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Role of Banking and Financial Services in Indian Economy

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ABSTRACT: Public sector banks are the backbone of the Indian economy, and now more than ever, private players are entering the fray. This is good news for customers, who will be offered a widening menu of savings and loan products and innovative services like online banking; an introduction to easy transaction methods. However, it is also good news for banks, as they will be forced to improve their services and compete more aggressively to retain customers. The banking sector in India has been undergoing transformation, driven by public sector banks (PSBs). Banking is the process of storing money for future use, either in cash or by investing it. Banks are where people get money from when they need it to make payments or buy goods and services. Businesses can also borrow money to grow or expand. Banks must have a wide network of branches across the country and overseas to perform these functions effectively. They must also be able to keep their records safe in computerized databases that cannot be easily hacked. Banks handle money and valuable items such as gold, silver, diamonds, and other precious items. They accept deposits and make loans and payments to their customers. They also provide credit cards, debit cards, checkbooks, etc.

Banking institutions are divided into three categories:

- Commercial Banks also referred to as deposit banks
- Mutual Funds
- Central/State Governments

KEYWORDS: banking, financial, services, economy, Indian, transaction, public sector, computerized

I. INTRODUCTION

Credit is the easiest form of money because it takes little to no time to grant credit. It effectively generates money in real-time, not unlike the Internet. However, credit needs to be repaid. Banks give this credit using rules such as easy repayment conditions, minimum interest rates, and the like. Regular credit users take advantage of these rules and can repay their debts regularly. Banks also make loan payments for those who have lost their job due to an economic downturn or hard times in their lives. Banking is an important aspect of any country's economy. And like any other industry, it has its standards, sets of documents, and procedures. These ensure that banks carry out transactions with ease and efficiency. The banking principles are based on the need to have a central figure that administers all the banking activities of a country. This institution is called the apex bank or Central Bank, and it is governed by specific laws and policies to ensure safety and security for the people and the nation at large[1,2].

The Indian banking sector has been experiencing a wave of change over the past decade. The growth in mobile banking and biometrics have, to an extent, affected the traditional business models of banks. However, most banks have shown tremendous resilience to these changes through adaptability and innovation.

Mobile Banking is all about bringing banking into the digital age. The use of spare and personal mobile phones and other handheld devices has popularised mobile banking. Several banks have developed mobile sites for their customers, making it easier for customers to conduct banking transactions independently. Preferred Bank Limited, a subsidiary of Bharti Airtel, launched a mobile wallet product in 2011. Other banks are also creating similar products to improve the customer experience.[3,4]

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Indian banking plays a big role in the development of the economy of India. It is the backbone of any country's economy, and its well functioning is essential for nation-building.

The banking system of a country performs functions like:

Advancement of Credit: Indian banking sector is one of the most active sectors in advancing loans to individuals and institutions. It plays an important role in providing funds to different priority sectors like Agriculture, Small scale industries, trading enterprises, real estate, etc.

Business Development: Indian banking sector helps a lot in business development by developing strong ties with foreign countries through establishing branches. Indian banks also facilitate trade and commerce by providing payment facilities to various local and international business houses.[5,6]

Financial Security: Indian banking system provides financial security to the people by providing loans at competitive rates, paying reliable remittance services, etc. It helps people save their money and invest it in different financial instruments like Government securities, long-term bonds, etc.

Cash Management: Cash management plays a crucial role in the banking system. It allows banks to provide quick cash and money transfer. It helps banks manage money transfers carried out by various business houses and a large number of industrial units.

Financial stability: The Indian banking sector provides safe and secure financial services through Money orders, Cash deposits, and cash card services.

