banks. This study tries to measure the awareness and perspective of customers towards selected Small Finance Bank in Coimbatore.

**Keywords:** Financial Inclusion, Small Financial Banks and Micro Small and Medium Enterprises

**1. Introduction**

Bank is type of financial institution which basically provides services such as accepting deposit and providing loan facilities to their customers. A bank which has been established under by a special act in the parliament or under the company's act 1956 is considered as a commercial bank. Reserve Bank of India (RBI) is the governing body that has been taking care of the banking industry in our country. Over the past few years our banking industry has gone through numerous changes in which recent change has been emergence of concept Small Finance Banks.

Small Finance Bank are those banks provide financial inclusion to disadvantaged section like micro, small and medium business enterprises, and other unorganised sectors who are not been taken care by other banks and financial institution. In the year 2015, RBI has initiated a financial inclusion policy by setting up a different type of bank in our country. RBI has issued a provisional license for ten companies on September 17, 2015 to operate as small finance bank in India. Capital Finance Bank is the first bank that started as a small finance bank in the country. They began operations with 47 branches on April 24, 2016. Initially 10 institutions got license to operate their dealings in the group of small finance bank they are:

1. Ujjivan Small Finance Bank
2. Jana Small Finance Bank
3. Equitas Small Finance Bank
4. Fincare Small Finance Bank
5. ESAF Small Finance Ban
6. Suryoday Small Finance Bank

**1.1. Functions of Small Finance Banks**

“Small Finance Banks (SFBs) shall primarily undertake basic banking activities including acceptance of deposits and lending loans to unserved and underserved sections. SFBs shall be subject to all prudential norms and regulations applicable to commercial banks, including maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). SFBs are required to extend 75% of their Adjusted Net Bank Credit (ANBC) to Priority Sector Lending (PSL). SFBs should ensure that at least 50% of its loan portfolio constitutes loans and advances of maximum up to Rs.25 lakhs”.

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Any resident individual with 10-year experience in banking and finance are considered as eligible candidates to involve with Small Financial Bank eligible entities should be registered under the companies act of 2013 with a paid-up capital of minimum 100 crore rupees. The approved organisations are allowed to carry out the banking affairs with an initial approval for 18 months, later further extension will be given by RBI in due course. Organisations can involve both with different deposits and loan products there is a mandatory clause of that to start their 25% of the branches that to cover in the locality of unbanked areas for the initial three years. Loan portfolio should constitute an advance of 25 lakhs rupees specifically to micro enterprises. FDI policies are also permitted on the basis of foreign exchange principles.

Micro, Small and Medium enterprises are those enterprises who has less number of investment made and volume of production is less compared to that of some larger scale industries. Ownership pattern of Micro, Small and Medium scale enterprises are sole Proprietorship or small partnership. According to the act "Small and Medium Enterprises are those who make investment in plant and machinery or any equipment in the price ranging from twenty-five lakhs to a maximum of ten crores in case of a manufacturing industry and in of a service sector enterprise the investment range between ten lakhs to five crores".

## 1.2. Statement of the Problem

Need and wants of different business entities directly supported by nationalised banks, schedule banks, private banks, foreign banks and corporative banks with well-designed policies and guidelines of RBI. Among this multiple entry are continuously trying to apply different competitive strategies to attract more customers at the same time very few less performers are unable to sustain in its field in turn slowly becoming a sick unit due to the high amount of nonperforming assets. At this juncture the RBI immediately apply different remedial measure to overcome the issue cash ratio, adequate ratio mergers and acquisitions policies are some of the strategical ideas to encounter the related demerits in the critical journey the one more banking baby has also been included as new financial inclusion scheme and to provide basic financial services to Micro Small and Medium Enterprise (MSME) with the entry like Small Finance Banks. The researcher wants to pursue research in "A study on customer's awareness and perspective towards selected small finance banks in Coimbatore city.

