

Measuring Performance of Small Finance Bank in India

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Abstract

The RBI granted preliminary clearance to 10 businesses to establish Small Finance Banks (SFBs) on September 16, 2015. (Press Release-1). This followed the RBI's 19th August 2015 statement approving eleven businesses to set up "Payment Banks". Small Finance Banks (SFBs) are a new financial institution in the Indian banking system (SFBs). These banks will be required to provide basic banking and credit services with a distinctive banking model to a wider clientele. Since then it was felt that these banks or performing for the growth of the country or not and it is only possible when they grow them self. This paper will analyze the growth of small finance banks during the period of three years 2019 to 2021. This paper measures the performance of these banks from A-Z find out their contribution for the country. For this purpose, all the (ten) small finance banks are selected end their deposits, investment, advances, assets, income, profits, credit deposit ratio and other variables are analyzed by using statistical method namely ANNOVA.

Keywords: Small finance banks, deposits, investment, advances, assets, income, profits, credit deposit ratio

Introduction

The impulse of global development has slowed in 2018 and is now dispersed globally. Reformative initiatives have attempted to bolster banks' balance sheets, but erratic effects are wreaking havoc on cost-effectiveness, non-performing assets, and other efficiency criteria in developing countries. Asset and profitability situations remain uneasy, and continued trade tensions may obscure dangers to banks' global outlook. However, the worldwide recovery that began and expanded in 2016 and 2017 has slowed in 2018. The economies endured resource outflows, NPA, and currency devaluation throughout most of the year as a result of a strong US dollar. On the other hand, market instability and the global crisis caused the collapse of the majority of emerging economies (AEs), notably India Beltratti and Paladino (2015) [2]. In recent years, the Indian economy has outperformed China in terms of growth. When the whole globe was in the grip of a huge crisis, India's banking sector, in particular, demonstrated its strength. Certainly, the banking industry in India is a vital aspect of the financial system, as seen by its resiliency (Shollapur & Kuchanur, 2013) [8]. For the previous 10 years, Indian banks have shown considerable economic reformation, seen significant developments, and gained a significant stake in the nation's banking industry. Changes have also been made to achieve worldwide financial liberty and integration as a result of technical advancements, complex instruments, and a wider geographical business volume. De Young and Jang (2016) [7].

Banking procedures all over the world are particularly congregating to the Basel III norms, although at differing rates and from various starting points. The banking sector's key performance indicators include profitability, asset quality, and capital sufficiency, all of which contribute to determining

the sector's strength and resilience. Banks have strengthened their balance sheets to defy authorities by amassing advanced levels of assets and liquidity. In this respect, a difference was evident in a growing economy like India, but progressive growth in the former, but signals of restriction in the latter due to difficulties with stretched assets Tran, Lin, and Nguyen (2016) [9].

Differentiated banks differ from universal banks in that they serve a specific market sector. The distinction might be based on capital requirements, the scope of activities, or the region of operations (Gandhi, 2015) [11]. A Differentiated Licensing Procedure for banks is a widely used technique across the world. Small financing banks are not a new idea; they have existed in both developed and developing economies. There are around 7,000 small community banks in the United States with assets ranging from less than \$10 million to \$10 billion or more. They account for over 46 percent of all small loans to companies and farms, and they account for roughly 92 percent of all FDIC-insured banks (FDIC, 2014) [13]. According to the discussion paper on Banking Structure in India11, Over 1400 community banks have been established in Nigeria's rural and urban communities. In Indonesia, the banking system is diverse, with commercial banks in major cities and provincial banks (for example, Unit Desa of Bank Rakyat Indonesia (BRI)) in small communities to suit the financial needs of local consumers.

