



IMPORTANCE OF PRESENT BANKS AND BANKING SYSTEM IN INDIA

SIDDAMURTHY B

LECTURER, DEPARTMENT OF COMMERCIAL PRACTICE
D.R.R. GOVERNMENT POLYTECHNIC, DAVANGERE-577004
DEPARTMENT OF TECHNICAL EDUCATION

Abstract:

Banking is defined as business activity of accepting and safeguarding money of individuals and entities and then lending out this money for making profits or simply covering operational expenses. Banking is a process of accepting deposits from individual general public, businessmen, industrialists and other organizations, lending loans to the needy, providing safe deposit locker facilities, currency exchange and making bill payments.

A bank is a Financial Institution permitted to receive deposits and make loans. A bank is a Financial Institution where customers can save or borrow money. Bank may also provide financial services such as wealth management, currency exchange and safe deposit boxes. It receives money, gives loans, provides safe locker facilities and render other financial services to its customers. Banks receive payments due to its customers.

Keywords: Banking, Banks, Transactions, Customers, E-Banking, Money, Interest, RBI

INTRODUCTION

Banks are the Financial Companies which accepts deposits from different class of people and entities, gives loans to the needy people with an interest rates fixed, provides safe locker facilities to keep valuables like gold, silver and other ornaments, makes payments on behalf of the customers, receives receipts due to their customers and transact in currency exchange. They make payments due by their customers on purchases, pays insurances, gas and electricity bills, water bills, sales and income tax to the concerned Government authorities on behalf of their customers. All the banks provide overdraft facilities to the industrialists, businessmen and other traders to draw the amount in excess of the amount standing in the account to certain limits by charging some interest on the overdrafts. Overdraft means drawing the amount in excess of the balance amount standing in the account. Overdraft makes the business people to have continuous business transactions with the suppliers.

Bank is the safety house for depositing money and valuables instead of keeping in the home and makes them tension free. Banks inspires the savings bank account holders to save money for future needs. People of business and industry are always dependents on the banks to fulfill their daily business needs by timely response to run the businesses continuously and successfully. All the Banks have to act according to the rules and regulations mentioned in the Banking Companies Act, 1956.

Types of Banks

1. **Central Bank:** The Central Bank is the head honcho. Every Country has Central Bank that regulates all the Banks. It is the leader or manager for all the Banks. It manages money supply in a Country, implements monetary policies of Government, keeps prices from fluctuation, maintains stable currency, controls inflation and maximize employment generations to the people of the Country.

Example of Central Bank is Reserve Bank of India (hereinafter referred to as RBI) which supervises and controls all the Banks either Public Sector or Private Sector running in India. It is a Bankers' Bank.

2. **Retail Banks:** The Retail Banks offer members of general public basic financial services such as bank accounts, loans, credit cards and insurance. Retail Banking is an everyday Banking that happens between consumers/customers and their Banks. They make loan for small scale businesses. Example of Retail Banks are State Bank of India (SBI), Bank of Baroda, Canara Bank, Indian Bank, Punjab National Bank, Vijaya Bank etc.
3. **Commercial Banks:** Commercial Banks refer to Financial Institutions that accepts deposits, offers checking account services, makes various loans and offers basic financial products like certificates of deposits and savings accounts to individuals and small businesses.
4. **Investment Banks:** Investment Banks have many responsibilities. It is a financial service company or corporate division that engages in advisory-based financial transactions on behalf of individuals, Corporations and Government.
5. **Cooperative Banks:** Cooperative Banks are financial entities established on a cooperative basis and belongs to their members. Customers of a Cooperative Banks are also its members who contribute the mount in the form of shares. These Banks provide a wide range of regular banking and financial services.
6. **Shadow Banks:** They provide funding to Traditional Banks and without this funding Traditional Banks would not lend money, which would then show slow growth in the wider economy.
7. **Credit Unions:** A Cooperative Association that makes small loans to its members at low rates and offers banking services such as savings and checking accounts. Non- profit institution.

