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Financial Inclusion through Social Banking in India

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ABSTRACT

The Banking system in a country works under the overall control of the central bank. The regulation and policies of the banking industry is guided by the political and economic condition prevailing in the country. India is a mixed economy where both government Sector Companies as well as the private sector companies functions in the economy and participated in the production of goods and services. It is a mix of both capitalistic and socialistic mode of economy. Following the path of mixed economy, the banking system in India is highly focused towards social banking. There has been a steady growth towards inclusive financing and priority sector lending. This paper tries to bring out the recent developments in social banking and reaching to the unbanked areas by the banking companies of the country. With the rapid growth of the economy the inequalities and disparity is rising, to mitigate this situation the state is focusing more towards inclusive growth with high social impact.

Keywords--- Mixed economy, Inclusive growth, banking system

I. INTRODUCTION

India is a welfare country where the state plays a key role in the protection and promotion of economic and social wellbeing of its citizen. After the Independence India follows a mixed economy, the public sector and the private sector exist side by side. Some factors of production are owned by the state and some are in the private hands. The public undertakings generally are the basic industries or strategic industries which are necessary from the defence point of view. Although private sector is allowed to exist, it is subject to government control. The prices are determined by the forces of demand and supply, but the government exercises control and intervenes by imposing a maximum limit on the prices of goods. India as a mixed economy has made rapid strides during about sixty years after independence.

Millions of people who were living below the poverty line have been uplifted. This has become possible because the government took the basic industries like mining, quarrying, iron and steel, heavy electrical, nuclear energy in its hand because they create raw material for many other industries. This not only stopped the country's dependence on import of raw material but also developed many other industries like textile, electronics, chemicals, etc. The programmes for the development of small scale industries, tiny industries were also launched but were allowed to remain in the hands of private businessmen.

The industrial development was, therefore, sustained at a higher level. The policies made by the government were implemented equally well by the public sector and private sector. Similarly, the agricultural sector which is the mainstay of Indian economy and is largely in the hands of private farmers, cultivators and peasants has been allowed to flourish by favorable policies like exempting agricultural income from income tax, giving subsidy on agricultural inputs like fertilizers, fixing minimum support price for major crops like wheat, rice and sugarcane, and undertaking other programmes of modernization and mechanization of agriculture. In the financial sector, several decisions were taken for the development of economy.

The nationalization of 14 major private banks in 1969 and six other banks in 1980 was done to make them direct their activities for the development of society, instead of concentrating on profits. They were asked to lend liberally to farmers who wanted to buy inputs like fertilizers, good quality seeds, farm implements, etc. They were also asked to encourage small traders, businessmen, small scale industries, self-employed professionals.

The branches of nationalized banks are doing what is called social banking. However, a large number of private banks are also allowed to exist because they are supposed to be more efficient and adopt modern technology in rendering service to the customers. The banks are regulated and controlled by the Reserve Bank of India through monetary decisions like deposit and lending interest rates, maintenance of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR). Thus, overall control lies with the State. The key sectors are still held by the government. The policies are framed by the state according to national priority. The economy remains a mixed economy with a strong public sector and a vibrant private sector.

II. DEVELOPMENT IN BANKING SECTOR SINCE INDEPENDENCE

After independence, Government has taken most important steps in regard of Indian Banking Sector reforms. In 1955, the Imperial Bank of India was nationalized and was given the name "State Bank of India", to act as the principal agent of RBI and to handle banking transactions all over the country. It was established under State Bank of India Act, 1955. Seven banks forming subsidiary of State Bank of India was nationalized in 1960. On 19th July, 1969, major process of nationalization was carried out. At the same time 14 major Indian commercial banks of the country were nationalized. In 1980, another six banks were nationalized, and thus raising the number of nationalized banks to 20. Seven more banks were nationalized with deposits over 200 crores. Till the year 1980 approximately 80% of the banking segment in India was under government‘s ownership. On the suggestions of Narsimhan Committee, the Banking Regulation Act was amended in 1993 and thus the gates for the new private sector banks were opened.

III. PHASES OF EVOLUTION OF SOCIAL BANKING

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.

