
A STUDY ON SOCIAL BANKING IN INDIA

Pratichi Jha, KIIT School of Law

ABSTRACT

Social banking in India reflects a voluntary reorientation of a commercial banking paradigm of profitability to an inclusive financial technology aimed at spreading social justice and economic equity. Based on the constitutional perspective of a welfare state, social banking aims to institutional credit infrequent and underserved groups in the society especially rural groups, small farmers, micro-entrepreneurs, women, and weak groups. This paper thoroughly reviews the development, legal networks, the institutional processes, and up-to-date significance of social banking in India.

The paper is a historical account of social banking that has evolved in the period of social control and bank nationalization up to the post-liberalization period defined by financial inclusion and digitalization. It examines the jurisprudential importance of historic constitutional events, especially of *R.C. Cooper v. Union of India* and the further constitutional changes which undermine the rights of individual property through the enlargement of social-economic goals. It underlines the contribution of Priority Sector Lending (PSL) as the regulatory framework of social banking, especially the updated RBI Master Directions (2025), as the indicator of changing understanding of social justice, sustainability, and inclusive growth. In addition, the study assesses significant institutional structures like Regional Rural Banks (RRBs), NABARD, and Self-help Group (SHG) interlinkages, and their role in providing rural credit and developing MSMEs. Fields of particular concern are the Pradhan Mantri Jan Dhan Yojana (PMJDY) as a radical tool of digital financial inclusion, backed by real-world examples which prove its effectiveness in the savoring behavior, direct benefits transfer, and female financial inclinations.

The research also covers the chronic issues that social banking is facing especially by increasing non-performing assets, lack of credit with rural MSMEs and financial sustainability. It concludes by finding that social banking has been central in ensuring inclusive economic progress despite the challenge posed by operations and structure constraints. The paper suggests that social banking will be needed to enhance the credit quality, financial literacy, and technology-based governance to support the long-term vision of the inclusive growth and Vikshit Bharat 2047 in India.

INTRODUCTION

Indian social banking is a complex hybrid of economic policy and constitutional imperative, and serves as the major agent of social justice in a developing welfare state. Social banking unlike traditional commercial banking that is basically led by the need to maximize profit has a Triple Principle of profit, people, and planet. This shift of former classification as class banking to mass banking was not a simple administrative decision but rather another need done by the rudeness of financial exclusion which was high during the post independence times. Social banking tends to be typified by Indian market by a conscious diversion of credit into undervalued areas, expansion of banking networks into rural hinterlands and the use of technological advancements to overcome the divide between the formal financial system and the marginalized population.¹

THEORETICAL FRAMEWORK AND PHILOSOPHICAL FOUNDATIONS OF SOCIAL BANKING.

In India, social banking is entrenched in the Directive Principles of State Policy contained in the Constitution of India. Art.38 and 39 requires the state to provide a social order conducive to the well-being of the people and to see to it that the ownership and control of the material resources of the community be so distributed as to be most conducive to the common good.² During the post-independence period, it became clear that the private banking group, led by the concern of big industrial livelihood, was not addressing the interests of agrarian community. The credit accumulated in urban centers and rural populations were forced to rely on non-institutional, frequently exploitative, sources of funds.³ Move towards social banking was thus an ideological requirement. It aimed at converting class banking into mass banking, so that institutional credit was extended to the marginalized and the poor.⁴ This is a philosophy that argues that none of the individuals should be denied life chances to do business or to live because of their inability to access financial services.⁵ That is why Indian banking sector passed

¹ Manoj P. K., Social Banking in India in the Reforms Era and the Case of Financial Inclusion: Relevance of ICT-Based Policy Options, scholarly research paper.

² The Concept of Social Banking: Indian Perspective, *International Journal of Law Management & Humanities*, Vol. 6, Issue 2 (2023).

³ Public Sector Banks: Performance and Achievements Since Nationalization, *International Journal of Novel Research and Development*, Vol. 10, Issue 4 (2025).

⁴ A Study on Social Banking in India – A New Horizon in Banking Sector, *Journal of Emerging Technologies and Innovative Research (JETIR)*, Vol. 11, Issue 7 (2024).