Based on the nature of functioning, again they may be divided as –

1. **Public Sector Banks:** In India, these are owned, managed and controlled by Government of India under the supervision of Reserve Bank of India. State Bank of India, Allahabad Bank, Andra Bank, Canara Bank, Syndicate Bank, Vijaya Bank, Bank of Maharashtra, Indian Bank, Punjab National Bank, Corporation Bank are the examples of Public Sector Banks.
2. **Private Sector Banks:** These are owned, managed and controlled by private organizations or an individual or group of people. Though they are private sector banks, they are under the control of Reserve Bank of India. Axis Bank, HDFC, ICICI, City Union, Federal Bank, IDFC, Kotak Mahindra are the examples of Private Sector Banks.
3. **Foreign Banks:** These Banks have head office in Foreign Countries and branches in India. These banks support the financial transactions between the Countries. Australia and New Zealand Banking Limited, Australian Bank, United Overseas, American Bank are the examples of Foreign Banks.
4. **Rural Banks:** These banks provide concessional credit to agricultural and rural sector to develop rural areas by fulfilling their basic needs. These banks are also under the supervision of Reserve Bank of India.

FUNCTIONS OF COMMERCIAL BANKS

1. Accepts deposits from the people, businesses and other entities in the form of savings, current and fixed deposits.
2. Lends money to its customers in the form of loans and advances, cash credits, overdraft and discounting of bills etc.
3. Act as an agent of its customers, collects bills, drafts, checking etc.

4. It pays the insurance premium, rent, loan instalments etc.
5. It helps to purchase or redeem securities etc. in the Stock Exchanges.
6. Prepares income tax returns, claims tax refunds etc.
7. Issues travel cheques.
8. Offers safe locker facilities for keeping valuables in safe custody.
9. Issues credit and debit cards.
10. Collection of money or transfer of money.
11. Deals in foreign currency to transact between the Countries.

E-Banking

E-Banking means electronic banking. Money transactions done through computers or telephones rather than human interactions is called E-Banking. It means electronic fund transfer for retail purchases, pay-roll deposits and bill payments. Carrying out financial transactions through the internet on smartphones, tablets or computers is called E-Banking. E-Banking means transfer of funds directly from one account to another, rather than by cheque or cash. It is an advanced method of transfer of funds as fast as possible within a fraction of second. It is an online transaction which facilitates the customers to receive deposits and make payments anytime they like.

BENEFITS OF E-BANKING

1. The cost of operation is very low compared to traditional banking.
2. Customers need not go to the banks.
3. It is the fastest and safest exchange of money.
4. It saves the time and cost of an account holder.
5. There is a very low incidence of errors.
6. The customers can obtain funds at any time from ATMs operated throughout the Country at all the convenient places.
7. 24X7 hours accounts checking and services.
8. There is a safety instead of hard cash and easy method of transfer of funds.
9. There are some cash back offers and discounts offered by the Banks to its account holders.
10. There is a financial discipline and transparency.
11. Customers can make transactions anytime, anywhere convenient to them.
12. It reduces cost of transaction of money.
13. It facilitates for quicker and easier communication between the two.
14. It also facilitates for quick decision making.
15. No geographical boundaries are fixed, it reaches across world and spans of all zones.

16. It serves the customers fast by attending services.
17. It saves the time to pay bills like telephone, electricity, gas, water etc.
18. There are no restrictions to pay and receive.
19. E-Banking helps for online payments and receipts instead of draft and cheques which takes more time.

TYPES OF CARDS ISSUED BY THE BANKS

1. **Debit Cards:** These are the most common types of cards issued and it is very easy to use. It is a payment card used to make payments. It deducts the amount directly from the account on buying goods or services and to get cash from ATMs. Some discounts are also allowed. This card is used to make purchases with one's own money. This can be used as ATM card.
2. **Credit Cards:** It is issued by Banks offering loans to certain limits on purchases based on their financial transactions and income capacity. Through this Card bank allows the card holder to buy goods on credit basis as a loan to certain limit offered by the banks. This card is used to make purchases by borrowing money up to the limit offered by the Banks. This can also be used as ATM card.
3. **Debit-cum-Credit Card:** It can be used for both debit and credit transactions. It will have two chips one for debit and one for credit and two magnetic strips.

Cards are issued to account holders for use at ATMs and also to make payments.

