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BANKING STRUCTURE AND ROLE OF COMMERCIAL BANKS IN INDIA

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Abstract
Banking is the most important factor for the development of the economy of a country. In India majority of the rural areas is unbanked. Presently government of India and Reserve Bank o f India is trying to maximize the coverage of banks in rural areas of the country. This will help to attract more people to use banking facilities and support for the growth of the economy. Reserve Bank of India is the supreme authority of banking in India. Commercial banks are playing a vital role in expansion of coverage of banking in India. They supports for the proper implementation of the concept of financial inclusion. Banks supports the economy by mobilizing savings and channelizing these savings for proper utilization for the development purposes. This paper is mainly focusing on banking structure in India and the role of commercial banks in India.

Key words: Commercial Banks, Economic Development, Reserve Bank of India.

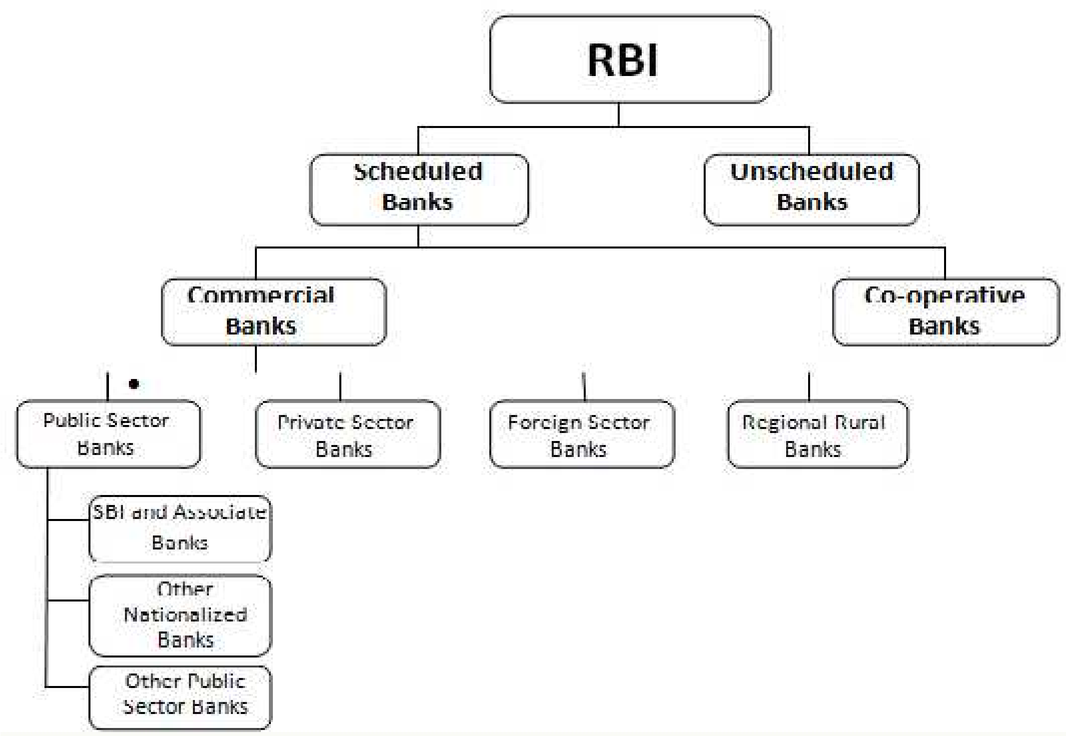
Objective of the study *: Objective of this study is to have some idea about the banking structure in India and the role commercial banks in the development of the economy.*

Introduction

Banking can be defined as the acceptance of deposits for the purpose of lending. Banking Regulation Act of India, 1949 defines banking as "accepting for the purpose of lending or investment of deposits of money from public, repayable on demand or otherwise or withdrawable by cheque, draft, order or otherwise". The banks have a very important role in the development of economy. In Indian banking structure, commercial banks have an important role to play for the development of economy. The commercial banks help for accelerating the rate of capital formation, providing finance and credit, developing entrepreneurship, promoting balanced regional development, etc. The paper is mainly focusing on the role of commercial banks in the development of economy.

Banking Structure in India

The following diagram will help to get an idea about the structure of Indian banking system.



