Journal of Accounting and Finance
Volume 29, No. 2
April 2015-September 2015

Social Banking And Financial Inclusion: Extent of Inter-Locking

Anirban Sarkar

Abstract

Through this paper we are trying to understand the extent of inter-locking between social banking and financial inclusion in our country. Access and availability of finance is an important component of bolstering the socio-economic development of a country and its people. A developed financial set up will always result in financial stability with favourable implications for economic performance. Access to finance and financial stability is thus the key to economic growth. In the context of wide regional disparities emerging in the process of development, the banks have an additional responsibility in India. That responsibility is to enter the under developed regions and to mobilize and channelize resources into local economic activities such that local development is promoted. Surprisingly, this happens even with the consideration of usual socio-economic factors. Therefore, it feels that the future research may explore more on the 'social banking' addressing regional disparities issues. The post Independence economic planning in India revolved around the expansion of financial institutions to rural and un banked areas with the basic objective of expanding access to formal credit in rural under developed regions. Indian planning experts used social banking as the main tool for expanding the flow of formal credit with the twin objectives of displacing private money lenders and to provide cheap credit to rural households which will help in reducing poverty and indebtedness. Social banking concept had mixed results in India as even after strong efforts, the problem of financial exclusion still prevails in India. Government of India along with the Central Bank has come up with number of specific schemes for a balanced financial inclusion and only time will tell its effects and ramifications on the Indian economy. Our paper is purely based on secondary data like journals, research articles, different government and semi government reports, books, different websites etc.

Keywords: *Socio-Economic Development, Social Banking, Financial Inclusion, Financial Stability, Economic Growth, Economic Planning*

1. Introduction

Access and availability of finance is an important component of bolstering the socio-economic development of a country and its people. A developed financial set up will always result in financial stability with favourable implications for economic performance. Access to finance and financial stability is thus the key to economic growth. The post Independence economic planning in India revolved around the expansion of financial institutions to rural and un banked areas with the basic objective of expanding access to formal credit in rural under developed regions. Indian planning experts used social banking as the main tool for expanding the flow of formal credit with the twin objectives of displacing private money lenders and to provide cheap credit to rural households which will help in reducing poverty and indebtedness.

The Government of India initiated the revolutionary concept of social control of banking for operational flexibility and effectiveness. In July 1969, 14 commercial banks were nationalized through newly formulated Bank Company Acquisition Act. The preamble to this act stated:

"The Banking system touches the lives of millions and has to be inspired by larger social purpose and has sub verse national priorities and objectives such as rapid growth of agriculture, small industries and exports, raising of employment levels, encouragement of new entrepreneurs and development of backward areas. For this purpose it is necessary for the Government to take responsibility for the extension and diversification of banking services and for the working of a substantial part of the banking system".

Thus the nationalization of banks in India initiated the process of speedy socio economic development and rural penetration of credit through the dynamic concept of Social Banking.

In the context of wide regional disparities emerging in the process of development, the banks have an additional responsibility in India. That responsibility is to enter the under developed regions and to mobilize and channelize resources into local economic activities such that local development is promoted. Surprisingly, this happens even with the consideration of usual socio-economic factors. Therefore, it feels that the future research may explore more on the 'social banking' addressing regional disparities issues.

2. Social Banking - Conceptual Framework

Social banking provides the basic financial support required by the economically weaker sections of the society and thereby enables them to participate and benefit from the developmental programmes of the Government. Once this is achieved, social banking leads to the desired goal of sustainable development. Social banking plays a pivotal role for poverty alleviation through the network of commercial banks, cooperative banks, Regional Rural Banks, microfinance institutions, primary agriculture credit societies and Self Help Groups. However, availability of credit alone may not alleviate poverty. It is also important to carry out other allied reform which enables better absorption of microfinance. Thus, the banks and financing institutions enable and ensure flow of credit to the poor to strengthen their economy.

Social banking policies were made to shift the focus of commercial banks from "selective banking" to "mass banking". Social banking is rightly defined by Benedikter 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.

