

## The Role of Indian Banking System in Economic and Social Development

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### Abstract

The Banking system of India plays a very significant role in developing the India's Financial system and social development. This research study examines the basic structure, functions, and multifaceted offerings of banking system regarding economic and social values in India. It illustrative and scientific perspective to know on how banks works with capital formations , promote financial inclusions, and support government rules and policies, and also strengthen the overall quality of life for citizens. The study also underlines the central initiatives such as inclusive finance schemes, digital banking innovations that have expanded the accessibility to customers. It also recognizes consistent challenges, varying from non-performing assets, economic literacy, and digital divides. The research concludes that since the banking system has been important factor contributing to all these development in our society, the technologies also plays an important role in transforming the society in a rapidly evolving economy.

**keywords:** Banking System, RBI, Economic Development, Consumers, Grievance Redressal System

### INTRODUCTION

The banking system is a fundamental pillar of any modern economy performing as an intermediary between savers and borrowers and entrusting the significant allocation of financial resources<sup>1</sup>. In India, the financial economy functions to a more technology friendly phase. It performs a significant function not only in banking sector but also in rapidly growing economy. The important of the banking system in India depends upon its capabilities of mobilize savings, facilitating investments, and provide financial services to a diverse population. With a large population, India requires to address the needs of rural also, the expansion of financial services has ensured that individuals and businesses to participate more into activities in the economy.

The study aims to evaluate the structure and functions of the Financial banking system, and to address its role in promoting economic and social development. It also explores the challenges put a crossed by and addressed measures to improvise in the system.

### Structure of the Indian Banking System

1. Role of the Reserve Bank of India

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<sup>1</sup> C.R.Kothari, Research Methodology: Methods and Technoques 184 (2d ed. 2004)

The Reserve Bank of India<sup>2</sup> (RBI) serves as the central bank and the primary regulatory authority overseeing the banking system. It formulates monetary policy, regulates financial organisations and ensures its stability. The RBI also acts as the banker to the government and controls the money flow in the market. The Reserve Bank of India was established in the year 1935 on 1<sup>st</sup> April, as per the provisions of Reserve Bank of India Act, 1934. The Reserve bank of India works as the central agency of government which regulates the financial system and flow of money in the country, thereby managing all the business of currency flow and exchange reserves in financial system of the country.

The Reserves Bank of India plays a significant role in Indian economy by facing numerous challenges. The Reserve bank of India, (RBI) has regulated many government policies, financial inclusions, and promoting development of economy by managing the flow of money in the economy. It not only limits itself to regulating policies and regulations but also extend itself to digital payment schemes for example one-time payment and RTGS also known as Real Time Gross Settlement) and NEFT that is National Electronic funds transfer, thereby also including its regulations to foreign exchange, bringing trust amongst consumers of banking system.

## 2. Types of Banks

**The Indian banking system have various types of banks:**

1. Public Sector Banks: Owned and operated by the government, these banks functions to be most significant and regulates finances in the economy.
2. Private sector banks: These banks focuses on productivity, systematically, customer innovations contributing to competition in the sector.
3. Regional Rural Banks: Established to play a crucial role for rural areas, it provides credit and banking facilities and small entrepreneurs.
4. Cooperative Banks: These banks operate at local levels and cater to specific communities and managing the banking facilities and services to people at ground level.

## 3. Role of Non-Performing Banking Financial Companies

NBFCs<sup>3</sup> complement<sup>4</sup> the banking sector by providing financial services such as loans and credits services, especially to underserved segments. They play a crucial role in bridging gaps left by traditional banks. The Non-Performing Financial Companies are considered to be the epicentre of financial working in the country, the regulatory authorities manages the financial facilities to the classes and sectors often under reserved by the banks. These are being watched by strictly adhering to them to the policies and regulations of the governments.

To start with, these NBFCs are the entities registered under Companies Act, 1956, or 2013, these are not the banking authorities but even then they indulge in giving loans to the consumers, advances and also provide investment facilities for the consumers, which does pays the economy and making them significant for generating revenues in the economy. If, discussed, these entities do not have any official license from any authority, but they do engage in facilities related to banking finances facilities.

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<sup>2</sup> Reserve Bank of India, Report on Trend and Progress of Banking in India 2023.

<sup>3</sup> Reserve Bank of India, Report on NBFC Sector 2022.

<sup>4</sup> N.K.Malhotra, Marketing Research: An Applied Orientation 219 (2007).

