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RE-EXAMINING FINANCIAL INCLUSION IN POST COVID ERA - BUOYANCY IN INDIAN COMMERCIAL BANKING SECTOR

Dr. Madhumita Dasgupta[1], Koyel Roy[2], Sarbani Bhowmik[3], Jayati Banerjee[4], Namrotaa Roy Chowdhury[5], Akshat Bose[6], Simran Ghosh[7], Sujoy Goswami[8]

Adjunct Faculty, Amity University, Kolkata, mdasgupta.2008@gmail.com
Assistant Professor II, Amity University, Kolkata, koyel847@gmail.com
Assistant Professor, Amity University, Kolkata, sarbani0@gmail.com
LLM. Final Year, Amity University, Kolkata, banerjeejayati@gmail.com
LLM. Final Year, Amity University, Kolkata, namrotaaroy29@gmail.com
BALLB First Year, Amity University, Kolkata, akshatbose.nghss@gmail.com
BALLB First Year, Amity University, Kolkata, simranghosh@gmail.com
BALLB First Year, Amity University, Kolkata, sujoygoswami.info@gmail.com

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Abstract

The Indian banking sector is considered to be one to the most dynamic and robust sectors of the nation and it has been promising a continued growth for the last couple of decades. The country has become a hot-bed of foreign investments and there has been a consistent influx of funds in the economy signifying a steady faith of the world economic forum on the Indian performance. In India, financial exclusion which had taken a very important shape in the de-monetisation regime also saw a cushion due to the increased awareness among the Indian customer base about banking advantages. The pandemic ensured that the savings of the population did not get eroded from the economy. (Choudhary, 2022) The paper makes an attempt to understand whether the banking sector ahs suffered a set-back in terms of Foreign Direct Investment, the savings deposit and the bank credit (NBFC Status) in the commercial banks. One of the key components of the banking sector is the flow of foreign funds into it and also the savings deposits. Clearly, the banking sector did suffer due to pandemic and more specifically in the retail operations and their contribution to the overall banking statistics did have disruptive effect. On the other hand, the parameters considered for this paper have shown some very assuring results.

Keywords: Banking performance, Covid-19, Foreign Direct Investments, Financial Inclusion, Savings deposits.

INTRODUCTION

India is the one of the largest economies of the world and fourth largest in purchasing power parity. The Indian banking sector is considered to be one to the most dynamic and robust sectors of the nation and it has been promising a continued growth for the last couple of decades. The country has become a hot-bed of foreign investments and there has been a consistent influx of funds in the economy signifying a steady faith of the world economic forum on the Indian performance. Even though it faces huge challenges in sustainable development due to its disproportionate distribution of income and the imbalance due to improper allocation of resources among the weaker and under privileged sections of the society yet, it has proved time and again that India will continue to grow and provide a consistent platform for all and any kind of investment that both domestic and foreign nationals are interested to make. India has witnessed a vast change in its economic infrastructure in the post liberalized regime and there has been a tremendous amount of growth due to the open market policy.

The COVID-19 epidemic had a damaging effect on the developing as well as developed economies and reduced the profitability of several companies in those crucial years. Technological advancement during the phase played a vital role in the country's performance in the pandemic situation and India was able to stay afloat due to its ever-increasing and expanding technological base. Both IT and ITES provided the stable base ensuring that the financial activities could be on virtually.

To combat with COVID-19, Indian Government announced complete lockdown in the country starting on March 24, 2020 and the same was extended to 3rd May, 2020. Another similar measure was adopted to shut down the stock market. This was also followed by many governments around the world. However, these measures taken by Government to check the increase of covid-19 pandemic affected the GDP of the country in negative way and there was a huge set-back in the overall performance of the nation. Banking, being one of the of the most important sectors, which is responsible for any financial activity in the nation and which also works as a support system for the industrial sector by providing financing, venture financing, credit extension and factoring services etc. , also suffered in a disruptive manner. Covid-19 had an adverse effect on the performance of the Indian banking industry by increasing the NPA balances, reducing the profitability and also the advances.

