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Introduction

Importance of commerce is increasing in present time. In commerce, apart from trade, banking is considered as its auxiliary service. Banking industry is very useful to industries, agriculture and other fields in addition to trade.

The institute providing services of banking is called a Bank. The first bank of the world started in Geneva in the year 1407. The word '**Bank**' is derived from the Italian word 'Banco'. Evidences of the activities of the bank are also found in the ancient time. This word emerged in the Roman empire, where the money lenders, known as '**Macella**', used to establish their small temporary shops on a long bench called as '**Bancu**' within a closed fence. The word 'Bancu' and 'Bank' have been derived from this.

3.1 Meaning

(1) According to the Reserve Bank of India, "Bank is an institute which collects deposits in order to lend them with condition to return it at the end of the fixed term or whenever it is demanded".

(2) The institute providing service of banking is called bank.

3.2 Functions

(1) To accept deposits and apart from these services bank performs other activities too. (2) To invest or lend money. But in the present time, a bank does other functions too. Apart from these, banking services have been developed very well and variety is found in its services too. There is an immense growth in the services offered by bank and the focus is on customers. It is difficult to make a list of all functions of bank. Functions of bank can be divided into two parts. Main functions and subsidiary functions. They are as given on next page.

Main Functions	Subsidiary Functions
(1) To accept /collect deposits	(1) To look after the financial transactions of the customers.
(2) To lend money.	(2) To do transactions of foreign exchange.
(3) To invest money.	(3) To issue letter of credit.
(4) To do inter banking transaction	(4) To issue traveller's cheque.
	(5) To provide draft service.
	(6) To provide information related to credit of a person associated with the bank.
	(7) To provide service as an underwriter.
	(8) To provide other related services such as ATM, DEMAT, Safe deposit vault etc.

(A) Main Functions of Bank :

(1) To Accept/Collect Deposit : Bank accepts some surplus amount as deposit. The bank pays interest to the deposit holder. The biggest responsibility of bank is to maintain trust of the deposit holder or the customer who invests money in the bank. Bank accepts various types of deposits as per different rates of interest.

Bank mainly accepts four types of deposits : (i) Savings Account (ii) Current Account (iii) Recurring Account (iv) Fixed Term Account

(2) To Lend Money : Bank accept deposits through different accounts. Thus the bank lends money to the borrowers which it has collected as the deposits from different accounts. Bank accepts deposits and provides interest to the deposit holders. The bank lends money to the needy people at a higher rate of interest than it pays to deposit holders. The bank gains profit from the difference in rate of interest. The bank lends money as per given below :

(i) Through a Loan : The bank provides loan for either a long term or a short term. In some kind of loans hypothecation is necessary while in some kind of loans hypothecation is not necessary. Such loans are provided to either businessman or an individual or industrialists, against which the bank demands for guarantee. In the present time home loan, car loan, education loan, cash-credit, machinery loan, gold loan, personal loan etc. are available.

(ii) By Overdraft and Cash Credit : If a current account holder withdraws more amount than the balance of that account for a pre-determined limit and short duration of time, it is called Overdraft. The duration of overdraft is short. But when the duration is pre-determined then it is known as cash credit.

(3) To invest : The bank cannot get benefit if it is not able to invest and lend the amount of the capital and deposit of the bank. An important work of bank is to invest this amount at some secure place and with proper calculation. The bank has to invest some percentage of total deposits in the government securities according to the rules of RBI, on which the rate of interest is low. It is inevitable for a bank to get instant cash by withdrawing investment during emergency or some accidental situation. A bank majorly invests in government securities or in other financially capable units.

(4) To Do Inter-Banking Transaction : One of the main functions of the bank is inter-banking. Every bank sometimes faces shortage of money for a very short duration of time, even less than 24 hours. At this time unused money in a bank is provided to the needy bank. This arrangement is made by an agency appointed by the central bank (RBI). In this way the process of lending or borrowing money is completed through the central bank. The lender or the borrower does not come into direct contact with each other. The problem of the bank for that particular time is solved. Thus, when the bank gets the demanded amount instantly, it is called '**CALL MONEY**'. The interest has to be paid on the received amount. This rate of interest is determined on the basis of demand and supply and is called as '**CALL MONEY RATE**'.

