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Review Paper

The Function of Non-Banking Financial Institutions in Encouraging Financial Inclusion via Top Private Banks

Shaurya Jai Raizada¹¹ and Dr. Bhushan Chandra Das²

¹Research Scholar, Department of Management, Sparsh Himalaya, Dehradun, Uttarakhand, India.

²Associate Professor, Department of Management, Sparsh Himalaya, Dehradun, Uttarakhand, India.

ARTICLE DETAILS

Corresponding Author:
Shaurya Jai Raizada

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ABSTRACT

The impact of private sector banks' geographic spread on financial inclusion in India is examined in this research paper. The essay assesses the relationship between the quantity of private bank branches and economic independence as well as the state-to-federal-product ratio of development expenditures. By the end of March 2010, the banking system had opened 50.6 million no-frills accounts. It is difficult for the banks to maintain these accounts open. Banks were instructed to grant a modest overdraft in these accounts, and they did so up until March 2010 with overdrafts of Rs. 27.54 crore. A no-frills account gives the average person the ability to open a bank account. These accounts have a minimal minimum balance requirement and no preconditions. No-frills accounts were introduced by the RBI in 2005 with the goal of promoting financial inclusion.

1. Introduction

One of the most dynamic areas of the Indian economy is the banking industry. Strong regulatory structure, the economy's innate strength, and a progressive legislative framework all contribute to the growth and support of financial institutions. The previous twenty years have seen an incredible rise in the banking industry's profitability. From 2001 until the present, the banking sector index has increased at a compound annual rate of 51%. Numerous banks in the private sector had substantial exposure to the international financial system. Private banks suffered during the recession as a result of their global exposure. Banks were able to more easily weather the negative effects of the recession thanks to timely actions by the RBI. Throughout the recession, the Indian banking system held up well. It resulted from banks' cautious stance, cost-cutting strategies, and adherence to RBI regulations.

To alleviate the tight liquidity situation, the RBI decreased the cash reserve ratio (CRR), repo rate, reverse repo rate, and statutory liquidity ratio (SLR) in order to expand the money supply. During the recession, no bank required a government bailout. The use of technology to improve customer services was first introduced by banks in the private sector. Banking became available anywhere, at any time. Global financial services and product marketing is now feasible due to the increasing use of online banking. There are some difficulties in the midst of the strong and stable banking system. Indian banking is excessively dispersed when compared to international norms. Indian banks must expand their operations in order to remain competitive on the global stage.

2. Depreciation in Space

The big cities were the birthplace of commercial banks. The private sector banks are growing their network into urban, semi-urban, and rural areas in addition to metro cities. The network distribution of private banks among various demographic groups is displayed in the table. Not only are private banks mostly found in major cities, but they are also beginning to penetrate the rural sector. The existence of private sector banks has greatly benefited semi-urban areas. Thirty percent of private bank branches are located in semiurban areas.

¹ Author can be contacted at: Research Scholar, Department of Management, Sparsh Himalaya, Dehradun, Uttarakhand, India

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3. Private Banks Geographical Distribution

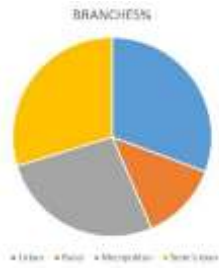


Fig. 1. Private Banks Geographical Distribution

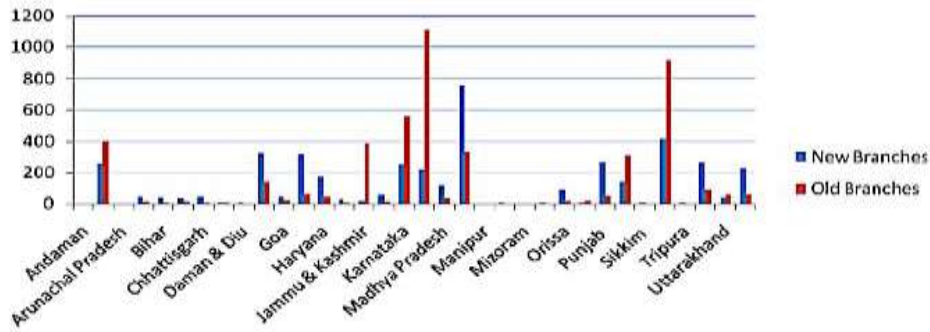


Fig. 2. Distribution of Banks of Private Sector According to States

4. Upgrade of the Top 20 States/UT Due To New Branches

The majority of private bank branches were initially found in the western and southern states. However, the pattern of new branches shows that there is a growth in branches in other areas as well. For example, Uttar Pradesh gained 265 new branches over its previous 91 branches, Rajasthan added 141, Madhya Pradesh 117, and Assam 46. The number of branches is increasing, which is another indication of Bihar's improved standard of governance. Bihar established forty new branches.

