

PENETRATION OF INDIAN BANKING IN A DECADE

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Abstract

The penetration of banking services in the country, where the majority of the disadvantaged citizens for the formal credit sources with ease access is set to increase in near future. The sharp increase in penetration of accounts notwithstanding, the worrying aspect for India, as per the report, is that the country has among the highest rates of dormant accounts in the world. Policy makers in India have stepping up the focus on financial inclusion through penetration of banking by accounts, deposits and credits. This paper has analysed the penetration of banking and its differences on offices, deposit accounts, deposits, credit accounts, credits, non-food credit accounts and non-food credits among the different bank groups, population groups and regions and found the differences among the bank groups, population groups and regions in India.

Key Words: Accounts Penetration, Deposits Penetration and Credit Penetration

Introduction

The efforts of banking penetration for financial inclusion have been recorded since nationalisation of State Bank of India in 1955 followed by nationalisation of other banks in 1969 and later in 1980. During the post liberalisation period, there was a substantial progress in the economy but still majority of the sections of the society were not benefitting from such a progress. In spite of various measures undertaken, financial inclusion has remained a distant vision with a majority of Indians still with lack of access to banking services in terms of accounts, deposits and credits. In order to overcome this unattractive situation in India, Government rigorously pursued financial inclusion and there was substantial increase in banking network, opening of accounts and growth in deposits and credit. Census 2011 reveals that, in India, out of 24.67 crore households only 14.48 crore (58.7 per cent) households had access to banking services. In the rural areas, out of 16.78 crore households only 9.14 crore (54.46 per cent) were availing banking services. In the earlier years, urban areas had significantly large number of bank branches compared to rural areas and concentrated with numerous bank branches, this resulted in higher absorption of bank credit in the urban areas. This condition continued

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in the country until the RBI rigorously started pursuing financial inclusion model in the country. The banking system in India is dominated by 27 public sector banks with a widespread reach. It also includes 20 private sector banks, 43 foreign banks and 82 regional rural banks. According to World Bank data, the number of bank branches per 100,000 adults in India was 9 and 13 in 2004 and 2014, respectively. This is broadly in line with the global average of 9.1 and 13.4 branches in 2004 and 2014, respectively. India and China have seen the strongest growth in account ownership between 2011 and 2014.

Review of literature

Rangarajan, C. (2008) report showed NSSO (National Sample Survey Organisation) data that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households does not have access to credit, either from institutional or non-institutional sources. Only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). In other words, 73% of farm households do not have access to / excluded from formal credit sources. World Bank (2010) report reveals that the large proportion of unbanked population lives on less than \$5 dollars a day and two thirds of the adult population in developing countries or 2.7 billion people lack access to basic formal financial services, such as savings or checking accounts. The largest share of the unbanked live in Sub-Saharan Africa (12% banked) and South Asia (24% banked). East Asia, Middle East and North Africa, Latin America and Eastern Europe and Central Asia are also low-access regions with less than 50% of their population banked. Demirguc-Kunt, A, et al. (2012) report found that the gap in financial services availed between high-income and developing economies is very large. Globally, more than 2.5 billion adults have no formal account, of which most of them fall in developing economies. The gaps in account usage between demographic groups are particularly large in developing economies. The World Bank-Gallup Global Findex Survey (2014), which asked over 1,50,000 respondents in 143 countries how and why they access financial services and found a clear North-South divide in terms of where people spend their borrowed money. Unlike the developed countries of the Northern hemisphere, where mortgage dominates borrowing, in the Southern part of the world, the largest share of loans goes into education and healthcare. In India, 21 per cent of people took loans to finance health care needs, 10 per cent to finance education, 9 per cent for business, and just 4 per cent for mortgage.

Objective and Research Methodology

The objectives of the study are to understand the penetration of banking and its differences on branch expansion, deposit accounts, deposits, credit accounts, credits, non food credit accounts and non food credits among the different bank groups, population groups and regions in India. Secondary data for the period of 10 years (2004-05 to 2013-14) were collected from the official website of RBI. Statistical technique one way ANOVA is used to analyze and interpret the results.

Analysis and Interpretations

The following one way ANOVA tables show that the mean score, standard deviation, standard error, F value and its significance for the penetration of banking with respect to branch expansion, deposit accounts, deposits, credit accounts, credits, non food credit accounts and non food credits by the bank groups i.e., state bank of India and its associates, public sector banks, foreign banks, regional rural banks and other scheduled commercial banks, population groups i.e., rural, semi – urban, urban and metropolitan and regions i.e., northern, north-eastern, eastern, central, western and southern in India.

