Chinese Traditional Medicine Journal

ISSN : 2693 6356
2022 | Vol 5 | Issue 6

The Function of Commercial Banks in Promoting Financial Inclusion in India

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ABSTRACT:
A commercial bank is a type of bank that provides services such as accepting deposits, loans, and offering basic investment products that is operated as a business for profit. It can also refer to a bank, or a division of a large bank, which deals with large /middle-sized business to differentiate it froma retail bank and an investment bank.
A Bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans.Indian Banking Regulation act 1949 section of the Banking Regulation Act 1949 Banking is defined as: "Accepting for the purpose of the landing of investment of deposits of money from public repayable on demand or other wise and withdraw able by cheques, draft, order or otherwise."A bank is an institution whose debts are widely accepted in settlement of other people's debts to each other." In this definition Sayers has emphasized the transactions from debts which are raised by a financial institution.Commercial bank being the financial institution performs diverse types of functions. It satisfies the financial needs of the sectors such as agriculture, industry, trade, communication, etc. That means they play very significant role in a process of economic social needs.The functions performed by banks are changing according to change in time and recently they are becoming customer centric and widening their functions. Generally the functions of commercial banks are divided into two categories viz. primary functions and the secondary functions.
KeyWords: Savings, Customers,Loans,Sustainable ,Financial Serv

PREAMBLE:

A commercial bank is a financial institution that grants loans, accepts deposits, and offers basic financial products like savings accounts and certificates of deposit to individuals and businesses. It makes money primarily by providing different types of loans to customers and charging interest.The bank's funds come from money deposited by the bank customers in saving accounts, checking accounts, money market accounts and certificates of deposit (CDs). The depositors earn interest on their deposits with the bank.However, the interest paid to depositors is less than the interest rate charged to borrowers. Some of the loans offered by a commercial bank include motor vehicle loans, mortgages, business loans, and personal loans.The commercial banks help in mobilising savings through network of branch banking. People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs of individual depositors.They also mobilise idle savings of the few rich. By mobilising savings, the banks channelise them into productive investments. Thus they help in the capital formation of a developing country.

Deposits which can be withdrawn on demand by depositors are called demand deposits, e.g., current

account deposits are called demand deposits because they are payable on demand but saving account deposits do not qualify because of certain conditions on withdrawal.No interest is paid on them. Term deposits, also called time deposits, are deposits which are payable only after the expiry of the specified period. The most important activity of a commercial bank is to mobilise deposits from the public.People who have surplus income and savings find it convenient to deposit the amounts with banks. Depending upon the nature of deposits, funds deposited with bank also earn interest. Thus, deposits with the bank grow along with the interest earned.If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank. An advance is a credit facility provided by the bank to its customers.It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances is to meet the day to day requirements of business.The rate of interest charged on advances varies from bank to bank. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

HISTORY OF COMMERCIAL BANKS:

Ancient India:

The Vedas are the earliest Indian texts to mention the concept of usury, with the word kusidin translated as "usurer". The Sutras and the Jatakas also mention usury. Texts of this period also condemned usury: Vasishtha forbade Brahmin and Kshatriya varnas from participating in usury. By the 2nd century CE, usury became more acceptable.

The Manusmriti considered usury an acceptable means of acquiring wealth or leading a livelihood.It also considered money lending above a certain rate and different ceiling rates for different castes a grave sin.The Jatakas, Dharmashastras and Kautilya also mention the existence of loan deeds, called rnapatra, rnapanna, or rnalekhaya.

Later during the Mauryan period, an instrument called adesha was in use, which was an order on a banker directing him to pay the sum on the note to a third person, which corresponds to the definition of a modern bill of exchange. The considerable use of these instruments has been recorded[citation needed]. In large towns, merchants also gave letters of credit to one another.

Medieval India:

The use of loan deeds continued into the Mughal era and were called dastawez. Two types of loans deeds have been recorded. The dastawez-e-indultalab was payable on demand and dastawez-e-miadi was payable after a stipulated time.

