NATURE AND DEVELOPMENT OF BANKING :

A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. Banks are a subset of the financial services industry. Almost in any country, banks represent main pillar of financial stability. Beside financial intermediaries, banks play an important role as national financial institutions in everyday life.

A banking system provide and offer cash management services for customers, reporting the transactions of their accounts and portfolios throughout the day, trade with financial and bank's financial instruments, offer exchange of currency and disburse different type of funds. The Banking sector offers several facilities and opportunities to their customers. All the banks safeguard the money and valuables and provide loans, credit, and payment services.

The banks also offer investment and insurance products. As a variety of models for cooperation and integration among finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role accepting deposits and lending funds from these deposits. Banks are institutions which provide and hold liquidity sustainable flow for all other financial and non-financial institutions. Through the monitoring and controlling of the banks, central bank can sustain and provide impact on country's financial situations. Today banks deal with different personality, different consumer behavior, manners and cultures.

Customers can be seen as different generally, because they have different opportunities, financial capabilities, personalities, egos, social characters, different tastes and by any other aspects they are absolutely different from one to another. Through the segmentation bank differentiate customers and rank them according to its own interests and needs.

Banks generate profit from customer's activities and by offering different services to them. A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank is the connection between customers that have capital deficits and customers with capital surpluses. Due to their influence within a financial system and an economy, banks are generally highly regulated in most countries.

Banks act as payment agents by conducting checking or current accounts for customers, paying checks drawn by customers on the bank, and collecting checks deposited to customers' current accounts. Banks also enable customer payments via other payment methods such as Automated Clearing House (ACH), Wire transfers or telegraphic transfer, EFTPOS (posterminal devices), and automated teller machine (ATM). Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds.

Banks lend money by making advances to customers on current accounts, by making installment loans, and by investing in marketable debt securities and other forms of money lending. Bank uses different channels of distribution such as Automated Teller Machines, a branch is a retail location, Offices (smaller unite that the branch), Call center, Mail, Agents, Sales Forces, Internet banking, Mobile banking, Relationship Managers, Telephone banking, Video banking and others. Today customers have options they have power to influence over the banks.

Customers are taking greater control of their banking relationships, and the banks that can provide more choice and flexibility will gain more control over their own destinies.

DEVELOPMENT OF BANKING SECTOR IN INDIA:

Pre Independence Period (1786-1947)

The first bank of India was the "*Bank of Hindustan*", established in 1770 and located in the then Indian capital, Calcutta. However, this bank failed to work and ceased operations in 1832.

During the Pre Independence period over 600 banks had been registered in the country, but only a few managed to survive.

Following the path of Bank of Hindustan, various other banks were established in India. They were:

- The General Bank of India (1786-1791)
- Oudh Commercial Bank (1881-1958)
- Bank of Bengal (1809)
- Bank of Bombay (1840)
- Bank of Madras (1843)

During the British rule in India, The East India Company had established three banks: Bank of Bengal, Bank of Bombay and Bank of Madras and called them the Presidential Banks. These three banks were later merged into one single bank in 1921, which was called the "*Imperial Bank of India.*"

The Imperial Bank of India was later nationalised in 1955 and was named The State Bank of India, which is currently the largest Public sector Bank.

Given below is a list of other banks which were established during the Pre-Independence period:

Pre-Indepence Banks in India	
Bank Name	**Year of Establishment**
Allahabad Bank	1865
Punjab National Bank	1894
Bank of India	1906
Central Bank of India	1911
Canara Bank	1906
Bank of Baroda	1908

If we talk of the reasons as to why many major banks failed to survive during the pre-independence period, the following conclusions can be drawn:

- Indian account holders had become fraud-prone
- Lack of machines and technology

- Human errors & time-consuming
- Fewer facilities
- Lack of proper management skills

Following the Pre-Independence period was the post-independence period, which observed some significant changes in the banking industry scenario and has till date developed a lot.

Post-Independence Period (1947-1991)

At the time when India got independence, all the major banks of the country were led privately which was a cause of concern as the people belonging to rural areas were still dependent on money lenders for financial assistance.

With an aim to solve this problem, the then Government decided to nationalise the Banks. These banks were nationalised under the Banking Regulation Act, 1949. Whereas, the Reserve Bank of India was nationalised in 1949.

Following it was the formation of State Bank of India in 1955 and the other 14 banks were nationalised between the time duration of 1969 to 1991. These were the banks whose national deposits were more than 50 crores.

Impact of Nationalisation

There were various reasons why the Government chose to nationalise the banks. Given below is the impact of Nationalising Banks in India:

- This lead to an increase in funds and thereby increasing the economic condition of the country
- Increased efficiency
- Helped in boosting the rural and agricultural sector of the country
- It opened up a major employment opportunity for the people
- The Government used profit gained by Banks for the betterment of the people
- The competition decreased, which resulted in increased work efficiency

This post-Independence phase was the one that led to major developments in the banking sector of India and also in the evolution of the banking sector.

Liberalisation Period (1991-Till Date)

Once the banks were established in the country, regular monitoring and regulations need to be followed to continue the profits provided by the banking sector. The last phase or the ongoing phase of the banking sector development plays a hugely significant role.

