

Role of Commercial Banks in the Economic Development of India

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Abstract

Banks have constantly played a significant situation in the nation's economy. They assume an unequivocal job in the advancement of the business and exchange. They are acting not just as the overseer of the abundance of the nation yet in addition as assets of the nation, which are fundamental for the monetary improvement of a country. The general job of commercial banks is to give monetary administrations to overall population and business, guaranteeing financial and social strength and maintainable development of the economy. Business Bank in India involves the State Bank of India (SBI) and its backups, nationalized banks, outside banks and other planned commercial banks, territorial country banks and non-booked commercial banks. The all out quantities of parts of commercial banks are more than 50,000 and the provincial rustic banks are around 8,000 covering 280 areas in the nation. Commercial banks generally give transient credits and now and again medium term monetary help additionally to little scale units. A large portion of the commercial banks have particular units in their regulatory structure to deal with the monetary needs of the little scale modern units. As we realize that the Agriculture is the foundation of economy of any nation like India. Research depends on the optional information. Which give the discoveries on commercial banks and how it supportive in monetary improvement. The primary target of the examination is to basically look at and investigate the job of business puts money on monetary development in India. The investigation depicts how advances and credit influence the GDP and thusly the degree of financial development of India. This paper aims to discuss role of commercial banks in the economic development in India.

Keywords: Social Stability, Rapid, Realized, Tax, GDP.

Introduction

Exercises of the commercial banks in India are extending at a fast space during the period after Independence. There is regional just as utilitarian. Development of the exercises of the bank. Banks which are moderate and traditional in their methodology have turned out from their shell and face the difficulties of arranged monetary development. As of late non-customary parts are getting the consideration of commercial banks in India. A superior comprehension of the ramifications of financing non-customary part by commercial banks is conceivable just in the event that one thinks back the situation of commercial banks during the pre-nationalization time. Banking in India before nationalization.

Commercial banks are is the establishments that conventionally acknowledge stores from the individuals and advances. Commercial banks likewise make in India; such

banks alone are called Commercial Banks which have been set up as per the arrangements of the Banking Regulation Act, 1949. Commercial banks might be Scheduled Banks of Non-Scheduled Banks.

Banking Regulation Act, (BR Act), 1949. As indicated by Section 5(c) of the BR Act, 'a financial organization is an organization which executes the matter of banking in India.

As indicated by Reserve Banks of India Act 1934, 'A Scheduled Bank is that bank which has been incorporated into the second timetable of the Reserve Bank'.

Indian Banking System

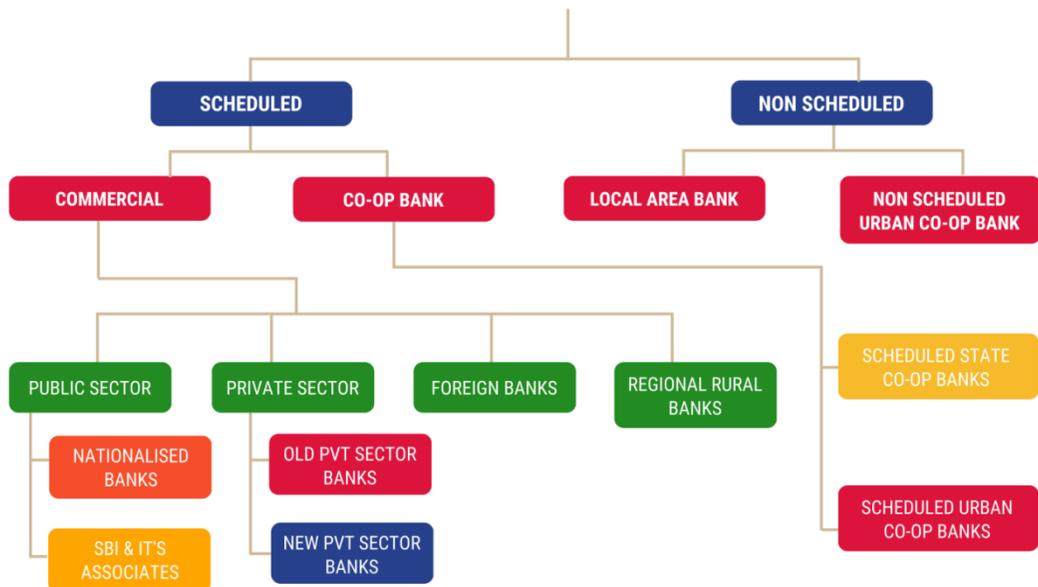
An economy is attainable with a sound and successful financial framework in India. The financial arrangement of India work in addition to the fact that hassle is free, it ought to have the option to address new difficulties presented by the innovation and some other outside and inward factors.

