

Basics of Banking

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BANKING AWARENESS

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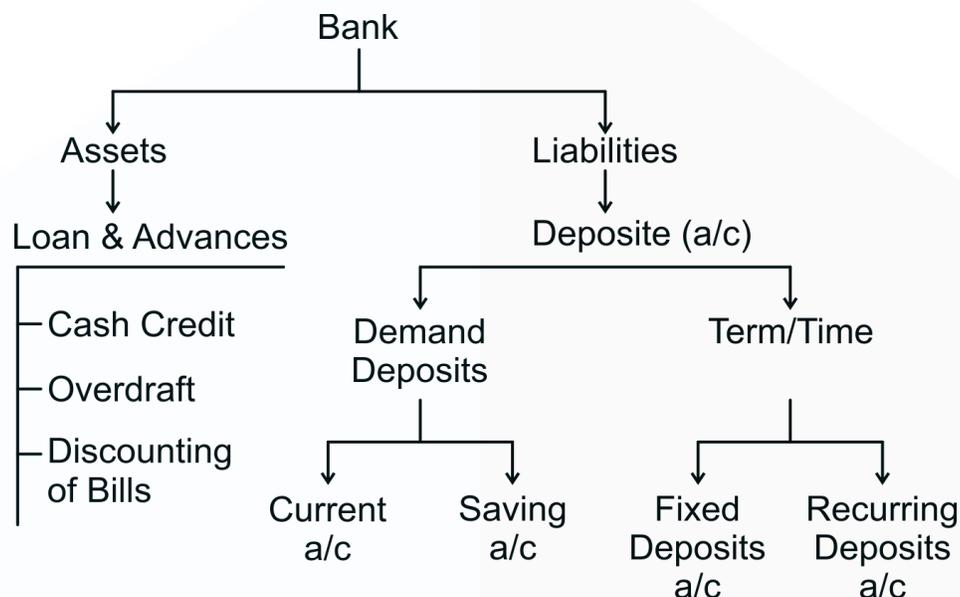
Well, you might have learnt in history about how people used to store their money or other valuable things when banks were not existing. Although, as the time changed, we have got introduced to banks and its various facilities. Today, banks not only keep your hard earned money safe but it also provides you with various other services and facilities that can enhance your financial planning.

Definition

Bank: When it comes to its definition, we can define it as a financial institution that is capable of receiving deposits and providing loan facilities to the eligible customers.

- Banks may also provide other important services such as wealth management, currency exchange and safe deposit.
- There are two types of banks:
 1. commercial and retail banks
 2. investment banks.
- In most of the countries around the globe; banks are generally regulated by either the **central government or central bank**. For example, The **Reserve Bank of India** reserves the rights to regulate all the retail banks of India.

Bank and Its Other Functionality



Definition

Functions of Banking: The functions of banking represent its fundamental facilities which are offered to its customers.

Points to Remember

- The central bank is entitled to deal with all the functions of the commercial banking and thus, an individual customer is not eligible to have an account in the central bank.
- The Reserve Bank of India is also entitled to look into currency notes while the commercial bank is entitled to provide currency exchange.

Bank's Assets—Loans and Advances

The bank assets help the bank to grow its business in the market.

- Banks are entitled to provide short-term advances to account holders so that they can fulfill their short-term requirement.
- But on the other hand, **a loan** is a kind of debt that is generally provided to the eligible account holders for their long-term requirements.
- While advances generally come under credit facilities, a loan is offered for large scale planning and thus, can be repaid within particular tenure.

Cash Credit

A Cash Credit (CC) is a short-term source of financing for a company. In other words, a cash credit is a short-term loan extended to a company by a bank.

Overdraft

An overdraft facility is a credit agreement made with a bank that allows an account holder to use or withdraw more money than what they have in their account up to the approved limit.

Discounting of Bills

- Discounting bills of exchange is another type of lending by the modern banks.
- Bill Discounting is a discount/fee which a bank takes from a seller to release funds before the credit period ends.
- Discounting bills refers to a facility in which the holder of a bill of exchange can get the bill discounted with the bank before maturity.

Introduction to the ATMs

The ATMs in India come under National Financial Switch which connects a total of 2,36,199 throughout India.