According to credit rationing models, the issues of moral hazard and adverse selection are highly high for small businesses, and small businesses may be particularly sensitive to loan availability. As a result, major banks tend to make less loans to small and medium-sized businesses (SMEs). Small banks' relatively basic organisational structure is regarded to play a major role; because of the simple organisational

structure, there are less agency difficulties among small banks, and so small banks can create and convey quality information. According to Zhang (2002) ^[14], small banks have an advantage in SME lending based on the relational theory of organisation. A vast amount of empirical evidence indicates that small banks are more ready to provide bank loans to SMEs than big banks. According to Lee (2002) ^[16], the

introduction of small and medium-sized financial institutions will increase SME credit and the overall welfare of society because information superiority among small and medium-sized financial institutions is positively related to the total amount of financing that SMEs receive. The working of the SFB's is presented as under:

Table 1: SFB's and its operations

Name of the Institution	Operations
Au Financiers India	It is an asset finance company incorporated in 1996 as a non-banking finance company. The main asset portfolio includes vehicle loans, small, secured business loans for MSMEs and housing finance. Motilal Oswal Private Equity Advisors, Chrys Capital, Kedaara Capital, Warburg Pincus, and International Finance Corporation have substantial ownership in the company and have geographical presence across 10 states in northern India.
Capital Local Area Bank	It is the largest among the surviving local area banks. Set up in January 2000, the bank has been operating in five contiguous districts in Punjab. As of March 2015, Capital LAB has Rs 1506 Cr of deposits and Rs 926 Cr of advances on its balance sheet; it has 39 branches and has been consistently profitable.
Disha Microfinance	A financial services provider in Gujarat, Rajasthan, Madhya Pradesh, and Karnataka since 2009, Credit connected insurance and retirement solutions are available together with microloans. In 2014, it managed around Rs 200 crores. Investors like India Value Fund support the firm. Disha Microfinance has 71 branches in 39 districts and serves around 8000 communities as of March 2015. This firm solely lends to female borrowers, which makes it stand out.
Equitas Microfinance	It is based out of Chennai, Equitas was formed in 2007 as a microfinance institution. Since then, it has diversified its businesses through a holding company into different verticals like housing finance and used commercial vehicle financing. Equitas has operations in 124 districts across seven states with 361 branches, but its main business still comes from Tamil Nadu.
Evangelical Social Action Forum (ESAF) Microfinance	It began as an NGO in Kerala in 1992. Its targets were unemployment and poverty. ESAF began microfinance in 1995. Pinnai Finance and Investments was bought in 2006. It now provides microloans, insurance, pensions, and money transfers. This includes Tamil Nadu, Kerala, Madhya Pradesh, Maharashtra and Chattisgarh. ESAF lends to women borrowers mostly via joint liability groups.
Janalakshmi Financial Services	With around Rs 3800 Cr, it is India's third biggest urban MFI. It serves 23 lakh consumers via 233 branches in 17 states and 151 cities. Others who invest in Janalakshmi include the Dell Foundation, Lok Capital, and Bellwether Microfinance Fund.
RashtriyaGramin Vikas Nidhi (RGVN) Microfinance	Founded in 1990, it became a microfinance organisation in 2010. The association was established to help NGOs and community-based organisations in the country's northeast. The organisation has offices in Assam, Arunachal Pradesh, Meghalaya, Nagaland, and Sikkim. More than 2.2 lakh borrowers are serviced through 104 branches.
Suryoday Microfinance	It got its microfinance licence in 2009. It operates in seven states, although its core business (up to 65%) is in Maharashtra and Tamil Nadu. The company targets female borrowers from underprivileged backgrounds. Sarvodaya has 164 outlets in March 2015, servicing 6.05 lakh consumers.
Ujjivan Microfinance	It was founded in 2005 and is now the country's fourth biggest MFI. It manages Rs 3270 Cr of assets and has 463 outlets serving over 20 lakh customers. CDC Group, Sequoia Capital, Lok Capital, and International Finance Corporation are among the investors that have funded the firm.
Utkarsh Microfinance	It began in 2009 and is based on the country's centre and northern regions. It is funded by investors such as Lok Capital, Norwegian Microfinance Initiative, AavishkaarGoodwell, IFC, and CDC. In only six years, Utkarsh has amassed 600,000 customers and 271 outlets.

