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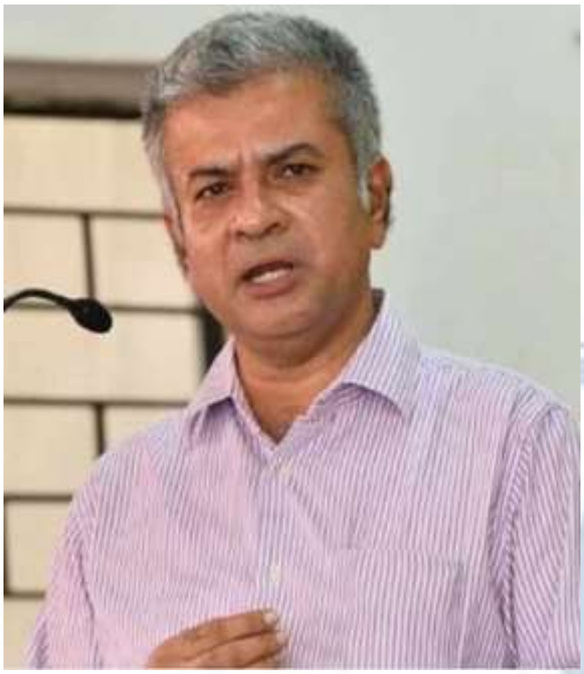

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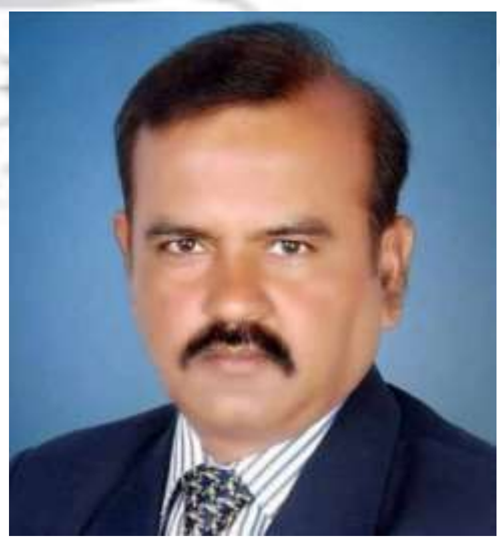

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ABOUT US

WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

A STUDY ON THE CONCEPT OF SOCIAL BANKING

AUTHORED BY - ABHIRAJ VAIDYA

ABSTRACT:

Once India's Commercial Banks were nationalized, the concept of social banking emerged. The goal is to build a coordinated monetary framework with public engagement, capable of efficiently reacting to a range of administration strategy goals while keeping a robust capacity to withstand local political constraints. The major purpose is the distribution of assets to the ineligible, the removal of restrictive infrastructure of personal business houses and corporate families on banks, the countrywide growth of banking, and the reduction of regional imbalances. Administrative and political changes precipitated a backlog in this system, which became a weapon for vote-bank politics, significant corruption in the implementation of plans, and bad planning. Significant losses were experienced by banks and economic entities as a result of nonrecovery of loans and a drop in credit flow. The crisis was handled by the implementation of alternative ideas, such as the Financial Inclusion concept. It was done to ensure that every person and family has access to financial services, resulting in the economic growth of the nation. So, the notion of development may be ensured not only by the availability of credit, but also by the inclusion of financial services such as input access, financial knowledge, skills, and technology.

Keywords: Bank, Social Banking, Nationalization, Finance.

CHAPTER 1 - INTRODUCTION:

1.1 Background of the research Superior village, superior nation:

India is a welfare state whose policies strive to provide a socialistic way of life for its citizens. After achieving independence, the nation established a mixed economy with a robust public sector and crucial private sector enterprises. These sectors include the country's social, economic, and welfare sectors. The advancement of the nation's economy consists of the financial sectors. The financial sector consists of banks, cooperatives, and financial institutions. The banking industry is a vital component of the nation's economy. It strives to fulfill fundamental social and economic objectives and avoid monopolistic tendencies, concentrations of power, and wasteful resource use.