For as far back as three decades, India's financial framework has a few remarkable accomplishments shockingly. The most striking is its broad reach; it is never again restricted to just metropolitans or cosmopolitans in India. Banking framework has come to even the remote comers of the nation. The administration's customary

arrangement for Indian bank since 1969 has paid rich profits with the nationalization of 14 noteworthy private banks of India. In the distant past, a record holder needed to sit tight for a considerable length of time at the bank counters for getting a draft or for pulling back his cash.

Classification of Commercial Banks

Figure: 1
Structure of Commercial Banks
Reserve Bank of India



Source: en.wikipedia.org/wiki/List_of_banks_in_India

1. Scheduled Commercial banks

- Public Sector Banks
- Private sector Banks
New Private sector Banks
- Foreign Banks
- Regional Rural Banks

a. Public Sector Banks

Bank Name	Established	Headquarter	Branches
Allahabad Bank	1865	Kolkata, West Bengal	3,503
Andhra Bank	1923	Hyderabad, Telangana	2,803
Bank of Baroda	1908	Vadodara, Gujarat	9583 ^[4]
Bank of India	1906	Mumbai, Maharashtra	5,000
Bank of Maharashtra	1935	Pune, Maharashtra	1,897
Canara Bank	1906	Bengaluru, Karnataka	6,639

Central Bank of India	1911	Mumbai, Maharashtra	4,666
Corporation Bank	1906	Mangalore, Karnataka	2,501
Indian Bank	1907	Chennai, Tamil Nadu	2851
Indian Overseas Bank	1937	Chennai, Tamil Nadu	3,400
Oriental Bank of Commerce	1943	Gurugram, Haryana	2355
Punjab and Sind Bank	1908	New Delhi	1,554
Punjab National Bank	1894	New Delhi	7000
State Bank of India	1955	Mumbai, Maharashtra	24,000
Syndicate Bank	1925	Manipal, Karnataka	3500
UCO Bank	1943	Kolkata, West Bengal	4000
Union Bank of India	1919	Mumbai, Maharashtra	4,300
United Bank of India	1950	Kolkata, West Bengal	2,054

Source: RBI Bulletin, 2018.

b. Private Sector Banks and New Private Sector banks

Name of the Bank	Year Established
City Union Bank	1904
Karur Vysya Bank	1916
Catholic Syrian Bank	1920
Tamilnad Mercantile Bank	1921
Nainital Bank (Wholly owned subsidiary of Bank Of Baroda)	1922
Karnataka Bank	1924
Lakshmi Vilas Bank	1926
Dhanlaxmi Bank	1927
South Indian Bank	1929
DCB Bank	1930
Federal Bank	1931
Jammu and Kashmir Bank	1938
RBL Bank	1943
ICICI Bank	1994
Axis Bank	1993
HDFC Bank	1994
Kotak Mahindra Bank	2003
Yes Bank	2004
IndusInd Bank	1994
IDFC First Bank	2015
Bandhan Bank	2015
IDBI Bank	2019

c. Foreign Banks

- Abu Dhabi Commercial Bank American Express

- Antwerp Diamond Bank AB Bank
- Australia and New Zealand Banking Group Bank Internasional Indonesia
- Bank of America Bank of Bahrain and Kuwait
- Bank of Ceylon Bank of China
- Bank of Nova Scotia Bank of Tokyo-Mitsubishi
- Barclays Bank BNP Paribas
- Chinatrust Commercial Bank Citibank India
- Credit Agricole Credit Suisse
- DBS Bank Deutsche Bank
- Emirates NBD
- FirstRand Bank First Abu Dhabi Bank
- Goldman Sachs HSBC Bank India

d Regional Rural Bank

2. Scheduled Co-operative banks

- State Co-Operative Banks
- Urban Co-operative banks

3. Non Scheduled Commercial Banks

- Local Area Bank
- Non Scheduled Urban Cooperative banks

Review of Literature

Melaku Alemu and Melaku Aweke (2017) have analyzed the performance of private commercial banks using CAMEL rating model in their study. Samples of 6 private banks were taken for their study for a period of 10

years. The overall performance of the banks was rated using descriptive statistical tools, and the impact of CAMEL variables were measured using the panel regression model. To determine the profitability impact, explanatory variables were used. The banks were listed on the basis of various descriptive and inferential analyses

Objectives

1. To study the importance of banks in the development of the country.
2. To identify the function of commercial banks.
3. To determine the roll of commercial banks in economic development.

