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# A Study on the Physical Expansion of Commercial Banks in India

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## **Abstract**

*Growth and expansion of banking are primary steps in the mobilization of people's surplus income and to provide loans to the deficit spenders which ultimately plays the role of the catalyst in the economic development of a nation. To understand the physical growth of commercial banks in India, numbers of scheduled and non-scheduled banks; branches of scheduled commercial banks according to population group, bank-wise branch distribution and the region-wise branch distribution of scheduled commercial banks in India have been studied. The given paper put attention primarily on the physical size of commercial banking in the country over the period of 2000-2011. The study shows that regions like North-Eastern states are far behind the other regions of the country as far as expansion of commercial banking branches are concerned.*

**Keywords:** Bank Group, Population Group, Region wise Distribution.

## **Introduction**

The growth and development of a country highly depends on the well-structured financial system prevailing in the economy. In a country like India, commercial banks have been playing a crucial role in the economic progress of the country. Basically in the year 1969, to make the commercial banking highly visible in the rural areas the Government of India nationalized 14 commercial banks. Similar is the case in 1982 when the Government nationalized another 8 banks and the list of nationalized commercial banks along with the SBI associates increased to 29 in the country. By 2011, including 82 Regional Rural Banks, there were 169 commercial banks in the country out of which 165 were scheduled commercial banks and 4 were non-scheduled commercial banks. As far as private and foreign banks are concerned presently, there are 32 private sector banks and 40 numbers of foreign banks operating in the country. During the last four decades there has been tremendous expansion of commercial bank branches and many of the Indian nationalized banks have been able to expand their physical existence in various countries of the world.

## **Review of Literature**

Lewis (1949) advocated public ownership in banking industries. Similarly Myrdal (1968) favored government ownership of banks in India and East Asia. The study of Verma and Kumar (2007) observed that with the objective of well-established banking system in India and its ever-growing demand, the expansion of public sector banking has been carried out at regular intervals in India. In 1948 and in 1955, Imperial Bank was nationalized. Later on July 19, 1969, 14 large commercial banks of the country were nationalized. In April 1980, six more banks were nationalized. At present there are 27 banks in the country of which 19 are nationalized. Similarly, the study made by R. Rezvanian et al. (2008) pointed out that in order to assist the Indian banking system to function in a more progressive and competitive manner in the global marketplace, the Indian policy makers need to create policies to encourage private ownership of banks, facilitate the entry of foreign banks and to promote mergers and acquisitions among Indian banks. According to the Economist Intelligence Unit Limited (2008), "In

2004 one of the world's largest banks, Switzerland-based UBS, applied for a license from India's central bank to set up banking operations in India. It then had to wait for more than three years before the Reserve Bank of India (RBI) finally approved its application in February 2008. This is a familiar story for foreign banks seeking to open new branches in India. But despite such regulatory discouragement, foreign banks are increasingly eager to set up or expand operations in the country. For those who have already entered the market, India has offered vast business opportunities, soaring profits and relatively limited competition from slothful public sector counterparts." In October 2007 there were 273 branches of foreign banks in India. Rosta (2009) in his study pointed out that India doesn't seem to impress in its banking sector. The country is served by only 25 public sector banks, 21 domestic private sector banks, and less than 20 western private institutions. Of the latter, just five banks—HSBC, Citigroup, Standard Chartered Bank, ABN Amro and Deutsche Bank—have established retail operations primarily aimed at native customers in a population of more than 1.66 billion. The same study provides the information that "India is a very, very under-banked nation for the size of its economy," says Arun Kumar, principal in charge of KPMG's US-India practice. Public sector banks control about 50 per cent of the total banking business, and 75 per cent of the country's deposit base.

The above studies do not clarify much about the physical progress of scheduled of commercial banking in India. Thus an attempt has been made here to know about the physical progress of scheduled commercial banking in the nooks and corners of the country from the period 2000 to 2011. This study has been done on the basis of secondary data collected from the various publications of Reserve Bank of India and other referred journals.

### Commercial Banks in India

The status of commercial banking in India can be divided into scheduled commercial banks and non-scheduled commercial banks. Scheduled banks in India are those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act. On the other hand non-scheduled commercial banks are those banks which are not registered in the list of the central bank. They are not bound to perform banking services according to the policies and instructions of central bank. These banks do not fulfill the required qualifications of a scheduled bank as prescribed by the central bank and by and large do not enjoy enough public confidence. The physical status of scheduled and non-scheduled commercial banks during the study period is shown in Table-1.

