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INCEPTION OF BANKING SYSTEM

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ABSTRACT

It is a fact that finance plays a dominant role in exploring the sources of a particular economy. However, mobilization of finance is a great problem because it needs comprehensive and compact planning for the effective distribution and effective channelization of the finance. Banks have assumed an operative role in the developing economies. The first and foremost function of the bank is to channelize the most valuable resources, money in an effective and in an efficient way which is nevertheless a precondition, if a development in all the sectors of the economy is to be made. Therefore, for this major role, banking institutions should be sound and reliable in all spheres.



KEYWORDS: *developing economies , mobilization of finance , banking institutions.*

INTRODUCTION

In any plan of economic development capital occupies a position of central and strategic importance. No economic development of sizable magnitude is possible unless there is an adequate degree of capital accumulation. The role of the banks in economic development is to remove the deficiencies of capital by stimulating savings and investment. A sound banking system mobilizes the small and scattered savings of the community and makes them available for investment in productive enterprises. In this connection, the banks perform two functions, one is to attract deposits by offering attractive rates of interest, thus converting savings which otherwise would have remained inert into active capital and second is to distribute these savings through loans among enterprises which are connected with economic development. It is difficult to see how in the absence of banks could small savings be stimulated or even made possible. It is also difficult to see would distribute these savings among enterprises. It is though the agency of banks that the community's savings automatically flow into channels which are productive. The banks exercise a degree of discrimination which not only ensures their own safety but which makes for optimum utilization of the financial resources of the community. We see in India that the period of economic development has coincided with a phenomenal increasing bank deposits and increasing advances for agricultural and industrial development. In order to meet additional demands arising out of economic development, the banking system has undergone certain changes in its structure organization. The banks and other financial institutions operate in such a manner as to conform to the priorities of development and not in terms of return to their capital. The banks now have to play a more positive role. The banks open branches to tap the savings of the people and lend them to entrepreneurs. An increasing degree of

control if exercised in respect of management financing and development of banks so that they do not sabotage development programmes but are made to further these program.

Contents - Thus the banks come to play a dominant and useful role in promoting economic development by mobilizing the financial resources of the community and by making they flow into desired channels. As we all know that the main slogan of Govt. of India is "Garicbee Hata Do". To bring this slogan into existence, the Govt. of India has introduced many credit facilities. Among them the Integrated Rural Development Programme (IRDP) is most common which of course has developed in removing poverty to some extent. In addition to this IRDP scheme, there are a large number of other schemes. Thus the demand of credit facility given is increasing day by day.

The functions of the J&K Bank branch office Kulgam, it is in view of fact if the day to day functions are sound and based on a modern lines it can ensure the fulfillment of the major goals of economic development and growth.

The finance is a very important phase of commercial bank of nations. In larger banks where great operations occur, the need for this phase is very much compulsory. For the proper supervision of loans and investments, the need of finance is must.

Brief History of Inception of Banking System

Banks have influenced economics and politics for centuries. Historically, the primary purpose of a bank was to provide loans to trading companies. Banks provided funds to allow businesses to purchase inventory and collected those funds back with interest when the goods were sold. For centuries, the banking industry only dealt with businesses not consumers, banking services have expanded to include services directed at individuals and risk in these much smaller transactions is The first state deposit bank, Banco di san Giorgio (Bank of St. George) was founded in 1407 at Genoa, Italy.

Origin of the word "Bank"

There seems to be unanimity amongst the economist about the origin of the word "Bank" According to some scholars or economists, the word "Bank" has been derived from the Italian word "Banco" means desk bench, used during the renaissance by Florentine bankers who used to make their transactions above a desk covered by a green table cloth. Some other scholars say that the word "Bank" has been derived from the German word "BANC" which means a joint stock firm while some other scholars say that it has been derived from Greek word "BANQUE which means a bench Bank of Hindustan set up in 1870 was the first Indian bank. The banking in India on modern lines started with the establishment of the three presidency banks under presidency banks act 1876 Le Bank of Calcutta (New Kolkata), Bank of Bombay (now Mumbai) and Bank of Madras (now Chennai). In 1921 all presidency banks were amalgamated to form the Imperial Bank of India Imperial Bank carried out limited central banking functions also prior to establishment of RBI. It engaged in all types of commercial banking business except dealing in foreign exchange. RBI empowered in 1960, so force compulsory merger of weak banks with the strong ones. In July, 1969, Government nationalized 14 Banks. In 1980, Government acquired 06 more banks Nationalization of banks was to make them play the role catalytic agents for economic growth.

Different types of banks in India

Reserve bank of India (RBI)
 Commercial banks Industrial banks
 Co-operative banks Agricultural banks
 Regional Rural Banks
 Export-Import (Exam) banks.

Definition of Bank

According to Sayers, "Bank is that institution through which for the mutual clearance of the various loans, the money case extensively advanced"

According to professor Crowther, "The business of banker is to seek loans, gives security in return, thus creating money"

According to Kinley, "Bank is such an organization which keeping in view the safety of loan advances them in money who need it and which keeps in deposit the spare money from the people.

According to Horace White, "Banks are the tools which provide safety and security to the creator of credit and its exchange".