IV. OBJECTIVE OF THE STUDY

The objective of the study is to find out the recent development in the social banking. Even after 20 year of economic liberalization and privatization, the India hasn't left the welfare state policy; it is reintroducing more innovative financial services for the priority sector and towards achieving inclusive finance. The study is to reveal that development and its impact.

V. LITERATURE REVIEW

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] Social banking stands for the orientation of the various activities of commercial banks towards the up-liftment of the poor and downtrodden with the aim of achieving 'Socialistic pattern of society'(H.S Dua,1996)According to Arundati Bhattacharya, Chairman SBI, choosing a cost effective model for financial inclusion will require banks to significantly free up human resources, apart from using a banking correspondent model. With increase in financial inclusion and digitalization of banking, requirement of cash in the economy will reduce thereby helping in controlling unaccounted money in the economy. According to Sinha (2013) urban co-operative banks have the potential to complete the objectives of financial inclusion. His study thrusts to make financial inclusion a successful business model, banks have to focus on lowering the cost of transactions by leveraging technology and offering more products of credit to the already included population. Aishwarya Sigh, Manoj Sharma & Mukhes Sadana, (Feb, 2015) have concluded that assuming few teething problems, PMJDY is well positioned for success. Account access alone will not generate limited impact in the lives of the poor- it is account usage that is important. Dr Kaur & Singh, (2015) have positioned financial inclusion as a business opportunity to banks and the launch of PMJDY strengthens the resolve that when coordination, dedication, commitment trust, satisfaction and continuity is provided by all constituents and stakeholders, a frame work of construct is created which acts as a dominant force for accomplishment of the mission. G Madhukar is of the opinion that PMJDY is a mission to eradicate poverty and is expected to bring financial inclusion, financial stability and financial freedom to the poor and underprivileged people in rural, semi- urban and urban areas.

VI. RECENT DEVELOPMENTS IN SOCIAL BANKING AND FINANCIAL INCLUSION

PM Narendra Modi announced one of his ambitious projects, the Pradhan Mantri Jan-Dhan Yojana (PMJDY) on 15th August 2014.It is a national financial mission supposedly aimed at every citizen of India. According to the project, every citizen in the country will need to have a bank account, irrespective of his or her income level.

Pradhan Mantri Jan Dhan Yojana-

The mission aims at creating at least one bank account to a household in the country to reap the benefits of the banking facilities. According to the Prime Minister, including every citizen into the financial system is an important task to improve the overall economic situation. Moreover, the presence of the bank account will help the government to transfer the necessary funds under various schemes proposed from time to time.

The *Pradhan Mantri Jan-Dhan Yojana* is a successive system on the lines of development philosophy. In addition to the banking and credit facilities offered by the banks in India, possessing the account will also help people overcome money laundering by mediators and moneylenders.

The BPL section will now have detailed information on their finances. It will help them manage their monthly expenses according to their income. Apart from that, the opening of the account under the scheme allows an applicant to possess RuPay debit card along with Rs 1,00,000/- accident cover policy. According to statistics, there are over 7.5 crore households in the country which require the services of the banking industry. The *Pradhan Mantri Jan-Dhan Yojana* aims at covering all these households within a prescribed time limit.

Pradhan Mantri Jan-Dhan Yojana follows a strategic implementation and mission mode to cover every household in the country. The mission mode objective aims at providing banking services to every citizen within a reasonable distance at an affordable cost. Under PMJDY, Comprehensive Financial Inclusion based is proposed to be achieved under the six pillars as:

1) Universal access to banking facilities-The first phase begins with mapping a district into the sub-service area (SSA) catering to around 1,000–1,500 households to provide access to every citizen.The mapping will provide a chance to offer services to every habitation within a reasonable distance. The phase entitles to complete its action by 14th August 2015. Coverage of Jammu and Kashmir, Uttarakhand, Himachal Pradesh, North East and Left Wing Extremism affected districts will shift to the second stage of the operation (15th August 2015 to 15th August 2018).

2) Providing RuPay Debit Card-The essential priority is to cover every household in the country by August 2015 and have at least basic bank account. Account holders will receive RuPay Debit Card.However, permission for overdraft lies with the operation and credit history of the account holder for a minimum of six months.