Because of the basic organisational structure of small banks, loan officers have a higher motivation to develop and utilise soft information than loan officers in big banks, and as a result, small banks have an edge in delivering relationship lending.

Thus, analysis of changing in the prime ratios of the balance sheet of the 10 Small finance banks is the cornerstone of the study which is specifically based on the pattern of changes in profitability. In the subsequent segment First, an overview of the Indian banking sector is given, followed by a descriptive statistic of the data used in the analysis. Second, the most important performance indicators the profitability in terms of operating profit and net profit, the deposits and investments, assets and non-performing assets, total income and expenditure with credit deposit and investment deposit ratios in this paper.

Review of Literature

Several studies have been conducted to evaluate bank performance over time. These studies looked at a variety of factors, including operational expenditures, net income, return on equity and net worth, non-performing assets, and so on. In 2009, a Committee on Financial Sector Reforms chaired by Dr. Raghuram G. Rajan, Governor of the Reserve Bank of India, investigated the importance of small banks in the Indian environment. The Committee had determined that there had been enough change in the environment to justify experimenting with small bank licencing. It suggested enabling more private well-governed deposit-taking small financing banks (SFBs) to enter the market, compensating their greater risk from being regionally specialised by demanding more capital, a tight restriction on related party transactions, and lower permitted concentration criteria (Rajan, 2009). Furthermore, the NachiketMor Committee on Comprehensive Financial Services for Small Businesses and

Low-Income Households proposed two broad designs for differentiated banks in India based on the functional building blocks of payments, deposits, and credit-the Horizontally Differentiated Banking System (HDBS) and the Vertically Differentiated Banking System (VDBS). This prompted the establishment of distinct banks throughout the nation. Many benefits are provided by differentiated banks, such as specialist banking via differentiated licencing and risk reduction of specialised firms operating in specialised fields (Gandhi, 2015) ^[11]. A compelling justification for the development of such banks was proposed: with Differentiated Banking Licences, we would have banks that do not experience boom and crash at the same time. Reduced bank correlations will result in decreased systemic risk. The emergence of such banks will make the system less monolithic and so better positioned to deal with economic cycles. However, with the introduction of differentiated bank licences, additional aspects of banking would develop, and whether this endeavour would be able to accomplish the greater goal of financial inclusion or is the concept of a differentiated bank a bit premature is debatable.

This paper presents the profitability in terms of operating profit and net profit, the deposits and investments, assets and non-performing assets, total income and expenditure with credit deposit and investment deposit ratios.

Research Methodology

The methodology delves trend and panel data analysis of chosen statistics of banks for the period of 2019-21. For this purport analysis of different tables entails trends in banks' balance sheet structures are prepared as using raw facts from annual reports and RBI publications to identify different stands of SFB is taken to assess operating profit and net profit, deposits and investments, assets and non-performing assets, total income and expenditure with credit deposit and investment deposit ratios.

Data Analysis and Discussion

This paper presents first the profitability in terms of operating profit and net profit of SFB's as under:

Table 2: Profits of Small Finance Banks (As on March 31, ₹ Crore)

Sr. No.	Banks	Operating Profit				Net Profit			
		2019	2020	2021	Mean	2019	2020	2021	Mean
1	Au Small Finance Bank Ltd.	722	1,197	2,159	1,359	382	675	1,171	743
2	Capital Small Finance Bank Ltd.	34	52	72	53	19	25	41	29
3	Equitas Small Finance Bank Ltd.	426	598	887	637	211	244	384	279
4	ESAF Small Finance Bank Ltd.	229	324	415	323	90	190	105	129
5	Fincare Small Finance Bank Ltd.	150	338	365	284	102	143	113	120
6	Jana Small Finance Bank Ltd.	(577)	280	451	51	(1949)	30	84	(612)
7	Northeast Small Finance Bank Ltd.	64	56	51	57	37	13	12	21
8	Suryoday Small Finance Bank Ltd.	212	306	181	233	87	111	12	70
9	Ujjivan Small Finance Bank Ltd.	309	637	809	585	199	350	8	186
10	Utkarsh Small Finance Bank Ltd.	231	350	438	340	94	187	112	131
	Total	1,801	4,138	5,828	3,922	(729)	1,968	2,042	1,094