**Table-1**  
**Scheduled and Non-Scheduled Commercial Banks in India**

Sl. No.	Year	Scheduled Commercial Banks	Non-Scheduled Commercial Bank	Number of Commercial Banks
1	2000	297	-	297
2	2001	296	5	301
3	2002	294	4	298
4	2003	289	5	294
5	2004	286	5	291
6	2005	284	4	288
7	2006	218	4	222
8	2007	179	4	183
9	2008	171	4	175
10	2009	166	4	170
11	2010	165	4	169
12	2011	165	4	169

**Source:** Basic Statistical Returns of Scheduled Commercial Banks in India, RBI-2000 to 2011

From Table-1 it is revealed that in the year 2000 there were 297 numbers of scheduled commercial banks in the country. It also shows that in 2001 there were 5 non-scheduled commercial banks in India which decrease to 4 banks in 2011. On the other hand there were 297 numbers of scheduled commercial banks in 2000 which decreased to 165 banks in 2011. The prime cause behind this continuous decrease in the number of scheduled commercial banks in the country is due to merger and acquisitions of some of the weaker banks with certain

other banks. In India till 2005 there were 196 Regional Rural Banks which decreased to 133 RRBs in 2006 and by 2011 the figure came down to 82 RRBs in the country. It is chiefly due to mergers of the weak RRBs with other stronger counterparts. The RRBs are part of scheduled commercial banks in India and this continuous decrease of scheduled commercial banks in the country is mainly due to unions and blending of RRBs.

## Branches of Scheduled Commercial Banks in India According to Population Group

In order to understand the population group-wise distribution of branches of scheduled commercial banks

in India, data of branch expansion has been collected for the period 2000 to 2011. The population group-wise distribution of branches of scheduled commercial banks in India is presented in Table-2.

**Table-2**  
**Branch Distribution of Scheduled Commercial Banks According to Population Group**

Category / Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Rural	32,673 (48.7)	32,640 (48.3)	32,443 (47.8)	32,283 (47.4)	32,107 (46.8)	31,967 (45.7)	30,610 (43.2)	30,393 (41.5)	30,898 (39.8)	31,549 (38.6)	32,320 (37.2)	33,367 (36.2)
Semi-Urban	14,580 (21.7)	14,700 (21.8)	14,910 (21.9)	15,042 (22.1)	12,252 (22.2)	15,619 (22.3)	15,471 (21.9)	16,352 (22.4)	17,695 (22.8)	19,021 (23.3)	20,601 (23.7)	22,725 (24.7)
Urban	10,851 (16.2)	11,026 (16.3)	11,252 (16.6)	11,423 (16.8)	11,703 (17.0)	12,304 (17.6)	12,697 (17.9)	13,699 (18.7)	15,275 (19.7)	16,470 (20.1)	17,964 (20.7)	18,997 (20.6)
Metropolitan	8,957 (13.4)	9,159 (13.6)	9,292 (13.7)	9,330 (13.7)	9,583 (14.0)	10,079 (14.4)	11,998 (17.0)	12,755 (17.4)	13,831 (17.8)	14,762 (18.0)	16,075 (18.5)	17,028 (18.5)
All India	67,061 (100.00)	67,525 (100.0)	67,897 (100)	68,078 (100.0)	68,645 (100)	69,969 (100.0)	70,776 (100.0)	73,199 (100.0)	77,699 (100.0)	81,802 (100.0)	86,960 (100.0)	92,117 (100.0)

**Source:** Basic Statistical Returns of Scheduled Commercial Banks in India from 2000 to 2011  
Figures in the parentheses indicate percentage share of All India level

From Table-2 it is observed that in the year 2000 the number of branches of scheduled commercial bank in rural group of population was 32,673 branches which increased to 33,367 branches in 2011. Although there has been an increase of additional 694 branches over the years, but in percentage level of scheduled commercial bank branches in rural group has fallen from 48.7 per cent to 36.2 per cent. In case of semi-urban group the total number of branches of scheduled commercial banks has increased from 14,580 branches in 2000 to 22,725 branches in 2011 which means an increase of 8,145 new branches over the years. In percentage terms it has improved from 21.7 per cent to 24.7 per cent. Similarly, the number of branches in case of urban group population in 2000 was 10,851 branches which is 16.2 per cent of all India level and it has increased to 18,997 branches which is 20.6 per cent in 2011. Over the years, there is an addition of 8,146 branches in urban group population. In case of metropolitan group of population the number of branches in 2000 was 8,957

branches which increased to 17,028 branches in 2011. Over the years there is an addition of 8,071 numbers of branches and in percentage terms, it improved from 13.4 per cent to 18.5 per cent. In all India level the aggregate number of offices of the scheduled commercial banks in 2000 was 67,061 branches in 2000 which increased to 92,117 in 2011. Over the study period the number of offices increased by 25,056 branches.