In today's time, the banking sector has become most relevant for everyone. Through online banking, we can do our transactions from anywhere and at any time. The Internet has made sending money and transferring funds from one account to another at no cost. Thus, these core areas of banking have drastically changed the way people with access to the Internet do their banking . Online Banking is a facility where consumers can carry out their banking tasks, like paying bills, checking balances, etc. A few banks have announced that they will soon be offering new services for their clients.[7,8]

Banking is an integral part of the whole financial system. It affects the country's economy by providing investment, credit, and infrastructure. The banking industry is the backbone of global economies. The banking sector plays a significant role in the economic growth and development of any country. The global banking sector is estimated to be over USD 20 trillion. It includes trade, finance, insurance, and investment activities of banks. The introduction of the banking industry highlights the importance of the banking sector in developing countries, especially rural areas where traditional financial institutions are less developed, and there is a need for change. In simple terms, banking is the act of generating, storing, and managing money. It is an economical operation that a banker does to make money available for lending purposes. Banking has various functions like production of money, security of money, deposit operation, investment, and other financial services like international money transfers. The banking sector provides various kinds of financial services through banks.[9,10]

There are three main types of banks in India: commercial banks, development banks, and cooperative banks.

Most banks in India provide the following services:

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- Saving accounts for customers to deposit their money into. These can be interest-bearing accounts or non-interest-bearing accounts. Savings accounts are usually free of processing fees, whereas non-savings accounts may come with charges if they are not paid off in a certain amount of time, such as a credit card account.
- Loans, such as mortgages and personal loans, to individuals and businesses. They may be provided by the bank itself or through its agents who act on behalf of the bank (known as a subsidiary).[11,12]
- Services that are important to running a business, whether a customer needs to pay their employees or suppliers or needs to know when their goods will be delivered.

II. DISCUSSION

The introduction of the banking industry in India was done in 1916. Banks were meant to facilitate credit and improve the financial health of people. The following are the steps:

The bank was first introduced by the British East India Company (EIC) in Bengal and became a part of the banking sector in India. Bank of Bengal was established on 21st December 1770, with its headquarters at Calcutta (now Kolkata). It was modeled after the Bank of England introduced a commercial banking system.

- Banking is an integral part of the whole financial sector. It affects the country's economy by providing investment, credit, and infrastructure.
- The banking sector plays a significant role in the economic growth and development of any country.
- The global banking sector is estimated to be over USD 20 trillion. It includes trade, finance, insurance, and investment activities of banks.[13]
- With the advent of computers and microprocessing machines, now most banks have been automated. Financial transactions have been made easier and quicker. With the easy availability of funds, entrepreneurs can get more funds for their businesses.
- The Banking Sector has also helped poor farmers in developing countries by providing them with credit facilities.
- The banking sector has also been criticized for not providing people with sufficient access to funds, a lack of transparency, too big of a size, and its role in the global economy.

The bank structure in India is divided into several segments based on banks functions. One may have difficulty understanding the banking structure due to various names given by Govt of India and RBI or by different banks themselves.

The Bank Structure in India can be divided into sectors as below:

The Banking Sector includes all activities related to providing credit and other financial services to help customers. It also includes other sectors like insurance, financial markets, treasury, investments, etc.

The Money Market is a part of the banking sector that manages securities held by financial institutions or individuals. It includes government securities, corporate bonds, and other instruments like bills (not negotiable) and certificates of deposit.[14,15]

Securities Holding: This is a branch of the money market banking sector where banks buy and sell Government securities, equity shares, and corporate bonds on behalf of their customers. Banks also buy and sell financial products like debentures, treasury bills, and others on behalf of their customers.

Investment Banking: This is a part of the banking sector that includes firms that provide investment banking services to clients, including advising them on mergers and acquisitions (M&As), capital raising, underwriting of securities, etc.

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The recent developments in the banking sector showed the precise functioning of various segments of the banking sector. Since the introduction of banking, the banking structure in the country has grown leaps and bounds, which is why it is so important for us to understand how it works and what different segments are there. This understanding will go a long way in helping us open our bank account and also help us expand our business through business banking. It is important to know the level of loan that we can avail and other profitable schemes running in the country.