(B) Subsidiary Functions of Bank :

(1) To Look After the Financial Transactions of the Customer : A bank has mainly two types customers : (A) Depositor and (B) Borrowers. Such customers do their financial transactions through bank. When a customer writes a cheque in favour of other person, then the money is paid to that person by bank on behalf of the person who has written the cheque. In the same way, when a person receives a cheque from the other person, the bank collects money from the person who has written the cheque on behalf of the person who has received the cheque. In present time, a bank performs different tasks on behalf of the customer such as payment of the electricity bills and phone bills, insurance premium and to transfer money from one account to another account etc.

(2) To Do Transactions Associated with Foreign Exchange : Now a days, import-export business is done compulsorily through bank. Foreign exchange is required for import-export business. The bank which has obtained permission from the central bank performs the tasks related to foreign exchange and provides services and receives the documents related to foreign trade.

(3) To Issue Letter of Credit : Letter of credit is a letter written by one bank addressed to the other bank. The bank ensures the payment of certain amount and at certain time by the person mentioned in this letter. The bank collects certain deposit from the respected person before issuing the letter of credit or the bank gets guarantee of the same amount. The amount mentioned in the letter of credit is paid at fixed time to the person whom the bank has ensured for the same. Thus, letter of credit makes the accounting transactions trustworthy. The bank earns income in the form of commission by offering this service.

(4) To Issue Traveller's Cheque : In present time, more and more people have started travelling. People have started getting traveller's cheque in order to prevent themselves in losing their cash or getting it stolen during their travel within country or abroad. The holder of traveller's cheque can withdraw money through the cheque from another outstation bank or from a foreign bank branch by signing as per his specimen signature. This cheque is very reliable and transferable. The use of traveller's cheque has decreased as the facility of ATM has become wide spread.

(5) Service of Demand Draft : Demand draft is a cheque written by a bank in favour of a branch of the same bank. The name of the person is mentioned in the demand draft and an order is issued to pay the amount to the person whose name is written on the draft. Draft is a secured medium while sending money to a person or firm. The person or the firm, desirable to send money, fills in a certain form and requests the bank to issue the draft. On the basis of this request, the bank writes the name of the receiver of the money on the draft and orders its branch or its associate bank to pay the amount. The sender pays the bank not only the amount mentioned in the draft but also the commission for the same. If the bank issues such draft which can be encashed in its own city, then it is called '**PAY ORDER**'.

(6) To Provide Information Related to Credit of a Person Associated with the Bank : The bank does frequent financial transactions on the basis of which, the bank is well aware of the financial capabilities of its customers. Any firm or institute considers the information provided by a bank more reliable in such dealing where credit transaction is required and the firm or the institute wants to check reliability of other firm or institute. The bank issues 'Solvency Certificate' for the same.

(7) To provide service as an underwriter : When a company comes to the market for collection of capital it always has a fear whether it will get the amount for the issue or not ? The company finds difficult to run the business if it does not get the minimum amount. At this time the bank ensures full or minimum amount of subscription. In case of receiving less application amount as compared to underwriting by bank that amount will be subscribed by bank by way of buying securities.

(8) To provide other related services such as ATM, DEMAT, Safe Deposit Vault : The bank also provides its customers the facilities like ATM, DEMAT and Safe Deposit Vault. In addition to this, it also provides facilities of credit card and debit card to the customers.

3.3 Types of Bank Accounts

One of the functions of bank is to accept deposits. The bank demands KYC (Know Your Customer) from the customer at the time of opening a new account or for other services of the bank. This is as per the rules of the central bank (RBI).

