EVOLUTION OF SOCIAL BANKING IN INDIA: ACCOMPLISHMENTS AND CHALLENGES

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ABSTRACT

Connectivity to banking services is major factor impacting sustainable and inclusive growth. Banking sector needs to function with a social conscious apart from business point of view if the economy has to come out of poverty and inequalities. Lot of initiatives has been taken on international level as well as on national front since independence, in India. Reserve Bank of India in collaboration with specialized financial institutions like NABARD has designed and implemented specialized efforts to enhance financial deepening and widening. The numerical targets set have been achieved to a large extent by banking sector in this regards. But the effectiveness of the task done and sufficiency of the efforts taken still needs to be deliberated.

KEYWORDS: Social Banking, Financial Inclusion, Composite Index of Financial Inclusion, Priority Sector Lendings, Self Help Groups and Bank Linkage, No Frill Accounts, Swarnajayanti Gram Swarojgar Yojana, General Credit Cards, Brick and Mortar Branch, Delivery Channels

INTRODUCTION

Banking plays a fundamental role in economic progress of a country. It inculcates the habit of savings among people, hence helps in boosting the investment base and speeding up the capital formation. At the same time it also helps out the needy, by providing them timely credit at an affordable cost. But majority of poor rural and semi urban population in India are unable to avail the basic banking facilities. As a result they are made to rely on private money lenders, charging exorbitant interest rates and are trapped in vicious circle of debt. Since independence, the efforts of the Government have revolved around expanding financial institutions to rural and unbanked areas, so as to increase access to formal credit in rural underdeveloped regions. Banks were supposed to concentrate on rendering service to underprivileged people, living below poverty line, and cover more and more unbanked areas rather than just concentrating on their own profitability. Social banking policies were made to shift the focus of commercial banks from ‘selective banking’ to ‘mass banking’. Social banking is rightly defined by Dr Roland Benediktar (2011) as banking with a conscience. Here the bank focuses on investing in community, providing opportunities for the disadvantaged, and supporting social, environmental and ethical agenda. Rather than just concentrating on traditional bottom line i.e. profits, bank emphasizes on achieving triple bottom line of profit, people and planet.¹
Rationale of the Study:-
A lot has been talked and done in national and international scenario so as to increase the outreach of banking connectivity. Many economists and financial experts believe that widely and evenly spread financial services will lead to reduction in disparities, strengthening and supporting economic activities of the poor which will ultimately result in sustainable and inclusive economic growth of a country.

The paper intends
- To enumerate important Social Banking initiatives taken in India since independence.
- To enlist various social banking initiatives taken up across the globe.
- To understand importance of basic banking facilities in economic growth of a country.
- To find out the coverage of major landmark programs implemented so far.
- To comment on the effectiveness of the important social banking key initiatives taken up in India.

The study is based on various data accumulated from the publications of RBI and NABARD as well as data displayed on official sites of RBI and NABARD.

Review of Literature: -
In her speech “Financial Inclusion – The Indian Experience” at DFID Financial Inclusion Conference 2007 on June 19, 2007 , Whitehall Place, London, UK, Usha Thorat, Deputy Governor, Reserve Bank of India has elaborated the approach to Financial Inclusion in developing countries like India. She has highlighted the reasons like hilly and sparsely populated areas with poor infrastructure, lack of awareness, low income/assets, and social exclusion, illiteracy, distance from branch, branch timings, tedious documentation Procedures, unsuitable products, language, staff attitude for widespread financial exclusion. On the other hand, the ease of availability of informal credit sources makes these popular even if costlier. According to her the requirements of independent documentary proof of identity and address can be a very important barrier in having a bank account especially for migrants and slum dwellers.

Nirupam Mehrotra, Dr. V. Puhazhendhi, Gopakumaran Nair G, Dr. B. B. Sahoo, (2009), in their Paper on ‘FINANCIAL INCLUSION -AN OVERVIEW’ have stated that despite the creditable achievements in the field of rural banking, issues such as slow progress in increasing the share of institutional credit, high dependence of small and marginal farmers on non-institutional sources, skewed nature of access to credit between developed regions and less developed regions appear larger than ever before. Therefore, the key issue now is to ensure that rural credit from institutional sources achieves wider coverage.