Table 1:
One way ANOVA for Bank Group on Penetration of Banking in India

Bank Group	N	Mean	Std. Deviation	Std. Error	F	Sig	
H_{0,1}: There is no significant difference between offices and bank groups on penetration of banking in India							
Offices	SBI	10	17468.5000	3129.02211	989.48367	124.782	.000***
	PSB	10	44022.9000	8731.44582	2761.12561		
	FB	10	284.1000	35.67897	11.28268		
	RRB	10	15809.0000	1350.01284	426.91154		
	OSCB	10	10772.6000	4136.73823	1308.15149		
	Total	50	17671.4200	15268.29247	2159.26263		
H_{0,2}: There is no significant difference between deposit accounts and bank groups on penetration of banking in India							
Deposit Accounts	SBI	10	181879148.1000	72970537.08473	23075309.92735	48.327	.000***
	PSB	10	379903762.0000	118582264.74659	37499004.67003		
	FB	10	4283271.6000	1028961.47810	325386.18954		
	RRB	10	95318868.5000	31678292.68640	10017555.72745		
	OSCB	10	82121293.9000	31596674.47888	9991745.78402		
	Total	50	148701268.8200	144239691.55080	20398572.80237		
H_{0,3}: There is no significant difference between deposits and bank groups on penetration of banking in India							
	SBI	10	47780295.9270	34185601.27537	10810436.32125		
	PSB	10	104031511.2530	73302311.13596	23180226.09439		

Source: Primary Data | Computed by Researcher

***** Significant at 1% level**

Deposits (in millions)	FBs	10	10593044.3910	7940954.87569	2511150.42038	10.411	.000***
	RRBs	10	6499904.6010	4527573.31211	1431744.39396		
	OSCBs	10	39211268.1830	27214743.42428	8606057.51578		
	Total	50	41623204.8710	51039233.97333	7218037.68982		
H_{0,4}: There is no significant difference between credit accounts and bank groups on penetration of banking in India							
Credit Accounts	SBI	10	21834449.4000	3721445.97092	1176824.54574	36.169	.000***
	PSB	10	37491866.8000	6392544.45732	2021500.05290		
	FB	10	7882059.7000	2215442.41684	700584.40622		
	RRB	10	17683913.6000	2944823.57519	931234.98050		
	OSCB	10	26244211.1000	9803953.92846	3100282.44893		
	Total	50	22227300.1200	11282056.43031	1595523.72152		
H_{0,5}: There is no significant difference between credits and bank groups on penetration of banking in India							
Credits (in millions)	SBI	10	34951565.4440	24740558.53651	7823651.55601	10.378	.000***
	PSB	10	76274342.1520	54144349.69926	17121946.74783		
	FB	10	9040962.4220	6316845.67349	1997561.99560		
	RRB	10	3755899.9440	2566852.66983	811710.08547		
	OSCB	10	28896529.7910	19403968.61704	6136073.64763		
	Total	50	30583859.9506	37425899.49601	5292821.46513		

The above table 1, bank group (SBI, PSB, FB, RRB and OSCB) on penetration of Indian banking in a decade shows that the mean scores of offices of the bank groups are 17468, 44022, 284, 15809 and 10772, deposit accounts of the bank groups are 181879148, 379903762, 4283271, 95318868 and 82121293, deposits of the bank groups are `47780295, `104031511, `10593044, `6499904 and `39211268, credit accounts of the bank groups are 21834449, 37491866, 7882059, 17683913 and 26244211 credits of the bank groups are `34951565, `76274342, `9040962, `3755899, `28896529 and `28896529 respectively. The bank group (SBI, PSB, FB, RRB and OSCB) on penetration of Indian banking in a decade are significantly different from one another. Hence $H_{0,1}$, $H_{0,2}$, $H_{0,3}$, $H_{0,4}$ and $H_{0,5}$ are not accepted at 1% level of significance.

Table 2
One way ANOVA for Population Group on Penetration of Banking in India

Population Group	N	Mean	Std. Deviation	Std. Error	F	Sig
H_{0,6}: There is no significant difference between offices and population groups on penetration of banking in India						
Offices	Rural	10	34092.6000	4619.06169	1460.67556	34.249 .000***
	Semi-Urban	10	21349.4000	5690.93752	1799.63246	
	Urban	10	17263.5000	3821.74885	1208.54310	
	Metropolitan	10	15651.6000	3629.77967	1147.83712	
	Total	40	22089.2750	8514.12399	1346.20121	