Reserve Bank of India (RBI|)

Reserve Bank of India is the Central Bank of India. Reserve Bank of India is the supreme monetary and banking authority in India and controls banking system in India. Reserve Bank of India commenced its operation on 1st April 1935 during the British Rule in accordance with the provisions of the Reserve Bank of India, Act, 1934. Following India's independence the RBI was nationalized on 1st January 1949.

Functions of Reserve Bank of India

Being Central Bank of our country, Reserve Bank of India has different functions. The important functions of RBI are as under:

- RBI functions as monetary authority of India
- RBI functions as issuer of currency
- RBI functions as Banker and Debt Manager to the government.
- RBI functions as Banker of Banks
- RBI functions as regulator and supervisor of financial system.
- RBI functions as Management of Foreign Exchange

Scheduled Banks

A scheduled bank, in India refers to a bank which is listed in the second schedule of the Reserve Bank of India Act, 1934. In order to be included under in this schedule of the RBI Act, banks have to fulfill certain conditions. The banks not listed in this schedule are called Non- Scheduled banks. Scheduled banks include nationalized banks, private banks, foreign banks, etc. However co-operative banks are allowed to seek scheduled bank status if they satisfy certain criteria. So scheduled banks are classified in to Commercial Banks and Co-operative Banks.. A scheduled bank is eligible for loans from the RBI.

Commercial Banks

Commercial Banks are those banks which perform all kinds of banking function s such as accepting deposits, advancing loans, credit creation and agency functions. They are also called as Joint Stock Banks.

Commercial Banks are classified into following categories:

- Public Sector Banks: These banks are those banks where a majority stake (ie. more than 50%) is held by the government. The shares of these banks are listed in stock exchanges. There are a total of 27 public sector banks in India, ie .19 nationalized banks, State Bank of India and 5 Associate Banks, IDBI and Bharatiya Mahila Bank.
- Private Sector Banks: Public Sector Banks are those banks where majority of share capital of the banks is held by private individuals. These banks are registered as companies with limited liability. Examples for private banks are ICICI Bank, HDFC Bank, Axis Bank, etc.
- Foreign Banks: These banks are those banks having their head quarters in a foreign country but operate their branches in India. Foreign banks are with obligations of following the regulations of both its home and its host countries. Loan limits for those banks are based on the capital of the parent bank. Examples for foreign banks are HSBC, Standard Chartered Bank, etc.
- Regional Rural Banks (RRBs) : RRBs are local level banks operating in different states of India. Regional Rural Banks are established under the provisions of an ordinance promulgated on the 26th September 1975and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area as notified by Government of India covering one or more district in the state. RRBs are jointly owned by Government of India, the concerned State Government and sponsor banks.

Co-Operative Banks

A Co-operative bank is a financial entity which belongs to its members, who are the same time the owner and customer of the bank. Co-operative banks generally provide their members with a wide range of banking and financial services.

C-operative banks are the primary financiers of agricultural activities, some small scale industries and self employed workers. C-operative banks function on the basis of "no-profit no – loss "

Functions of Commercial Banks

The functions of commercial banks can be classified as under:

1.Primary Functions
2.Secondary Functions

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1.Primary Functions
The primary functions of Commercial banks are discussed below:
a) Accepting Deposits : This is the most important function of commercial banks. Commercial banks are accepting various types of deposits from public. The main types of deposits are Fixed Deposits or Time Deposits, Recurring Deposits, Savings Bank Accounts, Current Accounts. Each type of deposits carries different rate of interest.
b) Advancing of Loans : The deposits collected by the banks are advanced to public in the form of loans after keeping required level of cash reserves as per guidelines from Reserve Bank of India. The commercial banks are giving different type of loans such as Cash Credit, Overdraft Facility, Demand Loans, Term Loans, etc.
2. Secondary Functions
The secondary functions of commercial banks are as under:
a) Agency Functions : Commercial banks perform certain agency functions for their customers. For these services, banks charge some commission from their customers. The agency services include the services such as transfer of funds, collection of payments of various items, purchase and sale of foreign exchange, purchase and sale of securities, income tax consultancy, etc.
b) General Utility Functions : Commercial banks provide some general utility services also. The main services are:

- Locker Facility
- Travelers Cheque
- Letter of Credit
- Underwriting Securities
- Collection of Statistics

c) Discounting Bills of Exchange : Discounting Bill of Exchange is the facility in which holder of a bill of exchange can get it discounted with bank before maturity. After deducting the commission, bank pays the balance to the holder. On maturity, the bank gets its payment from the party which had accepted the bill.

