Introduction to Banking

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Introduction

- Indian Banking System for the last two centuries has seen many developments. An indigenous banking system was being carried out by the businessmen called Sharoffs, Seths, Sahukars, Mahajans, Chettis, etc. since ancient time.
- They performed the usual functions of lending moneys to traders and craftsmen and sometimes placed funds at the disposal of kings for financing wars. The indigenous bankers could not, however, develop to any considerable extent the system of obtaining deposits from the public, which today is an important function of a bank.

Meaning of Bank

- A bank is **a financial institution licensed to receive deposits and make loans**. Banks may also provide financial services such as wealth management, currency exchange, and safe deposit boxes. There are several different kinds of banks including retail banks, commercial or corporate banks, and investment banks.

Definition

- According to the Banking Companies Act of 1949, Banking is defined as, accepting for the purpose of lending or investment of deposit money from the public, repayable on demand or otherwise and withdrawable by cheque draft, order or otherwise.
- It also defines Bank as an institution dealing in money and credit. It safeguards the savings of the public and gives loans and advances.

NEED

- Safeguard your Cash
- Facilitate financial transactions.
- Use Debit and Credit card services.
- Borrow Loans.
- Earn Interest. ETC.

Importance of Bank

- Banking plays an important role in the financial life of a business, and the importance of banks can be seen from the fact that they are considered to be the life-blood of the modern economy.

Although no wealth is created by banks, their essential activities facilitate the process of production, exchange and distribution of wealth.

- 1. Collections of Savings and Advancing Loans
  - Acceptance of deposit and advancing the loans is the basic function of commercial banks. On this function, all other functions depend accordingly. Bank operates different types of accounts for its customers.
- 2. Money Transfer
  - Banks have facilitated the making of payments from one place or persons to another by means of

cheques, bill of exchange and drafts, instead of cash. Payment through cheques, the draft is more safe and convenient, especially in case of huge payments, this facility is a great help for traders and businessmen. It really enhances the importance of banks for the business community.

- 3. Encourages Savings
  - Banks perform an invaluable service by encouraging savings among the people. They induce them to save for profitable investment for themselves and for the national interest. These savings help in capital formation.
- 4. Transfer Savings into Investment

- Bank transfer the savings collected from the people into investment and thus increase the amount of effective capital, which helps the process of economic growth.

- 5. Overdraft Facilities
  - The banks allow the overdraft facilities to their trusted customers and thus help them in overcoming temporary financial difficulties.

- 6. Discounting Bill of Exchange
  - The importance of banks can be seen through the facility of discounting the bill of exchange. Banks discount their bill of exchange of consumers and help them in financial difficulties. By discounting a bill

of exchange, they able to get the desired amount for the investment they want.

- 7. Financing Internal & External Trade
  - Banks help merchants and traders in financing internal and external trade by discounting a foreign bill of exchange, issuing of letters of credit and other guarantees for their customers.
- 8. Act as an Agent
  - The bank act as an agent and help their customers in the purchase and sales of shares, provision of lockers payment of monthly and dividends on the stock.
- 9. Issue of Traveler's Cheques
  - For the convenience and security of money for travelers and tourists, the bank provides the facility of traveler's cheques. These cheques enable travelers and

tourists to meet their expenses during their journey, as these are accepted by issuing bankers, restaurants, and other businessmen both at home and abroad. No doubt, this is also one of the great functions of banks and shows the importance of banks for us in more precise ways.

- 10. General Utility Services
  - The existence of commercial banks is essential for contribution to general prosperity. Banks are the main factors in raising the level of economic development of the world. In addition to the above-cited advantages, banks also provide many services of general utilities to the customers and the general public.

History of Bank

- The banking sector was developed during the British era. British East India Company established three banks,
  - 1. Bank of Bengal – 1809
  - 2. Bank of Bombay – 1840
  - 3. Bank of Madras – 1843
- These three banks were later amalgamated and called Imperial Bank, which was taken over by SBI in 1955.
- The Reserve Bank of India was established in 1935, followed by the Punjab National Bank, Bank of India, Canara Bank and Indian Bank. In 1969, 14 major banks were nationalized and in 1980, 6 major private sector banks were taken over by the government.
- Indian banking system, over the years, has gone through various phases. For ease of

study and understanding, it can be broken into four phases:- • 1. Early Phase:

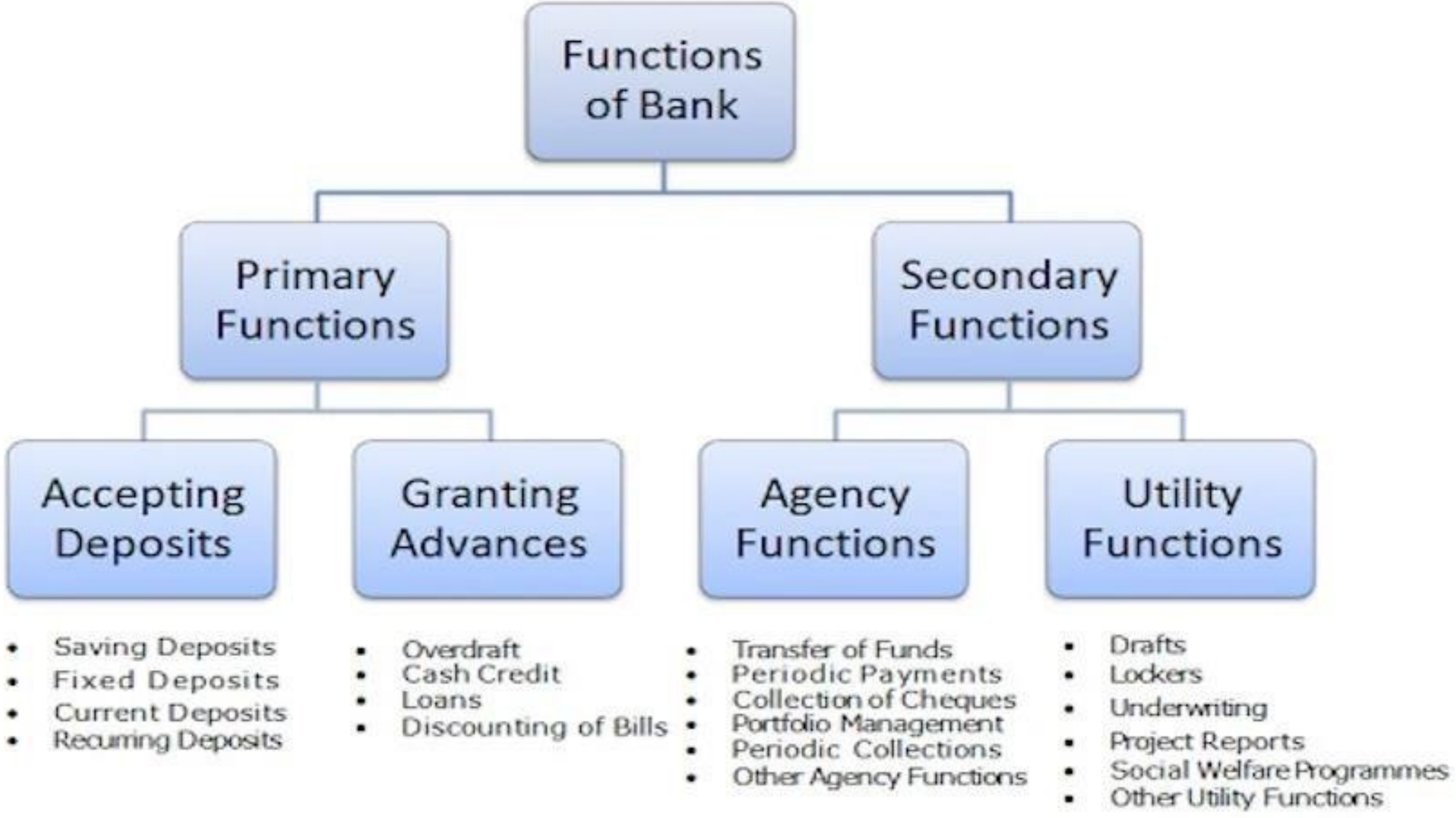
- 2. Pre Nationalisation Phase:
- 3. Post Nationalisation Phase:
- 4. Modern Phase:
- **1. Early Phase:** During the first phase, the growth was very slow and banks experienced periodic failures during the Early Phase between. There were approximately 1100 banks, mostly small which failed in the early phase.
- **2. Pre Nationalisation Phase:** Breakthrough happened in this phase, was Reserve Bank of India. Reserve Bank of India (RBI) was created with the central task of maintaining monetary stability in India. This phase of Indian banking was eventful and was a

phase of restructuring, regulation. However, despite these provisions, control and regulations, banks in India except the State Bank of India, continued to be owned and operated by private persons

- **3. Post Nationalisation Phase:** This phase of Indian banking not so happening for entry of new banks. Undoubtedly, it was a phase of expansion, consolidation and increment in many ways. The banking sector grew at a phenomenal rate, fruits of nationalization were evident, and the common man was now banking with great trust.
- **4. Modern Phase:** This is the phase of "New Generation" tech-savvy banks. This phase can be called as "The Reforms Phase". Currently, banking in India is generally fairly mature in terms of supply, product range and reach-even though reach in

rural India still remains a challenge for the private sector and foreign banks.

Functions of Bank



Primary Functions
(Banking Function)

- Accepting Deposits
  - All banks primarily accept deposits from general public and businesses as we know, however, there are various types of deposits in which form of the banks gather funds from the public or entities.

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- **Saving or demand deposits:** The saving deposits also known as demand deposits are the popular and simplest form of deposits encourages savings. It offers a nominal interest rate and guarantees on-demand payment whenever the customers ask. However, there is a standard of minimum account balance which has to be fulfilled.

