



A study on the duties of commercial banks and their functions in India

¹Safiya Begum and ²Dr. RK Patil

¹Assistant Professor, Department of Commerce, GFGC Kamalapur, Kalaburagi, Karnataka, India

²Department of Commerce, Faculty of Management Science, Manasarovara Global University, Bhopal, Madhya Pradesh, India

Corresponding Author: Safiya Begum

Abstract

In India, financial inclusion is becoming more popular as a fresh approach to excite the economy. It is crucial to the public's access to affordable financial services. Given its profound effect on society, financial expansion is the nation's most important objective. It therefore closes the wealth gap. Financial institutions facilitate progress, economic expansion, and financial progress by offering a solid basis. The implications of financial inclusion on economic growth in the long run are now being studied by researchers. In a sense, the advancement of any economy depends on its commercial banks. By investing your money and assisting with daily transactions, they help stabilize the country and offer loans and interest on your savings. Commercial banks perform many other responsibilities in addition to those mentioned above. Further to giving their consumers necessary services, commercial banks generate capital and provide liquidity in the market. By making loans based on their clients' deposits, banks ensure market liquidity. Accruing public deposits and lending them for the success of industry, trade, commerce, and the primary sector is a bank's most important function. Even in isolated places, there are commercial banks. Furthermore, a wide audience is now served via internet banking. Each of these services is available online for users. The government consequently views the expansion of commercial banks as a top priority. Commercial banks are the engine of economic activity. Knowing the roles played by this bank is crucial since without them, these operations would come to an abrupt end. The banking industry is seeing improvements as commercial banks expand into tier-2 and tier-3 cities. A greater understanding of banks and their role is facilitated by this well-balanced development in semi-urban and rural areas. The availability of banking services is also improved. Liquidity has increased because people who previously deposited cash in a financial institution now choose to do so. The purpose of this paper is to analyze the functions and significance of commercial banks in India.

Keywords: Accepting deposits, credit cash, discounting bills, grant loans, profits

Introduction

The development of the Indian banking industry has been crucial to the nation's progress. The RBI strengthened the banking system after independence by implementing several policies; prior to this, banks were known as agency houses. Prioritizing the development of the rural sector overshadowed the banking sector's focus on urban areas until the mid-1960s when nationalization took place. Financial life revolves around banking, and the fact that banks are regarded as the lifeblood of the modern economy speaks volumes about their significance. Banks are best suited to handle a complex economy because they have the necessary resources and knowledge. Banks handle transactions involving labor, goods, and financial capital markets. Customers and businesses can use their debit cards or write checks from their bank accounts to obtain cash when necessary. Banks are the most dependable payment method and the safest location for people to keep their cash,

facilitating the flow of goods and services in exchange for money or other assets. Businesses and individuals can benefit from the profitable services provided by commercial banks. Its services include opening, depositing, and checking accounts, among other basic banking needs. They also facilitate the granting of loans for personal, economic, mortgage, and transportation needs to both individuals and businesses. In exchange for holding depositors' money and giving them better interest rates on their savings, the bank can provide these loans. Due to their ability to supply capital, credit, and market liquidity, commercial banks are vital to the economy. This will preserve the economy's financial stability. Commercial banks can quickly adopt new technologies. Users can access and enjoy convenient online banking services from commercial banks.

"Banks will give their account holders the right measure of security and speed by partnering with Fintech Startups," stated Mr. Chris Skinner. Account holders can use the

newest financial technology while knowing their money is secure. To become a digital bank, follow these steps. Every user benefit when technology is adapted and transactions are quick and simple.

Review of literature

The Indian banking sector fared well despite the worst financial crisis of the century, as noted by Ram Mohan TT (2010) in an article. Indian banks' return on assets (ROA) was 1% in 2007–08 and 2008–09. Additionally, spread and capital adequacy improved. According to all of these metrics, the banking industry is currently one of the most lucrative in the world. A 1% return on assets (ROA) benchmark indicates strong performance in banking, even in the face of economic fluctuations. This demonstrates how crisis-proof Indian banking is. It is suggested that banks should take on the challenge of financial inclusion and require more advanced products.

