BANKING THEORY AND PRACTICE

MEANING OF BANK:

Banking is considered to be the nerve center of trade, commerce and business in a country. It plays a vital role in distributing the money for the development of trade, industry and commerce. Now-a-days, banking sector acts as the backbone of modern business. Therefore we may say that banking is the lifeblood of modern commerce. Bankers are not only dealers in money but also leaders in economic development of a country. Development of any country mainly depends upon the banking system.

The term bank is either derived from Old Italian word *banca* or from a French word *banque* both mean a **Bench** or **money exchange table**. In olden days, European money lenders or money changers used to display (show) coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging. A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

DEFINITION OF A BANK:

Oxford Dictionary defines a bank as "an establishment for custody of money, which it pays out on customer's order."

According to H. L. Hart, a banker is "one who in the ordinary course of his business honours cheques drawn upon him by person from and for whom he receives money on current accounts".

Banking Regulation Act of 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 withdrawable by cheque, draft, order or otherwise".

CHARACTERISTICS / FEATURES OF A BANK:

1. Dealing in Money

Bank is a financial institution which deals with other people's money i.e. money given by depositors.

2. Individual / Firm / Company

A bank may be a person, firm or a company. A banking company means a company which is in the business of banking.

3. Acceptance of Deposit

A bank accepts money from the people in the form of deposits which are usually repayable on demand or after the expiry of a fixed period. It gives safety to the deposits of its customers. It also acts as a custodian of funds of its customers.

4. Giving Advances

A bank lends out money in the form of loans to those who require it for different purposes.

5. Payment and Withdrawal

A bank provides easy payment and withdrawal facility to its customers in the form of cheques and drafts. It also brings bank money in circulation. This money is in the form of cheques, drafts, etc.

6. Agency and Utility Services

A bank provides various banking facilities to its customers. They include general utility services and agency services.

7. Profit and Service Orientation

A bank is a profit seeking institution having service oriented approach.

8. Ever increasing Functions

Banking is an evolutionary concept. There is continuous expansion and diversification as regards the functions, services and activities of a bank.

9. Connecting Link

Bank acts as a connecting link between borrowers and lenders of money. Banks collect money from those who have surplus money and give the same to those who are in need of money.

10. Banking Business

A bank's main activity should be to do business of banking which should not be subsidiary to any other business.

11. Name Identity

A bank should always add the word “bank” to its name to enable people to know that it is a bank and that it is dealing in money.

CLASSIFICATION OF BANKS

The banking institutions form an indispensable part in a modern developing society. They perform varied functions to meet the demands of various sections of the society. On the basis of the functions performed and its ownership, the banks can be classified into the following types:

A. On the Basis of Functions:

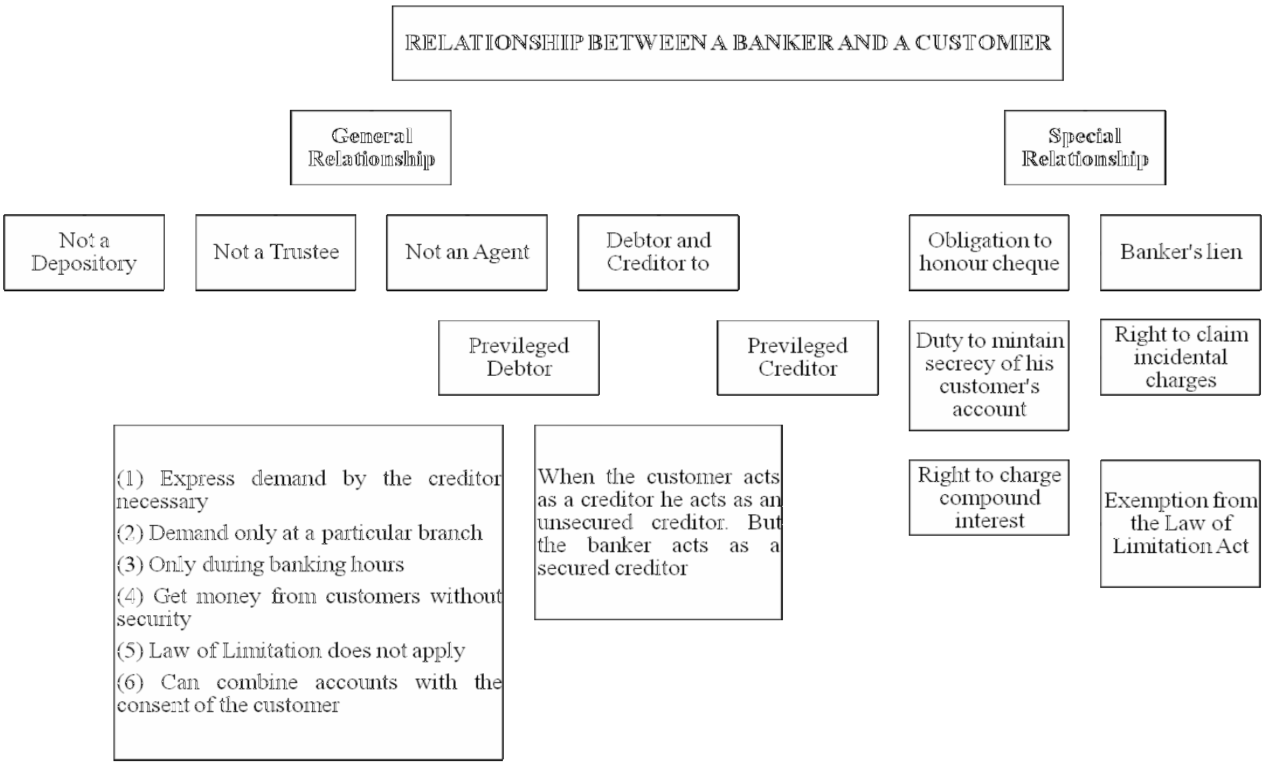
1. Commercial Banks
2. Industrial Banks
3. Regional Rural Banks
4. Exchange Banks
5. Central Bank

B. On the Basis of Ownership:

1. Public Sector Banks
2. Private Sector Banks
3. Co - operative Banks

C. On the Basis of Schedules of RBI:

1. Scheduled Bank
2. Non - Scheduled Bank



FUNCTIONS OF COMMERCIAL BANK:

Functions of a Commercial Bank can be classified into three.

I. Principal/ Primary/ Fundamental functions

II. Subsidiary/ Secondary/ Supplementary functions

III. Innovative functions.

(a) Principal functions:

Commercial banks perform many functions. They satisfy the financial needs of the sectors such as agriculture, industry, trade, communication, so they play very significant role in a process of economic social needs. The functions performed by banks, since recently, are becoming customer-centred and are widening their functions. Generally, the functions of commercial banks are divided into two categories; primary functions and the secondary functions. Two 'acid test' functions of commercial banks are Accepting deposits and Lending loans. These functions along with credit creation, promotion of cheque system and investment in Government securities form basic functions of commercial banks. The secondary functions of commercial banks include agency services, general utility services and innovative services.

1. Receiving deposits:

Most important function of a commercial bank is to accept deposit from those who can save but cannot profitably utilise this savings themselves. By making deposits in bank, savers can earn something in the form of interest and avoid the danger of theft. To attract savings from all sorts of customers, banks maintain different types of accounts such as current account, Savings bank account, Fixed Deposit account, Recurring deposit account and Derivative Deposit account.

2. Lending of funds:

The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income. Modern banks give mostly secured loans for productive purposes. In other words, at the time of advancing loans, they demand proper security or collateral. Generally, the value of security or collateral is equal to the amount of loan. This is done mainly with a view to recover the loan money by selling the security in the event of non-refund of the loan. Commercial banks lend money to the needy people in the form of Cash credits, Term loans, Overdrafts (OD), Discounting of bills, Money at call or short notice etc.

(i) Cash Credit:

In this type of credit scheme, banks advance loans to its customers on the basis of bonds, inventories and other approved securities. Under this scheme, banks enter into an agreement with its customers to which money can be withdrawn many times during a year. Under this set up banks open accounts of their customers and deposit the loan money. With this type of loan, credit is created.

(ii) Term loans:

A term loan is a monetary loan that is repaid in regular payments over a set period of time. In other words, a loan from a bank for a specific amount that has a specified repayment schedule and a floating interest rate is called Term loan. Term loans usually last between one and ten years, but may last as long as 30 years in some cases. It may be classified as short term, medium term and long term loans.