3) Financial Literacy-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 to possess the necessary knowledge to use the financial services made available to them.

4) Credit Guarantee Fund-The creation of the credit guarantee fund will act as a separate entity that will assist in covering the defaults in overdraft accounts.

5) Micro-insurance-Micro-insurance will be available to every eligible and willing citizen by 14th August 2018 and carry forward the same.

6) Unorganized sector pension schemes-Launch and implementation of the pension schemes for unorganized sector by 14th August 2018 and on an ongoing basis.

However, currently the mission aims at implementing the first three pillars within the first year. Already, the government has initiated the action of opening bank accounts across the country.

VII. FINANCIAL INCLUSION PLAN

The proposed financial inclusion of every citizen of India launched on 15th August 2014 has a deadline of 14th August 2018

- Provide RuPay Debit Card with an in-built accident cover policy worth Rs 1,00,000/-. Mating of Aadhaar number with the account improves the DBT payment.
- Improve the financial education to the low-income and underprivileged people through the literacy program.

Phase II (15th August 2015 – 14th August 2018)

- Overdraft facility of Rs 5,000/- after six months of satisfactory operation of the account.
- Creation of credit guarantee fund that fulfills the defaults of overdraft accounts with an overdraft limit of Rest. 5,000/-.
- Micro-insurance
- Unorganized sector pension schemes

Some parts of the second phase will move to the first stage. Moreover, the uncovered parts of the country, such as North East, Left Wing Extremism districts will fall under this phase. The second phase will also concentrate on covering remaining adults and students in the household. The massive program requires collaboration of private entities to cover every household in the country. Furthermore, the inter-department convergence will benefit in achieving the completion of the project. Furthermore, the existing Gramin Dak Sewaks at the post offices will become Bank Mitra (Business Correspondent) of the banks. However, the principal objective is to deliver banking services to the customer doorstep by the Bank Mitra. Of the total 1.26 lakh Common Service Centers (CSC), only 12,000 are BCs.

The strategy offers the possibility for the Mitr to offer several banking services using technological features such as RuPay card and mobile banking. Banks will utilize the RBI's plan for subsidy in establishing micro ATMs at the village level.

VIII. ROLE OF TECHNOLOGY

Technology is an important aspect in promoting the financial inclusion in the country. Utilizing the options available will also help the banks to offer affordable services to the rural areas. One of the significant hurdles so far is the large numbers and small volume, which translates to increased costs. The only way to leverage the cost is by using technology that will reduce the operational cost and help the banking industry to penetrate deep into rural areas.

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. It is vital for the banking industry, telecom and stakeholders to participate as a single unit to deliver promised results without elevating the operational costs.

Furthermore, National Payments Corporation of India (NPCI) and Institute for Development & Research in Banking Technology (IDRBT) are contributing continuously by offering new technology products meant for the banking industry. Reserve Bank of India, therefore, is harnessing the new technology available to develop and utilize the same for the Indian banking sector over the years. A significant development is the Core Banking Solution (CBS). Under it, the solution offers anywhere and anytime banking to customers so far.It has become necessary to seek solutions beyond CBS to bridge the gap, offer quality yet efficient services to customers, and manage the information effectively. The Core Banking Solution led to the development of NEFT, RTGS, Internet Banking, Mobile Banking and ATMs. The adoption of the CBS changed the way the Indian Banking Sector performed operations and transactions. Critical changes include:

1. Adoption of the CBS by Banks including Regional Rural Banks.
2. Multi-channel branchless transactions using handheld devices, micro-ATMs, mobiles, cards and kiosks.
3. Implementation of RTGS (Real Time Gross Settlement).
4. Electronic Clearing System (ECS).
5. Electronic Funds Transfer (NEFT).
6. Cheque Truncation System (CTS).
7. Transactions using Mobile Phones.

