

REVIEW OF OPERATIONAL ISSUES AND PROSPECTS OF COMMERCIAL BANKS IN THE CURRENT SCENARIO



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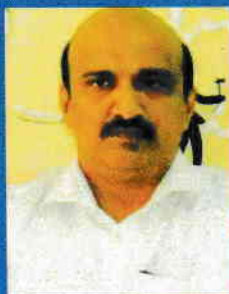
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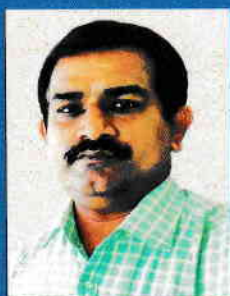


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Social Banking in India

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Abstract

Social Banking concept aims at the extension of banking services and facilities especially to the economically weaker and marginalised sections of the society with the intent to bring them to the purview of the formal banking channels. Social Banking assumes great significance in India where a vast section of the population still relies on informal sources of credit. This prevents them from availing various services offered by the main stream banking sector in the country. The aim of the present paper is to study some of the major initiatives undertaken for promoting Social Banking in India, the relevance of Social Banking in achieving financial inclusion in India, and the relevance of the Social Banking in the context of Covid-19 Pandemic. It was identified that Nationalisation of Banks, Bank Branch Expansion, Lead Bank Scheme, Priority Sector lending, Jan Dhan Yojana Scheme are some of the pivotal steps implemented with the objective of promoting Social Banking in India.

Keywords: Social Banking, Bank Branch Expansion, Lead Bank Scheme, Priority Sector Lending, Jan Dhan Yojana Scheme

Introduction

Sustainability is the key to the long-term success of any economic activity. However, it is an undeniable fact that the ultimate aim of any economic activity is to earn profit. No business can survive in the long run if due consideration is not given to meet the needs of the society. The concept of Social Banking is inspired by the concept of Sustainability. Social Banking simply aims at increasing the penetration of banking services to economy by increasing the accessibility of banking services to the poorer and marginalised sections of the society (Chakrabarty).

Social Banking aims to make banking services affordable and accessible by reducing the overhead costs and unnecessary formalities associated with the banking

procedures and thereby increasing the involvement of the poor and marginal sections of the society in the mainstream banking activities (Understanding Social Banking, 2015). Thus, Financial Inclusion is one of the primary objectives of Social Banking. Social Banking is also considered as a step in poverty alleviation and economic upliftment of the poor in the country.

India is the second most populous country in the world. It is estimated that about 20 percent of the total population in India is unbanked (Global Finance, 2011). There still remains a vast section especially the working class in the rural areas who still do not have bank accounts. Several reasons such as lack of Financial Literacy, lack of access to banking facilities, banking formalities and procedures, documentation requirements and the lack of awareness to use the modern banking facilities restrict a vast majority of people from utilising the banking services. Hence, the promotion of Social Banking initiatives especially by Commercial Banks assumes great significance in India. Social Banking is not a new concept in India. The Cooperative Banking Movement, Nationalisation of Commercial banks in 1969, Establishment of Regional Rural Banks were some of the former initiatives undertaken towards the idea of Social Banking in India (Chakrabarty). The present study is an attempt to discuss the major Social Banking Initiatives undertaken in India, the relevance of Social Banking in achieving Financial Inclusion in India, and the relevance of Social banking in the context of Covid-19 Pandemic.

Objectives of the study

- To discuss the major steps undertaken for promoting Social Banking in India.
- To study the relevance of Social Banking in achieving Financial Inclusion in India.
- To present the relevance of Social banking in the context of Covid-19 Pandemic.

Methodology

The study is descriptive in nature. Secondary Data has been used for the study and they were collected from Annual Reports of Reserve Bank of India, reports, articles and websites.

Results and Discussion

Major Steps undertaken for Promoting Social Banking in India

Nationalisation of Banks

The initial step taken towards Social Banking in India was the Nationalisation

of the 14 Commercial banks in July 1969. The nationalization of Banks resulted in transfer of control of credit disbursement to the government (Banking in India). This led to the increased flow of credit to the crucial but neglected sectors of the Indian economy like Agriculture sector and Micro, Small and Medium Enterprises (MSME) Sector (Singh, 2019).

Bank Branch Expansion

Another milestone in the process of promoting Social Banking in India was the Bank Branch Expansion Programme. In order to increase the number of bank branches in rural areas the Central Government launched a Branch Licensing Policy in 1977 referred to as the 1: 4 licensing policy (Akhtar & Parveen, 2014). Under the 1:4 licensing policy, the banks were given the license to open one branch in an urban area only if four branches were opened in rural areas (Singh, 2019). This led to massive increase in the number of bank branches in the remote and unbanked areas. As a result the share of the bank branches in rural areas increased from 17.6 percent in 1969 to 58.2 percent in 1990 (Singh, 2019).

Establishment of Regional Rural Banks

The establishment of Regional Rural Banks (RRB) in 1975 was yet another significant step undertaken for promoting Social Banking in India. RRBs were established for the development of the rural economy by ensuring the provision of credit and other facilities to the farmers, artisans, labourers, entrepreneurs in the rural areas for promoting agriculture, trade, industry and other commercial activities (Tankha, 2015).