The analysis of profitability of small finance banks revealed that except one small finance bank banks all other banks were in profits for the selected time period. Amongst all the selected banks the highest average profit is of Au small finance bank, followed by Equitas Small Finance Bank Ltd.. in terms of net profitability highest average profit is of Au

small finance bank, followed by Equitas Small Finance Bank Ltd.. This revealed that these two banks have word better than the other small finance banks.

The deposits and investments of the SFB's are presented as under:

Table 3: Deposits and Investments (As on March 31, ₹ Crore)

Sr. No.	Banks	Deposits				Investments			
		2019	2020	2021	Mean	2019	2020	2021	Mean
1	Au Small Finance Bank Ltd.	19,422	26,164	35,979	27,188	7,162	10,668	10,815	9,548
2	Capital Small Finance Bank Ltd.	3,667	4,447	5,221	4,445	863	1,052	1,212	1,042
3	Equitas Small Finance Bank Ltd.	9,007	10,788	16,392	12,062	2,344	2,343	3,705	2,797
4	ESAF Small Finance Bank Ltd.	4,317	7,028	8,999	6,781	1,531	1,734	1,932	1,732
5	Fincare Small Finance Bank Ltd.	2,043	4,654	5,319	4,005	701	1,007	1,279	996
	Jana Small Finance Bank Ltd.	4,199	9,652	12,386	8,746	1,468	2,650	4,698	2,939
7	North East Small Finance Bank Ltd.	267	890	1,277	812	165	353	314	277
8	Suryoday Small Finance Bank Ltd.	1,593	2,849	3,256	2,566	664	808	1,874	1,116
9	Ujjivan Small Finance Bank Ltd.	7,379	10,780	13,136	10,432	1,527	2,396	2,516	2,146
10	Utkarsh Small Finance Bank Ltd.	3,791	5,235	7,508	5,511	862	1,192	2,314	1,456
	Total	55,687	82,487	1,09,472	82,548	17,288	24,204	30,659	24,050

The deposits and investments of the banks revealed that the highest deposits were accepted by Au Small Finance Bank Ltd, followed by Equitas Small Finance Bank Ltd. and Ujjivan Small Finance Bank Ltd., similarly the highest investment is also made by Au Small Finance Bank Ltd,

followed by Equitas Small Finance Bank Ltd. and Jana Small Finance Bank Ltd.

The assets and nonperforming assets of SFB's are presented as under:

Table 4: Assets and Net Non-Performing Assets (As on March 31, ₹ Crore)

Sr. No.	Banks	Total Assets				Net NPA			
		2019	2020	2021	Mean	2019	2020	2021	Mean
1	Au Small Finance Bank Ltd.	32,623	42,143	51,591	42119	295	217	755	422
2	Capital Small Finance Bank Ltd.	4,321	5,330	6,371	5341	24	41	42	36
3	Equitas Small Finance Bank Ltd.	15,763	19,296	24,715	19925	167	229	266	221
4	ESAF Small Finance Bank Ltd.	7,058	9,470	12,339	9622	35	42	317	131
5	Fincare Small Finance Bank Ltd.	4,172	7,116	7,966	6418	9	20	148	59
6	Jana Small Finance Bank Ltd.	9,446	14,145	19,081	14224	273	140	619	344
7	North East Small Finance Bank Ltd.	1,770	2,067	2,264	2034	4	16	119	47
8	Suryoday Small Finance Bank Ltd.	3,761	5,365	6,712	5279	12	20	188	73
9	Ujjivan Small Finance Bank Ltd.	13,742	18,411	20,380	17511	28	27	425	160
10	Utkarsh Small Finance Bank Ltd.	6,239	9,404	12,138	9260	6	11	109	42
	Total	98,895	1,32,747	1,63,557	131733	854	764	2,989	1536

