



# **SNS COLLEGE OF TECHNOLOGY**

## **(An Autonomous Institution)**



# TYPES OF BANKING



# DEFINITION OF 'BANK'



- A bank is a financial institution which performs the deposit and lending function. A bank allows a person with excess money (Saver) to deposit his money in the bank and earns an interest rate. Similarly, the bank lends to a person who needs money (investor/borrower) at an interest rate. Thus, the banks act as an intermediary between the saver and the borrower.
- The bank usually takes a deposit from the public at a much lower rate called deposit rate and lends the money to the borrower at a higher interest rate called lending rate.
- The difference between the deposit and lending rate is called 'net interest spread', and the interest spread constitutes the banks income.



# BANKING SYSTEM IN INDIA



- In India the banks and banking have been divided in different groups. Each group has their own benefits and limitations in their operations.
- They have their own dedicated target market. Some are concentrated their work in rural sector while others in both rural as well as urban.
- Most of them are only catering in cities and major towns.

## Functions of Bank →





# Functions of Bank



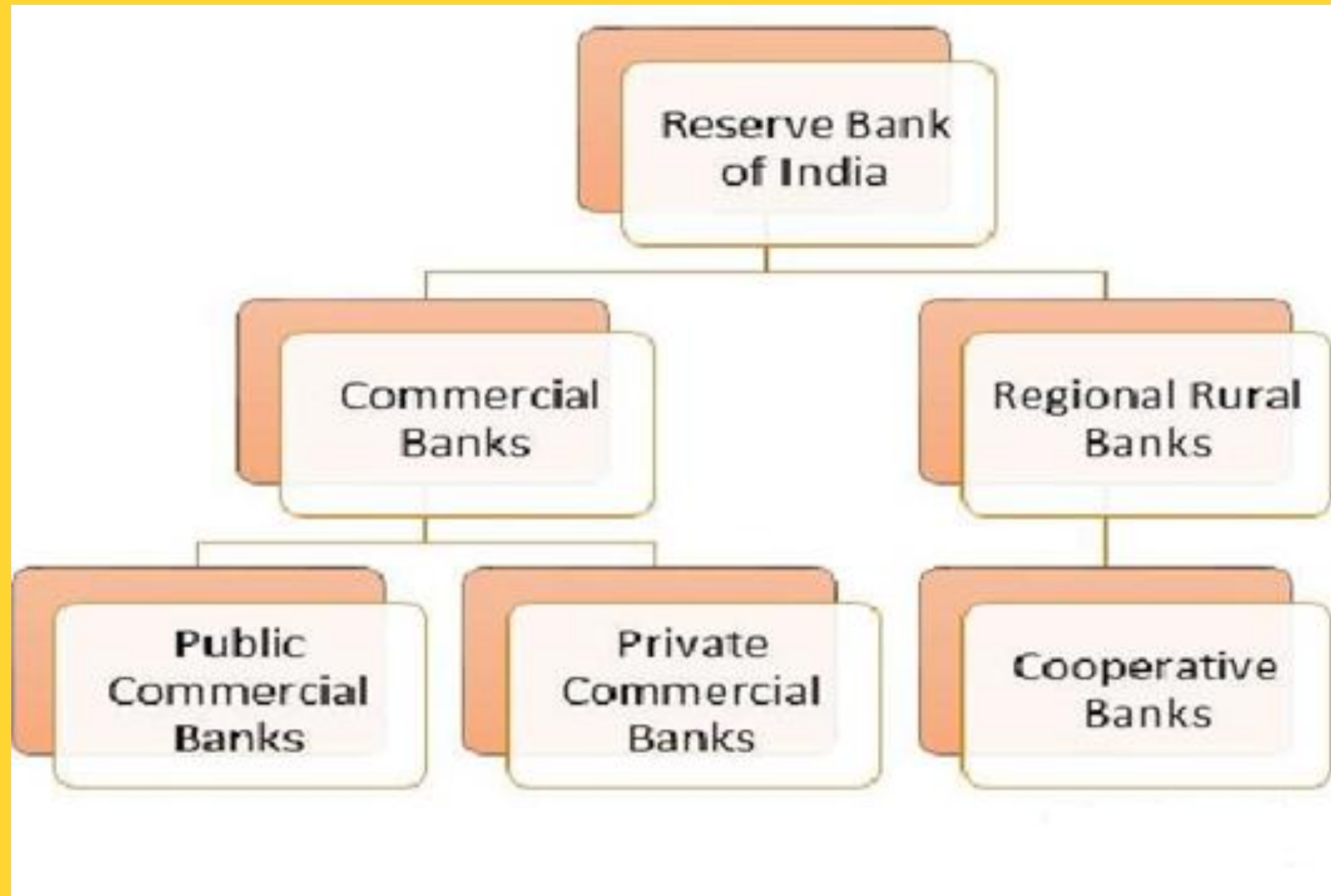
- **Financial Intermediation**

The process of taking funds from the depositor and then lending them out to a borrower is known as Financial Intermediation. Through the process of Financial Intermediation, banks transform assets into liabilities. Thus, promoting economic growth by channelling funds from those who have surplus money to those who do not have desired money to carry out productive investment.