The banking business, globally, has followed pricing practices that have resulted in the poor subsidizing the rich. This has worked to the detriment of the poor, who have had to pay high cost for accessing financial services, often forcing them to rely on informal sources for their funding needs at exorbitant rates. This has severely curtailed the opportunities available to them to use the financial system to improve the quality of their lives. Therefore, intuitively speaking, to me, social banking is one where the rich subsidize the provision of financial services to the poor and where banking business is oriented towards serving the masses instead of exploiting them.

Therefore, seen in a broader perspective, banking can never be "unsocial". Hence, the terminology of "banking" and "social banking" can be used concomitantly.

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

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

b) 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 Bank Linkage Programme and Kissan Credit Cards etc. Self Help Group 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.

c) 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.

3. Social Banking Needs to Promote Inclusion to Address Poverty

About 2.5 billion people across the globe do not have access to basic banking services. The unbanked population, which lives primarily in developing countries, comprises nearly half of the world's working-age population. Their exclusion from the formal financial system restricts their participation in the global economy and severely curtails the opportunities available to them to pull themselves out of poverty.

Banks should have a vested interest in poverty alleviation as improvement in the economic status of the poor would enable the latter's joining the formal financial system and becoming prospective bank customers. Social banking can contribute to poverty alleviation by developing low cost products customized to the needs of the poor and providing them access to affordable credit for entrepreneurial and emergency purposes. Social banking can, through financial literacy initiatives, generate awareness among the poor about financial products and their utility. Banks can also contribute towards making the poor creditworthy through training and counseling programmes.

The Government of India initiated the revolutionary concept of social control of banking for operational flexibility and effectiveness. In July 1969, 14 commercial banks were nationalized through newly formulated Bank Company Acquisition Act.

Thus the nationalization of banks in India initiated the process of speedy socio economic development and rural penetration of credit through the dynamic concept of Social Banking. The period from 1970-1992 witnessed a rapid increase in the bank branches in India. During this period the number of bank branches in India increased to roughly 65,000.Similarly the banking locations in India rose from around 5000 to over 25,000. At the time of nationalization, the rural bank constituted only 22 percent but it increased to almost 60 percent of total bank branches by 1992. Priority Sector Lending is another notable initiative of the Government of India to strengthen the Social Banking concept. It envisaged the involvement of scheduled commercial banks in the financing of priority sectors like agriculture and small scale industries. Initially there was no specific target fixed in respect of priority sector lending. In November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33 1/3 percent by March 1979. In March 1980, it was agreed that banks should aim at raising the proportion of their advances to priority sector to 40 percent by March 1985. At present the total priority sector advances consist of 40 percent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of off Balance Sheet exposure, whichever is higher. Foreign banks target for priority sector is fixed at 32 percent.

4. Social Banking Performance Indicators-Some Observations

Table 1: Priority Sector Advances

(Amount in Rupees crore)

As on the Last Reporting Friday of March	*Public Sector Banks*	*Private Sector Banks*	*Foreign Banks*
1	*2*	*3*	*4*
2004	2,44,456 (43.6)	48,920 (47.3)	17,960 (34.1)
2005	3,07,046 (42.8)	69,886 (43.6)	23,843 (35.3)
2006	4,09,748 (40.3)	1,06,586 (42.8)	30,439 (34.4)
2007	5,21,376 (39.7)	1,44,549 (42.9)	37,831 (33.4)
2008	6,10,450 (44.7)	1,64,068 (47.8)	50,254 (39.5)
2009	7,20,083 (42.5)	1,90,207 (46.8)	55,483 (34.2)
2010	8,63,777 (41.6)	2,14,669 (45.8)	59,960 (36.0)
2011	10,215 (41.0)	2,491 (46.7)	667 (39.7)
2012	11,299.93 (37.4)	2,864.19 (39.4)	805.59 (40.9)
2013	12,822 (36.2)	3,274 (37.5)	849 (35.1)
2014	16,190 (39.4)	4,645 (43.9)	907 (35.8)

Notes: 1. Figures in brackets are percentages to ANBC or CE of OBE, whichever is higher, in the respective groups.
2. The data for 2014 is provisional.