III. RESULTS

The economy runs on coordination among various sectors; one of which is the financial services sector. Financial services are those dealing with money as a commodity. The types of companies that comprise this sector are banks, insurance companies, non-banking financial companies, investment companies, credit and loan companies, brokers, etc.

Banks: (Commercial banks) The institutions for opening accounts, accepting public deposits, lending credit in the form of loans are the main functions of a bank. Banks are the most stable financial services companies in a company. The key functions of a bank are mentioned as follows:

1. To provide interest on deposits, issue cheque books, credit cards, debit cards, keep safe the depositors' money and valuable items like gold.
2. To offer loans to individuals and companies like personal loans, commercial loans and mortgage loans.
3. To enable the transfer of funds between the same or different banks via electronic fund transfer, issue demand drafts, allow withdrawal of money by ATMs, etc
4. To provide for safe internet banking facilities to make banking easily accessible at all times.

Investment Banking: Investment banks are special types of banks which work for the trading of stocks and bonds for companies.[16,17] The important functions of these banks are:

1. To provide underwriting services to public and private funds, in which in case of any damage or financial loss to the company, the investment bank guarantees the financial payment.
2. To provide merger and acquisition services, in which the institute helps a company to join or purchase another company.
3. To help a company in its risk management area, like identifying and avoiding the risk or making plans to overcome it in economic, securities terms of a company.
4. Investment marketing plays a key role in the restructuring of companies, performing securities research, and management of investments of the companies.

Investment Services: These firms offer to hold and manage securities for investment for other companies.

1. Their function is to manage accounts and/or funds for a company or individual or to advise them regarding the management of investments.
2. These firms may look after private equity, family offices (investments for a wealthy family), or be venture capital, angel investors, etc. These come under Non-banking financial services.

Insurance firms: These companies are a form of risk management companies which specialise in guaranteeing financial security in case of damage or loss to property.

1. These companies are responsible for underwriting insurance and annuities for life, property, retirement, casualties, etc.
2. They may also offer insurance brokerage, representing their clients and dealing with other companies. They may also work for Reinsurance, which is insurance that is sold to insurers for protecting their losses.

Stock Market services: Stock market deals with the trade of shares of publicly held companies.

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1. Some private stock exchange advisory firms work professionally for managing the stock exchange services for individuals or companies.
2. It is very popular among investors who look out for higher returns. These returns are based on the profit of the company.

Foreign Exchange Services: Foreign Exchange deals with money trade across two or more countries.

1. These firms work for exchange of foreign currency with our nation's currency, send and receive money to and from foreign nations.

Mutual Funds: Nowadays, other than banks, many independent firms for managing and holding mutual funds for individuals have come up. Mutual funds are a part of the highly dynamic money market.[18,19]

1. These companies offer to buy and invest funds collected from investors into other stocks, bonds or securities.
2. There are different types of mutual funds—equity funds, Money market, income, money market, balanced, index, globalised funds etc.

Auditing and Taxing services: These companies offer paid services for auditing, managing and consulting for tax and related matters for individuals and companies.

1. Such companies perform tax, stock, process and transaction, risk audits for companies.
2. They also provide services like determine tax liabilities, file tax returns, advising over structuring and compliance of taxes for individuals and companies.
3. In addition to these major services, many other services like brokerage agencies. There are many companies which integrate all these services for their clients.

To explain the role of financial services in development of economy, we must understand that this sector leads, manages and controls the flow of money in an economy. Developed countries have always shown a strong financial services sector.

Help Businesses to Grow

Financial services help in the development of businesses by giving them the required financial assistance, guaranteeing losses, etc. The loans issued by companies are used for buying fixed assets and/or investing in other fundraising sources.

Capital growth

Both working and fixed capital growth are led by financial services system in an economy by promoting the issue of debentures, shares, short-term loans, etc.

Promotes Entrepreneurship growth

Financial services are also available for entrepreneurs looking for funding and investors for their business. Banks do not easily give loans to new entrepreneurs, but other players in the market specialize in this field. Angel investors, Venture capitals, loan services, counselling services, etc. assist play a key role in the growth of entrepreneurship in India.