Singh, Shravan Kumar, (Sept 2010), in his article “Economic Growth and Financial Inclusion in India: An Analysis”, notes that growth with equity has been central objective right from inception of planning process, in India. He further explains that farming, micro, small and medium enterprises have immense potential to play a critical role in achieving the objective of faster and more inclusive growth.
Shah, Neha, (2010), in her article “Can Micro Finance Provide A Sustainable Solution for Poverty? Some Empirical Evidences from Gujarat’ observes that assistance under micro credit is growing rapidly in India. She further says that loans disbursed by SIDBI and NABARD have grown at the rate of 84.4% and 65.2% respectively during 2004-05 and 2005-06. The two models of RBI, Self Help Group (SHG) and Bank Linkage Programme (SBLP) have already achieved the target to reach 100 million poor by 2007-08. She highlights that banks are willing to do business with poor, believing it as a new source of deposits for banks.

Dr Gupta, Radha, (2011), in her paper on “Micro Finance: A Social Innovator” emphasizes the need to have more dissemination and adoption of rural agricultural microfinance methodologies, as majority of population belongs to rural area. She further states that no country can afford to ignore substantial population suffering from poverty as it can be costly for the growth of economy.

Mr. Balbir Singh in his article ‘Financial Inclusion –Role Of Banking Industry ’ in The Management Accountant, Volume 47 No., 1 January 2012 says that an inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process. Banks that have global ambitions must meet local aspirations. Financial access will also attract global market players to our country that will result in increasing employment and business opportunities. If we look at the progress that has been achieved, banks are able to scale up and sustain their efforts, India is quite hopeful that the targets set by the banks and objectives of achieving universal financial inclusion are attainable.

Tara Thiagaraja, Chairperson, Madura, Microfinance in article ‘Micro Finance: Time To Move Towards Financial Inclusion’ dated Jan 27, 2012, states that the financial inclusion agenda so far has been largely focused on redistribution of wealth while what is required is inclusion in the creation of wealth. Financial inclusion so far has meant debt distribution and no-frill bank account. Microfinance lending in India is directed almost entirely at women. This has its benefit in empowering in the management of household finances.

**Progress of Social Banking so far:-**

In India, since independence, social banking has evolved through various stages and undergone many versions.

The Social Banking era in India can said to be originated from nationalization of banks. Fourteen commercial banks were nationalized on 19th July 1969 with the main objectives of allocating funds to the deprived so as to enhance social welfare, eliminating the monopoly control of private business houses and corporate families on banks, extend banking across the country, reducing regional imbalances etc.

The second significant landmark in social banking was branch multiplication in license raj. Here for obtaining a license to open a branch in banked area, a commercial bank was asked to open 4 branches in unbanked region. Because of this 1:4 license rule, there was tremendous increase in branches of banks. The number of branches increased to nearly about 60,000 and banking locations increased from 5,000 to 25,000.
Thirdly commercial banks were asked to divert 40% of their advances towards priority sector. Priority sector lending included short, medium and long term credit to agriculture, small scale industries, tiny units, artisans, village and cottage industry, retail trade, small road and water transport operator, professional and self employed persons and loan for education etc.

Similarly different schemes were provided like Laghu Udhami Credit Card Scheme, Swarojgar Credit Scheme, Kisan Credit Scheme and National Equity Fund to support projects of small entrepreneurs.

Different specialized banks like National Bank for Rural Development and Regional Rural Banks were established to serve the Indian Population living in rural areas. Initiatives like Lead Bank Scheme, Service Area Approach and Self Help Groups – Bank Linkage Programmes also helped in same cause.

Financial Inclusion - Social Banking in Mission Mode:-

The countries with majority of population excluded from the formal financial system show higher poverty ratios and higher inequality (Thorat, 2008).

In June 2006, a committee under chairmanship of Dr C Rangarajan was formulates to study Financial Inclusion in larger perspective.

Committee on Financial Inclusion (Chairman: C Rangarajan, 2008) defines financial inclusion as the “process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”.

Thus Financial Inclusion laid emphasis on availability of credit, at an affordable cost, to the impoverished sections of the society. Financial inclusion is very essential and is termed as ‘quasi public good’ being non-excludable service in contemporary situation.

Extensive program of “Financial Inclusion” was drafted and launched on national front for widening and deepening of banking facilities with the help of technology. Hence social banking evolved in Financial Inclusion drive. This program included techniques like promotion of no frill accounts, simplification of ‘Know your Customer’ norms, easier credit facilities through general purpose credit card, appointment of rural mediators, use of smart cards and telebanking, micro insurance, spread of financial knowledge through financial literacy and credit counseling centres.

