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The Impact of Interest Based Banking on Socio-Economic Environment and Its Solution through Islamic Finance Concepts

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Abstract- The main objectives of this paper are to trace the emergence and importance of interest based banking and it impact on socio-economic environment. The impact of interest based banking system was focused and analyzed with best efforts and also tries to define the working mechanism of Interest based system. How interest and banking system affects the society and how it propelled the society to go to hazardous situation? How do the lives of the people get affected by this system due to which so many social evils such as depression, anxiety and even suicide are growing rapidly among the borrowers? This paper also suggests the solutions of interest based banking system on the basis of Islamic finance concept. The authors of this paper also tried to touch some other parameters such as- tax implication of interest and focused on relationship between lenders and borrower. All these descriptive study provide better inside view of interest based banking system

Descriptive and Qualitative Research Methodologies are used in this paper on the basis of readings of many research papers, journals, newspaper, online material provided by websites and some personal experience.

While reading this paper, one will easily understand the interest based banking and it mechanism with its impact on society and economy and also reached to its solution with reference of Islamic finance.

Index Terms- Banking, Interest, Islamic Finance, Regulatory System and Tax;

I. Introduction

As it is well known that in current scenarios most of the businesses are facing some challenging issues. In the era of globalization and privatization, most of the firms or businesses face a high degree of competition. This competition may be of many types such as operational competition, productivity competition, market competition and so on. To cope with these types of competitions or challenges and to survive in this competitive world, the business firms are required to manage their resources properly and utilization of these limited resources should be channelized and allocated in such a way that it may produce desired results. For accomplishing the targets, the adequate amount of fund and resources are very much required. When it is talked about fund and resources in any business, it may be in physical form- men, machine and material; in paper form-mainly cash or money cannot be ignored. In this research paper, money/cash will be focused. The money plays a very crucial role while deciding the future course of action because proper allocation of cash justifies maximum and desired results. For growth and development, a firm should have proper and adequate amount of money or cash to run its operation without any fail. In business world money/cash is termed in many ways and finance interchangeably used for it. As blood is so important for life same case is with finance in business. In lack of proper circulation of blood, human body may become sick, paralyzed and even dead; the same system is followed in business for finance. It means that if a business is running short on finance or has not proper circulation of finance into its functioning, it may be harmful to the business and may be a cause of business collapse or winding up.

The finance needs may be met out by two ways. It may be through equity capital or by way of debt capital. Most of the business firms have limited equity capital and to accomplish their goals they are required to have some extra amount beyond equity capital. This extra amount of money or fund may be arranged by way of debts. For debts, the business firms or needy persons may approach the financial institutions. Most of the businesses have a need for a line of credit or debts financing with financial institutions or banks. When it is talked about financial institutions, bank one of the main players of this segment, cannot be ignored. Banks are those financial institutions that do the work of accepting, depositing the money of the public and granting loans to the needy section of the society. Financing with banks or other financial institutions become more important and crucial in case when business firms are running on short finance, business is slow or the company or firm is in same way struggling.

In general, banks are very important for economy and country. They make bridge between savings and needs of money. They mobilize the savings and these savings are contributed towards capital formation. Capital formation guides and leads to the new opportunities which is most important and motivational factor in the development of economy and provides more opportunities for employments. When all sections of society get a chance to employment, the poverty will reduce and disappear. Apart from this, better employment opportunities provide a solid base for entrepreneurship and rapid economic growth and development. All this happen due to proper allocation and circulation of fund in the economy in form of healthy financial services. Banks are very prominent in providing these financial services. From this point, the role and importance of banks can be understood. The contribution of banks in the development and growth of economy and country cannot be avoided. This is one side of the coin showing the positive face of the banking system prevailing in current and in general most of the banking system is based on interest system which itself is a very controversial issue.

Now, the other side of the coin should be shown as Modern banking is based on interest banking system and interest banking system itself is a symbol which represents such results due to which economy and society had to suffer and born losses. There are so many instances where the cruel face of interest based banking system has emerged. The quantum and degree of loss and damage caused by interest system may vary and differ according to the amount financed. In general, when fund was arranged based on interest system, the final results were not favourable for both the parties- the lender and the borrower. The results may be fruitful for lender but it's an appeasement of borrower.