## 2. Review of Literature

- Jeeban Jyotin Mohanty (2018) in the study titled "Leveraging small financial banks (SFB) in achieving Financial Inclusion in India" the main objective of study was to find out the reason for financial exclusion and the need and importance of small financial banks. The methodology used to conduct the study was through secondary source of information which includes journals, articles at RBI, IMF, CGAP, Microsave etc. In his study he has concluded that Small financial bank has huge potential in unbanked and underserved areas where local and corporative banks have underperformed. Similarly, small financial bank has a major role in development of MSME (Micro Small and Medium Enterprises) sector.

- Viswan M G (2017) in his study titled "A study on the awareness and perception about small financial bank with special reference to ESAF small financial bank" the major objective of the study the perception and awareness level of rural people about small financial banks and to study the strategies and operation of small financial banks in Kerala. Methodology used to conduct the study is through both primary and secondary data. Primary data was collected through a structured questionnaire with a sample size of 50 respondents and secondary source of information was collected through various books, official websites etc. Major findings of the study that RBI and central government try to include weaker section of the community into financial inclusion programmes for the economic development and majority of the respondents are not aware about the functions of ESAF small financial bank.
- Pinal Barot (2017) in his study titled "Financial Inclusion in India" the main objective of the paper is to understand the financial inclusion's importance, its extent, opportunities and challenges in India along with the present status of financial inclusion in the Indian economy. Some of the major problems in our country is that only certain section of the population is using financial services and financial illiteracy among the poor and underprivileged makes the financial inclusion process more challenging.
- Prantik Ray (2016)<sup>[4]</sup> in his study titled "Small Banking in India – Issues and Challenges" this paper deals with the need for financial inclusion, issues, challenges, RBI guidelines for small finance banks. In this paper they discuss the case study regarding the conversion of ujjivan financial service limited to small financial bank and the way forward for financial banks in India. In this study he concluded that small financial bank has great potential for financial inclusion but the performance of such institution has not been satisfactory.

## 3. Objectives of the Study

1. To identify the role of small finance banks in Coimbatore
2. To measure the Awareness level of customer's on small finance banks.
3. To analyse the customer's perspective on small finance banks in Coimbatore.

## 4. Methodology of the Study

Both primary and secondary data were used for the study. A Questionnaire is used to collect required data from the respondents in rural area. The area for the study was Coimbatore city. Personal Interview with Branch Managers and officials of Small Finance Bank were also conducted to collect required data. Required secondary data were collected from various books, articles and websites of various dailies, and official websites of small finance banks etc.

## Sampling & Sample Size

Convenient sampling was used to select required number of respondents from rural area. The sample size was 50 respondents from various small finance banks in Coimbatore.

## Analysis and Interpretation

Various tools like percentage, weighted mean score analyses were used to analyze the collected data.

### 5. Small Finance Banks in Coimbatore

#### 5.1. Ujjivan Small Finance Banks

Ujjivan small finance bank was established in 1st February 2017 by Mr. Samit Ghosh. Headquarters of Ujjivan small finance bank is located in Bangalore and is licensed under section 22(1) of banking regulatory act 1949. Ujjivan Small Finance bank is a subsidiary company of Ujjivan financial service private limited company. Ujjivan Small finance bank is operating in 15 different state in India. Main aim of Ujjivan small finance bank is to provide loans and other financial services to poor section of the population

#### 5.2. Jana Small Finance Bank

Jana Small Finance Bank was found in the year 1999 as the first urban microfinance for institution with Sangamitra Urban Program (SUP). They got the banking licence in the year 2017 and commenced their operation in 2018 with their headquarters located in Bangalore. Janalakshmi financial service limited started operating as a non banking financial company from the year 2008. Jana banks are operating in 17 states in India along with 2 union territories aim of this bank is to provide financial services to its customers.