Methodology

This study only based on secondary data. secondary data will be a collected from RRI Report, RBI Publication, Government Record, Public and Private Sector Banks, Books and Journals etc..

I. Importance of Banks in the Development of the Country

Banks are one of the most significant pieces of any nation. In this cutting edge time cash and its need is significant. A created money related arrangement of the nation guarantees to accomplish improvement. A cutting edge bank gives profitable administrations to a nation. To accomplish advancement there ought to be a decent created money related framework to help the financial as well as the general public. Thus, a cutting edge bank assumes an imperative job in the financial issues of the nation. A portion of the significant job of banks in the advancement of a nation is quickly sowing below.

a). Promote Saving Habits of The People

Bank attracts depositors by introducing attractive deposit schemes and providing rewards or entry in the form of interest. Banks in case different kinds of deposit schemes to its customers. It enables to create banking nature or saving habits among people.

b). Capital Formation and Promote Industry

Capital is one of the most extensive parts of any business or industry. It is the life blood of business. Banks are increase capital formation by aggregate deposits from depositors and convert these deposits in to loans advances to industries.

c). Smoothing of Trade and Commerce Functions

In this advanced period exchange and trade assumes imperative job between any nations. Thus, the cash exchange ought to be easy to understand. A cutting edge bank causes its clients to sent assets to anyplace and get assets from anyplace of the world. A very much created financial framework gives different alluring administrations like versatile banking, web banking, platinum cards, Visas and so forth these sorts of administrations quick and smooth the exchanges. In this way, bank creates exchange and business

d). Generate Employment Opportunity

Since a bank develop industry and investment, there naturally generate employment opportunity. So, a bank enables an economy to create employment opportunity.

e). Support Agricultural Development

Agricultural sector is one of the integral division of any economy. Food self enough is the major challenge and goal of any country. Modern bank promote agricultural sector by providing loans and advances with low rate of interest correlated to other loans and advances schemes.

f). Applying of Monetary Policy

Monitory policy is an essential policy of any government. The major aim of monitory policy is to stabilize financial system of the nation from the dangerous of inflation, deflation, crisis etc.

g). Balanced Development

Modern banks speeding its operations throughout the world. We can see number of big banks like city bank, Baroda bank etc. It helps a country to spread banking a movement in rural and semi urban areas. With the spreading of banking activity improvement around the country, helps to attain balanced development by promoting rural areas.

Current bank assumes indispensable job in the financial advancement of the nation. A created financial framework empowers the nation to achieve adjusted improvement with no unique thought of rich and poor, urban areas and country territories and so on

Functions of Commercial Banks

The commercial banks fill in as the boss of the budgetary arrangement of the nation. They render numerous significant administrations.

Commercial banks give banking administrations to organizations and shoppers through a system of branches. These banks are ready to go to make a benefit for their proprietors and they are normally open constrained organizations overseen by investors. In India, be that as it may, the vast majority of the top commercial banks are claimed by the administration. Be that as it may, numerous private commercial banks have been set up in the ongoing years. Commercial banks are universally handy banks that play out a more extensive scope of capacities, for example, tolerating request stores, issuing checks against sparing and fixed stores, making momentary business and purchaser credits, giving financier administrations, purchasing and selling remote trade, etc. The functions of commercial banks are explained below

Primary Functions

- Collection of deposits
- Making loans and advances

a. Collection of Deposits: The essential capacity of commercial banks is to gather stores from the general population. Such stores are of three fundamental sorts: current, sparing and fixed.

b. A present record is utilized to make installments. A client can store and pull back cash from the present record subject to a base required parity. On the off chance that the client overdraws the record, he might be required to pay enthusiasm to the bank. Money credit office is permitted in the present record.

c. Investment account is an enthusiasm yielding record. Stores in investment account are utilized for setting aside cash. Reserve funds financial balance holder is required to keep up a base parity in his record to benefit of check offices.

d. Fixed or term stores are utilized by the clients to set aside cash for a particular timeframe, running from 7 days to 3 years or more. The pace of intrigue is identified with the time of store. For instance, a fixed store with a development time of 3 years will give a higher pace of return than a store with a development time of 1 year. In any case, cash can't be generally pulled back before the due date. A few banks likewise force punishment if the fixed stores are pulled back before the due date. Be that as it may, the client can acquire an advance from the bank against the fixed store receipt.e).

e. Loans and Advances: Commercial banks need to keep a specific segment of their stores as legitimate stores. The parity is utilized to make credits and advances to the borrowers. People and firms can get this cash and banks make benefits by charging enthusiasm on these credits. Commercial banks types of loans such as

- Loan to a person or to a firm opposing some collateral security;
- Cash credit
- Overdraft facilities
- Loan by discounting bills of exchange.