II. LITERATURE REVIEW

Banking sector has been remained an attractive destination for research. The research on banking has produced some interesting facts and figure which shows the contribution of it in the development and growth of the economy as well as the negative impact on economy and society. Modern banking system has been analyzed on different aspect and scholars have given different-different views on this. Some have found the hidden curial face of interest based banking resulting adverse effects on economy. Interest based banking system harm society as well as also creates Non-Performing Assets (NPA) to the banks or lenders because customers are not able to pay premium sometime or generally, which was the sum of interest and principle amount. It means that interest based banking affect both borrowers and lenders of organised and unorganized sectors as well.

[1] According to Mishkin (1997) contrary to adverse selection, moral hazard is an asymmetric information problem that occurs after the transaction and when a principle commission an agent to act on his behalf but the agent engages in shirking, pursues self interest to the determinant of the principal's interest or indulges in dishonest or immoral behaviour. [2] Akoi (1997) refers to moral hazard as a hidden action problem arising because investor cannot distinguish the effect of event that management cannot control from the effect of management actions taken in implementing an investment project, financial intermediaries may be able to reduce their problem by monitoring management activities. Moral hazard is a disposition on the part of individuals or organization to engage in riskier behaviour, than they otherwise would because of a tacit assumption that someone else will bear part of all of the costs and consequences if the incurred risk turns out badly [3](Wolf, 1999). Effect of Interest is defined in the economic literature as "action by economic agents in maximising their own utility to the detriment of others in situation where they do not bear the full consequences of their actions" (See, [4] Ivan and Manuel 2004, [5] Pindyck and Rubinfield 1998).

More moral hazard occurs because the borrower has incentives to invest in high-risk projects where the borrower does well if the project succeeds but the lender bears most of the loss if the project fails. The borrower also has incentives to misallocate funds for personal use, for instance to undertake investment in unprofitable projects that increase the borrower power structure. The conflict of interest between borrower and lender, steaming from moral hazard or the agency problem implies that many lenders will decided that they would rather not make loans, so that lending and investment will be at sub-optimal levels. Mishkin (1997), [6] Sandmo (1998) and Wolf (1999) conducted that insurance is a major cause of moral hazard, where insurance companies have to realise that an insurance policy may change the behaviour of the insured in a way which makes the event converted by the insurance policy more likely to happen. [7] Corsetti et al (1999a) stresses that moral hazard become a source of crises when there is over-investment, excessive external borrowing and current account deficits in a poorly supervised and regulated economy. [8] According to Ely (1999) moral hazard produce financial crises in three situations. First, bad management (poor interval control, self-dealing, bad landing and investment decisions, and excessive rapid expansions) is the main cause of isolated or non-contagion financial features. Second, an economic contagion, almost always triggered by a decline in the market value of assets, caused the financial sector to fail when in normal economic time it would not. Third, government restrictions on assets and geographical risk dispersion limit the ability of individual banks or financial institutions to diversify their assets risk in order to protect themselves against contagion events such as regional assets deflation made worse by assets fire sales.

[9] Justice Muhammad Tqui Usmani (2012) also studies the effects of interest on society on the histories judgement on interest in the Supreme Court of Pakistan. This was considering the Islamisation of the country's financial system. [10] Imam Al-Gazzali (d. 505 A.H) the renowned jurist and philosopher of Islamic history discussed the nature of money in an early period when the westerns theorems of money were not existent at all. He was taken the concept of medium of exchange to its logical end and also conducted that when money is exchanged for money of the same denomination it should never be made as instrument generating profit by such exchange. This approach of Imam Al-Gazzali, fully backed the clear direction of the Holly Quran and Sunnah, has never been admitted to be true by some realistic scholars, and even in societies dominated by interest. Many of them after facing the reverse consequences of their financial system based on trade in money have admitted that their economic plight was caused interlaid by the fact that money was not restricted to be used for its primary function as a medium of exchange.

