

Banking Theory, Law and Practice

Meaning of Banker

A banker is an employee of a bank or financial institution who services the financial needs of clients. These clients can be individuals or institutions, both with different needs. A banker tries to maximize the profit of a bank while maintaining appropriate risk levels.

Type of Bank

Group banking

- A plan offered by banks designed to be used by groups rather than individuals. A common example is a company plan offered to employees.
- Usually, the bank will offer incentives such as discounts, lower fees, and interest rates, as well as other benefits not available to individual customers.
- Group banking members may have access to lower interest rates, lower fees, discounts and other perks not available to regular account holders.
- Group banking can also provide a more personalized banking relationship for the members if the bank designates one representative, who is generally more knowledgeable about the group's needs, as the point of contact for all the members of the group.

Chain Banking

- Conceptually, chain banking refers to a form of bank governance that occurs when a small group of people controls at least three banks that are independently chartered.
- Usually, the controlling parties are majority shareholders or the heads of interlocking directorates. Chain banking as an entity has declined with the surge in interstate banking.
- Chain banking is a situation in which three or more banks that are independently chartered are controlled by a small group of people.
- The concept of chain banking is different from group banking, in that the entities involved in the chain bank arrangement remain autonomous and are not owned by a single holding company.
- By contrast, the group banking model requires a holding company to own all the banks involved, effectively creating an umbrella under which all the banks operate.

Mixed Banking

- Mixed banking is a system of banking where a bank combines both deposit banking as well as investment banking. In other words, the bank will provide short-term loans for commerce and trade and long-term finance for industrial units.

- While this type of banking promotes rapid industrialization, the mixed banking system reduces the liquidity of funds of commercial banks.
- Stated differently, it difficult to pay back the borrowed funds of customers whenever they make a demand for their money. This is because funds get blocked when the bank gives long-term loans to industries.

Unit Banking

- Banking systems encourage either small, independent banks or banks that are theoretically independent but are owned by a bank holding company.

Branch Banking

- Branch banking refers to a single bank that operates through various branches in a city or different locations or out of the cities. It offers a wide array of face to face service to its customers.
- Services provided by a branch include cash withdrawals and deposits from a demand account with a bank teller, financial advice through a specialist, safe deposit box rentals, etc.

Commercial banks

- Commercial banks are authorized to provide a variety of financial services which includes loans, savings accounts, etc. In this article, we will talk about various functions that a commercial bank performs.

Primary Functions of Commercial Banks

- ✓ Accepting Deposits
- ✓ Commercial banks accept deposits from people, businesses, and other entities in the form of:
 - ✓ **Savings deposits** – The commercial bank accepts small deposits, from households or persons, in order to encourage savings in the economy.
 - ✓ **Time deposits** – The bank accepts deposits for a fixed time and carries a higher rate of interest as compared to savings deposits.
 - ✓ **Current deposits** – These accounts do not offer any interest. Further, most current accounts offer overdrafts up to a pre-specified limit. The bank, therefore, undertakes the obligation of paying all cheques against deposits subject to the availability of sufficient funds in the account

Lending of Funds

- Another important activity is lending funds to customers in the form of loans and advances, cash credit, overdraft and discounting of bills.
- Loans are advances that a bank extends to his customers with or without security for a specified time and at an agreed rate of interest. Further, the bank credits the loan amount in the customers' account which he withdraws as per his needs.

Secondary Functions of Commercial Banks

Bank as an Agent

- ✓ A bank acts as an agent to its customers for various services like:
- ✓ Collecting bills, draft, cheques, etc.
- ✓ Paying the insurance premium, rent, loan installments, etc.
- ✓ Working as a representative of a customer for purchasing or redeeming securities, etc. in the stock exchange
- ✓ Acting as an executor, administrator, or trustee of the estate of a customer
- ✓ Also, preparing income tax returns, claiming tax refunds.

General Utility Services

- ✓ There are several general utility services that commercial banks offer like:
- ✓ Issuing traveler cheques
- ✓ Offering locker facilities for keeping valuables in safe custody
- ✓ Also, issuing debit cards and credit Cards.

Kinds of Bank Accounts

Saving Account

- ✓ This account will be considered as normal banking service.
- ✓ For this account, maintenance of minimum balance is not required.
- ✓ ATM card/ ATM cum Debit card, Rupay card will be given for the account holders.
- ✓ There are going to be no limit on the number of deposits that can be made in a month but, account holders will be allowed most of 4 withdrawals in a month, which includes ATM withdrawals also.
- ✓ The above facilities will be given without any charge. There will be no charge levied for non-operation/ activation of in-operative basic saving bank deposit account.
- ✓ For this account, overdraft facility will be provided up to Rs. 5000/-.

Regular Savings Account

- ✓ Any resident individual- single accounts, two or more individuals in joint accounts, Associations, clubs etc., are eligible for this account.
- ✓ Modest credit option available to the depositor.
- ✓ Two free cheque books will be issued per year.
- ✓ Internet banking facility will be provided without any charge.
- ✓ Balance enquiry, NEFT, Bill payment, Mobile recharge etc., are provided through mobile phones.
- ✓ Students can open this account with zero balance by providing the required documents

Current Account

- ✓ Any resident individual- single accounts, two or more individuals in joint accounts, Associations, Limited companies, Religious Institutions, Educational Institutions, Charitable Institutions, clubs etc., are eligible for this account.
- ✓ Payments can be done unlimited number of times.
- ✓ Funds can be remitted from any part of the country to the corresponding account.
- ✓ Overdraft facility will be available.