L. K. Tripathi, A. Parashar, and S. Mishra (2014): To better understand the effects of sensitive sector advances, unsecured advances, and priority sector advances made by nationalized banks such as SBI Group on bank gross non-performing assets (NPAs), the current study employs a multiple regression model.

In developing nations, the effectiveness of commercial banking by Marija Tasheva, Violeta Cvetkoska, and Katerina Fotova Čiković, June 16, 2021, to provide goals for the inefficient banks to work toward using DEA, this paper assesses the relative efficiency of commercial banks in three developing European countries: North Macedonia, Serbia, and Croatia. The income-based approach is used to choose the variables. Unusual results are obtained for a few commercial banks in each country based on the output-oriented BCC model; that is, they are BCC relatively efficient, which is not reflective of the actual situation. This way, outliers that could potentially impact the efficiency results are found. According to the results, the commercial banking system in Macedonia has the highest efficiency (91.1%), followed by the banking systems in Croatia (90.9%) and Serbia (81.9%). To enhance the performance of the banks they oversee and support the stability of the financial system, the upper management of the inefficient commercial banks may find it easier to allocate resources more effectively and make quicker, more fact-based decisions with the aid of the estimated targets for improvement.

Professor K Subbareddyasst (3rd March 2020) His research focuses on the role of commercial banks in certain areas when it comes to loan issuance and advances. He asserts that banks play a significant role in a nation's development in impact on economic growth in India. Commercial banks' primary responsibility is to raise capital to support the demands of the economy's many productive sectors. Currently, the study examines the role that commercial banks play in a number of economic development areas, including the industrial, agricultural, and external and internal trade sectors, as well as progress made under Financial Inclusion Plans between 2011 and 2019.

On August 1, 2023, Dr Tamil Selvi and Anitha Rathna discussed the role of commercial banks in economic growth in India. They stated that banks are essential to a nation's economic progress. They are essential to the growth of trade

and industry. They serve as the nation's resources, which are vital for a country's economic development, in addition to sustaining its wealth. Commercial banks generally serve the general public and businesses by offering financial services while maintaining social and economic stability and long-term economic growth. Analysing commercial banks' contribution to India's economic growth critically is the primary goal of this research project. This study illustrates the relationship between credit and loans and GDP, and how that affects India's rate of economic growth.

Objectives

1. To know the importance of commercial banks in India and
2. To analyse the main functions of commercial banks in India.

Methods and Materials

The researcher has attempted to analyse the importance and functions of commercial banks in India, for this paper, suitable information is gathered from the annual reports of RBI and various articles, reports, and websites.

Details of the study

Importance of commercial banks in the Indian Economy

The national economy has always relied heavily on banks. For the advancement of trade and industry, they are indispensable. These serve as the nation's resources, which are vital for a country's economic development, in addition to providing support for the nation's wealth. In addition to guaranteeing social and economic stability and long-term economic growth, commercial banks' primary responsibility is to offer financial services to the general public and businesses. State Bank of India (SBI) and its affiliates, nationalized banks, foreign banks, other scheduled commercial banks, regional rural banks, and unscheduled commercial banks make up India's commercial banks. Approximately 8,000 regional rural banks serve 280 districts nationwide, while there are more than 50,000 commercial bank branches nationwide. Small businesses are primarily given short-term loans by commercial banks, with medium-term financing available occasionally. to meet the small business units' financial needs. Within their management structure, the majority of commercial banks have specialized units. As is well known, the foundation of any nation's economy, including India's, is agriculture. The study concludes commercial banks and their role in economic growth from secondary data.