TYPES OF BANK ACCOUNTS

1. **Savings Bank Account:** As the name itself says, it allows the account holder to save some money from his earnings and to get interest on the savings. These types of accounts are opened by individual general public. Presently these accounts can be opened with zero balance and there are no rules to maintain minimum balance in the account.
2. **Current Accounts:** These accounts are opened in Banks by businessmen, traders, industrialists, entrepreneurs to receive and make payments on business transactions. Based on the financial transactions, overdraft facilities (to draw money in excess of the amount standing in the account) will be given to the account holders to draw money to some extent offered by the bank without there being minimum balance maintained in the account.
3. **Fixed Deposit Accounts:** These types of accounts are opened to deposit money for some fixed period of time to get back the same with accrued interest. It offers more interest on the deposits to encourage saving habits.
4. **Recurring Deposit Account:** These accounts are allowed to deposit money regularly on monthly, quarterly, half yearly or annual basis into their account to get back deposited amount with accrued interest on it after a specified period of time is over.
5. **Salary Account:** These accounts are opened to receive salaries for their account holders. There is no limit to deposit fixed amount.

BENEFITS OF BANKING

1. Account holders deposit of money is protected from theft, fire and other damages.
2. As all the banks are insured for safety purpose, account holders will get back the money even if the banks become insolvent or closes or not able to payback.
3. Account holders can deposit gold, silver, jewellery and other valuables things in a bank as a safety measure in a bank locker.

4. Account holders can have online purchases, bills payment and transfer of money and receiving money.
5. Financial status of the accounts can be checked 24X7 hours.
6. They play a major role in exchange of foreign currency with foreign banks.
7. Debit cards can be used to withdraw money from any ATM or make purchases.
8. Account holder can earn interest every month on the savings made in the account.
9. Account holder can get different types of loans like home loans, personal loans, vehicle loans etc.
10. By the use of debit cards on purchases, the account holder gets discounts, coupons and other offers.

LIMITATIONS OF BANKING

1. Commercial banks charge more interest on the loans and advances borrowed with exorbitant processing charges.
2. Banks offer lower rate of interest on the savings bank account and even on fixed deposit accounts and recurring deposit accounts.
3. Due to more terms and conditions low income group will not get required loan.
4. Due to network issues transactions may be delayed.
5. There are lot of highjacks, account hawkers.
6. Some banks are charging more for online purchases, payments, bill payments etc.
7. Imposes more terms and conditions on getting loans.
8. It creates more stress and strain on the loan taker if any instalments are due to pay.
9. There are some hidden charges which are not disclosed to the account holders.

TYPES OF LOANS

1. **Secured loans:** These loans are given against the security of assets and properties. If the borrower fails to repay the loans taken, the borrower/Bank can sell the assets and properties mortgaged and adjust the same towards principal amount and interest charges. Low rate of interest is charged on this type of loan. Types of secured loans are as follows:
 - (a) **Home loans:** Home loan also called as housing loan is a secured loan for the purchase or construction of home. Home itself is a security for the sanctioned loan. It is a long term loan taken for 10 to 30 years at a low rate of interest 7% to 7.5% p.a.
 - (b) **Gold loan:** It is taken against the gold secured in a bank. Banker retains the gold until the loan amount with interest charged is repaid. Interest charged is nearly 7% to 7.5% p.a.
 - (c) **Vehicle loan:** It is taken against security the vehicle to be purchased. In the event of default in payment of the loan amount and interest, the Banker seizes the vehicle. Loan amount around 8% to 9% p.a.
 - (d) **Property loan:** This loan is taken by mortgaging the property with the lender/banker. In case of default in payment, property will be seized.
 - (e) **Loans on securities:** Investors in shares, debentures and bonds, mutual funds, can take loans from the Banks or financial institutions against these securities.

- (f) **Title loans:** These loans are secured on the name and fame of the companies.
 - (g) **Loans on fixed deposits:** Loans can also be taken on fixed deposits made.
 - (h) **Loans on insurance:** Loans can also be taken on different insurances obtained.
 - (i) **Loans on working capital:** Loans can also be taken on the working capital of the companies.
2. **Unsecured loans:** These loans are provided against the monthly earning income of the loan taker. For this type of loans, assets and properties are not required to secure. More interest is charged on these loans. Types of unsecured loans are as follows:
- (a) **Personal loans:** These loans are taken to fulfil personal needs of the family. The interest charged on these loans is higher which amounts to 11% to 15% p.a.
 - (b) **Short term business loans:** These loans are taken to satisfy the immediate business needs at higher rate of interest payable in short term which amounts to 12% to 18% p.a.
 - (c) **Educational loans:** Educational loans are provided to those who pursue quality higher education on lower rate of interest which amounts to 8% to 9% p.a. and the students have to pay back the same after completion of their degrees. Instalments of repayment of the loan amount and the interest will start on getting a job.
 - (d) **Credit card:** Loans can also be taken on credit cards.
- In so far as duration/length for repayment of the loans are considered, they may be divided as –
1. **Short term loans:** Short term loans are obtained up to 1 year and the interest charged is also more on these loans. For example, business loans.
 2. **Medium term loans:** Medium term loans are obtained from 1 to 5 years and the interest charged is also more on it. For example, gold loan.
 3. **Long term loans:** Long term loans are obtained from 5 to 30 years on a low rate of interest. Example of long term loan is home loan.