Based on the report of Rangarajan committee, two funds ‘Financial Inclusion Fund’ and ‘Financial Inclusion Technology Fund’ of Rs 500 crores each were created with NABARB for comprehensive execution of Financial Inclusion. Commercial Banks were asked to add 250 rural household to their service web every year. Banks were suggested to appoint retired Bank Officials and ex servicemen as business facilitators or credit counselors, to help them in course. Under National Rural Financial Inclusion Plan the Government has asked banks to provide banking facilities to villages having a population over 2000 by March 2012. By the end of 2015 even the villages with population below 2000 are intended to be covered.
Financial Inclusion in India has three major aspects namely access to financial markets, credit markets and financial awareness. It intends to cover the facilities like savings facility, credit and debit card access, electronic fund transfer, commercial loans, overdraft facility, cheque facility, low cost financial services, insurance, financial advice etc.

Thus the process of social banking in India can broadly be classified into three phases.

(i) During the First Phase (1960-1990), after nationalization of banks wherein main emphasis was on channeling of credit to the neglected sectors especially weaker sections of the society through “branch multiplication and Priority Sector Lending”.

(ii) Second Phase (1990-2005) focused mainly on strengthening the financial institutions as a part of financial sector reforms. During this period social banking was exercised mainly through Self Help Group (SHG) Bank Linkage Programme and Kisan Credit Cards (KCC) etc. Self Help Group (SHG) Bank Linkage Programme was launched by NABARD in 1992, backed by Reserve Bank of India, to assist cohesive group activities by the poor so as to provide them easy access to banking.

(iii) During the third phase i.e. from 2005 onwards, the financial inclusion was extensively exercised on national level with main emphasis on providing basic banking facilities through no frill accounts.

Financial Inclusion Global Perspective:

Financial Inclusion movement is not only confined to developing countries like India. Financial inclusion drive is taken up in all economies all over the world.

The German Bankers’ Association introduced a voluntary code in 1996 providing for an ‘everyman’ current account that facilitates basic banking transactions.

In the United States, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighborhood.

In France, the Law on Exclusion (1998) emphasizes on individual’s right to have a bank account.

Canada has ensured basic banking to all the citizens, who meet basic requirements, through ‘Access to Basic Banking Services Legislation 2003.

In South Africa, a low cost bank account called ‘Mzansi’ was launched for financially excluded people in 2004 by South African Banking Association.

In United Kingdom, the Government has set up Financial Inclusion Fund of 120 million pounds and launched the Financial Inclusion Task Force to help bring out financial inclusion in three priority areas, namely access to banking, affordable credit and free face to face money advice.

In Bangladesh three largest Micro Finance Institutions are serving four million customers.

Social Banking and Economic Progress:

A properly designed and developed banking system, with adequate social orientation, will definitely bring in comprehensive and uniform financial inclusion, which will accelerate inclusive growth of any country including India.
At International level, evidence indicates that various measures of banking outreach is directly related to economic growth (King and Levine, 1993, Levine and Zervos 1998). Most of the population in developed countries i.e. 99% in Denmark, 96% in Germany, 91% in USA, 96% in France have bank accounts (Peachy and Roe, 2004). As against this in most of the developing countries very small proportion of the total population (20 to 30%) have access to formal financial sectors (ADB, 2007).

Smt Usha Thorat, Deputy Governor, Reserve Bank of India, in her Independence Commemoration Lecture, 2008 at Central Bank of Sri Lanka, Colombo, on February 28, 2008, has stated the role of inclusive growth in developing economies. She has specified that the recent data shows that the countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequalities.