- **Fixed or Time deposits:** The fixed deposits also known as time/ term deposits refers to a deposit of specific amount for the stipulated period of time at a predetermined rate of interest. The depositor can't withdraw his funds till the completion of the maturity period.

- **Recurring Deposits:** The recurring deposits (RD) are a special account in which the depositor has to deposit money at regular intervals such as monthly, quarterly or weekly for a stipulated time period. The main features of the RD account are that it offers fixed interest rate same as fixed deposits.

- **Current Deposits:** The current deposits/ account are typically used by companies/ firms to facilitate business transactions. In the current account, there are no limitations on the number of transactions performed by the business firms, however, such deposits don't provide any rate of interest as well. The current accounts are frequently used by the businesses for receiving and doing payments among various parties.

- **Avail Loan & Advances:**
  - The funds collected from the depositors through a different form of deposits are allocated among various businesses and individuals in form of loans/ advances. The banks charge a comparatively higher rate of interest on loans/ advances. The banks typically

offer the following types of loans or advances to the business enterprises or public.

- **Cash Credit (CC) Facility:** The banks provide cash credit facilities to the businesses against collateral such as tangible assets, inventory or machinery etc. Cash credit (CC) is a short term loan offered by the banks and the interest is charged on excessive/ surplus withdrawal of funds on monthly basis over a certain limit. The CC loans are generally provided to the customers of banks, however, it sometimes offered to non-customers as well in certain scenarios.
- **Overdraft Facilities (OD):** The Bank provides overdraft (OD) facility to their current account holders against security. Overdraft account provides the facility of withdrawal of extra funds but up to granted limit and interest payable on such surplus withdrawal of money.

- **Bill/ Invoice Discounting:** The banks also provide short term advances to the businesses/ firms in form of Bill discounting. The bill/ invoice discounting is nothing but an advance against the company's receivable (due payments) before the maturity date. In simple words, the companies keep their invoices as collateral with the banks to get money less than the actual value of bills. The amount granted by the banks generally depends on the maturity period of bills and creditworthiness of the buyers.
- **Loans:** The banks also provide medium and long term loans to individuals which can be secured or unsecured. Some examples of secured loans are home loan, vehicle loan, gold loan etc whereas an example of unsecured loan is personal loans which are typically provided on the higher interest rate. The duration of such loans is predetermined repayment can be done in monthly installments.

2) Secondary Functions of Bank:

- In addition to primary functions, banks also perform other important functions on the behalf of their customers as well as government entities called secondary functions of banks. It can be classified into two parts.
  - Agency Functions
  - Utility Functions

Agency Functions of Banks:

- **Periodic Payments:** The banks do periodic payment such as electricity bills, water bills, insurance premium, monthly instalments, school fees etc on behalf of their customers. Such regular payment is debited at a fixed date from the customer's account automatically to reduce the burden of the customers.
- **Periodic Collection:** The banks also receive periodic payments on behalf of their clients such as public entities, corporations or businesses. The banks play a vital role in the collection of payment from huge audiences. For instance salary, pension, collection of fees or security deposit for government entities etc.
- **Fund Transfer:** The banks facilitate the transfer of funds from one person/ party to another person/ party

and from one city to another city using NEFT, RTGS, IMPS etc.

- **Cheques Negotiation:** The banks act as a clearinghouse agent between two parties for the clearance of the cheque. These days cheque's payment is preferred, safe mode of payment among businesses. Hence cheque negotiation is one of the major functions of banks.

- **Portfolio Management:** The banks also facilitate stock market investments and trading through portfolio management. The money is debited and credited directly in the customer's account while trading in the stock market. Thus banks help individuals to build their portfolio by purchasing stocks, debentures, mutual funds or other securities.

- **Advisory Services:** The banks sometimes act as trustee, advisor or representative for their high profile clients. Such services are typically provided by banks in case of foreign deals or other high-value affairs.

Utility Functions of bank:

- Issuance of Bankers Cheque, demand drafts, letter of credit, bank guarantee to facilitate the businesses as well as the public.
- Bank provide **locker services** for valuable property/ documents of the customers.
- Sometimes banks provide **underwriting services** on behalf of their customers for the purpose of fundraising from the public through its merchant banking dividend.
- The banks also **deal with foreign exchange** to facilitate cross border transactions during international trade.
- **Public welfare programs:** The banks also help in the implementation of various government schemes and participate in different social activities, literacy and awareness campaigns.
- **Other Utility Functions:** The banks help you to pay electricity bills, receiving the gas subsidy, house taxes, insurance premium, KCC loans, pension and AEPS (Aadhar Enabled Payment Service) withdrawal in remote areas.

