Role of banks and financial institutions towards social equity

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Abstract:

Finance and banking is the life blood of trade, commerce and industry. Now-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. The banking is one of the most essential and important parts of the human life. In current faster lifestyle peoples may not do proper transitions without developing the proper bank network. The banking System in India is dominated by nationalized banks. The performance of the banking sector is more closely linked to the economy than perhaps that of any other sector. The growth of the Indian economy is estimated to have slowed down significantly.

Keywords: Finance, Equity, Banking, Economy, Society, Business.

INTRODUCTION:

Banks and other financial institutions provide security for individuals, businesses and governments, alike. To make money, banks use deposits and whole sale deposits, share equity and fees and interest from debt, loans and consumer lending, such as credit cards and bank fees. Banks were considered as a backbone to the financial system and play an important role in economic development of a nation. They act as intermediaries in channelizing funds from surplus units to deficit units to the fully utilization of the funds. An efficient banking system of nations has significant positive externalities which increase the efficiency of economic transaction in general. The Indian financial system is broadly classified into two broad groups: i) Organized sector and ii) Unorganized sector. "The financial system is also divided into users of financial services and providers. Financial institutions sell their services to households, businesses, and government. They are the users of the financial services. The boundaries between these sectors are not always clear-cut. In the case of providers of financial services, although financial systems differ from country to country, there are many similarities.

Review of Literature:

Sharma (1974) said, "The expansion of banking facilities was uneven and lopsided and banks were concentrating their operations in metropolitan cities and towns. A fairly large number of rural and semi urban centre with reasonable potentialities of growth failed to attract the attention of commercial banks. As far as the deposit mobilization in the rural areas is concerned, much remains to be done. This gives emphasis on the rural and semi urban growth of banks.

Gopal Karkal(1977) said, "Some regions have done well in spreading the banking facilities, while some regions have still very backward. Further, our clients are larger merchants and big industrialists. They approach with their demand for larger loans and advances, and in return give large business. If we transfer our limited resources to small industry, agriculture etc., how can we increase our deposits, advances etc., and how can we survive." As it give emphasis on a policy of planned and systematic branch expansion laying stress not only on opening branches in the underdeveloped and neglected areas but also in the providing additional banking facilities to the growing metropolitan and urban areas to cope with the ever-increasing requirements of trade, industry and commerce is more desirous.

"Indian Bank's Association (IBA)"conducted an all India survey to rate the customer service provided by all the 27 public sector banks aimed at fostering healthy competitive spirit amongst banks to improve upon their customer service. The aim of this study is to ensure the quality of service as perceived by the customers of public sector banks and identify areas where the banks need to improve for achieving higher levels of customer satisfaction. The study has been a massive one covering about 2500 bank branches and about 85,000 customers (respondents) at the all India level. Sample branches in all categories have been randomly chosen by IBA in proportion to the business/the number of branches in a particular category. In addition to bank rating at regional level and all India level, the survey results will also be used for rating each region on the basis of the customer service of all sample branches of the banks' operating in the region".

Objectives of Study:

- To provide credit facilities to the small farmers, small traders, cottage industries and self-employed persons.
- To give priority to industries which produce essential goods.
- To provide financial resources for the welfare objectives.

DEVELOPMENT OF SOCIAL BANKING CONCEPT:

The Classical Theory:

Banking was nothing but usury trading in money. The bankers were self-centered, profit maximizing economic citizens. They could operate in magnificent isolation of the rest of the society, exploiting the external environment as if it were there for the taking. The whole social groups belonged to them; they did not belong to them, the responsibility of a bank was ‘to make as much money as possible, while confirming the basic rules ofthe society; both those embodied in law and those embodied in ethical custom. Thus, in the classical view, the role of a banker as it was that of any other businessman was strictly economic in nature, subject to certain ethical compliance.

The Modern Theory:

Banks being the main Fulcrum in the wheel of infrastructure have a greater responsibility to assume extra economic role. They are expected to act as ‘change agents’ and ‘catalyst’ of progress. All their direct clients should be treated fairly. Their lending policies have to be tuned to the priorities set by the government. In short, the banking principles and practices should undergo as sea change, never imagined before, structurally, physically, qualitatively and conceptually. The social control over banks introduced in 1967 and the bank nationalization in 1969 were the important steps in the direction of making the banking sector realize their social obligations. In a sense, under this concept, the role and responsibilities of banks are well defined and regulated by legislations and administrative controls in order to ensure social accountability of banks. Banks in this way are not mere economic institution but are socio-economic citizens governed by patriotism, ethical values and economic expediency.

