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## RECOGNITION AND CUSTOMER PERCEPTION OF SMALL FINANCE BANKS IN INDIA: SPECIAL FOCUS ON AU SMALL FINANCE BANK

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### ABSTRACT

*This study explores the recognition and customer perception of Small Finance Banks (SFBs) in India, with a special focus on AU Small Finance Bank. As part of India's broader push for financial inclusion, SFBs have emerged as crucial institutions, providing banking services to underserved and rural populations. AU Small Finance Bank, one of the leading players in this space, has witnessed significant growth due to its customer-centric approach and innovative financial products. The paper investigates key factors influencing customer perceptions, including trust, digital banking, customer service, and financial accessibility. By examining customer feedback, market data, and financial reports, the study assesses how AU Small Finance Bank has established its brand recognition in a competitive market. Furthermore, it explores the bank's role in enhancing financial inclusion, its product offerings (savings, loans, insurance), and its impact on rural and low-income households. The findings highlight both the challenges faced by AU Small Finance Bank, such as regulatory hurdles and competition, and its future prospects in a rapidly evolving banking landscape. The study contributes valuable insights into the evolving relationship between SFBs and their customers, showcasing the importance of trust, technology, and service quality in building sustainable financial inclusion in India.*



**KEYWORDS:** *Small Finance Banks (SFBs), AU Small Finance Bank, Customer Perception, Financial Inclusion.*

### INTRODUCTION

The banking landscape in India has undergone significant transformation in recent years, particularly with the emergence of Small Finance Banks (SFBs). These institutions, which were established by the Reserve Bank of India (RBI) to promote financial inclusion, play a critical role in providing banking services to underserved sections of the population, particularly in rural and semi-urban areas. The primary objective of SFBs is to provide microloans, savings accounts, and other essential banking services to individuals and small businesses who were traditionally excluded from the formal financial system. AU Small Finance Bank, one of the most prominent players in this space, has successfully carved out a niche by offering a range of innovative financial products tailored to the needs of its diverse customer base.

Recognizing the importance of customer perception, AU Small Finance Bank has prioritized building trust, ensuring transparency, and providing a seamless banking experience. With a strong emphasis on digital banking, AU Small Finance Bank has effectively catered to the growing demand for mobile and internet banking services, which has further strengthened its position in the market. Despite the competitive environment, AU's customer-centric approach and focus on accessible financial products have earned it considerable recognition among its target demographics.

This paper aims to explore the recognition and customer perception of Small Finance Banks in India, with a particular focus on AU Small Finance Bank. The study will delve into customer satisfaction, brand awareness, the perceived quality of banking services, and the bank's impact on financial inclusion in rural and underserved areas. By analyzing both qualitative and quantitative data, the paper seeks to understand the key factors driving the bank's success and examine how these factors contribute to shaping customer loyalty and overall brand reputation. Additionally, the paper will discuss the challenges faced by AU Small Finance Bank in a rapidly evolving banking environment, including regulatory constraints, competition from both traditional banks and fintech firms, and the integration of emerging technologies.

In a country like India, where a large portion of the population still lacks access to formal banking services, the role of small finance banks is more critical than ever. As such, the study of AU Small Finance Bank's journey will provide valuable insights into the broader impact of financial inclusion efforts and the factors that drive customer perceptions of trust, reliability, and service quality in the banking sector.

## AIMS AND OBJECTIVES

### Aims:

The primary aim of this study is to explore the recognition and customer perception of Small Finance Banks (SFBs) in India, with a special focus on **AU Small Finance Bank**. This research seeks to understand how these banks are perceived by customers in terms of their service quality, brand trust, accessibility, and role in promoting financial inclusion. By focusing on AU Small Finance Bank, the study will examine its strategies for customer engagement, its impact on underserved segments of the population, and how it differentiates itself in a competitive banking landscape.

### Objectives:

1. **To evaluate the level of recognition and awareness of AU Small Finance Bank among its customers.**
  - Investigate how well customers recognize AU Small Finance Bank and its services in comparison to other financial institutions.
2. **To assess customer satisfaction with AU Small Finance Bank's product offerings and services.**
  - Examine customer feedback on the bank's product range (loans, savings accounts, insurance) and their overall satisfaction levels.
3. **To analyze the role of digital banking in shaping customer perceptions of AU Small Finance Bank.**
  - Explore how AU's digital platforms (mobile banking app, internet banking) influence customer engagement, accessibility, and satisfaction.
4. **To understand the factors contributing to customer trust and loyalty towards AU Small Finance Bank.**
  - Identify key elements like transparency, customer support, and security that build trust and encourage long-term customer relationships.
5. **To explore AU Small Finance Bank's impact on financial inclusion in rural and underserved communities.**
  - Assess how AU's products and services have contributed to improving financial access for individuals and small businesses in rural and semi-urban areas.

