iJRASET
International Journal For Research in Applied Science and Engineering Technology



INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 12 **Issue:** XII **Month of publication:** Dec 2024

DOI:

www.ijraset.com

Call: 08813907089 | E-mail ID: ijraset@gmail.com

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Conference 'Technology and Knowledge Based Entrepreneur for Sustainable Industrial Development', held at Sridevi Women's Engineering College, Dec 2024

A Study on "Impact of Shadow Banking in India"

Mr. B. Sudhakar Reddy[1], Kandula Tejaswini[2]
[1]*Associate Professor,* [2]*MBA II Year, Sridevi Women's Engineering College, Hyderabad*

Abstract: ***Shadow banking has emerged as a significant component of India's financial system, with estimates suggesting its size to be over 50% of the country's GDP. Despite its growing importance, the sector remains largely unregulated, posing significant risks to financial stability. This study examines the impact of shadow banking on India's financial landscape, with a focus on its effects on credit inter-mediation, financial inclusion, and systemic risk. Using a combination of qualitative and quantitative methods, our research reveals that shadow banking has increased access to credit for under served populations, but also poses significant risks to financial stability due to its opaque nature and lack of regulatory oversight. The study concludes with recommendations for policymakers to strengthen regulations and improve oversight of the shadow banking sector, while also promoting its positive aspects.Whereas the origins of shadow bank might be the drawn back to the 1970s, and the development of shadow banks in underdeveloped nations has exploded in recent decades. Secondary sources of data are utilized to study patterns in Indian shadow banking, uncover systemic issues in the business, and propose regulatory solutions.The rapid growth of the market-based financial system since the mid-1980s changed the nature of financial inter-mediation. Within the market-based financial system, "shadow banks" have served a critical role.***

Keywords: Shadow banking, India, financial stability, credit inter-mediation, financial inclusion.

I. INTRODUCTION

The Indian financial system has undergone significant transformations in recent years, with the emergence of shadow banking as a key component. Shadow banking, which refers to financial activities that take place outside the traditional banking system, has grown exponentially in India, driven by the increasing demand for credit and the need for alternative financial services.Despite its growing importance, the shadow banking sector in India remains largely unregulated, posing significant risks to financial stability. The lack of regulatory oversight and transparency has led to concerns about the sector's impact on the overall financial system.This study aims to investigate the impact of shadow banking on the Indian financial landscape, with a focus on its effects on credit inter-mediation, financial inclusion, and systemic risk. By examining the role of shadow banking in India, this research seeks to contribute to a deeper understanding of the sector's implications for financial stability and economic growth.

II. OBJECTIVES

1) To know the impact of shadow Banking in India.
2) To Identify the risks of shadow Banking in India.
3) To understand the importance of Shadow Banking.

III. REVIEW OF LITERATURE

A. Credit Intermediation

1) A study by the Reserve Bank of India (RBI) found that shadow banking entities have increased access to credit for households and businesses in India (RBI, 2020).
2) Research by the International Monetary Fund (IMF) highlighted the role of shadow banking in providing credit to the informal sector in India (IMF, 2019).

B. Financial Inclusion

1) A study by the National Institute of Public Finance and Policy (NIPFP) found that shadow banking has improved financial inclusion in India by providing access to credit for under served populations (NIPFP, 2018).
2) Research by the Indian Institute of Management (IIM) highlighted the role of shadow banking in promoting financial inclusion in rural India (IIM, 2017).

©IJRASET: All Rights are Reserved

C. Systemic Risk

1) A study by the Financial Stability Board (FSB) found that shadow banking poses significant systemic risks to the Indian financial system due to its opaque nature and lack of regulatory oversight (FSB, 2018).

2) Research by the Indian School of Business (ISB) highlighted the potential for shadow banking to amplify financial shocks and contribute to systemic instability (ISB, 2016).

D. Regulatory Framework

1) A study by the RBI found that the lack of a comprehensive regulatory framework for shadow banking in India poses significant challenges for financial stability (RBI, 2020).

2) Research by the National Stock Exchange (NSE) highlighted the need for strengthened regulations and oversight to mitigate the risks associated with shadow banking in India (NSE, 2019).

IV. RESEARCH METHODOLOGY

This research methodology done by using following methods about the "Impact of shadow banking in India".