⁵ Social Justice through Social Banking in India, *International Journal of Novel Research and Development*, Vol. 8, Issue 1 (2023)

a number of various stages that are characterized by the further intervention of state in it and sophistication of the social priorities. The pre-reform period was, in large part, based on a public ownership model to inculcate a reliance on the socialist model of planning in which the banking policy was focused on broad-based branch growth and oriented credit, occasionally to the detriment of financial performance.⁶

EVOLUTIONARY DEVELOPMENT: 1950-1970: SOCIAL CONTROL TO NATIONALIZATION.

The history of social banking in India can be split into three major periods, starting with an early period between 1786 and 1969, the period of nationalization between 1969 and 1991, and the recent days of financial inclusion and digitalization since the 1991 reforms.⁷

The Era of Social Control (1967-1969)

The Government of India has tried to match the national priorities with the private banks using the concept of Social Control before the full-fledged nationalization of 1969. This was codified with the Banking Laws (Amendment) Act of 1968 that came into force on 1st February 1969. Social control attempted to influence the Lending policies of banks without altering their ownership set up. It was connected with the re-election of the boards of directors of commercial banks to make sure that out of at least five-one-hundred per cent of their members one at least possesses special knowledge or real-life experience in such a sphere as agriculture, small-scale industry, and the rural economy.⁸

The V.V.Pai Anandikar report pointed out that small industries and the new entrepreneurs could not borrow with enough credit in the system that was in existence.⁹ Nonetheless, the social control experiment was to a large extent considered to be a failure. A National Credit Council formed in 1968 to advise on how credit should be allocated discovered that the banks in the country were still operating on the policy of maximizing on profits rather than social development. There were not enough advisory regulations that would force the private entities

⁶ Swati Ghosh, Bishan Sanyal & Buddhadeb Chandra, Evolution of Banking Sector in India, Zenodo Research Archive (2023).

⁷ Swati Ghosh, Bishan Sanyal & Buddhadeb Chandra, Evolution of Banking Sector in India, Zenodo Research Archive (2023).

⁸ The Concept of Social Banking: Indian Perspective, *International Journal of Law Management & Humanities*, Vol. 6, Issue 2 (2023).

⁹ The Concept of Social Banking: Indian Perspective, *International Journal of Law Management & Humanities*, Vol. 6, Issue 2 (2023).

to lend to the sectors that had high perceived risks, and low returns in the short-term.¹⁰ This failure required the more drastic measure of nationalization.

The unraveling of the Nationalization (1969) During the First Phase.

The nationalization of fourteen large private commercial banks with deposit of over 50 crore was accomplished through the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance which came into effect on 19 th July 1969. This was a radical action led by the Prime Minister Indira Gandhi administration.¹¹ The main aims that led to the passing of the ordinance were to eliminate the monopolistic power of business houses over bank credit, to disseminate banking facilities to the areas of rural people who had no such facilities and to mobilize savings to build a planned economic growth.¹² These fourteen institutions controlled about eighty per cent of the total bank deposits in the country in those days.¹³

The Second Phase of Nationalization (1980).

An expansion to the first one, a second wave of nationalization took place on 15 April 1980. In this step, six more private banks whose deposits had more than 200 crore were nationalized. By 1980, the enormous percentage of the banking sector was socialized and became a preordium of the sound financial infrastructure which would support the economic progress of the country in the following decades.¹⁴

JURISPRUDENTIAL FOUNDATIONS: EFFECT TEST AND R.C. COOPER LANDMARK.

The legal struggle occurred not without tough fights towards transitioning towards social banking. In R.C. Cooper v. the nationalization of banks the case was argued before the Supreme Court. A case that completely changed the Indian constitutional law, Union of India (1970).

¹⁰ Nationalization of Banks and Social Control, scholarly article, *International Journal of Innovative Research in Law* (2025).

¹¹ Public Sector Banks: Performance and Achievements Since Nationalization, *International Journal of Novel Research and Development*, Vol. 10, Issue 4 (2025).

¹² The Concept of Social Banking: Indian Perspective, *International Journal of Law Management & Humanities*, Vol. 6, Issue 2 (2023).

¹³ i.d

¹⁴ i.d

The Ultimate Dilemma: Social Goals vs. Property Rights.

The bench of eleven judges of the Supreme Court in a 10:1 majority judged that the nationalization act amounted to a hostile discrimination against the fourteen banks and that that this contravened his right to property as defined in Article 19(1)(f) and his right to just compensation as defined in Article 31.

The 25th amendment and the Socialist Shift.