### Bank-wise Branch Distribution of Scheduled Commercial Banks in India

The scheduled commercial banks in India mainly comprise of State Bank of India and its associates, other nationalized commercial banks, foreign banks, regional rural banks and private sector banks. To understand the bank group-wise branch distribution of scheduled commercial banks in India, available data of various banks has been collected from the year 2000 to 2011 and it is shown in Table-3.

**Table-3**  
**Bank Group and its Branch-Wise Distribution-Scheduled Commercial Banks in India**

Bank Group	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
State Bank Of India And Its Associates	13,481 (20.1)	13,578 (20.1)	13,641 (20.1)	13,700 (20.1)	13,699 (20.0)	13,859 (19.8)	14,016 (19.8)	14,388 (19.6)	15,621 (20.1)	16,570 (20.3)	17,861 (20.5)	18,704 (20.3)
Nationalised Banks	33,623 (50.1)	33,799 (50.1)	33,842 (49.8)	33,979 (49.9)	34,220 (49.9)	34,839 (49.8)	35,225 (49.8)	36,673 (50.1)	38,921 (50.1)	40,576 (49.6)	42,965 (49.4)	45,450 (49.3)
Foreign Banks	187 (0.3)	198 (0.3)	201 (0.3)	197 (0.3)	208 (0.3)	226 (0.3)	245 (0.3)	258 (0.4)	264 (0.3)	279 (0.3)	295 (0.3)	301 (0.3)
Regional Rural Banks	14,639 (21.8)	14,651 (21.7)	14,664 (21.6)	14,671 (21.6)	14,663 (21.4)	14,645 (20.9)	14,607 (20.6)	14,652 (20.0)	14,825 (19.1)	15,265 (18.7)	15,548 (17.9)	15,898 (17.3)
Private Sector Banks	5,131 (7.7)	5,299 (7.8)	5,549 (8.2)	5,531 (8.1)	5,855 (8.5)	6,400 (9.1)	6,683 (9.4)	7,228 (9.9)	8,068 (10.4)	9,112 (11.1)	10,291 (11.8)	11,764 (12.8)
All Scheduled Commercial Banks	67,061 (100.0)	67,525 (100.0)	67,897 (100)	68,078 (100.0)	68,645 (100)	69,969 (100.0)	70,776 (100.0)	73,199 (100.0)	77,699 (100.0)	81,802 (100.0)	86,960 (100.0)	92,117 (100)

**Source:** Basic Statistical Returns of Scheduled Commercial Banks in India from 2000 to 2011  
Figures in the parentheses indicate percentage share of all scheduled commercial banks

From Table-3, it is observed that the total number of offices of the State Bank of India and its associates were 13,481 branches in 2000 which increased to 18,704 branches in 2011. Over the years the number of increase in branches was 5,223 branches. It is also noticed that the percentage figure of the State Bank of India and its associates Bank group in the Scheduled Commercial Banks in India throughout the period on an average was around 20 per cent. In case of nationalized bank group, there were 33,623 branches in 2000 which increased to 45,450 branches in 2011. During the study period there has been an increase of 11,827 branches in the nationalized bank group. In case of nationalized bank group also the percentage figure throughout the study period was around 50 per cent. Similarly there were 187 numbers of foreign banks in 2000 which is 0.3 per cent of all scheduled commercial banks in India and it increased to 301 numbers of branches maintaining the same figure of 0.3 per cent in 2011. Over the years there has been an increase of 114 branches of foreign banks in India. In case of Regional Rural Banks there were 14,639 branches in 2000 which increased to 15,898 branches in 2011. Although there has been an increase of 1,259 numbers of branches over the years, the percentage figure reveals that actually there is decline in percentage terms of the group from 21.8 per cent to 17.3 per cent during the study years. Similarly in case of private sector banks, there were 5,131 numbers of branches in 2000 which increased to 11,764 branches in 2011. In percentage terms it increased from 7.7 per cent to 12.8 per cent involving an increase of 6,633 branches

over the years. In all India level the numbers of scheduled commercial banks in 2000 was 67,061 branches which increased to 92,117 branches in 2011. Over the years, there is an adding of 25,056 branches in the scheduled commercial banks of India.