[11] During the horrible depression of 1930s an "Economic Crises Committee was formed by Southampton Chamber of Commerce in January 1933". The committee consisted of ten members headed by Mr. Dennis Mundy. In its report the committee had discussed the root causes of the calamitous depression in national and international trade due to the interest rate change. This committee also give suggestion that this problem will be removed if transaction will don without the foundation of interest based concept.

III. OBJECTIVES

The main objectives of the study are given as:

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- Banking system in India and Its Development;
- Interest and its mechanism;
- Focus on relationship between Lender(Bank) and Borrower- A monster Face of Lender;
- Show the impacts of changes in Interest Rate on Socio-Economic Environment;
- How to reduce the dependency on Interest Based Banking through Islamic Finance Concept;
- Interest system and social evils; and
- Tax implication of interest in India;

IV. RESEARCH METHODOLOGY

Research Methodologies used in this research paper are based on the combination of descriptive and qualitative research. In descriptive research, researchers have to used data and information given in various research journals, newspapers, books and online materials and in qualitative research section researcher have to do personal experience with banks and financier. Apart from this, other parallel lending-borrowing system is also analyzed so as to gain deep knowledge of lending and borrowing system and for better comparison. This paper is developed while keeping in mind that it will be useful and beneficial for whole mankind who are interested to know all about Interest based Banking and its alternatives. This is basically a common approach paper which provides a brief knowledge about banking system based on interest and its impacts on society and other alternatives to this system so that dependency may be reduced and this system may be developed in a new way for mankind. This paper also focuses on inside and outside impacts of interest banking on common men.

V. BANKING SYSTEM IN INDIA AND ITS DEVELOPMENT

The banking system in the modern form is originated in the last decades of the 18th century. The first bank in India was Bank of Hindustan (1770-1829) and General Bank of India (1786).There is so many evidences of loans and activities related to lending and borrowings from the Vedic Period in ancient India. During the Maurya dynasty, the uses of debt instruments were found. An instrument called '*Adesha*' was in use in that period which was an order of payment to a banker, ordering him to pay the money of the note to a third person. This type of instruments in current is known as bill of exchange. Buddhist period also had provided the same evidences that show considerable use of these instruments.

The development and growth of banking system in India can be divided into two parts: Pre-Independence Era and Post-Independence Era.

Pre-Independence Era

The conception and birth of modern banking system can trace back to British Rule. Most of the modern banks in India were established in that period. In current, some are in the same form with little change as they were developed and some had gone different phase or shape with change in their structure and name and have been surviving since then. During the period of British Rule, merchants established many banks-some were private sector and some were joint stock associations. Banking institutions like, The Allahabad Bank, Punjab National Bank, Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank, Central Bank of India are surviving to the present and contributing in the development of country as well as banking sector. There were so many foreign banks also which were established during that period.

Post-Independence Era

The partition of India adversely affected the economy and especially the banking sector of the nation due to which all banking activities had gone paralyzed for months. The Government of India took the charge of economy and banking sector and initiated so many measures for the revival and survival of them. Some most of the important and memorable event after the independence of India are

- The Reserve Bank of India, a central banking regulatory body which was established in April 1935 nationalized on 1 January 1949 by passing the Reserve Bank of India (Transfer to Public Ownership) Act , 1948
- The Banking Regulation Act was passed in 1949 which empowered the Reserve Bank Of India to regulate, control and inspect the banks in India
- The Banking Regulation Act also provided that no new bank or branch of an existing bank could not be opened without the license issued by the Reserve Bank Of India
- The three main banks from pre-independence era namely Bank of Bengal, Bank of Madras and Bank of Bombay were merged to form Imperial Bank of India in 1921 and this bank was nationalized in 1955
- The nationalization of 14 largest commercial banks in India took place on 19 July 1969. Before nationalization all of the bank in India except State Bank of India were owned and operated privately in spite of the provisions, control and regulation of the Reserve Bank of India.
- Introduction of Liberalization in Indian Economy in early 1990s resulting the licensing a small number of private banks in India. This moves were to be known as *New Generation Tech-savvy banks*, and included Global Trust Bank (the first of such new generation banks to be set up), which were later amalgamated with Oriental Bank of Commerce, Axis Bank(UTI Bank at that time), ICICI Bank and HDFC Bank. This move of liberalization pushed rapid growth in Indian Economy and energized the banking sector which includes Government Banks, Private Banks and Foreign Banks.

