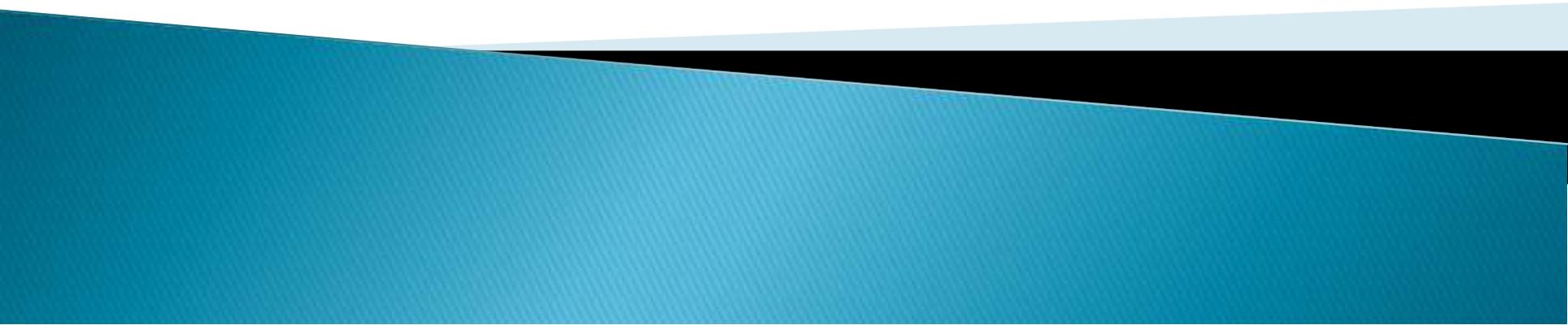
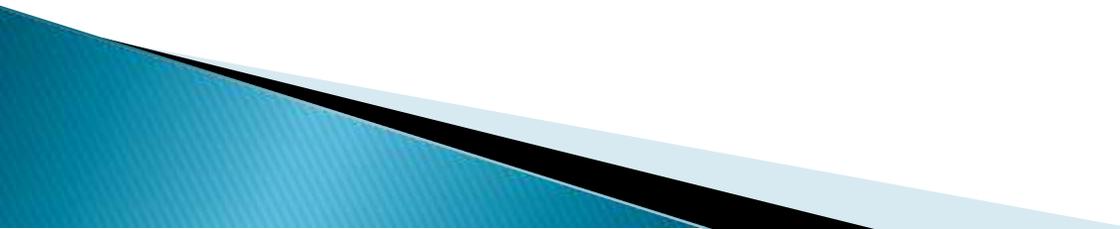