3.3.1 Savings Account : It means the account in which people deposit their savings. A fixed rate of interest is paid in this account. The customer gets interest as per the amount and days for which the amount remains credited in the account. The bank provides facilities like cheque book, ATM card etc., in this account. The account holder can deposit cheque, draft and cash in his account. He can withdraw the amount through a cheque or a withdrawal slip. The bank compel the account holder to maintain minimum balance in his account. Generally the numbers of withdrawal in a savings account are limited in a month. This account can be opened in the name of an individual or more than one name that can be operated jointly. Nomination can be registered. Banks get deposits on a larger scale through these accounts.

3.3.2 Current Account : This account can be opened with the name of an individual or a business unit. Normally, no interest is provided in this account, but the bank may collect bank charges. Facilities of loan can be provided on this account. There is no limitation in terms of the numbers of transactions in a month in this account. Generally a business man opens this account.

3.3.3 Recurring Account : This is an account which is opened from the savings point of view in which it is compulsory to deposit certain amount every month. The rate of interest on such amount is higher than savings account and lower than fixed deposit. The bank pays the whole amount along with interest at the end of the term.

3.3.4 Fixed Deposit : Fixed deposit means a source of the money which can be used by the bank for the fixed term. The depositor cannot withdraw money until the maturity date of deposit. If the money is withdrawn before the term of maturity, then the rate of interest decreases. The bank gives the depositor written guarantee that it will pay the amount back along with interest at the end of the term. As the customer cannot withdraw money before the maturity date, the rate of interest in fixed deposit is higher than the savings account and recurring account.

3.4 Services Provided by Bank :

The main function of the bank is to invest money, provide loan and accept deposit. In addition to this the bank has some more functions like, looking after financial transactions of the customer, issue the letter of credit, issue the traveller's cheque, issue drafts, RTGS, NEFT, bank overdraft, loan, credit card, debit card and work related to core banking.

3.4.1 To Issue Draft : Draft means a cheque written by a bank addressing another branch. The name of the person is mentioned in the draft and order is issued to pay the amount to that person. The bank transfers the amount as the issuing authority on behalf of the customer.

When a person wants to send money to another person, he goes to the bank, pays money and the commission to be paid to the bank for issuing the draft and requests the bank to issue the draft.

The sender request the bank to issue the draft in favour of the receiver. The bank orders its branch or its associate bank located in the area of the receiver to pay the amount. The draft can be deposited only in the account of the person whose name is written on it, as it is 'A/C payee only'. Unlike cheque, such draft never bounces.

3.4.2 Bankers Cheque (Pay Order) : Bankers cheque is a facility similar to a bank draft. The cheque issued by the bank against the payment accepted by the bank is called pay-order. Pay-order can be encashed only in the same city.

3.4.3 Real Time Gross Settlement (RTGS) :

When an RTGS member bank transfers money to the any other RTGS member bank anywhere in India, this method is called RTGS. Each of the RTGS member bank branch is identified through IFSC code. It is an eleven digit alpha numeric code. IFSC code is provided by IDRBT (Institute for Development & Research on Banking Technology), Hyderabad. RTGS is a method of transferring money from any bank in India. In this method, the amount is debited or credited as per real time and as per gross settlement.

In RTGS method, money from the account of an account holder of a bank is transferred to the account of the account holder of another bank in India. The transaction is not done in cash, so both the sender and the beneficiary need to have IFSC code. For the deposit transaction of two lakhs or more, RBI provides services through RTGS. In this method the amount is debited in the account of the receiver on the same day as soon as the bank receives instructions from the sender.

An amount of two lakh rupees or more is transferred through RTGS. In this method, commission is charged from the sender of the money and receiver is not charged any commission.

3.4.4 National Electronic Fund Transfer (NEFT) :

NEFT is a method in which one bank having NEFT membership transfers money to another NEFT member bank in India.