Priority Sector Lending

Priority Sector Lending of Commercial Banks was introduced with effect from 1972. With the introduction of Priority Sector Lending, it has become mandatory for the Commercial Banks to contribute 40 percent of the Adjusted Net Bank Credit to the priority sector areas (Das, 2021). Priority Sector Areas includes Agriculture, Micro, Small and Medium Enterprises, Education, Housing, Export Credit, Start Ups and so on (Priority Sector Lending, 2021). There has been a significant growth in the priority sector lending of Commercial banks over the years.

The amount spent by Commercial Banks towards Private Sector lending and the extent of Private Sector Lending target attained by them. The prescribed Priority Sector Lending Target of Commercial Banks is 40 percent. It can be seen that there has been a significant improvement in the priority sector lending of all groups

of Commercial Banks during the period between 2016 and 2020. In 2020, the Commercial Banks have exceeded the prescribed target of 40 percent.

Lead Bank Scheme

Prior to 1969, Commercial banks had limited presence in rural areas as compared to urban areas. This hindered the pace of economic development in rural areas. As a result, Lead Bank Scheme was launched in 1969 under the recommendation of Dr Gadgil Study Group and Bankers Committee (Adda, 2020). Under the Lead Bank Scheme, one bank (whether public sector or private sector) having large number of branches in a rural area in a given district was made to act as lead bank of that district and was given the responsibility of credit disbursement activities of that district.

Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is one of the recent initiatives launched in 2014 to promote Financial Inclusion and Social banking in India (PMJDY). The main objective of the scheme is to increase the extent of utilisation of banking facilities by ensuring that there is at least one bank account for every household in India (PMJDY). The scheme also allows the beneficiaries to avail a Ru-Pay Debit Card with an accident insurance cover of Rupees One Lakh and overdraft facility of Rs. 10,000 (PMJDY). The Scheme will also help in facilitating Direct Benefit Transfer (DBT) and easy transfer of benefits under various government schemes directly to the beneficiaries accounts (PMJDY). It is encouraging to note that the scheme was able to create 42.4 Crore Bank Accounts over the period of seven years since its inception in 2014 (Sadhu, 2021).

Relevance of Social Banking in Achieving Financial Inclusion in India

The idea of Social Banking was envisaged to promote mass banking instead of elite banking (Joshi, 2006). Social Banking concept assumes great significance in an economy like India where Financial Inclusion is still not a reality. Financial Inclusion Concept basically aims at ensuring universal access of banking products and services at an affordable cost to all the individuals in the society regardless of their income or savings with the special focus on the poorer and weaker sections (RBI, 2019). Financial Inclusion is vital for the sustained and inclusive economic growth, poverty alleviation and promotion of employment opportunities (RBI, 2019). However, the presence of vast number of unbanked and under-banked population in India acts a major challenge to the goal of attaining Financial Inclusion in India. Hence,

Financial Inclusion in India could only be achieved by intensifying the Social Banking initiatives in the country.

If such recent Social banking initiatives undertaken in India has helped increase the coverage of the unbanked population to the scope of the formal banking channels in the Country. In addition to the successful implementation of Pradhan Mantri Dhan Yojana, various other initiatives like Pradhan Mantri Jeevan Jyoti Yojana, Pradhan Mantri Suraksha Bima Yojana, and Atal Pension Yojana are playing crucial roles in bringing the unbanked population to the purview of the formal banking sector in India(Drishti, 2020).

Relevance of Social Banking in the Context of Covid-19 Pandemic

The Indian Economy is one among the worst affected economies in the world as a result of Covid-19 Pandemic. Even though the pandemic has affected all the sections of the society, some of the worst affected sections are the low income category and the vulnerable income category who do not have access to stable income sources. The need to meet the daily expenses forces them to rely more on informal sources. This in turn results in their exploitation in the form of high interest rates. The pandemic has badly affected the priority sectors of the India especially the rural sector, micro small and medium enterprises sector which employ the majority of people in the country.

It is an undoubted fact that widespread Financial Crisis is the predominant after effect of the Covid -19 pandemic after the huge loss of precious human lives. In the current scenario, increasing the credit availability to the poor and marginalised sections of the society and the priority sectors which has been seriously affected by the pandemic requires prime importance. Hence, intensifying Social Banking initiatives is the need of the hour for the provision of financial assistances in the form of loans at affordable rates and for facilitating transfer of funds, subsidies, etc. from the government schemes and initiatives so as to enable the various sections of the society to recover from the pandemic.

Conclusion

The Sustainable Development calls for the holistic development of all the sections of the society. However, holistic development can only be attained if imbalances and disparities in the allocation of credit is minimised. Though various initiatives have been implemented from time to time, the current share of unbanked population in



the country highlights the fact that India still has a long time frame ahead to achieve its goals of Social Banking. For, increasing the pace of attaining Social Banking, programmes involving the Collective involvement of the Central Government, Reserve Bank of India and respective State Governments is essential. Programmes and Initiatives to improve the Financial Literacy of unbanked population especially in the rural areas must be given priority. Commercial Banks must take steps to reduce unnecessary service and processing charges. In addition to this, banking formalities and procedures must be simplified and made more users friendly. Social Banking has also become highly relevant in the current Covid-19 Pandemic to bring more number of unbanked populations to the formal banking channels to recover from economic loss caused by Covid-19 Pandemic.

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