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Infrastructure development

Investment in infrastructure companies will promote more involvement of private sector companies in this sector.

Healthy competition

A vast and expanded financial service sector and market gives the choice of investing their money in the investors' hands. Better the services, more the customers for a service and the company. This ensures competition among the firms which benefits the investors—the public and businesses of a country.

Promote free and easy trade

Availability of choices to investors and the public ensures trade without barriers, mediation by trusted banks and companies. It also helps in the development of domestic and foreign trade of goods and services.

Networking of Finance

The financial service sector is not one single company or bank. Rather, it is a network of companies working together for different matters of money. Consider a person has surplus money. He saves some amount in a bank and invests the remaining in the stocks market. He gets high returns on the stocks and earns a profit. He now decides to buy a car and gets its insurance done. [20]

In this situation, we saw how the person is connected to different segments of the market. The companies he dealt with must be connected with other service providers like the ones we discussed above. Role Of Financial Services In Economic Development.

Moral of this story was that a vast interconnected network of financial services ensures continuous flow of capital or what we call as liquidity in the market.

Easy Credit and Loan availability

Credits and loans are also the wheels of this financial system. Borrowing and lending capital and repaying it with interest is an age-old method of capital trade.

But due to problems in less income, high demand for money in the market, there is a huge imbalance between loans and their repayment. In India, many companies and individuals are unable to pay back the loans and outstanding credit dues. This causes the downfall of the economy and building up of leverages and debts. This sector has to be regulated with more attention to the type of buyer.

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Job creation

Another way the financial service sector plays an important role is in job creation. This sector needs different kinds of the workforce based on their skills—management, accounting, law, IT, and more.

This sector indeed needs skilled personnel. A study of India's top 250 companies revealed that almost 28% of total jobs are in the financial services sector. This is important for both the workers and the community as it leads to more understanding of how the financial market works among the common people.

Balance in the economy

Finally, the financial services system helps in diversification of capital market and removes its monopoly from the government and central authorities. It encourages more investment from private companies and an overall, innovative, facilitative growth of the market.

This also saves the economy from shocks in case of any sudden losses. In this case, both the government and private financial service companies are responsible for the balance and smooth working of the economy. [19,20]

IV. CONCLUSIONS

Two major authorities play the lion's share in regulating the financial service system in India—the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI). Their roles have been briefly discussed below.

The Reserve Bank of India: It regulates the banking system and Non-banking Financial Companies (NBFC) system in India. Not only these two, but the RBI monitors almost every aspect of money in India. It regulates liquidity in the financial market by governing interest rates, credit system to banks, management of foreign exchanges, and many more such functions. The Securities and Exchange Board of India: The SEBI, established in 1992, it governs the functioning of the stock market. It guides the investors to protect them from fraud in the capitals market. It also audits the capital marketing companies.

Insurance Regulatory and Development Authority of India (IRDAI): The IRDAI regulates insurance market in India. It regulates insurance companies, their licensing, and policies of working, premium rates and terms of non-life insurance covers, ensuring the solvency of the companies, ensuring insurance covers for people in rural areas.

Beside these authorities, the Association of Mutual Funds of India (AMFI) oversees the mutual funds regulation in India. The Income Tax Department of India covers many aspects of the taxation of individuals and companies. The future of the financial services sector in India seems to be a rough road ahead. With rising liabilities, rising debts and unused assets in the country, it is difficult to chain in everything at a time. Different policies and plans that focus primarily on people are expected.

The financial service sector is mainly clustered in urban areas. If the role of financial services has to be improved in the economic development then there is a need for spreading out to the rural areas and explore the potential of rural markets. India is predicted to become the 4th largest finance market. To achieve this goal, there is a need for proper financial planning for different sectors of the country. We need to address the problems of the moderate-income

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households – or what we call the middle class—which is growing financially, educationally and is a stable group of consumers for these financial services in India. [20]

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