

ROLE OF BANKS IN ACHIEVING FIVE TRILLION ECONOMY AND ISSUES FACED BY THE BANKING SECTOR

Ms. K.AYSHWARYA¹

Student, School of Excellence in Law, The Tamil Nadu Dr. Ambedkar Law University, Chennai.

Mr. J.A.ENOCH LIVINGSTON²

Mr. J.A. ENOCH Ambedkar Law University, Chennai,
e-mail: enochlivingston90@gmail.com

ABSTRACT

This paper deals with the role of banks in the economic development of a country and the issues it is facing in its way. Banking is necessary for the economic development of a country. Banks being fundamental components of the financial system are the most effective way to generate the credit flow of money in markets. To meet the needs and wants of the customers, nowadays, Banking Industry facing many challenges with respect to change in the market condition, technological advancement, economic treats, strong competition. The central objective of this research is to empirically investigate a role of Indian banks in capital formation and economic growth. This Research article focussed on the need of Commercial Banks and its importance for the economic development. The secondary data of the commercial banks were collected for this study. It is therefore recommended that efforts should be made by the monetary authorities to effectively manage the maximum lending of banks. This policy thrust will most likely result into increased investment activities which will enhance the capital formation in India needed to achieve the 5 trillion economy.

INTRODUCTION

The main functions of the commercial bank are to provide core banking services including ancillary and additional services like accepting deposits, lending loans, and investing asset. A large number of formal institutional agencies like Co-operatives Banks, Regional Rural Banks (RRBs), Scheduled Commercial Banks (SCBs), Non-Banking

Financial Institutions (NBFIs), and Self-help Groups (SHGs), etc. are engaged in fulfilling the short-term and long-term demands of the customer. The banks play an important and active role in the economic development of a country, if the banking system in a country is effective, efficient and prudent. Due to liberalization, privatization and globalization, the role of banking sector has changed dramatically. Banking sector has witnessed expansion of its services and strives to provide better customer facility through technology but cybercrime and other problems remain an issue.

ROLE OF BANKS

Banks provide funds for business as well as personal needs for individuals. They play a significant role in achieving the 5 trillion economy of a nation. The following are the prominent roles played by the banks in any economy:

- Productive utilization of financial resources through the mobilization of savings habit among the people.
- Provides financial assistance for various business purposes by acting as an intermediary in supplying the funds.
- Simplifying the business transactions through the administration of Cheque receipts and payments.
- As an Issuer of money, issuing banknotes and current accounts subject to cheque or payment at the customer's order.
- It provides loans and advances to businessmen for short term and long-term purposes.
- Assisting in the growth of Import and Export transactions.
- Providing loans and advances to the farmers, Small- and Large-Scale Industries and Self-Help Groups and thereby helping in the development of country's economy.
- Netting and Settlement of payments – Commercial banks act as both collection and paying agents for customers, participating in interbank clearing and settlement systems to collect, present, be presented with, and pay payment instruments. This enables banks to save on reserves and also enables the offsetting of payment flows between two geographical areas.
- Providing loans for purchasing the consumer goods, household items, vehicles, housing loans and thereby improving the standard of living of the people in the society.
- Money Creation/Destruction – whenever a bank gives out a loan in a fractional-reserve banking system, a new sum of money is created and conversely, whenever the principal on that loan is repaid money is destroyed.
- Innovation of various financial instruments creates the savings habit of the customers and thereby able to mobilise more capital funds for supporting the business people and ultimately assisting for the development of our economy.
- Providing financial support for meeting the contingencies in the life of businessman and their business through engagement in the buying and selling of securities in large quantity at less transaction cost.
- Commercial banks are rendering Risk management services also through derivatives business transactions. It helps in the reduction of foreign exchange risk by enabling the individual investors and the businessman to participate in the Global Foreign Exchange market indirectly.
- Banks invest the savings mobilized by them for productive purposes. Capital formation is not the only function of commercial banks. Pooled savings should be distributed to various sectors of the economy with a view to increase the productivity of the nation. Then only it can be said to have performed an important role in the economic development of the nation.
- For the developing countries, industries need financial support from the Government by way of subsidy. In this regard, banks are helping the government by way of lending loans and advances through investments in Government securities.
- After the nationalization of big banks, banking industry has grown to a great extent. Bank's branches are opened in almost all the villages, which leads to the creation of new employment opportunities. Banks are also improving people for occupying various posts in their office.

ISSUES OF BANKING SECTOR

Bank plays a major role in a country's monetary development and stability of its growth. In early days, a bank's main aim was to assemble deposits and offer loans to companies and others and make profit, out of rate of interest (ROI) and share it with the depositors, but later to cope up with the changing trends the bank started to render different services like, overdraft, as an intermediary to companies, financial aid or adviser to companies and provided banking process through new technology. Though banks provide good and fair services there are also problem faced by banks. In the recent era of drastic development and changing of trends, the banking sector faces lots of difficulty as the banking sector is not a monopoly sector anymore and there is lots of pressure placed on the banks. The given below are some major issues faced by banking sector.