H _{0,7} : There is no significant difference between deposit accounts and population groups on penetration of banking in India							
Deposit Accounts	Rural	10	229832181.3000	89879412.76248	28422365.90878	2.715	.059*
	Semi-Urban	10	196372011.0000	73296309.27538	23178328.13943		
	Urban	10	152686066.8000	43239375.94027	13673491.25755		
	Metropolitan	10	164616085.1000	48363215.45429	15293791.58050		
	Total	40	185876586.0500	70691165.80070	11177254.71914		
H _{0,8} : There is no significant difference between deposits and population groups on penetration of banking in India							
Deposits (in millions)	Rural	10	20321990.4600	13545467.56384	4283452.94737	8.879	.000***
	Semi-Urban	10	28973432.9500	19570910.51883	6188865.31229		
	Urban	10	43233141.7900	30254007.39084	9567157.17026		
	Metropolitan	10	115587459.4400	83718843.24321	26474222.77232		
	Total	40	52029006.1600	58387572.06743	9231885.73902		
H _{0,9} : There is no significant difference between credit accounts and population groups on penetration of banking in India							
Credit Accounts	Rural	10	36252783.4000	6609083.86830	2089975.82709	23.958	.000***
	Semi-Urban	10	26910862.4000	6269270.64296	1982517.44998		
	Urban	10	15217172.4000	2922481.32038	924169.73917		
	Metropolitan	10	32755682.4000	7103420.87816	2246298.91538		
	Total	40	27784125.1500	9908690.17177	1566701.47859		
H _{0,10} : There is no significant difference between credits and population groups on penetration of banking in India							
Credits (in millions)	Rural	10	11969754.6800	7800670.39788	2466788.57335	12.785	.000***
	Semi-Urban	10	14904067.5100	9966546.01610	3151698.58157		
	Urban	10	24901950.3100	17469297.72989	5524276.99500		
	Metropolitan	10	101143527.2500	71655425.21868	22659435.03989		
	Total	40	38229824.9375	51662914.76629	8168624.06123		
H _{0,11} : There is no significant difference between non food credit accounts and population groups on penetration of banking in India							
Non Food Credit Accounts	Rural	2	45965614.0000	2730218.47812	1930556.00000	59.544	.001***
	Semi-Urban	2	36363571.5000	2724149.38062	1926264.50000		
	Urban	2	18995236.5000	1138810.32034	805260.50000		
	Metropolitan	2	32193907.0000	806448.21288	570245.00000		
	Total	8	33379582.2500	10474987.63363	3703467.39429		
H _{0,12} : There is no significant difference between non food credit and population groups on penetration of banking in India							
Non Food Credit (in millions)	Rural	2	4075549.8000	959691.97023	678604.70000	39.334	.002***
	Semi-Urban	2	5576170.5500	1419946.00634	1004053.45000		
	Urban	2	8914301.9000	1582067.98430	1118691.00000		
	Metropolitan	2	35977420.2500	6364852.19736	4500630.15000		
	Total	8	13635860.6250	14149935.07725	5002757.52324		

Source: Primary Data | Computed by Researcher

*** Significant at 1% level | * Significant at 10% level

The above table 2, population groups (Rural, Semi – Urban, Urban and Metropolitan) on penetration of Indian banking in a decade shows that the mean scores of offices of the population groups are 34092, 21349, 17263 and 15651, deposit accounts of the population groups are 229832181, 196372011, 152686066 and 164616085, deposits of the population groups are `20321990, `28973432, `43233141 and `115587459, credit accounts of population groups are 36252783, 26910862, 15217172 and 32755682 credits of the population groups are `11969754, `14904067, `24901950 and `101143527, non food credit accounts of the population groups are 45965614, 36363571, 18995236 and 32193907 and non food credit of the population groups are `4075549, `5576170, `8914301 and `35977420 respectively. The population groups (Rural, Semi – Urban, Urban and Metropolitan) on penetration of Indian banking in a decade are significantly different from one another. Hence $H_{0,6}$, $H_{0,8}$, $H_{0,9}$, $H_{0,10}$, $H_{0,11}$ and $H_{0,12}$ are not accepted at 1% level of significance, whereas $H_{0,7}$ is not accepted at 10% level of significance.

