

DEPARTMENT OF COMMERCE (CA)
Banking (SEMESTER-V)

III-UG Non-Major Elective Sub code-18BCA5EL

Unit-II

Role of Commercial banks in India-Role of reserve bank of India-Role of state bank of India

ROLE OF COMMERCIAL BANKS in India

1.Helpful in Mobilization of Saving

Commercial banks offer facilities of deposits on lucrative forms. Banks convert savings into capital formation by extending credit facilities to the investors and entrepreneurs.

The most important role in mobilization of the savings of the society is played by the commercial banks.

2.Assist in Innovations

Commercial banks are also helpful in innovations. Innovations are yet another important parameter of growth and development. Commercial banks facilitate in innovation of new and advanced technology across different sectors of the economy by offering judicious financial help.

3.Implementation of Monetary Policy

The monetary policy must be implemented effectively and efficiently to manage the crucial factors of sound health of economy. The effectiveness of the monetary policy depends upon the co-operation of commercial banks. In fact commercial banks constitute the central-stage of any monetary program of the government or the Central bank of the country.

4.Banks Influence the Interest Rates

Banks influence the rate of interest and structure of interest rates by means of credit creation. Banks influence the volume and pattern of investment which is very important in the context of growth and development in less developed countries in India.

5.Helpful in Developmental of Priority Sectors

Commercial banks also play a very important role in the development of priority sectors of the economy. Commercial banks are often engaged in advancing loans on priority basis to farmers, small scale industrialists and artisan with a view to improving the rate of production, attaining self-sufficiency in food grain production and achieving equitable distribution of income and property.

6.Directing Funds into Desired Channels

Every government always wants a balanced growth and development of all the sectors of the economy. Banks ensure balanced growth of the economy by directing the funds into productive channels. The balanced growth of the country is only achieved through proper distribution of money with the help of commercial bank.

7..Helpful in Productive Activities and Export

Commercial banks are helpful in stimulating economic activity and expanding exports in less developed countries. Productive activities both in agricultural sector and industrial sector can be sustained and stimulated only when financial needs of these sectors are fulfilled by commercial banks at reasonably low rate of interest. Commercial banks also provide easy finance facilities to the exporters.

8.Implementation of the Policies of the Government

Commercial banks also play a vital role in the proper implementation of economic policies of the government relating to the development of various sectors of the economy. Thus, commercial banks play a crucial role in the context of growth and development in developing countries like India by offering a well-organized credit market to all the financial needs of various sectors of the economy.

Assist in Innovations Commercial banks are also helpful in innovations. Innovations are yet another important parameter of growth and development. Commercial banks facilitate in innovation of new and advanced technology across different sectors of the economy by offering judicious financial help.

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Reserve Bank of India

RBI is India's Central Bank. Every country has its own Central Bank. The US has Federal Reserve Bank (FED) and England has Bank of England (BOE) while the whole of Europe has European Central Bank (ECB). Simply put the role of a Central Bank is to monitor a country's economy and stabilize it by using its various policies. A Central Bank acts like an adviser to the Government on issues related to the economy. As opposed to popular belief, the RBI is NOT controlled by the Government but instead it works as an independent institution.

Structure of the RBI

The RBI was founded in 1935 to tackle the economic difficulties arising in British ruled India after the First World War. Since then it has undergone a lot of changes in its organizational structure. Currently, the RBI consists of a central board of directors that overlooks its functioning.

The board of directors is formed of 21 members:

Governor – appointed by the Government for a 4 years term

Deputy Governors – up to 4

Executive Directors – nominated from various fields and regions and also 2 directors nominated by the Government from the Ministry of Finance.

Role of RBI

RBI has 7 primary functions. Each function has an objective of managing a particular part of the economy.

1. Issuer of Currency

The RBI has the sole right to issue new currency notes and coins, exchanges or destroy currency not fit for circulation.