NEFT is also a type of payment just like RTGS. This arrangement is provided through on-line system. For this IFSC code is given. In this system, there is no limit on minimum amount. Maximum ₹ 2 lakh can be transferred in batches in this system. RBI is setting transctions on hourly basis. In this system. money is credited to receiver's account on the same day or within 48 hours.

Here transactions are settled batchwise through DNS (Different Net Settlement). Maximum 10 transactions can be there in one batch.

IFSC CODE : All NEFT member banks are identified through IFSC Code. Which is in alpha numeric combination of 11 digits. In this method, commissions is charged from the sender, but in case of inward NEFT where in the receiver is not charged any commission.

To NEFT ₹ 50,000 by cash : ₹ 50,000 or less money can be NEFT by depositing cash in bank and facility of NEFT is available to walk-in-customer from all NEFT member branches of the bank.

3.4.5 Bank Overdraft : A business man holding a current account with the bank. When the facility to withdraw more money than the credit balance of his account is security given, then it is called **Bank Overdraft**. The business man may get overdraft on the self guarantee or the securities as a guarantee of the other. The interest has to be paid only on the overdraft amount though the maximum amount sanctioned for overdraft may be more.

3.4.6 Cash Credit : The loan provided to the businessman for the growth and development of his business considering the stock and due collection of the money, is called cash credit. In this kind of loan the stock of goods remains under the hypothecation of bank. The rate of interest is paid by the business units according to the amount and the time used for loan as decided earlier.

3.4.7 Loan : The main function of a bank is to receive deposits and provide loans. The bank receives deposits at lower rate and provides loans at the higher rate. The bank provides loans to the client/businessman in different ways. The bank provides loans to the customers for different requirements like buying a house, buying furniture, renovation of the house, buying a vehicle or for the development of their business. If the advance is for a long term and the amount repayment is paid fully at a time or at a regular term installments then it is called as loan. In order to secure the loan amount, the bank keeps the immovable property of the client as mortgage. Such loan is repaid according to the terms decided at the time of sanctioning loan.

3.5 E-Banking

Meaning : E-banking means Electronic Banking. In this kind of banking transactions are done with the help of electronic media instead of physical method. The development in banking process is seen at three phases.

(1) Traditional Process : The transactions of bank were done traditionally and the ledgers were maintained for entries of the accounts. In addition to this any other work such as keeping vouchers or checking the specimen signature etc., was done without any type of machines.

(2) Connecting Computers Through Network : In the traditional process of banking all computers lying in the same branch are connected through network. One of these computers among all computers of the same branch was called '**the server**'. In this way connecting all computers of the same branch is possible and banking process become easy and speedy.

(3) Use of Internet : Bank computers were connected through internet, as a result of which banking process become very easy and speedy.

3.5.1 Internet, Core Banking and Mobile Banking :

Bank transactions are done through internet. For this kind of system bank has also set up arrangement like E-Corner or E-Gallery. In this kind of transactions, the bank provides unique code (password) to the customers. In this type, transactions are done in two ways. : (1) Financial Transaction (2) Non-Financial Transaction

(1) Financial Transaction : Here bank account holder transfers money from his bank account to another bank account of the other bank account holder. This transaction is called financial transaction. Payments like telephone bill, tax-bill or other such payments are included in this.

(2) Non-Financial Transaction : In this kind of transaction, financial transaction is not included but the account holder does the transaction like getting account statement, cheque book request, PIN change, stop payment request and other such non-financial transaction.

The following functions become easy due to use of internet in bank. :

(1) Core Banking (2) E-Banking (3) Mobile Banking.

(1) Meaning of Core Banking : 'CORE' in Core Banking means, 'Centralized Online Real time Exchange'.

In this system all the branches of the same bank located in the different parts of the world are connected to one another. In the centralized server of the bank, all the details of all the accounts of all the branches of the banks are available. Entry of the transaction of an account holder of a bank is recorded in the centralized server of the bank in real time. The change in entry occurring in this centralized server can be seen in all the branches of the bank. The account holder of any branch can complete his transaction from any other branch of this bank. He can withdraw or deposit money or can do any transaction in his account from any other branch. Thus, the account holder becomes the customer of the bank and not of the particular branch. This process can be done in different branches of the same bank. Because of this arrangement, time and expenses of both the bank and the customers are decreased.