A. Research Design

1) Mixed-methods approach: Combine quantitative and qualitative methods to provide a comprehensive understanding of the impact of shadow banking in India.

2) Explanatory research design: Aim to explain the relationships between shadow banking and its impact on the Indian economy.

B. Data Collection

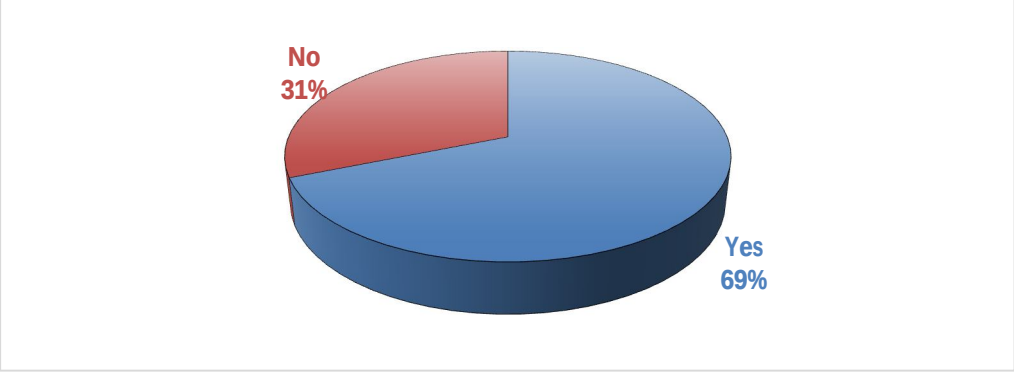
1) Secondary data sources: Utilize existing data from reputable sources, such as:
- Reserve Bank of India (RBI)
- Securities and Exchange Board of India (SEBI)
- National Stock Exchange (NSE)
- Bombay Stock Exchange (BSE)

2) Primary data collection: Conduct surveys, interviews, or focus groups with:
- Shadow banking entities (e.g., NBFCs, HFCs)
- Regulators (e.g., RBI, SEBI)
- Industry experts
- Borrowers (e.g., households, businesses).

V. DATA ANALYSIS AND INTERPRETATION

1) Are you aware about shadow banking?

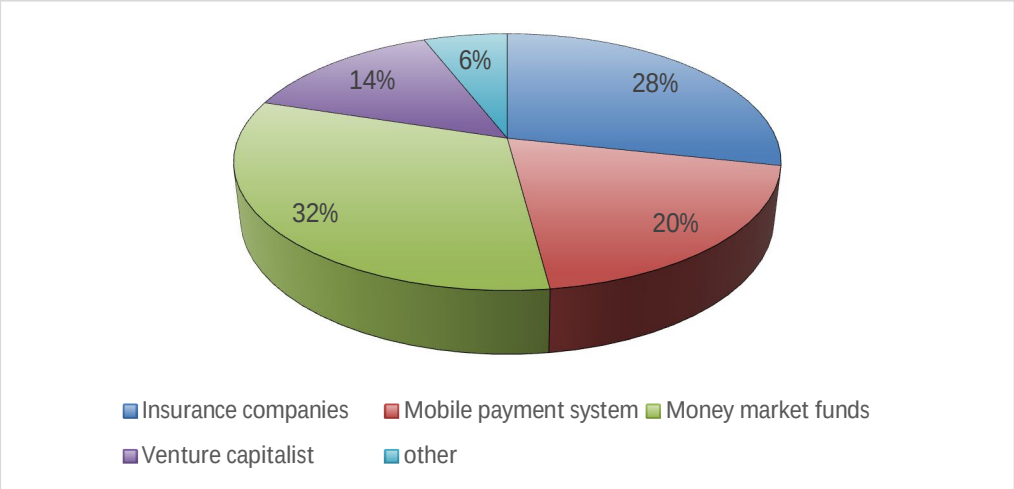
Options	Count	%
Yes	62	69
No	28	31



Interpretation: Out of 90 responses there is 69% of the respondents aware about the shadow banking and while,remaining 31% of the respondents unaware about the shadow banking.

2) Which of the following shadow banking activities are you familiar with?