Relationship between Banker and Customer

- General Relationship
  - Debtors and Creditors ◦ Creditors and Debtors
  - Agent and Principal
  - Trustee and Beneficiary
  - Pledger and Pledgee ◦ Bailor and Bailee.
  - Advisor and Client.
- Special Relationship
  - **Rights**
    - ***Right of General Lien:***
    - ***Right of set-off or banker's right to combine account:***
    - ***Banker's right to charge compound interest:***

- ***Banker's right to charge incidental charges:***
- ***Banker's obligation and rights when a customer's account is attached by a garnishee order:***

◦ **Obligations**

- ***Banker's obligation to honour his customer's cheques:***
- ***Banker's obligation to maintain the secrecy of the customer's account:***

General Relationship

- The primary general relationship arises from a contract between the two i.e. banker and a customer. So it is a contractual relationship. It is governed by the various terms of agreement between the two parties.

1. Debtors and Creditors

- When a customer opens an account with a bank or he enters into a agreement or contract with the banker then enters into a relationship.
- When customer deposits money in his account banker becomes the debtor of the customer becomes a creditor.

2. Creditors and Debtors.

- Lending money is the primary activity of a banker. The resources mobilized by banks are utilized for lending operations. A customer who barrows money from the bank from a bank owes money to the bank.

- Agent and Principal
  - An agent is a person who acts for and on behalf half principal. The bank collects cheques, bills and make a payment to various authorities. Ex. Rent, Telephone Bills, LIC Premium subscriptions etc.

- Trustee and Beneficiary
  - A trustee is an entity that takes care of assets and performs certain functions for the gain or benefits of another person as a beneficiary.
  - When customer gives certain standing instructions to the banker about the usage of certain funds , banker becomes the trustee and the customer becomes beneficiary.
- Pledger and Pledgee
  - The relationship between customer and banker can be that of pledger and pledgee. This happens when a customer pledges (promises)

certain assets and securities with the banker to get a loan.

  - In this case the customer becomes pledger and the banker becomes pledgee. Under this agreement, assets or securities will remain with the banker until the customer repays the loan.

- Bailee and Bailor
- When a banker accepts valuable and documents from a customer for safe custody, he becomes a bailee and the customer become a bailor.
- As a bailee, the banker owes some duties and liabilities to the customer. They are:
  - He is required to safeguard the safe-custody deposits of the customer in his hands with reasonable care.

- If he fails to take reasonable care in the preservation of the safe-custody deposits, and the customer suffers a losses a consequence, so banker will be liable to compensate the customer.
- He is required to hand over the safe-custody deposit to the depositor whenever he demands them back.

- Advisor and Client
  - The banker acts as an advisor when a customer invests in securities. While giving advice the banker has to take maximum care and caution. Here, the banker becomes an advisor and customer becomes client.

Special Relationship

- ***Right of General Lien:***

- Lien is the right of one person to retain the property, in his possession, belonging to another, until the debt due from the owner of the property is repaid.
- ***Right of set-off or banker's right to combine account:***
- A banker's right to set-off refers to the right of a banker to adjust the amount due to him from a customer on one account against the amount due from him to the customer on another account. In short, it is the right of a banker to combine or adjust the debit and credit balances of two or more similar account held by a customer in the same capacity.

- ***Banker's right to charge compound interest:***
  - When a banker grants an advance to a customer, he becomes the creditor of the customer. When he is the

creditor of the customer, the banker has an implied right to charge interest on the customer by virtue of banking customs..

- ***Banker's right to charge incidental charges:***
- Incidental charges may take the form of services charges, ledger folio charges, processing charges, appraisal charges, handling charges, penalty charges, stop payment charges etc.

- ***Banker's obligation and rights when a customer's account is attached by a garnishee order:***
  - When a debtor fails to pay the amount due from him to his creditors and when the creditor knows that some money is due to his debtor from

another party, he may apply to the court for the issue of a garnishee order on the debtor of his debtor attaching the amount due from him to his debtor and directing him to pay the same to the judgment creditor.

Obligations of a Banker

- The obligation of bankers to honor cheques.
- The obligation of bankers to maintain secrecy.
- The obligation of bankers is to maintain proper records.
- The obligation of bankers to follow customer's instructions.

- The obligation of bankers to give notice before closing the account.

The obligation of bankers to honor cheques.

- When a current account is opened by a banker in the name of a customer there is an obligation on the banker to honour the customer's cheque as long as there are sufficient funds available in the customer's account for meeting the cheques.
- The debts are repayable by the banker to the customer on demand as per contract entered into between them. So, whenever the customer demands the repayment of his deposits by issuing cheques, there is a contractual obligation on the

banker to honour his customer's cheques and repay his deposits.

Banker's obligation to maintain the secrecy of the customer's account:

- The banker should not disclose to any outsider the details concerning the customer's account such as the amounts deposited, cheque, the cheques issued. The overdraft, loan or any advance granted, the securities deposited by the customer against the advance etc.
- The relationship between a banker and a customer is confidential or private in character. If the private character of the relationship is revealed to any outsider, it may affect the reputation and the

business of the customer adversely. So an obligation is imposed on the banker to observe the secrecy of his customer's account.