Table 1 above highlights the monetary advances made by the public sector banks, private sector banks and the foreign banks towards priority sector lending along with the percentage to the net bank credit and the adjusted net bank credit. It can be seen from the table that all the banks have made advances to priority sector as per the stipulated norms laid by the Reserve Bank of India and Government of India.

Table 2: Disbursements Under Special Agricultural Credit Plans

(Amount in Rupees crore)

Year	*Target*	*Disbursements*	*Achievement of Target (per cent)*	*Year-on-year Growth in Disbursements (per cent)*
1	*2*	*3*	*4*	*5*
Public Sector Banks				
2006-07	1,18,160	1,22,443	103.6	29.9
2007-08	1,52,133	1,33,226	87.6	8.8
2008-09	1,59,470	1,44,302	90.5	8.3
Private Sector Banks				
2006-07	40,656	44,093	108.5	41.3
2007-08	41,427	47,862	115.5	8.5
2008-09	57,353	59,805	104.3	25.0

Table 2 shows the monetary assistance to agricultural sector under special agricultural credit plan. The most striking aspect of table 2 is that the target achieved in all the three years is exceptional with some targets achieving more than 100 percent. Similarly the year on year growth has always increased in all these years. Another notable development is that even in the case of private sector banks target achievement levels were more than 100 percent in the three financial years starting from 2006-07.

Table 3: Target and Achievement for Agricultural Credit

(Amount in ' billion)

Year	*Target*	*Achievement*
1	2	3
2010-11	3,750	4,683
2011-12	4,750	5,110
2012-13	5,750	6,074
2013-14	7,000	7,116

Source: National Bank of Agriculture and Rural Development (NABARD)

Table 3.1: Bank Group-wise Target and Achievement for Agricultural Credit: 2013-14

(Amount in ' billion)

Agency	*Target*	*Achievement*
1	2	3
Commercial Banks	4,750	5,090
Cooperative Banks	1,250	1,199
RRBs	1,000	827
Total	7,000	7,116

Source: NABARD/Indian Banks Association/PSBs.

Table 3 and 3.1 focuses on the disbursements made by banks in the form of agricultural loans. The Commercial Banks led in the total disbursement followed by the Cooperative Banks and the Regional Rural Banks. In all the above shown financial years the total disbursement made is more than the targets set. Similarly there has been an increase in the disbursement in each of these years when compared to the previous year.

Table 4: Numbers of Credit Accounts with Institutions

(Million)

Institution/End-March	*1993*	*2002*	*2007*
1	*2*	*3*	*4*
Scheduled Commercial Banks	46.4	43.3	76.6
Regional Rural Banks	13.0	12.6	15.0
Primary Agricultural Credit Societies	50.5	55.5	47.9
Urban Co-operative Banks	4.7	4.4	7.1
Self-Help Groups	0.0	7.4	40.5
Total	114.6	123.3	187.1
Total Accounts per 100 Persons	13	12	17
Total Accounts per 100 Adults	20	18	25

Note:

1. Data on UCBs for 1993 and 2002 are estimated assuming the same growth as observed in the case of SCBs
2. Accounts with SHGs are estimated assuming on an average 16 accounts per SHG in 1993 and 2002 and 14 in 2007(obtained on request from NABARD) The average size of SHGs has declined in recent years due to formation of several new SHGs with smaller size
3. Number of SHGs is adjusted against the credit accounts with SCBs to avoid double counting.

Source: Report on Currency and Finance, various issues.

Table 4 highlights the access to credit since 1993. The most striking phenomenon seen in the figures is that there is a considerable drop in the credit account of Primary Agriculture Credit Society and there is notable increase in the credit accounts of Scheduled Commercial Banks.

Another notable development during this phase is that there is significant increase in the credit disbursement through the self help group.