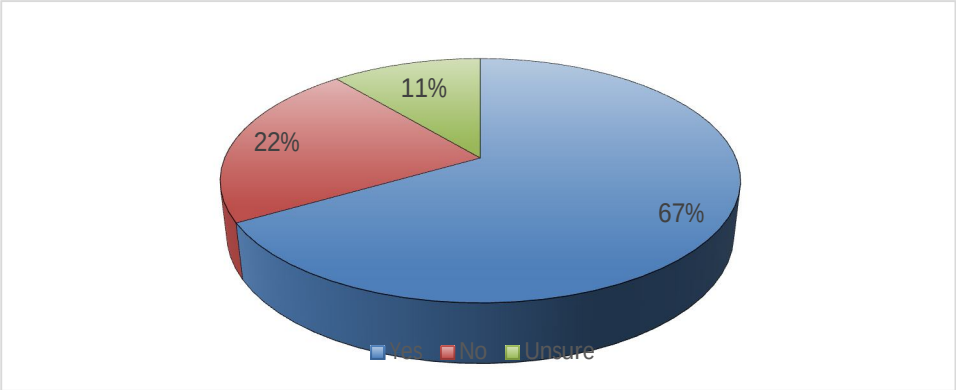
Activities	Count	%
Insurance companies	48	28
Mobile payment system	33	20
Money market funds	54	32
Venture capitalist	24	14
other	10	6



Interpretations: The responses of familiarity with shadow banking reveal a varied understanding about the shadow banking in India.32% respondents familiar with money market funds and 28% respondents familiar with insurance companies & 20% with mobile payment system and 14% with venture capitalist and 6% of respondents familiar with other activities.

3) Do you think shadow banking has a significant impact on the Indian economy?

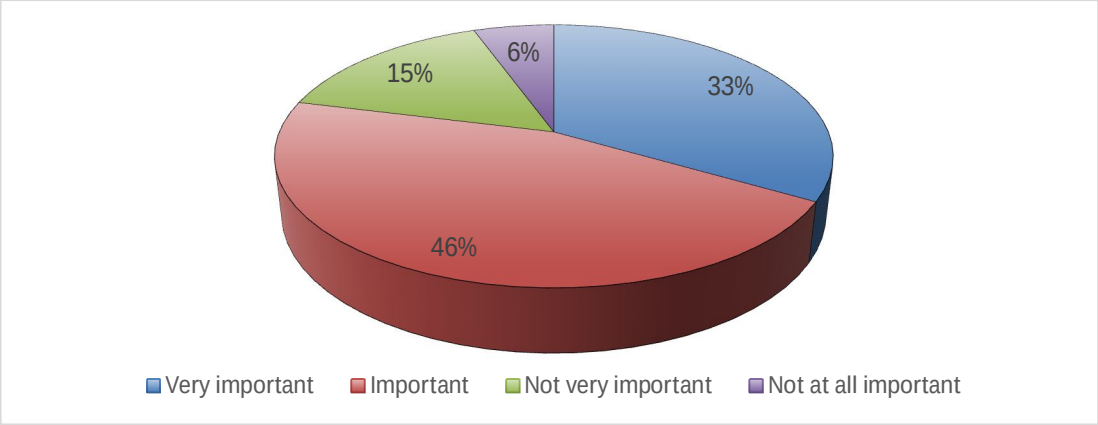
Options	Count	%
Yes	60	67
No	20	22
Unsure	10	11



Interpretation: Out of 90 responses 60% of the respondents saying yes for the shadow banking has a significant impact on the Indian economy. And 22% of the respondents saying no and 11% of the respondents unsure about the impact of shadow banking in India.

4) How important is shadow banking in providing credit to households& businesses?