To provide stability and profitability to the Nationalised Public sector Banks, the Government decided to set up a committee under the leadership of Shri. M Narasimham to manage the various reforms in the Indian banking industry.

The biggest development was the introduction of Private sector banks in India. RBI gave license to 10 Private sector banks to establish themselves in the country. These banks included:

1. Global Trust Bank
2. ICICI Bank
3. HDFC Bank
4. Axis Bank
5. Bank of Punjab
6. IndusInd Bank
7. Centurion Bank
8. IDBI Bank
9. Times Bank
10. Development Credit Bank

The other measures taken include:

- Setting up of branches of the various Foreign Banks in India
- No more nationalisation of Banks could be done
- The committee announced that RBI and Government would treat both public and private sector banks equally
- Any Foreign Bank could start joint ventures with Indian Banks
- Payments banks were introduced with the development in the field of banking and technology
- Small Finance Banks were allowed to set their branches across India
- A major part of Indian banking moved online with internet banking and apps available for fund transfer

Thus, the history of banking in India shows that with time and the needs of people, major developments have been brought about in the banking sector with an aim to prosper it.

<u>MEANING OF BANK AND BANKING BUSINESS:</u>

The term bank has originated from the term ‘Banchi’. In olden days, the traders of Italy who performed the job of exchanging money were known as Banchi or Bancheri because the table which they used for making payment was called a Banchi.

According to some people, the term bank is derived from the Greek word 'Banque.'

A bank deals in money in the same way as a businessman deals in goods. Banks are business enterprises which deal in money, financial instruments and provide financial services for a price called interest, discount, commission etc.

Following are cited some prominent definitions of bank:
(1) "Banking is the business of 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, and order or otherwise." Indian Banking Regulation Act, 1949

(2) "A bank is an organisation 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."-R.P. Kent

BANKING BUSINESS:

Business banking is also called commercial or corporate banking. Banks provide financial and advisory services to small and medium businesses as well as larger corporations. These services are tailored to the specific needs of each business. These services include deposit accounts and non-interest-bearing products, real estate loans, commercial loans, and credit card services. Banks may also offer asset management and securities underwriting to their corporate and business clients.

A "banking company" means any company which transacts the business of banking in India.

Explanation.—Any company which is engaged in the manufacture of goods or carries on any trade and which accepts deposits of money from the public merely for the purpose of financing its business as such manufacturer or trader shall not be deemed to transact the business of banking within the meaning of this clause;

TYPES OF BANK ACCOUNTS AND TYPES OF DEPOSIT ACCOUNT

1. SAVINGS ACCOUNT AND SAVING DEPOSIT

Savings Accounts are the most popular kind of individual accounts of saving your investments and getting interest rates. Savings account provides cheque facility along with flexibility for deposit and withdrawal of funds from your 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/-.
- 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.

2. CURRENT ACCOUNT AND CURRENT DEPOSIT

Current bank accounts are very popular among companies, firms, public enterprises, businessmen who generally have higher number of regular transactions with the bank. Current account is a bank account for people who

run businesses. It is designed for carrying out day-to-day business transactions easily.

- 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.

3. RECURRING ACCOUNT AND RECURRING DEPOSIT –

Recurring deposits also known as RD accounts who wish to invest an average amount of their savings on a monthly basis. These accounts gain interest on the amount available in your account. This account is specially designed for the working public who don't want to invest a large amount at one instance.

- 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.
- The amount after maturity will be paid to customers one month after the deposit of the last installment.
- Pass book will be given to the depositor.
- TDS will be applicable on the interest, as per the latest changes in the Income Tax Act on cumulative deposits also.

4. FIXED DEPOSIT ACCOUNT AND FIXED DEPOSIT

Fixed Deposits popularly known as FD are available at various schemes with Tenure from 7 days to 10 years. This account is specially designed who want to deposit them savings for a long term to gain good rate of interest. But the interest rate on these accounts vary from bank to bank. Term Fixed denotes the period of maturity or tenure.

• Banks accepts deposits from customers varying from 7 days to a maximum of 10 years.

• The minimum amount that can be deposited under this scheme is Rs. 5 lakh for a period of 7-14 days.

• Interest rate differs from bank to bank depending upon the tenure of the deposits as when the bank changes the rate.

• Additional interest of 0.50% is offered for senior citizens on deposits placed for a year & above.

5.DEMAT ACCOUNT:

Shares and securities which can be held in electronic format constitute the DEMAT account. The DEMAT account also stands for Dematerialized Account. Dematerialization is the process of converting the physical share certificates into electronic form, which is a lot easier to maintain and is accessible from anywhere throughout the world. An investor who wants to trade online needs to open a DEMAT with a Depository Participant (DP). The purpose of dematerialization is to Eliminate the need for the investor to hold physical share certificates and facilitating a seamless tracking and monitoring of holdings.

Given below the points that need to be known by a candidate regarding the DEMAT Account:

• There are only two depository organizations which manage this type of bank account in India. This includes: National Securities Depository Limited and Central Depository Services Limited

- This helps facilitate easy trade of bonds and shares;
- Helps in conducting stress free transaction of shares;
- KYC is required for opening the DEMAT Account;
- Transaction cost is reduced;
- Traders can work from anywhere;
- The transfer of securities can be done with reduced paperwork’s.