

Meaning, Concept and Significance of Banks

Sruti Bansal*

Department of Law, Hidayatullah National Law University, Raipur, India

Abstract: “The well know said lines by Sir Rudyard Kipling is going true day by day. After the world war and the nationalization it played the significant role in the development of the nation. The spread of science and the progress in technologies and communication has helped a lot in the development of the banking sector. It is found that the interest of nation and the wellbeing of the nation are the concern of all. The difference that is there between the east and the west is very fast disappearing and they have found a common platform.”

“Bank plays a very vital role in Indian economy, there went many changes after Liberalization. The new economic reforms have totally changed the banking structure. Reserve Bank of India has permitted new banks to get established in the private sector as mentioned in the guidelines of the Narsimham committee. Previously the Indian banking structure was dominated by the Public sector but now things have changed. Now new technologies are there and professional management has earned a reasonable position in the Banking Sector. In fact to raise the economy of the country it is required to develop the banks. The development of the country is based on the economy and the bank takes the money from the public and provides to the business men which use them for productive works and raise the economy of the country. Due to development now banks are providing credit for the purpose of agriculture and small scale industries also by which they adopt new methods of production.”

“Today our economy is also based on expansion of trade especially exports .therefore the policies are made by the banks which helps in the economic development of the country. In this paper there are all type of bank, kinds of banking the role of RBI and the reforms. The phrases of development after independence which helps to make an overview about the history of the Banking System. In this paper we discussed about the irregularities done by the banking structure and provides some suggestions to overcome these irregularities so that it can help in the development in the development of the banking sector which eventually plays the major role in the development of the Indian Economy.”

Keywords: Meaning, Concept and Significance of banks.

1. Banking

In the present scenario, banking is very essential for the economy of the nation. Modern trading would be impossible without the accessibility of banking systems. The primary work of bank is it promotes savings and it is the basis for the ordinary laborers to the rich businessman, they also keep money in the banks as safe deposit. Secondly bank promotes investments also by investing money in agriculture and trade. They invest directly or through loans. And thirdly it helps in foreign trade in export and import of money from one country to another [1].

2. Definition of Bank

"A bank is simply what a bank does". This definition is

simple but quite vague. Dr. Samuel Johnson defined bank as, "A bank is a place where money is said up to be named for occasionally"[2]

KINLEY defines bank as, "A bank is an institution which provides to individuals such advances of money which may be required and safely made, and to which individuals trust money when not required by them for use"[3].

Banking system is all about the belief or trust. We actually believe that bank will provide us money when we will go for it. Generally a people handovers the money to the bank and the same bank lends the money even more than that on the same day on demand. The relationship of the bank and its customers are based on trust, a fiduciary relationship between both [4].

3. Significance of Banks and Banking

Banking system plays an important role in the nation's economy. It serves the needs of the credit of all the sections of the society. In ancient times also there were methods of money lending through Sahukars and zamindars and now also lending of money is done in one or other form [5]. By the beginning of the 20th century and with the beginning of modern industry the requirement of banks were felt by the government. The British government payed attention towards the requirement of an organized banking sector so the RBI was established to regulate the banking system. After the nationalization the banks played important role in the economy of the nation. They have acted as custodian of credit and also protects the social and economic development many of which were capable of making reproductive energies.”

“The important issue to regularize the banking is capital formation and can be easily performed by the banks. They can regulate the rural population and increase savings. The capital available in India is quite high its we need to exploit the idle capital. And the bank is having the capacity to exploit it. If bank provide larger amount of interest then people will be interested in saving rather than wasting in celebrations. India is the country with largest independent democracy and also having an emerging economy [6].

“From the past view decades India is having extraordinary achievements towards its credit. It is not only confined to the metropolitans but also has reached to the remote areas of the nation [7].

“Agriculture in India is having outstanding history and it plays a vital role for the overall Development in India. The government took an initiative to provide the finance to NABARD for refinancing Regional Rural Banks to provide short term loans to farmers. The schemes offers credit to the

*Corresponding author: srutibansal.hjs@gmail.com

farmers at 7% interest rate. India is a rural based country and it can grow if the credit is provided to them at low interest rate and the farmers get loans for boring wells, machineries, electric motor with pump etc [8]

“The leading bank in India is Industrial Development Bank of India for the financial support to the projects. The special side of the IDBI is the creation of the Development Assistance Fund. The fund is basically to provide assistance to the industries which can avail fund by smaller amount of investment and low rate of returns.”

