

GOVERNMENT POLYTECHNIC BHUBANESWAR -2025



DEPARTMENT OF MODERN OFFICE MANAGEMENT

LECTURE NOTES

SEMESTER- 4TH

PAPER- BANKING & INSURANCE MANAGEMENT

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INTRODUCTION

The term Bank is being used since long time but there is no clear conception regarding its beginning. According to one viewpoint, the Italian money lenders were known as 'banecchi' or 'bancherri', because these people kept a special type of table to transact their business, called 'Banchi'. According to another viewpoint, the word 'bank' is derived from the German word 'banck' which means heap or a mound. Italian started using the name 'banco' which meant accumulation either of 'money' or of 'stock'.

MEANING OF BANK

A bank is a financial institution which accepts deposit from the public and lends to those who need it thereby making a profit out of it. The lending rate of a bank is higher than the rate it pays to its depositors. A bank, therefore, acts as a reservoir into which the idle surplus money of individuals and households flow and from which loans are given to the needy borrowers. Besides this, a modern bank performs various other functions such as credit creation, agency work and general services besides dealing in money. Using banks and the many services they offer saves an incredible amount of time and ensures that the funds of micro as well as macroeconomic agents "pass hands" in a legal and structured manner. There are also other types of financial institutions that operate just like banks.

DEFINITION OF BANK

According to the Oxford Dictionary, "Bank is an establishment for the custody of money, which it pays out on customer's order". According to the Indian Central Banking Enquiry Committee, "A banking company is one which carries on as its principal business, the acceptance of money deposits on current account or otherwise subject to withdrawal by cheque, draft or order". In the words of Cairn cross, "A bank is a financial intermediary, a dealer in loans and debts". According to the Banking Companies (Regulation) Act of India, 1949, "Banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft or otherwise".

FEATURES OF A BANK

Various features of a commercial bank are:

1. **Commercial Establishment:** A commercial bank is a commercial establishment which deals in money. It accepts money as deposits and advances loan in cash and cheque.
2. **Individual or Firm or Company:** A bank may be an individual, a firm or a joint stock company. A banking company refers to a company which is in the business of banking.
3. **Acceptance of Deposits:** A bank accepts money from the customers in the form of deposits which are generally payable on demand or after the expiry of a specified period.
4. **Provide Safety to Money:** A bank provides safety to the money of its clients. It also performs the role of custodian of funds of its customers.
5. **Advancing Loans:** A bank lends out money in form of advances or loans to those who need it for different purposes. The public can borrow from banks to meet their needs and requirements.
6. **Payment and Withdrawal:** A bank offers easy payment and withdrawal facility to its clients through cheque and drafts. It also brings bank money in circulation. This money circulation is in the form of cheque, drafts, etc.
7. **Agency and Utility Services:** A bank offers different banking facilities to its clients which involve general facility services and agency services such as transfer of funds, collection of dividend, payment on behalf of customers, etc.
8. **Profit and Service Organization:** A bank being a financial intermediary is a profit seeking institution having service oriented approach.
9. **Credit Creation:** A bank can create credit i.e., creation of additional money for lending.
10. **Ever Increasing Functions:** Banking is an evolutionary approach. A bank expands and diversifies regularly as regards the functions, services and activities.
11. **Banking Business:** The main function of a bank should be to perform banking business which should not be subsidiary of any other business.
12. **Name Identity:** A bank should always add the word 'Bank' to its name to enable public to know that it is a bank and it deals in money and debts.

FUNCTIONS OF A BANK

Banking Regulation Act of India, 1949 defines Banking as “accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdraw able by cheque, drafts and order or otherwise”. Deriving from this definition and viewed solely from the point of view of customers, Banks essentially perform the following functions:

1. Accepting deposits from public/others (Deposits).
2. Lending money to public (Loans).
3. Transferring money from one place to another (Remittances).
4. Credit creation.
5. Acting as trustees.
6. Keeping valuables in safe custody.
7. Investment decisions and analysis.
8. Government business.
9. Other types of lending and transactions.