MAJOR PROBLEMS FACED BY BANKS

❖ MACRO-ECONOMIC RISK

- **Employment**
- **Inflation and Deflation**
- **Stagflation**
- **Inequality within regions**

The macroeconomic is the study of entire economy, like economic output, unemployment, inflation, internal policies and etc. The things that specifically affect banks is unemployment, that is, there no skilled workers to tackle the monetary problems faced by banks. So, banks face problems during boom period, Inflation and deflation. In these situations, the circulation and distribution of wealth is not efficient, so banks face a huge stoke in these situations. Stagflation is also one of the problems faced by banks in the modern mixed economy. It is a situation where there is co-existence of inflation and unemployment in a stagnant economy. It also means that there are no major changes in a country's monetary status soothe working of the bank also is monotonous. Due to the unequal balance of payments, fluctuating exchange rates, current account deficit, inequality within some regions of the country, fear and lack of awareness banks are neglected.

❖ TECHNOLOGICAL ADVANCEMENT

On one hand, the tremendous developments in new technology made the bank's work efficient and effective, but on the other, there are lots of difficulties faced by the banks. they are updating to new technology; in changing circumstance this is difficult to both bankers and customer to understand new innovation. the cost of updating to new technology is also high where all banks could not update easily. There is also risk of leakage of customers details to other through criminal function by hackers and fraudulent activities by extraction of money illegally from bank accounts through hackers so the banks could not fully depend on technology as it is accessed by all.

There is also lots of restriction by the state in money transaction through technology, there is also a margin fixed by the state for transaction of money. Through technology, the concept of robot banking, block chain technology, mobile banking, these thinks work on artificial intelligence these mechanisms are very difficult to Indian banks and people to adopt, these are also so technological problems faced by bank.

❖ **CRIMINOLOGY (e-crimes)**

Banking system is the backbone of the economy. Technology has become the backbone of banking sector. The crimes that happen rarely is robbery of money and valuable from bank lockers which is rare, but it is punishable under law. But in changing world the criminal activities are also done through digital means these crimes are commenced online there are also some types in e-crimes they are telecommunication privacy, money laundering, fraud in transactions and etc. the computer system plays an medium to computer crime through sabotage of computer network and system programmes, theft of data, theft of software, blackmails based on the information gained by hacking. Instruments of crime is such that fraud in ATM machines, credit card frauds, frauds in fund transfer and etc. Frauds may also be committed by workers in the banks in accounting and bookkeeping process, the monetary sector faces lots of risk. These kinds of risk make the working of the banks difficult in the current situation many banks go through this issue.

The government of India has enacted INFORMATION TECHNOLOGY ACT of 2000 which deals with crimes committed in networks. Section(65) of this tampering with computer source documents and section (66) deals with computer related offences and (65A) deals with punishment for sending offensive through network (66A) violation of privacy, and there are also some another act handling cybercrimes, crimes is one of the major problem to banks.

❖ **COMPETITION OF NON-BANKING AND OTHER BANKING SECTORS**

Non-banking institution they do not have full banking license and they are not regulated by any regulatory body. They provide equal service as bank but not the same service. they are, risk pooling institution, contractual saving institution, specialized sectorial financiers, financial service providers, pawn brokers, and indigenous bankers, etc. The other bankers and non-banking sectors are treated as competition by the bankers as the banking sector is both public and private there is lots of competition to bankers. The different banks provide different scheme and attractive ROI to attract the customers, in recent times many old banks could not compete with modern new banks, so they are put in to the level of closing as the competition are very high. the banks sometimes could not survive strongly in this competition it is one of the important hindrances faced by bank.

❖ **COUNTRY'S CONDITION**

The economic condition of the country totally depends on the current situation of the country and regulations and acts, political powers, losses in rural area, governments and etc. these things plays an important and a prominent role in the economic activity, so banks are also affected by these problems to a large extend

Current situation like peoples wants and circulation of new trends and many things affects the working of the bank. The working of the banks is over viewed by the regulatory body in most places central bank does this job they check the fair and clear working of the banks but sometimes it over view more and disturb the working of the bank. Political pressure, the smooth running of the nationalised bank have been choked by political pressure from the state and the central they undergo pressure in selection the GM of the bank, provision of loan, and etc. the government also sometimes become a problem, as the

government is not stable every time new government is formed the new rules and regulations are created and imposed to the banks, so banks to feel difficult to change with new things these are the problems that are been faced by banks.

Though these many problems are faced by the bank but still it strives to cope up with these problems and overcome it, there are also many problems faced by banking sector. the banks that overcome these problems are treated as reputed banks and they are famous in these sectors

CONCLUSION

The bank plays a prominent role in the economic development and stability of any country. In this paper it is clearly defined and expressed about the role, that is the working of the bank and the service rendered by bank from collecting deposits, issue of loans, collection of ROI, and other non-monetary based services that are provided by bank. Though these services are provided by the bank, the bank also faces lots of problem in the changing circumstance from external sources to internal sources. The bank should overcome these problems efficiently to stand in the financial market. Only when the banks work efficiently it will be able to contribute significantly to the achievement of a 5 trillion economy in India.

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