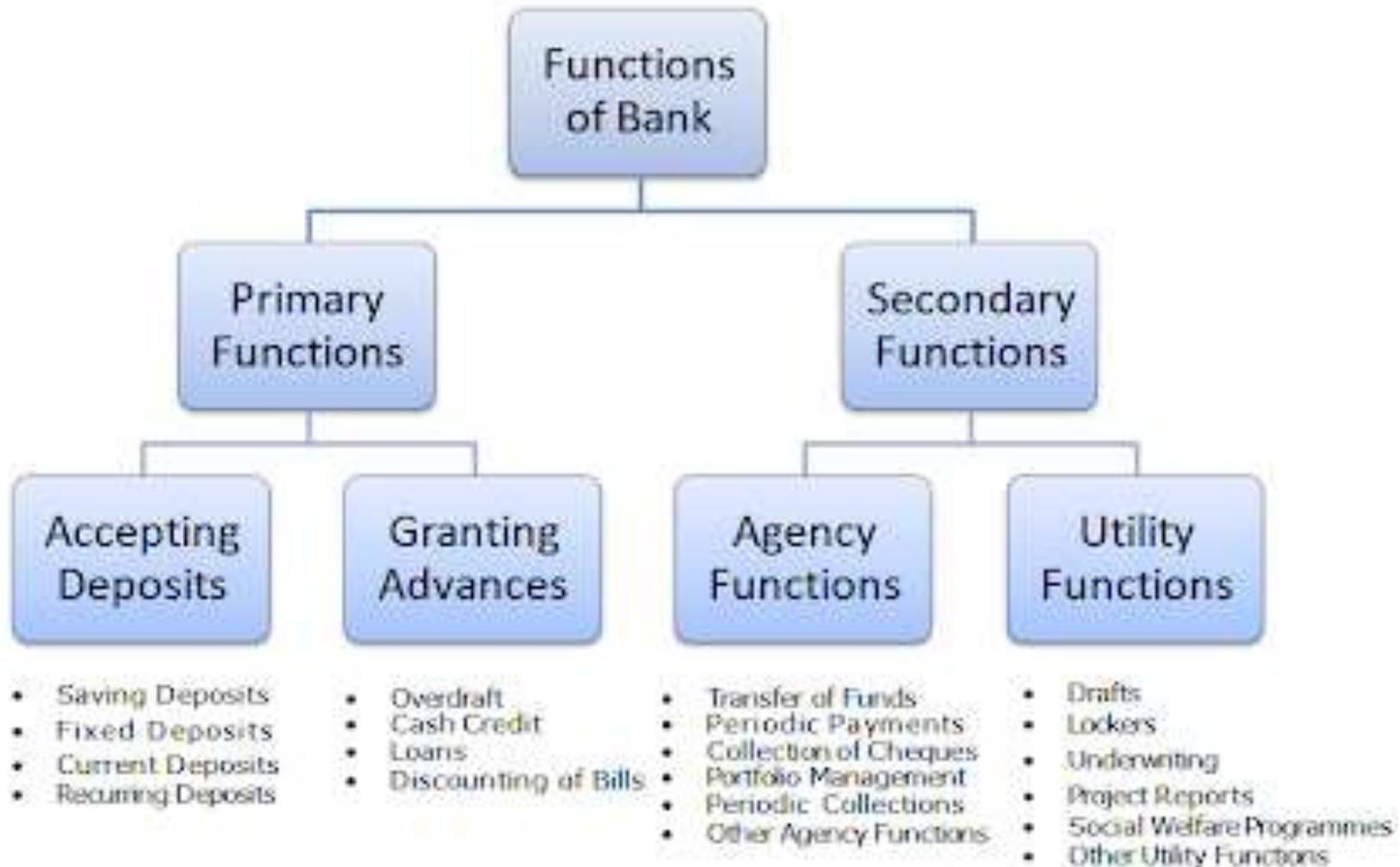
UNIT 6
BANKING SYSTEM



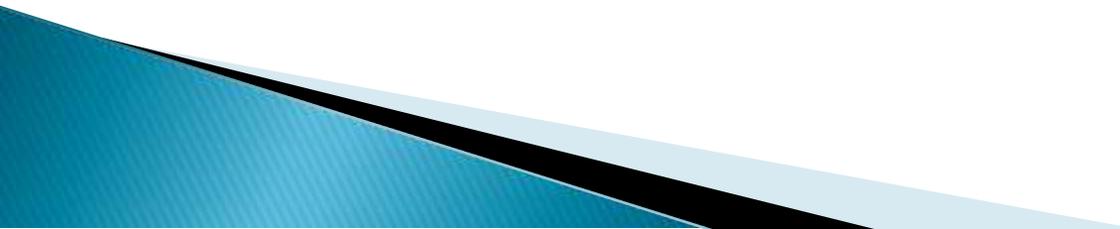
commercial bank

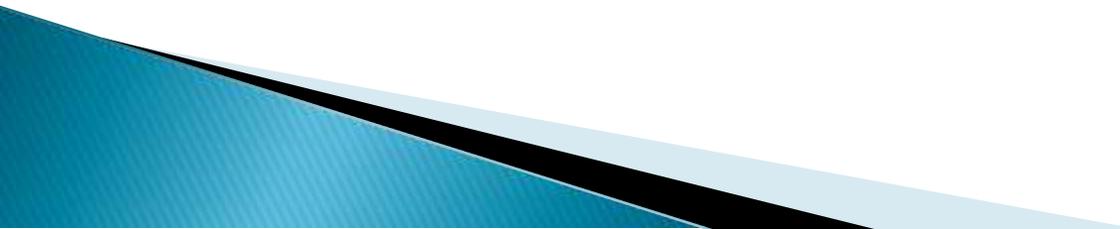
- ▶ A commercial bank is a financial institution which performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning profit
 - ▶ In fact, commercial banks, as their name suggests, are profit-seeking institutions, i.e., they do banking business to earn profit.
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Functions of Commercial Banks