Table 5: Number of Savings Accounts with Institutions

(Million)

Institution/End-March	*1993*	*2002*	*2007*
1	2	3	4
Scheduled Commercial Banks	246.0	246.5	320.9
Regional Rural Banks	30.5	36.7	52.7
Primary Agricultural Credit Societies	89.0	102.1	125.8
Urban Co-operative Banks	41.6	41.6	50.0
Post Offices	47.5	60.2	60.8
Total	454.6	487.1	610.3
Total Accounts per 100 Persons	51	46	54
Total Accounts per 100 Adults	80	72	82

Note:

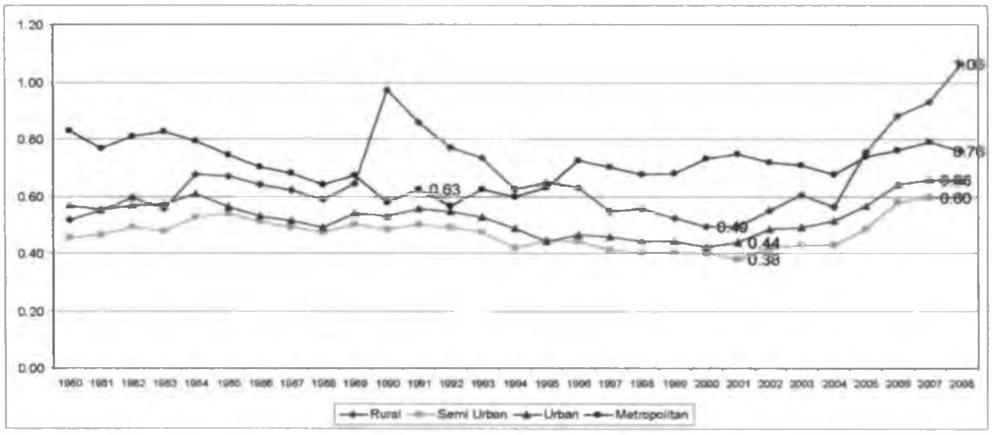
1. Data on UCBs for 1993 and 2002 are estimated assuming the same growth as observed in the case of SCBs.
2. The number of accounts in the case of PACS represents total membership.
3. Data on savings accounts with post offices for 2007 are estimated on the basis of compound annual growth rate between 1999-2000 and 2004-05.

Source: Report on Currency and Finance, various issues.

Table 5 shows the access to savings accounts since 1993. The figures here highlight that the savings accounts has increased in scheduled commercial banks, primary agricultural credit societies, regional rural banks and urban cooperative banks. There is an increase in the number of accounts per 100 adults in 2007 when compared to 2002.

One of banking performance indicators is the credit to deposit ratio (C/D) that indicates the financial resource mobilization in the form of credit disbursement out of total deposit. It is believed that higher C/D ratio leads for higher resource allocation and hence lower-regional disparities with increasing growth. It is observed that in the rigorous reforms period i.e. from the year 1991 to till today the credit deposit ratios are moving upwards among rural, urban, and semi-urban areas. This C/D ratio for rural area has increased from 0.49 in 2000 to 1.06 in 2008. Semi-urban and urban areas follow the same trend. That is the C/D ratio has increased from 0.38 & 0.44 in 2001 to 0.60 & 0.66 in 2007 respectively. The metropolitan area has also the same increasing trend with regard to the C/D ratio. That is, it has increased from 0.63 in 1991 to 0.76 in 2008 (Figure 1).

Figure 1: C/D ratios for Scheduled Commercial Banks (According to Population Group)



However, in the reforms era the rate of change of C/D ratio varies across the areas with the range of 10% and -10%. It is seen that the rate of change of C/D ratio has increased from -11.49% in 1991 to 14.32% in 2008 for rural areas. The rate of change of C/D ratio has decreased from 3.74% in 1991 to -0.06% in 2008 for semi-urban areas. The rate of change of C/D ratio has decreased from 5.34% & 7.76% in 1991 to -0.43% & -4.43% in 2008 for urban and metropolitan areas respectively (Table 6 and Figure 2). From these results, it is clear that during the reforms era, the banking habit among the ruralities is catching up much faster compare to that among the urbanites.

