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The Concept of Social Banking - Indian Perspective

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ABSTRACT

A major portion of the Indian population resides in villages and rural areas. With the mainstream banking practices the poor population is neglected and marginalised of the benefits and financial services directly hampering the economic growth of the country. Social banking concept has been the highlight after the economic crisis which resulted in lack of savings, poverty and unemployment. The idea of social banking was introduced through banking reforms to ensure banking for the marginalised population, developmental needs, easy access to regularised credit, minimum requirements to open accounts etc. Thus, shifting the orientation of policies towards serving the common mass is known as social banking.

The Article starts with a brief idea of the historical background which resulted in the concept of social banking and reforms associated with it after independence. It further discusses the meaning and scope of social banking and its evolution over the period of time in different phases through various schemes introduced by the Government. It also distinguishes social banking with commercial banking. The third part deals with the pitfalls of social banking and the price paid due to its inclusion in financial policies. The last part deals with the new phase of social banking introduced in the form of the Financial Inclusion policy by the government. It also briefly covers the latest developments and policies introduced to meet the socialistic goals followed by conclusion and references.

***Keywords** - Social Banking, Economy, Development, Financial Inclusion, RBI, Banking, Reforms etc.*

I. INTRODUCTION – HISTORICAL BACKGROUND

(A) Better the village, better the nation

India is a welfare state and its policies are aimed to achieve the socialistic pattern of living for the residents. After independence, the country adopted a mixed economy system with headstrong public sector and vital private sector undertakings. These sectors cover the social, economic and welfare sectors of the country. The development of the economy of the country

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is covered by the financial sectors. Banks, Financial institutions, Cooperatives are a part of the financial sector. The banking sector is a key constituent of the country's economy. It aims to serve the basic social and economic goals and prevent monopolistic tendencies, concentration of power and improper use of resources.

(B) Banking sector reforms

In 1955, the Imperial Bank of India was nationalized and named as "State Bank of India" under the State Bank of India Act, 1955. Its role was to act as the principal agent of RBI and handle banking transactions all over the country. Seven other banks forming subsidiaries of State Bank of India were nationalized in 1960. The **V. V. Pai Anandikar's** Report to the government of India highlighted the fact that new entrepreneurs and businesses had not been able to secure adequate credit from the banking system. The banks had failed to cater to the requirements of agriculturists and small industrialists. Such that to overcome these defects the report recommended social control of banks. Social control of banks was expected to -

1. Improve the position of agriculturists and small industrialists.
2. Enable the government to effectively implement the Five Year Plans.
3. Bring about wider representation in the boards of Directors of banks and in the actual decisions with respect to advances.

This led to passing of the Banking Laws (Amendment) Bill, 1967. However, in 1969 and 1980 respectively fourteen major private banks and six other banks were nationalized. The aim was to make them direct their activities for the development of society, instead of concentrating on profits i.e. to achieve the socialistic goal enshrined in the Preamble of Indian Constitution. By the year 1980 almost 80% of the banking sector in India was under government's ownership. After nationalization the Indian banking system had wide-spread branch expansion especially in rural and semi-urban areas, Lead bank scheme, Service Area Approach etc. All these developments primarily stemmed from the socialization of banking. While these developments made banking services easily accessible to the masses, especially the weaker sections of the society, there was a growing concern regarding the deterioration of the banking services. The main objective was to control the heights of the economy, to meet progress and to better serve the needs of development of the economy in conformity with national policy and objectives.

With the adoption of New Economic Policy, 1991 the Government appointed Narasimham Committee to make recommendations for revamping the functioning of commercial banks in India. As a result of the suggestions, the Banking Regulation Act was amended in 1993 which opened gates for the new private sector banks. These branches of nationalized banks are working as what is called social banking. Social banking promotes a direct impact of credit on the distribution of income such that welfare is ensured which is different from the commercial banking system where the concentration is more on profit maximization, efficiency and economic growth. Thus, the banks are now expected to function as instruments of social banking with sustained profitability.