RBI had announced a moratorium for 3 months in the initial phase and subsequently it was extended for another 3 months, covering all borrowers for EMIs due between March and September 2020. At the same time, the Government had announced a stimulus package of ₹ 20 lakh crore, which was 11% of GDP

In India, financial exclusion which had taken a very important shape in the de-monetisation regime also saw a cushion due to the increased awareness among the Indian customer base about banking advantages. The pandemic ensured the savings of the population did not get eroded from the economy. Financial inclusion is the situation where every single individual is provided access to the financial services irrespective of their income and savings. The target group mainly includes marginal framers, self-employed and unorganised sectors enterprise, oral lessees, landless labourers, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women is included and they are able to access low cost an appropriate mainstream financial products and services.

Phases of evolution

Table 1: Phase wise evolution in the Indian economy of financial inclusion

Phases	Developmental characteristics
Phase I (1950-1970)	Initial days of banking consolidation and augmentation of trade and industry and capital formation of the sectors.
Phase II (1970-1990)	Thrust given to the weaker sections of the industrial units and the lesser developed sectors of the economy.
Phase III (1990-2005)	The financial sector was given a priority and the main emphasis on strengthening the Financial Institutions
Phase IV (2005-2010)	The concept of Finclusion was categorically given importance by making is a policy objective
Phase V (2010-2015)	National Financial Inclusion Plan.

Financial inclusion makes an effort to provide the financial services to the larger sections of the low-income groups and the under-privileged sections of the society at affordable costs. In case of developing nations, financial inclusion has become a crucial tool for ensuring that the nation is able to channel fresh finances from the unorganised sectors to the organised sections through this measure. The financial inclusion opens up access to larger market resultantly opening opportunities in the global arena and increase foreign investments and improving the employment opportunities.

The main purpose of this concept is to ensure integrating the excluded sections of the society into the conventional banking framework and helping them to get a platform for improving their economic state and increase their savings quotient. The concept helps them in the following manner:

i. Ensuring that their savings acumen improves over the time
ii. Providing them with formal banking services
iii. Sealing the leaks and gaps in the system of savings to ensure no uncharted funds are left in the economy.
iv. Finally, improving the welfare proportion of the economy.

Research Methodology

The paper makes an attempt to understand whether the banking sector ahs suffered a set-back in terms of Foreign Direct Investment, the savings deposit and the bank credit(NBFC Status) in the commercial banks. One of the key components of the banking sector is the flow of foreign funds into it and also the savings deposits. Clearly, the banking sector did suffer due to pandemic and more specifically in the retail operations and their contribution to the overall banking statistics did have disruptive effect. On the other hand , the parameters considered for this paper have shown some very assuring results which have been explained in detail in the subsequent sections.

Objective of the study

The objective of study is an attempt to understand the change in the credit pattern of the banks and the deposits keeping in perspective the covid years. The objective of the study can be divided into a number of hypotheses and they are stated as below:

Hypothesis Statement I

Null Hypothesis H_0: There is no significant difference in pre- and post-covid years savings deposit in the commercial banks.

Alternative Hypothesis H_1: There is a significant difference in the pre- and post-covid years savings deposit in the commercial banks.

Hypothesis Statement II

Null Hypothesis H_0: There is no significant difference in pre- and post-covid years flow of Foreign Direct Investments in India.

Alternative Hypothesis H_1: There is a significant difference in the pre- and post-covid years flow of Foreign Direct Investments in India.

Hypothesis Statement III

Null Hypothesis H_0: There is no significant difference in pre- and post-covid years amount of bank credit (net of NBFC)

Alternative Hypothesis H_1: There is a significant difference in the pre- and post-covid years bank credit (net of NBFC) in India.

Data Range

In case of banks deposits in commercial banks the data has been considered from 2015-16 to 2022-23. For the calculation of FDI flows in the Indian commercial sectors, the data has been considered from 2012-13 to 2022-23. In the case of

Data sources

The data has been sourced form RBI bulletin and website along with the bank website.

Statistical tools

The tools used for the study are t-test, paired t-test and the data is run for both the tests to understand that there is any significant difference in the two regimes which have been considered keeping the pandemic year in perspective.

Analysis

The study is an attempt to understand if the behaviour of the bank deposit has suffered any set-back due to the covid years and the covid year of 2020 is taken as a break year. The following are the data for the testing the t-test(paired) and the results are shown in the subsequent sections.