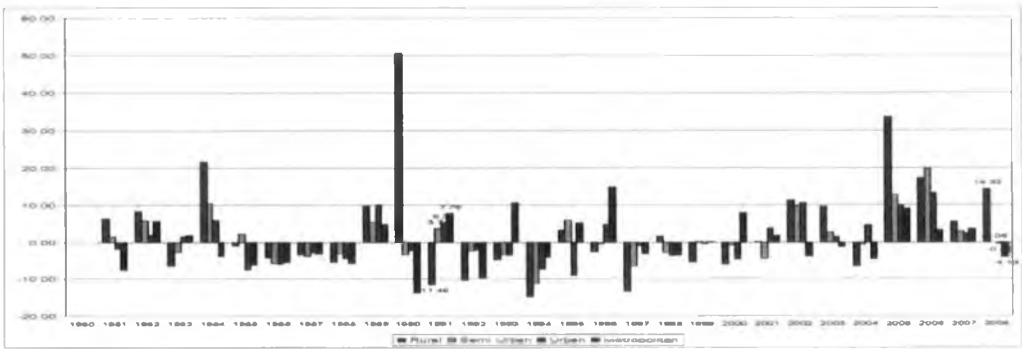
Table 6: Rate of change of C/D ratio (%) for SCBs (According to Population Group)

Year	*Rate of change of C/D ratio (%)*			
	Rural	*Semi-Urban*	*Urban*	*Metropolitan*
1981	6.33	1.57	-1.90	-7.61
1982	8.28	5.82	2.01	5.65
1983	-6.36	-2.58	1.53	1.95
1984	21.65	10.41	6.02	-3.86
1985	-0.96	2.37	-7.45	-6.22
1986	-4.24	-5.80	-5.88	-5.51
1987	-3.37	-3.82	-2.95	-3.17
1988	-5.34	-3.02	-4.47	-5.82
1989	9.75	5.47	10.14	4.87
1990	50.66	-3.43	-2.30	-13.69
1991	-11.49	3.74	5.34	7.76
1992	-10.41	-2.33	-2.16	-9.63
1993	-4.69	-3.44	-3.52	10.64

Year	*Rate of change of C/D ratio (%)*			
	Rural	*Semi-Urban*	*Urban*	*Metropolitan*
1994	-14.73	-11.24	-7.33	-4.10
1995	3.42	5.93	-9.06	5.18
1996	-2.67	-0.36	4.86	14.87
1997	-13.34	-6.62	-0.96	-3.12
1998	1.72	-2.88	-3.64	-3.54
1999	-5.44	0.19	-0.42	0.19
2000	-6.08	-0.73	-4.59	7.96
2001	0.21	-4.53	3.87	1.96
2002	11.37	9.81	10.72	-3.83
2003	9.65	2.73	1.53	-1.22
2004	-6.61	-0.59	4.63	-4.61
2005	33.66	12.79	10.04	9.06
2006	17.14	19.73	13.28	3.35
2007	5.60	2.92	2.50	3.58
2008	14.32	-0.06	-0.43	-4.13

Note: C/D ratio = Credit (in Rupees) / Deposit (in Rupees). Rate of change of C/D ratio = $[(C/D_t - C/D_{t-1}) / (C/D_{t1})] \times 100$. Source: The Handbook of Statistics on the Indian Economy, Reserve Bank of India, 2008-09.

Figure 2: Rate of change of C/D ratio (%) for Scheduled Commercial Banks (According to Population Group)



5. Social Banking As An Instrument For Financial Inclusion – Indian Experience

Though social banking initiatives were introduced in India long back through measures such as the cooperative banking movement, nationalization of banks, creation of Regional Rural Banks, etc, their success was largely constrained by the size and population of the country and non-availability of banking services. This constraint could be overcome only through the emergence of suitable technology and hence, in the last decade, with the developments in technology, financial inclusion has received a big boost in India and greater efforts have been laid on inclusive banking.

5.1 Financial Inclusion – What Has Been Done So Far?

Some of the steps initiated for enhancing financial inclusion in India include:

- ICT based Business Correspondent (BC) Model for delivery of low cost door step banking services in remote villages is being implemented.
- Board approved Financial Inclusion Plans (FIPs) of banks for 3 years, starting April 2010 are being implemented, with close monitoring by RBI.
- Roadmap to cover villages with population above 2000 by March 2012 was prepared and successfully implemented. Process of ensuring coverage of villages with population below 2000 is underway.
- Mandatory opening of 25 % of new branches by banks in unbanked rural centres.
- Introduction of Basic Saving Bank Deposit Account for all individuals
- KYC documentation requirements significantly simplified for small accounts.
- Guidelines for convergence between Electronic Benefit Transfer and FIP have been issued.
- Pricing for banks has been totally freed. Interest rates on advances have been fully deregulated.