“Now a days banks also perform new functions as it is the largest service sector in India and now bank is more focused on customer retention rather than customer acquisition [9]. This concept played an important role in the development of the economy of the nation by the banks which is the main source of the economy.”

4. Kinds of Banking

A. Unit Banking

“A unit bank is a corporation that is having only one office and operates only one office and is not related to the other banks neither through ownership nor through control.”

1) Advantages of Unit Banking

1. The working, management and control of the unit banks is easy as well as effective due to its smaller in size and operation of the banks. Due to small size and to keep the eyes only one office there are less chances of fraud and irregularities are quite less in the financial status of the unit banks.”
2. It is localized in the nature and has the knowledge about the local issues and work for local public in the best way in comparison to branch banking.”
3. The biggest advantage of this type of banking is that there is no hold of any kind of decision taking on problems related with the unit bank.”
4. It is generally of smaller size so there is no monopolistic tendencies in this banking system.
5. In this banking system there is no departing of resources to any rural and backward areas to the large commercial centers which makes regional balance.”

2) Disadvantages of the Unit Banking

1. The scope is very limited in this type of banking because the size is limited. They does not deal with the large scale operations.”
2. In the unit banking, the operations of the bank is local in nature that is it has a single office so there is low possibilities of risk and irregularities.”
3. Due to the small scale office people don't have to face the difficulties standing in a queue while withdrawal.”
4. In Unit banks, due to its smaller size they are not able to take advantages of the labor and bank cannot afford extraordinary training and the staff.”
5. In Unit banks, due to the limited resources they cannot open banks in small towns and rural Areas because of having less scope.”

5. Chain Banking

Chain banking is termed as the bank in which there are three banks that are connected in chain and small number of group of individuals and the banks are chartered independently. The individuals should keep stocks with them to earn interest in the corporations involved. Management of the bank to be made by the making of majority votes of the corporate board of directors for the supervision of the banking institutions. Chain banking started from U.S. In 1920s and by 1925, there were total of 33 chains of banks which took the control over 900 banks. The main objective behind this was to improve goodwill in the market and to maximize the profits.”

A. Advantages of Chain Banking

1. It restricts the risk for a particular community by spreading the risk between various other small banks instead of one bank liable for the risk and by this it became easier to lend products and offer credits to the communities.”
2. This type of banking makes possible to avail the banking facilities even when there are limited resources. Chain banking creates a centralized structure having common management and risk handling tendencies. By the chain banking many people can avail the banking facilities as compared to the Unit Banking.”
3. It is beneficial in the sense that it restricts the number of executive decision s of management which are made at the local level dur to centralized tendency and the same guidelines are given for all the multiple banks. It makes decisions for the benefit of all and creates better financial controls and provides an extraordinary system of management.”
4. The motive behind the formation of chain banking is to avoid risks. They are having chain of banks so they are useful to individuals without the threat of losses. The process restricts all the profitability and also provides a safer and protected place for the people for keeping their money.”
5. Due to the minimized tendency of risk individuals feel free to transact more with the bank and have more use of credit which allows them to start the business expand more in it. it is an example to lead good decisions of how the finance to be managed.””

B. Disadvantages of Chain Banking

1. Generally the profit comes when people take risks in the financial sector and similarly chain banking cannot afford risks. So the bank managed a very conservative approach in cases of risks incurred. And to overcome this it is necessary to find a key to have investments more than rate of inflation.”
2. In the process of chain banking there is low availability of the profits so it must be used in such a way to recover the needs of the local communities.
3. In the chain banking the decision is made on the centralized tendency so it is quite difficult to meet the

needs of the local banks and to make the guidelines for the benefit of all because at the different level bank faces different problems. Many chain banking systems create a centralized structure where one entity, pulls the strings.”

4. The objective of chain banking is to accelerate the opportunities for the prudent person or the average person to use the facilities provided by the bank. And when the banks are calculated by the common stakeholders the point is who is in control of credit authorization. And the stakeholders are only answerable to their profitability and to themselves.”
5. These banks are technically independent in nature and still calculated by the same stakeholders. And the case in which there is no opposition then it’s a drawback for the customers because they can’t negotiate hence has to follow the same guidelines provided even if they are getting loss in it.”