Milestones in Social Banking and its coverage:

Major landmarks in the social banking initiatives taken up by Government of India in association with Reserve Bank of India are

(I) PRIORITY SECTOR LENDING:

In its endeavor to ensure banking facilities to the poor and the disadvantaged, it is been made mandatory for banks to lend 40% of its advances to priority sector (which is 32% for foreign banks). As of March 2010, different categories of banks had achieved the overall target for priority sector lending. Merely three out of 27 public sector banks, two out of 22 private sector banks and four out of 28 foreign banks had not achieved the priority sector lending targets of 40 per cent and 32 per cent, respectively.
Priority Sector Advances (Amount in Rupees crore)

<table>
<thead>
<tr>
<th>As on the last reporting Friday</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>Foreign Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2009</td>
<td>7,20,083 (42.5%)</td>
<td>1,90,207 (46.8%)</td>
<td>55,483 (34.2%)</td>
</tr>
<tr>
<td>March 2010</td>
<td>8,64,564 (41.7%)</td>
<td>2,15,552 (46.0%)</td>
<td>60,290 (35.1%)</td>
</tr>
</tbody>
</table>


It is clear from above data that on gross level banks have achieved their targets of diverting funds to priority sector.

**BANKING COVERAGE:-**  
The extent of outreach of bank in an economy is measured in terms of number of branches operating and the magnitude of population served per branch. Banking sector is said to be growing if number of branches are multiplying at a faster rate resulting in drop in per branch population covered. In her speech “Touching Hearts and Spreading Smile”, Duvvuri Subbarao, Governor, Reserve Bank of India, at Chennai on July 4, 2012 has revealed that in 1969 when banks were nationalized, ther were 8,321 branches with an average population per branch office of about 64,000. That has improved to 97,180 branches with an average population per branch office of about 13,000 by March 2012. But at the same time she had commented that in a country with over 6,00,000 villages, there numbers even though both remarkable and credible, highlights what remains to be achieved. She has also stated that in the first index of financial inclusion prepared by the Indian Council for Research on International Economic Relations (ICRIER) to determine the extent of reach of banking services in 100 countries of the world, India ranks 50, below China, Kenya and Morocco.

**No Frill Accounts and General Purpose Credit Cards:-**  
Since commencement in November 2005, 50.6 million ‘no frills accounts’ have been opened by banks by March 2010, with outstanding balance of 5,386 crore. In 2009-10, banks were advised to provide small overdrafts in such accounts. By March 2010, banks had provided 0.18 million overdrafts amounting to 28 crore. Similarly by March 2010, banks had provided credit amounting to 635 crore in 3.5 million GCC accounts.
Table 4: Progress of ‘No frills’ Accounts in the Banking Sector in India

<table>
<thead>
<tr>
<th>Category</th>
<th>March 31, 2006</th>
<th>March 31, 2007</th>
<th>March 31, 2008*</th>
<th>March 31, 2009*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Banks</td>
<td>3,32,878</td>
<td>58,65,419</td>
<td>1,39,09,935</td>
<td>2,98,59,178</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>1,56,388</td>
<td>8,60,997</td>
<td>18,45,869</td>
<td>31,24,101</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>231</td>
<td>5,919</td>
<td>33,115</td>
<td>41,482</td>
</tr>
<tr>
<td>Total</td>
<td>4,89,497</td>
<td>67,32,335</td>
<td>1,57,88,919</td>
<td>3,30,24,761</td>
</tr>
</tbody>
</table>

*: Provisional.

2. Data for 2008-09 are received from banks.

(11) **EMPOWERMENT THROUGH SHG AND SGSY**:--

There are around 3 million SHGs in India, many of which are already undertaking individual group micro-enterprises.

**SHG – Bank Linkage Programme**: - (Figures in Millions)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of SHGs savings linked with banks</td>
<td>6.95</td>
<td>7.46</td>
</tr>
<tr>
<td>Total savings amount of SHGs with banks</td>
<td>61.98 billion</td>
<td>70.16 billion</td>
</tr>
<tr>
<td>Total number of SHG credit linked during the year</td>
<td>1.58</td>
<td>1.19</td>
</tr>
<tr>
<td>Total amount of loans disbursed to SHGs during the year</td>
<td>144.53 billion</td>
<td>145.47 billion</td>
</tr>
<tr>
<td>Total number of SHGs having loans outstanding</td>
<td>`280.38 billion</td>
<td>312.21 billion</td>
</tr>
<tr>
<td>Total amount of loans outstanding against SHGs</td>
<td>97.00</td>
<td>97.00</td>
</tr>
</tbody>
</table>

Source: Status of Micro Finance in India, NABARD
Similarly Swarnajayanti Gram Swarojgar Yojana (SGSY), self-employment programme incorporated since 1999 has made tremendous progress covering more than 31 lack SHGs. Government intends to strengthen SHG coverage so as to include all poor households by 2013 and to cover 50% people (instead of 22% at present) in Swarnajayanti Gram Swarojgar Yojana, It also intends to cover 1.7 crore BPL households by 2015 under skill development and Placement. (GoI 2008).