6. Challenges to Social Banking

The concept of social banking, despite its inherent merits, faces several significant challenges in the process of scaling up. An efficient business/ delivery model that is capable of delivering banking services to the masses in a cost effective manner is yet to be implemented by banks. While several delivery models have been experimented with, the same has not yet stabilized. Similarly, several alternate technology options are being tried out. However, the alternative that would be able to handle high volume low value transactions, cost efficiently, is yet to be crystallized. Banks also have to refine their pricing practices in order to ensure that the basic goal of social orientation is maintained while ensuring viability and sustainability of social banking initiatives. Sensitization of bank's manpower on their role in implementing the bank's social banking measures is also a significant challenge as the rationale and guiding spirit behind the initiatives need to be conveyed to the operational staff on the ground. This is of utmost importance as they serve as the frontline contact of the bank with the target groups and hence, are a vital cog in the implementation of bank's social banking initiatives. Besides being technologically conversant with the innovative platforms being adopted by banks, the staff needs to have a behavioural orientation that grooms them to empathize with the vulnerable groups and gain their confidence.

7. Concluding Observation

The main weak link of the concept of the Social Banking can be linked with its failure to bring a uniform and broadly covered financial access mechanism for the people of India particularly in the rural areas. When the banks were given the freedom in case of placing branches they seem to bypass the needy and poor people. The Government of India and the Reserve Bank of India has now realized that uniform financial inclusion is an essential component of overall economic growth. The Reserve Bank of India has designed specific schemes for broadening the access of rural credit to the rural poor.

Usual socio-economic factors like literacy (e.g. includes below post graduation educational levels, dual health etc.), higher C/D ratios, and higher number of savings/current accounts with banks may not promote a sound banking system and hence a directionless developmental economy exists. Most probably, the concept of 'social banking' (where the positive interrelationship between corporate social performance (CSP) and corporate financial performance (CFP) is required) may lead to higher level of development and hence regional advanced development. However, the pattern, content, and examination of this interrelationship between CSP and CFP are matters of future research.

Thus it can be summed up that the social banking concept had mixed results in India as even after strong efforts, the problem of financial exclusion still prevails in India. Government of India along with the Central Bank has come up with number of specific schemes for a balanced financial inclusion and only time will tell its effects and ramifications on the Indian economy.

References

Benedikter, Roland (2011). "Social Banking and Social Finance, Answers to the Economic Crisis". [http://en.wikipedia.org/wiki/Banking_in_India]

Dr. Barik Prasanna Kumar, Banking and Development: Observations in Reforms' Era, CMDR Monograph series no. 62, Dec, 2010.

C. Rangarajan Committee Report on Financial Inclusion

Corporate social Responsibility Initiatives of NSE Nifty Companies(2008)

Doug Johnson, Centre for Microfinance, "Financial Inclusion & Delivery of Social Transfer Payments", 2010

Dr. Manoj Pillai (March, 2010), The Management Accountant, Social Banking in India: Myths and Realities, Vol. 45, No. – 3, pp. 180-185

Draft Five Year Plan Document (2007–12), Planning Commission, New Delhi, 2007. (September 6, 2011) on Financial Inclusion.

RBI Annual Report, various issues.

RBI Notification (2007), Corporate Social Responsibility, Sustainable Development and Non- Financial Reporting – Role of Banks, RBI/2007- 08/216, DBOD. No.Dir. BC. 58/13.27.00/2007- 08. Retrieved from http://www.rbi.org.in/scripts/NotificationUser.aspx ?Id=3987&Mode=0

Report on Currency and Finance, various issues.

Shroff, Firdos T., (2007). Modern Banking Technology, New Delhi: Northern Book Centre, 145-146

Social Banking and Social Finance: Answers to the Economic Crisis, Springer, New York, 2010.

Anirban Sarkar, Assistant Professor, Department of Commerce & Management, West Bengal State University, Barasat, Kolkata, West Bengal, India