6. Group Banking

Group banking is termed as the banking system in which there is a head i.e. holding banking company and the other banks are subsidiary to it. In few cases both the holding banking company and the subsidiary company carry out the banking. The best example for this is State Bank of India (SBI) which has many subsidiaries which too carry out the banking and work like lease, merchant banking etc.”

A. Merits of group banking

1. The holding company conspires the effectiveness of the group banking or the subsidiary banks. The subsidiary banks work under the overall control of the Holding Company.”
2. There is high level of fluidity because the banks are governed and controlled by the one parent bank. The member bank has to maintain the level of liquidity.”
3. Basically it is an economic system of Banking because many things are done collectively under the guidance and custody of the Holding Company.”
4. In the process of group banking the diverse subsidiaries need to specify the different levels of banking. It increase and promotes the efficiency of the group banking.”

B. Disadvantage of group banking

1. The control is rigid in nature due to the lack of elasticity it often leads to corruption.”
2. The funds are less movable in the process of group banking in comparison to the process of branch banking.”
3. The group banking has in fact very less branches as compared to the branch banking due to which it becomes quite difficult for the general public to avail the services due to huge crowd.”

7. Mixed Banking

The mixed banking is the mixture of Deposit and Investment

and the German banking system is the best example for it. The German banking provides a disparity in respect to the functions as they are stated as “Universal banks”. In this process banks provides finance for the long time necessities and also caters to short term loans trade and commerce. The Shroff committee was also made in 1954 in this regard which suggested the Indian banks to gain industrial finance aid. The RBI has further taken steps to improve and furnish the resources of the banking system. Due to merger, many banks were rejected and in India advance type of banking is developed and the remaining commercial banks have limited themselves to the short term lending.”

A. Advantages of Mixed Banking System

1. The industrial components which get financed by the banks have the advantage of receiving the expert guidance from the bank on various issues. The bank helps the concerns of the industrial units by marketing their stocks and publishing shares to the public at large.”
2. In the process of the mixed banking process the bank may give better investments so that the rights of the investors are protected and promoted by better investment facilities.”
3. The mixed banking can provide full credit and fulfill all the requirements of the industries. They are not required to go to other banks for the loans facility.”
4. In the case, when bank delivers long term fiancé to the public then it usually appoints its officials from the board of directors of the company which results in closing the familiarity with the bank.”
5. In the areas where industrial banks are not developed mixed banking helps and encourages the rapid industrialization which lead to speedy development of industries in Germany.”

B. Disadvantages of Mixed Banking System

1. This system makes a threat to the determination of banks because if the industries suffer losses then it will obviously attack on the productivity of the banks due to which banks would not be able to improve their condition of loans.”
2. During the successful years the value of shares will be going up. Banks which are indulged in mixed banking and can be involved in hypothetical business like selling in company shares so it may amount to loss if the stock market gets disturbed.”
3. Generally bank offers long and short term finance to the industrial units which may take a step of over lending.”
4. It is not safe to keep lock the short term deposits under long term loans because it may amount to the dander in its liquidity.”

8. Branch Banking

Branch banking is named as one of the most efficient and significant method of banking and is the most preferred and

valuable from the customers point of view. In this banking person or the customer can visit the branch and can communicate with the branch officials personally and can utilize the services provided by the bank in fact. The branch officials deals with both sales and services of the bank. The appropriate example for this is the deposit accounts: fixed account, saving account, recurring account and current accounts. The communication is made appropriate in these banks like in granting loans bank officials requires full details of the customer like address, contact details and their financial status and keep as a record with the bank for the follow up action. Sometimes these works are done by the agents like Direct Sales Agent or Direct Marketing Agent and they be in touch with the customers with their requirements.”

A. Services provided at the bank branches

“Several services are presented to customers by the bank branches. Some of them are as follows:”

1. Account Opening”
2. Cash receipt”
3. Cash payments”
4. Cheque book transactions”
5. Safe deposit lockers”
6. Foreign Exchange services”
7. Issue of DD and bank cheque’s”
8. Demat services”
9. Acceptance of queries and complaints.”
10. Delivery of things such as Debit cards, PINs, Passwords etc.”
11. Online services to transact residing at anywhere in the world”
12. Acceptance of clearing cheques”
13. Investment product.”