- The bank also acts as a risk mitigator by allowing savers to deposit their money safely (reducing the risk of theft, robbery) and also earns interest on the same deposit. Bank provides services like saving account deposits and demand deposits which allow savers to withdraw money on an immediate basis thus, providing liquidity (which is as good as holding cash) with security.



# Types of Banks







# Types of Banks in India



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



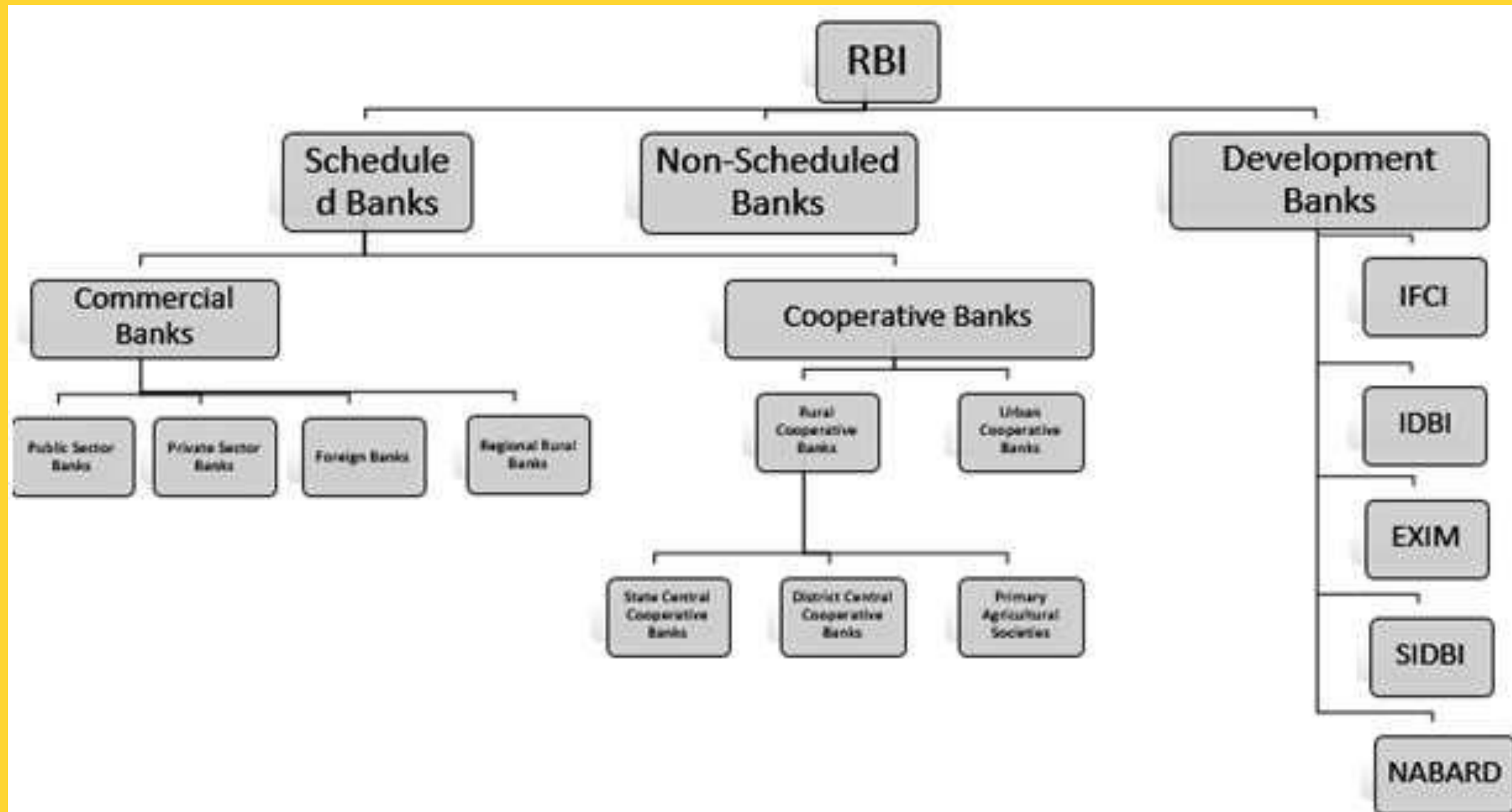
# Central Banking



- The Reserve Bank of India (RBI) is India's central bank, also known as the banker's bank. The RBI controls the monetary and other banking policies of the Indian government. The Reserve Bank of India (RBI) was established on April 1, 1935, in accordance with the Reserve Bank of India Act, 1934.
- Reserve Bank of India is the central bank of the country and regulates the banking system of India. The structure of the banking system of India can be broadly divided into scheduled banks, non-scheduled banks and development banks.
- Banks that are included in the second schedule of the Reserve Bank of India Act, 1934 are considered to be scheduled banks.
- All scheduled banks enjoy the following facilities:
  1. Such a bank becomes eligible for debts/loans on bank rate from the RBI
  2. Such a bank automatically acquires the membership of a clearing house.
- All banks which are not included in the second section of the Reserve Bank of India Act, 1934 are **Non-scheduled Banks**. They are not eligible to borrow from the RBI for normal banking purposes except for emergencies.
- Scheduled banks are further divided into commercial and cooperative banks.