IMPORTANCE OF BANKS IN THE DEVELOPMENT OF THE SOCIETY:

- Banks are one of the most important parts of any country. In this modern time money and its necessity is very important. A developed financial system of the country ensures to attain development. A modern bank provides valuable services to a country. To attain development there should be a good developed financial system to support not only the economic but also the society. So, a modern bank plays a vital role in the socio economic matters of the country. Some of the important role of banks in the development of a country is briefly showing below
- PROMOTE SAVING HABITS OF THE PEOPLE: Bank attracts depositors by introducing attractive deposit schemes and providing rewards or return in the form of interest. Banks providing different kinds of deposit schemes to its customers. It enable to create banking habits or saving habits among people.

- CAPITAL FORMATION AND PROMOTE INDUSTRY: Capital is one of the most important parts of any business or industry. It is the life blood of business. Banks are increase capital formation by collecting deposits from depositors and convert these deposits in to loans advances to industries.
- SMOOTHING OF TRADE AND COMMERCE FUNCTIONS: In this modern era trade and commerce plays vital role between any countries. So, the money transaction should be user friendly. A modern bank helps its customers to send funds to anywhere and receive funds from anywhere of the world. A well-developed banking system provides various attractive services like mobile banking, internet banking, debit cards, credit cards etc. these kinds of services fast and smooth the transactions. So, bank helps to develop trade and commerce.
- GENERATE EMPLOYMENT OPPORTUNITY: Since a bank promote industry and investment, there automatically generate employment opportunity. So, a bank enables an economy to generate employment opportunity.
- SUPPORT AGRICULTURAL DEVELOPMENT: Agricultural sector is one of the integral part of any economy. Food self-sufficiency is the major challenge and goal of any country. Modern bank promote agricultural sector by providing loans and advances with low rate of interest compared to other loans and advances schemes.
- APPLYING OF MONITORY POLICY: Monitory policy is an important policy of any government. The major aim of monitory policy is to stabilize financial system of the country from the dangerous of inflation, deflation, crisis etc.
- BALANCED DEVELOPMENT: Modern banks spreading its operations throughout the world. We can see number of big banks like Citi bank, Baroda bank etc. It helps a country to spread banking activities in rural and semi urban areas. With the spreading of banking operations around the country, helps to attain balanced development by promoting rural areas. Modern bank plays vital role in the socio- economic development of the country. A developed banking system enables the country to attain balanced development without any special consideration of rich and poor, cities and rural areas etc.

DISCUSSION:

The financial development consists of three portions. “First is the relationship between the financial development and the economic development, secondly the relationship between the financial development and socio-economic variables reflecting different level of development and also towards the human capital, thirdly the focus on the measurement through correlation regression which controls all other factors which are associated with financial development” .Financial system development is an important factor in the growth process of an economy. However, not every process of financial system development is accompanied by high economic growth. Equity markets can also provide accurate information at low costs by publishing share prices, thus improving production efficiency. “These markets also promote efficiency through technology. Well-developed financial markets shift capital away from declining industries and toward growing industries” (Indrani, 2008). A wave of financial liberalization in the latter half of the 1980s and early 1990s and a surge of capital inflows too many developing countries, were followed by financial crises in Latin America and East Asia. “These events have fostered a fresh research interest in the role of financial Intermediation in economic development, and a re-examination of the policy options for ensuring that the financial sector’s contribution to economic growth and development is fully realized” (Vally, 2008).

Conclusion:

The Agriculture, Small & Medium Enterprises and the rural sector which form the core of the Social Banking are all having immense potential for growth. These sectors as a whole are positively contributing to the economy. However these sectors are facing many challenges. With the kind of Policy support the Governments are extending to these sectors would soon overcome their challenges and would achieve their full potential. The implementation of the reforms is encouraging as banks were able to bring down their nonperforming assets sharply. Capital position of banks also improved significantly. Competition intensified during this phase as was reflected in the narrowing down of margins. The asset quality for these advances also has shown improvement. The State Bank of Hyderabad also has shown the improvement in the asset quality. Banks promote capital formation: Banks accept deposits from individuals and businesses, these deposits are then made available to the individuals and businesses which make use of them for productive purposes in the country. The banks are, therefore, not only the store houses of the country’s wealth, but also provide financial resources necessary for economic development of nation and masses.

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