

ROLE OF COMMERCIAL BANKS IN ECONOMIC DEVELOPMENT OF INDIA

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ABSTRACT

Banks plays a vital role in the economic development of a country. They accumulate unaccounted money with the people and channelize it to capital growth and make it available to entrepreneurs who in turn invest in many projects thus, give economic growth to the country. Growth in agriculture and industrial sectors are very important for any country as they are the largest job giving sectors and contribute to a massive percentage of growth in gross domestic product (GDP). The growth of these sectors is not possible with ought the assistance of financial institutions specially banks. Exports is one of the very important sectors for the economic health of any country as it brings foreign currency to the country. Commercial banks assist this sector to a great extent from financing to transaction of currency. The commercial banks also help in keeping a check to the parallel economy and also curve black money transaction in the economy. As from time to time the banks conduct the drive for disclosure of unaccounted money which to the country's economy. This study highlights the importance of commercial banks in the growth of the economy.

Keywords: Capital, Savings, Advances, Monetary, Gross Domestic Product (GDP).

Introduction

Our past history reveals that thousands of years back when the legitimate currency was not a mode of transaction, people exchange their goods to another with theirs. This system of exchange was known as "Barter System of Exchange". But with the change of time as the people got civilized, a proper system of transaction is felt by the society, so in sixteenth century the concept of banking was evolved. The systemic evolvement of banking in India was during the British regime (1865) the first independent bank was opened- Allahabad bank with it headquarter in Calcutta. Bank is a financial institution which accepts money from the one who is having within and passes it to the individual who is in need through a proper system.

Objective of the Study

- The main objective of this study is to critically analyze the role of Indian commercial banks in capital formation of the individuals and to increase economic growth of the country.
- To analyze the impact of banks deposits mobilization on the capital

Banking Structure in India

The structure of the Indian banking system that had evolved to caret top the needs of last man of the society from big cities to remote villages. The structure of Indian banking system can be classified into two categories, first the organized sectors and second the unorganized sectors. This sector can be further classified into the Reserve Bank of India, Commercial banks, cooperative banks and rural banks.

- **Reserve Bank of India (RBI):** The RBI is the leader of Indian banking system. Its main functions are control on banks, to issue currency and to control financial issues of the country.
- **Commercial Banks:** The commercial banking system in India consists of public sector banks, scheduled banks, and private sector banks

- **Public Sector Banks:** Public sector banks are those banks which are owned and controlled by the government of India. They work as per the second schedule of RBI act 1971. Currently Indian banking industry consists of 27 public sector banks they are also known as nationalized banks. Some of the popular includes State Bank of India, Punjab National Bank, Bank of Baroda etc.
- **Private Sector Banks:** They are those banks in which the majority of states are held with private institution currently, 31 private sector banks are operating in India. Some of them are ICICI Bank, HDFC Bank, AXIS Bank, YES Bank etc.
- **Foreign Banks:** They are the banks with their headquarters outside the country but the work as the guidelines of RBI. Some of them are City Bank, Standard Chartered Bank, Bank of Tokyo etc.
- **Cooperative Banks:** They are mainly operative in rural areas. Their main focus is on rural development, agriculture Ahmedabad Mercantile Co-Op Bank Ltd., Kalapur Commercial Coop. Bank Ltd., Madhavpura Mercantile Co-Op Bank Ltd.

Functions of Commercial Banks

The primary function of the banks is to increase the capital of their customers by:

- **Opening More and More Savings Accounts:** Before nationalization of banks a very small percentage of our society is assisted by the services of banks. By the passage of time more and more people are associating themselves through banks as far as their finances are concerned. But still in a country of 1.33 billion a very large percentage is still not associated with banks so new banks are opening their branches to the remote areas and also conducting special campaigns to educate people for opening their savings accounts. These accounts are opened as per the age and sets of the individuals like accounts the young ones, accounts for the girl child, account for the elderly person. Recently the government of India has launched a massive account opening drive by the name "Pradhan Mantri Jan Dhan Yojana ". PMJDY is a unique drive of opening new savings bank accounts with salient features like zero balance, insurance, credit card, overdraft facilities. Through this campaign a very large number of new accounts were open. Since its inception in July 14 around 36.25 crores accounts were opened and giving one lakh crores of deposit government for circulation. The accounts opened under this scheme is majority of poor people, villagers, and house wife's
- **Accepting Deposits:** In order to mobilize deposits, the commercial banks organize campaigns for a variety of their customers. For example, giving extra interest to elderly people, offering insurance, credit card, overdraft facility etc.
- **Lending Loans and Advances:** No business in this competitive environment can run without the financial assistance from banks as they offer loans and advances for proper functioning of business from industrial to agricultural sector thus in a net shell the banks are the pillars of the economic development of a country.
- **Opening of Current Accounts:** Current accounts are opened for business purpose. A customer can deposit and withdraw money from the current account subject to a minimum balance. Through this current account the banks offer to many added features like overdraft facility, cash credit facility etc.
- **Fixed or Term Deposits:** This is used by the customers to invest money for a specific amount of time to earn better returns than savings bank interests. This scheme motivates the customers to deposit their money in banks so that they can get lacerative returns. Commercial banks also offer various types of loans. Some of them are:
 - **Loan against Collateral Security:** Real state is the fastest growing sector in our country which contribute handsome amount of revenue to the government. It offers housing for the individual as per their requirement. As the transactions are of very large amount so this sector is entirely dependent on banks for finance. An individual who takes a housing loan has to repay the amount over a long period of time. The banks hypothecate the property as security and sanction the required amount to their customers and charge a certain amount of interest on the above amount.
 - **Loans for Vehicles:** In a fast-moving economy transportation play a very important role for which the banks are financing loans for variety of vehicles starting from two vehicles to big trucks at a reasonable rate.