Role of Commercial Banks in the Development of Economy
Banks play an important role in the development of economy of a country. The y contribute decisively to the development of industry and trade. They are acting not only as the custodian of the wealth of the country but also as resources of the country, which are necessary for the economic development of the nation. The role of commercial banks in economic development is discussed below.

1. **Capital Formation**
   Banks play an important role in capital formation, which is essential economic the development of a country. They mobilize the small savings of the people scattered over a wide area through their network of branches all over the country and make t available for productive purposes. Presently banks offer very attractive schemes to attract the people to save their money with them and bring the savings mobilized to the organized money market. If the commercial banks do not perform this function, saving either remains idle or used in creating assets, which are low in scale of plan properties.
2. **Credit Creation**
   Credit Creation is one the most important functions of the commercial banks. Commercial banks are accepting deposits and advancing loans after keeping small cash reserves. Banks create credit for the purpose of providing more funds for development projects . Credit creation leas to increased production, employment, sales, etc. and thereby they cause faster economic development.
3. **Channelizing Funds to Productive Investment**
   Banks invest the savings mobilized by them for productive purposes. Capital formation is not the only function of commercial banks. Pooled savings should be distributed to various sectors of the economy with a view to increase the productivity of the nation. Then only it can be said to have performed an important role in the economic development of the country. In India, loan lending operation of commercial banks subject to the control of the RBI.
4. **Maximum Utilization of Resources**
   Savings pooled by banks are utilized to a greater extent for the development purposes of various regions in the country. It ensures maximum utilization of resources.
5. **Encouraging Right Type of Industries**
   The banks help in the development of the right type of industries extending loan to right type of persons. In this way they help not only industrialization of the country but also for the economic development of the country. They grant loans and advances to manufacturers whose products are in great demand. The manufacturers in turn increase their products by introducing new methods of production and assist in raising the national income of the country.

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6. **Finance to the Government**
   Government is acting as the promoter of industries in underdeveloped countries for which finance is required for it. Banks provide long-term credit to government by investing their funds in government securities and short –term finance by purchasing treasury bill.
7. **Providing Employment Opportunity**
   After the nationalization of big banks, banking industry has grown to a great extent. New branches are opened in rural areas and villages, which will lead to the creation of new employment opportunities. Banks are also improving people for occupying various posts in their office.
8. **Bank Rate Policy**
   Economists are of the view that by changing the bank rates, changes can be made in the money supply of the country. In India, the Reserve bank of India regulates the rate of interest to be paid by banks for the deposits accepted by them and also the rate of interest to be charged by them on the loans granted by them.
9. **Banks act as Entrepreneurs**
   Presently, commercial banks have assumed the role of encouraging and developing entrepreneurship. Developing of entrepreneurship is a complex process. It includes the formation of project ideas, identification of specific projects suitable o local conditions, inducing new entrepreneurs to take up these well-formulated projects and provision of counseling services like technical and managerial guidance. Banks provide maximum credit for worthwhile projects, which is also technically feasible and economically viable. Thus commercial banks help for the development of entrepreneurship in the country.
10. **Monetization of Debt**
   Commercial banks transform the loan to be repaid after certain into cash, which can be immediately used for business activities. Manufacturers and wholesale traders can not increase their sales without selling goods on credit basis. But credit sales may lead to locking up of capital. As a result, production may also be reduced. As banks are lending money by discounting bills of exchange business concerns are able to carry out the economic activities without any interruption.
11. **Promoting Balanced Regional Development**
   Commercial banks provide credit facilities to rural people by opening branches in rural areas. The funds collected in developed areas may be channelized for investing in underdeveloped areas of the country. In this way commercial banks support for the balanced regional development.

Conclusion

Banking is the main supporting factor for the development of the economy of a country. Commercial banks play a very important role for this development. They are mobilizing the funds and supplies or channelize the funds for the proper utilization and make sure that the funds are used for the development of the society and the country. They support people by giving different facilities to improve the standard of living of the people. For achieving the complete growth, the network of banks is to be maximized. New branches are to be opened in the unbanked rural areas and maximum numbers of individuals are to be provided banking facilities. If the concept of financial inclusion is implemented in proper way and maximum people and area are provided with banking facilities, the growth and development of the economy can be achieved.

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