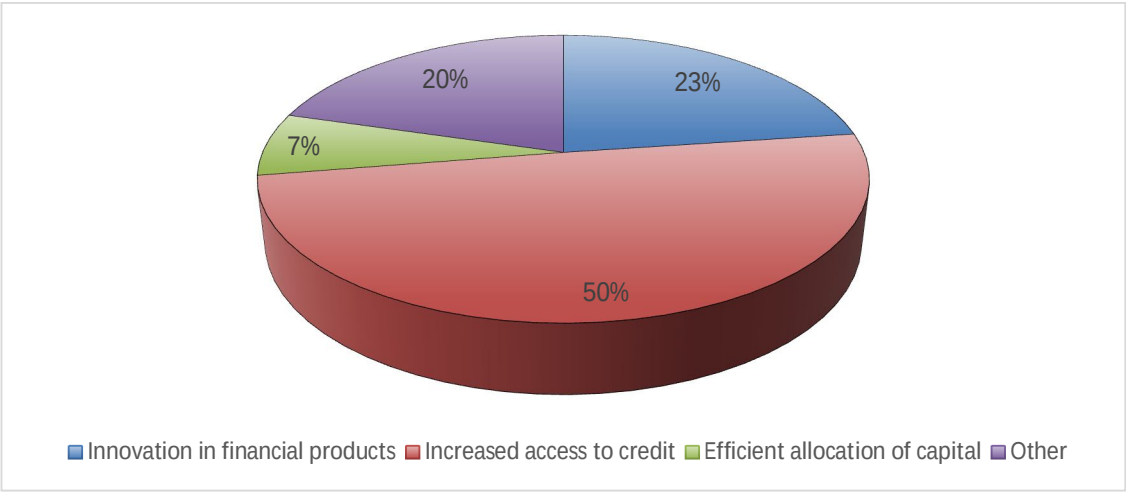
Options	Count	%
Very important	30	33
Important	41	46
Not very important	14	16
Not at all important	5	5



Interpretation: The responses about importance of shadow banking in providing credit to households &businesses reveals a varied understanding among individuals. From the received responses 46% for important and 33% for very important and 16% for not very important and 5% for not at all important.

5) What are the benefits of shadow banking in India?

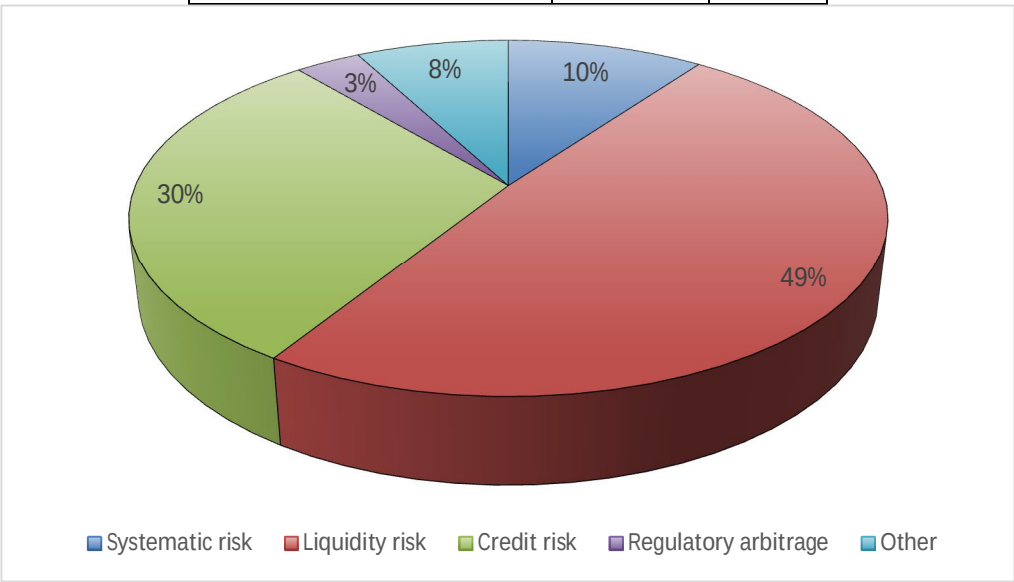
Optins	Count	%
Innovation in financial products	29	23
Increased access to credit	63	50
Efficient allocation of capital	9	7
Other	26	20



Interpretation: From given benefits there is 50% of increased access to credit benefits and 23% of innovation in financial products and 7% of efficient allocation of capital benefits and 20% of other benefits of shadow banking in India.

6) What is the main risk associated with shadow banking?

RISKS	Count	%
Systematic risk	9	10
Liquidity risk	44	49
Credit risk	27	30
Regulatory arbitrage	3	3
Other	7	8



Interpretation: According to the data by respondents there is 49% of high Liquidity risks associated with shadow banking in Indian economy and 30% of credit risks &10% of systematic risks & 3% of regulatory risks.While,remaining other risks 8%.

VI. FINDINGS

A. Credit Intermediation

1) Increased access to credit: Shadow banking has increased access to credit for households and businesses in India, particularly in rural areas.