- **Education Loans:** The banks are also offering educational loans to the required individuals. Through this loan they can complete their higher education and have to repay the loans when they are employed thus, we can say that the banks are also helping in increasing the literacy rate of the country.
- **Loan against Cash Credit Limit:** This type of loan is given to traders or business men those having current accounts. A cash credit limit allows an individual to withdraw money or issue cheques up to the approved CC limit, even there is no balance in the account. CC limit is usually calculated by taking a margin of 25% of stocks and 40% of book depths.
- **Gold Loan:** Generally we have a tendency to purchase gold on every auspicious times. The banks offer loans against the gold which an individual is having with him.
- **Loan for Agriculture:** Farmers are the backbone of the Indian economy and agriculture is the biggest sector in India but, generally the farmers are not able to get the proper returns from farming so now the banks are providing a variety of loans for agriculture starting from the purchase of seeds, agriculture machine like tractors, engines for irrigation at a very subsidize rate.

Importance of Banks in Development of the Country

- **Promote Saving Habits:** Banks are the financial pillars of any country. The health of the country is strong if the economy of the country is strong. The primary responsibility of the banks is to promote savings habits of the people as they mobilize people to deposit their money for lucrative returns.
- **Capital Formation and Promote Industry:** Banks help in capital formation of an individual as they deposit accounted money in banks. After deposition of unaccounted money comes into the main economy and more and more industries are benefitted which ultimately leads to the strengthening of economy.
- **Smoothening of Trade and Commerce Functions:** Success of any economy is determined by the trade transactions carried over there. In every trade transaction, money is evolved. The role of banks is to conduct smooth transaction of money from one customer to another, from one country to another in a smooth way in least time.
- **Associated services rendered by the commercial banks-** The banks nowadays not only collect and disperse money but also provide many associated services to their customers.
 - They are payment of rent payment of insurance premiums, telephone and electricity bills etc.
 - The bank also collects cheques, drafts on behalf of their customers.
 - The bank also exchange currency as per the regulations.

In addition to these now commercial banks are also providing many utility services as:

- **Safeguarding Valuables:** Commercial banks are also helping their customers to help safeguarding their valuables like gold, property papers in a safe house called 'lockers'. They charge a nominal fee for it.
- **Automatic Teller Machines (ATMs):** In order to save a time of their customers most of the commercial banks are introducing ATMs from metro cities to semi urban areas. Through these ATMs the customer can withdraw or deposit money without going to the concerned branch at any time. These ATMs make the customer to move freely without carrying cash with them.
- **Credit Cards-** This is another plastic card issued by the banks to their customers. Through this card the customer can make trade transactions.
- **Transferring Money:** The commercial banks also help their customers in transferring their money from one place to another. They perform this function by many ways earlier they used to transfer funds through drafts, banker's cheques etc. But now with the involvement of technology the transfer of money is done quickly through Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer.

Role of Banks in Development of the Country

Commercial banks play a very important role in development of countries specially developing countries like India. Banks lubricate the entire monetary and financial system and ensure smooth operations of transactions. Commercial banks are the nerve centers of the capital market, industrial and trading activities of a country. The main role of the commercial banks in economic development are as follows:

- **Role in Implementation of Monetary Policy:** The monetary policies of the central bank of the country is a very important instrument of economic policy in a liberal society. The monetary policy must be implemented effectively and efficiently to manage the crucial factors of the economy. The effectiveness of the monetary policies depends upon the cooperation of commercial banks as they are directly related to the customers.
- **Helpful in the Development of Priority Sectors:** The commercial banks also play a very important role in the development of priority sectors of the economy as per the situation. Banks help in achieving the objective of development of priority sectors through its selective credit policies.
- **Directing Funds into Desired Channels:** Every government always wants a balance growth and development of all the sectors of the economy. Banks ensure the balanced growth of the economy by directing the funds into productive channels. Thus, it can be said that the commercial banks are the drivers for all round growth of the society.
- **Helpful in Productive Activities:** Commercial banks are also helpful in figuring the economic activities of the country specially agriculture and industrial sectors as they are the pillars of the economy of any country. The commercial banks facilities these sectors by providing them finances at a reasonable low rate of interest.
- **Helpful in Mobilization of Savings:** Commercial banks also offer facilities or deposits at a lacerative rate of interests. This attracts the individuals to the bank with their unaccounted money so that it comes to organized the capital market of the country.

Conclusion

According to the federation of Indian industries, agriculture sector-which is the biggest job oriented sector and contribute to about 17 percent of the GDP is in a very bad condition the farmers are always under deck from the private money lenders one hand and high cost of productivity, poor storage and poor connectivity on the other hand so they are trying to come out of farming. India being an agriculture driven economy has to pay a big cost for it. Banks are very helpful in motivating them to their traditional business of farming as they provide them loans at a low rate of interest and also provide individuals in every sphere of life. So, it can be concluded that the commercial banks are essential for all round growth of the economy.

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