Reforms Within the Banking Industry:

With the State Bank of India Act of 1955, the Imperial Bank of India was nationalized and renamed "State Bank of India" in 1955. It was tasked with acting as the RBI's chief agent and handling banking transactions throughout the nation. In 1960, seven subsidiary banks of the State Bank of India were nationalized. The V. V. Pai Anandikar Report to the Indian government underlined the problem that new entrepreneurs and enterprises were unable to get appropriate loans from banks. The banks have failed to accommodate the needs of farmers and small business owners. In light of these flaws, the study suggested societal control of banks as a remedy. Social regulation of banks was anticipated to -

1. Enhance the standing of farmers and small business owners.
2. Let the administration to execute the Five-Year Plans successfully.
3. Increase diversity on the boards of directors of banks and in the actual decision-making process regarding advances.

The result was the 1967 Banking Laws (Amendment) Bill. Nonetheless, fourteen large private banks and six additional banks were nationalized between 1969 and 1980, respectively. To attain the socialistic purpose established in the Preamble of the Indian Constitution, the goal was to have them concentrate their operations toward the advancement of society, rather than focusing on profits. By 1980, about 80% of the banking industry in India was owned by the government. Following nationalization, the Indian banking sector saw extensive branch development, particularly in rural and semi-urban regions, under the Lead bank plan, Service Area Approach, and other initiatives. All of these advancements originated essentially from the socializing of banking. Despite the fact that these advancements made financial services more accessible to the public, particularly the disadvantaged segments of society, there was a rising worry about the decline of banking services. The primary purpose was to regulate the heights of the economy, meet progress, and better serve the demands of economic development in accordance with national policies and goals.

After the introduction of the New Economic Policy in 1991, the Indian government created the

Narasimham Committee[1] to offer suggestions about the restructuring of India's commercial banks. As a consequence of the ideas, the Banking Regulatory Act was changed in 1993, allowing additional private sector banks to open their doors. These nationalized bank branches practice what is known as social banking. Social banking supports a direct influence of credit on the distribution of income, so ensuring social welfare, in contrast to the commercial banking system, which focuses more on profit maximization, efficiency, and economic progress. Thus, banks are now expected to serve as social banking tools with sustainable profitability.

From 1977 to 1979, Commercial Banks were instructed to establish four branches in unbanked rural regions for every branch established in a metropolitan or port location. From June 1969 to December 1985, the total number of Commercial Bank branches increased from 8262 to 52,398. (counting 12,606 Regional Rural Bank offices). The number of natural branches increased from 1833 to 30,944.

1.2 Objectives:

1. To understand what is Social Banking.
2. To know evolution of Social Banking.
3. To know financial status of Social Banking.

CHAPTER 2 - RESEARCH METHODOLOGY

The methodology used in the research is collection of secondary data from the various sites. The data has been taken from the various internet sources and journals. The data was collected and then was compiled to make this paper.

CHAPTER 3 - LITERATURE REVIEW:

In his paper titled "Social Obligation" of Banks, **(Kumara Raj. A)**[2] explains that the social duty of business refers to the paramount concern that a firm should have for pluralist society in its pursuit of profit-making activities, entailing the sacrifice of profit in order to help society.

According to **Roy-Sapre (2016)**, "many studies have claimed that access to financial tools, such as

[1] Justice Narasimham Committee on banking sector reforms report submitted in April 1998
[2] Kumara Raj. A (1990) Social obligation of Commercial Banks, Ph.D Thesis, Annamalai University, India, p. 63

banking services and investment opportunities, improves the quality of life, particularly for the poor and disadvantaged." Notwithstanding this, there should be a clear distinction between developed and emerging nations. In underdeveloped nations, the primary objective of social finance and banking is to assist the people escape poverty, but in rich countries, the objective is to help the population attain a greater degree of social development.

The avowed business purpose of social banks is not to maximize profits **(Scheire and Martelaert, 2009).** Their objectives center on their function as servants and facilitators of the actual economy. They use their unique position as money allocators to "promote the public interest" **(Institute for Social Banking 2011).**

Given the objectives of social banks vary from traditional (banking) business, it is thought that social bankers need "special competencies" in addition to their banking and financial knowledge to do their jobs effectively **(Cabarrubia 2010; Kühn 2005).**

CHAPTER 4 - DATA ANALYSIS:

Social Banking

Social banking was characterized by Dr. Roland Benedikter[3] as "banking with a conscience." The primary objective of the banking industry is to invest in local communities, provide freedoms to the oppressed, and assist social, ecological, and moral planning. Banks are presently focused on achieving a triple focus on profit, people, and the environment. Social finance is the main point of the many activities of commercial banks aimed at achieving a socialistic model of society via the uplift of the poor and disadvantaged. For instance, government-sponsored loan programs and disbursement objectives for disadvantaged sections. The state's function here is to affect credit distribution by socioeconomic class.