(2) E-Banking : (Electronic Banking) In this present time, all banks are connected through internet to their branches by the medium of server. So a person can withdraw or deposit money from any other branch regardless of his home branch. Banks have established their E-corner at different places, by means of which the customer can either withdraw or deposit money from his account through his ATM card with the help of machine. He can also know the balance in his account by this system. Because of this kind of transaction, the bank also registers the account holder's mobile number, on which the customer receives messages whenever there is any transaction in his account. Banking work becomes easy because of this system.

(3) Mobile Banking : Mobile banking is such a system through which any financial transaction is made possible from any corner of the world through electronic equipment, i.e. Mobile phone with internet connectivity. The person need not have to go to the bank physically in this system and can manage transactions like knowing the balance of the account, paying the light bill, gas bill, taxes, or making other payments. Money can be transferred from one account to another. The customer has to make an application to the bank in order to get this kind of services. The bank then provides Login ID and Password for mobile banking. It is necessary to follow security rules in this system.

3.6 Service Associated with Bank

3.6.1 ATM : The full form of this service is Automated Teller Machine. The bank account holder is given this facility. When the customer needs, he can withdraw the minimum amount decided by the bank and lesser than the balance of his account. The bank account holder can withdraw limited amount from his account under the daily withdrawal limit. The limitation of maximum withdrawal amount in the single time is also fixed by the bank. The bank provides ATM card to the customer. The customer is also given a secret pin. Money can be withdrawn from the ATM of the other bank also, but some extra charge has to be paid for the same.

3.6.2 Credit Card : This type of bank card has been used widely from the end of the 20th century. An account holder or any person can apply to the bank and can demand the credit card. The bank conducts a systematic study of the credit of the person like how much debt can be repaid by him through card. This is determined by the bank on the basis of study. On the basis of this study, the bank issues a credit card with a pre-decided limit to him. When he makes purchase the amount from his account will be debited and the amount will be credited to the seller's account. Balance statement is sent to the card holder at fixed time which he has to settle or repay within the prescribed time limit.

3.6.3 Debit Card : This card can be used at the place where, there is an arrangement to do the transaction through debit card. The card holder makes payment of his shopping through this card. This card is given to the seller to swipe after the shopping. The billing amount is debited to the account of the card holder. The card holder can spend only from the available balance in his account.

What did you learn in this chapter ?

Meaning of Bank : According to the Reserve Bank of India, “ Bank means an institute which collects deposits in order to lend them and with a condition to return it at the end of the fixed term whenever it is demanded.”

Functions of Bank : (A) Main Function : (1) To accept/collect deposit (2) To lend money (3) To invest money (4) To do inter banking transactions (B) Subsidiary Functions : (1) To look after the financial transactions of the customer (2) To do transactions associated with foreign exchange (3) To issue letter of credit (4) To issue traveller's cheque (5) To issue draft (6) To provide service as an underwriter (7) To provide other related services such as ATM, DEMAT, Safe Deposit Vault.

Types of Bank Account : (1) Savings Account (2) Current Account (3) Recurring Account (4) Fixed Term Account.

Services Provide by Bank : The bank Provides services to its customers, like; to issue Draft, Banker's Cheque, RTGS, NEFT, Bank Overdraft, Cash Credit, Loan etc.

E-Banking : Facilities like Internet, Core Banking and Mobile Banking are included in E-Banking (1) In E-Banking, banking transactions are completed in electronic form instead of physical form. In this type, bank transactions are completed through either internet or mobile phone in which Financial and Non-Financial transactions are included (2) 'CORE' in Core banking means 'Centralized Online Real-time Exchange'. In this system all the branches of the same bank located in the different parts of the world are connected to one another. The account holder can complete his transaction from any other branch of this bank other than his home branch.

