REST Journal on Banking, Accounting and Business
Vol: 3(2), June 2024 (Online)
REST Publisher; ISSN: 2583 4746
Website: https://restpublisher.com/journals/jbab/
DOI: https://doi.org/10.46632/jbab/3/2/32

From financial to social inclusion: The changing face of Indian banks

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Abstract. *Over the years banking sector has undergone tremendous changes. From a simple money lending institution banks have now emerged as actors of social change. The role of banks has become multifaceted after nationalisation of major commercial banks. It essentially reflects persisting efforts by banks to dispel the general perception of being just a lender for poor and treasury for rich. From class banking to mass banking banks have come a long way and this trend is going to continue as for now. Customer oriented service, hassle free transactions and a wide range of products and services to cater to the needs of everyone has made banks very sought after. Apart from it facility of ATMs and credit/debit cards and payment of online bills like telephone, electricity and tax are adding to the diversifying role of the banking industry with the recent one being linking of Aadhar card to bank account to get LPG subsidy. All these indicate the evolving face of banking sector keeping up pace with capricious macroeconomic credit flow to tailored customer demand. The new generation banks have now established themselves by setting up high standards of services and efficiency. While they are catering to the need of high end investors by making available huge amounts of capital for big projects in the industrial, infrastructure and service sectors. At the same time banks have stressed on their role in rural areas by giving cheap credit to farmers in rural areas for their short and medium term needs.*

Keywords: *mobile banking, subsidy schemes, social actor, SHG, rural banking*

1. INTRODUTION

Until recently, banking services in India were nothing short of an ordeal. An average consumer would take half a day off from work to manage simple banking transactions, like creating a demand draft or sending an outstation cheque. Today, with internet banking, ATMs and mobile banking facilities, such a situation would be considered unthinkable. The banking sector in India has grown by leaps and bounds in the past decade. Nationalisation and technological advancements in the field of banking sector has completely changed the face of banking industry. Today banks are much more than just financial institutions. With a variety of services, banks are catering to the need of every class of people. Easier access to knowledge, increased and broad based use of technology and rapid introduction of innovative customized products to meet the customer demands are the key features of changing banking scenario (Bansal, Ipshita and Sharma, 2008).

2. ROLE OF BANKS BEFORE NATIONALISATION

Until nationalisation, all major banks were controlled by one or more business houses. These business houses used the resources contributed by the mass of the people to fund their own personal benefits. This resulted in the concentration of income and wealth in few hands. Banks clearly showed their inclination towards urban areas while opening branches and were completely indifferent towards rural areas.Banking activities were concentrated to only upper class people while it was mostly unreachable for the mass.

Beginning of a new era post nationalisation

After nationalization, the breadth and scope of the Indian banking sector expanded at a rate perhaps unmatched by any other country. Indian banking has been remarkably successful at achieving mass participation. The number of bank offices increased from about 8,000 in 1969 to over 100,000 by 2012 (Reserve Bank of India, 2013). The per capita deposit have expanded about 600 (Reserve Bank of India,2013)times which represents the overwhelming majority of deposits in Indian banks.The purpose of nationalisation of 14 commercial banks in July, 1969 was to make available the adequate flow of institutional credit to the economy in general and the rural areas and the weaker sections in particular, After nationalisation of banks, the RBI had appointed a Committee of Bankers under the Chairmanship of Nariman to evolve a co-ordinated programme for setting up of adequate banking facilities in the unbanked and underbanked districts on the lines of the Gadgil study group. This Committee had submitted its report on 15' November 1969 recommending that banks should be allotted specific districts to take care of an integrated area approach relating to the particular district.

Achievements after nationalisation

1. Accelerated branch expansion in rural and backward regions: In 1969 bank branches in rural areas accounted to only 22.5% of the total number of branches. Today branches in rural areas account to 52%.