(iii) Over-Drafts:

It is the extension of credit from a bank when the account balance reaches zero level. Banks advance loans to its customer's up to a certain amount through over-drafts, if there are no deposits in the current account. For this, banks demand a security from the customers and charge very high rate of interest. Overdraft facility will be allowed only for current account holders.

(iv) Discounting of Bills of Exchange:

This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. While discounting a bill, the Bank buys the bill (i.e. Bill of Exchange or Promissory Note) before it is due and credits the value of the bill after a discount charge to the customer's account. The transaction is practically an advance against the security of the bill and the discount represents the interest on the advance from the date of purchase of the bill until it is due for payment. In this way, businessmen get loans on the basis of their bills of exchange before the time of their maturity.

(v) Money at Call and Short notice:

Money at call and short notice is a very short-term loan that does not have a set repayment schedule, but is payable immediately and in full upon demand. Money at-call loans give banks a way to earn interest while retaining liquidity. These are generally lent to other institutions such as discount houses, money brokers, the stock exchange, bullion brokers, corporate customers, and increasingly to other banks. ‘At call’ means the money is repayable on demand whereas ‘At short notice’ implies the money is to be repayable on a short notice up to 14 days.

3. Investment of funds in securities:

Banks invest a considerable amount of their funds in government and industrial securities. In India, commercial banks are required by statute to invest a good portion of their funds in government and other approved securities. The banks invest their funds in three types of securities—Government securities, other approved securities and other securities. Government securities include both, central and state governments, such as treasury bills, national savings certificate etc. Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of Land Development Banks, units of UTI, shares of Regional Rural banks etc.

4. Credit Creation:

When a bank advances a loan, it does not lend cash but opens an account in the borrower’s name and credits the amount of loan to this account. Thus a loan creates an equal amount of deposit. Creation of such deposit is called credit creation. Banks have the ability to create credit many times more than their actual deposit.

5. Promoting cheque system:

Banks also render a very useful medium of exchange in the form of cheques. Through a cheque, the depositor directs the banker to make payment to the payee. In the modern business transactions by cheques have become much more convenient method of settling debts than the use of cash. Through promoting cheque system, the banks ensure the exchange of accounted cash. At present, CTS (Cheque Truncation System) cheques are used by Indian Banks to ensure speedy settlement of transactions in between banks. In contrast to the declining importance of cheques, the use of electronic payment instruments at the retail level has been growing rapidly.

(b) Subsidiary functions:

1. Agency services:

Banks act as an agent on behalf of the individual or organizations. Banks, as an agent can work for people, businesses, and other banks, providing a variety of services depending on the nature of the agreement they make with their clients. Following are the important agency services provided by commercial banks in India.

- Commercial Banks collect cheques, drafts, Bill of Exchange, interest and dividend on securities, rents etc. on behalf of customers and credit the proceeds to the customer’s account.
- Pay LIC premium, rent, newspaper bills, telephone bills etc
- Buying and selling of securities
- Advise on right type of investment
- Act as trustees (undertake management of money and property), executors (carry out the wishes of deceased customers according to will) & attorneys (collect interest & dividend and issue valid receipt) of their customers.

- Serve as correspondents and representatives of their customers. In this capacity, banks prepare Income Tax returns of their customers, correspond with Income Tax authorities and pay Income Tax of their customers.

2. General Utility Services:

In addition to agency services, modern banks perform many general utility services for the community. Following are the important general utility services offered by Commercial Banks.

- **Locker facility:** Bank provides locker facility to their customers. The customers can keep their valuables such as gold, silver, important documents, securities etc. in these lockers for safe custody.
- **Issue travelers' cheques:** Banks issue traveler's cheques to help their customers to travel without the fear of theft or loss of money. It enables tourists to get fund in all places they visit without carrying actual cash with them.
- **Issue Letter of Credits:** Banks issue letter of credit for importers certifying their credit worthiness. It is a letter issued by importer's banker in favour of exporter informing him that issuing banker undertakes to accept the bills drawn in respect of exports made to the importer specified therein.
- **Act as referee:** Banks act as referees and supply information about the financial standing of their customers on enquiries made by other businessmen.
- **Collect information:** Banks collect information about other businessmen through the fellow bankers and supply information to their customers.
- **Collection of statistics:** Banks collect statistics for giving important information about industry, trade and commerce, money and banking. They also publish journals and bulletins containing research articles on economic and financial matters.
- **Underwriting securities:** Banks underwrite securities issued by government, public or private bodies.
- **Merchant banking:** Some bank provides merchant banking services such as capital to companies, advice on corporate matters, underwriting etc.

(c) Innovative Functions:

The adoption of Information and Communication technology enables banks to provide many innovative services to the customers such as;

1. ATM services:

Automated Teller Machine (ATM) is an electronic telecommunications device that enables the clients of banks to perform financial transactions by using a plastic card. Automated Teller Machines are established by banks to enable its customers to have anytime money. It is used to withdraw money, check balance, transfer funds, get mini statement, make payments etc. It is available at 24 hours a day and 7 days a week.

2. Debit card and credit card facility:

Debit card is an electronic card issued by a bank which allows bank clients access to their account to withdraw cash or pay for goods and services. It can be used in ATMs, Point of Sale terminals, e-commerce sites etc. Debit card removes the need for cheques as it immediately transfers money from the client's account to the business account. Credit card is a card issued by a financial institution giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short- term financing.

3. Tele-banking:

Telephone banking is a service provided by a bank or other financial institution that enables customers to perform financial transactions over the telephone, without the need to visit a bank branch or automated teller machine.

4. Internet Banking:

Online banking (or Internet banking or E-banking) is a facility that allows customers of a financial institution to conduct financial transactions on a secured website operated by the institution. To access a financial institution's online banking facility, a customer must register with the institution for the service, and set up some password for customer verification. Online banking can be used to check balances, transfer money, shop online, pay bills etc.

5. Bancassurance:

It means the delivery of insurance products through banking channels. It can be done by making an arrangement in which a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's client base. Banks can earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer base without having to expand their sales forces.

6. Mobile Banking:

Mobile banking is a system that allows customers of a financial institution to conduct a number of financial transactions through a mobile device such as a mobile phone or personal digital assistant. It allows the customers to bank anytime anywhere through their mobile phone. Customers can access their banking information and make transactions on Savings Accounts, Demat Accounts, Loan Accounts and Credit Cards at absolutely no cost.

7. Electronic Clearing Services:

It is a mode of electronic funds transfer from one bank account to another bank account using the services of a Clearing House. This is normally for bulk transfers from one account to many accounts or vice versa. This can be used both for making payments like distribution of dividend, interest, salary, pension, etc. by institutions or for collection of amounts for purposes such as payments to utility companies like telephone, electricity, or charges such as house tax, water tax etc.

8. Electronic Fund Transfer/National Electronic Fund Transfer (NEFT):

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. In NEFT, the funds are transferred based on a deferred net settlement in which there are 11 settlements in week days and 5 settlements in Saturdays.

9. Real Time Gross Settlement System (RTGS):

It can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis. 'Real Time' means the processing of instructions at the time they are received rather than at some later time. It is the fastest possible money transfer system in the country.

DEPOSITS

Deposits of banks are classified into three categories:

i) Demand deposits are repayable on customers’ demand. These comprise of:
   - Current account deposits
   - Current Deposits Premium Scheme
   - Savings bank deposits
   - Premium or Savings Bank Plus Account
   - Call deposits

ii) Term deposits are repayable on maturity dates as agreed between the customers and the banker. These comprise of:
   - Fixed deposits
   - Recurring deposits
   - Monthly-Plus Deposit Scheme / Recurring Deposit Premium account
   - Special Term Deposits

iii) Hybrid deposits or flexi deposits combine the features of demand and term deposits.

These deposits have been lately introduced in by some banks to better meet customers' financial needs and convenience and are known by different names in different banks.

PRINCIPLES OF LENDING

The business of lending, which is main business of the banks, carry certain inherent risks and bank cannot take more than calculated risk whenever it wants to lend. Hence, lending activity has to necessarily adhere to certain principles. Lending principles can be conveniently divided into two areas (i) activity, and (ii) individual.