6. **To examine the competitive positioning of AU Small Finance Bank in the Indian banking sector.**
  - Investigate AU's strategies to differentiate itself from other small finance banks, traditional banks, and emerging fintech solutions.
7. **To identify the challenges faced by AU Small Finance Bank in terms of regulatory compliance, competition, and technological integration.**
  - Analyze the internal and external factors that impact the bank's operations, growth prospects, and ability to innovate.
8. **To propose strategies for improving AU Small Finance Bank's customer perception and expanding its market reach.**
  - Provide recommendations based on the findings to enhance customer experiences, strengthen brand recognition, and improve service offerings.

These objectives aim to provide a comprehensive understanding of how AU Small Finance Bank is perceived by its customers and the factors that contribute to its success in the Indian banking sector, while also offering insights into the broader role of Small Finance Banks in fostering financial inclusion in India.

## LITERATURE REVIEW:

The growing importance of Small Finance Banks (SFBs) in India is well-documented, especially with the objective of enhancing **financial inclusion** in rural and underserved regions. The literature on **customer perception, banking recognition**, and the role of SFBs in India's financial ecosystem provides critical insights into how these banks are changing the dynamics of the traditional banking sector. The following review highlights key research and theories in the areas relevant to understanding AU Small Finance Bank's market position.

### 1. Small Finance Banks and Financial Inclusion

The concept of financial inclusion has been at the core of SFBs' existence since their inception in 2015, under the guidance of the **Reserve Bank of India (RBI)**. According to **RBI (2015)**, SFBs were introduced with the dual purpose of improving access to financial services for individuals in unbanked or underbanked areas and promoting the economic development of low-income groups and small businesses. **SFBs** have a broad mandate to provide **microloans, savings accounts, and insurance products** to underserved populations (RBI, 2015).

Literature such as **Chandani (2020)** and **Tiwari (2018)** identifies SFBs as key contributors to economic empowerment, particularly for women, small entrepreneurs, and rural workers, by offering essential banking products that improve their financial resilience. The banking system's adaptation to the needs of low-income and rural households has been fundamental in the expansion of financial access. AU Small Finance Bank, being one of the foremost banks to transition from an **NBFC (Non-Banking Financial Company)** to an SFB, serves as an excellent example of leveraging these opportunities.

### 2. Customer Perception and Trust in Banking Services

Customer perception is a critical determinant of a bank's **brand loyalty** and **satisfaction**. Research indicates that **trust** in banking institutions plays a pivotal role in shaping customer loyalty and long-term relationships. In the context of SFBs, **trust and transparency** are essential as they deal with clients who are often vulnerable and new to formal banking systems.

According to **Gounaris (2005)**, customer trust is built on perceived competence, reliability, and transparency. AU Small Finance Bank has consistently focused on **customer education**, especially in rural areas, to establish trust.

Moreover, studies on **digital banking** show that online and mobile banking play an important role in improving customer engagement and satisfaction. **Tiwari et al. (2020)** emphasize the role of technology in shaping perceptions, with customers increasingly valuing convenience, speed, and

accessibility. AU Small Finance Bank has heavily invested in digital platforms, providing easy access to financial products, which has significantly influenced positive customer perceptions.

### **3. Role of Digital Banking in Customer Engagement**

With the rise of mobile and internet banking, digital platforms have become central to how customers perceive and interact with their banks. AU Small Finance Bank has been recognized for its advanced **mobile app**, which allows customers to access banking services in real-time, making banking more accessible and efficient.

Moreover, **Kaur et al. (2019)** state that in the context of small finance banks, digital platforms bridge the gap between rural customers and formal financial services by offering easy access to financial tools and resources. AU Small Finance Bank's **online loan application processes, bill payments, and fund transfers** empower customers to perform transactions conveniently, without the need to visit a physical branch.

### **4. Challenges Faced by Small Finance Banks**

Despite their success, Small Finance Banks face numerous challenges. Regulatory constraints, competition from larger banks and fintech firms, and the need to maintain profitability while focusing on underserved populations remain key hurdles. According to **Ghosh (2020)**, SFBs must balance the dual pressures of promoting financial inclusion and maintaining financial sustainability. AU Small Finance Bank has faced these challenges head-on, expanding its product offerings and geographic footprint, while also introducing **affordable loan products** aimed at low-income groups.