- The **first ATM** of India was set up in **1987** by **HSBC Bank in Mumbai**.
- **After the collapse of Swadhan,**
 - Bank of India, Union Bank of India, Indian Bank, United Bank of India and Syndicate Bank formed an ATM-sharing network called **CashTree**.
 - Citibank, the Industrial Development Bank of India, Standard Chartered Bank and Axis Bank formed a similar network called **Cashnet**.
 - Punjab National Bank and Canara Bank also created such networks.
- **NFS** which is the **largest domestic ATM network in the country** member banks has been in the forefront in providing inter bank ATM services to maximum customers. Initially, the following basic transactions were available in the NFS network
 - 1) Cash Withdrawal
 - 2) Balance Enquiry
 - 3) PIN Change
 - 4) Mini Statement

IndiCash

- Tata Communications Payment Solutions Ltd. (**TCPSL**), a subsidiary of Tata Communications, had rolled out the first-ever white label **Automated Teller Machines** (ATMs) network under the **brand Indicash**.
- The **first Indicash ATM** was inaugurated at **Chandrapada**, a rural village in Thane district.
- Nearly 67 per cent of the ATMs were deployed in semi-urban and rural areas, and the balance in metro and urban markets.
- Indicash is the **largest White Label ATM Operator in the country** and the **second largest in semi-urban and rural geographies**.

- Driven by the Tata's ethos of empowering masses, Indicash through its extensive network of ATMs is spearheading cash accessibility to the remotest part of the country.
- The white-label ATM has added some value-added services to its customers through which a customer can avail a card to card-fund transfer, cheque request and account's statement.
- In the first phase, these additional services were offered at over 1,600 Indicash ATMs located in tier one cities such as Mumbai, Delhi, Chennai, Hyderabad, Lucknow, Pune, Jaipur, Kolkata, Bangalore, Kochi.

White Label ATM

- White Label ATMs do not have a label of any bank.
- Here, there are three inherent parties:
 - 1) the non-bank corporate entity like **TCPS**
 - 2) authorized ATM network operators/card payment network operators like **RuPay, Visa or MasterCard**
 - 3) a **sponsor bank for cash management**, funds settlement as well as customer grievance redressal.

The Floating ATM

- The **State Bank of India** launched the floating ATM in Kerala.
- The ATM was **inaugurated by Ashok Kini**, Deputy Managing Director (IT), SBI, Corporate Centre, Mumbai.
- It has been installed on a **Jhankar** (*ferry which transports vehicles and passengers*) plying between Ernakulam and Vypeen, one of the most densely populated areas in Asia.
- The ATM will cater to the needs of the travelling public in Ernakulam and has been **supplied by NCR corporation** while **connectivity** has been established by **Reliance Infocomm using CDMA** (code division multiple access) technology.
- The bank has **recently set up an ATM at Leh**, about 16,000 feet above sea level, **for the benefit of army personnel**.

Bank's Liabilities – Deposits

Demand Deposit

Basis of Difference	Current Account	Savings Account
Purpose	To perform huge numbers of Transaction	To promotes savings for the people who belong to a lower income group.
Ideal for	Businessmen	Salaried and lower income group
Minimum Balance	Generally higher amount	Lesser amount/ can also be created with zero balance
Interest	Not eligible for interest	Offers nominal interest
Overdraft	Eligible	Not eligible

Current Deposit and Current Account

- Current deposits are also called current accounts.
- Businessmen generally operate current accounts for carrying out their huge business transaction.
- A customer can open a current account by depositing the amount prescribed by a bank.

Salient features of Current Account

- Large firms and businessmen are eligible to have current accounts.
- Current bank accounts are **useful to run a business**.
- Unlike savings accounts, it **doesn't offer interest**.
- There is **no limit on the number of transactions and the amount of transactions** made through current accounts.
- One can avail **short term loan facility** on current account.
- The amount for **minimum balance** is generally **higher** as compared to savings accounts.

Savings Account

The savings accounts are utilized by salaried, middle-class or people who belonged to lower income groups.

Salient features of Savings Account

- An individual and the person with small business can opt for the savings accounts.
- The **main objective** of such bank accounts is **to promote savings**.
- A **nominal rate of interest** is offered to saving account holders. The rate varies from bank to bank.
- The amount for the **minimum balance** in a savings account **varies from bank to bank**. Generally, it's 500 rupees without a checkbook facility.
- However, these days, several Indian banks have started offering **Zero Balance Accounts** to the customers wherein they can avail debit card, net banking and certain numbers of free cash withdrawal.
- Certain banks like HDFC and ICICI offer **premium savings accounts** to their customers wherein they have to maintain the account with the **minimum balance of 5000 or 10000 rupees**.

Zero Balance Account

An individual can operate such an account without maintaining the minimum required balance. The provision of this type of saving account is made through **Pradhan Mantri Jana Dhan Yojna**.