(i) Activity:

(a) Principle of Safety of Funds

(b) Principle of Profitability

(c) Principle of Liquidity

(d) Principle of Purpose

(e) Principle of Risk Spread

(f) Principle of Security

(ii) Individual :

(a) Process of Lending

(b) 5 'C's of the borrower = Character, Capacity, Capital, Collateral, Conditions

Sources of information available to assess the borrower

– Loan application

– Market reports

– Operation in the account

– Report from other Bankers

– Financial statements, IT returns etc.

– Personal interview

– Unit inspection prior to sanction

(c) Security Appraisal - Primary & collateral security should be 'MASTDAY'

M – Marketability

A – Easy to ascertain its title, value, quantity and quality.

S – Stability of value.

T – Transferability of title.

D – Durability – not perishable.

A – Absence of contingent liability. I.e. the bank may not have to spend more money on the security to make it marketable or even to maintain it.

Y – Yield. The security should provide some on-going income to the borrower/ bank to cover interest & or partial repayment.

RELATIONSHIP BETWEEN THE CUSTOMER AND THE BANKER

There are two types of relationship such as general and special relationship

General relationship

1. Debtor-Creditor:

When a 'customer' opens an account with a bank, he fills in and signs the account opening form. By signing the form he enters into an agreement/contract with the bank. When customer deposits money in his account the bank becomes a debtor of the customer and customer a creditor. The money so deposited by customer becomes bank‘s property and bank has a right to use the money as it likes.

2. Creditor–Debtor:

Lending money is the most important activities of a bank. The resources mobilized by banks are utilized for lending operations. Customer who borrows money from bank owns money to the bank. In the case of any loan/advances account, the banker is the creditor and the customer is the debtor. The relationship in the first case, when a person deposits money with the bank reverses when he borrows money from the bank. Borrower executes documents and offer security to the bank before utilizing the credit facility.

Special Relationship:

1. Bank as a Trustee:

As per Sec. 15 of the ‗Indian Trust Act, 1882 ‗A trustee is bound to deal with the trust-property as carefully as a man of ordinary prudence would deal with such property if it were his own; and, in the absence of a contract to the contrary, a trustee so dealing is not responsible for the loss, destruction or deterioration of the trust-property.' A trustee has the right to reimbursement of expenses (Sec.32 of Indian Trust Act.). In case of trust banker customer relationship is a special contract. When a person entrusts valuable items with another person with an intention that such item would be returned on demand to the keeper.

2. Bailee – Bailor:

Sec.148 of Indian Contract Act, 1872, defines "Bailment" "bailor" and "bailee". A "bailment" is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the "bailor". The person to whom they are delivered is called, the "bailee".

3. Lessor and Lessee:

The relationship between the bank and the customer is that of lessor and lessee. Banks lease (hire lockers to their customers) their immovable property to the customer and give them the right to enjoy such property during the specified period i.e. during the office/ banking hours and charge rentals. Bank has the right to break-open the locker in case the locker holder defaults in payment of rent. Banks do not assume any liability or responsibility in case of any damage to the contents kept in the locker. Banks do not insure the contents kept in the lockers by customers.

4. Agent and Principal:

Sec.182 of ‗The Indian Contract Act, 1872' defines ―an agent‖ as a person employed to do any act for another or to represent another in dealings with third persons. The person for whom such act is done or who is so represented is called

―the Principal‖. Banks collect cheques, bills, and makes payment to various authorities viz., rent, telephone bills, insurance premium etc., on behalf of customers.

5. As a Custodian:

A custodian is a person who acts as a caretaker of something. Banks take legal responsibility for a customer‘s securities. While opening a dmat account bank becomes a custodian.

6. As a Guarantor:

Banks give guarantee on behalf of their customers and enter in to their shoes. Guarantee is a contingent contract. As per sec 31,of Indian contract Act guarantee is a " contingent contract ". Contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

RIGHTS OF THE BANKER

1. Rights of general lien

One of the important rights of banker is the right of general lien. Lien means the right of the creditor to retain the goods or securities own by debtor until the debt due from him is repaid. There are some exceptional cases in which the right of general lien is not applicable. These are:

- Safe custody deposit.
- Documents deposited for special purpose.
- Security held in trust.

2. Right of the set off

A banker possess the right of set off which enables him to combine two accounts in the name of same customer and to adjust the debit balance in one account with the credit balance in the other. The right of set off can be exercised subject to the fulfillment of the following conditions:

- The accounts must be in the same name in the same right.

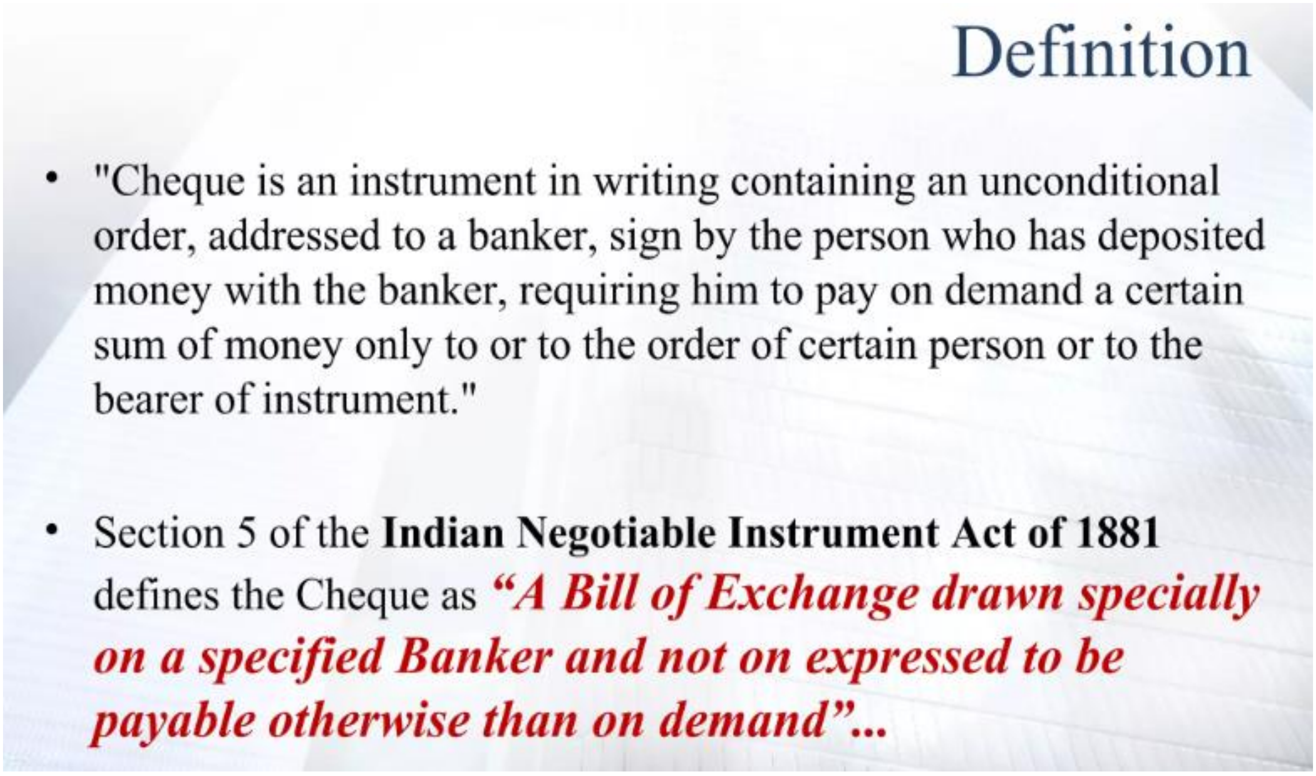
- The right can be exercised in respects of debts due only not in respects of future debts or contingent debts.
- The amount of debts must be certain.
- The banker may exercise that right at his discretion.

3. Banker's right of appropriation

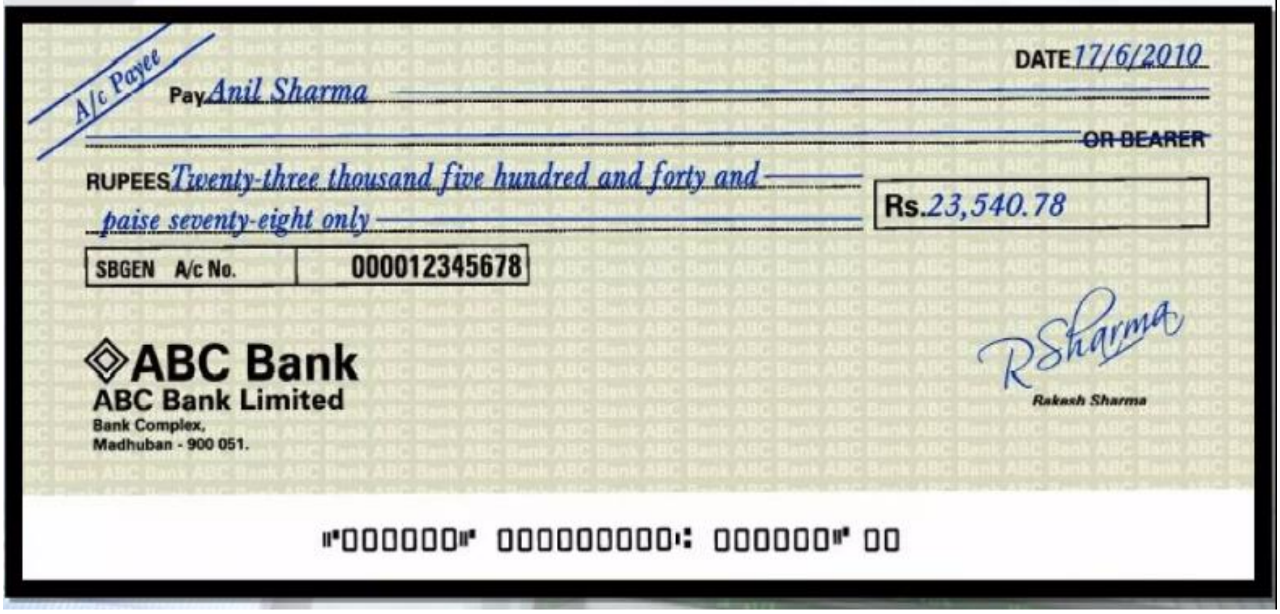
If the customer has more than one account or he has taken more than one loan from the banker, the banker has the right to appropriation these loans by the accounts.

4. Right to charge interest, incidental charges

As a creditor, a banker has the implied right to charge interest on the loans granted to the customer. In the same way incidental charges like service charges, processing fees, appraisal charges, panel charges may be imposed by the banker to the customer.

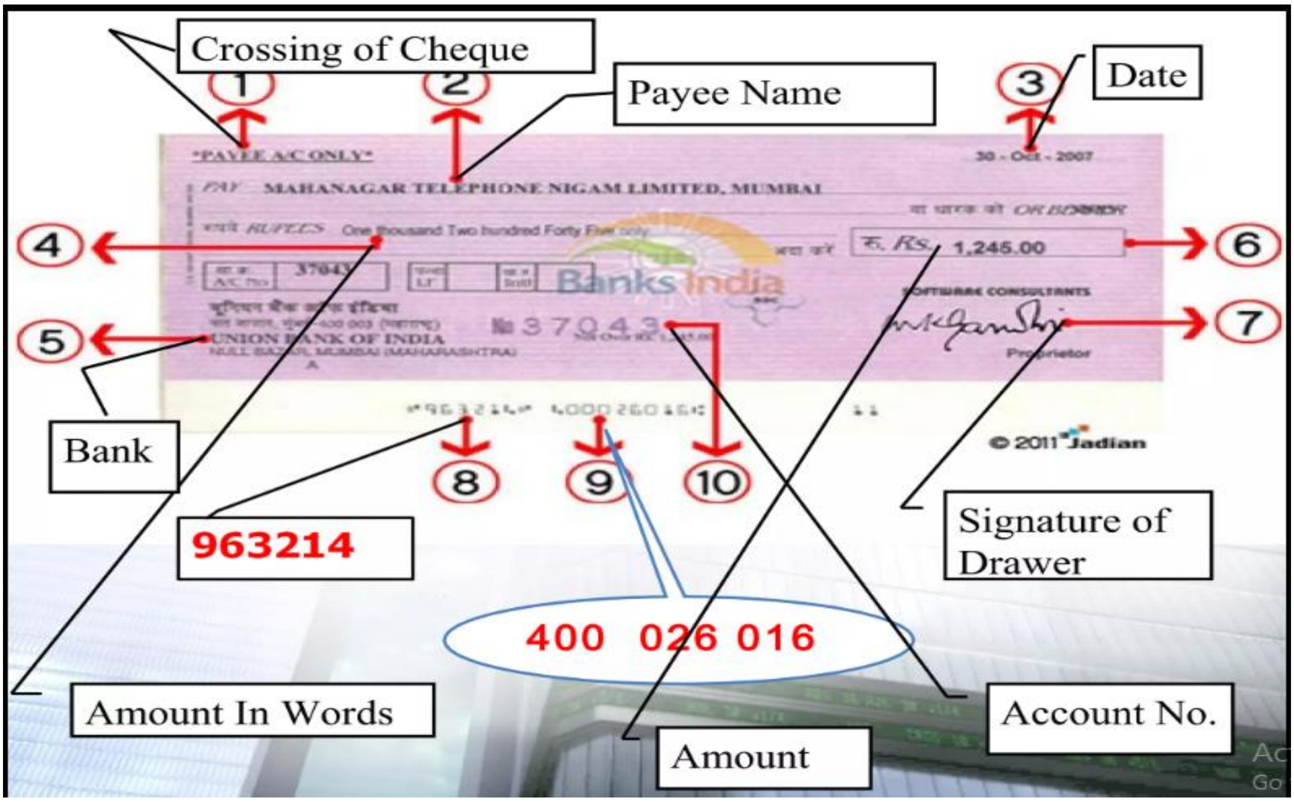


Specimen of Cheque



Essentials of Cheque

- It is an Instrument in writing, i.e., it must be written in Ink and not by pencil.
- It must be Drawn on Particular Bank. It is drawn by a customer who has deposited money with the Bank.
- It must not contains any conditions.
- It must be signed by the Account holder.
- It is always payable on demand.
- It must contain an order to pay certain sum of money
- A Cheque is payable to a Specified Person Only



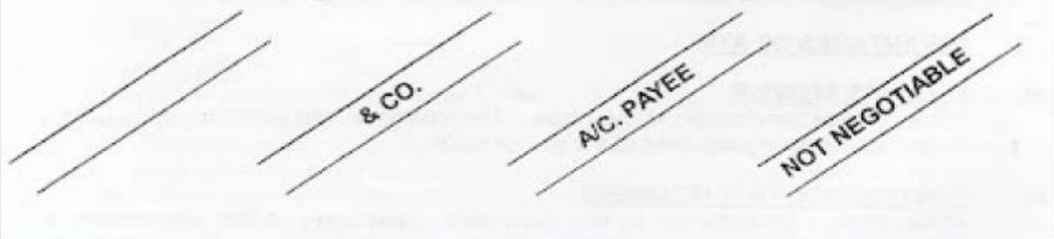
Crossing of Cheque

- Crossing of a cheque means "Drawing Two Parallel Lines" across the face of the cheque. Thus, crossing is necessary in order to have safety.
- Crossed cheques must be presented through the bank only because they are not paid at the counter.
- Crossing is a popular device for protecting the drawer and payee of a cheque.

- Types of Crossing :-
  1. General Crossing
  2. Special or Restrictive Crossing

General Crossing

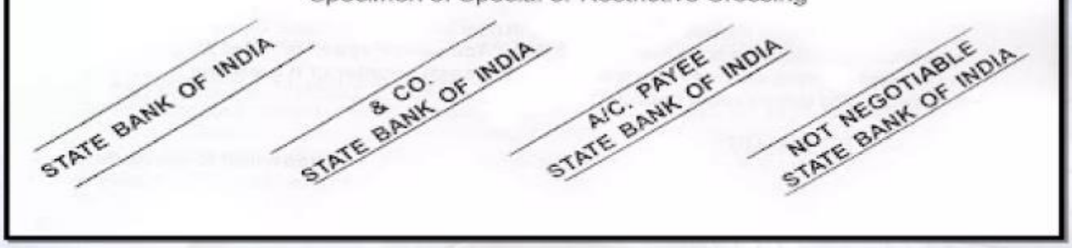
- There are two transverse parallel lines, marked across its face, or
  - The cheque bears an abbreviation "& Co. "between the two parallel lines, or
  - The cheque bears the words "Not Negotiable" between the two parallel lines, or
  - The cheque bears the words "A/c. Payee" between the two parallel lines.