These were some important points which show how banking industry come to present and some other changes or measures are taken which cannot be ignored. The use of technology was introduced in banking sectors so that transparency and accuracy may be achieved. Information technology contributed a lot in formation of modern form of banking. Now a day's banking is known with some prefix such as e-banking, net-banking, mobile-banking, core banking. These are some form of modern banking which made banking an easy play due to which the customer of the bank are free to easy withdrawal, deposit, money transfer, online purchasing and many more. In bank's perspective, there are so many benefits such as less paperwork, reduction in workload, more customer satisfaction, tech-savvy working environment etc. That is the current scenario of Indian banking sector. The modern form of banking sector has been very attractive and productive. In current, banks are expanding their size by expanding its business. They are opening new branches in India and abroad also. In spite of commercial banking services, they are also providing some other services as merchant banking, forex exchange services, and credit facilities for export related activities.

VI. INTEREST AND ITS MECHANISM

The current mechanism of banking system, which is existing in India or most of the part of the world, is based on interest rate system. In India, lending-borrowing activities can be divided in two groups. The first one as termed as indigenous bankers and second one is organized banking. Indigenous banking is that which comprises the traditional practices of lending-borrowings performed by Sahukar or influential locals of the area. The organized sector represents well defined structure of banking institutions governed by a central regulatory body like Reserve Bank of India.

The interest is a fee or compensation for using the borrowed money and is chargeable by the lender. It is commonly known that interest is the price for the use of borrowed money from a person or an institution. When money is borrowed, interest is paid to the lender as a percentage of amounts given as loan and this amount is called principal amount. The percentage of the principal amount paid to the lender or the owner of the money (on monthly, quarterly, half yearly or yearly basis) is called rate of interest. The fixation of the rate of interest mainly depends on the relation of lender and borrower in case of indigenous banking. The interest may be charged by two methods-simple interest method or compound interest method. That is the case for individual or indigenous banking or unorganized banking.

Now the organized sector of banking should be focused. The organized sector of banking mainly is governed, controlled and regulated by a central regulatory body with effects of monetary policy. The financial and monetary activities in financial system of India are mainly governed by the Reserve Bank of India. It means that all policies and activities of banking institutions of India work according to the guidelines and regulations of Reserve Bank of India. So the interest rate chargeable by the banks for providing loans and advances to the public or organizations is decided by the central regulatory body e.g. Reserve Bank of India. Time to time RBI takes steps to effectively regulate the financial activities. The banks can decide the rate of interest on the basis of guidelines provided by the RBI. The lending rate of interest is very crucial for both lender and borrower. As in case of indigenous banking, organized banking also uses the two methods for charging interest. Simple interest and compound interest are two method used for charging interest.

VII. FOCUS ON RELATIONSHIP BETWEEN LENDER (BANK) AND BORROWER- A MONSTER FACE OF LENDER

The needs and aspirations induce the individual or the organization to go beyond its capacity and use that amount which is not belonged to him or it. And in this situation, the needs are met out with the help of debt with or with interest. The role of lender cannot be avoided but some factors make it worse and bitter. People want to go to get debt without considering the future consequences and results thereafter. The process of lending money in lieu of interest totally profit oriented but this process involves so many types of risk related to risk and return. Among this factor of risk, the risk of losing money is very much aggressive and apart from this, the irregular payments of instalments with interest, fear of conversion of the assets into NPV (Non Performing Assets) are some other factors which are very crucial for lender. In most of the cases, the risk factor remains vital and alarming.