Traditional Banking Activities

Banks acts as agents by conducting checking or current accounts for customers, paying cheques drawn by customers on the bank and collecting cheques deposited to customer's current accounts. Banks also enable customer payment via other payment methods such as telephonic transfer, EFTPOS and ATM.

Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits and by issuing debt securities such as bank notes and bonds. Banks lend money by making advances to customers on current accounts, by making installment loans and by investing in marketable debt securities and other forms of money lending. Banks borrow most funds from households and non-financial businesses and lend most funds to households and non-financial businesses.

Bank is the institution where the transaction of money takes place. It is the financial institution where the people use to transact their money and also these institutions do the lending process. Bank is a place where people save their money for the future usage. One can see that mostly people have opened their bank accounts in many different banks, this they did just because to save their money from time to time for the future. Banking sector is emerging every day for providing the services of different types to the people. The businesses are taking great extent of support from the banking sector because banking sector provides loss to the people for seeking greater opportunities. Bank offers many services for the sake of the profit: Every organization is running for getting the profit not for the losses everyone wants to have money to meet the desires and needs of the families, so everything in the world is made for the sake of goodwill.

The accounts in the bank help the individuals and the companies in the following ways:

To pay the bill

To receive the money

To track the money etc.

Banks are the great resource for the countries the world bank is the largest financial institution which is offering the funds and the knowledge to the countries which wants to invest the money in the worth while projects.

Relationship of Bank with customer

The general relationship between hanker and customer is that of debtor and creditor according to the state of the customer's account that is whether the balance in the account is credit or debit there are certain additional obligations to be born in mind and these distinguish the relationship from that of the normal debtor and icroditor. These may be summarized as follows

To honour choques properly drawn to the extent of the balance available into the account. To maintain secrecy of his customer's accounts, the banker has an implied obligation to maintain secrecy of the customer's account. He should not disclose the matters relating to the customer's financial position since it may be adversely affect the customer's credit and business disobligation even after the account of the customer is closed.

To collect the proceedings of cheques and instruments of credit. Basically the business of banking as it is known today comprises acceptance of money on deposit accounts and payment of cheques also includes collection of cheques. It may rightly be contended that anyone who does not

perform these essential services is not a banker. To give reasonable notice before closing the account. According to law a debtor and a creditor may terminate the relationship without notice by the debtor paying of the balance or the creditor recalling the debt. It is not so simple between a banker and customer for the obvious reasons that a banker is under an obligation to honour his customer's cheques.

The customer might be faced with an embarrassing situation. Reasonable time must be granted to enable him to make alternative arrangements.

Loan

Loan is a type of debt. Lending money is a major activity of a bank. Bank accepts deposit from public for safe keeping and pay interest to them, then bank lend this money to earn interest on them. In this way the banks act as intermediaries between the people who have the money to lend and those who have the need for the money to carry out business transactions. The difference between the ratio at which the interest paid on the deposits and is charged on loans is called the "spread". Banks lend money in various forms and they lend for business activity. Loans are given against or in exchange of the ownership of various types of tangible items.

An arrangement in which a lender gives money or property to a borrower and the borrower agrees to return the property or repay the money along with interest in time. Usually, there is a predetermined time for repaying a loan. Legally, a loan is a contract between a buyer (the borrower) and a seller (the lender). The terms and conditions for a repayment of a loan including interest are specified in a loan agreement. A loan may be payable on demand in equal monthly installments.

The loans are very important for the survival of the people in today's environment because the prices of the products whether they are durable products or whether they are perishable products are very high, the middle and the poor class people are not able to purchase the products very easily, even if they want to buy any small property for it, they have also to go for loans. Loans are very essential factor in the lives of the people, because they are getting loan to meet the demands of the day today. The loans make the life of the people wonderful, now they can easily get the loans at any time but the fact remains very hard that the people have to pay the interest rate too. The interest rates make it hard for the people to repay the amount of money.

Secured loan:

Secured loan is the specific type of loan which is actually secured by the home. These loans are less risky for the lenders. The lenders should not worry about the repayment of the loans, whether they are going to have the loan back or not. Best loans are those in there is less risk about the repayment. Secured loans are very helpful for the needy people. Secured loans are those loans that are protected by an asset or collateral of some sort. The item purchased such as car or home can be used as collateral and alien can be placed on such purchases. The bank will hold the deed until the loan has been paid in full, including interest and all applicable fees. Other items such as stocks, bonds or personal property can be put up to secure a loan as well. A secured loan is a loan in which the borrower pledges some asset (car or property) as collateral for the loan, which means then becomes a secured debt owed to the creditor who gives the loan.

CONCLUSION

From the chapters discussed above, we arrive at this conclusion that the banks are extremely useful, may indispensable for modern community. Banker is the custodians and distributors of the liquid capital which is the life blood of our commercial and industrial activities, and upon the prudence of their administration depends the economic wellbeing of the nation. They create purchasing power in the form of bank notes, cheques, bills and drafts and other negotiable instruments and thus economize the use of precious metals. Bank make money more mobile by bringing lenders and borrowers together, and by helping funds to move from place to place and from person to person in convenient and inexpensive manner, through the use of cheques, bills and drafts. Banks encourage the habits of savings

among the people and enable small savings which otherwise would have been scattered ineffectively, to be accumulated in to large funds and thus made available for investments of various kinds. In short, without the banks the present level of economic development of the world could never be imagined.

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