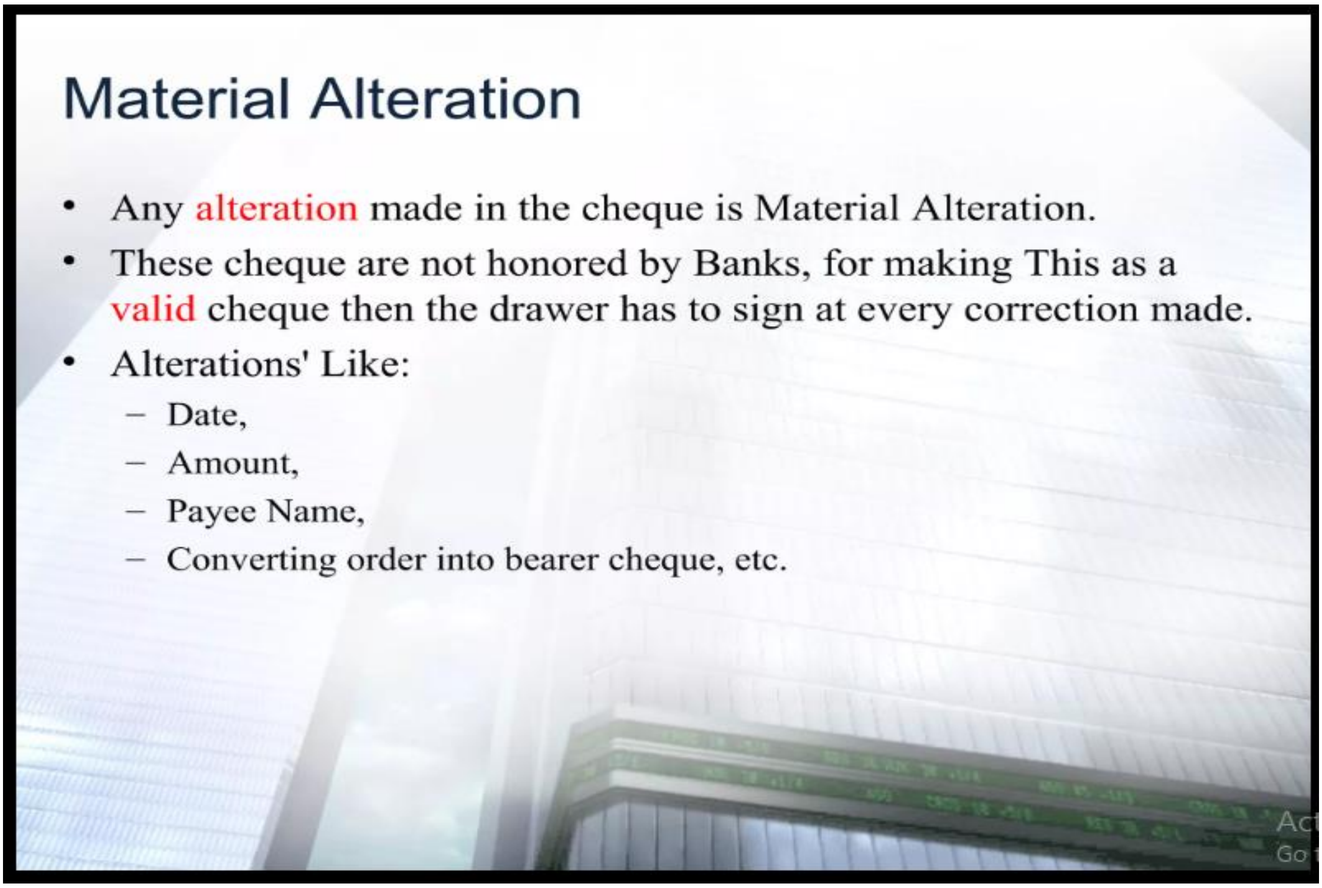
Specimen of General Crossing

Special or Restrictive Crossing

- Crossing is that the bank makes payment only to the banker whose name is written in the crossing. Specially crossed cheques are more safe than a generally crossed cheques.



Specimen of Special or Restrictive Crossing



E-BANKING:

E-banking is the need of the hour. It has become part and parcel of modern life. People don't want to visit bank branches physically. Especially, after COVID-19, the popularity of e-banking has gained momentum. People are satisfied with the ebanking platforms and are using them extensively.

Constraints:

- Complicated websites: Bank clients often complain of complicated and unfriendly websites, which are full of pop-ups, errors, links, and interlinks, and redirections to probably a million pages.
- Difficult for beginners: In absence of hands-on experience, first-time users, find it difficult to use as they are afraid of losing money. They are hesitant to explore all the options and features offered by e-banking. They prefer to stick to traditional method in absence of any assistance from banks.
- Financial jargon: The bank clients that are from non-commerce background, find it difficult to operate because of technical language. Although it is difficult

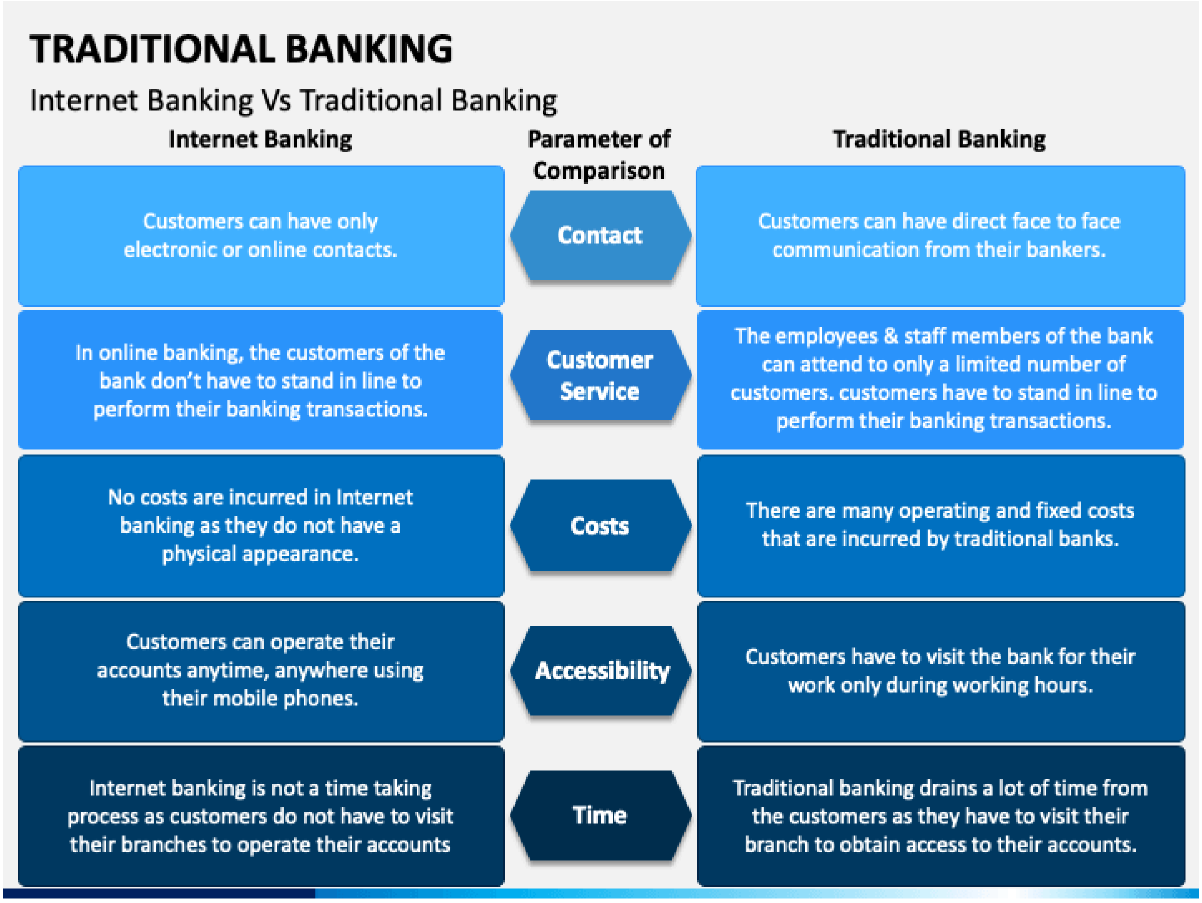
to learn such knowledge overnight, one should get familiar with some basic terms used frequently on such websites.