To regulate such a huge money generating entity, Reserve Bank of India plays a significant role in regulating these multi-facet entity, which clearly keeps a check on these entities business, keeping them under surveillance, and constant monitoring. It is the duty of the RBI to ensure that all the consumers are secured by these entities and safeguarded by strict guidelines and disciplinary actions. The NBFCs are important for the economy as it plays a significant role in giving loan facility to the individual and businesses which is also helpful to people who do not have much access to formal structure of banks. NBFCs are crucial for the economy as it extends its services to not only to urban but also to rural areas, thereby providing a help and access to those consumers who are not much equipped with information and literacy or banking formal structure, by giving access to mutual funds, leasing, purchase hire and also to assist finances. These services are not limited to just above mentioned area, but also provides loans for example, consumer loans, vehicle loans, and housing finances. This mechanism ensures that the consumers are provided with speedy services which works efficiently in providing loans and access to fulfil their responsibilities and financial assistance

#### **4. Functions of the Indian Banking System**

##### **a. Primary Functions**

Primarily the Indian banks<sup>5</sup> works to accept money as a deposits from the public and provides services such as loans and advances. These functions facilitate the circulation and flow of liquids in the economy. The primary function of the banks focusses entirely on generating money flow in the society by enable the public to deposit the money, ensuring circulation of flow of money in the economy. These deposits are further distributed under different services heading for example, savings deposit, current account deposits, and also fixed deposits which definitely gives the public an extra edge to save more money and use it and ultimately contributing in the society. It is further extended to provide banking services under loans heading and advances., it facilitates the public with services like loans and advances, for example term loans, cash credit, overdrafts or discounting of bills. These services plays a vital role in financial system of the economy.

##### **b. Secondary Functions**

Banks also performs as an agency to collect cheques, payments of bills<sup>6</sup>, and transfer of funds. They provide utility services like locker, and even provides financial advisory services. The banks not only provide these customers banking services but also works as a trustee or representatives of these customers providing guidance and edge where the customers can avail services like collection of cheques, letter of credit, and traveller's cheque as well. As we evolved with time, internet made it easy with everyone to avail these services through internet banking, mobile banking, and electronic fund transfer, ensuring that the customers are provided efficient and speedy services digitally.

#### **5. Modern Functions**

With technological advancements<sup>7</sup>, the banks now provide digital services such as internet banking, mobile banking services and Unified Payments Interface (UPI). These innovative initiatives have brought changes in the economy and has improved accessibility.

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<sup>5</sup> Reserve bank of India Act, 1934, under section 3.

<sup>6</sup> K.C.Shekhar & Lekshmt Shekar, banking theory and Practice 217 (21<sup>st</sup> ed. 2013)

<sup>7</sup> Id

## **6. Role in Economic Development**

### **a. Capital Formation**

The banks promotes the public to do savings under banking services and regulates these money into a progressive investments. This also helps in capital formations for economic growth.

### **b. Industrial and Agricultural Growth**

The banking system<sup>8</sup> in furtherance to the services also provides credit services to industries and agricultural sector, ensuring the rapid expansion, modernization and accelerated productivity. The loans to small and medium enterprises have also invested to the industrial growths.

## **7. Employment Generation**

The financial businesses and small start-ups, the banks contributes to increase jobs in society and gives a platform to people to start something of their own, ensuring money circulation in the market.

### **a. Financial Stability**

Banks records the financial stability by managing the credit flow and risk attached to it. It also plays a stabilizing role by ensuring liquidity in the market.

### **b. Support to Government Policies**

The banking system supports the government initiatives by implementing policies related to economic development, poverty alleviation and infrastructure developments.

## **8. Role in Social Development**

### **a. Financial Inclusion<sup>9</sup>**

The banks have always played a key feature in encouraging the banking inclusions by providing access to banking services to marginalized and unbanked populations.

### **b. Poverty Reductions**

Access to credit ensures that individuals to engage in income-generating activities, thereby reducing poverty levels, and ensuring that this becomes a resource for people who are below poverty line in the economy, by giving them loans and credits, they could manage to have a start-up of their own or even can at least feel the ease to arrange the fundamental funds to start a business of their own choice. This additionally adds a helping hand in arranging funds and managing expenses.

### **c. Women Employment**

The banking services also includes groups such as self-help and microfinances, have empowered women by encouraging financial independence. Through such services the Indian Banking System, promotes and encourages woman of the nation to be self-sufficient and to stand on their own feet's, to be self-independent as earn your own money comes with living your life with dignity, at least at this time when there is a urgent need to uplift by educating the women of our society and assisting them through these schemes.

### **d. Rural Development**

The rural development initiatives<sup>10</sup> have improved agricultural activity progressively and have also encourages living standards in rural areas<sup>11</sup>.