K C Chakrabarty, Deputy Governor, RBI, at FICCI-UNDP Seminar on ‘Financial Inclusion’ has revealed following facts:-

<table>
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<tr>
<th>Particulars</th>
<th>March 2010</th>
<th>June 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Villages under coverage of Banks</td>
<td>54,258</td>
<td>1,07,000*</td>
</tr>
<tr>
<td>No of No Frill Accounts</td>
<td>4.93 crore</td>
<td>7.91 crore</td>
</tr>
<tr>
<td>Amount Outstanding in No Frill Accounts</td>
<td>4257.07 crore</td>
<td>5944.73 crore</td>
</tr>
<tr>
<td>No of ODs</td>
<td>1.31 lakh</td>
<td>9.34 lakh</td>
</tr>
<tr>
<td>Amount of ODs</td>
<td>8.34 crore</td>
<td>37.42 crore</td>
</tr>
<tr>
<td>No of GCC Accounts</td>
<td></td>
<td>10.70 lakh</td>
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<tr>
<td>Credit allowed in GCC Accounts</td>
<td></td>
<td>2,356.25 crore</td>
</tr>
<tr>
<td>No of Kisan Credit Cards</td>
<td></td>
<td>202.89 lakh</td>
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<tr>
<td>Amount of Kisan Credit</td>
<td></td>
<td>1,36,122.32 crore</td>
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</tbody>
</table>

**REFERENCE**

* Out of these, 22,870, villages have been covered through brick & mortar branches, 84,274 through BC outlets and 460 through other modes like mobile vans etc.
He has also highlighted following achievements (April 2012) in a panel discussion on Financial Literacy and Consumer Protection, Washington DC on April 22, 2012.

- Banking connectivity to more that 1,47,534 villages.
- All villages with population of more than 2000 persons have been connected with banks. Total number of such villages given bank connectivity is around 74000.
- More than 50 million basic banking accounts have been opened to take the total number of such accounts to more than 100 million.
- About 7 million families/ people credit linked. Nearly 22 million families have been given the benefit of electronic benefits transfer.

But he also maintains that though these figures in isolation seem to be very impressive, yet, in comparison with the gigantic task of covering 1.2 billion people in the country and to the reach of 600000 villages, it will call for concentrated efforts involving all stakeholders.

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<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Mar 10 Actual</th>
<th>Mar 11 Actual</th>
<th>June 11 Actual</th>
<th>Mar 12 Target</th>
<th>Mar 13 Target</th>
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S. No. | Particulars | Mar 10 Actual | Mar 11 Actual | June 11 Actual | Mar 12 Target | Mar 13 Target |
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<tr>
<td>10</td>
<td>Actual</td>
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<tr>
<td>11</td>
<td>Actual</td>
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<tr>
<td>12</td>
<td>Target</td>
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<td>Target</td>
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Effectiveness of Financial Inclusion Drive :-

Reserve Bank of India has conducted a survey of 100% financially included villages in various states with the help of independent external agencies. The studies were conducted in 26 districts in the states of Andhra Pradesh, Gujarat, Karnataka, Himachal Pradesh, Orissa, Punjab, Rajasthan and West Bengal.

The findings reveal that though State Level Bankers Committees have declared several districts as 100% financially included, actual financial inclusion is not to the extent claimed in all the districts. Similarly most of the accounts opened as a part of financial inclusion drive remained inoperative due to various reasons. Similarly in very few cases, facilities like overdraft, GCC, insurance etc are not availed by the new account holders.
Conclusion:

Hence it can be concluded that the targets about financial inclusion in numbers might have been achieved but the effectiveness of Financial Inclusion Plan is still questionable. For effective implementation of Financial Inclusion Plan Banks should work more on delivery channels of banking services like satellite offices, mobile offices, business correspondents, leveraging on IT solutions available to them. Banks should also provide other facilities along with no frill account like General Credit Card (GCC) and bank overdraft for effective utilization of banking services by the beneficiaries. Similarly banks should concentrate on financial literacy campaigns so that people will be aware about the banking services made available to them and how and why they should take fuller utilization of the same.

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