Timed Deposit

Fixed deposit

Fixed deposit comes under time deposit.

- A person deposits a certain amount which can't be withdrawn before the date of its maturity.
- Fixed deposits yield some interest for the time it is deposited by a customer.
- It yields a **higher rate of interest as compared to savings accounts**.
- Fixed deposit has **lower liquidity as compared to savings and current accounts**.
- The **interest earned on such deposits is taxable**.

Exception

Although fixed deposits have lower liquidity, an investor can opt for **premature withdrawal** wherein he or she can withdraw the sum of money that he or she has invested in a fixed deposit before its maturity. It is generally done if he or she needs the funds on an immediate basis.

Salient features of Fixed Deposit

- One can opt for the fixed deposit for the **tenure of six days to ten years**.
- It can't be withdrawn on demand and does not enjoy cheque facility either.
- A person can deposit in fixed deposits only once. He or she has to **open another fixed deposit account to make another deposit**.
- Senior citizens can enjoy higher rates of interest ranging from 0.25 to 1 percent.
- Fixed deposit may consist of bulk deposits. The rate of interest for such deposits are higher.
- **Premature withdrawal** is subjected to **penalties** ranging from **0.5 to 1.5 percent**.
- The **interest income more than 10000 rupees is subjected to TDS**. (Tax deduction at Source).
- Fixed deposits are the safest kind of investment and offer more stability as compared to mutual funds as it is subjected to market risk.
- One can enjoy a higher rate of interest which is offered on company's fixed deposits.
- One can also opt for the periodic interest payout to manage your monthly expenses.

Reserved or Recurring Deposit

- In recurring deposits, customers remit a certain sum of money on monthly instalments for a period ranging from 6 months to 120 months on a uniform pattern.
- The entire amount along with interest is payable after the payment of the last installment.
- This type of deposit is much useful to the middle and low-income group of people.

- It works on the **principle of “little drops of water make a big ocean”**.

Salient features of Reserved Deposit

- In India, the **minimum amount** that can be deposited is **Rs.10** at regular intervals.
- The **period of deposit** is **minimum six months** and **maximum ten years**.

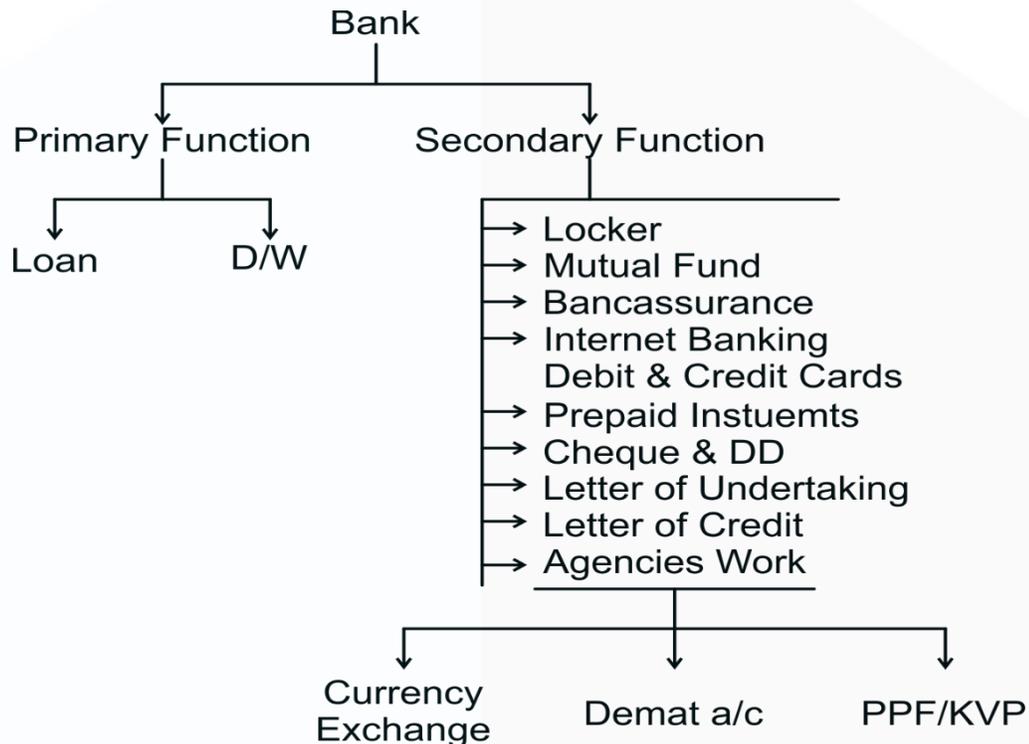
Exception

Minimum tenure varies from bank to banks. Some banks allow minimum tenure in RD for 3 months.