“There are various other facilities also that are provided by the Branch Banking. The customers can go to their nearby branch and do the transactions which will save the time of the customers and limits the risk in the case of carrying amount of money to deposit in cash from theft and forgery. The branch banking is accompanied with the various necessities of the customer which is beneficial for the customers.”

9. Types of Banks

A. Central Bank

“A Central bank i.e. Reserve bank or known as Monetary Bank is completely accountable for the funding policy of the nation. The main responsibility of the Central bank is to manage the consistency of the money supply and the currency and other additional duties. It provides the guiding provisions to the banks to work efficiently and not to perform fraudulently.””

B. Commercial Bank

“The commercial bank provides the facilities such as accepting deposits, crediting loans and other functions. They generally give short term loans to their customer but sometimes give medium term loans as well [10].

C. Industrial Banks

“The Industrial banks acts as the acceptor of the long term deposits because they accept the long term deposits instead of short term loans from the public. The banks need to meet the Necessities of the people of the various companies such as purchasing land for the construction of buildings and purchasing of heavy machineries. The Industrial bank also advices the customers to invest money in shares and purchase the debentures.”

D. Agricultural Banks

“India is largely based on the agriculture so there is need of bank which can fulfill the needs of the farmers by providing those loans or finance for the agriculture purpose. In lieu of this concern Agricultural bank came in presence. Generally farmers needs short term loans to purchase seeds, ploughs, fertilizers machinery equipment’s and many other things as well as they also need long term loans for irrigation and to procure lands for agriculture.”

E. Foreign Exchange Banks

“The primary function of these banks is to make the international payments by the purchase and sale of the bills. As the different countries are in favor to receive funds in their own currency so there, arises the problem of converting of currencies of one country to the other.

The foreign bank is meant for this purpose only [11].

F. Indigenous Bank

“The indigenous bank acts like a firm which deals with the advancing of loans and receiving deposits from the public and manages business in hundis [12]

10. Role of Banks

“The economy of the nation is based on the finances as it is the backbone of the economy. The commercial banks which leads the financial sector must be organize with the efficient working for the economy. The important tools for the sound system of the Commercial Banking are as follows:”

A. Capital formation

“In India, as developing country the rate of saving is low as compared to the other developed countries and to improve this and provide capital to the entrepreneurs for the raising of economy there is need of a sound capital formation in the developing country [13]. There is a need of the sound banking system in the country for the capital formation with certain provisions and guidelines.”

B. Monetization

“A developing economy is considered by the large non monetized sector and the existence of non- monetization creates an interruption in the development of the economy. To improve the non-monetization it is necessary to promote and take risk in providing the credit facilities to the priority areas such as small scale industries and agriculture. “The provisions for the medium and long term Finance “Generally, in developing

countries like India the commercial banks provide loans for a Short span of time. They feel unsecured while giving medium and long term loans to the businessmen. So the banks needs to change their provisions regarding the availability of medium and long term Loans to industries and businessmen.”

C. Cheap money Policy

“The commercial banks generally use cheap money policy i.e. lending money at low interests to overcome the threat of business recession [14]. And now the policy is working in raising the economy of the country.”

11. Significance of Banks in the Globalized World

“The declining economic conditions combined with the global growth and the growing risks in the banking sector. Many policies are taken in action to handle these risks. The movement towards the risk based strategies and its supervision stepped into better, management and cooperation .In dealing with the short term loans the assets quality of the banks left the task. The banks wants to capitalize and play an important role in the completion of economic necessities of all the people at large [15]. The stepping of globalization has provided a way to new task with upcoming responsibilities.”

12. Significance of the Indian economy

“In the Developing country like India, the commercial banks plays a leading role in the financial system of the nation .it has performed various functions but the important function among all is to provide liquidity and the payment methods and services to the banking sector and is accountable for the financial processes. The banking sector is the backbone of the economy of the nation. And in accordance to this catering the credit is the essential element to small scale industries, agriculture, government and businessmen [16]

“A landmark developments laid down in the banking sector was initiated by the Narsimhan committee. The committee

rendered several measures to be taken to transform the Indian Banking System and it played an important role and effective in increasingly Globalized environment [17].

13. Conclusion

This paper presented Concept and Significance of Banks.

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