The three main objective of social banking are –

- **A.** Equity
- **B.** Economic Growth and welfare objectives
- **C.** Financial viability

[3] Dr. Roland Benedikter, Social Banking and Social Finance Answers to the Economic Crisis (2011)

Evolution Of Social Banking

The development of social banking in India may be roughly divided into three phases:

During the First Phase (1960-1990), i.e. the nationalization of banks, the primary emphasis was on providing credit to the ignored sectors, particularly the poorer parts of society, via branch multiplication and Priority Sector Lending.

The focus of the Second Phase (1990-2005) was primarily on strengthening the monetary foundations as part of monetary area adjustments. During this time period, Self-Help Groups (SHG), the Bank Linkage Program, and Kisan Credit Cards were introduced (KCC). Then, in 1992, NABARD, with the backing of the Reserve Bank of India, launched the Self- improvement Gathering Bank Linkage Program to assist the poor in strengthening their cohesion and gaining easy access to banking.

During the third stage, beginning in 2005, monetary incorporation was widely performed on a public level, with a focus on providing vital financial services via NFAs.[4]

Major Social Banking Schemes

1. Village Adoption Scheme This program entailed the adoption of a specific town in order to meet the financial requirements of the targeted people via the design of projects, development of infrastructure, etc.[5]
2. Service Area strategy It was launched in 1989 with the intention of ensuring that all of the targeted population in a specific region is covered by banking services in collaboration with urban and rural banks. It led to the development of each region via microfinancing.
3. Lead Bank plan It was created in 1969 with the intention of providing credit in an area and assisting with main lending services in conjunction with a leading bank.
4. Priority Sector Financing This was implemented as part of the First Five-Year Plan's objectives, such as the expansion of the agricultural sector, village development, and irrigation, among others.
5. Differential Rate of interest scheme It was enacted in 1972 to offer low-income people with a

[4] Deepak Pant Joshi, Social Banking – Promise, Performance and Potential, Foundation Books (2012)
[5] Desai. S.S.M., Rural Banking in India, Bombay: Himalaya Publishing House (1979)

suitable interest rate in order to accomplish the welfare objectives and production growth. This also included monitoring the use of the offered loans.

6. Micro Funding It included providing modest credit loans to underprivileged and disadvantaged communities. Muhammad Yunus introduced the notion. This is accomplished by establishing Grameen Bank, Self-Help Groups, NGOs, etc.

Price Of Social Banking

1. India's post-nationalization large financial programs degenerated into libertarian schemes that monetarily ruined the banks. The government authorities may not be able to fight the short-term benefits of modest loan arrangements - boosting supply while forcing banks to operate at a loss, eroding their capital base, and ultimately leading them to collapse or continued dependence on the state. Therefore the involvement of government officials in the financial sector.
2. Credit should be used as a reallocation tool instead of more conventional methods such as tax collection, government-backed retirement, job schemes, etc. Establishing new branches in rural regions without proper execution, development, planning, or administration of end- user credit usage or establishment of required foundation offices meant that branches remained simple flag posts.
3. With financial reforms and crises, it is no longer sufficient in a growing nation like India to simply give credit for manufacturing to the population. Individual progress must be combined with the adoption of better skills, access to markets and resources, and technological innovation to enhance production. This concept of social revolution led to the establishment of a counter-revolution. The collapse of the IRDP incentive, for instance, was responsible for 40% of the losses sustained by commercial banks.
4. Due to market saturation, a lack of information sources, and a high proportion of non-performing assets, an excessive supply of credit (relative to available venture opportunities) results in a low capital base, a poor return, and a slow pay per advance. This reduces the amount repaid by borrowers and, if the credit supply is reduced proportionately, creates a negative input framework comparable to the advance waiver of 1989, which was the icing on the cake.