From 1977 to 1979, Commercial Banks were told that for each branch set up in a metropolitan or port region, four ought to be set up in unbanked rural areas. In June 1969 and December 1985 the all out number of Commercial Bank offices developed from 8262 to 52,398 (counting 12,606 Regional Rural Bank offices). The quantity of rustic branches expanded from 1833 to 30,944.

II. MEANING - SOCIAL BANKING

Dr. Roland Benedikter defined social banking as 'banking with a conscience.' The main focus of the banking sector is on putting resources into local areas, giving freedoms to the hindered, and supporting social, ecological and moral planning. Banks currently underscores on accomplishing triple main concern of benefit, individuals and planet. Social finance represents the focal point of the different exercises of commercial banks towards the up-liftment of poor people and discouraged with the aim of accomplishing a socialistic example of society. For example - Government-sponsored credit programmes and disbursement targets for Weaker Sections.

The role of the state here is to influence the allocation of credit by social class.

The three main objective of social banking are –

- **A.** Equity
- **B.** Economic Growth and welfare objectives
- **C.** Financial viability

III. EVOLUTION OF SOCIAL BANKING

The evolution of social banking in India can broadly be traced into three phases -

1. During the First Phase (1960-1990) i.e nationalization of banks in which the main focus was on providing credit to the neglected sectors especially weaker sections of the society through branch multiplication of commercial banks and Priority Sector Lending.

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Era of Government sponsored credit programmes

In order to continue the intervention in the credit delivery system, the Indian Government has promoted special programmes in an attempt to broaden the base of credit demand in rural areas. Some Examples are -

1. Massive Agricultural Production Programme launched in 1983 to promote investment in minor irrigation
2. Special Scheme for Biogas launched in 1973
3. Self-Employment Scheme for Educated Unemployed Youth (SEEUY) launched in 1983
4. Self-Employment Programme for the Urban Poor (SEPUP) launched in 1986
5. Integrated Rural Development Programme (IRDP) introduced on a pilot basis in 1978 and extended to the whole country in 1980 under the Sixth Five Year Plan.

2. Second Phase (1990-2005) zeroed in basically on fortifying the monetary foundations as a piece of monetary area changes. This period saw the coming up of Self Help Group (SHG), Bank Linkage Program and Kisan Credit Cards (KCC). Later, Self-improvement Gathering Bank Linkage Program was dispatched by NABARD in 1992, supported by Reserve Bank of India, to help strengthen cohesive exercises by poor people in order to give them simple admittance to banking.

3. During the third stage for example from 2005 onwards, the monetary incorporation was broadly practiced on public level with fundamental accentuation on giving essential financial offices through NFAs.

IV. MAJOR SOCIAL BANKING SCHEMES

1. Village Adoption Scheme

This scheme involved adoption of a particular village to cater to financial needs of the targeted population with formulation of projects, infrastructure development etc.

2. Service Area approach

It was introduced in 1989 with the objective of planned development in banking services so that all the targeted population is covered in a given area in coordination with the urban banks and rural banks. It led to development of each area with micro level financing.

3. Lead Bank scheme

It was introduced in 1969 with the objective to supply credit in a district and assist at primary lending services with a lead bank in motion.

4. Priority Sector Lending

This was introduced as part of implementation of First five year plan goals i.e. growth of agriculture sector, village development, irrigation etc.

5. Differential Rate of interest scheme

It was introduced in 1972 to provide a reasonable rate of interest to low income groups in population to achieve the welfare objection and growth of production. This also involved monitoring the consumption of the loans provided.

6. Micro Financing

It involved giving small credit loans to poor and backward populations. The idea was introduced by Muhammad Yunus. This is done through the establishment of Grameen Bank, Self help groups, NGOs etc.

V. PRICE OF SOCIAL BANKING

1. India's post nationalization mass financial projects declined into libertarian plans which monetarily destroyed the banks. The government officials might be not able to oppose the short-run prizes to modest credit arrangements - invigorating extension of supply, yet driving banks to work at a misfortune, disintegrating their capital base and driving them over the long haul to insolvency or ongoing reliance upon the state. Hence coming into play of government officials with monetary area.

2. Credit ought to be utilized as an instrument of reallocation instead of the more ordinary techniques like tax collection, government backed retirement, work conspires, etc. Opening new branches in country zones without appropriate execution, development, arranging and management of end utilization of credit or making of essential foundation offices implied that branches stayed simple flag posts.