Evolution of Banking in India

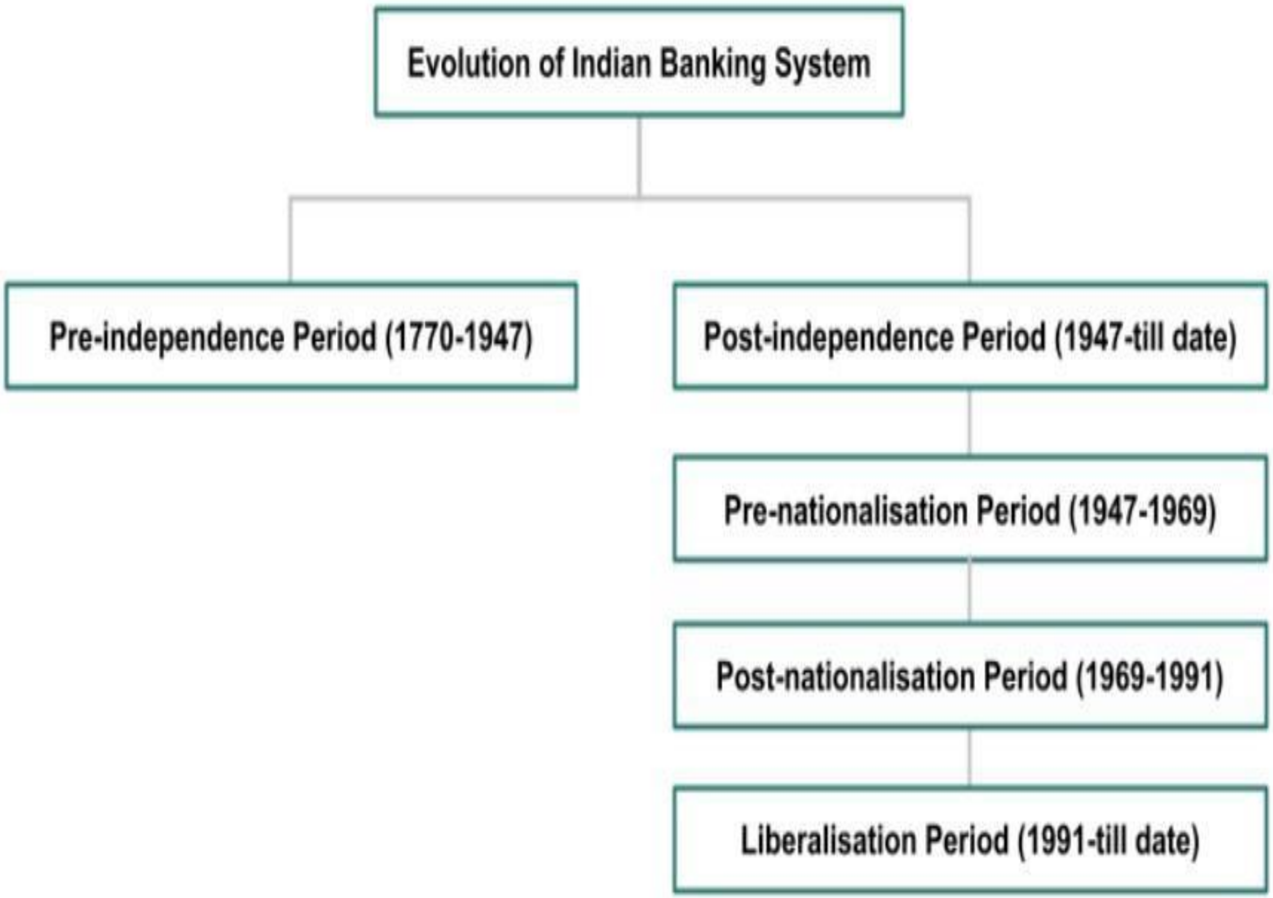
- The banking system of a country upholds its economic development. Considering the economic condition of people, the need for financial services, and the advancements in technology that followed, the Indian banking industry has gone through major transformations over the past five centuries.

1770	**Bank of Hindustan** The first Indian bank (1770-1832)
1786	**General Bank of India** (1786-1791)
1806	**Bank of Calcutta** Renamed to Bank of Bengal in 1809
1840	**Bank of Bombay**
1843	**Bank of Madras**
1881	**Oudh Commercial Bank** (1881-1958)
1921	**Imperial Bank of India** Presidential banks merged
1935	**Reserve Bank of India** (RBI)
1947	**India's Independence**
1949	**Nationalisation of RBI**
1955	**State Bank of India** (SBI) Imperial Bank of India was nationalised
1969	**Nationalisation of 14 Private Banks**
1980	**Nationalisation of 6 Private Banks**
1991	**Liberalisation of India**
1993	**Rise of 10 New-gen Tech-savvy Private Banks**
2016	**UPI and BHIM Launched**
2017-2020	**Major PSB Mergers**
2021	**Proposal for Full-Stack Digital Banks Licensing**