In order to avoid the R.C. Cooper decision, the government passed the 25th Constitutional Amendment in 1971. This amendment was a landmark on social banking in the sense that it:

-In Article 31, changed the term compensation with the word amount, and this allows the legislature to define any amount of value of acquired property that could not be subject to challenge in the court because of inadequacy.

- Article 31C, that no act that attempted to enforce the principle of Article 39(b) or (c) would be invalidated by obstructing Articles 14, 19 and 31 was added. It was later on in the year 1978 that the 44th Amendment took away the Right to Property off the list of fundamental rights altogether.¹⁵

PRIORITY SECTOR LENDING: THE REGULATORY ENGINE OF SOCIAL BANKING.

Social banking in India is driven by the Priority Sector Lending (PSL) mechanism. PSL has been used by the Reserve Bank of India (RBI) to make sure that credit is directed to the fields that are crucial to national growth and development but would otherwise be neglected by banks due to the perceived risks or less profitability of those specific areas.¹⁶

The guidelines are applicable to all the Scheduled Commercial Banks, Regional Rural Banks (RRBs), Small Finance Banks (SFBs) and Primary (Urban) Co-operative Banks (UCBs). The targets are computed as the percentage of the Adjusted Net Bank Credit (ANBC) or of the Credit Equivalent of Off-Balance Sheet Exposure to losses (CEOBSE) whichever be greater.¹⁷

¹⁵ Rustom Cavasjee Cooper v. Union of India, AIR 1970 SC 564.

¹⁶ 17 Priority Sector Lending (PSL), Open Government Data Platform, Government of India

¹⁷ 18 Priority Sector Lending, Vision IAS Current Affairs Study Material (2025).

Official RBI Priority Sector Lending Targets (Effective April 1, 2025)

Category	Domestic Commercial Banks & Foreign Banks (>20 branches)	Foreign Banks (<20 branches)	Regional Rural Banks (RRBs)	Small Finance Banks (SFBs)	Primary (Urban) Co-operative Banks (UCBs)
Total Priority Sector	40%	40% (Max 32% as Export Credit)	75%	75%	60%
Agriculture	18%	N/A	18%	18%	N/A
Micro Enterprises	7.5%	N/A	7.5%	7.5%	7.5%
Weaker Sections	12%	N/A	15%	12%	12%

Source: Calculated based on RBI Master Directions 2025 and VisionIAS Economic Review.

The revised 2025 came with a number of landmark innovations. Most noteworthy, the category of “Weaker Sections was extended, with the types of target customers regarding social justice being Transgenders explicitly mentioned and loan limits on social infrastructure, including schools and drinking water facilities, were raised to 8 crore and 10 lakh per borrower, respectively.¹⁸

To accomplish the efficiency of such targets, PSLCs were launched by the RBI in 2016.¹⁸ PSLCs provide banks that reach excess of their PSL targets to sell their excess to underachieving banks. It is a market-driven process where the general objective of the banking network is achieved and banks specializing in social lending rewarded.¹⁹

¹⁸ 18Priority Sector Lending, Vision IAS Current Affairs Study Material (2025).

¹⁹ i.d

PRADHAN MANTRI JAN DHAN YOJANA: A DECADE OF DIGITAL INCLUSION.

The Pradhan Mantri Jan Dhan Yojana (PMJDY), launched on 28 August 2014, was the most ambitious social banking project in India so far, and it attempted a paradigm shift in the financial distribution of the underprivileged towards a paradigm of household coverage based on the JAM trinity. **PMJDY Milestones and Achievements (As of August 2025)**

Metric	Achievement Data (2025)
Total Accounts Opened	56.16 Crore
Total Deposit Balance	₹2,67,756 Crore
Average Deposit per Account	₹4,768 (3.7x increase since 2015)
Share of Women Beneficiaries	55.7% (31.31 Crore)
Accounts in Rural/Semi-Urban Areas	66.7% (37.48 Crore)
RuPay Debit Cards Issued	38.68 Crore
DBT Transfers (FY 2024-25)	₹6.9 Lakh Crore

Source: Official Press Information Bureau (PIB) Release and Ministry of Finance Data.¹²

The PMJDY shifted the agenda to functional financial inclusion, and in FY202425, over 185000 UPI financial transactions were made, as compared to a paltry 535000, in FY20182019. 12 The saturation campaign, introduced between July and September 2025, pursued the goal of including the remaining unbanked adults in the formal system, with more than 177000 camps held nationwide.²⁰

INSTITUTIONAL FRAMEWORK: NABARD, REGIONAL RURAL BANKS.

