

# **BANKING PRACTICES**

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## PREFACE



“Our top priority is to ensure that the depositor as well as the investor experiences trust and transparency. The old ways and old systems of banking and non-banking sectors are being changed”

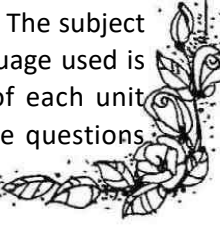
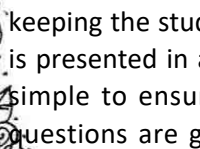
**Shri Narendra Modi, India’s Prime Minister**

As India’s banking industry experiences major disruption and change, the country’s banks are transforming. They are investing heavily in digital technologies to catch up with leading global competitors offering wide ranging and sophisticated services. At the same time, India’s central government has set itself on a path to dramatically digitize India’s population across areas including social service provisions, transfers and transactions, and formal banking. The country’s rapidly growing digital citizenry is increasingly demanding that India’s banks not only keep pace with global leading practices, but leapfrog far beyond them by developing new, uniquely Indian products, services, and business models.

The aim of “Banking Practices” subject is to highlight the practical banking skills required to the students, give an idea of recent trends in banking and to enhance their knowledge of digital banking concepts. The purpose of this book is to make Banking Practices a student friendly subject.

This book serves three objectives – one to understand the subject, secondly remember the concepts for a longer period and, thirdly simplifying the complexities to make the stake holders comfortable with the subject.

The book has been divided into 4 units. Each unit is discussed keeping the student and faculty in mind and the subject. The subject is presented in a clear and systematic way and the language used is simple to ensure better understanding. At the end of each unit questions are given for the practice by students. These questions



provide a coherent framework for analysing the matter, making it easier for the students to learn.

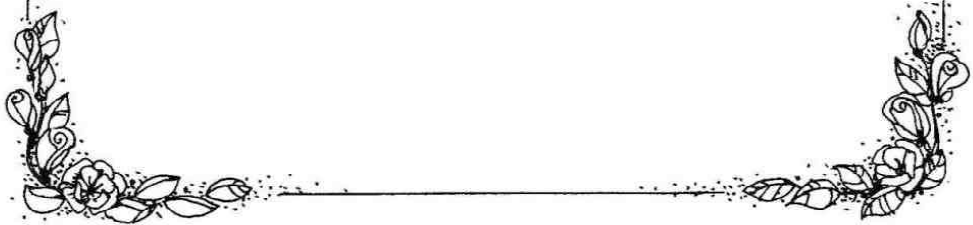
I have referred several standard books available, articles on websites, discussed the better way of presentation of various concepts and placing before academicians and students. I am enormously indebted to all these writers and their scholarship has been gratefully acknowledged. As an author I feel that students' expectations in a text book for academic learning are fulfilled here and hope the academicians and student community will widely refer this book.

The book could not have been written without constant support and motivation I received from my teachers, colleagues, students and well-wishers. I am extremely grateful to the Management, Principal and my colleagues for their unconditional support. I profusely thank the publisher for the committed efforts to bringing out this book in a unique way and at reasonable cost. I owe a personal debt of gratitude to the members of my family for their unstinted support. I gratefully accept the opinions and suggestions for the improvement of this book.

**2022**

**Seema Prabhu S.**

**Mangaluru**



## **SYLLABUS**

### **BANKING PRACTICES**

#### **UNIT 1: BASICS OF BANKING: 4 hrs**

Banking – Meaning and Definitions  
Procedure for Opening Bank Accounts  
(with reference to S.B A/c)  
Procedure for applying loans – CIBIL  
PMJDY – Features

#### **UNIT 2: DELIVERY CHANNELS: 6 hrs**

ATM – Phone Banking – Internet Banking – Mobile Banking- MICR-  
Electronic Clearings- Payment Gateways – Card Technologies.

#### **UNIT 3: INTER- BANK PAYMENT SYSTEMS: 6 hrs**

NEFT –RTGS- Negotiated Dealing Systems and Securities Settlement  
Systems – Electronic Money – E Cheques –IMPS.

#### **UNIT 4: BANKING OPERATIONS: 8 hrs**

Negotiable Instruments – Features – Cheques- Demand Drafts –  
Endorsement – Crossing – Dishonour of Cheques.

## CONTENTS

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(Content: Banking – Meaning and Definitions- Features-Functions - Types of deposits- Procedure of Opening Bank Accounts (with reference to S.B. A/c)- Loans- How to Apply for a Loan?-CIBIL- Financial Inclusion- Objectives- Financial inclusion schemes in India- Pradhan Mantri Jan-Dhan Yojana (PMJDY) - Benefits under PMJDY- How to open the PM Jan Dhan Yojana Account?)

**INTRODUCTION:**

The history of banking began when empires needed a way to pay for foreign goods and services with something that could be exchanged easily. Coins of varying sizes and metals eventually replaced fragile, impermanent paper bills.

