



Importance Of Banks In The Development of The Country

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Abstract: 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.

Key Words: Important Parts, Country, Modern, necessity, important, developed, financial system.

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 sent 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

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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- Monetary policy is a important policy of any government. The major aim of monetary 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.

FUNCTIONS OF COMMERCIAL BANKS- The commercial banks serve as the king

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pin of the financial system of the country. They render many valuable services. Commercial banks provide banking services to businesses and consumers through a network of branches. These banks are in business to make a profit for their owners and they are usually public limited companies managed by shareholders. In India, however, most of the top commercial banks are owned by the government. But many private commercial banks have been established in the recent years. Commercial banks are all-purpose banks that perform a wider range of functions such as accepting demand deposits, issuing cheques against saving and fixed deposits, making short-term business and consumer loans, providing brokerage services, buying and selling foreign exchange and so on.

The functions of commercial banks are explained below:

Primary functions

- * Collection of deposits
- * Making loans and advances

Collection of deposits- The primary function of commercial banks is to collect deposits from the public. Such deposits are of three main types: current, saving and fixed.

A current account is used to make payments. A customer can deposit and withdraw money from the current account subject to a minimum required balance. If the customer overdraws the account, he may be required to pay interest to the bank. Cash credit facility is allowed in the current account.

Savings account is an interest yielding account. Deposits in savings account are used for saving money. Savings bank account-holder is required to maintain a minimum balance in his account to avail of cheque facilities.

Fixed or term deposits are used by the customers to save money for a specific period of time, ranging from 7 days to 3 years or more. The rate of interest is related to the period of deposit. For example, a fixed deposit with a maturity period

of 3 years will give a higher rate of return than a deposit with a maturity period of 1 year. But money cannot be usually withdrawn before the due date. Some banks also impose penalty if the fixed deposits are withdrawn before the due date. However, the customer can obtain a loan from the bank against the fixed deposit receipt.

Loans and advances- Commercial banks have to keep a certain portion of their deposits as legal reserves. The balance is used to make loans and advances to the borrowers. Individuals and firms can borrow this money and banks make profits by charging interest on these loans. Commercial banks make various types of loans such as:

1. Loan to a person or to a firm against some collateral security;
3. Cash credit (loan in installments against certain security);
4. Overdraft facilities (i.e. allowing the customers to withdraw more money than what their deposits permit); and
5. Loan by discounting bills of exchange..

Secondary functions

- Agency services
- General utility services

Agency Services- The customers may give standing instruction to the banks to accept or make payments on their behalf. The relationship between the banker and customer is that of Principal and Agent. The following agency services are provided by the bankers:

1. Payment of rent, insurance premium, telephone bills, installments on hire purchase, etc. The payments are obviously made from the customer's account. The banks may also collect such receipts on behalf of the customer.
2. The bank collects cheques, drafts, and bills on behalf of the customer.
3. The banks can exchange domestic currency for foreign currencies as per the regulations.
4. The banks can act as trustees / executors to their customers. For example, banks can execute



the will after the death of their clients, if so instructed by the latter.

General Utility Services- The commercial banks also provide various general utility services to their customers. Some of these services are discussed below:

1. Safeguarding money and valuables-

People feel safe and secured by depositing their money and valuables in the safe custody of commercial banks. Many banks look after valuable documents like house deeds and property, and jeweler items. Transferring money: Money can be transferred from one place to another. In the same way, banks collect funds of their customers from other banks and credit the same in the customer's account.

2. Merchant banking- Many commercial banks provide merchant banking services to the investors and the firms. The merchant banking activity covers project advisory services and loan syndication, corporate advisory services such as advice on mergers and acquisitions, equity valuation, disinvestment, identification of joint venture partners and so on.

3. Automatic Teller Machines (ATM)- The ATMs are machines for quick withdrawal of cash. In the last 10 years, most banks have introduced ATM facilities in metropolitan and semi-urban areas. The account holders as well as credit card holders can withdraw cash from ATMs.

4. Traveler's cheque- A traveler's cheque is a printed cheque of a specific denomination. The cheque may be purchased by a person from the bank after making the necessary payments. The customer may carry the traveler's cheque while travelling. The traveler's cheques are accepted in banks, hotels and other establishments.

5. Credit Cards- Credit cards are another important means of making payments. The Visa and Master Cards are operated by the commercial banks. A person can use a credit card to withdraw cash from ATMs as well as make

payments to trade establishments.

ROLE OF COMMERCIAL BANKS IN ECONOMIC DEVELOPMENT- Commercial banks are one source of financing for small businesses. The role of commercial banks in economic development rests chiefly on their role as financial intermediaries. In this capacity, commercial banks help drive the flow of investment capital throughout the marketplace. The chief mechanism of this capital allocation in the economy is through the lending process which helps commercial banks.

Risk- One of the most significant roles of commercial banks in economic development is as arbiters of risk. This occurs primarily when banks make loans to businesses or individuals. For instance, when individuals apply to borrow money from a bank, the bank examines the borrower's finances, including income, credit score and debt level, among other factors. The outcome of this analysis helps the bank gauge the likelihood of borrower default. By weeding out risky borrowers, commercial banks lessen the risk of financial losses.

Small Business- Commercial banks also finance business lending in a variety of ways. A business owner may solicit a loan to finance the start-up costs of a small business. Once funded, the small business may begin operations and embark on a growth plan. The aggregate effect of small business activity generates a significant portion of employment around the country.

Wealth- Commercial banks also offer types of accounts to hold or generate individual wealth. In turn, the deposits commercial banks attract with account services are used for lending and investment. For example, commercial banks commonly attract deposits by offering a traditional menu of savings and checking accounts for businesses and individuals. Similarly, banks offer other types of timed deposit accounts, such as money market accounts and certificates of deposit.

Government Spending- Commercial



banks also support the role of the federal government as an agent of economic Development. Generally, commercial banks help fund government spending by purchasing bonds issued by the Department of the Treasury. Both long and short term Treasury bonds help finance government Operations, programs and support deficit spending.

CONCLUSION- Over a significantly long period of time, countries embarking on a process of development within. The framework of mixed, capitalist economies have sought to use the developing banking function, Embedded in available or specially created institutions, to further their development goals. The role of these institutions in the development trajectories of late industrializing, developing countries cannot be overemphasized. However, as noted above, with financial liberalization of the neoliberal variety transforming financial structures; some countries are doing away with specialized development banking institutions on the grounds that equity and bond markets would do the job. This is bound to lead to a shortfall in finance for long-term investments, especially for medium and small enterprises. Fortunately, there are some countries such as Brazil that have thus far not opted for this trajectory.

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