### Region-wise Scrutiny of the Scheduled Commercial Banks in India

To understand the region-wise spread of the offices of the scheduled commercial banks in India, data for the year 2011 have been collected and presented in Table-4.

In the region-wise arrangement as far RBI publications the entire country has been divided into six regions, and it is observed that the southern region which comprises of six numbers of states has the highest number of scheduled commercial bank offices with 25,814 branches. And it is followed by central region and northern region. It is also observed that north-eastern region has the lowest number of offices of the scheduled commercial banks in region-wise distribution. In the region there are only 2,378 branches which consist of seven states. It is even less than the average number of offices per states in all India level which is 2,631 branches by March 2011. In region wise classification central region is at the top level in per state average number of scheduled commercial bank branches which is having 4,548 branches and the north-eastern region has the lowest number branches per state with 339 branches on average.

**Table-4**  
**Region Wise Distribution of Schedule Commercial Banks in India, (March 2011)**

Sl. No	Region	Number of Offices SCB (March, 2013)	Number of states in the Region	Average number of offices of SCB per State
1	Northern Region	16,176	7	2,310
2	North-Eastern Region	2,378	7	339
3	Eastern Region	15,138	6	2,523
4	Central Region	18,194	4	4,548
5	Western Region	14,417	5	2,883
6	Southern Region	25,814	6	4,302
7	All India	92,117	35	2,631

**Source:** Basic Statistical Returns of Scheduled Commercial Banks in India, March 2011

**Table-5**

**Top Ten and Least Ten States in Terms of Number of Offices of Scheduled Commercial Banks in India, (March 2011)**

Sl. No	Top Ten States in terms of Number of Offices	Number of Offices	Least Ten States in terms of Number of Offices	Number of Offices
1	Uttar Pradesh	11,040	Sikkim	82
2	Maharashtra	8,816	Manipur	83
3	Andhra Pradesh	7,571	Arunachal Pradesh	86
4	Tamil Nadu	6,864	Nagaland	95
5	Karnataka	6,518	Mizoram	100
6	West Bengal	5,678	Meghalaya	221
7	Gujarat	5,073	Tripura	247
8	Kerala	4,690	Goa	470
9	Rajasthan	4,507	Jammu & Kashmir	1,041
10	Madhya Pradesh	4,453	Himachal Pradesh	1,077

**Source:** Basic Statistical Returns of Scheduled Commercial Banks in India, March 2011

From table-5 it is revealed that Uttar Pradesh stood in first position with 11,040 branches in top ten and Madhya Pradesh is the state having the lowest number of 4,453 branches in top ten numbers. Similarly, in case of lowest ten states with scheduled commercial banks branches, Sikkim has the minimum number of 82 branches and

Himachal Pradesh has the maximum number of 1,077 branches. It is also observed that all the states except Assam of the North Eastern region falls in the list of lowest ten categories of states as far as number of scheduled commercial banks branches is concerned.

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## Conclusion

Bank expansion does not mean complete financial reach to a region but it may be the beginning of financial inclusiveness. In 2000 there were 297 scheduled commercial banks in India but its number has decreased to 169 in 2011 which by and large indicates a drawback in the physical expansion of the banking industry and the tapping of financial resources. In the study period it is observed that the expansion of Regional Rural Banks in percentage terms in comparison to other groups is discouraging which has fallen from 21.7 per cent to 17.3 per cent. But over the years the expansion of the private sector banks is in very good position in comparison to other groups. It has increased from 7.7 per cent to 8.12 per cent over the years. In the study it is also seen that north-eastern region is still far behind the other regions in the physical expansion of banking branches in the country which requires immediate attention. The N.E region has only 2,378 offices in 7 states whereas the southern region has 25,814 offices in 6 states. It is also found that most of the states of the north-eastern region fall in the lowest ten states list with regards to the number of banking offices in the country as far as 2011 data. To have inclusive growth in the country, priority must be given for the optimum expansion of banking branches in the backward and needy areas in a rapid manner.

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