

BCM-403
BANKING & INSURANCE

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UNIT-I BANKING



What is a Bank?

MEANING:

- Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system.
- **What is a Bank?**
- A bank is a **financial institution** which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

DEFINITION:

- Oxford **Dictionary** defines a bank as "an establishment for custody of money, which it pays out on customer's order."
- **Chamber's Twentieth century Dictionary** defines a bank as, "an institution for the keeping, lending and exchanging etc. of money".
- " **Prof. Kent** defines a bank as, "an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure."

DEFINITION:

Banking Regulation Act of India, 1949 defines Banking as “accepting, for the purpose of lending or of investment of deposits of money from the public, repayable on demand or otherwise or withdrawable by cheque, draft order or otherwise.” The Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949, govern the banking operations in India.

FEATURES/CHARACTERISTICS:

1. Dealing in Money:

Bank is a financial institution which deals with other people's money i.e. money given by depositors.

2. Individual / Firm / Company

A bank may be a person, firm or a company. A banking company means a company which is in the business of banking.

3. Acceptance of Deposit

A bank accepts money from the people in the form of deposits which are usually repayable on demand or after the expiry of a fixed period. It gives safety to the deposits of its customers. It also acts as a custodian of funds of its customers.

FEATURES/CHARACTERISTICS:

• 4. Giving Advances

A bank lends out money in the form of loans to those who require it for different purposes.

5. Payment and Withdrawal

A bank provides easy payment and withdrawal facility to its customers in the form of cheques and drafts, It also brings bank money in circulation. This money is in the form of cheques, drafts, etc.

6. Agency and Utility Services

A bank provides various banking facilities to its customers. They include general utility services and agency services.

FEATURES/CHARACTERISTICS:

7. Profit and Service Orientation

A bank is a profit seeking institution having service oriented approach.

8. Ever increasing Functions

Banking is an evolutionary concept. There is continuous expansion and diversification as regards the functions, services and activities of a bank.

9. Connecting Link

A bank acts as a connecting link between borrowers and lenders of money. Banks collect money from those who have surplus money and give the same to those who are in need of money.

10. Banking Business

A bank's main activity should be to do business of banking which should not be subsidiary to any other business.

11. Name Identity

A bank should always add the word "bank" to its name to enable people to know that it is a bank and that it is dealing in money.

SIGNIFICANCE OF BANKS:

- 1. Mobilising Saving for Capital Formation.**
- 2. Financing Industry.**
- 3. Financing Trade.**
- 4. Financing Agriculture.**
- 5. Financing Consumer Activities.**
- 6. Financing Employment Generating Activities.(Study loans)**
- 7. Help in Monetary Policy.**

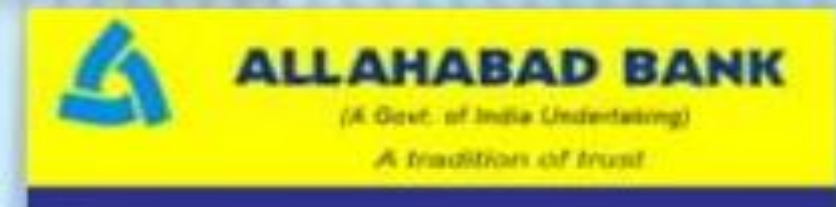
TYPES OF BANKS::



1.Public Sector Banks:

PUBLIC SECTOR BANKS

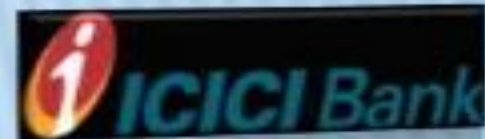
- ✖ Public sector banks are banks in which the government has a major holding.
- ✖ At least 51% ownership is vested with the government.
- ✖ The shares of these banks are listed on stock exchanges.



2.Private Sector Banks:

PRIVATE BANKS

- ✖ All those banks in which majority of stake are held by private individuals
- ✖ The banks, which came in operation after 1991, with the introduction of economic reforms and financial sector reforms are called "new private-sector banks"
- ✖ New banks are strategic in their thinking and operations.



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FUNCTIONS OF BANKS/COMMERCIAL BANKS:

