ROLE OF BANKS AND INSURANCE IN THE ECONOMIC DEVELOPMENT OF A COUNTRY

ROLE OF BANKS IN THE ECONOMIC DEVELOPMENT OF A COUNTRY

Commercial 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 disciplined it brings about a rapid growth in the various sectors of the economy.

The following is the significance of commercial banks in the economic development of a country.

ROLE OF BANKS IN THE ECONOMIC DEVELOPMENT OF A COUNTRY

1. Banks promote capital formation
2. Investment in new enterprises
3. Promotion of trade and industry
4. Development of agriculture
5. Balanced development of different regions
6. Influencing economic activities
7. Implementation of Monetary policy
8. Monetization of the economy
9. Export promotion cells

ROLE OF BANKS IN THE ECONOMIC DEVELOPMENT OF A COUNTRY

1. Banks promote capital formation:

Commercial banks accept deposits from individuals and businesses, these deposits are then made available to the businesses which make use of them for productive purposes in the country.

The banks are, therefore, not only the store houses of the country's wealth, but also provide financial resources necessary for economic development.

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2. Investment in new enterprises:

Businessmen normally hesitate to invest their money in risky enterprises. The commercial banks generally provide short and medium term loans to entrepreneurs to invest in new enterprises and adopt new methods of production.

The provision of timely credit increases the productive capacity of the economy.

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3. Promotion of trade and industry:

With the growth of commercial banking, there is vast expansion in trade and industry.

The use of bank draft, check, bill of exchange, credit cards and letters of credit etc has revolutionized both national and international trade.

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4. Development of agriculture:

The commercial banks particularly in developing countries are now providing credit for development of agriculture and small scale industries in rural areas.

The provision of credit to agriculture sector has greatly helped in raising agriculture productivity and income of the farmers.

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5. Balanced development of different regions:

The commercial banks play an important role in achieving balanced development in different regions of the country.

They help in transferring surplus capital from developed regions to the less developed regions.

The traders, industrialist etc of less developed regions are able to get adequate capital for meeting their business needs.

This in turn increases investment, trade and production in the economy.

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6. Influencing economic activity:

The banks can also influence the economic activity of the country through its influence on

a. Availability of credit

b. The rate of interest

If the commercial banks are able to increase the amount of money in circulation through credit creation or by lowering the rate of interest, it directly affects economic development.

A low rate of interest can encourage investment.

The credit creation activity can raise aggregate demand which leads to more production in the economy.

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7. Implementation of Monetary policy:

The central bank of the country controls and regulates volume of credit through the active cooperation of the banking system in the country.

It helps in bringing price stability and promotes economic growth with in the shortest possible period of time.

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8. Monetization of the economy:

The commercial banks by opening branches in the rural and backward areas are reducing the exchange of goods through barter.

The use of money has greatly increased the volume of production of goods.

The non monetized sector (barter economy) is now being converted into monetized sector with the help of commercial banks.

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9. Export promotion cells:

In order to increase the exports of the country, the commercial banks have established export promotion cells.

They provide information about general trade and economic conditions both inside and outside the country to its customers.

The banks are therefore, making positive contribution in the process of economic development.

ROLE OF BANKS IN 21ST CENTURY

The commercial banks are now not confined to local banking.

They are fast changing into global banking i.e, understanding the global customer, using latest information technology, competing in the open market with high technology system, changing from domestic banking to investment banking etc.

The commercial bank are now considered the nerve system of all economic development in the country.

VIRTUAL BANKING

What is virtual banking?

Providing the banking services through extensive use of information technology without direct recourse to the bank by the customer is called virtual banking.

The origin of virtual banking can be traced to the 1970's with the installation of ATM's.

The principal types of virtual banking services include automated teller machines (ATM's), phone banking and most recently internet banking.

With the increasing use of internet banking there is greater reliance now on information technology and the decrease of physical bank branches to deliver the banking services to the customer.

FUNCTIONS OF ONLINE BANKING

Account balance enquiry

Bank Statement enquiry

Foreign exchange rate enquiry

Change of personal identification number

Message to a bank

Profit rates on deposits enquiry

Transfer of funds

Credit card

Money market rate enquiry

Stock market transactions

Sale and purchase of goods and services

Apply for loan

ADVANTAGES OF ONLINE BANKING

Time saving

Peace of mind

24 hour service

Wide range of transactions

DISADVANTAGES OF ONLINE BANKING

Computer problem

Power failure

Computer virus

Unavailability of Internet

Computer fraud

ROLE OF INSURANCE

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INSURANCE involves

- small periodic payments in return for protection against uncertain, but potentially severe losses.

The availability of insurance enables risk averse individuals and entrepreneurs to undertake higher risk, higher return activities,

This promotes higher productivity and growth.

KINDS OF INSURANCE

Transport insurance can mitigate loss in shipment. This will encourage traders of a country to export their goods to countries far away.

Crop insurance can protect crops against drought for a smaller premium.

Insurance companies have specialized expertise in the identification and measurement of risk. This expertise enables businessmen to minimize risks.

LIFE INSURANCE

On the investment side, life insurance providers can serve an important function as institutional investors providing capital to infrastructure and other long term investments as well as professional oversight to these investments

RESULTS

Better pricing of risk,

Greater efficiency in the overall allocation of capital and mix of economic activities, and higher productivity.

Complementary to banking and financial

sector deepening. Without insurance many credits can not be extended.

EFFECTS ON ECONOMIC GROWTH

1: Life Insurance Contributes Positively to

Economic Growth.

Through the channel of financial intermediation and long term investments.

EFFECTS ON ECONOMIC GROWTH (CONTD.)

2: Strong Complementarity between

Insurance and Banking.

MICRO INSURANCE

The contribution of insurance to poverty alleviation and the welfare of the poor is also potentially of considerable importance,

HOUSEHOLD INSURANCE:

Micro-finance providers and other community-based financial intermediaries have begun to diversify into insurance products.

Life insurance is related to savings and micro-credit.

Property insurance such as for livestock and dwellings are being considered.

NATURAL DISASTERS, WEATHER, AND CROP INSURANCE

Natural disaster and weather insurance to improve the performance of lower income groups.

Protection against climate change

HEALTH INSURANCE

In developing economies people are dependent on the composition of health delivery providers

The government's involvement in health

insurance provision.

In poorer economies, households bear responsibility for paying a much higher proportion of overall health costs out of pocket than in richer

economies, which leads to underinvestment

in health services. The solution is health insurance.