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<sup>8</sup> Reserve Bank of India, 1934, section 35A

<sup>9</sup> Reserve Bank of India, Payment systems in India vision 2019-2021.

<sup>10</sup> Ministry of MSME, Annual Report 2022-2023

<sup>11</sup> Reserve Bank of India, Report on rural credit

## 9. Digital Inclusion

The spread of digital banking has enabled people to access to economic services conveniently, reducing much depended on cash transactions. Earlier the customers who used to avail the banking services had to go to bank even for smallest of the work, for example taking out money through cheques, services like ATM were much later introduced and digital inclusion became a revolution, by providing online internet services, enabling each house an citizens to be self-sufficient at any point of time where they can avail the digital services and digital awareness amongst any class of economy.

### a. Government Initiatives<sup>12</sup>

The Indian Government has taken a lot of initiatives to build-up a system if finances which encourages the following:-

1. Pradhan Mantri Jan Dhan Yojana (PMJDY)<sup>13</sup>: It focuses on providing access to banking facilities
2. Digital India Initiatives<sup>14</sup>: It provides digital assistance and online services.
3. Unified Payments Interface (UPI)<sup>15</sup>: Facilitates instant transactions,
4. Pradhan Mantri Mudra Yojana(PMMY)<sup>16</sup>: Provides loans to small entrepreneurs.

These are few of the initiates that has significantly contributed to financial accessibility and participation.

### Challenges in the Banking System

The Indian Banking system not has just provided various banking services but also has uplifted the economy by addressing the various issues and obstacles occurs during the utilization and changes in the society.

The Indian Banking system faces several challenges:-

1. Non-Performing Assets (NPAs)<sup>17</sup>: High levels of loans which does not pay back causes hindrances in profits and efficiency<sup>18</sup>.
2. Cybersecurity Threats: The increased digital use of banking services leads to cyber risks.
3. Financial Illiteracy: Lack of awareness often causes obstacles in effective utilization of banking services.
4. Rural-urban Divide: Unequal access to the banking infrastructures.
5. Trust Deficit: Due to frauds and mismanagements the public losses its reliance on banking services.

The above are the challenges faced by the Indian banking system while working and facilitating the banking customers but dealing with risks and managing with banking schemes to implement and function better in the economy as these are the hindrances which does slow up the impactful working of the financial banking system by creating unnecessary hindrances and delays in circulation of one in the economy, which at least effects the society and its citizen creating or causing inconvenience for everyone using such services or anyhow associated with the banking mechanism.

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<sup>12</sup> Government of India, Economic Survey 2022-2023.

<sup>13</sup> Government of India, Pradhan Mantri Jan Dhan Yojana Report.

<sup>14</sup> Reserve Bank of India, Digital Payments Index 2023

<sup>15</sup> Ministry of Electronics and IT, Digital India Programme

<sup>16</sup> Government of India, Mudra Yojana Report

<sup>17</sup> Reserve Bank of India, financial Inclusion reports

<sup>18</sup> Reserve Bank of India, Report on NPAs and Banking Sector Stress.

## SUGGESTIONS AND RECOMMENDATIONS

### **The Legal schemes to reduce the NPAS**

In this financial system, yet again Non-Performing Assets is one of most significant challenges to affect the public reliance and profit mechanism of the Indian banking systems, whereas to have a regulatory body to manage these money flow in the market is also important<sup>19</sup>. This can be attained by promoting credit appraisals systems, to have stringent laws to manage and verify before giving loans. The Reserve Bank of India has issued a significant norms income acknowledgements<sup>20</sup> and assess the assets in order to achieve better transparency and accountability.

Also, these systems such as insolvency<sup>21</sup> complaints resolutions under insolvency and bankruptcy Code provides a better platform to address the complaints and speedy recovery of stressed assets. Building up better warning systems as well as better accountability of borrowers and officials of banking service providers can definitely decrease the NPSs.

### **Enhancing the Cybersecurity Measures**

With the growing needs and awareness of digital literacy, the cybersecurity becomes a concern for banking sector<sup>22</sup>. The accelerated use of internet and online services and digital payment systems, exposes the banks and customers to face such a threat to losing their data by fraud and data breaches.

It is important for banks to have a system of security in advance form which can track the encryptions, multi-factor authentications, and artificial intelligence depending upon various factors. The Reserve Bank of India has issued exhaustive cybersecurity guidelines thereby mandating banks to implement robust IT governance systems. The time to time security audits, employees trainings and camps and awareness programmes for customers to manage and reduce these cyber threats.