TYPES OF BANKING SYSTEM

Commercial banks can be classified into various categories according to one criteria or the other. The criteria of classification of bank could be

- A. Second Schedule of the Reserve Bank of India Act;
- B. Domicile;
- C. Ownership;
- D. Functions or Specialized Area;
- E. Organization, etc.

A) Classification as per Second Schedule of RBI Act:

Banks can be classified into the following categories on the basis of the second Schedule of the Reserve bank of India Act, 1934 □

i) **Scheduled Bank:** A scheduled bank is one which is registered in the Second Schedule of the Reserve Bank of India Act. A bank must satisfy the following the following conditions to be included in the second Schedule:

- a) The bank concerned must be in business of banking in India.
- b) A bank must have a paid-up capital and reserves of not less than Rs. 5 lakhs; (Presently, the RBI has prescribed a minimum capital of Rs. 200 crore for starting a new commercial bank).

c) It must satisfy the Reserve Bank that its affairs are not conducted in a manner detrimental to the interest of its depositor; and it is either a company defined in Section 3 of the Indian Companies Act, 1956, or Corporation or a Company incorporated by or under any law in force in any place outside India or an institution notified by the Central Government in this behalf.

All scheduled banks come under the purview of the various credit control techniques of Reserve bank of India. Scheduled banks have to keep a minimum balance in their accounts with the RBI and perform certain things prescribed by law.

ii) **Non-scheduled Bank:** Non-scheduled banks are those banks whose names do not appear in the Second Schedule of the reserve bank of India Act. These are not entitled to all those facilities that the scheduled banks avail from the RBI.

B. Classification on the basis of Domicile: On the basis of domicile, banks are classified into the following types:

i) **Foreign Banks:** Foreign banks are those banks which are registered or incorporated outside India and having a branch in India. The number of foreign banks has increased with the changes in the banking policy after 1993. These are controlled and supervised by RBI. At present the RBI has allowed the foreign banks to establish the banking business in India through a single mode presence i.e., either branch mode or wholly owned subsidiary mode. Their principal function is to make credit management for exports and imports of the country. Some of the foreign banks having a work place in India are listed below:

1. HSBC
2. Standard Chartered Bank
3. Citibank 4. Bank of America

ii) **Domestic Banks:** Domestic banks are those banks which are registered or incorporated in India. These banks are the major part of total commercial banks. C.

Classification on the basis of Ownership: On the basis of ownership, banks can be classified into the following three groups: ii) Domestic Banks: Domestic banks are those banks which are registered or incorporated in India. These banks are the major part of total commercial banks.

C. Classification on the basis of Ownership: On the basis of ownership, banks can be classified into the following three groups:

i) **Public Sector Banks:** Public Sector banks are those banks which are owned by the government. The government runs these banks. In India 20 banks (14+6) were nationalized in 1969 and 1980 respectively. All these banks now belong to the public sector category. Public sector banks dominate commercial banking in India. Social welfare is their principal objective. The public sector banks raise capital from public by making public issues.

ii) **Private Sector Banks:** Private sector banks are those banks which are owned and run by the private sector. Banks which are owned by individuals or corporations and not by government or co-operative societies are included in this category. The major private sector banks are Bank of Punjab, HDFC Bank, Axis Bank, ICICI Bank, etc. an individual has control over these banks in proportion to the shares of the banks held by him.

iii) **Co-operative Banks:** Co-operative banks constitute another important section of banking. Co-operative banks are those banks which are jointly run by a group of individuals. Each individual has an equal share in these banks. The affairs of the bank are managed by its shareholders. Profits are equally distributed among the shareholders. The principal objective of these banks is the mutual help of the members of co-operative banks. The co-operative banks were started in India with the passing of the co-operative Societies Act, 1912. The co-operative banks perform the most urgent task of financing agriculture and small industry by mobilizing resources from the urban and the rural well to so strata. The Primary Credit Societies, the Central Co-operative Banks and the State Cooperative Banks constitute the three tier system operating in co-operative banking. The co-operative banks were started with the aim to take the place of money lenders to meet short term capital needs of the agriculturists