As it is pointed out earlier that interest based banking system is purely profit-oriented process so it has some complication and perils for borrower also and it cannot be avoided. It means whatever might be the conditions; the borrower should discharge his/her liabilities as to pay interest with specified amount without any fail or delay. If borrower makes such mistakes, he/she is liable to face consequences which again puts extra financial burden. On one side the borrower is not able to pay the specified amount with interest and on the other side the lender asks him/her to give extra money as a penalty due to default in payment. It means that the lender always expects to receive his/her amount irrespective the ability or capacity of the borrower. In this process, the humanity is killed. That is the reality of interest based banking and its existence. In most of the cases, the lending is based on collateralized debt and the lender has the right to realized his/her amount from that collateralized asset. So, borrowers have some perils that if they don't pay the loan, their assets will be sold out and the amount will be used to discharge their liabilities in the form of loan. That is the extreme point which could be to the borrower. But before this, the borrower faces so many problems or can say some sort of torture mainly the mental torture, depression and social fear. If borrower does not able to pay, he/she may lose his/her belongings specially the collateralized asset. This fear may induce or compel the borrower to kill the life and there are so many instances where it is find that due to insufficient earnings and lack of funds to pay the loans, the people opted to suicide so that he/she may avoid social injustice and torture of lender. This is because of lender does not want to lose his/her amount and not to be financially sick and to avoid this condition of loss and sickness; it induces the lender to recover his/her amount with interest at any cost or anyhow. The loans are recovered irrespective of social and human values.

VIII. THE IMPACTS OF CHANGES IN INTEREST RATE ON SOCIO-ECONOMIC ENVIRONMENT

In this segment of research paper, it is tried to focus on the impacts of interest and its changes on Socio-Economic Environments. The main motive behind this is to show the practices and its adverse effects on environments and how to reduce the effects. The cases of banks in USA and Europe which collapsed and caused a lot of loss, panic and instability worldwide, due to which so many economies had been affected very badly and adversely, cannot be avoided. There are some important points which may explain the areas related to interest and its impacts of changes.

Banks and Interest Rate- In India, the banks and interest rates are regulated by a central regulatory body known as Reserve Bank of India. This is the main body which takes decisions regarding the fixation of interest rate in the country. Banking is the main area where the degree of impacts due to changes in interest rate is very high and this sector faces higher volatility and uncertainty. Due to this change, the bank faces so many problems and always adjusts their lending rates with RBI guidelines. This change in lending rates causes many problems for borrowers. Their monthly budget gets disturb and they have plan accordingly. In banks' perspective, it is very hectic to match RBI interest rate regulation frequently and this causes to banks extra burden of work. A lot of calculation is made to get accurate figures.

Interest Rate and Price Level Change- Interest rate can be understood or assumed as a portion of money or capital borrowed from the lenders. At which rate this portion is charged is called interest rate. Thereafter assuming a fixed amount of money in the economy, when price level increases, the real income will decrease and the extra amount of money will be required. To meet the extra demand and to match the requirements, one has to borrow the money to maintain real income. Because there is a fixed amount of money in the economy, the demand for money will be more than supply. So in this way, the increase in price level increases the demand of money and also the price of it which is the rate of interest. When there is a demand of money, the price of it or rate of interest would be high and that would lead to an adverse impact on overall cost of production.

Interest Rate and Inflation-As it is well known that the entire financial and banking system is based on interest so any change in interest rate deliberately will affect the financial market mainly the money market. It means if there is any increase in interest rate, it will have adverse impact on overall cost of production because borrowed capital becomes more expensive. On the other hand as interest rate drops, consumers' spending increases and subsequently it will stimulate economic growth. In general, it is assumed that excessive economic growth can be detrimental and may hamper the economy deliberately. At a point where economy is growing so fast, can experience hyperinflation, resulting higher cost and price of goods and services. Generally it is seen that in most of the cases when financial requirements arises out of the pocket, these requirements are fulfilled by that capital which is arranged as loan. Most of the investments and expansion plans may be accomplished with the help of a good capital structure that comprises debt also. Business houses basically borrow fund to meet out their capital expenditures such as factory establishment, plant & machinery acquisition, technological developments etc. Sometimes the debt fund is also used for household requirements such as car, AC, furniture etc. The consumption basically depends on the purchasing power of the consumer and the purchasing power is very much affected by inflation and interest rate prevailing into the system. The rate of interest has direct impact on the final cost of production hence on consumption also.