The history of banking in India can

be broadly classified as:

- Pre-independence Phase (1770-1947)
- Post-independence Phase (1947-till date): To understand this phase better, we'll break it down further into
  - Pre-nationalisation Phase (1947-1969)
  - Post-nationalisation Phase (1969-1991)
  - Liberalisation Phase (1991-till date)


Evolution of Indian Banking System
Pre-independence Period (1770-1947)
Post-independence Period (1947-till date)
Pre-nationalisation Period (1947-1969)
Post-nationalisation Period (1969-1991)
Liberalisation Period (1991-till date)

The Pre-independence Phase

(1770-1947)

- The organized banking sector in India dates back to more than a century before independence when the **Bank of Hindustan–the first bank of India** was established in 1770 in the then Indian capital, Calcutta. It failed in due course and was liquidated in 1832. Subsequently, several banks like General Bank of India (17861791), and the Oudh Commercial Bank (1881-1958) established during the preindependence era didn't last very long either. • The Bank of

Bengal, Bank of Bombay, and Bank of Madras established by the East India Company during the early to mid-1800s– together known as the **Presidential Banks** were later merged in 1921 to form the **Imperial Bank of India**. It was later nationalised in 1955 and named the **State Bank of India** (SBI). In 1959, the SBI was given charge of 7 subsidiary banks making it India's largest Public Sector Bank (PSB).

- During the First World War (1914-1918), till the end of the Second World War

(1939-1945), and until two years later until the independence of India, the banking system witnessed turbulent times leading to the collapse of a large number of banks.

The Post-independence Phase

(1947-1991)

- Post-independence, the evolution of the Indian banking system continued when the Government of India (GOI) adopted the approach of a mixed economy in 1948 with an extensive intervention into markets to strengthen the economy. The **Reserve Bank of India** (est. 1935) was nationalised in 1949 and it was empowered to regulate, control, and inspect the banks in India.

Nationalisation in 1969

- In the 1960s the RBI had become a large employer and the Indian banking industry had begun playing an important role in supporting economic development. Yet, except for SBI, most banks continued to be run by private entities.
- The Government of India issued the **Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969** and nationalized the 14 largest commercial banks at that time.

Nationalisation in 1980

- The second wave of Nationalisation followed in 1980 with 6 more commercial banks.

Liberalisation in 1991

- n 1991, the GOI adopted economic liberalisation that brought about a massive change in its economic policies to enhance the participation of private and international investments. The RBI approved 10 private banks:

Types of Banks in India

- There are different types of banks based on the functions they perform and the authorities they deal with. The classification of banks is into the following types:

- Central Bank
- Cooperative Banks
- Commercial Banks
- Regional Rural Banks (RRB)
- Local Area Banks (LAB)
- Specialized Banks
- Small Finance Banks
- Payments Banks

Central Bank

- Our country's central bank is the Reserve Bank of India. Each country has a central bank that oversees all of the country's other financial institutions.

- The central bank's principal role is to serve as the government's bank and to oversee and regulate the country's other banking institutions. The functions of a country's central bank are listed below:
    - assisting other financial institutions
    - Issuing money and enforcing monetary policies
    - The financial system's supervisor

- In other words, the country's central bank is also known as the banker's bank because it assists other banks in the country and runs the country's financial system under the supervision of the Government.

Cooperative Banks

- These banks are governed by a law enacted by the state government. They provide short-term loans to agriculture and related industries.
- Cooperative banks' principal purpose is to enhance social welfare by providing low-interest loans.
- They are arranged in a three-tiered system.
- State Cooperative Banks, Tier I (State Level) (regulated by RBI, State Govt, NABARD)
- The RBI, the government, and the National Bank for Agriculture and Rural Development

(NABARD) all contribute to the project's funding. After then, the money is allocated to the general population.

- These banks are subject to CRR and SLR concessions. (SLR: 25%, CRR: 3%)
- The state owns the company, and the senior management is chosen by the members.
- Central/District Cooperative Banks, Tier 2 (District Level)
- Tier 3 (Village Level) – Agriculture (Primary) Cooperative Banks

Commercial Banks

- The Banking Companies Act of 1956 established the company.
- They function on a commercial basis, with profit as their primary goal.
- They are owned by the government, state, or any private company and have a unified structure.
- They look after all sectors, from rural to urban.
- Unless the RBI directs otherwise, these banks do not charge concessional interest rates.

- These banks' primary source of funds is public deposits.
- Commercial banks are further classified into three types:
- Public sector banks are those in which the government or the country's central bank owns the majority of the stock.
- Banks in the private sector are those in which a private entity, an individual, or a group of people owns the majority of the stock.
- Foreign Banks – This category includes banks with headquarters in other nations and branches in the United States.