- **Minimum balance** can be deposited under RD is **500 per month** and **thereafter in multiples of Rs 100/-**

Criteria	Lending	Borrowing
Definition	It is the fund that is provided by the banks or other financial institutions to fulfill the particular objectives and purpose. It can be repaid after a short period of time.	The funds are considered borrowed when it is borrowed from another entity. It is repayable with some interest.
Purpose	The main objective of lending is to earn some interest income	The main objective of borrowing money is to use the fund for the purpose of constructions, medical expenditure and education
Main Objects	Apart from money, it can be done through other objects as well.	Even borrowing also includes other objects as well.

Primary and Secondary Functions of a Bank



Primary Functions of a Bank

Accepting deposits is the most important function of a commercial bank. The bank borrows money from the public by way of accepting different kinds of deposits. They are repayable on demand. Generally banks accept the following types of deposits:

- 1) Current Deposits.
- 2) Savings Deposits.
- 3) Fixed Deposits.
- 4) Recurring Deposits.

The brief of the above deposit is already given in the above sections of this study note.

Secondary Functions of a Bank

They Are Divided into Two Sections:

- 1) Agency Services
- 2) General Utility Services

Agency Services

Modern Banks render service to the individual or to the business institutions as an agent. Banks usually charge little commission for doing these services. These services are as follows:

- 1) **Remittance of Funds:** Banks help their customers in transferring funds from one place to another through cheques, drafts etc.
- 2) **Collection and Payment of Credit Instruments:** Banks collect and pay various credit instruments like cheques, bill of exchange, promissory notes etc.
- 3) **Purchasing and Sale of Securities:** Banks undertake purchase and sale of various securities like shares, stocks, bonds, debentures etc. on behalf of their customers. Banks neither give any advice to their customers, regarding this investment, nor levy any charge of them for their services, but simply perform the function of a broker.
- 4) **Income Tax Consultancy:** Sometimes bankers also employ income tax experts not only to prepare income tax returns for their customers but to help them to get refund of income tax in appropriate cases.
- 5) **Acting as Trustee and Executor:** Banks preserve the wills of their customers and execute them after their death.
- 6) **Acting as Representatives and Correspondent:** Sometimes the banks act as representatives and correspondents of their customers. They get passports, travelers tickets, secure passages for their customers and receive letters on their behalf.

General Utility Services

A modern bank nowadays serves its customers in many other ways:

- 1) **Locker Facility:** Banks provide locker facilities to their customers. The customers can keep their valuables and important documents in these lockers for safe custody.
- 2) **Traveler's Cheques:** Bank issue travelers cheques to help their customers to travel without the fear of theft or loss of money.
- 3) **Gift Cheque:** Some banks issue cheques of various denominators to be used on auspicious occasions. These are known as "gift cheques" as they are gifted to others.

- 4) **Letter of Credit:** Letter of credit are issued by the banks to their customers certifying their credit worthiness. Letter of credit is very useful in foreign trade.
- 5) **Foreign Exchange Business:** Banks also deal in the business of foreign currencies. Again, they may finance foreign trade by discounting foreign bills of exchange.
- 6) **Collection of Statistics:** Banks collect statistics giving important information relating to industry, trade and commerce, money and banking. They also publish journals and bulletins containing research articles on economic and financial matters.

List of Some Renowned Indian Banks

Interest Rate Offered to Senior Citizens and Regular Recurring Deposit Account Holders

Logo	Bank	Interest Offered to Senior Citizens	Interest Offered to a regular Account holder
	HDFC Bank	6.50 to 7.75%	6.25%-7.25%
	SBI Bank	7.20% -7.35%	6.70% -6.85%
	ICICI Bank	6.50%-7.75%	6.00%-7.25%
	Bandhan Bank	7.15%-7.85%	6.40%-7.10%
	Canara Bank	6.85%-7.50%	6.35%-7.00%

Interest on Fixed Deposits

Logo	Bank	General Interest rate	Interest Offered to Senior Citizens
	SBI Bank	5.00% to 6.80%	5.50% to 7.30%
	ICICI Bank	4.00% to 7.10%	4.50% to 7.60%
	HDFC Bank	3.50% to 7.30%	4.00% to 7.80%
	Axis Bank	3.50% to 7.20%	3.50% to 7.85%
	Bank Of India	5.00% to 6.50%	5.50% to 7.00%