- Inability to handle complex transactions: Online banking is great for small transactions, however, when a large transaction is involved, it is better to visit a bank. In some cases, documents verification is required, which should be done by visiting a bank.
- Inconvenience: Although online banks are open round the clock, they are a cause of serious inconvenience in certain cases. For instance, if you get locked out of your bank account, you cannot perform any banking transactions. However, in physical world, you have relationships with bank staff, who will come forward to help you whenever you desire.
- Security issues: Despite of technological revolution in the country, every day, cases are heard of online bank frauds and cheatings. Hence, there always remains a risk of identity theft by stolen password.
- Technology issues: The speed of the internet in small cities is a major technological glitch that irritates online customers. Moreover, if there are bugs in the software or there is a power cut or maybe the servers have gone down the websites are bound to crash leading to technological issues.
- Trust and responsibility: Bogus websites and fake sites are very common in this technological age. It is quite difficult to find real website among fake ones. Customers are bombarded with doubts such as what if they log in to fake website and lose all of my hard-earned money. With such incidents, the trust between bank and clients gets shattered.
- Virtual assistance: During online banking, if a customer needs assistance, it is not available every time. When you approach a bank through phone or internet, your concern is assigned to an anonymous customer service agent, who is totally unknown and you may face language barrier. Your desire to talk to personal banker cannot be fulfilled.
- Other limitations: Though e-banking is useful but it is not for everyone. Elderly or uneducated people cannot take benefit of online banking. Besides this, in case of lost network, no one can use e-banking facilities.

INTERNET BANKING

Banking through Internet is called internet banking. It can also be called as electronic banking. Many banks have their own websites. They offer banking facilities such as account enquiry, request for statement and cheque books etc., on the net. The introduction of Security First Network Bank (SFNB) in 1995 in USA is the first step in the development of Internet banking. These banks also provide ATM Card, a Visa cheque and Electronic bill payment facilities. For example, we can visit www.onlinesbi.com to get the SBI's internet banking. This is available at certain designated Branches of SBI. We can access our account (s) at the host Branch through your Personal Computer, from our location. The following banking transactions can be done through the internet banking:

- Access and view your account(s) to keep transactions and balance status.
- Make account enquiry by transaction type/ between dates/by amount etc.
- Request for transfer of funds between your account(s) at the host branch.
- Request for third party transfer of fund from your account(s) at host branch.
- Request for issue of cheque books.
- Request for stop payment of cheque.
- Request for issue of drafts/bank cheques from the funds in your account.
- Request for issue of term deposits/special term deposits.
- Request from renewal of TDRs/STDRs.
- Issue standing instructions on your account.


TRADITIONAL BANKING

Internet Banking Vs Traditional Banking

Internet Banking	Parameter of Comparison	Traditional Banking
Customers can have only electronic or online contacts.	Contact	Customers can have direct face to face communication from their bankers.
In online banking, the customers of the bank don’t have to stand in line to perform their banking transactions.	Customer Service	The employees & staff members of the bank can attend to only a limited number of customers. customers have to stand in line to perform their banking transactions.
No costs are incurred in Internet banking as they do not have a physical appearance.	Costs	There are many operating and fixed costs that are incurred by traditional banks.
Customers can operate their accounts anytime, anywhere using their mobile phones.	Accessibility	Customers have to visit the bank for their work only during working hours.
Internet banking is not a time taking process as customers do not have to visit their branches to operate their accounts	Time	Traditional banking drains a lot of time from the customers as they have to visit their branch to obtain access to their accounts.

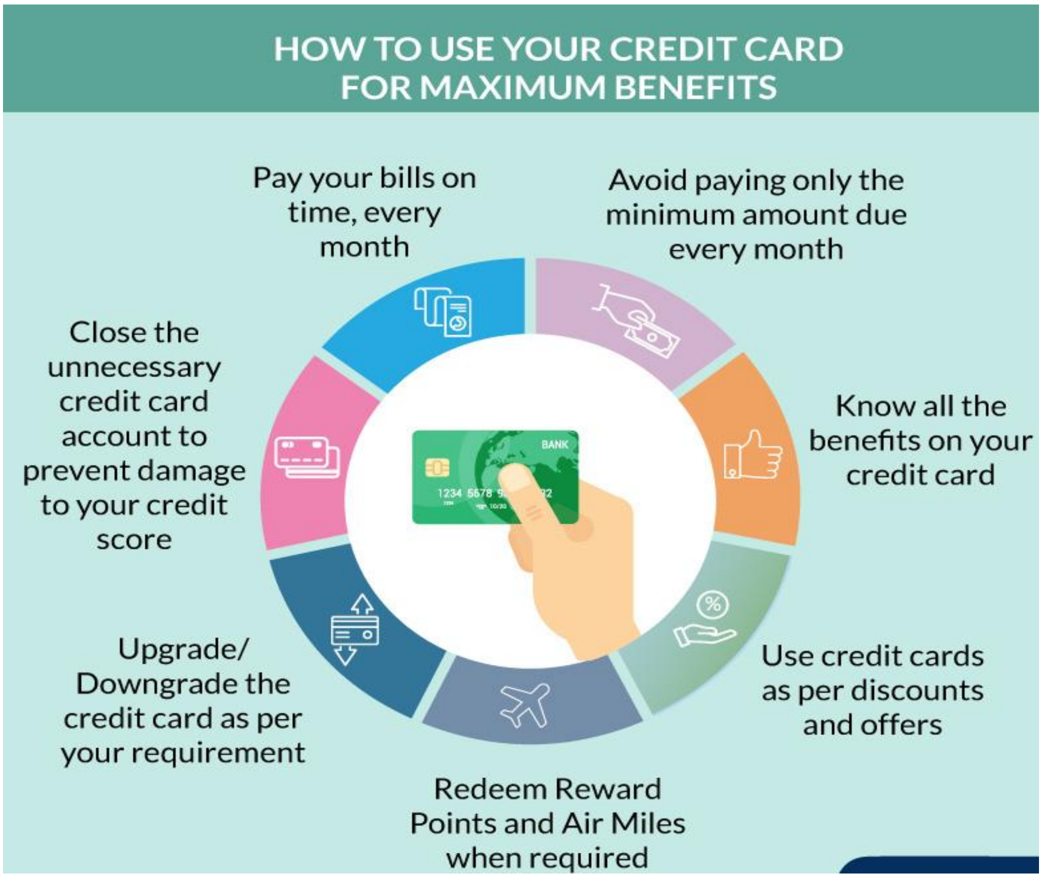
CREDIT CARDS

A credit card is a system of payment named after the small plastic issued to users of the system. A credit card is different from a debit card in that it does not remove money from the user’s account after every transaction. In the case of credit cards, the issuer lends money to the customer (or the user). It is also different from a charge card (through this name is sometimes used by the public to describe credit cards), which requires the balance to be paid in full each month. In contrast, a credit card allows the consumer to ‘revolve’ their balance, at the cost of having interest charged. Most credit cards are the same shape and size, as specified by the ISO 7810 Standard.

Credit cards have higher interest rates (around 34-36 % per year) than most consumer loans or lines of credit. Because of their wide spread acceptance, credit cards are one of the most popular forms of payment for consumer goods and services in the world.