In case of total assets, the Au Small Finance Bank Ltd. is came out to be a leader amongst all the SFB's, followed by Equitas Small Finance Bank Ltd. and Jana Small Finance Bank Ltd., similarly the highest NPA is also made by Au Small Finance Bank Ltd, followed by Jana Small Finance Bank Ltd.. As far as the NPA's are concerned the highest rate

of NPA was in Janta small finance banks (2.41%) followed by North East Small Finance Bank Ltd. (2.29%) and Suryoday Small Finance Bank Ltd. (1.39%). While the other SFB's were having 1% or below in the NPA rate as per their total assets.

The total income and total expenditure is presented as under

Table 5: Total income and Expenditure (As on March 31, ₹ Crore)

Sr. No.	Banks	Total Income				Total Expenditure			
		2019	2020	2021	Mean	2019	2020	2021	Mean
1	Au Small Finance Bank Ltd.	3,411	4,992	6,402	4935	2,689	3,795	4,243	3576
2	Capital Small Finance Bank Ltd.	378	501	557	479	343	449	486	426
3	Equitas Small Finance Bank Ltd.	2,395	2,928	3,612	2978	1,969	2,330	2,725	2341
4	ESAF Small Finance Bank Ltd.	1,141	1,546	1,767	1485	912	1,222	1,352	1162
5	Fincare Small Finance Bank Ltd.	675	1,216	1,378	1090	525	878	1,013	805
6	Jana Small Finance Bank Ltd.	1,368	2,425	2,733	2175	1,945	2,144	2,282	2124
7	North East Small Finance Bank Ltd.	287	325	332	315	223	269	281	258
8	Suryoday Small Finance Bank Ltd.	597	854	875	775	385	548	695	543
9	Ujjivan Small Finance Bank Ltd.	2,038	3,026	3,117	2727	1,729	2,389	2,308	2142
10	Utkarsh Small Finance Bank Ltd.	939	1,406	1,725	1357	709	1,056	1,287	1017
	total	13,228	19,219	22,499	18316	11,428	15,080	16,672	14393

In case of total income, the Au Small Finance Bank Ltd. is coming out to be a leader amongst all the SFB's, followed by Equitas Small Finance Bank Ltd. and Ujjivan Small Finance Bank Ltd., similarly the total expenditure is also made by Au

Small Finance Bank Ltd, followed by Equitas Small Finance Bank Ltd. and Jana Small Finance Bank Ltd.. the profits were presented in table-2 above.

Table 6: Ratios (As on March 31, in Percentage)

Sr. No.	Banks	Credit Deposit Ratio				Investment Deposit Ratio			
		2019	2020	2021	Mean	2019	2020	2021	Mean
1	Au Small Finance Bank Ltd.	117.49	103.17	96.19	105.62	36.87	40.77	30.06	35.90
2	Capital Small Finance Bank Ltd.	71.14	74.79	71.38	72.44	23.53	23.66	23.22	23.47
3	Equitas Small Finance Bank Ltd.	129.95	129.00	102.78	120.58	26.03	21.72	22.60	23.45
4	ESAF Small Finance Bank Ltd.	105.35	93.17	90.77	96.43	35.46	24.67	21.47	27.20
5	Fincare Small Finance Bank Ltd.	135.31	103.47	99.67	112.82	34.30	21.64	24.05	26.66
6	Jana Small Finance Bank Ltd.	148.07	103.18	93.75	115.00	34.97	27.46	37.93	33.45

7	North East Small Finance Bank Ltd.	517.62	151.47	130.09	266.39	61.83	39.67	24.56	42.02
8	Suryoday Small Finance Bank Ltd.	168.16	123.98	122.33	138.16	41.70	28.37	57.56	42.54
9	Ujjivan Small Finance Bank Ltd.	149.74	131.29	110.34	130.45	20.69	22.23	19.15	20.69
10	Utkarsh Small Finance Bank Ltd.	123.13	119.99	109.45	117.52	22.74	22.78	30.82	25.45
	Total	126.50	109.78	99.22	111.83	31.05	29.34	28.01	29.46