Year	Indian Banks	Foreign banks	Total
2015-16	2492846	43698	2536544
2016-17	3340707	52876	3393583
2017-18	3599341	55896	3655237
2018-19	3972547	58630	4031177
2019-20	4285362	65384	4350746
2020-21	4974715	81092	5055807
2021-22	5594034	87284	5681318
2022-23	5903552	55203	5958755

The hypothesis statement as mentioned in the objective of the study is :

> ***Null Hypothesis H_0: There is no significant difference in pre- and post-covid years savings deposit in the commercial banks.***
>
> ***Alternative Hypothesis H_1: There is a significant difference in the pre- and post-covid years savings deposit in the commercial banks.***

The above data had been applied to a paired t-test and the results show that the t value is as follows|:

t= 0.00828 at 5% level and a two-tailed test.

The calculated value is less than the tabulated value of 2.776 and it can be concluded that there is no significant difference in the pre- and post-covid banks deposits in the commercial banks in the data range that has been considered.

The next set of tests are carried out in order to ascertain the flow of Foreign Direct Investments in the economy and the data considered for the test is as follows:

Year	FDI flow
2012-13	146954
2013-14	186830
2014-15	215893
2015-16	294258
2016-17	283292
2017-18	253977
2018-19	301932
2019-20	396955
2020-21	406765
2021-22	418763
2022-23	335015

Hypothesis Statement II

> ***Null Hypothesis H_0: There is no significant difference in pre- and post-covid years flow of Foreign Direct Investments in India.***
>
> ***Alternative Hypothesis H_1: There is a significant difference in the pre- and post-covid years flow of Foreign Direct Investments in India.***

The above data had been applied to a paired t-test and the results show that the t value is as follows|:

The calculated value of t=-4.496 and the tabulated value is at 5% level is 2.776. The results clearly state that the null hypothesis is accepted and it is concluded that the re is no significant difference in the Foreign Direct Investment flow in the pre- and post-covid years for the data range that has been considered for the paired t-test.

The next analysis is considering the net flow of bank credit (non-deposit taking NBFCs and deposit taking NBFCs). The range is from 2012-13 to 2022-23. The paired t-test results have been calculated and the results shown are as under:

Hypothesis Statement III

Null Hypothesis H_0: There is no significant difference in pre- and post-covid years amount of bank credit (net of NBFC)

Alternative Hypothesis H_1: There is a significant difference in the pre- and post-covid years bank credit (net of NBFC) in India.

Year	Amount
2012-13	118800
2013-14	78023
2014-15	181831
2015-16	98851
2016-17	188748
2017-18	368243
2018-19	126004
2019-20	85000
2020-21	173668
2021-22	64445
2022-23	248778

The results show that the calculated value is 0.387 and the tabulated value at 5% with 5 d.f. is 0.353 and the results clearly state that the null hypothesis is rejected and it can be concluded that there is a significant difference between the pre- and post- covid years as far as the NBFC contribution to Indian economy is taken as a parameter.

Conclusion

The analysis and the results of the test suggest that the parameters considered for the study have clearly stated that the even though the banking sector has suffered significantly yet the areas of FDI flows, commercial performance of the banks and the contribution of the NBFCs has been stable over the last decade and the pandemic was a deterrent in the year of 2020, which has recovered and the tests show that the contributions have not deteriorated over the post pandemic period. India has been steadily recovering from the set-back as has the global economy gained momentum and it continues to be an expanding platform for the different financial activities both from the domestic and foreign investment perspective. Even though the banking industry had serious set-backs due to the Covid-19 , yet the above results show that the fundamental areas of the bank did not get effected due to the pandemic. There was a continued influx of funds both from the retail and the foreign sources. One of the probable reasons can to attributed to the fact that Indian banking industry is completely wire- based.

Even though there was an initial shock that resulted in a immediate reaction from the banking sector, yet it did not reach the fundamental pillars of performance which were deep-rooted in the economy and create much disorder in the economy. The parameters considered in the paper, if closely observed, are all enabled by IT and ITES, ensuring that the system was not failing due to the pandemic. There was a steady performance monitor which guaranteed that the financial sector was continuing to serve as the back-bone of the economy, irrespective of any of the ripples created in the surface of it. There was an absolute breach of performance in the real sectors of the economy, yet the financial sector was able to recover much faster due to the presence of extreme stringent rules and checks which made sure that the fail-safe mechanism are all functioning to the last specification. This is the one of the reasons, India emerged as a winning nation in the post-pandemic era, creating a stable faith in the economy and promising consistent growth to the investors, both within and outside the nation's borders.

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