2) Higher credit growth: Shadow banking entities have contributed to higher credit growth in India, with credit growth rates exceeding those of traditional banks.

3) Riskier lending practices: Shadow banking entities have been found to engage in riskier lending practices, including lending to subprime borrowers and charging higher interest rates.

B. Financial Inclusion

1) Improved financial inclusion: Shadow banking has improved financial inclusion in India by providing access to credit for undeserved populations, such as low-income households and small businesses.

2) Increased penetration in rural areas: Shadow banking entities have increased their presence in rural areas, providing access to credit and other financial services to rural populations.

3) Higher usage of digital channels: Shadow banking entities have been found to use digital channels more extensively than traditional banks, increasing financial inclusion and access to credit.

©IJRASET: All Rights are Reserved

C. *Systemic Risk*

1) Increased systemic risk: The growth of shadow banking in India has increased systemic risk, particularly due to the lack of regulatory oversight and the use of complex financial instruments.
2) Interconnections with traditional banks: Shadow banking entities have been found to be interconnected with traditional banks, increasing the risk of contagion and systemic instability.
3) Liquidity risks: Shadow banking entities have been found to be vulnerable to liquidity risks, particularly during times of financial stress.

D. *Regulatory Challenges*

1) Lack of regulatory oversight: The lack of regulatory oversight has been Identified as a major challenge in regulating shadow banking entities in India.
2) Inadequate data: The lack of adequate data on shadow banking entities and their activities has made it challenging to regulate the sector effectively.
3) Coordination challenges: The coordination challenges between different regulatory agencies have been identified as a major challenge in regulating shadow banking entities in India.

VII. SUGGESTIONS

1) Create a single regulatory body to oversee all shadow banking entities.
2) Mandate regular disclosure of financial information by shadow banking entities.
3) Implement risk-based regulations that take into account the specific risks associated with different shadow banking activities.
4) Enhance the monitoring and surveillance of shadow banking entities to detect potential risks.
5) Conduct regular inspections of shadow banking entities to ensure Conduct compliance with regulations.
6) Establish a mechanism for whistleblowers to report suspicious activities.
7) Create a public registry of shadow banking entities to improve transparency.
8) Mandate transparency in lending practices, including disclosure of interest rates and fees.
9) Establish a credit bureau to collect and share credit information on borrowers.
10) Establish a macroprudential policy framework to mitigate systemic risk.
11) Implement counter cyclical capital buffers to require shadow banking entities to hold more capital during periods of economic growth.
12) Establish a resolution mechanism for shadow banking entities to ensure orderly resolution in case of failure.
13) Encourage digital lending to increase access to credit for underserved populations.
14) Support microfinance institutions to increase access to credit for low-income households.
15) Establish a financial literacy program to educate borrowers about responsible borrowing practices.By implementing these suggestions, India can promote a more stable and inclusive financial system, ultimately contributing to the country's economic growth and development.

VIII. CONCLUSION

The growth of shadow banking in India has had a significant impact on the country's financial landscape. While shadow banking has increased access to credit and improved financial inclusion, it also poses significant risks to financial stability.The implementation of robust regulations, enhanced oversight, and improved transparency, the risks associated with shadow banking can be mitigated. The government and regulatory bodies must work together to establish a comprehensive regulatory framework that addresses the unique risks posed by shadow banking. Ultimately, the key to promoting financial stability and inclusion in India lies in striking a balance between regulating shadow banking and encouraging its positive aspects. By doing so, India can harness the benefits of shadow banking while minimizing its risks.

