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Topic: commercial banking

A commercial bank is a financial institution that accepts deposits and offers loans to individuals and businesses including mortgages, auto loans, business loans, personal loans, deposit accounts such as checking, savings, custodial accounts, and collections.

The history of commercial banks in India goes back to the 18th century with the establishment of the Bank of Bengal in Calcutta.

The types of commercial banks include Public Sector Banks, Private Sector Banks, Foreign Banks, and Regional Rural Banks.

The functions of commercial banks include accepting deposits, granting loans and advances, discounting bills of exchange, creating credit, transferring electronic funds, providing overdraft facilities, providing foreign exchange services, etc. Commercial banks play a major part in the agricultural credit supply by financing the agricultural sector.

A commercial bank is a financial institution that provides services like loans, certificates of deposits, savings bank accounts bank overdrafts, etc. to its customers, according to Economic Times.

Simply speaking, a commercial bank is a financial institution that accepts deposits and offers loans to businesses and individuals.

Commercial banks make money by accepting deposits at lower interest and lending loans to individuals and businesses at high interest. Business loans, car loans, house loans, personal loans, and education loans are some of the loans offered by commercial banks.

Commercial banks help a country's economy by creating capital, credit, and liquidity in the market and generally have physical branches. But, nowadays online commercial banks like DBS banks are growing in numbers and providing all the bank services online to their customers without any physical branches.

There are a total of 158,000 commercial bank offices across India and out of this 44,000 offices are in southern India, *as per reports by Statista article titled "Number of scheduled commercial bank offices across India in the financial year 2023, by region"*.

History of commercial banks in India

The history of commercial banking in India is traced back to the late 18th century when European trading companies established banks. However, in India, the evolution of commercial banks is divided into a pre-independence era, post-independence, liberalization, consolidation, and regulatory changes, and the current landscape for better understanding.

The evolution of commercial banks in India is listed below.

- **Pre-independence era (pre-1947):** The Pre-independence era of the Indian banking system led to the establishment of two banks, The Bank of Hindustan in 1770 and the General Bank of India in 1786. The Bank of Calcutta was established in 1806 which later merged with the Bank of Bombay and the Bank of Madras in 1921 to form the Imperial Bank of India which later became State Bank of India in 1955.
- **Post-independence and nationalization (1947-1969):** After Independence, several banking reforms were made to foster India's economic development under the regulatory framework provided by the Banking Regulation Act of 1949. Further, In 1969, 14 major banks were nationalized by the government of India to increase cash flow to the agricultural and small-scale industries.
- **Liberalization and technological advancements (1991 onward):** The liberalization in 1991 made a reformation to the financial sectors in India and promoted efficiency and competition. This opened gates for the private and foreign banks creating more competition and innovation leading to technological advancements introducing online banking services.
- **Consolidation and regulatory changes (2000s onward):** After 2000, several acquisitions and mergers of the banks consolidated banks leading to enhanced efficiency and scale. RBI also introduced new BASEL regulations.
- **Current landscape (2020s onward):** The current commercial banking landscape is all about digital and mobile banking which has made banking at the fingertips. However, with so many tech advancements in the banking sector, cybersecurity risks are still there.

Generally, the structure of commercial includes Public Sector Banks, Private Sector Banks, Foreign Banks, and Regional Rural Banks. Recently RBI licensed a few more banks known as Payments Banks and Small Finance Banks.

Importance of commercial banks

The importance of commercial banks in India is listed below.

- **Providing funds for rural and agricultural development:** Commercial banks offer funds to farmers to purchase seeds, cultivate crops, and buy tractors, fertilizers, and other farming tools. 86 percent of Indian farmers are small and marginal farmers, and agriculture, animal husbandry, and fisheries contribute to around 18% of India's GDP,

according to the “*Press Information Bureau, Government of India*“. The commercial banks have launched several financial services designed for the development of the rural sectors. For example, the State Bank of India (SBI) offers specialized agricultural loans, savings accounts, and Kisan credit cards to increase the customer base in rural India.

- **Providing funds to women entrepreneurs:** Commercial banks offer funds to women entrepreneurs to start their own businesses, empower them financially, and make them independent. Simply speaking, they help women entrepreneurs get the resources, means, and support they need for their businesses. State Bank of India (SBI), one of India’s largest commercial banks, has also launched a scheme named Svyam Siddha scheme to offer personal loans up to 5 lakh to women from smaller towns and rural villages who are professionals, salaried or self-employed as teachers, doctors, nurses, C.A., ICWA, CS, etc., as per the article titled “Swayamsiddha Loan Scheme” by CosmosBank.
- **Financing small businesses:** Start-ups and small businesses need cash flow to grow and contribute to economic development. Commercial banks provide financial support to these startups and small businesses by offering Micro, Small, and Medium Enterprises loans and Small Medium enterprises loans. “*Micro, Small and Medium Enterprises (MSME) sector, with more than 6.30 crore enterprises, has emerged as a highly vibrant and dynamic sector of the Indian economy*“, as per the *Ministry of Micro, Small & Medium Enterprises, India*. The recently launched *PM Vishwakarma Scheme* is the latest scheme that supports artisans and craftsmen in improving the quality and reach of their products.
- **Creation of credit for entrepreneurial development:** Commercial banks create credit for businesses to buy equipment, build inventory, and pay their vendors, helping them boost their business without actually having the funds themselves. Commercial banks also offer loans and small business credit cards, and buy securities. Lack of initial capital is one of the most important problems faced by entrepreneurs in obtaining loans from banks, as per the *International Journal of Engineering and Management Research* titled “*Banks Play a Pivotal Role in Entrepreneurship Development*” by *Dr. Anand. K et. al.*
- **Motivating people for savings to create capital:** Motivating people to save a part of their income in a bank account not only creates wealth for people but also creates enormous capital for commercial banks to fund loans for small and medium-sized companies to expand their businesses, and create more jobs.

Largest commercial bank in India

The State Bank of India also referred to as SBI is the largest and oldest commercial bank in India. The SBI has more than 24 thousand branches across India and 190 branches in 36 foreign countries.

Examples of commercial banks

The examples of commercial banks are the State Bank of India (SBI), Bank of Baroda, HDFC Bank, Bank of India, Kotak Mahindra Bank, ICICI Bank, Axis Bank, and Canara Bank. The commercial banks include all the public sector banks, private banks, foreign banks, and regional rural banks.