Features of Credit Card

1. Alternative to cash
2. Credit Limit
3. Payment in Domestic and Foreign Currency
4. Record keeping of all transactions
5. Regular Charges
6. Grace Period or Grace Days.
7. Higher fees on cash withdrawals
8. Additional charges for delay in payment
9. Service Tax
10. Bonus Points
11. Gifts and other Offers



Debit Card		Credit Card
		
Allows you to make purchases using the amount in your current or savings account	**Usage**	Allows you to make purchases by borrowing funds from the bank
No interest charges applicable	**Interest charges**	Interest charges applicable on late repayment of the billed amount
Money deducted/used from your current/savings account	**Source of money**	Money borrowed from bank/credit card issuing company
No impact of transactions made on the credit score	**Impact on credit score**	Timely repayments work effectively on the credit score
No specific eligibility criteria to be fulfilled	**Eligibility criteria**	You must meet some specific eligibility conditions of income, age, etc.
You can spend as much amount as it is available in your account	**Spending Limit**	You can spend only as much amount as it granted to you in the form of credit limit by the bank
Not many options to choose from	**Variety of cards**	One card for every need; a wide variety of options available depending upon your spending needs
Provide minimal security from theft or loss of the card; safe transactions	**Security**	Provide complete protection against loss or theft; safe transactions
No additional benefits	**Additional benefits**	Cashbacks, reward points, vouchers, etc. to be redeemed on future purchases
No hidden expenses	**Hidden expenses**	A few hidden expenses such as annual fee, cash withdrawal expenses, fee on foreign transactions, etc.
Allowed, without any additional charges	**Cash withdrawal from ATM**	Allowed, with additional charges

Paytm

AUTOMATED TELLER MACHINE (ATM)

ATM services provide cost effective, highly scalable network based solutions for Carriers and Service Providers to meet their customers' Wide Area transmission needs. It allows customers to tailor the service to meet specific traffic requirements thus, increasing bandwidth efficiency ensure services are automatically re-routed around the primary route to the backup path to provide optimum performance.

Provides the highest level of resilience and diversity enables carriers and service providers to extend their global investment coverage.

Provides a single integrated network for smaller Frame Relay sites and larger ATM locations demonstrates reaches commitment to quality and reliability highest service quality is maintained provides a web based network monitoring tool for customers to view and analyze network performance data.

Operation of ATM:

For using an ATM, a customer requires an ATM card. It is made of plastic with a magnetic stripe or a plastic smart card with a chip. Customer has a special card number that is referred to as a PIN (personal identification number). The customer has to insert the card in the machine and quote his/her PIN. Upon successfully entry of the PIN, the customer may perform a transaction. After the completion of the transaction, a transaction record is printed, usually stating the action taken, date, time, location, available balance.

Functions and Uses of ATMs:

- 24-hour access to cash
- Ability to view Account Balances & Mini-statements
- Order a Cheque Book / Account Statement
- Transfer Funds between accounts
- Refill your Prepaid card or prepaid phone accounts
- Pay your utility bills like Electricity bills, post-paid mobile bills
- Deposit cash or cheques
- Change your PIN
- Learn about other products

Advantages of ATM:

- **ATM provides 24 hours service:** ATMs provide service round the clock. The customer can withdraw cash upto a certain limit during any time of the day or night.
- **ATM gives convenience to Bank's customers:** ATMs provide convenience to the customers. Now-a-days, ATMs are located at convenient places such as at the airports, railway stations, etc.
- **ATM reduces the workload of Bank's staff:** ATMs reduce the work pressure on bank's staff and avoid queues in bank premises.
- **ATM provides service without any error:** ATMs provide service without any error. The customer can obtain exact amount. There is no human error as far as ATMs are concerned.
- **ATM is very beneficial for travelers:** ATMs are of great help to travelers. They need not carry large amount of cash with them. They can withdraw cash from any city or state, across the country and even from outside the country with the help of ATM.
- **ATM may give customers new currency notes:** The customer also gets brand new currency notes from ATMs. In other words, customers do not get solid notes from ATMs.

ELECTRONIC FUND TRANSFER (EFT)

The paper-based instruments such as cheque, draft, dividend and interest warrant processing and adjusting the accounts takes longer time. Using the computers the settlement process is made fast by transmitting the information electronically. The use of data communications to transfer money among accounts is called as electronic fund transfer. EFT is a payment effected by communication of electronically transmitted message to his bank by a customer or a bank to another bank.

EFT in India:

i) In 1995 the RBI has introduced Electronic Clearing System for the transfer of funds in Mumbai, Delhi, Calcutta and Chennai.

ii) Floppy input clearing system was introduced in the banking industry in which the data are consolidated for settlement.

iii) In 1997 RBI has introduced Electronic Clearing service for payment of electricity bills in Mumbai.

NATIONAL ELECTRONIC FUNDS TRANSFER

Regulated by the Reserve Bank of India, NEFT or National Electronic Funds Transfer is an electronic method of transferring money online. Most Indian banks provide the NEFT feature on internet banking and mobile banking. Money transfer made through NEFT does not require any additional transaction costs. Transactions made through NEFT are processed in separate batches. The RBI has specified a cut-off within which these transactions are settled.

- NEFT is a one-to-one payment facility
- NEFT transactions can be processed only between the banks that offer NEFT-enabled services
- Transactions made through NEFT do not take place in real-time; implying that it takes a few days for NEFT transactions to complete
- Before December 2019, RBI had fixed timings during which NEFT transactions can be processed. Any NEFT transaction will be processed only between 8:00 AM and 6:30 PM from Monday to Friday, and 8:00 AM to 12:00 PM on Saturdays. However, from 2020, NEFT transactions can be performed 24*7
- To transfer funds through NEFT, you must add beneficiaries on the internet banking portal of your required bank
- There are no limits on the amount of NEFT transactions
- There is a fee applicable on all NEFT transactions; the amount varies from Rs. 2.5 to Rs. 25, depending on the amount being transferred
- As per RBI guidelines, the payments made via NEFT are processed and settled in batches of half-hour

REAL-TIME GROSS SETTLEMENT

RTGS stands for Real-time Gross Settlement, meaning that through this method, the money is transferred from one bank account to the other in real-time, without any delay. RTGS works out as the best payment method if you need to transfer an amount equal to or more than Rs. 2 lakh in real time. RTGS does not follow any specific processing method unlike NEFT; hence, the funds are settled in real-time, without any delay. Through RTGS, each transaction gets processed with every instruction, which makes the money transfer process easier and faster.

- Transactions made through RTGS are processed on a one-to-one basis
- RTGS facility can be accessed at any time, on any day of the year
- The Real Time Gross Settlement method is mostly used for transactions of high value
- The RTGS service can be used using both online and offline modes
- To process transactions through RTGS, the following details must be provided-
    - Amount to be transferred
    - Bank Account number
    - Beneficiary’s name
    - Bank’s branch
    - Beneficiary’s IFSC
    - Beneficiary’s bank branch

CHARGES ON TRANSACTIONS: NEFT VS RTGS

Additional Charges on NEFT Transactions-

NEFT transactions involved the following additional charges as money transfer fee until December 2019-

Transaction Amount	**Fee Amount**
Less than or equal to Rs. 10,000	Rs. 2.5
Between Rs. 10,000 and Rs. 1 Lakh	Rs. 5
Between Rs. 1 Lakh and Rs. 2 Lakh	Rs. 15
Equal to or more than Rs. 2 Lakh	Rs. 25

However, from January 2021, RBI has removed all the applicable charges on online NEFT transactions. This initiative was taken to promote digital transactions. RBI stated that with effect from 1 January 2020, no banks shall levy any charges from their savings account holders on online fund transfers done through NEFT (National Electronic Funds Transfer) system.

Additional Charges on RTGS Transactions-

The following charges are applicable on transactions made through RTGS-

Type of Transaction	**Charges Applicable**
Inward transactions	No charges
Online transactions (Internet/Mobile Banking)	No charges
Outward transactions (Rs. 2 lakh – Rs. 5 lakh)	Rs. 30
Outward transactions (< Rs. 5 lakh)	Rs. 55

Difference between NEFT vs RTGS

The following are the key differences between NEFT and RTGS-

Point of Difference	NEFT	RTGS
Minimum Amount to be Transferred	Re. 1	Rs. 2 Lakh
Maximum Amount to be Transferred	No limit	No limit
Type of Settlement	Amount settled in batches	Amount settled one-on-one
Settlement Time	2 hours	Immediate
Transfer Timings	24*7, all 365 days	Varies from bank to bank
Mode of Transfer	Both- online and offline	Both- online and offline
Additional charges	No charges applicable	Rs. 30 on outward transactions between Rs. 2 lakh and Rs. 5 lakh; Rs. 55 on outward transactions of more than Rs. 5 lakh

ELECTRONIC CLEEARING SERVICE

Electronic Clearing Service or ECS method can also be used for paying bills and clearing dues. In simple language, this method means transferring money from one bank account to many other bank accounts or from multiple bank accounts to one bank account.