Regional Rural Banks (RRB)

- These are unique types of commercial banks that lend to agriculture and the rural economy at a reduced rate.
- **RRBs were founded in 1975** and are governed by the 1976 Regional Rural Bank Act.
- RRBs are 50/50 joint ventures between the federal government and state governments (15%), as well as a commercial bank (35 percent).
- Between 1987 and 2005, 196 RRBs were established.
- From 2005 forward, the government began merging RRBs, bringing the total number of RRBs to 82.
- A single RRB cannot open branches in more than three districts that are geographically connected.

Local Area Banks (LAB)

- In India, it was first introduced in 1996.
- The private sector organizes these.
- Local Area Banks' primary goal is to make a profit.
- Local Area Banks are governed by the 1956 Companies Act.
- There are now just four Local Area Banks in existence, all of which are located in South India.

Specialized Banks

- Certain banks exist just to serve a certain purpose. Specialized banks are the name for several types of financial institutions. These are some of them:
- SIDBI (Small Industries Development Bank of India) - SIDBI can provide a loan for a small-scale enterprise or business. With the support of this bank, small businesses can get current technology and equipment.
- Export and Import Bank (EXIM Bank) - EXIM Bank stands for Export and Import Bank. This type of bank can provide loans or other financial help to foreign countries that are exporting or importing goods.
- NABARD (National Bank for Agricultural and Rural Development) – People can resort to NABARD for any type of financial support for rural, handicraft, village, and agricultural development.
- Other specialist banks exist, each with a unique function to play in the financial development of the country.

Small Finance Banks

- This sort of bank, as the name implies, provides loans and financial help to micro industries, small farmers, and the unorganized sector of society. The country's central bank oversees these institutions.

Payments Banks

- The Reserve Bank of India conceptualized the payments bank, a newly developed form of banking. People who have a payment bank account can only deposit up to Rs.1,00,000/- and cannot apply for loans or credit cards through this account.

  Payment banks provide services such as internet banking, mobile banking, ATM card issuance, and debit card issuance.

  The following is a list of our country's few payment banks:
  - Airtel Payments Bank
  - India Post Payments Bank
  - Fino Payments Bank
  - Jio Payments Bank
  - Paytm Payments Bank
  - NSDL Payments Bank

Government Banks

- The public sector banks or PSBs are more commonly known as Government Banks. The government banks are not under the direct control of the government but the Government of India is the majority stakeholder in them i.e the GOI has more than 51% of the shares. There are 12 government banks in India or Public sector banks.

Changing Role of Commercial Banks

Changing Role of Banks in India, Since 1991

1. Better Customer Service
2. Mobile Banking
3. Bank on Wheels
4. Portfolio Management
5. Issue of Electro-Magnetic Cards
6. Universal Banking
7. Automated teller machine (ATM)
8. Internet Banking
9. Encouragement to Bank Amalgamation
10. Encouragement to Personal Loans
11. Marketing of Mutual Funds

1. Better Customer Service

- Before 1991, the overall service of banks in India was very poor. There were very long queues (lines) to receive payment for cheques and to deposit money. In those days, some bank staffs were very rude to their customers. However, all this changed remarkably after Indian economic reforms of 1991
- Banks in India have now become very customer and service focus. Their service has become quick, efficient and customer-friendly. This positive change is mostly due to rising competition from new private banks and initiation of Ombudsman Scheme by RBI.

2. Mobile Banking

- Under mobile banking service, customers can easily carry out major banking transactions by simply using their cell phones or mobiles.
- Here, first a customer needs to activate this service by contacting his bank. Generally, bank officer asks the customer to fill a simple form to register (authorize) his mobile number. After registration, this service is activated, and the customer is provided with a username and password. Using secret credentials and registered phone, customer can now comfortably and securely, find his bank balance, transfer money from his account to another, ask for a cheque book, stop payment of a cheque, etc.

3. Bank on Wheels

- The 'Bank on Wheels' scheme was introduced in the North-East Region of India. Under this scheme, banking services are made accessible to people staying in the far-flung (remote) areas of India. This scheme is a generous attempt to serve banking needs of rural India.

4. Portfolio Management

- Banks invest their clients' money in shares, debentures, fixed deposits, etc. They first enter a contract with their clients and charge them a fee for this service. Then they have the full power to invest or disinvest their clients' money. However, they have to give safety and profit to their clients.

5. Issue of Electro-Magnetic Cards

- Banks in India have already started issuing Electro-Magnetic Cards to their customers. These cards help to carry out cash-less transactions, make an online purchase, avail ATM facility, book a railway ticket, etc.

6. Universal Banking

- In India, the concept of universal banking has gained recognition after year 2000. The customers can get all banking and non-banking services under one roof. Universal bank is like a super store. It offers a wide range of services, including banking and other financial services like insurance, merchant banking, etc.

7. Automated Teller Machine

(ATM)

- There are many advantages of ATM. As a result, many banks have opened up ATM centres to offer convenience to their customers. Now banks are operating ATM centres not only in their branches but also at public places like airports, railway stations, hotels, etc. Some banks have joined together and agreed upon to set up common ATM centres all over India.

