

Chapter – 1 Indian Banking Industry

What is a Bank?

Bank is a lawful organization, which accepts deposits that can be withdrawn on demand. It also lends money to individuals and business houses that need it.

Functions of a bank:

Banks essentially perform the following functions:

1. Accepting deposits from public/others (Deposits)
2. Lending money to public (Loans)
3. Transferring money from one place to another (Remittances)
4. Credit creation
5. Acting as trustees
6. Keeping valuables in safe custody
7. Investment decisions and analysis
8. Government business
9. Other types of lending and transactions

Role of Banking:

Banks play a significant role the economy of a nation. So, let us know about the role of banking.

1. It encourages saving habits among people and thereby making funds available for productive use.
2. It acts as an intermediary between people having surplus money and those requiring money for various business activities.
3. It facilitates business transactions through receipts and payments by cheques instead of currency.
4. It provides loans and advances to businessman for short term and long term purposes.
5. It also facilitates import export transactions.
6. It helps in national development by providing credit to farmers, small-scale industries and self-employed people as well as to large business houses which lead to large business houses which lead to balanced economic development in the country.
7. It helps in raising the standard of living of people in general by providing loans for purchase of consumer durable goods, houses, automobiles etc.

History of banking in India

1. In India the beginning of banking system dates back to 1770 when Bank of Hindustan was established by Alexander & c. at Kolkata under European Management.
2. Later it was followed by setting up of three presidency banks Bank of Bengal (1806), Bank of Bombay (1840), Bank of Madras (1843).
3. The first bank with limited liability managed by an Indian board was oudh commercial bank, founded in 1881.
4. The first purely Indian bank was the Punjab national bank established in the year 1894.

Types of banks

There are various types of banks which operate in our country to meet the financial requirements of different categories of people engaged in agriculture, business, profession, etc. on the basis of functions in India may be divided into the following types.

a) Central bank

b) Commercial bank

- i) Public sector banks**
- ii) Private sector banks**
- iii) Foreign banks**

c) Development banks

d) Co-operative banks

- i) Primary Agricultural societies**
- ii) Central co-operative banks**
- iii) State co-operative banks**

e) Specialised banks

Functions of commercial banks

There are two types of functions performed by commercial banks.

Primary functions (banking functions)

Secondary functions (Agency functions)

Primary Functions

The primary functions of a commercial bank include-

Accepting deposits

Grant of loans and advances

Loans

Advances

Types of advances

Cash credit

Overdraft

Discounting of bills

Mathematical explanation of Advances

Secondary functions:

The secondary functions are as follows:-

1. Issuing letter of credit, traveller's cheque etc.
2. Undertaking safe custody of valuables, important document and securities by providing safe deposit vaults or lockers.
3. Providing customers with facilities of foreign exchange dealings.
4. Transferring money from one account to another and from one branch to another branch of the bank through cheque, pay order, demand draft.
5. Standing guarantee on behalf of its customer, for making payment for purchase of goods, machinery, vehicles etc.
6. Collecting and supplying business info.
7. Providing reports on the credit worthiness of customers.
8. Providing consumer finance for individuals by way of loans on easy terms for purchase of consumer durables like televisions, fridge etc.
9. Education loans to students at reasonable rate of interest for higher studies, especially for professional courses.

E-Banking (Electronic Banking)

1. ATMs
2. Debit Cards
3. Credit Cards
4. Net Banking
5. Phone Banking
6. Mobile Banking

Bank Deposit Accounts:

On the basis of purpose they serve bank deposit accounts may be classified as following types:-

1. Saving Bank Account
2. Current Deposit Account
3. Recurring Deposit Account
4. Fixed Deposit Account