Table 3
One way ANOVA for Regions on Penetration of Banking in India

Regions	N	Mean	Std. Deviation	Std. Error	F	Sig	
$H_{0,13}$: There is no significant difference between offices and regions on penetration of banking in India							
Offices	Northern	10	15402.7000	3519.30205	1112.90102	51.301	.000***
	North-Eastern	10	2326.0000	390.59015	123.51545		
	Eastern	10	14663.1000	2410.72301	762.33755		
	Central	10	17532.0000	3425.07697	1083.10444		
	Western	10	13730.6000	2689.36453	850.45174		
	Southern	10	24702.7000	4910.89852	1552.96247		
	Total	60	14726.1833	7340.48711	947.65281		
$H_{0,14}$: There is no significant difference between deposit accounts and regions on penetration of banking in India							
Deposit Accounts	Northern	10	120839824.3000	34607855.80284	10943964.92717	17.333	.000***
	North-Eastern	10	18190547.8000	6853942.18925	2167406.82692		
	Eastern	10	119495024.5000	43165586.99222	13650157.14336		
	Central	10	152485106.9000	55332558.09107	17497691.23314		
	Western	10	124571187.8000	42104587.28763	13314639.57703		
	Southern	10	207924652.8000	72576514.19382	22950708.94880		
	Total	60	123917724.0167	72450759.53738	9353352.83695		
$H_{0,15}$: There is no significant difference between deposits and regions on penetration of banking in India							
Deposits (in millions)	Northern	10	46961309.2000	33463346.59671	10582039.33772	5.839	.000***
	North-Eastern	10	3354331.2100	2358759.27355	745905.17565		
	Eastern	10	23827990.4500	16534853.61205	5228779.81915		
	Central	10	24226752.3400	16493455.59672	5215688.61725		
	Western	10	64171071.6400	46342247.73326	14654705.47289		
	Southern	10	45574569.5000	31726607.25166	10032834.13449		
	Total	60	34686004.0567	33673552.43433	4347236.92619		

H _{0,16} : There is no significant difference between credit accounts and regions on penetration of banking in India							
Credit Accounts	Northern	10	11357447.7000	1922899.13907	608074.09902	89.159	.000***
	North-Eastern	10	2199966.7000	553026.24138	174882.25286		
	Eastern	10	13048616.7000	1998840.28997	632088.79952		
	Central	10	14865500.7000	2429305.20912	768213.75925		
	Western	10	23532185.9000	7277364.01194	2301304.56399		
	Southern	10	46132782.9000	9365975.27009	2961781.43623		
	Total	60	18522750.1000	14773134.06123	1907203.40635		
H _{0,17} : There is no significant difference between credits and regions on penetration of banking in India							
Credits (in millions)	Northern	10	33301572.1900	23078042.74148	7297917.90018	8.629	.000***
	North-Eastern	10	1250145.5900	878726.95483	277877.86186		
	Eastern	10	11961919.0000	8396932.64609	2655343.25207		
	Central	10	11074334.5500	7602637.38128	2404165.03492		
	Western	10	54865082.3600	38521213.56107	12181477.30867		
	Southern	10	40466245.9500	28489530.33221	9009180.53182		
	Total	60	25486549.9400	28487545.72975	3677726.33952		

Source: Primary Data | Computed by Researcher

*** Significant at 1% level

The above table 3, regions (Northern, North-Eastern, Eastern, Central, Western and Southern) on penetration of Indian banking in a decade shows that the mean scores of offices of the regions are 15402, 2326, 14663, 17532, 13730 and 24702, deposit accounts of the regions are 120839824, 18190547, 119495024, 152485106, 124571187 and 207924652, deposits of the regions are `46961309, `3354331, `23827990, `24226752, `64171071 and `45574569, credit accounts of the regions are 11357447, 2199966, 13048616, 14865500, 23532185 and 46132782 credits of the regions are `33301572, `1250145, `11961919, `11074334, `54865082 and `40466245 respectively. The regions (Northern, North-Eastern, Eastern, Central, Western and Southern) on penetration of Indian banking in a decade are significantly different from one another. Hence H_{0,13}, H_{0,14}, H_{0,15}, H_{0,16} and H_{0,17} are not accepted at 1% level of significance.

Conclusion

The penetration of Indian banks' branches, deposits and credits continues to be large in size. Low banking penetration, a large consumer base and growth of the middle-class also offer large banking growth prospective, particularly in retail and consumer banking business in India. Slower deposit growth in an environment of negative real interest rates influences banks' credit growth potential. Non-Performing assets of state owned banks remains increased due to macro-economic slowdown in India. Reserve Bank of India's guidelines for licensing of payments banks aimed at licensing nonbank entities with wide distribution reach to provide basic, low cost banking services include payments and

deposits but not credit for the underserved in the population and for licensing of small finance banks aimed at enabling non-banking financial companies such as micro-finance institutions to convert into banks and raise deposits while furthering the financial inclusion agenda by focusing mainly on priority sector lending will increase the penetration of banking in India. Moreover, the Government's aggressive financial inclusion plan may pave the way for banking penetration in the country.

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