# Social banking: A global and Indian perspective


December 9, 2016: Social banking, though an integral part of Indian banking system since its establishment, has gained awareness with the significant steps and programs initiated by the Indian government and RBI. Key measures such as Aadhar card, unique identification mechanism, Pradhan Mantri Jan DhanYojana and various associated schemes, are helping social banking in India scale new heights.

From a global perspective of emerging market countries, where financial inclusion is essential to economic development, there has been a significant development in the recent years. It is reported that over 700 million adults worldwide, became account holders between the years 2011 and 2014. The account ownership worldwide has increased to 62% in 2014, up from 51% three years ago. Countries including Indonesia, Bangladesh, Vietnam, Malaysia and Russia among the emerging markets have made strong progress in areas such as access to ATM’s, bank branches, retail points of sale and the use of debit and credit cards.

New technologies and innovations are simplifying the barriers to financial inclusion for banks. Especially, mobile banking or branchless banking have helped in areas, where progress has been curtailed by lack of necessary infrastructure and transportation. Yet, according to World Banks’s Global Findex database nearly 2.5 billion or 46% of the adults are currently “unbanked” in developing countries in South Asia, Africa and Mena region. Barriers such as restrictive regulation; government failures and lack of suitable products still need to be addressed. The progress made by these regions are commendable, yet serious efforts are the need of the hour to bridge the gap.

Expanding access to financial services to those on the margins is often advocated as a priority for the developing world, but financial inclusion isn’t just a developing-world issue.In developed countries like US, 7.7% of households not having a bank account may look harmless. But, when these numbers are broken down by population segments, the real challenge shows up. Approximately, 20% of black households and 18% of Hispanic households are unbanked. Financial exclusion imposes significant costs on these households, including high fees and interest paid to alternative providers. Since the financial crisis, there has been a hit on households in the developed countries, pushing them into poverty. This has brought lot efforts on social banking and finance in these regions.

In India, since independence, social banking has evolved through various stages and has seen many versions. Social banking in India, said to have originated from nationalization of banks, when 14 commercial banks were nationalized on 19th July 1969. Their main objective being allocation of funds to the deprived, eliminating monopoly of private business houses and corporate families on banks, extending banking across the country and reducing regional imbalances.

Second significant landmark in social banking was branch multiplication in the license raj. To obtain a license to open a branch in banked area, a commercial banks had to open 4 branches in unbanked regions. This 1:4 license rule, ushered 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.

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 Programs also helped in the cause.

Many committees have been formed in the past to work on financial inclusion. Recent recommendations of NachiketMor committee have opened up the idea of licensing new type of banks. Licensing of Small Finance Banks and Payments Banks by RBI is a big step towards greater financial inclusion. The recent committee report by Deepak Mohanty on Medium-term path on financial inclusion talks about five year measurable action plan for financial inclusion. Cross-country experiences of financial inclusion to identify key learnings, particularly in the area of technology-based delivery models have been studied.

While India is learning and progressing actively with its financial inclusion agenda, we expect many more positive reforms in the coming years to build a nation with last mile financial inclusion and service.