Interest Rate and Employment-The fluctuation in interest rate is bad signal for employments and growth. This scenario can be understood with the help of some economic and monetary measures taken by the government. When interest rate is high, people prefer to deposit their money into banks instead of spending on durable goods or luxurious goods. Due to this tendency of the consumer, the demand for durable or luxurious goods tends to come down as well as slows down the growth and development plans of the business organizations. When people avoid the purchase of durable and luxurious goods, business firms face lower customers resulting reduction in overall revenue. That is the tough time for firms to manage its operations and activities properly because they are having a lack of fund. To manage and sustains its activities in crisis, they prefer the techniques of cost cutting hence reduces the manpower. That is how the interest rate system affects the production, growth and employments adversely. From different perspective when interest rates are very high, firms do not prefer to borrow due to high cost of capital as interest which is expensive for them. In this situation, the firms generally reject or postpone their expansion or developments plans and again the cost cutting policies are adopted. According to this policy, the employers tend to fire old employees or terminate the future plans of fresh hiring. Again the cruel effects of interest are appeared due to which, the people have to lose job opportunities even their jobs also. The rate of unemployment rises and the fear of social security and social sickness arise also. For any economy whether it is under-developed, developing or developed, it is very important to have an adequate growth and employment rate to that social demand should be matched. Employment is very crucial for the sustainable development and for a civilized society as well.

IX. HOW TO REDUCE THE DEPENDENCY ON INTEREST BASED BANKING THROUGH ISLAMIC FINANCE CONCEPTS

There is a need to find and adopt such type of system which may reduces the dependency on interest culture and minimizes the impact of interest rate fluctuations on economy and its different sectors. This system should be of such type which comprises the features of a sound financial system and lesser dependency on other factors. There are some banking services out of interest baking's ambit which might be a perfect substitute for this.

- **Bai' al 'inah (sale and buyback agreement)-**Bai' al inah is a financing facility with the underlying buy and sell transactions between the financier and the customer.
- **Bai' bithaman ajil (deferred payment sale)-**Under this, the sale of goods is made on a deferred payment on the basis of predetermined price which includes a profit margin agreed to buy by both parties.
- **Mudarabah -** It is a special kind of partnership agreement where one partner gives money to other to invest in commercial enterprises. It is a profit sharing agreement/contract where one party provides 100 percent of the capital and other party provides its specialized knowledge and expertise to manage investment.
- **Bai' muajjal (credit sale) -** It is meant for credit sale. It is a financing method adopted by Islamic Banks in which banks earns profit margin on the purchasing price

and allows the buyer to pay the price of the commodity at a future date in lump sum or in instalments.

- **Istisna(Manufacturing Finance)**-It is a process where payments are made in stages to facilitate the manufacturing or processing or construction works.
- **Ijarah(Lease or Rent)-** It is like selling the benefits to use the assets.
- **Musharakah (joint venture) -** It is relationships between two or more than two parties where capital is contributed to a business and profit and loss is shared on pro rata basis.

There are so many other products or services which may be the alternative to interest based banking such as Qard hassan/ Qardul hassan (good loan/benevolent loan), Sukuk (Islamic bonds), Takaful (Islamic insurance), Wadiah (safekeeping), Wakalah (power of attorney) and many more.

X. INTEREST SYSTEM AND SOCIAL AND ECONOMIC EVILS

In general, it is felt by the people that interest based banking tortures the borrowers more than its benefits. There are so many cases where it can be seen that borrower had to suffer a lot due to loan taken from bank or from other lender under this system. The borrower had to lose his/her assets, relief in life and even his/her life due to this cruel system of interest. In 2008 when the major banks of USA collapsed and overall panic and uncertainty created, the curse of interest came out in full face and so many societies and economies criticized this system. There are some points which may describe the actual adverse effects of interest based banking.

- Ignorance of humanity and well being
- Induces the greed and selfishness
- Exploitation of poor and weak
- Negative impact on performance of small and individual business
- Capitalist control on Institutions, Resources, Production and National Income
- Improper circulation of wealth and income in society
- Barrier to social collective development
- Social instability

Here, the main concern is that on one side the Interest based banking sector providing many opportunities of funding and investing and on the other hand, it also is causing such dangerous effects to the economy as well as the society.