# Structure of Indian Banking System







# Functions of Banking System



- **Primary functions – Accepting of Deposits.**
- **Secondary Functions**





# Primary Functions of Banks- Accepting Of Deposits

A very basic yet important function of all the commercial banks is mobilising public funds, providing safe custody of savings and interest on the savings to depositors. Bank accepts different types of deposits from the public such as:



- **Saving Deposits:** Encourages saving habits among the public. It is suitable for salary and wage earners. The rate of interest is low. There is no restriction on the number and amount of withdrawals. The account for saving deposits can be opened in a single name or in joint names. The depositors just need to maintain minimum balance which varies across different banks. Also, Bank provides ATM cum debit card, cheque book, and Internet banking facility. Candidates can know about the Types of Cheques at the linked page.
- **Fixed Deposits:** Also known as Term Deposits. Money is deposited for a fixed tenure. No withdrawal money during this period allowed. In case depositors withdraw before maturity, banks levy a penalty for premature withdrawal. As a lump-sum amount is paid at one time for a specific period, the rate of interest is high but varies with the period of deposit.
- **Current Deposits:** They are opened by businessmen. The account holders get an overdraft facility on this account. These deposits act as a short term loan to meet urgent needs. Bank charges a high-interest rate along with the charges for overdraft facility in order to maintain a reserve for unknown demands for the overdraft.
- **Recurring Deposits:** A certain sum of money is deposited in the bank at a regular interval. Money can be withdrawn only after the expiry of a certain period. A higher rate of interest is paid on recurring deposits as it provides a benefit of compounded rate of interest and enables depositors to collect a big sum of money. This type of account is operated by salaried persons and petty traders.



# Secondary Functions of Banks



- **Agency Functions of Bank**

- Banks are the agents for their customers, hence it has to perform various agency functions as mentioned below:
- **Transfer of Funds:** Transferring of funds from one branch/place to another.
- **Periodic Collections:** Collecting dividend, salary, pension, and similar periodic collections on the clients' behalf.
- **Periodic Payments:** Making periodic payments of rents, electricity bills, etc on behalf of the client.
- **Collection of Cheques:** Like collecting money from the bills of exchanges, the bank collects the money of the cheques through the clearing section of its customers.
- **Portfolio Management:** Banks manage the portfolio of their clients. It undertakes the activity to purchase and sell the shares and debentures of the clients and debits or credits the account.
- **Other Agency Functions:** Under this bank act as a representative of its clients for other institutions. It acts as an executor, trustee, administrators, advisers, etc. of the client.

- **Utility Functions of Bank**

- Issuing letters of credit, traveller's cheque, etc.
- Undertaking safe custody of valuables, important documents, and securities by providing safe deposit vaults or lockers.
- Providing customers with facilities of foreign exchange dealings
- Underwriting of shares and debentures
- Dealing in foreign exchanges
- Social Welfare programmes
- Project reports
- Standing guarantee on behalf of its customers, etc.



# Difference Between Central and Commercial Banks



S. No.	Basis of Difference	Central Bank	Commerical Bank
1.	Objective	The Central Bank focuses on growth and stability of the economy and not on earning profit.	A commercial bank focuses on profit maximization.
2.	Number	Central Bank is only one in a country.	Commercial Banks are many in number.
3.	Credit regulation	Central Bank regulates credit in the economy by issuing currency.	Comercial banks regulate credit by depositing cash.
4.	Relation with Public	Central Bank does not have any direct relation with the public.	Commercial banks have direct relation with Public.
5.	Custodian	The Central Bank is the custodian of forex reserves of the country.	A Commercial Bank is not a custodian of forex reserves of the country.
6.	Control of Credit	Central Bank controls the Credit.	Commercial banks create the credit.
7.	Deposit	Commercial banks deposit some percentage of their savings to the Central Bank.	Customers deposit their savings in the commercial banks.
8.	Granting Loans	Central Bank provides loans to the commercial banks.	Commercial banks provide loans to their customers and businessmen.
9.	Monetary Policy	Central Bank makes monetary policy for the growth and stability of the economy.	Commerical banks follows the monetary policy made by the Central Bank.
10.	Ownership	In most of the countries, it is owned by the Government.	Commercial banks are under both private and public ownership.
11.	Place in Banking System	It is the apex bank, the bank of all banks in the country.	They work under the supervision of the Central Bank as individual units.
12.	Banker of	Central bank works as the banker Government of the Government.	Commercial banks don't work as bankers of the Government.



# THANK YOU