### **Promoting Financial Literacy Programs**

The financial<sup>23</sup> awareness is also one of the most important factors where citizens significantly use the facilitate banking services and make rational decisions on its behalf. A large segment of Indian Population is still unaware about these services and internet banking. These banks with other institutions, organisations such as National Bank for Agriculture and rural development, performs a important function in encouraging the awareness through these programs such as camps and training workshops. These steps not only strategically highlights the savings, credits and fraud prevention. Increased literacy also promotes the financial inclusions and puts reliance's in trust in banking systems.

### **Expanding Banking Infrastructure in Rural Areas**

According to the recent study, the financial awareness still lacks in bringing the rural and urban close as the gap<sup>24</sup> in between still persists. The expanding banking infrastructure in rural regions is essential for growth of the society. To reduce the gaps in between, there is a urgent need to increase the branches of banks, promoting banking correspondents, and

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<sup>19</sup> Reserve Bank of India, Report on trend and progress of banking in India 2023

<sup>20</sup> Reserve Bank of India, Prudential Norms on Income Recognition, Assets Classification and Provisioning

<sup>21</sup> Insolvency and Bankruptcy Code, No 31 of 2016, India Code.

<sup>22</sup> Reserve Bank of India, Cyber Security Framework in Banks (2016).

<sup>23</sup> Reserve Bank of India, Financial literacy and Inclusion Report

<sup>24</sup> Government of India, Economic Survey 2023

building up the strong digital infrastructure. The Government initiates like<sup>25</sup> Pradhan Mantri Jan Dhan Yojana has improved the overall banking services in the society, but it does also requires a proper strategy to implement these in rural areas.

### **Improving Grievance Redressal Mechanisms**

To understand the impactful grievance system<sup>26</sup>, it is important to maintain the public confidence in the banking sector, as customers loses the reliance if they faces inconvenience and raised complaints remains unresolved.<sup>27</sup>

### **Ombudsman Scheme 2021**

The Reserve Bank of India<sup>28</sup> scheme as integrated Ombudsman Scheme, 2021 (RB-IOS) strengthens the consumer protection laws by providing integrating all three previous ombudsman schemes into one single unified, and cost free under the umbrella of “*one nation, one ombudsman*” framework. The scheme provides a platform to all the customers to file complaints against banks, NBFCs, and all the payment related systems as it serves a central online portal, removing jurisdictional errors, language as well as technical lacks.

### **The scheme underlying major features are :**

1. Integrated Redressal Mechanism: The scheme bought banking services, NBFCs, and all the online transactions under one single scheme of Ombudsman 2021, thereby making it easy and customer friendly to avail services and also to promote reliance and less confusion amongst consumers as the awareness is another challenge to deal with banking services and consumers availing such services.
2. “One Nation, One Ombudsman”: It enables all the consumers to be free from errors caused due to jurisdictional issues, thereby giving all the consumers to be free from jurisdictional errors or geographical issues while filing complaints in the nearest bank branch
3. Definition of Deficiency: The consumers faces many challenges while dealing with banking services like ATM failures, undue deductions, unauthorised charges, non-credit of funds and loan related issues.
4. Centralized Processing: The Ombudsman Scheme 2021 provides a centralized scheme where all the complaints under one processing unit in Chandigarh and processes the different languages of complaints under “Centralised Receipt and Processing Centre”.
5. Redressal customer friendly: The customers are enabled to access a cost friendly and speedy redressal under this scheme, it ensures that all the complaints are resolved through mediation or conciliations if the concerned banks or organization fails to resolve it within 30 days of timeframe.
6. Awards and Compensations: The scheme further provides the awards and compensation to the aggrieved parties for losses occurred and the Ombudsman is empowered to pass awards with no specific limits on disputed amount.

### **Complaint filing procedure**

In Integrated Ombudsman Scheme 2021, a consumer<sup>29</sup> can file a complaint with out cost, if the concerned bank or NBFC or Prepaid wallets, is unable to address the complaints of

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<sup>25</sup> Government of India, Pradhan Mantri Jan Dhan Yojana Report

<sup>26</sup> Reserve Bank of India, Consumer Protection and Grievance Redressal Framework

<sup>27</sup> Reserve Bank of India, Integrated Ombudsman Scheme 2021.

<sup>28</sup> <https://www.rbi.org.in>

<sup>29</sup> <https://services.india.gov.in>

the customers within 30 days. The most common procedure to file a complaint is through online portal which is known as CMS Portal. The customers of banking services can also email the complaints to [crpc@rbi.in](mailto:crpc@rbi.in) or they can also post the complaints to Centralized Receipt and Processing Centre (CRPC), RBI, 4<sup>th</sup> Floor, sector 17, Chandigarh-160017.