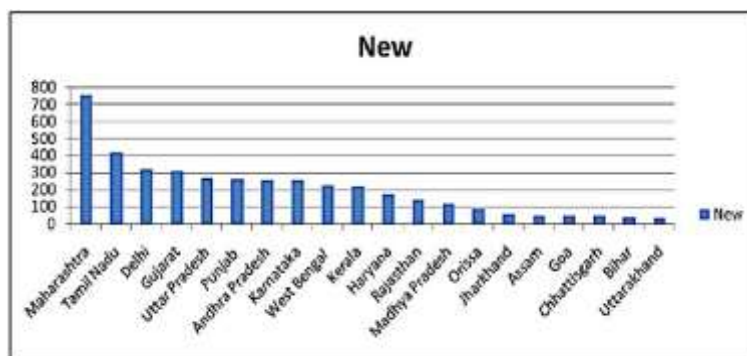


Fig 3. Upgrade of the Top 20 States/UT Due To New Branches Source: Reserve Bank of India

5. Upgrade of the Top 20 States/Ut Due to Old Branches

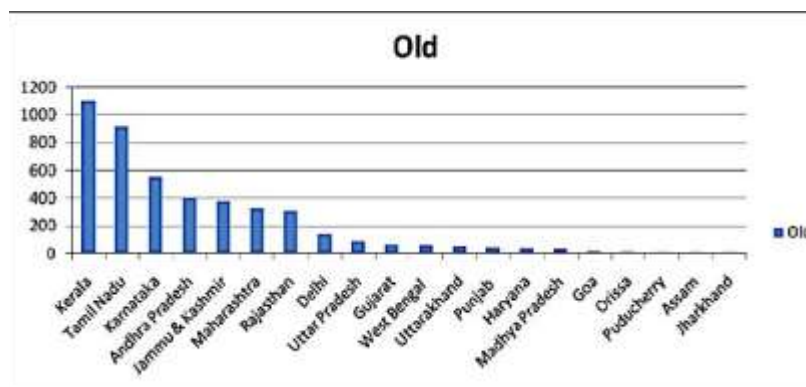


Fig. 4 Upgrade of the Top 20 States/Ut Due to Old Branches Source: Reserve Bank of India

6. The number of branches and the selected variables are correlated:

The development spending to gross state domestic product ratio was the first variable selected. Secondary data was gathered in order to calculate the correlation between the number of private bank branches and the ratio of development spending to gross state product.

Table 1. State Government Spending Pattern

State	Development spending/gdp ratio		
	2005-2008 AVG.	2008-2009 R.E	%+
Haryana	9.8	10.3	5.10
Chhattisgarh	14.6	18.9	29.45
Andhra Pradesh	14.1	17.6	24.82
NCT Delhi	7.4	9.2	24.32
Uttarakhand	18.8	16.6	-11.70
Tripura	19.7	25.9	31.47
Sikkim	48.3	69.6	44.10
Nagaland	28.5	32.3	13.33
Mizoram	53.9	62.0	15.03
Meghalaya	22.3	34.7	55.61
Manipur	40.0	52.9	32.25
Jammu and Kashmir	32.5	34.3	5.54
Himachal Pradesh	18.5	21.2	14.59
Assam	13.4	21.3	58.96
Arunachal Pradesh	58.2	91.4	57.04
West Bengal	7.4	10.8	45.95
Uttar Pradesh	13.6	18.4	35.29
Tamil Nadu	10.1	12.1	19.80
Rajasthan	13.6	14.4	5.88
Punjab	8.5	10.6	24.71
Orissa	10.8	15.9	47.22
Maharashtra	9.3	10.1	8.60
Madhya Pradesh	15.5	17.8	14.84
Kerala	7.9	8.9	12.66
Karnataka	13.8	13.3	-3.62
Jharkhand	18.3	18.3	0.00
Gujarat	9.5	10.0	5.26
Goa	14.7	16.9	14.97
Bihar	17.2	27.9	62.21

It was noted that the ratio of development expenditure to gross state domestic product has increased by the largest amount in Bihar. State elections and the growth in private bank branches are two other indicators of better governance. Compared to the larger states, it was noted that the North Eastern states had higher development spending to GSDP ratios. The growing number of private banks is another excellent indicator of this. However, additional factors might also be investigated in order to support the expansion of private banks in various areas.

Table 2. States are ranked according to their development expenditure ratio (GSDP versus branches):

States	Ranking	
	Number of Branches	Development expenditure/ GSDP
Bihar	16	1
Chhattisgarh	15	5
Jharkhand	14	15
Orissa	13	2
Madhya Pradesh	12	9
Haryana	11	14
West Bengal	10	3
Punjab	9	7
Uttar Pradesh	8	4
Gujarat	7	13
Rajasthan	6	12
Andhra Pradesh	5	6
Karnataka	4	16
Maharashtra	3	11
Kerala	2	10
Tamil Nadu	1	8

The number of private bank branches and the ratio of development expenditure to gross state domestic product were found to have a positive Spearman rank correlation of +0.11. The two variables were found to have little association with one another.

