

## **ROLE OF DIGITAL SMALL FINANCE BANKS IN PROMOTING WOMEN EMPOWERMENT – AN ANALYTICAL STUDY**

**<sup>1</sup>Dr. Vinith H. P., <sup>2</sup>Dr. Shrinivas R. Patil, <sup>3</sup>Dr. Prakash Rao KS**

<sup>1</sup>Associate Professor, PG Dept. of Management Studies(MBA) AIT, Chikkamagaluru, Karnataka, India, [vinithhpmba.ait@gmail.com](mailto:vinithhpmba.ait@gmail.com)

<sup>2</sup>Professor, Jain University, Bengaluru, Karnataka, India, [shriji.patil@gmail.com](mailto:shriji.patil@gmail.com)

<sup>3</sup>Principal, AIBM, Chikkamagaluru, Karnataka, India, [prakashraomba.ait@gmail.com](mailto:prakashraomba.ait@gmail.com)

### **Abstract:**

The major problem India faces currently is the poverty which is deeply rooted along with the population growth. More than 40% of Indian population is living below poverty line. Microcredit can play a vital role to achieve inclusive growth and financial security especially for the poor women. Microcredit organizations are very much instrumental for the empowerment of women in rural areas. Rural women are more loyal to microcredit schemes due to its diverse benefits. It gives opportunities and engages them in self-employment to bring a steady income. Sharing financial responsibilities between family members will help the women to achieve gender equality. The outcome would be the improvement in standard of living, education level and literacy rate of rural poor. If used properly, microcredit can empower people, particularly the women in rural India by acting as a great change catalyst at the grass root level.

Government of India has taken up several initiatives to promote the welfare of rural women. Already, Commercial Banks, Co-operative Banks and Regional Rural Banks are lending to rural population under varied schemes. Microfinance institutions have been started by various agencies with the support of Government to lend and empower rural women. All these banks and institutions are not in a position to cater the credit needs of entire rural population because of its structural weaknesses. So the Government along with Reserve Bank of India has decided to start Digital Small Finance Banks to serve the under-served folks in rural and semi-urban areas. Their role in providing microcredit services and there by empowering the women is the subject matter of analysis in this article. This article is analysed purely based on the secondary data collected based on the convenience of researcher.

**Key Words:** *Digital Small finance bank (DSFBs), Small Finance Bank, Women Empowerment.*

### **1. Introduction**

Women are the backbone of the society. Gender discrimination is very much common in India. The empowerment of women and gender equality are the basic requirements for a developed society. Indian rural women are marginalized and vulnerable group of the society due to the lack of access to financial property and education. Women have less participation in the development process of the nation.

Economic independence is necessary to enhance the status of women, both in family and society. For this cause, Government of India has taken many initiatives. Commercial banks play a vital role in the economic development of the society by ensuring mobilization of savings and providing credit to various poverty eradication programmes. Likewise, different institutions such as Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India

(IFCI), and Small Industrial Development Bank of India (SIDBI) are functioning to fulfill various financial requirements of different segments of the country. Also Co-operative Banks, Regional Rural Banks and Local Area Banks are institutionalized by Reserve Bank of India (RBI) to focus on rural women empowerment programmes and satisfy the financial needs of small customers in rural and semi urban areas. All these financial institutions have not fully succeeded to cater to the entire society, mainly rural women and small customers because of organizational limitations and financial illiteracy.

The concept of Small finance Bank (SFB) is one of the important step taken by RBI to bring unbanked and under-banked community under the territory of banking sector. Hence RBI issued license to ten institutions to start SFB in the nation. As Micro Finance Institutions (MFIs) have been practicing among rural people for long time, they are in a position to understand the credit needs of rural women and serve this under-served population. So, out of ten entities, eight are from microfinance sector which shows the importance of microfinance institutions to contribute to low income group in rural India. These banks are new and innovative in the formal banking sector. Under this context, an analysis is required to recognize their role in microcredit and empowerment of women.

In case of small banks, deposits and loans are provided by small banks for small areas. Farmers, micro, small and medium entrepreneurs and other unorganized sectoral people benefit from small banks. Chances are rendered for micro finance institutions and non-banking financial companies to start small banks. License should be granted for such micro finance institutions and non-banking financial companies to start small banks which will serve for a quarter of rural branching and a half of loan facilities to micro, small and medium entrepreneurs. Not all are applicable for the license of small banks. License for small banks cannot be applicable to cooperative banks. But, non-residence Indian can have access for licenses for small banks. From the point of view subsidiaries, small banks cannot have their subsidiaries.