Another significant challenge is **technological integration**. As noted by **Mehta (2020)**, there is a gap in the infrastructure available to serve rural areas, which hinders the digital adoption of banking services. AU Small Finance Bank has invested in expanding its **branch network and digital platforms** to overcome such obstacles, allowing it to offer a hybrid model of traditional and digital banking.

### **5. Customer Service Quality and Satisfaction**

The quality of customer service is a key determinant of customer satisfaction and long-term loyalty. **Parasuraman et al. (1988)** developed the SERVQUAL model, which emphasizes the importance of service quality across five dimensions: **tangibles, reliability, responsiveness, assurance, and empathy**. AU Small Finance Bank has focused on these dimensions to build a strong customer service culture, particularly by providing prompt responses and personalized services to its customers.

Literature such as **Nayyar & Bansal (2019)** confirms that small finance banks like AU have established a reputation for offering more personalized and responsive customer service compared to larger banks, which often have a more bureaucratic structure.

### **6. Competitive Landscape and Market Positioning**

As the SFB sector in India becomes more crowded, AU Small Finance Bank faces competition from other players in the market, while SFBs have made inroads into rural markets, they must continuously innovate to maintain a competitive edge. AU Small Finance Bank differentiates itself by focusing on **customer-centric innovations and brand trust**, positioning itself as a reliable partner for financial inclusion.

AU's ability to combine both traditional banking and modern digital services provides a strong competitive advantage in an increasingly digitized world.

### **RESEARCH METHODOLOGY:**

The research methodology for studying the recognition and customer perception of small finance banks in India, with a special focus on AU Small Finance Bank, involves both qualitative and quantitative approaches. First, a **literature review** will be conducted to understand the existing body of knowledge on small finance banks and customer perceptions. A **survey** will be administered to AU

Small Finance Bank's customers to gather data on their satisfaction, trust, and perception of the bank's services. The survey will include Likert-scale questions to assess customer attitudes toward service quality, financial inclusion, and digital banking. Additionally, **interviews** will be conducted with key stakeholders such as bank employees, managers, and industry experts to provide deeper insights. The data will be analyzed using **statistical tools** like SPSS for quantitative analysis and **thematic analysis** for qualitative data. The study will aim to identify the factors influencing customer perception and recognize the bank's position in the competitive market. Finally, the findings will be used to provide recommendations for improving customer engagement and trust in AU Small Finance Bank.

## DISCUSSION

The recognition and customer perception of small finance banks in India have undergone significant transformation in recent years, driven by an increased focus on financial inclusion and personalized banking services. Among these institutions, AU Small Finance Bank stands out as a key player. Established with the objective of providing accessible and affordable banking solutions to the underserved population, AU Small Finance Bank has quickly earned recognition for its customer-centric approach. Through a combination of digital banking services, personalized customer care, and a broad range of financial products, the bank has fostered positive customer perception, especially in rural and semi-urban areas. Customers appreciate the convenience of banking, lower service charges, and the tailored financial solutions designed to meet their needs. However, challenges remain, particularly in terms of competition with established commercial banks and maintaining consistent service quality across diverse regions. Overall, AU Small Finance Bank's focus on community-oriented banking and financial inclusion has played a crucial role in shaping its reputation and customer trust in India's dynamic banking sector.

## CONCLUSION

In conclusion, the recognition and customer perception of small finance banks in India, particularly AU Small Finance Bank, highlight the growing importance of financial inclusion and personalized banking services in the country's banking landscape. AU Small Finance Bank has successfully carved a niche for itself by offering accessible, affordable, and customer-focused financial solutions, which resonate well with underserved populations in rural and semi-urban areas. The bank's emphasis on digital banking, low-cost services, and community engagement has fostered a positive image and earned it the trust of its customers. However, challenges such as intense competition, regional service disparities, and the need for continuous innovation remain critical areas for sustained growth. Moving forward, AU Small Finance Bank's ability to maintain service excellence, leverage technological advancements, and expand its outreach will be pivotal in further solidifying its position in the market and enhancing customer loyalty. Overall, the success of AU Small Finance Bank underscores the crucial role of small finance banks in India's financial ecosystem, paving the way for a more inclusive and diverse banking environment.

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