Internet banking facility is available.

Recurring Deposit Account

- Any resident individual- single accounts, two or more individuals in joint accounts, Associations, clubs, Institutions/Agencies specifically permitted by the RBI etc., are eligible to open this account in single/joint names.
- Periodic/Monthly installments can be for any amount starting from as low as Rs.50/- onwards.
- Account can be opened for any period ranging from 6 months to 120 months, in multiple of 1 month.
- The amount selected for installment at the start of the scheme will be payable every month.
- The number of installments once fixed, cannot be altered.
- Approved rate of interest is compounded every quarter

Fixed Deposit Account

- Any resident individual- single accounts, two or more individuals in joint accounts, Associations, Minors, societies, clubs etc., are eligible for this account.
- The minimum FDR in metro & Urban branches is Rs. 10,000/- & in rural & semi urban & for Senior citizens is Rs.5000/- .

- For the subsidy kept under the government sponsored schemes, Margin money, earnest money & court attached/ordered deposits, minimum amount criteria will not be applicable.
- Depositors may ask for repayment of their deposits before maturity. Repayment of amount before maturity is allowable.

Special types of Customers in bank

- Minors. A minor is someone who is under the age of 18. ...
- Hindu minors. If the minor is a Hindu, the natural guardian is the father and then the mother. ...
- Muslim minors. ...
- Married Women. ...
- Illiterate Persons. ...
- Lunatics. ...
- Trustee. ...
- Executors and Administrators.

Relationship between Customer and Banker

- The relationship between banker and Customer are categorized into three;
- Relationship as debtor and creditor.
- Banker as a trustee.
- Banker as an agent.
- Other special relationship with the customer, obligations of a banker

Relationship as Debtor and Creditor

- On the opening of an account, the banker assumes the position of a debtor. A depositor remains a creditor of his banker so long as his account carries a credit balance.
- The relationship with the customer is reserved as soon as the customer account is overdrawn.
- Banker becomes a creditor of the customer who has taken a loan from the banker and continues in that capacity fills the loan is repaid.

Banker as a Trustee

- Ordinarily a banker is a debtor of his customer in the report of the deposit made by the letter but in certain circumstances, he acts as trustee also.

- A trustee hold holds money or asset and performs certain functions for the benefit of some other person called the beneficiary.
- For example;
- If the customer deposits securities or other values with the banker for the safe custody, the letter acts as a trustee of his customer.

Banker as an Agent

- A banker acts as an agent of his customer and performs a number of agency functions for the conveniences of his customer.
- For example, he buys or sells securities on behalf of his customer, collects check/cheques on his behalf and makes payment of various dues of his customer.

Special relationship with customer/obligation of a banker

The obligation to honor the Check/Cheques

The deposit accepted by a banker is his liabilities repayable on demand or otherwise. The banker is therefore under a statutory obligation to honor his customer's check/cheque in the usual course.

According to section 31 of the negotiable instruments. Act 1881 the banker is bound to honor his customer's check/cheque provided by following conditions are fulfilled:

- Availability of sufficient funds of the customer.
- The correctness of the check/cheque.
- Proper presentation of the check/cheque.
- A reasonable time for collection.
- Proper drawing of the check/cheque.

Reserve Bank of India

Reserve Bank of India (RBI) is the highest monetary authority of India. RBI was established in 1935 by the RBI Act 1934. RBI works as a custodian of foreign reserve, banker's bank, banker to the government of India and controller of credit. Reserve Bank of India (RBI) is the central bank of the country. RBI is a statutory body. It is responsible for printing of currency notes and managing the supply of money in the Indian economy. Initially the ownership of almost all the share capital was in the hands of non-government share holders. So in order to prevent the centralisation of the shares in few hands, the RBI was nationalised on January 1, 1949.

Functions of Reserve Bank of India

- ❑ **Issue of Notes** —The Reserve Bank has the monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (which is issued by the Ministry of Finance). The Reserve Bank has adopted the **Minimum Reserve System** for issuing/printing the currency notes. *Since 1957, it maintains gold and foreign exchange reserves of Rs. 200 Cr. of which at least Rs. 115 cr. should be in gold and remaining in the foreign currencies.*
- ❑ **Banker to the Government**—The second important function of the Reserve Bank is to act as the Banker, Agent and Adviser to the Government of India and states. It performs all the banking functions of the State and Central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the public debt of the government
- ❑ **Banker's Bank:-** The Reserve Bank performs the same functions for the other commercial bank as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks of the country.
- ❑ **Controller of the Credit:-** The RBI undertakes the responsibility of controlling credit created by the commercial banks. RBI uses two methods to control the extra flow of money in the economy. These methods are quantitative and qualitative techniques to control and regulate the credit flow in the country. When RBI observes that the economy has sufficient money supply and it may cause inflationary situation in the country then it squeezes the money supply through its tight monetary policy and vice versa.
- ❑ **Custodian of Foreign Reserves:-**For the purpose of keeping the foreign exchange rates stable, the Reserve Bank buys and sells the foreign currencies and also protects the country's foreign exchange funds. RBI sells the foreign currency in the foreign exchange market when its supply decreases in the economy and vice-versa. Currently India has Foreign Exchange Reserve of around US\$ 360bn.
- ❑ **Other Functions:-**The Reserve Bank performs a number of other developmental works. These works include the function of clearing house arranging credit for agriculture (which has been transferred to NABARD) collecting and publishing the economic data, buying and selling of Government securities (gilt edge, treasury bills etc)and trade bills, giving loans to the Government buying and selling of valuable commodities etc.