TABLE 1. Expansion of banking since nationalization

Year	1969	1991	2007	2012
No. of commercial banks(incl.RRBs and LABs)	73	272	182	173
No.of bank offices	8,262	60,570	74,563	1,01,261
Of which rural and semi urban bank offices	5,172	46,550	47,179	62,061
Population per office	64,000	14,000	15,000	13,000
Per capita deposit of Scheduled Commercial Banks(SCBs)	₹88	₹2,368	₹ 23,382	₹ 51,106
Per capita credit of SCBs	₹68	1,434	₹17,541	₹39,909

(Source: Reserve Bank of India, 2013)

2. Deposit mobilization-After nationalization banks have become successful in attracting deposits from different sections by means of attractive deposit schemes. This has been mainly due to nationalisation which increased the faith of common people in banks.
3. Finance to priority sectors- Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, self-help groups (SHG), poor people for housing, students for education and other low income groups and weaker sections. In 1969, the total credit given to priority sectors like agriculture, small industries and rural development was only 2% of total bank credit. By 2006-2007 it increased to around 40% of the total credit.
4. Increase in total transactions-The total deposits which was 4,664 crores in 1969 increased to 38.30 trillion.
5. Differential rate of interest-To provide credit to weaker sections of the society at very low rate of interest, banks came out with Differential Rate of Interest scheme in 1972
6. Profit making-After nationalization, banks are making profits in addition to achieving economic and social objectives.
7. Safety-The government has given importance to safety of the banks. The RBI exercises tight control over banks and safeguards depositors’ interest.
8. Developmental functions- After nationalization, banks provide assistance for the progress of agriculture, rural development, industry, trade and other developmental plans of the government
9. Advances under self-employment Scheme-Public sector banks play a significant role in promoting self-employment through advances to unemployed through various schemes of the government like IRDP, JGSY, etc.

Changing role:

The role of banks in India has changed a lot since last few decades.In addition to their traditional role, the banks today also perform certain new age functions which could not be thought of a couple of decades ago. The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and the credit/debit cards has revolutionised the choices available with the customers. The banks also serve as alternative gateways for making payments on account of income tax and online payment of various bills like the telephone, electricity and tax. The bank customers can also invest their funds in various stocks or mutual funds straight from their bank accounts. In the modern day economy, where people have no time to make these payments by standing in queue, the service provided by the banks is commendable. While the commercial banks cater to the banking needs of the people in cities and towns, there is another category of banks that looks after the credit andbanking needs of the people living in the rural areas, particularly the farmers. Regional Rural Banks (RRBs) have been sponsored by many commercial banks in several states. These banks, along with the cooperative banks, take care of the farmer-specific needs of credit and other banking facilities.

3. EVOLUTION OF RETAIL BANKING

Retail banking is when a bank executes transactions directly with consumers, rather than corporations or other banks. It is the cluster of products and services that banks provide to consumers and small businesses through branches, the Internet, and other channels.

TABLE 2. Evolution of retail banking strategies

Product oriented management	Market oriented management	Relationship management
Independent accounts and services	Fixed product bundles	Customized product bundles
Performance measured on share of products	Performance measured on market share	Performance measurement
Account information centrally managed	Centralized market sector profiles	Integrated profiles of customers at the point of sale
Mainframe based system	Mainframe based system with limited integration	Client/server system Electronic commerce

(Source: Mary J. Cronin John Wiley & Sons, 1998)

In terms of products and services, deposit taking is the core retail banking activity on the liability side. Deposit taking includes transaction deposits, such as checking and NOW accounts, and nontransaction deposits, such as savings accounts and time deposits (CDs). Many institutions cite the critical importance of deposits, especially consumer checking account deposits, in generating and maintaining a strong retail franchise. Retail deposits provide a low-cost, stable source of funds and are an important generator of fee income. Checking accounts are also viewed as pivotal because they serve as the anchor tying customers to the bank and allow cross-selling opportunities (Dick et al. 2006). On the asset side of the balance sheet, the key retail banking products are consumer credit and small business loans. Consumer credit includes credit cards, mortgages, home equity lending, auto loans, education loans, and other personal loans.