8. Internet Banking

- Internet banking is also called as an Ebanking or net banking. Here, the customer can do banking transactions through the medium of the internet or world wide web (WWW). The customer need not visit the bank's branch. Through this facility, the customer can easily inquiry about bank balance, transfer funds, request for a cheque book, etc. Most large banks offer this service to their tech-savvy customers.

9. Encouragement to Bank

Amalgamation

- Failure of banks is well-protected with the facility of amalgamation. So depositors need not worry about their deposits. When weaker banks are absorbed by stronger banks, it is called amalgamation of banks.

10. Encouragement to Personal

Loans

- Today, the purchasing power of Indian consumers has increased dramatically because banks give them easy personal loans. Generally, interest charged by the banks on such loans is very high. Interest is calculated on reducing balance. Large banks offer loans up to a huge amount like one crore. Some banks even organise Loan *Mela* (Fair) where a loan is sanctioned on the spot to deserving candidates after they submit proper documents.

11. Marketing of Mutual Funds

- A mutual fund collects money from many investors and invests the money in shares, bonds, short-term money market instruments, gold assets; etc. Mutual funds earn income by interest and dividend or both from its investments. It pays a dividend to subscribers. The rate of dividend fluctuates with the income on mutual fund investments. Now banks have started selling these funds in their own names. These funds are not insured like other bank deposits. There are different types of funds such as open-ended funds, closed-ended funds, growth funds, balanced funds, income funds, etc.

12. Social Banking

- The government uses the banking system to alleviate poverty and unemployment. Many social development programmes are initiated by the banks from time to time. The success of these programmes depends on financial support provided by the banks. Banks supply a lot of finance to farmers, artisans, scheduled castes (SC) and scheduled tribe (ST) families, unemployed youth and people living below the poverty line (BPL).

Origin & History Of The Reserve

Bank Of India

- 1926: The Royal Commission on Indian Currency and Finance recommended the creation of a central bank for India.
- 1927: A bill to give effect to the above recommendation was introduced in the Legislative Assembly. But it was later withdrawn due to lack of agreement among various sections of people.

- 1933: The White Paper on Indian Constitutional Reforms recommended the creation of a Reserve Bank. A fresh bill was introduced in the Legislative Assembly.
- 1934: The Bill was passed and received the Governor General's assent
- 1935: The Reserve Bank commenced operations as India's central bank on April 1 as a private shareholders' bank with a paid up capital of rupees five crores (rupees fifty million).

- 1942: The Reserve Bank ceased to be the currency issuing authority of Burma (now Myanmar).
- 1947: The Reserve Bank stopped acting as banker to the Government of Burma.
- 1948: The Reserve Bank stopped rendering central banking services to Pakistan.
- 1949: The Government of India nationalized the Reserve Bank under the Reserve Bank (Transfer of Public Ownership) Act, 1948.
- Currently, the Bank's Central Office, located at Mumbai, has twenty-seven

departments. (Box No.3) These departments frame policies in their respective work areas. They are headed by senior officers in the rank of Chief General Manager.

Important Functions of RBI

(Reserve Bank of India)

- Being a central bank of India, RBI serves a critical role in regulating the financial transactions in the country. Some of the important functions of RBI are listed below:

1. Issue of Bank Notes
2. Banker to the Government
3. Custodian of the Cash Reserves of Commercial Banks
4. Custodian of country's forex reserves
5. Lender of last resort
6. Controller of credit

The Issuer of Bank Notes

- The most important function of RBI is the issuance of currency notes and coins, except the one rupee note and coin which are issued by the Ministry of Finance. All other notes bear the signature of the RBI Governor. However, the agency of distribution of all notes and coins issued by the Government of India is the Reserve Bank of India.

Banker to the Government

- Another chief function of RBI is that it takes care of the banking needs of the government, which includes maintaining & operating the deposit accounts of the government, collecting the receipts of funds, and making payments on behalf of the Government of India. It also represents the Indian Government, as a member of the International Monetary Fund and the World Bank.

Custodian of Cash Reserves of

Commercial Banks

- Commercial banks are required to maintain the cash reserves at a rate decided by the RBI in its monetary policy.

Custodian of Foreign Exchange

Reserve

- Another of the important functions of RBI is maintaining a reserve of foreign currencies that enables the RBI to deal with any crisis situation.

Lender of the Last Resort

- Often regarded as the banker of banks, the RBI acts as a parent to all commercial banks in India. Thus, it becomes the lender of the last resort for all banks when they are in a crisis situation. RBI helps them by lending money, although at higher RoI, to sail through the tide of financial difficulties.

Controller of Credit

- RBI controls the credit created by the commercial banks in India, in accordance with the economic priorities of the government of India.
- RBI uses quantitative and qualitative methods to control and regulate the flow of money in the market. These are implemented by announcing monetary policies at regular intervals. The monetary policy involves the management of interest rates and money supply. The central bank of India tweaks the money supply to achieve objectives such as liquidity, inflation, and consumption.

Thank You