Table 3. Placement of Particular States/U.T. (Branches vs Development Expenditure Ratio/GDP):

States	Rankings	
	Branches	EXP/GSDP
Manipur	12	5
Arunachal Pradesh	11	2
Mizoram	10	8
Nagaland	9	10
Sikkim	8	4
Tripura	7	6
Meghalaya	6	3
Pondicherry	5	7
Himachal Pradesh	4	9
Assam	3	1
Uttarakhand	2	12
Jammu & Kashmir	1	11

The number of private bank branches and the ratio of development expenditure to gross state product have a -0.37 Spearman rank association. The two factors were shown to have little negative association with one another.

Table 4. Private bank branches' rank correlation with economic freedom:

States	Rankings	
	Branches	Economic Freedom
Bihar	16	16
Chhattisgarh	15	14
Jharkhand	14	7
Orissa	13	15
Madhya Pradesh	12	5
Haryana	11	4
West Bengal	10	13
Punjab	9	10
Uttar Pradesh	8	12
Gujarat	7	2
Rajasthan	6	6
Andhra Pradesh	5	3
Karnataka	4	11
Maharashtra	3	9
Kerala	2	8
Tamil Nadu	1	1

Andhra Pradesh, Rajasthan, Punjab, Orissa, Chhattisgarh, and Bihar all showed favorable correlations between the number of branches and economic freedom.

Table 5. Examining the Financial Inclusion in Comparison with Regional Averages Comparing India's financial accessibility to that of other Asian and OECD countries:

Countries	Financial Accessibility		Fin. Market size & Depth
	Branches	ATM'S	
US	26	134	47.84
UK	23	97	160.48
Japan	45	136	97.90
Canada	28	158	75.65
Australia	24	115	109.73
OECD Countries	23-45	57-158	47.8-160.48
Thailand	7.37	17.05	90.50
Malaysia	8.26	16.44	126.60
Indonesia	3.73	4.84	23.0
China	1.33	3.80	111.80
Asian Group	1.33-20	3.80-20.0	23.0-126.60
India	6.33	1.63	33.30

Source: Reserve Bank of India, World Bank

Greater depth and size of the financial market than India, by nearly three times. The ratio of private credit to GDP is used to calculate the size and depth of the financial market. The banking industry's claim on the private sector expressed as a proportion of GDP is known as private credit to GDP. The number of branches and ATMs per 1,000 people in India climbed to 7.13 and 5.07, respectively, in 2010, according to the RBI's latest statistics. Based on latest Reserve Bank data, the ratio of private credit to GDP climbed to 56.1% in 2010.

Table 6. Available ATMS at Different Centers:

	Urban	Semi Urban	Metropolitan	Rural	Total
Private sector banks	6124	3499	7923	901	18447
Foreign banks	188	11	821	6	1026
Public sector banks	13451	10968	11972	4289	40680
Total	19763	14478	20716	5196	60153

Source: Reserve Bank of India

Table 7. The percentage distribution of ATMs in India by geography:

	Urban	Semi Urban	Metropolitan	Rural	Total
Private sector banks	33.2	19.0	43.0	4.9	100
Foreign banks	18.3	1.1	80.0	0.6	100
Public sector banks	33.1	27.0	29.4	10.5	100
Total	32.9	24.1	34.4	8.6	100

Roughly 17.45% of ATMs in rural areas are owned by private and foreign institutions. With the use of technology, banks may now offer additional services like microfinance, hence increasing financial inclusion. Foreign and private banks control 24.24% of the ATMs in semi-urban areas. The larger gainers from increased ATM density are semi-urban locations served by private sector banks. The ownership of private and foreign banks accounts for 31.94% of ATMs in metropolitan areas. Fourteen percent of ATMs in urban areas are shared by private and foreign institutions.

7. Conclusion:

Every demographic is served by the services offered by private sector banks. Plans for growth in semi-urban and rural areas have already begun. This is encouraging for guaranteeing financial inclusion and higher-caliber services in these domains. Compared to the ratio of development expenditure to gross state domestic product, the number of private bank branches in states with economic independence exhibits a higher rank connection. Through information and communication technologies, private banks can increase the financial inclusion of the unbanked population.

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Find the 2009-10 Report on the Development and Trends of Banking in India at

<http://www.rbi.org.in/scripts/AnnualPublications.aspx> .Trends and TrendsAdvancement%20of%20Using banking in India.

State-wise analysis of fiscal performance is accessible at <http://www.rbi.org.in/scripts/PublicationsView.aspx?id=12090> from the Reserve Bank of India.