Secondary Functions

- i. Agency services
- ii. General utility services

i. Agency Services: The clients may give standing guidance to the banks to acknowledge or make installments for their benefit. The connection between the broker and client is that of Principal and Agent. The accompanying office administrations are given by the financiers:

- Payment of lease, protection premium, phone charges, portions on contract buy, and so on. The installments are clearly produced using the client's record. The banks may likewise gather such receipts in the interest of the client.
- The bank gathers checks, drafts, and bills for the benefit of the client.
- The banks can trade household money for remote monetary forms according to the guidelines.
- The banks can go about as trustees/agents to their clients. For instance, banks can execute the will after the passing of their customers, if so educated by the last mentioned.

ii. General Utility Services:

The commercial banks also provide various general utility applicability to their customers. Some of this applicability is discussed below:

a. Safeguarding Money and Valuables: People feel safe and secured by installment their money and valuables in the safe custody of commercial banks. Many banks look after valuable certificate like house deeds and property, and jeweler items.

b. Transferring Money: Money can be transmitted from one place to another. In the same way, banks collect

funds of their customers from more banks and credit the same in the customer's account.

c. Merchant Banking: Many commercial banks give trader banking administrations to the financial specialists and the organizations. The merchant banking movement covers project advisory services and loan syndication, corporate advisory services such as advice on mergers and acquisitions, equity valuation, disinvestment, identification of joint venture partners and so on.

d. Automatic Teller Machines (ATM): The ATMs are machines for immediately withdrawal of cash. In the last 10 years, more banks have introduced ATM facilities in metropolitan and semi-urban areas. The account holders as well as credit card holders can withdraw money from ATMs.

e. Traveler's Cheque: A traveler's cheque is a printed cheque of a different denomination. The cheque may be purchased by a person from the bank after making the fundamental payments. The client may carry the traveler's cheque while travelling. The traveler's cheques are accepted in banks, hotels and other started.

f. Credit Cards: Credit cards are another main important means of making payments. The Visa and Master Cards are operating by the commercial banks. A person can use a credit card to withdraw money from ATMs as well as make payments to trade establishments.

Role of Commercial Banks in Economic Development

Commercial banks are one wellspring of financing for private ventures. The job of commercial banks in monetary advancement lays essentially on their job as money related mediators. In this limit, commercial banks help drive the progression of venture capital all through the commercial center. The main instrument of this capital allotment in the economy is through the loaning procedure which helps commercial banks.

a. Risk

One of the most critical jobs of commercial banks in monetary improvement is as mediators of hazard. This happens essentially when banks make credits to organizations or people. For example, when people apply to obtain cash from a bank, the bank looks at the borrower's funds, including pay, financial assessment and obligation level, among different components. The result of this examination enables the bank to measure the probability of borrower default. By getting rid of hazardous

borrowers, commercial banks diminish the danger of money related misfortunes.

b. Small Business

Commercial banks likewise money business loaning in an assortment of ways. An entrepreneur may request a credit to fund the beginning up expenses of an independent venture. When financed, the private company may start tasks and set out on a development plan. The total impact of private company action creates a noteworthy part of work around the nation.

c. Wealth

Commercial banks additionally offer kinds of records to hold or produce singular riches. Thus, the stores commercial banks pull in with record administrations are utilized for loaning and speculation. For instance, commercial banks usually pull in stores by offering a customary menu of reserve funds and financial records for organizations and people. So also, banks offer different sorts of coordinated store accounts, for example, currency market records and testaments of store.

d. Government Spending

Commercial banks additionally bolster the job of the government as an operator of financial Development. For the most part, commercial banks help subsidize government spending by acquiring bonds issued by The Department of the Treasury. Both long and momentary Treasury bonds help account government Operations, projects and bolster shortfall spending.

Conclusion

Over a fundamentally extensive stretch of time, nations setting out on a procedure of advancement inside. The system of blended, industrialist economies has tried to utilize the creating banking capacity, inserted in accessible or exceptionally made foundations, to facilitate their improvement objectives. The job of these establishments in the advancement directions generally industrializing, creating nations can't be overemphasized. Notwithstanding, as noted above, with money related progression of the neoliberal assortment changing monetary structures; a few nations are getting rid of particular advancement banking foundations in light of the fact that value and security markets would carry out the responsibility. This will undoubtedly prompt a deficit in money for long haul speculations, particularly for medium and little ventures.

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