Coins, however, needed to be kept in a safe place, and ancient homes did not have steel safes. According to World History Encyclopaedia, wealthy people in ancient Rome kept their coins and jewels in the basements of temples. The presence of priests or temple workers, who were assumed devout and honest, and armed guards added a sense of security.

Historical records from Greece, Rome, Egypt, and Ancient Babylon have suggested that temples loaned money out in addition to keeping it safe. The fact that most temples also functioned as the financial centres of their cities is a major reason why they were ransacked during wars.

Coins could be hoarded more easily than other commodities, such as 300-pound pigs for example, so a class of wealthy merchants took to lending coins, with interest, to people in need. Temples typically handled large loans and loans to various sovereigns, and wealthy merchant money lenders handled the rest.

The modern banking has its origin in European practices. Countries like Greece, Rome and Italy had money lenders taking deposits from public and lending them back. The priests of temple of Olympia

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accepted valuables of the public for safe custody. The spiritual faith of the people led to the concept of depository. Gold and jewellery were also deposited with goldsmiths for safe custody. The modern banking is a blend of these three practices.

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.

According to some authorities, the word "Bank" itself is derived from the words "bancus" or "banqee," that is, a bench. The early bankers, the Jews in Lombardy, transacted their business on benches in the market place. There are others, who are of the opinion that the word "bank" is originally derived from the German word "back" meaning a joint stock fund, which was Italianized into "banco" when the Germans were masters of a great part of Italy.

#### **DEFINITIONS AND MEANING OF BANK:**

It is very difficult to define the term '**bank**' or '**banker**' precisely. Even the best authorities on banking have failed to provide a precise and satisfactory definition of this term. This is because a modern bank performs numerous activities, and it is really difficult to include all the activities of a modern bank in a simple and satisfactory definition.

Though it is really difficult to define the term '**banker**' precisely, several authorities have attempted to define this term in their own ways. The various definitions, attempted so far, have thrown some light on the meaning and chief characteristics of a bank. So, let us examine some of the important definitions, and understand the meaning and main features of a bank.

**Definition by Wikipedia:** "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".

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**Definition by H. P. Seldon:** "The function of receiving money from his customers and repaying it by honouring their cheques as and when required is the function above all other functions which distinguishes a banking business from any other kind of business."

**Crowther defines a bank as,** "One that collects money from those who have it to spare or who are saving it out of their income and lends the money so collected to those who require it".

**Dr. Herbert L. Hart defines a banker as** "One who in the ordinary course of his business, honours cheques drawn upon him by persons from and for whom he receives money on current accounts".

This definition, no doubt, includes one of the essential functions of a modern bank, viz., acceptance of current deposits and repayment of those deposits on demand. But it makes no reference to the acceptance of other types of deposits, viz., fixed, saving or recurring deposits, the lending or the investment of the deposits accepted, and the performance of the numerous agency and general utility services.

**Sir John Paget says,** "No person or body corporate or otherwise can be a banker who does not take deposit accounts, take current accounts, issue and pay cheques and collect cheques crossed and uncrossed for his customers". He further adds, "One claiming to be a banker must profess himself to be one, the public must accept him as such and finally banking should be his main business."

This definition is fairly exhaustive. But it fails to make a mention of the several agency and the general utility services rendered by a modern bank.

**Section 5(1) (c) of the Indian Banking Regulation Act of 1949 defines the term** "banking company" as "any company which transacts the business of banking in India."

**Section 5(1) (b) of the Same Act defines the term "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."

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This Act, besides stating the main banking activities, also enumerates, in Section 6, the various subsidiary services, such as the collection of cheques, drafts and bills, remittance of funds, acceptance of safe-custody deposits, etc. that are performed by a bank. This Act also stipulates that banking business should be the main business of a bank.

**Section 7 of this Act** requires that every banking company should use as part of its name, the term '**bank**', '**banker**' or '**banking company**'.

According to the definition given by the Indian Banking Regulation Act of 1949, **the essential characteristics of a bank are:**

1. Acceptance of deposits from the public on current, fixed and savings bank accounts.
2. Allowing of withdrawals of those deposits by cheques, drafts, orders or otherwise.
3. Utilisation of deposits in hand for the purpose of lending or investment in securities.
4. Performance of other activities called **subsidiary services**, in addition to the principal activities of receiving of deposits and lending of funds.
5. Performance of banking business as the main business.
6. Using the term '**bank**', '**banker**' or '**banking company**' as part of the name.

The definition given by the Indian Banking Regulation Act of 1949 is quite satisfactory, as it comprises all the essential features of a bank.

### **FEATURES / CHARACTERISTICS OF A BANK:**

On an analysis of the various definitions given above, the following features constitute bank:

1. **Dealing in Money:** A banker should deal mainly with other people's money. He should use his brain, but others' money. A banking institution must accept deposits of money from the
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