The use of payment orders by royal treasuries, called barattes, have been also recorded. There are also records of Indian bankers using issuing bills of exchange on foreign countries. The evolution of hundis, a type of credit instrument, also occurred during this period and remain in use.

Modern India:

During the period of British rule merchants established the Union Bank of Calcutta in first as a private joint stock association, then partnership. Its proprietors were the owners of the earlier Commercial Bank and the Calcutta Bank, who by mutual consent created Union Bank to replace these two banks.

Commercial banks are financial institutions that accept demand deposits from the general public, transfer funds from the bank to another, and earn profit. Commercial banks play a significant role in fulfilling the short-term and medium- term financial requirements of industries.

They do not provide, long-term credit, so that liquidity of assets should be maintained. The funds of commercial banks belong to the general public and are withdrawn at a short notice; therefore, commercial banks prefers to provide credit for a short period of time backed by tangible and easily marketable securities.

OBJECTIVE OF COMMERCIAL BANKS:

1. Earning savings through demand and termdeposit accounts.
2. Advancing the loans loans and investing the amount which is deposited by the customers.
3. provide custody services.
4. Discounting of bills.
5. Securitization of loans
6. Dealing in Foreign exchange.
7. Bancassurance.
8. Acts as trustee,executor , attorney etc.
9. provide trade information.
10. Factoring services.
11. As per the the banking Regulation act banking Accepting Deposits for the purpose of lending
12. All commercial banks does the same. As to the objectives they primarily provide banking
13. financial services of accepting deposits/Investment products and offer loans to public
14. Banks also extend such other products like remmittaces, Insurance etc.

SCOPE OF THE COMMERCIAL BANKS:

A professional money lender is one who is exclusively engaged in money lending activity. He may occasionally accept deposits and provide agency services to his customers. A non–professional money lender, on the other hand, is either a merchant, or a trader, or a member of the business community, whose main activity is not money lending. Such money lenders engage in money lending as a side activity.A money lender normally meets the cash requirements of the public. He gives loans for consumption purposes such as marriages and other social functions. The rate of interest charged by him is generally very high.

INVESTMENT POLICY OF THE BANKS:

The commercial banks have to follow the guidelines issued by RBI for investments. The following are the motives of investment policy of RBI.1. Safety and security. Safety and security of the funds which are deposited by the customers of the bank is very important in banks. The money which is deposited by the customers in banks should be safe and they should get back whenever they require.

The banks should see that the money which is deposited in commercial banks should not be misused by the banks through its unscrupulous management or mismanagement and lead to loss and consequently lead to bankruptcy. Hence the RBI will guide the commercial banks through its monetary policies and issues guidelines to follow in their investment policies

RESEARCH METHODOLOGY:

Methodology concerns the territory of proposed study and gives information to the readers about adopted process of analysis for the respective study. This includes aims for which the study is undertaken. This also clarify time, scope, data sources etc. of proposed study. Another significant aspect is tools and techniques which are used for the study. In brief this chapter helps to the researcher to decide his path of research work.

Banks are quite important to the economy and are involved in such economic activities as issuing money, settling payments, credit intermediation, maturity transformation and money creation in the form of fractional reserve banking**.**

SUGGESTIONS:

Indian Banking, especially the Public Sector Banks, has performed impressively in achieving social goals, extending the geographical reach and functional spread of financial services, especially for the rural poor.

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Banking sector acts as a backbone of modern business. A well organized banking system is necessity for the economic development of a country. In India all commercial banks excluding Regional Rural Banks.

HYPOTHESIS OF THE BANKS:

1. The reforms in banking sector transformed the regulated environment into a market-oriented one and induced competitiveness in banking industry.

2. The reform measures brought a paradigm shift in the banking industry and enhanced the overall performance of the banks.

3. Information technology in banking business has avisible impact on the quality of customer service.

CONCLUSION:

Banking systems have been with us for as long as people have been using money. Banks and other financial institutions provide security for individuals, businesses and governments, alike. Let's recap what has been learned with this tutorial.

In general, what banks do is pretty easy to figure out. For the average person banks accept deposits, make loans, provide a safe place for money and valuables, and act as payment agents between merchants and banks.

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