Services associated with bank : The bank provides services like ATM, Credit Card, Debit Card etc. to its customers.

EXERCISE

1. Select the correct alternative and write answers to the following questions :

- (1) In which kind of account generally interest is not paid on the deposit ?
(a) Savings account (b) Current account (c) Recurring account (d) Fixed deposit account
- (2) In which kind of account, it is compulsory to deposit certain amount at certain time ?
(a) Savings account (b) Current account (c) Recurring account (d) Fixed deposit account
- (3) In which kind of account the bank gives maximum rate of interest on the deposited amount ?
(a) Current account (b) Fixed deposit account (c) Recurring account (d) Savings account
- (4) What is the name of the central bank (Monetary Authority) of India ?
(a) State Bank of India (b) Central Bank of India
(c) Reserve Bank of India (d) Bank of India
- (5) What is the facility of overdraft for the certain period is called ?
(a) Pay order (b) Cash credit
(c) Demand draft (d) Over draft

- (6) What type of cheque is used by the bank to repay its debts ?
 (a) Traveler's cheque (b) Pay-order
 (c) Demand draft (d) Cash credit
- (7) Which facility of bank can be used against the risk of cash in travelling ?
 (a) Demand draft (b) Cheque
 (c) Pay-order (d) Traveller's cheque
- (8) Minimum how much amount can be transferred through RTGS ?
 (a) Any amount (b) 2 lakh (c) 5 lakh (d) 50,000
- (9) In which kind of transaction the central bank transacts as per Batch ?
 (a) NEFT (b) RTGS (c) CORE Banking (d) Call Money
- (10) How do the banks transact with one another to solve the problems of fund/money occurring at certain time ?
 (a) Call money (b) Pay-order (c) Over draft (d) Cash credit
- (11) Minimum how much amount can be transferred in NEFT ?
 (a) Any amount (b) 2 lakh (c) 5 lakh (d) 50,000
- (12) Which card is issued to the customer by the bank on the basis of his credit ?
 (a) Debit card (b) Credit card (c) Letter of credit (d) Demand draft
- Answer :** (1) (b) (2) (c) (3) (b) (4) (c) (5) (b) (6) (b) (7) (d) (8) (b)
 (9) (a) (10) (a) (11) (b) (12) (b)

2. Answer the following questions in one sentence each :

- (1) Write the meaning of 'Bank'.
- (2) Which kind of account can be opened in the name of a business unit ?
- (3) In which kind of account the number of withdrawn transaction is limited up to a certain limit ?
- (4) How much amount can be transacted in cash through NEFT ?
- (5) Within how much time money is transferred through NEFT ?
- (6) In which kind of card only the amount available in the account can be spent ?

3. Answer the following questions in short :

- (1) What is Overdraft ?
- (2) What is Cash Credit ?
- (3) Define 'Traveller's cheque' ?
- (4) Give two examples of Non-Financial transaction done through E-Banking.
- (5) Explain : (a) Credit Card (b) Debit Card (c) ATM

4. Answer the following questions in brief :

(1) Write Short Notes :

(a) Call Money (b) Core Banking (c) RTGS (d) NEFT (e) M-Banking

(2) Explain - “The account holder is not the customer of a particular branch of the bank but of the bank.”

5. Answer the following questions in detail :

(1) Explain functions of bank.

(2) Explain the types of bank account.

Full Form of Abbreviation

RBI	: Reserve Bank of India
ATM	: Automated Teller Machine
KYC	: Know Your Customer
DEMAT	: Dematerialized
RTGS	: Real Time Gross Settlement
NEFT	: National Electronic Fund Transfer
IFSC	: Indian Financial System Code
DNS	: Different Net Settlement
CORE	: Centralised Online Realtime Exchange
PIN	: Personal Identification Number
IDRBT	: Institute for Development and Research on Banking Technology

