Answer on Question #50689, Management, Other

Commercial banks in India are now financial super markets" Explain the statement in view of innovative functions of commercial banks.

Explanation:

At the beginning it is important to note that the banking structure in India is complex, characterized by a branched structure. Exploring the structure of the banking system and financial institutions of India, we can admit the following five components: Apex Level Institution, Development Financial Institute, Commercial Banks, Non-Banking Financing Companies and Cooperative Banks.

In general, the list of specified commercial banks, who in turn, is divided into Scheduled Commercial banks and Non-scheduled Commercial banks. Most of them are Scheduled Commercial banks, and only a significant number of Non-scheduled Commercial banks.

Commercial banks in India typically perform the following functions: make loans to private firms, individuals, farmers and the state; accept demand deposits and time deposits; to transfer funds within the same country and abroad; issue traveler's checks and letters of credit; on behalf of individuals or corporations manage their financial resources, i.e. act as a trusted agent; act as agents for the purchase and sale of securities; ensure safe storage of valuables; disseminate information of an economic nature; have a variety of other services. The majority of commercial banks of India nationalized.

Thanks to the credit operations the commercial banks play an important role in increasing or decreasing the money supply of the country. Issuing cash loans, banks increase the money supply, since virtually all of these loans take the form of newly created credit. Due to the fact that the cash assets based on these credits are deposited in banks, they increase reserves at which banks could provide additional credit, which in turn increases the weight of the money in the country. In the contrary, when the loans are repaid, the amount based on these deposits is reduced and, consequently, bank reserves and the money supply are shrinking. Therefore, the extent to which the government intends to regulate economic development by controlling the money supply, it must control the lending activities of banks.

On the market are several types of financial intermediaries. All of them can be divided into two categories: specialized financial intermediaries and integrated. The first group includes, on the one hand, banks (commercial, and investment, and mortgage and retail), on the other - non-bank financial intermediaries, such as investment companies, financial brokers, asset managers, insurance, leasing, as well as online brokers, Forex, hedge funds, factoring companies, consulting firms, private pension funds.

Financial super market is the concept of the role of commercial banks for private clients, according to which each client must meet the bank not only the need for banking services, financial consulting, but also insurance and interest.

Financial super markets act as integrated financial intermediaries. Today practice of financial super markets includes such key business areas as retail banking, insurance and investment products.

Before we analyze and note some characteristics of the commercial banks in India it should be noted some historical facts forming financial super markets in the world.

The first financial supermarkets appeared in the US in the early 20-ies of XX century, but did not receive then development due to regulatory restrictions. In Western Europe, financial supermarkets appeared in 70-80s. of the twentieth century as a result of mergers of banks and insurance companies. This process is called Bancassurance - representation of insurance products through banks.

In the US and Japan due to the 90s. Financial super markets have gained a new impetus to the field of abolition legislation prohibiting the combination of banking and insurance activities in the US - after the repeal of Glass Steagall Act of 1933.

Today, financial supermarkets are most developed in the Benelux, Southern Europe, USA and Japan. Attempts to create such alliances in the most conservative Northern Europe did not lead to positive results. In Europe, the USA and Japan experience in creating financial supermarkets was quite successful.

Known fact is that in India a huge number of poor people. Based on this, many commercial banks since 2006 have taken the business correspondent model, according to which the bank had to implement agents travel to areas accumulation of a large number of unbanked population in order to assist in the opening of an account, to help deposit-taking and you transfer processing. This innovation was particularly important in rural areas, because in these areas there is a small amount of bank branches for financial services, or non-existent. Such a model business correspondence allowed to reach a large segment of the population, increase financial literacy, improve the ability to make help on financial terms.

We can also note the advantages in the creation of financial super markets in India.

For customers is to buy all financial services in one place, getting a wide range of financial services, savings (discounts) and time, uniform standards of service quality. For the bank - is the growth of fee income, the expansion of the product line for bank clients (mutual funds, loans secured by shares, policies CTP et al.), minimizing their risks, increase customer base. For the partner bank is the growth of financial services through a retail network development, access to new loyal customer base, saving overall costs and increase profitability, the development of new financial products.

Certainly we should not forget the constantly-growing role of modern technology, the introduction of Internet-Banking, new financial products which seek to maximize the needs of the client, in this case to increase the bank's profit.