#### 5.3 Equitas Small Finance Bank

Equitas small finance bank was found in the year 2007 with the head quarter located in Chennai. RBI issued licence in 2016. They started operating as small finance bank on 5th September 2016 as a subsidiary of holding company Equitas holding ltd. Equitas is operating in around 15 states of India and their aim is to provide basic banking services to all section of the population. Equitas bank has also focused in providing employment opportunities to increase the standard of living of the people of rural and semi urban areas

#### 5.4. Fincare Small Finance Bank

Fincare Small finance bank was incorporated in June 2017 which was formed from the conversion of Disha Microfin Limited they were one of the first small finance banks to start operation in India. Their headquarters is located in Bangalore. The bank focuses on providing gold loan, housing loan and other basic financial services to their customers. The main aim of this bank is to increase the standard of living and to provide services to rural semi urban and urban women.

### 5.5. ESAF Small Finance Bank

ESAF Micro Finance is one among the top ten Micro Finance companies in India. Over the last 24 years, the Company has assisted over two million families through loan disbursements of more than 66 billion. Currently, it has a membership base of over one million. The Company has an extensive distribution network of 264 branches, majority of them located in the rural areas. Based in Mannuthy, Thrissur, the registered office of the Company is located in Chennai.

### 5.6. Suryoday Small Finance Bank

Suryoday Small Finance Bank is a new age bank that went live on January 23rd 2017. Its attempt is to bring the best banking solutions to the 'banked', 'under-banked' and the 'un-banked' sections of the society. Power packed solutions are designed to offer the choicest of benefits to suit different financial needs. As always, its focus will continue to be on ensuring the best in class 'Customer Experience'.

## 6. Data Analysis & Interpretation

Data collected are analyzed with the help of weighted mean score and other tools. All the data collected relating to demographic and income level of respondents were not presented here. Only relevant data relating to basic research objectives are detailed below:

**Table 1:** Gender of respondents

| Gender | Number | Percentage |
|--------|--------|------------|
| Male   | 40     | 80         |
| Female | 10     | 20         |
| Total  | 50     | 100        |

*Source:* Primary data

Majority of the respondents are Male.

**Table 2:** Having account with any one commercial Bank

| Responses | Number | Percentage |
|-----------|--------|------------|
| Yes       | 50     | 100        |
| No        | 0      | 0          |
| Total     | 50     | 100        |

*Source:* Primary data

All of the respondents have at least one bank account.

**Table 3:** Having Account with MFI/NBFC

| Responses | Number | Percentage |
|-----------|--------|------------|
| Yes       | 23     | 46         |
| No        | 27     | 54         |
| Total     | 50     | 100        |

*Source:* Primary data

Only 46% of the respondents have account with any NBFCs or MFI.

**Table 4:** Awareness Level of Respondents

| S. No | Statements (Awareness About)              | Very High (5) | High (4) | Medium (3) | Low (2) | Very Low (1) | Total | Total weighted score | Weighted Mean Score |
|-------|---|---------------|----------|------------|---------|--------------|-------|----------------------|---------------------|
| 1     | Meaning of Financial inclusion            | 17            | 24       | 5          | 4       | 0            | 50    | 204                  | 4.080               |
| 2     | Micro Finance Institutions                | 19            | 13       | 6          | 8       | 4            | 50    | 185                  | 3.700               |
| 3     | Loan products                             | 20            | 16       | 8          | 4       | 2            | 50    | 198                  | 3.960               |
| 4     | New initiatives (Payment banks, SFB etc.) | 14            | 24       | 8          | 3       | 1            | 50    | 197                  | 3.940               |
| 5     | Functions of SFB                          | 4             | 8        | 7          | 29      | 2            | 50    | 133                  | 2.660               |
| 6     | Conversion of MFI into SFB                | 22            | 12       | 9          | 6       | 1            | 50    | 198                  | 3.960               |

In the above Likert's five point analysis table, the opinions on awareness level are studied. For Complete knowledge

about the statements, a value of 5 is assigned; similarly for High Awareness level, value assigned is 4; for Moderate

awareness level, value is 3; for Low awareness level value assigned is 2; and for the unawareness or very low, value assigned was 1. Overall awareness level of the respondents is high in most of the cases since the weighted mean score is

around the value 4. But they don't have much knowledge about the detailed functions of Small Finance Bank since the mean value is only 2.66. But they are highly aware about conversion of MFI into SFB due to their publicity campaign.