REFERENCES

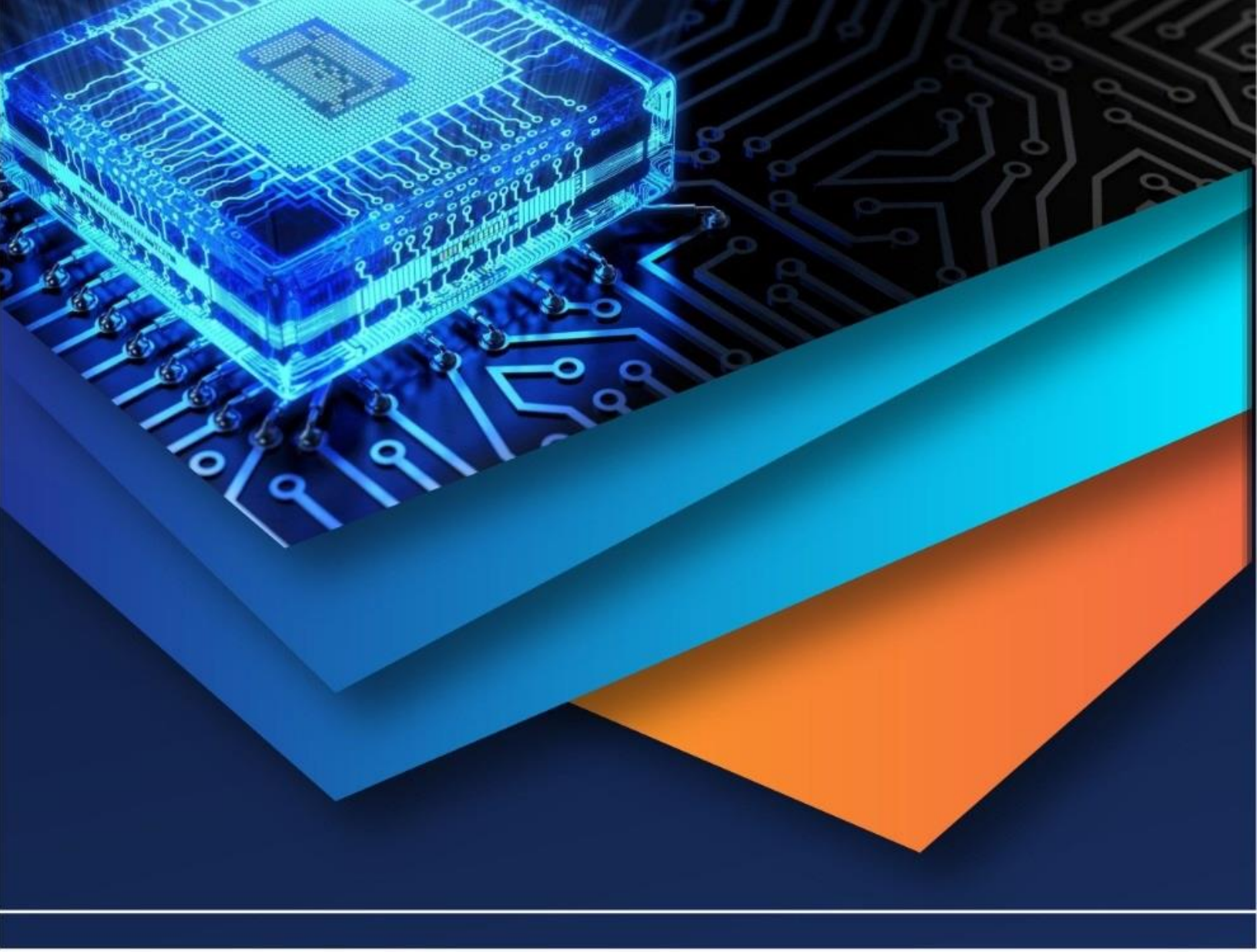
Academic Journals
[1] "Shadow Banking in India: A Review" by S. S. Singh and A. K. Giri, published in the Journal of Financial Management and Analysis (2019).
[2] "The Impact of Shadow Banking on Financial Stability in India" by R. K. Sharma and S. K. Singh, published in the Journal of Banking and Financial Economics (2020).
[3] "Shadow Banking and Financial Inclusion in India" by A. K. Jain and S. S. Yadav, published in the Journal of Financial Inclusion (2018).

Reports

[1] "Report on Trend and Progress of Banking in India" by the Reserve Bank of India (2020).
[2] "India: Financial Sector Assessment Program" by the International Monetary Fund (2019).
[3] "Shadow Banking in India: A Review" by the National Institute of Public Finance and Policy (2018).

Online Resources

[1] "Shadow Banking in India" by the Reserve Bank of India (2020).
[2] "India's Shadow Banking Sector" by Bloomberg Quint (2020).
[3] "Shadow Banking in India: A Growing Concern" by The Economic Times (2019).



10.22214/IJRASET

45.98

IMPACT FACTOR: 7.129

IMPACT FACTOR: 7.429

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Call : 08813907089 (24*7 Support on Whatsapp)