In the years since independence, the operations of commercial banks in India have been growing at a rapid pace. The challenges of planned economic growth have forced banks with traditional and conservative approaches to come out of their shells. Commercial banks in India have been focusing on non-traditional sectors in the past few years. Only by examining the role played by commercial banks prior to nationalization can the ramifications of commercial banks financing the non-conventional sector be better understood. Indian banking prior to nationalization. The money needed to buy common and preferred stock is always something that banks are happy to provide. Banks give corporations and manufacturers fixed capital as a result. However, new business establishment is supported by

the industrial banks.

Commercial banks are the establishments that typically take deposits from customers and advance credit. India also saw the creation of commercial banks, which are defined as banks that were formed in accordance with the Banking Regulation Act of 1949. Scheduled and non-scheduled commercial banks are both possible. 1949's Banking Regulation Act (BR Act). In India, a company that conducts banking business is referred to as a banking company under Section 5(c) of the Banking Regulation Act. Reserve Banks of India Act 1934 states that a bank that is listed in the Reserve Bank's second schedule is referred to as a scheduled bank. Commercial banks primarily play the role of financial intermediaries in the advancement of economic development. By serving in this role, commercial banks contribute to the market's overall capital flow. Commercial banks benefit from the ending process, which is the main mechanism of capital allocation in the economy.

Commercial banks play an important role in economic development as risk arbitrators. This mostly happens when banks lend money to people or companies. An examination of the borrower's finances, including income, credit score, and debt level, is conducted by the bank, for example, when someone applies for a loan. The bank can estimate the probability of borrower default based on the analysis's result. Commercial banks reduce the possibility of suffering financial losses by weeding out risky borrowers. Additionally, commercial banks provide a range of financing options for business loans. To cover the start-up expenses of a small business, a business owner may apply for a loan. After receiving funding, the small business can start up and pursue its expansion strategy. A sizeable amount of jobs are created nationwide as a result of small business activity. Long-term financing options for manufacturers' businesses are also offered by these financial organizations. Inversely, the financial system is characterized by the creation of money. A company's needs increase as its earnings do. But there's still a problem. It is not currently possible to increase the currency's legal tender value. The bank's funds are easily expandable to accommodate the rising demand for money. As a result, in a system that is still being developed, money is crucial to the supply of money. Furthermore, loans are made available by the banking system for both domestic and international business.

Individual wealth generation and holding accounts are also provided by commercial banks. Consequently, loans and investments are made using the deposits that commercial banks draw in through account services. Commercial banks, for instance, frequently entice deposits by providing a standard menu of checking and savings accounts for both individuals and businesses. Similar to this, banks provide certificates of deposit and money market accounts as additional timed deposit account options. Support for the federal government's function as an agent of economic development is also expressed by commercial banks. Typically, commercial banks buy Treasury Department bonds to assist in funding government expenditures. Government operations, programs, and deficit spending are all supported by both long- and short-term Treasury bonds. It is commonly believed that funding from commercial banks is more affordable. Its low-cost stems from the fact

that there are no expenses associated with prospectus issuance, underwriting fees, or other costs. Commercial banks offer banking services without any kind of additional fees. Due to the ease with which borrowers can obtain loans from commercial banks in times of financial need, these institutions are regarded as flexible sources of funding. Borrowers have the flexibility to adjust their loan amounts to suit their needs and preferences. When the borrowers need the money, the banks provide it to them. Additionally, debtors have the option to return the money whenever they feel like it. Even when consumers have only deposited money into their savings accounts, banks may occasionally be unable to provide the borrowers with the full amount they request. This occurs when depositors' or investors' money is mismanaged by bank management instead of receiving the proper attention. However, there are instances when it may also occur as a result of poorer economic conditions, such as during recessions when consumers make more withdrawals than loans.