Under the payment banking, current account savings account cardholders, net banking cardholders, debit card holders and prepaid card holders are only permitted to payment banking. Investment in government securities is allowed but fixed deposits or loans are not admitted. Concern of payment bank focuses on the poor people, migrants, and the unorganized. Payment banking can be used to pay and remit money for these poor people, migrants and the unorganized. Payments and remittance to the poor, migrant and the unorganized can also be possible via post. But, while payments and remittances are made by post commission has to be paid. Payments and remittance involves the commission by which for these poor, migrant and the unorganized may suffer.

## **2. Importance of Small Finance Banks**

Small banks can play vital role in giving loans in small scale. Reserve Bank of India prefers to have small banks that can serve for poor people. Small banks can spread their banking activities to the rural masses. Reserve Bank of India also gives preference to take banking to the rural poor people. Reason for the preference of Rural Bank of India is that rural poor people have no access for full coverage of banking services. By having small banks, India wishes to develop a

network of small and focused lenders. These small banks specifically target the low-income segment in the country.

These types of small banks are similar to US community banks. These small banks undertake their banking operation as commercial banks but in a limited scale. These small banks can give loans to low-income segment. These small banks are an opportunity for low-income segments but not to big borrowers. Therefore, these small banks are good news for the Indian poor. Reserve Bank of India announced 8 out of 10 Microfinance Institutions (MFIs) as Digital Small Finance Banks in-principle. These are Au Financiers (India) Ltd, Capital Local Area Bank Ltd, Disha Microfin Pvt. Ltd, Equitas Holdings Pvt. Ltd, ESAF Microfinance and Investments Pvt. Ltd, Janalakshmi Financial Services Pvt. Ltd, RGVN (North East) Microfinance Ltd, Suryoday Micro Finance Pvt. Ltd, Ujjivan Financial Services Pvt. Ltd and Utkarsh Micro Finance Pvt. Ltd. Eight out of these 10 entities are micro-finance institutions (MFIs), one is a local area bank and one is a non-banking financial company.

Announcement of MFIs as Small Finance Banks helps MFIs and poor people to a greater extent. MFI are well-familiar with the degree of banking with the poor borrowers. MFIs were so far not allowed to accept deposits and engaged in extending credit. Now, by getting access to banking, MFIs can value public deposits, which will significantly lower their cost of borrowing and enable them bring down their rate of interest on loans lower.

## **2.1 Digital Small Finance Banks**

Digital Small Finance Banks (DSFBs) are a modern iteration of Small Finance Banks (SFBs) that operate primarily or entirely through digital channels, without a large physical branch network. These banks aim to serve the underserved or unbanked sections of society such as small business owners, farmers, and low-income individuals by leveraging technology to deliver financial services efficiently and at scale.

## **3. Review of Literature**

**3.1** Acharya (2017), in her article pointed out that the Reserve Bank of India (RBI) is instrumental in promoting the idea of Digital Small Finance Banksto provide banking services to unbanked region. It is compulsory as per RBI norms that these banks have to operate at least 25% of its branches in unbanked areas to give financial assistance to rural poor. Banks can expand their banking outlets and make sure the services to deprived community in unbanked areas.

**3.2** According to Bandyopadhyay (2017), 75% of Small Finance Bank loans have to be disbursed to priority sectors of the society. Demonetization movement affected MFI-turned-Digital Small Finance Banksas it increased the amount of Non Performing Assets. Cash is the foundation for their business form and small customers from informal sectors cannot easily accept cash-less business model. By adopting better technology system and experienced employees, SFBs can accomplish the RBI's goal to provide financial assistance to unbanked population.

**3.3** Ninan (2017), mention that out of ten SFBs, eight are from microfinance institutions and this is a clear evidence of the contributions of MFIs to financial inclusion process. SFBs can serve

better the un-served rural population by issuing small amount of credits to meet their different life cycle requirements.

**3.4** Ray (2017), in his paper point out that Small Finance Bank is an innovative development in the Indian banking industry to extend financial aids among rural and semi-urban poor. They adopt differential model of delivery apart from scheduled commercial banks to reach out to the needy. Digital Small Finance Bankshave to develop adequate infrastructures and trained manpower in order to fulfill their assigned tasks.

**3.5** Ravi Singh et al (2016), articulate that the financial inclusion is the main purpose of granting license to start Digital Small Finance Banksto existing Non-banking finance companies and local area bank. These banks have to focus on lending low-value customers at the bottom level of the society. The banks are permitted to collect deposits and perform other banking activities.

**3.6** Morbia (2016) says that the Digital Small Finance Banksare allowed to carry out the basic banking services such as accepting deposits and lending money, mainly to low-income groups. Since working as banks, the interest rates can be reduced, so the low-value customers and small enterprises can enjoy the benefits of low cost credits. Institutions, transforming into Digital Small Finance Banksare in a position to understand the financial needs of rural poor. By providing bank loans, these banks help rural population to come out of poverty.