ATM cards: Automated Teller Machines can be considered to be a discontinuous revolutionary innovation. ATMs dramatically reduced the time taken by a bank customer in order to get a transaction done. Instead of going to a bank branch, filling out a transaction form and interacting with a human teller, these customers could log on to the bank's network and conduct a variety of transactions on a machine. Hence it became one of the most sought after services a bank could offer. Wise and Ali (2009) argued that many banks want to invest in ATMs to reduce branch cost since customers prefer to use them instead of a branch to transact business. The financial impact of ATMs is a marginal increase in fee income substantially offset by the cost of significant increases in the number of customer transactions. The value proposition however, is a significant increase in the intangible item "customer satisfaction". This increase translates into improved customer loyalty that in turn results in higher customer retention and growing organization value.

E- Banking: Technology is increasingly finding its use in banking by way of convenience in product delivery and access, managing productivity and performance, product design, adapting to market and customer needs and access to customer market. For the Indian banking sector, these developments are of significant interest. The ability to access and share information has contributed in improving efficiency and value adding, moreover; focus on e-banking has opened new business potential and opportunities for banking sector. The Internet, much like the ATM that came before it, is fundamentally a new distribution channel over which banks can deliver traditional banking products and services (Young, 2001). Consumers have developed a high degree of comfort for using remote basic banking services, Initially, banks promoted their core capabilities, namely, products, channels and advice, through the Internet. Then, they entered the Internet commerce market as providers/distributors of their own products and services. Banks use online banking as it is one of the cheapest delivery channels for banking products (Pikkarainen et al, 2004). Such service also saves the time and money of the bank with an added benefit of minimizing the likelihood of committing errors by bank tellers (Jayawardhena and Foley, 2000). Robinson (2000) believes that the supply of internet banking services enables banks to establish and extend their relationship with the customers. It is a lower-cost delivery channel and a way to increase sales. Internet banking services has become one of the most important factors in the business economy today. There are other numerous advantages to banks offered by online banking such as mass customization to suit the likes of each user, innovation of new products and services, more effective marketing and communication at lower costs (Tuchilla, 2000), development of non-core products such as insurance and stock brokerage as an expansion strategy, improved market image, better and quicker response to market evolution (Jayawardhena and Foley, 2000).

Online payment of bills: This facility has enabled customers to pay their bills from the comfort of their home or office. It is ideal for electricity, telephone, mobile and other bills. Customers now can avoid standing in long queue and wasting time for paying a small bill. Not only it has made transactions convenient for the customer but also has made bill collection more efficient.

Core Banking: Centralized Online Real-time Exchange banking it refers to banking services provided by a group of networked bank branches where customers may access their bank account and perform basic transactions from any of the member branch offices. Core banking is often associated with retail banking and many banks treat the retail customers as their core banking customers, and have a separate line of business to manage small businesses. Larger businesses are managed via the Corporate banking division of the institution. Core banking basically is depositing and lending of money. Normal core banking functions will include transaction accounts, loans, mortgages and payments. Banks make these services available across multiple channels like ATMs, Internet banking, and branches. Core banking became possible with the advent of computer and telecommunication technology that allowed information to be shared between bank branches quickly and efficiently. A few decades ago it used to take at least a day for a transaction to reflect in the account because each branch had their local servers, and the data from the server in each branch was sent in a batch to the servers in the data centre only at the end of the day (EoD). Nowadays, most banks use core banking applications to support their operations. This basically means that all the bank's branches access applications from centralized data centres. Hence the deposits made are reflected immediately on the bank's servers and the customer can withdraw the deposited money from any of the bank's branches throughout the world. These applications now also have the capability to address the needs of corporate customers, providing a comprehensive banking solution.

Mobile banking: Mobile banking refers to provision and availment of banking and financial services with the help of mobile telecommunication devices. The scope of offered services may include facilities to conduct bank and stock market transactions, to administer accounts and to access customized information.” [Tiwari and Buse, 2006].Mobile Banking has been gaining increasing popularity amongst various sections of the society for past few years. By complementing services offered by the banking system, such as check books, ATMs, voicemail/landline interfaces, smart cards, point-of-sale networks, and internet resources, the mobile platform offers a convenient additional method for managing money without handling cash (Karjaluoto, 2002). This has made bank and banking services more reachable and hassle free.