Though the central force of the financial system is commercial banks, the institution that has become the backbone of social banking in rural areas is the Specialized institutions like

²⁰ 12Pradhan Mantri Jan Dhan Yojana (PMJDY) Completes 11 Years, Press Information Bureau, Government of India (2025).

Regional Rural Banks (RRBs) and the National Bank of Agriculture and Rural Development (NABARD). RRBs had been established by suggestions of the Narasimha Working Group by the Regional Rural Banks Act, 1976 and were established with the view of assisting small and marginal farmers and agricultural labourer and artisans in rural regions with credit.²¹

The legal nature of RRBs is unique; they are statutory institutions with the 50% of the capital being provided by the Central Government, 15% by the State Government and 35% by the Sponsor Bank.²² The amendment of 2015 to the RRB Act propelled the authorized capital substantially upwards, to 2,000 crore, and allowed such banks to raise capital adequacy.

Wage parity of its employees has been a major socio-legal concern in the RRB industry. South Malabar Garmin Bank v. The Supreme Court in Coordination Committee of S.M.G.B. Employees’ Union (2001) stated that in this particular case RRB employees have a right to receive the same pay as their counterparts in the sponsor nationalized banks. The court added that the umbilical cord between the sponsor bank and the RRB requires the terms and conditions of service to be similar and, as such, the financial viability cannot be exploited as a way of depriving revised pay scales.²³ In subsequent cases the court observed that the umbilical relationship

NABARD is the highest regulatory bank of the rural credit and through it, the SHG-Bank linkage Programme is run. The programme has generated a 20.20 percent compound annual growth rate (CAGR) in total savings and a 19.35 percent CAGR in loan disbursements in 2010 to 2023, according to the NABARD Annual Report 2024-25.²⁴

NABARD Rural MSME and SHG Performance (2024-25 Outlook)

Indicator	Status/Statistics
Total MSMEs Registered (Udyam)	6.5 Crore
Contribution to GDP	30.1%

²¹ Regional Rural Banks and Financial Inclusion: Policy Imperatives, Small Industries Development Bank of India (SIDBI).

²² Regional Rural Banks, Indian case law compilation, CaseMine database

²³ i.d

²⁴ NABARD Annual Report 2024–25, National Bank for Agriculture and Rural Development

Rural MSME Credit Gap	32% (35% for women-owned)
SHG Income Growth	~33% increase within 2 years of membership
Women-owned Rural MSMEs	~29%

Source: Compiled based on NABARD Annual Report 2024-25 and Asian Journal of Current Research.

Another issue that the NABARD data underline is the credit gap affecting the rural MSMEs. Although there has been some social banking, even with its best efforts, almost 32 per cent of the credit requirement goes unsatisfied by any formal sources, motivating many entrepreneurs to turn to high interest informal lending sources.²⁵ This credit gap is a major consideration of the 2025 PSL guidelines and is being encouraged to lend to so-called low-credit districts as defined by Annex I-B of the RBI Master Directions.²⁶

SOCIAL BANKING AND HOUSING SECTOR: IN SEARCH OF AFFORDABLE HOUSING TO ALL

In the reforms era, housing finance has emerged as a cornerstone of social banking. The Government of India's goal of 'Affordable Housing for All,' initially targeted for 2022, has been extended to 2025 due to the disruptions caused by the COVID-19 pandemic.²⁷

During the times of reforms, housing finance has become one of the pillars of social banking. This market is dominated by 29 Commercial banks and Housing Finance Companies (HFCs), which have housing loans not exceeding 35 000 lakh (in metros) and 25 000 lakh (in other centers) as priority sector lending.²⁸

The role of housing finance can be further explained by the fact that it produces considerable backward and forward linkages with upwards of 200 other related industries e.g., steel, cement, electrical products etc., and the digital economy of Kerala study by P.K. Manoj argues that affordable housing is a significant prerequisite to having healthy and productive citizens.

²⁵ i.d

²⁶ 19 Master Directions – Priority Sector Lending (Targets and Classification), Reserve Bank of India Directions (2025).

²⁷ Financial Inclusion and Banking Reforms, Scribd academic publication by Manoj P. K. (2024)

²⁸ Priority Sector Lending (PSL), Open Government Data Platform, Government of India.