The *Pradhan Mantri Jan-Dhan Yojana* proposes to use technology as a solution to achieve the set goals within the prescribed timeframe and cost. The primary products are:

1. Electronically Know Your Customer (e-KYC)-RBI permitted e-KYC in the year 2013 under Prevention of Money Laundering Rules, 2005. The system helps the banks to identify their customers, which in turn prevents money laundering and documentary forgery. Almost all the banks in India have adopted a system to maintain records of the customers. The action prevents misuse of funds and helps in tracking the transactions at every moment.

2. Mobile Phone Transactions-The mobile phone revolution has altered the way a person communicates and manages daily activity. As per the government, the same principle will help transform the banking sector into a greater revolution. The reach of mobile phones into the rural areas will help the banking sector to penetrate the unexplored regions of the country.

The coverage and use of the instruments will help in expanding the financial inclusion services to every citizen of the country. The solution will offer the customer to manage their operations independently irrespective of time and place. The transaction through the mobile uses SMS messages. Prior to sending the messages, the customer has to approach their bank to activate withdrawal/deposit of money through mobile platform.

3. Immediate Payment System (IMPS)-Launched by NPCI in the year 2010, the Immediate Payment System (IMPS) offers 24×7 interbank electronic fund transfers using mobile phones, ATMs and internet banking. In order to carry out the transactions, both the sender and the receiver should register with their bank and obtain Mobile Money Identifier (MMID) and Mobile Banking PIN (MPIN).Upon registration, the sender can send the required amount to the receiver using their mobile phone. The bank records the MMID and transfers the money to the receivers account. The receiver will get SMS notification on credit of the funds.

4. Micro-ATMs-Micro-ATMs are handheld devices with biometric recognition. These will be available with the Bank Mitr across the country to help rural and semi-urban citizens to withdraw or deposit money instantly. Customers have to authenticate themselves to proceed with credit or debit transactions. The ATMs use a mobile phone to complete the transaction. It is an instant procedure and functions efficiently in the rural areas.

5. National Unified USSD Platform (NUUP)-Mobile banking is a compelling procedure that will increase the reach of banking services to the masses. Initiation of the mobile banking is through SMS. Although mobile apps are available, only 40% of the total mobile users have J2ME handsets with GPRS enabled. Therefore, to overcome the hurdle, NPCI proposed the NUUP system to promote mobile banking across the country. USSD does not require the download of mobile app. Moreover, the functioning is simple and makes it easy for any customer to understand the transaction process. Furthermore, the USSD is a more secure payment channel than the SMS system.

6. RuPay Debit Card-RuPay Debit Card is a new payment procedure launched by NPCI to offer multilateral system for domestic use. The payment system allows banks in India and financial institutions to participate together in the electronic payments channel.

The benefits of the card include flexibility of the product platform, acceptance across the country, and increase branding that contributes to the product increase. The essential elements are its affordability, customized product offering, information protection, and electronic product options to unexplored consumer segment.

7. Aadhaar Enabled Payment System (AEPS)-AEPS allows banking services to authenticate a transaction of PoS (Micro-ATM), Kiosk Banking through Business Correspondent across the country. At present, four types of AEPS are available – (i) Balance Enquiry, (ii) Cash Withdrawal, (iii) Cash Deposit, and (iv) Aadhaar to Aadhaar Funds Transfer.

8. Aadhaar Payments Bridge System (APBS)-The APBS allows Government and Government Institutions to transfer funds to Aadhaar enabled accounts of the beneficiaries to post offices and banks. The institutions and Government Organizations have to send a file containing the Aadhaar number of the recipient along with the stated amount. The bank will process the file under the APBS and credits the amount to the beneficiary. The bank will notify the customer through SMS or any other channel as established between the bank and the customer, upon crediting the amount.

IX. CONCLUSION

The Pradhan Mantri Jan-Dhan Yojana is a fascinating approach to improving the banking services in the country. Creation of accounts to every individual prevents money laundering and helps the government to transfer the needed funds under various schemes to the beneficiaries directly is major part of the social banking approach. It prevents the role of mediators who often exploit the poor and underprivileged people. Various financial institutions and banks are working in-line with RBI to promote the program. 15th August 2018 is the end for the program implementation. All the benefits such as financial inclusion, financial stability and financial freedom are expected to get through the PMJDY, to the poor and the underprivileged people in rural, semi-urban and urban areas.

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