Government sponsored self-employment schemes

Banks of late have been financing the schemes which promote entrepreneurship. For example they have been actively participating in schemes such as IRDP, TRYSEM, JRY, NRY etc.Morever in their lending operations, they now give high priority to the relevance of the project for the economy as a whole along with genuine business productive requirements of the borrowers. Hence banks are now playing a very important role not only in the shaping of economy but also of the society by helping people to become independent and self reliant.

Delivering customer delight

It is a method which can pro-actively monitor customer satisfaction, identifies the areas where most beneficial improvements can be implemented and suggest the uses of web to market measurable improvements to a wide audience. It is a revolutionary and cost effective approach to link customer satisfaction with internal improvements, performance and increased business. Delight results from exceeding the expectations of satisfied customer. According to Gurney (1999), customer delight is an opportunity, provided employees are trained to take up these opportunities and are empowered to act on them as the customers want service workers to be efficient, helpful and pleasant. Banks nowadays are increasingly focussing on customer service and exceeding one level above such an orientation. Once good service is extended to a customer, a loyal customer will work as an Ambassador to the bank and facilitate growth of business (Bhaskar, P.V., 2004, p.9).Courtesy (employee politeness, respect, friendliness and consideration), prompt customer-oriented recovery management, personalization, going beyond the call of duty or out the way help provision and customization has helped banks to establish a positive rapport among its customers. Customers in turn now see banks as Good Samaritan which can be relied upon on both good and bad times.

Imparting good governance

The road banks have taken now is entirely different from the tracks traversed hitherto. Banks are now compelled to concentrate more on how to improve performance with regard to capital adequacy, asset quality, management performance, liquidity and systems and controls. While capital adequacy, asset quality and profitability can be ascertained from balance sheet management, system and controls will involve subjective evaluation. This requires highly effective governance which banking industry has managed excellently. By setting high ethical standards this sector has gained the respect and trust of public at mass.

Corporate social responsibility

The bank is a corporate citizen, with resources at its command and benefits which it derives from operating in society in general. It therefore owes a solemn duty to the less fortunate and under-privileged members of the same society. (State Bank of India, 2015) Banks nowadays have started promoting environment friendly and socially responsible lending and investment practices. RBI (2007) has also directed Indian banks to undertake CSR initiatives for sustainable development and asked to begin non-financial reporting which is related to activities in the era of environmental, social and economic accounting. To highlight the role of banks in corporate social responsibility the RBI circulated a notice on December 20, 2007 for all the scheduled commercial banks, with title “Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting-Role of Banks”. The Reserve Bank of India (RBI, 2011) on stressing the need for CSR, suggested the banks to pay special attention towards integration of social and environmental concerns in their business operations to achieve sustainable development. Banks are now increasingly making their contribution by understanding the aspirations of the public around them and by endeavouring to evolve measures to remove indisputable social and developmental lacunae. The CSR in Indian Banking Sector is aimed towards addressing the financial inclusion, providing financial services to the unbanked or untapped areas of the country, the socio-economic development of the country by focusing on the activities like, poverty eradication, health and medical care, rural area development, self-employment training and financial literacy trainings, infrastructure development, education, and environmental protection etc.

Some of the major initiatives taken by the banks in their new CSR activities are listed below:

- Programs for promotion of women entrepreneurs
- Village adoption schemes
- Green initiatives like electricity audit of bank office
- Establishment of Butterfly park which houses medicinal plants
- Tree Plantation Drives
- Spreading awareness on Climate Change and Global Warming
- Joining hands with ‘World Wide Fund of Nature’ (WWF) and ‘The Indus Entrepreneurs’ (TIE)

4. CONCLUSION

To conclude, it is understood that the move from old to new business environment and working strategies has created the demands on Indian banks like enhanced work flow, full customer access to banking transactions through electronic mode etc. With increasing customer mobility this trend can be expected to gain even higher momentum. An important implication of this development is that in short to medium run, the mobile channel can be expected to become a perhaps indispensable part of the multi-channel strategies in the banking sector, following in the footsteps of online banking. Thus banking sector, backed by twin force of deregulation and technology, is expected to grow multifolds in its activities. And, the most important implication of this would be an unprecedented increase in the social face value of banks..

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