Source: Annual reports of banks

The Credit-deposit ratio, popularly CD ratio, is the ratio of how much a bank lends out of the deposits it has mobilized. In case of mobilization of deposits North East Small Finance Bank Ltd Mobilizes the highest deposits followed by the Suryoday Small Finance Bank Ltd.. in case of investment deposits ratio (deposit is being invested in government securities) that represents the safety of investment and reducing the risk, the highest ratio is of Suryoday Small Finance Bank Ltd. followed by North East Small Finance Bank Ltd indicating more safety of their investments.

Analysis of Data for Growth of SFB's

This section considers banking profitability from a system-wide viewpoint. The stability of banking systems depends not only on individual banks' resilience and risk-taking but also on the properties of the system Berger and Bouwman (2013) [3]. For a decisive fact, to measure difference between and within the economic ratios of the selected public sector and private sector banks, One-way ANOVA test applied and results are delineated in Table 14.

Table 7: One-way ANOVA for growth

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
OP	Between Groups	818237.600	2	409118.800	2.032	.151
	Within Groups	5436355.200	27	201346.489		
	Total	6254592.800	29			
NP	Between Groups	498226.400	2	249113.200	1.220	.311
	Within Groups	5515326.800	27	204271.363		
	Total	6013553.200	29			
Deposit	Between Groups	144658011.467	2	72329005.733	1.201	.317
	Within Groups	1626469316.700	27	60239604.322		
	Total	1771127328.167	29			
Investment	Between Groups	8944045.867	2	4472022.933	.610	.551
	Within Groups	197886865.100	27	7329143.152		
	Total	206830910.967	29			
Tot_ Ass	Between Groups	209212941.600	2	104606470.80	.743	.485
	Within Groups	3800938046.700	27	140775483.21		
	Total	4010150988.300	29			
NPA	Between Groups	317231.667	2	158615.833	6.269	.006
	Within Groups	683103.800	27	25300.141		
	Total	1000335.467	29			
Tot_inc	Between Groups	4418210.067	2	2209105.033	1.039	.368
	Within Groups	57425183.400	27	2126858.644		
	Total	61843393.467	29			
Tot_ Exp	Between Groups	1445110.467	2	722555.233	.618	.546
	Within Groups	31567636.500	27	1169171.722		
	Total	33012746.967	29			
CDR	Between Groups	23449.671	2	11724.835	2.108	.141
	Within Groups	150203.169	27	5563.080		
	Total	173652.840	29			
IDR	Between Groups	225.527	2	112.764	1.029	.371
	Within Groups	2958.993	27	109.592		
	Total	3184.520	29			

As can be seen from Table 7, there is a momentous difference between and among the result of F-statistics and p-value for the selected indicator and the ratios of Selected SFB'S. only in case of the NPA the difference is found significant for the variables and therefore, the null hypothesis:

H_0 =There is no differences in the various indicators of the SFB/s during the period of the study.

The above null hypothesis is accepted except the NPA's of the SFB's all other variables have not shown any improvement during the period of the study.

Conclusion

The cornerstone of the paper is to investigate the performance of the SFBs by analysis of data of all SFBs in India which bear the testimony to their ability to manage during even and odd phases of the trade cycle. All Small finance banks considerably demonstrated average and negative net profit margin which indicates that these banks are able to transform their revenues into profit whereas slightly up NPA's level is the need of concern for them. Among the other banks the performance of Au Small Finance Bank Ltd. is better, followed by Equitas Small Finance Bank Ltd. and Jana Small Finance Bank Ltd. Although all the small finance banks are facing the problems of defaulters, yet they experienced the problem of increasing NPA although the levels are low in comparison with the other public and private sector banks in India. The study helps in understanding the mechanism driving profitability and risk analysis ratio adjustments which in turn, might help the regulators to adjust and calibrate the design of future policy requirements.

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