

**SUBJECT: FINANCIAL LITERACY**  
**BANKING**

A bank is a financial institution/organization regulated by Banking regulation Act, 1949 under schedule II(A) which generally accepts deposits of surplus money from public and lends loans to the needy people.

Types of Banks: Different types of Banks are explained below:

1. Commercial Bank: These are regulated by Banking Regulation Act 1949 and mainly deals in accepting deposits and giving loans.
2. Cooperative Banks: These banks are set-up to fulfill the financial need of its members. The share capital of such banks is collected by issuing shares of its members.
3. Industrial Banks: These banks are established to provide financial help to industries. These banks mainly provide long term financial help to industrial units.
4. Foreign Exchange Banks: These banks mainly do the financial functions pertaining to foreign trade.
5. Agricultural or Land development Banks: These banks primarily extend financial help to farmers.
6. Central/ Reserve Bank: This bank is also called Bankers' bank, as it looks after the general administration and control of all the banks.

Functions of Commercial Bank: Functions of banks are mainly divided into two parts.

A. Primary Functions

B. Secondary Functions

Primary Functions: under primary functions banks performs functions as follows:

1. Collection of Deposits: Acceptance of deposits is the most important primary function of a commercial bank. Bank receives these deposits from individuals, firms, companies, government organizations, cooperative societies, charitable organizations and other institutions.

Bank deposits may be classified into the following categories:

a) Fixed deposits:

- Money is deposited for a fixed period
- The rate of interest varies according to the period of deposits and is usually higher than that of other types of deposits.
- The principal amount is repayable after the expiry of the fixed period along with interest.
- Fixed deposit receipt is not transferable.

b) Recurring deposits:

- Money is deposited at regular intervals (generally every month) for a fixed period.
- The rate of interest varies according to the period of deposits and is usually higher than that of other types of deposits.

- The amount deposited along with the interest is repayable after the expiry of the fixed period.
- c) Saving Deposits:
- Money is deposited not for a fixed period but to avail banking facilities e.g. cheque book, ATM card, Credit card facility etc.
  - The rate of interest is lower than that of other deposits.
  - The balance of saving bank account is repayable on demand and withdrawable by cheque/draft/ ATM etc.
  - No restriction on number of deposits but restriction may be on number of withdrawals.
- d) Current Account Deposits:
- Money is deposited not for a fixed period but to avail banking facilities e.g. cheque book, ATM card, credit card, cash credit, bank overdraft, loans etc.
  - Generally no interest is paid but a small fee (bank charges) is charged by banks.
  - The balance of current account is repayable on demand or withdrawals by cheque/draft/ATM etc.
  - No restrictions on number of deposits/ withdrawals.
2. Granting of Loans: Lending of money is the second most important primary function of a commercial bank. Bank grants loans to individuals, firms, companies, government organizations, cooperative societies, charitable institutions etc.
- Lending of money may take the following forms:
- a) Overdrafts:
- It is a temporary arrangement by which the borrower is allowed to withdraw from the current account more than his credit balance up-to a sanctioned limit.
  - It is usually granted against some collateral security.
  - Interest is charged only on the amount overdrawn.
- b) Cash credit:
- It is a temporary arrangement by which the borrower is allowed to withdraw from his cash credit account up-to a sanctioned limit.
  - It is granted against the security of goods or personal security of one or more persons other than the principal borrower.
  - Interest is charged only on the amount actually used.
  - To avail the facility of cash credit current account need not be in existence.
  - It is used for short term financial purposes.
- c) Loans and Advances:
- Loans are granted against security.
  - The amount of loan is paid to the borrower either in cash or by way of transfers to his current account and saving bank account.
  - Interest is charged on the entire amount of loan sanctioned from the date of release of loan till the time of repayment irrespective of the amount of loan withdrawn.
- d) Discounting of bills of exchange:

- It is a facility under which the bank credits the amount of the bill after deducting discounting charges.
- Discounting charges represent the interest on the amount of bill from the date of discounting to the date of maturity of the bill.
- At the date of maturity, the presents the bill to the acceptor for payment, if the acceptor doesn't make payment, the bank recovers the amount of the bill along-with the incidental charges from the customer who got the bill discounted.

## Functions of Bank:

### B. Secondary Functions: ↓

The bank performs a number of secondary functions, also called as non-banking functions. Important secondary functions of banks are explained below:

#### 1. Agency Functions

The bank acts as an agent of its customers. The bank performs a number of agency functions which includes:-

- a) Collection of cheques.
- b) Payment of insurance premium, interest on loan, instalment of loan etc.
- c) Remitting money from one place to another.

#### 2. General Utility Function

In addition to agency services, the bank also performs various services of general utility to the public and customers. The general utility services include the following:

- a) Issue of Bank draft, letter of credit etc.
- b) Locker facility to keep valuables.
- c) Accepting telephone bills, electricity bills etc.
- d) Credit card and Debit card(ATM card) facility.
- e) Internet Banking and Phone Banking.
- f) Electronic fund transfer system(ex- Transfer of salaries of employees to employees' account)

**Nomination Facility:**It is the facility available to the account holder to name an individual to receive the proceeds of the account with minimum documentation after the death of all the account holders.

#### Role of a Nominee:

In all types of account except Demate account, the nominee has the right to receive the amount held in the deposit and is not the owner of the amount. Nominee becomes the owner of the securities in the Demate Account.

#### Role of a Nominee in case of a Joint Deposit Account:

In case of a Joint Deposit Account, the Nominee's right arises only after the death of all the account holders.

## Some important terms used in Banking:

### Demand Drafts:

Bank drafts are known as demand drafts, as they are always payable on demand without any days of grace. These are always payable to a certain payee named in the draft or to his order. Banks charge a nominal commission for this service.

### Banker's Cheque:

A Banker's cheque is a cheque issued by the Bank payable to the order of specified payee for payment within a local area.

**Internet Banking:**

This gives to the customers any time access to their banks. They can check their account details, get their bank statement, perform transactions and pay their bills sitting at home and offices.

**Electronic Fund Transfer System:**

EFT system enables employers to transfer salaries or wages directly from the company's bank account to the employee's bank account.

**Real Time Gross Settlement (RTGS):**

RTGS is a system where funds are transferred through e-banking, using internet facility. In this system the funds are transferred from one bank to another on Real Time and on Gross Basis. The 'Real Time' means that the transactions is processed as soon as the instructions are received, and 'Gross Basis' means that the transaction is settled on one amount for an RTGS transaction is Rs. 2, 00,000.

**National Electronic Fund Transfer (NEFT):**

NEFT is a mode of transferring fund from one bank to either other branch of the same bank or to the another bank through e-banking, using internet facility. In NEFT settlement of transactions processed are done on regular intervals. On week days transactions are settled at 9:30; 10:30; 12:00; 13:00; 15:30 and 16:00 hours and on Saturday the last transfer is at 13:00 hours. No transfer takes place on Sunday. There is no minimum amount for NEFT transaction.

**Automated Teller Machines (ATM):**

ATMs are the computerized telecommunication devise which enable the user to withdraw cash, deposit cheques, find balance in the account, transfer funds to the other account or request for a mini bank statements. There are two primary types of ATMs. The basic unit allow the customer to only withdraw cash and receive a report of the account's balance. The more complex machine will accept deposits, facilitate credit card payments and report account information.

**Debit Card:**

It is a plastic card issued by a bank to the account holder. A debit card holder can make payment at the shops which have point of Sale terminals. On presentation of the debit card the terminal automatically transfers money from the customer's account to the seller's account. A debit card holder can pay up-to the amount of balance in their account with debit card issuing bank.