XI. TAX IMPLICATIONS ON INTEREST IN INDIA

As per Income Tax Act 1961, there are so many tax benefits in regard of interest payments. This act provides many opportunities to the taxpayer in context of interest paid on loan. If the terms and conditions are fulfilled, interest amount can be deducted up to a limit from income and tax liability can be reduced. There is a list of main sections which provide these opportunities for tax reduction-

- **Section 80E: Education loan interest**- Under this, payments of interest in respect of Education Loan for education in India or abroad is allowed as deduction.
- **Section 80TTA : Interest on Savings Account**- This allows the taxpayer to deduct the amount of interest (up to 10000) received from saving account in banks, post office or a co-operative society.
- **Section 24: Interest on housing loans-** For self occupied properties, interest paid on a housing loan up to Rs 150,000 per year is exempt from tax. This deduction is in addition to the deductions under sections 80C, 80CCF and 80D.

Apart from this the Income Tax Act 1961 allows on many occasions to get the tax benefits while having calculations of taxable income for a particular year.

XII. FINDINGS

There are some findings while doing this research work. These findings are grouped into points and explained below:

- Though the banking and financial institutions are contributing and nourishing to the development of the society but also generating a lot of obstacles due to which the society is suffering very much.
- On one side, it is funding the development and growth plans and on the other side, it is making such environment where borrowers are feeling unsafe, anxiety, depression at the same time.
- In current scenario, the banks and financial institutions are adopting such types of system of recovery which violates major of the norms of human rights.
- Due to restrict imposition of recovery policies, the borrowers are feeling themselves depressed unsafe.
- The suffocated environment to borrowers is making so many hurdles in the development or boom of banking and financial institutions mainly micro finance.
- The small and big loans have become curse to many families due to which the cases of death and suicide have been increasing day by day.
- The banking and financial institutions have a big impact on society. In each group of population, the funds are required and sought as a loan. But proper and equal distribution of funds is not found.
- This system has very traditional approach and practices for recovery of the loans as it includes the threatening practices, abusing and exploitation of the borrowers.
- The banking and financial system sometime has adverse impact on income, employment, prices and production in general.

XIII. DISCUSSION

The role and importance of banks and financial institutions cannot be avoided. Every section of the society wants to get such financial benefits which are offered by the bank time to time. Though banking is contributing and has been attractive place for the people to meet out their household and business needs and requirements but the more banks are given loans, the more they generating non-performing assets (NPA). The non performing assets (NPA) of banks are rising very fast and rapidly. As per the records, there is a shocking figure of NPA in Indian banks of Rs 2.06 trillion till August 2013. That is the main reasons why banks are so frustrated and restrict while recovering the loans.

The NPA induces the banks and financial institutions to recover their loans at any cost or anyhow. This system cannot be justified but amounts should be recovered with some leniency and dignity. Banks and financial institutions should consider the financial status of the borrowers at the time of granting loans and most important while recovery of the loans. In this process, it should be keep in mind that the human and values must be respected. No borrower cannot be tortured in the name of recovery and he or she cannot be humiliated or mishandled. Due to the humiliation and torture of the borrowers by the lenders, the borrowers are compelled and induced to choose the option of suicide. At least 17,368 Indian farmers killed themselves in 2009, the worst figure for farm suicides in six years, according to data of the National Crime Records Bureau. Suicide rates among Indian farmers were a chilling 47 per cent higher than they were for the rest of the population in 2011. In some of the State's worst hit by the agrarian crisis, they were well over 100 per cent higher. The new Census 2011 data reveal a shrinking farmer population.

If it is talked about the fortune and fate of the financial institutions and banking sector, there is a strong factor behind this and it is growing nature of the economy and developing society which will boost and induce the growth and development of this sector. But there are some factors also which developing gap between lenders and borrowers are. There is need of the time to develop such tools and techniques which may bridge the gap between lenders and borrowers. This system should be of such type which include the proper distribution of the fund into the society and unbiased practices while recovery of the loans. The exploitation of the borrowers must be stopped and adequate time should be provided to him/her. The concept of participative banking may be analyzed and adopted so that both parties may get equal or agreed benefits from it. The concept of Islamic Banking is most attractive in this regard where social values are important. As discussed above that bank are contributing on one hand and also misbalancing the social structure. Interest based banking has some adverse impacts on production, income, employments, prices, demand and supply,

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