**Table 5:** Perception of Respondents about MFI & SFB

| S. No | Statements   | Strongly Agree (5) | Agree (4) | Neutral (3) | Disagree (2) | Strongly disagree (1) | Total | Total weighted score | Weighted Mean Score |
|-------|--|--------------------|-----------|-------------|--------------|-----------------------|-------|----------------------|---------------------|
| 1     | Loan products of SFB are attractive                            | 10                 | 17        | 19          | 2            | 2                     | 50    | 181                  | 3.620               |
| 2     | Procedure for loan sanctioning is Easy                         | 10                 | 28        | 8           | 3            | 1                     | 50    | 193                  | 3.860               |
| 3     | Interest rate is affordable                                    | 8                  | 12        | 6           | 17           | 7                     | 50    | 147                  | 2.940               |
| 4     | Repayment schedule is comfortable                              | 14                 | 16        | 9           | 7            | 4                     | 50    | 179                  | 3.580               |
| 5     | SFB provides financial help to mutual liability group of women | 13                 | 18        | 10          | 8            | 1                     | 50    | 184                  | 3.680               |
| 6     | SFB will be beneficial for the poor.                           | 8                  | 25        | 9           | 5            | 3                     | 50    | 180                  | 3.600               |
| 7     | I am overall satisfied with loan products of SFB               | 4                  | 14        | 24          | 4            | 4                     | 50    | 160                  | 3.200               |

**Source:** Primary data

In the above Likert's five point analysis table, the opinions and perception of respondents towards SFB in Coimbatore are studied. For Strongly agree the statement, a value of 5 is assigned; similarly for agree, value assigned is 4; for neutral, value is 3; for disagree, value assigned is 2; and for strongly disagree, value assigned was 1.

Majority of the respondents agree with the statements except in the case of Interest rate. The respondents agreed with the easy loan sanctioning procedure and repayment schedule of SFB's loan products. The people also think that the conversion of MFI into SFB would help to extend more financial services for the poor. The overall satisfaction level is Neutral/moderate since the value is 3.200

### Major Findings of the Study

1. The Central Government and RBI always try to include the weaker sections of the community to the mainstream of financial services and economic development.
2. Payment banks, Small finance bank and Nidhis are the main forms of new initiatives by the RBI. All these initiatives are aimed to cater the financial needs of weaker sections of the society, thereby enhancing the financial inclusion program.
3. Regarding the awareness level on various financial initiatives and institutions, the respondents have high level of understanding as weighted mean score is around the value 4.
4. Almost all respondents have good knowledge about SFB and its operations. People are not much aware about the functions of SFB, but they were able to comment on conversion of MFI into SFB.
5. Majority of the respondents are agreed that the Small finance banks functioning helps the poor people to meet their financial needs.

### Suggestions

1. The Government and RBI should take necessary steps to reduce the interest rate of loans provided by SFB formed by conversion of MFI.
2. With additional scrutiny by the RBI, the SFBs will require to strengthen their governance structures.
3. Banking Agents model can be devised to attract and help people for account opening, loan sanctioning etc.

### 7. Conclusion

Small Finance Banks reiterate the Reserve Bank of India's commitment to achieve financial inclusion by supporting the development of institutions that offer innovative 'high technology, low-cost operations' driven financial services. Eight out of the 10 institutions who have been granted provisional licenses are MFIs that have a track record of providing scalable microcredit services. The researcher made a sample study on the awareness and perception of small finance banks among the people around Coimbatore district. The study reveals that there is high awareness and a positive attitude among the respondents towards SFB. There are tremendous opportunities for NBFC-MFIs transforming into Small Finance Banks. SFBs will also need to approach their technology requirements with a different lens compared to the traditional banks as the former will be serving a customer base that is markedly different from that of a typical commercial bank. Hence, there is a need for cost-effective mobile-based technology deployments that are better suited to reach underserved areas. The performance of the Small Finance Banks in the next five years will, in a way, determine the path that the microfinance sector will take.

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