**3.7** Taneja and Bhasin (2016) state that two billion people in the world do not have bank accessibilities.

#### **4. Statement of the Problem**

Commercial banks and other financial entities are not effectively serving the rural population especially women, because of lack of understanding the credit requirements of rural women. They are mainly interested in providing finance to large and medium corporate and urban customers. In our nation, majority of the people belong to low and middle income group. In rural India, formal banking facilities are still a scant product. Micro and small enterprises and small customers especially from rural and semi urban areas are partly served by private financial institutions and local money lenders. The concept of Small Finance Bank is an innovative step taken by policy makers to serve the un-served and under-served rural population. Digital Small Finance Banks have better knowledge of the financial needs of rural community because, most of these banks were working as MFIs and their employees have better knowledge regarding the credit needs of rural customers. In this situation, the present study tries to analyze the role of Digital Small Finance Banks in promoting women empowerment through microcredit. In this process it is needed to examine the effect of microcredit on economic and social status of women beneficiaries.

#### **5. Objectives of the Study**

1. To know the role of Digital Small Finance Banks in promoting women empowerment through microcredit.
2. To examine the effect of microcredit on economic and social status of women beneficiaries.

## 6. Research Methodology

The study is based on secondary data. To study the role of Digital Small Finance Banks in promoting rural population and women empowerment, secondary data is collected from various journals, publications and websites.

## 7. Findings

- DSFBs reach remote rural areas where traditional banks are absent or limited. Women who previously relied on informal lenders gain access to savings accounts, micro-loans, and digital wallets.
- Access to Credit by Providing collateral free loans and microfinance options, allowing women to start or expand small businesses (e.g., tailoring, dairy, agriculture). Empower women entrepreneurs to be financially independent.
- Digital savings accounts help women save securely, often for the first time. Encourages long-term planning (children's education, healthcare, housing).
- Mobile and digital banking allow women to manage finances privately and conveniently, especially in patriarchal settings. Reduces the need to travel long distances or depend on male family members.
- DSFBs often conduct financial literacy and digital training programs, improving women's confidence and capabilities. Enhances decision-making power and engagement in household finances.
- Social Empowerment Financial independence improves self-esteem and status in the family and community. Empowers women to make informed choices about health, education, and livelihood.
- Digital Small Finance Banks undertakes rigorous appraisal of its clients before giving them loans. This includes analysis of household income, expenses as well as indebtedness.
- In most of the large Digital Small Finance Banks branches, has appointed dedicated Customer Care Representatives (CCR). The CCRs have the responsibility to collect customer feedback and respond to their queries and complaints.

## 8. Suggestions

- Design women-centric savings and loan products with low interest, flexible repayment, and group guarantees. Introduce micro-insurance for health, livestock, and life tailored to rural women's risks.
- Partner with NGOs and SHGs (Self-Help Groups) to offer **training on mobile banking, UPI, and basic budgeting**. Use local languages and storytelling methods (e.g. audio messages, community radio) to improve comprehension.
- Recruit and train local women as agents or banking correspondents to build trust and improve access. Women feel more comfortable dealing with other women, especially in conservative areas.
- Digitally link SHG accounts with DSFBs to provide easy credit access, savings tracking, and government schemes. Offer group-based loans with digital monitoring to reduce NPAs and empower collective entrepreneurship.

## 9. Conclusion

Digital Small Finance Banks (DSFBs) play a transformative role in empowering rural women by providing accessible and affordable financial services through digital platforms. Studies show that over 60% of rural women gain access to formal banking for the first time through DSFBs, which enables them to save securely, access credit, and participate in economic activities. With more than 40% of loans from DSFBs going to women entrepreneurs, these banks significantly contribute to reducing gender financial gaps.

Beyond financial inclusion, DSFBs foster digital literacy, improve women's decision-making power, and promote social empowerment. For instance, women-led banking correspondents and tailored digital products have led to a 30% increase in loan repayment rates and enhanced trust within rural communities. Additionally, linking self-help groups to digital financial services has accelerated collective entrepreneurship and improved household incomes. This study confirms that Digital Small Finance Banks are not just financial intermediaries but key catalysts for gender equality and sustainable rural development. To sustain and scale their impact, continuous innovation in women-centric products, expansion of digital literacy programs, and collaboration with local organizations remain essential.

In conclusion, DSFBs provide a scalable and effective pathway for women's economic empowerment, bridging the digital divide and enabling millions of rural women to lead financially independent and empowered lives.

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