Functions of commercial banks

The backbone of the nation's financial system is its commercial banks. They provide several worthwhile services. Using a network of branches, commercial banks offer banking services to consumers and businesses. The primary objective of these banks, which are typically publicly traded firms under shareholder management, is to generate profits for their owners. Yet, the government of India maintains the majority of the country's leading commercial banks. However, in recent years, there has been an explosion of private commercial banks. Commercial banks are general-purpose financial institutions that handle a variety of functions, including taking in demand deposits, writing checks against savings and fixed accounts, granting short-term loans to individuals and businesses, offering brokerage services, purchasing and selling foreign exchange, etc. The following is a description of the roles played by commercial banks:

Primary functions

Taking deposits: Customers' deposits are accepted by these banks. Savings, current, or other fixed accounts may be the recipient of these deposits. The bank offers interest to the individual. Additionally, the bank frequently lends out or invests these extra funds.

Credit cash: When someone takes out a loan, their bank opens an account for them. Bank cash is not given to them. It contributes to growing the clientele.

Lending: These banks are required to keep some liquid assets on hand. Any extra money above that can be lent out. Businesses or people can apply for these advances from the banks. It encourages business ventures. The borrowers give the banks interest income.

Secondary functions

Facilities for overdrafts: These allow users to take out more money than they have in their accounts. They can use it to complete transactions and it is for current accounts.

Securities transactions: They are permitted by commercial

banks as well. Through their banks, a trader can buy and sell.

Discounting bills: Commercial banks accept these bills of exchange for redemption. It is a payment note related to a sale of goods. After deducting the bill, the recipient can obtain their money from the commercial banks.

Lockers provided by banks: Customers of commercial banks can also use lockers. There, they can store valuables or important documents. The customer bears the cost of these fees.

Payment methods: Commercial banks accept a variety of payment methods, including bills of exchange, promissory notes, and checks.

Conclusion

The majority of Indian cities have commercial banks. Both customer service and banking facilities are offered by these banks. In addition to offering credits, it supports banking. For loans for their expansion, businesses can get in touch with commercial banks. These bank regulations are under government control. It needs to concentrate on the banking industry as a whole. Banking is often described as the cornerstone of any economy because it has a direct impact on both financial and economic development. Faster economic development will result from a more resilient and efficient banking sector. The banking sector plays a well-known role in emerging economies. The nation's finances are handled by financial institutions. These groups make certain that the funds end up where they're needed. Furthermore, these establishments support stability. Banking institutions play a crucial role in them. The foundation of basic services are commercial banks. They serve both the populace and the business community.

References

1. Benson K. Commercial Banks in India, New Century Publication, New Delhi; c2008. p. 3.
2. Agarwal BP. Commercial Banking in India, Classical publishing company, New Delhi; c1983. p. 41
3. Anjaria JJ. New Dimensions in Central Banking, Reserve Bank of India Bulletin; c1968. p. 1159.
4. Rupinder S, Banking Sector Reforms in India: An Assessment, Banking in new Millenium, Mahamaya Publishing House, New Delhi; c2007. p. 175.
5. Kalpana B, Rao TV. Role of Commercial Banks in the economic Development of India,- An perceptive study, International Journal of Management and Applied Science, ISSN:2394-7926, 2017, 3(4).
6. Subbareddy K. An Empirical Study on Role of Commercial Banks on Issuing Loans and Advances Selected Areas, Impact on Economic Growth in India, International Journal of Creative Research Thoughts (IJCRT), 2020, 8(3). ISSN: 2320-2882
7. Akims MA. Role of Commercial Banks in Economic Growth And Development: A Theoretical Approach IOSR Journal of Humanities And Social Science (IOSR-JHSS). 2022;27(12):16-18. e-ISSN: 2279-0837, p-ISSN: 2279-0845.
8. Dr. Selvi RT, Dr. Rathna GA. The role of commercial bank in economic development in India; c2023.
9. Mohan TR. Post-Crisis Regulation: A Contrarian Perspective. Economic and Political Weekly.

2010;16:8-10.

10. Adamson P, Anghel I, Aurisano A, Barr G, Bishai M, Blake A, *et al.* Combined analysis of ν_{μ} disappearance and $\nu_{\mu} \rightarrow \nu_e$ appearance in MINOS using accelerator and atmospheric neutrinos. Physical review letters. 2014;112(19):191801.