**The following are the procedural steps to file a complaint**

1. Initial Complaint: The first step towards filing of a complaint is that the consumer has to file a complaint to the concerned bank or NBFC and requires to wait for a response from their end.
2. Stipulated time frame : The consumers are required to wait for about 30 days to receive a response, but if a situation comes where a consumer does not receive a response within 30 days or is not satisfied that is to say the concerns or the grievances raised are not properly resolved or addressed, the consumer can always escalate the matter.
3. Ombudsman complaint Procedure: The following are the methods to file a complaint in ombudsman,
  - a. The consumer can submit the complaint online [cms.rbi.org.in](http://cms.rbi.org.in).
  - b. Alternative ways: The consumer can always email to CRPC or physical mail to the Chandigarh Address.
4. Documents and essentials: The consumer is required to maintain the records of transactions and complaint filed initially, and also the banks response if received, the details of amount and account and all the transactions made in this concerns.
5. Time Limitation: As per the norms, the consumer is required to file a complaint within one year of the receiving banks response, or one year and 30 days if no response was received.
6. Essential information's: The consumers must keep the following things information handy or even generally all the consumers must be aware about the following:
  - a. Toll-Free Helpline: 14448(Available 08:00AM to 10:00 PM)
  - b. Languages: The consumers can file a complaint in Hindi or English through online modes but there is no such limitation as to language if the consumer files the complaint through physical means, that is t say he/ she can file complaint in any language.
  - c. Entities Concerned: The entities concerned are commercial banks, NBFCs, Regional Rural Banks and all the Payment system Providers (wallets/ UPI).

## CONCLUSION

As the time evolved in our nation, the advancement of banking services has not only contributed to the upliftment of economy and has brought many social transformations in shaping India's financial system and citizens independence. The banking system has worked into the areas where all the consumers are given an opportunities form saving their hard-earned money to utilizing them for investment purposes, therefore contributing to India's economy. As we all are aware about our traditional ways of banking services where all the customers were required to physically go to bank and avail services from bank branches itself, to switching to advanced ways of banking by providing multiple facilities, thereby enabling the customers have customer friendly services and facilities. One of the most significant changes in the times, the banking system has included the inclusive banking facilities which has brought a major and dynamic change in the economy by focusing un policies and interventions, and ensuring these services of financial inclusion is reached to the people who are not using banking services or are even not aware since the population in our country needs more awareness, these policies has enabled these to give

access to not only to urban but also extending to rural areas of the society. These services included basic important services like opening accounts in banks, savings account, credit facilities and also insurance related schemes. It further extended to cover internet services thereby giving a platform in the society to everyone to have access to these services and facilities, the digitalization made a easy-go-apps and customer friendly with easy basics to learn which definitely played a significant role in ensuring that it reaches to the large masses in an efficient manner.

The banking system played a key role in uplifting the economic development, by providing capital formations, encouraging industrial and agricultural growth, increasing the employment services. The credit services also played a significant role, where the banks gives facilities of giving credit to Micro, small and Medium enterprises (MSMEs), the banks promoted these enterprises in doing their businesses and raising flow of the money in the economy.

As we deal with the facilities and these entities providing such great facilities, which are being regulated by government and their policies, the consumer do faces struggles with the banks and their deficient effectiveness at times, in such cases Ombudsman Scheme 2021, plays a significant role in saving the consumers from being exploited through these services, for example sometimes the deficiently or a lack is on the bank and they do not address the consumer, in such situation a consumer always has a support of ombudsman who overlooks the complaints filed by the aggrieved consumers and resolved the matter through proper channel thereby, providing a solution, award or a compensation due to non performing banks or against arbitrary steps or actions taken by these banks. The regulatory body is authorised to pass orders against these entities and can definitely provide compensation to these consumers, through grievance redressal system. The key features of this redressal is that it effectively works, it is accessible to all the consumers, fairness and it specifically provide timelines to the consumers to file against these entities. However, the consumer still faces these problems as, we are growing in terms of technology, cyber threats, online frauds, financial illiteracy are still a major problem. As the continuity of these challenges, we still need system or a mechanism which is monitoring these failures through continuous regulatory intervention through policies and schemes, internet spectrum needs to be monitored as these digital scams and online frauds and technology is still a domain which needs monitoring and capacity building measure. The growing advanced technology, Artificial intelligence and data analytics, keeping in mind the consumers, can definitely contribute in efficient banking services, thereby strengthening the Ombudsman Schemes in the nation.

In the conclusion, The Indian banking system is a powerful mechanism which has contributed the economy with continuous evolution, effective regulations and policies and interventions, inclusive financial services, leading to sustainable and equitable development in India.