The Transition from Social Banking to Financial Inclusion

Middle-income and low-income families in rural and urban regions need access to a broad variety of services, including skill development, insurance, savings, access to inputs, and remittances, suggesting that the government implement a formal policy of financial inclusion.[6] While the objectives of social banking and financial inclusion are similar, i.e., to achieve welfare objectives and socialistic goals, an important distinction between the two is that the inclusive credit financial inclusion model also aims to provide households with full access to a full suite of financial services, whereas social banking only aims to provide households with access to a limited number of financial services. It involves two major projects –

1. Establishing fundamental bank accounts for all unbanked families
2. The business correspondent (BC) model, or agent-based banking marketing.

This is done in support of social banking, i.e. to increase banking access. The government requirement compelled banks to open branches in all villages with a population of 2,000 to 3,000 and at least one resident citizen. In 2005, the Reserve Bank of India (RBI) mandated that banks provide No Frills Accounts with zero or low minimum balance requirements. The RBI initiated the idea of Business Correspondents in 2006.[7]

Recent Developments

On August 15, 2014, the Pradhan Mantri Jan-Dhan Yojana (PMJDY) was started. According to the idea, every resident in the nation, regardless of economic level, will be required to have a bank account or at least one bank account per home. In addition to the loan facilities, it will assist consumers combat money laundering. In addition, account holders would get a RuPay Debit Card and a Rs 1,000,000 accident insurance coverage. In addition to creating the account, providing financial education is a crucial component of the purpose. Beneficiaries of the program will be equipped with the information required to use the financial services made accessible to them. Institute for Development & Research in Banking Technology (IDRBT) and National Payments Corporation of India (NPCI) are consistently contributing to the banking sector by introducing innovative technological products. One such solution is the Core banking system, which encouraged the usage of NEFT, RTGS, Internet Banking, Mobile Banking, and ATMs. In addition, the newest innovations, such as e-KYC, AEPS,

[6] Arundati Bhattacharya, The Journal of Indian Institute of Banking and Finance, July- September (2015)

[7] Partha Sarathi Senapati, Financial Inclusion through Social Banking in India, Volume 6, International Journal of Engineering and Management Research, 317-321 (2016)

and IMPS, mobile banking, and electronic wallets, will assist the nation's underserved population realize its full potential. In the past, several committees have been created to focus on financial inclusion. Recent recommendations by the NachiketMor committee have opened the door for RBI to license new sorts of banks, including Small Finance Banks and Payments Banks. A committee report by Deepak Mohanty entitled Medium-term route on financial inclusion describes a five-year action plan for financial inclusion that is measurable.

CHAPTER 5 - CONCLUSION:

In various markets, shares are valued based on a variety of factors, but a basic premise is that a share is worth the amount that its sale would likely cost. Market liquidity is a crucial aspect in deciding whether a share may be sold at any given time. Typically, the actual sale of shares between a buyer and a seller is regarded as the best first market signal of the "true value" of shares at any particular time. Typically, shares are issued fully paid, in which case the obligation of the shareholders is limited to the amount paid for the shares; nevertheless, shares may alternatively be issued partly paid, in which case the liability of the owners is limitless, subject to guarantee, or in some other manner. We buy and sell shares on the stock exchange because shares represent ownership interests. In the simplest one-person business, shares are superfluous since there is no sharing of anything. Yet, sharing becomes feasible if a second party is engaged. Shareholders often own companies, and each shareholder owns a fixed number of shares. The maximum number of shares that may be issued is the entire number of authorized shares. Issued shares are shares that have been allotted by the board of directors, shareholders, or both. Treasury shares are issued shares that have been repurchased by the corporation; they often lack voting and dividend rights. The total number of outstanding shares owned by shareholders is the sum of issued shares. The equity capital of a company consists of its issued shares. Some firms are required by law to maintain a minimum level of equity capital, while others may demand none or just a small amount. The value of issued shares is determined at the time of issuance and stays constant in relation to the issuing entity throughout time. Typically, shares are issued fully paid, in which case the obligation of the shareholders is limited to the amount paid for the shares; nevertheless, shares may alternatively be issued partly paid, in which case the liability of the owners is limitless, subject to guarantee, or in some other manner.

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