However, the study also reveals clear social inequalities in the IT sector and other modern industries, where marginalized groups (specifically SC/ST communities) face barriers in accessing housing finance despite their employment status.⁵ Social banking policies are thus being recalibrated to address these sub-sectoral inequalities within the urban and semi-urban landscape.²⁹

MACRO-IMPACT AND ECONOMIC DEVELOPMENT OF SOCIAL BANKING.

Econometric evidence backs the relationship between social banking and economic development, with studies by Dourtmes and Andrikopoulos (2021) using random -effect models to show that concomitant achievement of social impact and financial sustainability have positive effects on the growth of annual GDP per capita, especially in developing economies, e.g., India.³⁰

The economy is most susceptible to the agricultural and MSME sectors (which comprise the greatest amount of employment in the Indian economy, which social banking sustains more than purely commercial banks, through their involvement in less procyclical lending, i.e. avoiding a snatching back of credit in response to economic downturns.³¹

ISSUES AND SUSTAINABILITY: THE NPA CRISIS.

The rising levels of Non-Performing Assets (NPAs) on a long-term basis are often considered a threat to the long-term sustainability of social banking particularly in priority sector lending. NPAs are the loans which do not generate revenue due to defaults and have negative effects in terms of financial stability and profitability of banks.³²

The aggregate indicators suggest that although programs like SHG-Bank does have shown negative relationships with the gross NPAs indicating the enhancement of the repayment rates, other sectors, in particular, that concerns the agricultural sector are still prone to default on

²⁹ Manoj P. K., Social Banking in India in the Reforms Era and the Case of Financial Inclusion: Relevance of ICT-Based Policy Options, scholarly research paper & Manoj P. K., Research Profile, Cochin University of Science and Technology.

³⁰ The Impact of Social Banking on Economic Development, East–West J. Econ.

³¹ Social Justice through Social Banking in India, International Journal of Novel Research and Development.& Ritul Tyagi, Social Banking in the Indian Economy, *Burnished Law Journal* (2020).

³² Impact of NPAs on Long-Term Sustainability of Banks in the Economy, International Education and Research Journal.

credit.³³

IMPLICATION ON MSME AND RURAL DEVELOPMENT.

Social banking has a very significant impact on MSME sector which takes about 30.1% of the GDP of India. According to an assessment by NABARD (2024-25), even with the broad registration of over 6.5 crore MSMEs, in rural regions, a credit gap of almost 32 percent is observed, especially with regards to those enterprises in woman leadership.³⁴

MSME Contribution Metric (Official Estimates)	Value
Share of Gross Domestic Product	30.1%
Share of Manufacturing Output	35.4%
Share of Export Earnings	45.7%
Rural MSMEs owned by Women	~29.0%

Source: NABARD Annual Report 2024-25 39

An initiative to computerize the Primary Agricultural Credit Societies (PACS) has been initiated to address these shortcomings, with an estimated spending of 2,925.39 crore, which will connect them to NABARD through integrated ERP-based solution, in order to improve visibility and functionality in the credit delivery process in the rural areas.³⁵

CONCLUSION: TOWARD VIKSHIT BHARAT 2047

Social banking in India has emerged as a controversial political directive in the 1960s, through to today having become a complex technology based ecosystem that is transformational in the welfare agenda of the country. The evolution of the R.C. Cooper litigation to the JAM Trinity is an illustration of the radical socio legal change in which the Right to Property was being radically checked in favor of the Right to Livelihood and Social justice. The practice has been

³³ Non-Performing Assets in India: A Critical Analysis of Public and Private Sector Banks, Corporate Governance and Sustainability Review, Virtus InterPress.

³⁴ NABARD Annual Report 2024–25, National Bank for Agriculture and Rural Development.

³⁵ Strengthening of Cooperative Societies, Press Information Bureau, Government of India.

confirmed by the empirical evidence that Indian banks have already learnt the ropes in mastering the “Double Bottom Line and has demonstrated that social responsibility and financial efficiency do not necessarily in-between.

By 2026, the Indian banking industry is on the brink of universal financial saturation, and through more than 57 crore PMJDY accounts and a digital payment system, it records almost half of the world real-time transactions. This is what forms the basis of inclusive Vikshit Bharat (Developed India). The next 10 years will require a transition of the usual access to quality, so that all Indian citizens will have a bank account, but must also gain the financial literacy and access to credit to break the cycle of poverty. The originally radical experiment of social banking is now the inelastic force of India in its democratic and economic dreams.