BANKING SERVICES

1. Checking accounts
2. Loans and mortgage
3. Wealth management
4. Provides debit and credit cards
5. Overdraft services.

HOW THE BANKS ARE IMPORTANT?

1. Banks play a major role in the economic development of any Country.
2. They are important to get various types of loans at competitive rates as a financial service.
3. It plays a major role in the economic development by diverting funds from savers to borrowers.
4. It promotes regional development by assisting backward areas.
5. Business development is possible by banks by establishing branches in foreign countries and providing payment facilities.

6. It helps the people to save their money and invest the same in Government securities and in long term bonds.
7. It facilitates for quick transfer of money.
8. It promotes socio-economic development of the backward are in the Country.
9. It generates employment opportunities to the citizens of India.

WHAT ARE THE MEASURES TO BE TAKEN TO IMPROVE STILL MORE?

1. Staffs have to be trained correctly to be suitable to handle the timely situation.
2. Customers opinion on the financial stability has to be taken.
3. Use of advanced technologies like Artificial Intelligence (AI), Robotic process etc.
4. Still more safety measures have to be adopted in online transactions.
5. Software has to be developed in such a way that online scam hawkers can be identified easily.
6. Cyber security measures have to be improved.
7. They have to assist and support the Government Authorities to find out online scams.
8. Interest rates must be competitive and satisfactory to the customers.
9. Service centres have to be opened by outsourcing.
10. Specialised expert team to be formed to check online jacks.
11. Customers feedbacks have to be honoured for still more improvement.
12. Advanced security measures have to be taken to protect the customer data to prevent frauds.
13. Online VCs of all the branches have to be conducted to share the information and to resolve the issues.
14. Customers complaints have to be solved as early as possible in order to have good opinion on the bank.
15. Agricultural loans have to be given at a low rate of interest to encourage farmers.
16. Duplication of currency, if noticed, should be brought to the notice of Government immediately for action.
17. RBI must observe that currency notes and coins are qualitative and cannot be easily duplicated by scammers.
18. All the ATMs must be monitored with tight security and safety measures.
19. Banking software system must be developed in such a way that it is not possible to scam.
20. All the charges that the banks charge must be open to all and minimized.
21. RBI has to take strict action on the banks when they commit fraudulent activities and they may be ordered for closure.

22. Agricultural and small scale industries have to be encouraged by offering loans at low rate of interest.
23. If the money is lost without the fault of the customers, must be filled by the banks.
24. Out of their profits banks have to support and to go the rescue of the Government at the time of natural calamities like floods, draughts, tsunami, earthquakes etc.
25. Money of the savers has to be safeguarded and must be given fair rate of interest on their investments.
26. They must adopt the principles that “service is our motto and customers are our bosses”.
27. Internet bandwidth must be expanded without the server problems for 24X7 hours services.
28. Banks managers of different banks have to meet in VCs to share information and experiences noticed to improve still more.
29. RBI has to monitor money inflation by taking suitable measures.
30. They have to take serious steps to avoid online scam by the frauds.
31. They must support the Government while making policies for financial stability and to avoid scams by hawkers.

CONCLUSION

Banks are the institutions of finance which plays a major role in the economic development of any Country. They provide different financial services to different sections of the people and fight for their financial stability. They encourage and help the people to become financial sound by offering different types of loans at low rate of interest. Industry, business, agricultural and rural development is possible only by the financial assistance of the banks. They contribute more in the overall development of any Country. Their contribution is also more in the generation of employment opportunities to the people of the Country in different sectors. All the banking sectors have adopted a new technology which facilitates for quick and easy transfer of money safely and securely. Financial transactions are made easy anywhere, anytime across the world. Their contribution towards international peace and harmony and to uplift the name and fame of any Country is praiseworthy.

References:

1. A text book on Business Studies-I by Sri B.S.Raman
2. A text book on Business studies by Sri K.D. Basava
3. A text book on Banking Law and Practice by Sri B.S. Raman
4. A text book on Banking Theory and Practice by Sri K.D. Basava