2. Monetary Authority

RBI formulates, implements and monitors the monetary policy. This policy is the most important tool that the RBI has. Using this policy RBI manages the interest rates offered by banks on loans and deposits and which affects the inflation and deflation in the country. In simple words, lower rates give rise to higher inflation and vice versa.

3. Manager of Foreign Exchange

RBI also manages the flow of foreign currency in Indian economy by enforcing the Foreign Exchange Management Act, 1999. As part of this function, the RBI makes sure that the exchange rate value of Indian National Rupee is maintained in the international markets.

4. Regulator and Supervisor of the Financial System

RBI prescribes broad parameters of banking operations within which the country's banking and financial system functions. It makes sure that the banks are following the issued guidelines by overlooking their financial operations and in cases of banking failures, RBI comes ahead to safeguard the depositors' money by bailing out the distressed bank.

5. Regulator and Supervisor of Payment and Settlement Systems

RBI introduces and upgrades safe and efficient modes of payment systems in the country to meet the requirements of the public at large. This includes implementing various advanced technologies like the NEFT, RTGS or the latest Unified Payment Interface (UPI) or overlooking the operations of National Financial Switch (NFS) which is necessary for ATMs.

6. Related Functions

Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker. This includes dealing with financial securities issued by the Government like treasury bills, infrastructure bonds, etc.

Banker to the banks: To maintains banking accounts of all scheduled banks. This includes managing the minimum reserve capital balance required to be held by the banks with the RBI.

7. Developmental Role

Performs a wide range of promotional functions to support national objectives. This includes work like providing timely credit to the productive sectors of the economy, creating institutions to build financial infrastructure like UPI, NEFT, etc., expanding access to affordable financial services and working on financial inclusion of all classes of the society.

Role of State Bank of India

State Bank of India was established in July 1, 1955 through the implementation of SBI Act, 1955.

The role of the State Bank of India is largely divided into two main categories. These are ordinary banking functions and central banking functions. Both these categories are broadly divided into many subcategories.

1. Central Banking Functions

SBI acts as an agent to the RBI, where there are no branches RBI available.

Accordingly, there are many functions which are rendered by the SBI. These are Maintaining the currency, Government's bank, Bank's banker, Acts as a clearinghouse and Maintaining the currency. RBI is reporting for maintaining its own currency. But the offices of RBI are only available in big cities. But the branches of SBI are available everywhere in the country. The network of SBI works in rural as well as urban areas. In such places, RBI maintains its currency with SBI. The currency is withdrawn from these branches whenever required by RBI.

2. Government's Bank

SBI caters to the needs of both the government, central as well as the state. On behalf of the government, it receives the money and deposits it. It collects the charges on behalf of government like tax collection and other payments. It also grants advances and loans to the government.

3. Bank's Bankers

Many commercial banks have their accounts with SBI. These banks resort to help SBI whenever they face the financial shortage. It also discounts the bills for these commercial banks. Due to this function, SBI is also considered as the banker's bank but only in a limited sense.

4. Acts as a Clearinghouse

In places where RBI has no branches, SBI acts as a clearinghouse for them. There, it facilitates the services of interbank settlements and many other services. All the banks have accounts with SBI, so the process of clearing becomes easier for SBI.

5. General Banking Functions

It accepts the deposits from the people in the form of savings, fixed, current, and recurring deposit accounts.

Based on the security of stocks, securities, SBI gives advances and loans to the public. SBI gives the facility of drawings, accepting, and buying and selling the bills of exchange.

It also issues and circulates the letters of credit.

SBI also invests in funds or any special kind of security.

The bank also acts as a trustee, executor, or otherwise, based on the circumstances.

It is also entrusted with selling and purchasing of either movable or immovable properties that come in the bank.

SBI also functions for selling and buying of gold and silver.

For the general public, it helps in the opening of public provident fund accounts.

It underwrites any issue related to the securities or the debentures that are authorized.

It provides the facility of shipping finance as well as various factoring services.

There are many leading bank schemes in which SBI participates.

Reference

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