ECS Credit is used by an institution for affording credit to a large number of beneficiaries (for instance, employees, investors etc.) having accounts with bank branches at various locations within the jurisdiction of a ECS Centre by raising a single debit to the bank account of the user institution. ECS Credit enables payment of amounts towards distribution of dividend, interest, salary, pension, etc., of the user institution.

ECS Debit is used by an institution for raising debits to a large number of accounts (for instance, consumers of utility services, borrowers, investors in mutual funds etc.) maintained with bank branches at various locations within the jurisdiction of a ECS Centre for single credit to the bank account of the user institution. ECS Debit is useful for payment of telephone / electricity / water bills, cess / tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc., that are periodic or repetitive in nature and payable to the user institution by large number of customers etc.

QUESTION BANK

1. The word bank is derived from the French word '**<u>Banco'.</u>**
2. **<u>Industrial/Investment</u>** banks provide medium and long-term finance to industries to meet their fixed capital requirements.
3. Banks formed on the principle of co-operation are called **<u>Co-operative banks.</u>**
4. **<u>Land development</u>** banks provide long-term loans to agriculturists against the security of immovable property.
5. The central bank is the **<u>apex bank</u>** of a country.
6. **<u>Central bank</u>** is the lender of last resort.

7. A System where the banking business is carried out by only a single bank with a network of branches throughout the length of the country is called **branch banking.**
8. In the **unit** banking system, the banking operations are carried through a single office and confined to a particular area.
9. **SBI** acts as the sole agent of RBI where it has no branch.
10. A Bill market is a market for **short-term** bills.
11. Branch banking system is popular in **England** .
12. The banks get all advantages of a small scale operation in **unit banking** system.
13. **Group banking** is a system where a group of banks are brought under the control of a holding company.
14. Under the **universal** banking system the banks will perform broad based and comprehensive activities.
15. The first bank which had nationalized in India was **Reserve Bank of India.**
16. The Reserve Bank of India was nationalized in the year **1949.**
17. **Deposists** Constitute main stream of funds for the banker.
18. **RBI** issue notes and coins to Commercial Banks.
19. **A Loan** is a type of advance granted by a banker to the borrower.
20. **Term Deposit** has fixed tenure and earns interest for the customers.
21. A person who is doing the banking business is called as **banker**.
22. **No agreement** is necessary to exercising a lien.
23. A Banker act as an **agent** of his customer when he performs number of agency functions to them.
24. Banker's lien is described as an **implied pledge.**
25. **Particular** lien applies to one transaction or certain transactions only.
26. Honouring of a cheque is a statutory obligation, whereas maintenance of secrecy is a **contractual** obligation.
27. A banker's lien is always a **general** lien.
28. Bankers have no general lien on **safe custody** deposits.
29. Secrecy should be maintained even after the account is closed and even after the **death** of the customer.

30. The banker should not disclose to the holder of a cheque the **exact balance** in a customer’s account.
31. **Incidental charges** take the form of service charges, processing charges, ledger folio charges, appraisal charges, penal charges, collection charges, etc.,
32. A banker is given a special privilege of charging **Compound Interest** on the money lent at the end of every quarter.
33. A banker becomes a **bailee** when he receives gold ornaments and important documents for safe custody.
34. The relationship of a banker and a customer is primarily that of a **debtor and a creditor.**
35. As a debtor, a banker enjoys many privileges and hence he is called a **privileged debtor**.
36. In case of loan, cash credit and over draft the banker becomes a **creditor** and the customer assumes the role of a **Debtor.**
37. Accepting a bill and making it payable at the bank is called **Domiciliation of a B/E.**
38. For wilful dishonour of a cheque **vindictive** damage is payable by the banker.
39. To claim a banking debt **an express demand** in writing is necessary.
40. The law of limitation runs from the date of the **debt**.
41. If the cheques are presented after six months from the date of issue, they will be regarded as **stale** cheques.
42. When a cheque is wrongly dishonoured, a banker is liable only to **his customer.**
43. **A promissory note** contains a promise by the debtor to the creditor to pay a certain sum of money after a certain date.
44. A bill of exchange contains an **order** from the creditor to the debtor, to pay a certain sum, after a certain period.
45. A cheque must contain an **unconditional order**.
46. Material alteration renders the cheque **Invalid**.
47. A cheque without crossing is called an **Open Cheque.**
48. The parallel transverse lines are not essential for a **Special** crossing.
49. Not negotiable crossing is a warning to the **Paying Banker.**

50. Account payee crossing does not restrict the **Transferability** of cheques.
51. The **Drawer** alone has a right to cancel the crossing.
52. A cheque which is crossed to two bankers is known as **Double crossing**.
53. The piece of paper attached to a cheque for the purpose of further endorsement is known as **Allonge.**
54. An order cheque can be converted into a bearer cheque by means of **Blank Endorsement.**
55. A bearer cheque can be converted into an order cheque by means of **Special Endorsement**.
56. An endorsement which limits the further negotiation of an instrument is called **Restrictive** endorsement.
57. If only a part of the amount of the instrument is endorsed, is a called **Partial Endorsement.**
58. Certifying a cheque as good for payment is known as **Marking.**
59. Marking of a **post-dated** cheque is not at all valid.
60. The drawer has no right to **countermand** the payment of the cheque marked at his request.
61. The paying banker should use **reasonable care** and **diligence** while making payment for a cheque.
62. In case of crossed cheque, the payment must be made only to a **fellow** banker.
63. Payment outside the banking hours does not amount to **payment is due course.**
64. The amount stated in the cheque should be both in **words and figures**
65. In **collecting** a cheque a banker can act in two capacities namely as a holder for value and as an agent for collection.
66. A collecting banker can claim statutory protection only for **crossed cheques.**
67. If a banker is completely careless in collecting a cheque then, he will be held liable under the ground of **gross negligence.**
68. The collecting banker should present the cheque for payment without any **delay.**
69. A banker should send a **notice** to the customer in the case of dishonour of a cheque.

70. In case of **dishonour** of a bill by non-acceptance, it is the duty of the collecting banker to inform customer immediately.
71. **Countermanding** is the instruction given by the customer of a bank requesting the bank not to honour a particular cheque issued by him.
72. The contractual relationship between a banker and customer comes to an automatic end-upon the **death** of the customer.
73. **Sec 85** of the negotiable instrument act gives protection to the paying banker in India.
74. Money received malfide is **recoverable.**
75. Money paid under mistake of law is **irrecoverable.**
76. **Sec 131** of the negotiable instruments act gives protection to the collecting banker against the action of conversion.
77. Wrongful wedding with the goods of another is called **Conversion.**
78. Collecting a cheque payable to the firm to the private account of a partner without enquiry constitutes negligence connected with **immediate collection** of a cheque.
79. If a banker takes a cheque as an independent holder by way of negotiation, he cannot get **Statutory protection**.
80. It is the duty of collecting banker to note and protest a foreign bill, in case it is **dishonoured.**
81. **E-banking** refers to a banking transaction routed through internet.
82. Banking without direct recourse to the bank is called **virtual** banking.
83. Unauthorized users accessing the private network are prevented through **firewall** controls.
84. Electronic cash is also called as **digital money**.
85. The biggest constraint in E-banking is **start-up-cost.**
86. E-banking provides 24 hours access to cash through an **Automated Teller Machine.**
87. In **telebanking** a customer can do entire non-cash related banking over the phone anywhere and at anytime.
88. Internet banking reduces bank’s **operating** expenses.

89. **Internet banking** is a platform for electronic delivery of banking services to the customers.
90. In **E-central banking** all banks within the preview of a central bank are interconnected to facilitate clearing of cheque, open market operations, discounting of bills, etc.,
91. Expand - EFT **Electronic Fund Transfer.**
92. Mobile banking is part of **M-Commerce.**
93. A customer can access SMS banking only through **SMS Password**.
94. Expand PIN- **Personal Identification Number**
95. Electronic Fund Transfer system was launched in the year **1995**.
96. A system which facilitates transfer of funds between banks and user is called **Electronic Fund Transfer**.
97. Expand RTGS : **Real Time Gross System**
98. Expand NEFT- **National Electronic Fund Transfer.**
99. A Digital Wallet is also known as **E-Wallet**
100. Offshore banks were often used to hide **Undeclared Income** .