3. In a developing country like India, post financial reforms and crises, it is not enough just to provide credit for production to the masses. Production itself must be increased with the adoption of improved skills, access to markets and inputs and technology advancement coupled with individual growth. This idea of social revolution resulted in the setting up of a counter revolution. One such example is the failure of the IRDP incentive which in itself accounted for 40% of the losses incurred by commercial banks.

4. Excess supply of credit (comparative with accessible venture openings) brings about low capital base, lower benefit and gradual pay per advance, on account of market immersion, deficiency of sources of info and High level of Non performing resources. This thus makes borrowers reimburse less and, in the event that credit supply is decreased accordingly, a negative input framework to such an extent that like an advance waiver of 1989 which was a topping on the cake.

VI. From social banking to financial inclusion

The middle and low-income households in villages and urban areas do not just require credit but also access to a wide range of services, including skill development, insurance, savings, access to inputs and remittances giving idea towards a formal policy of financial inclusion to be adopted by the government. While the goals of both social banking and financial inclusion are similar i.e. to achieve the welfare objectives and socialistic goals, one important difference between both is that the inclusive credit financial inclusion model also aims to provide households full access to a suite of financial services unlike social banking.

It involves two broad initiatives –

1. Opening of basic bank accounts for all unbanked households
2. The business correspondent (BC) model i.e promotion of agent-based banking.

This is done in furtherance to social banking i.e. in order to extend banking access. The government mandate required banks to establish bank branches in all villages with over 2000-3000 population and resident citizens. In 2005, the Reserve Bank of India (RBI) compelled banks to offer a basic banking No Frills Account either with zero or low minimum balance maintenance. In 2006 the RBI started with the concept of Business Correspondents.

VII. Recent developments

The Pradhan Mantri Jan-dhan Yojana (PMJDY) was launched on 15 August 2014. According to the project, every citizen in the country will need to have a bank account or one bank account in every household, irrespective of his or her income level. Apart from the credit facilities it will also help people overcome money laundering activities. Moreover, account holders will receive RuPay Debit Card along with Rs 1,00,000/- accident cover policy. Apart from opening the account itself, offering literacy about finances is a major integral part of the mission. The literacy program will provide the beneficiaries with the necessary knowledge to use the financial services made available to them.

Institute for Development & Research in Banking Technology (IDRBT) along with National Payments Corporation of India (NPCI) are working to contribute continuously by offering new technology products meant for the banking industry. One such is the Core banking solution which promoted the use of NEFT, RTGS, Internet Banking, Mobile Banking and ATMs. Furthermore the latest products such as e-KYC, AEPS, and IMPS, mobile banking and electronic wallet will help tap the potential of the left out population across the country.

Many committees have been formed in the past to work on financial inclusion. Recent recommendations of the NachiketMor committee have opened up the idea of licensing new types of banks such as Small Finance Banks and Payments Banks by RBI. The recent committee report by Deepak Mohanty on Medium-term path on financial inclusion talks about a five year measurable action plan for financial inclusion.

VIII. CONCLUSION

The concept of social banking has been created since nationalization of the Commercial Banks in India. It lies on the target of shaping a coordinated monetary framework with a public inclusion, fit for reacting viably to numerous administration strategy destinations, yet saving a sound capacity to oppose neighbourhood political pressing factors. The fundamental goal is assignment of assets to the denied, disposing of restraining infrastructure of personal business houses and corporate families on banks, expanding banking the nation over and lessening regional imbalances. However this system suffered a backlog with change of administrative and political circumstances such that it was used as a means of vote bank politics, large scale corruption in implementation of schemes and improper planning. As a result of which the banking and economic institutions suffered major losses due to non recovery of loans and less credit flow. The situation was controlled with substituting other schemes like the idea of Financial Inclusion. It was done to ensure that all citizens and every household become a part of financial service, receiving at the end all the benefits for their growth and thereby resulting in economic growth of the country. Thus the idea of development can be ensured not just with credit availability but also inclusion of financial services like access to inputs, financial knowledge, skills and technology.

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