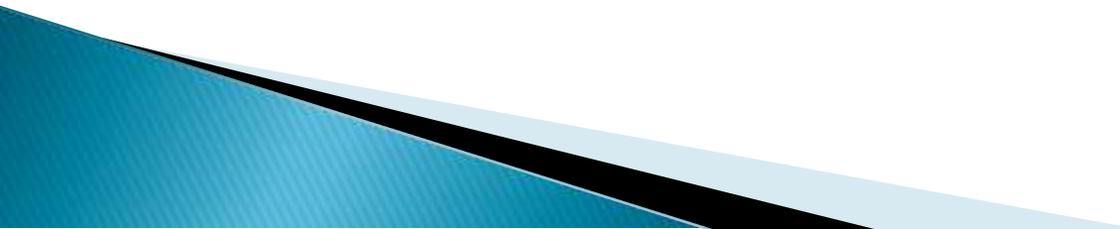


Accepts deposits

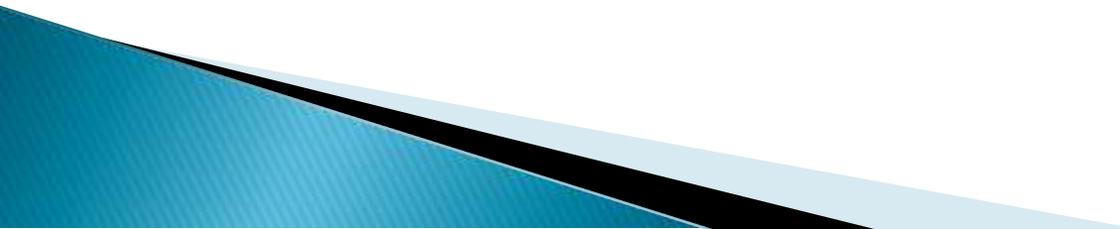
- ▶ Current account
 - ▶ Fixed deposits
 - ▶ Savings account
- 

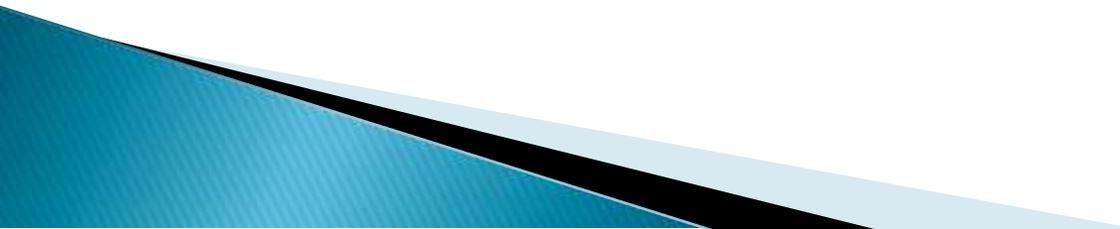
- ▶ Current account deposits: Such deposits are payable on demand and are, therefore, called demand deposits. These can be withdrawn by the depositors any number of times depending upon the balance in the account. The bank does not pay any Interest on these deposits but provides cheque facilities. These accounts are generally maintained by businessmen and Industrialists who receive and make business payments of large amounts through cheques.
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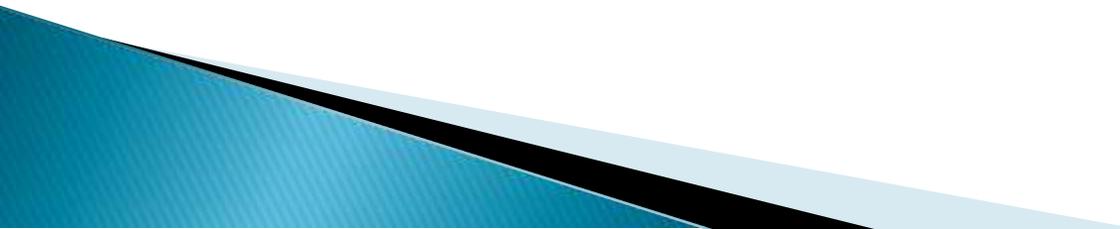
- ▶ Fixed deposits (Time deposits): Fixed deposits have a fixed period of maturity and are referred to as time deposits. These are deposits for a fixed term, i.e., period of time ranging from a few days to a few years. These are neither payable on demand nor they enjoy cheque facilities. They can be withdrawn only after the maturity of the specified fixed period. They carry higher rate of interest. They are not treated as a part of money supply Recurring deposit in which a regular deposit of an agreed sum is made is also a variant of fixed deposits.

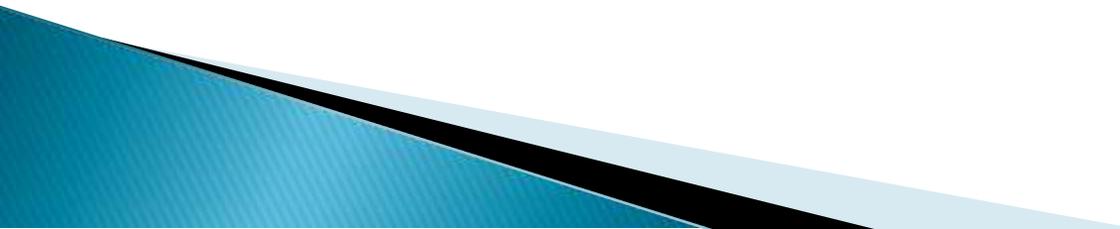
- ▶ Savings account deposits: These are deposits whose main objective is to save. Savings account is most suitable for individual households. They combine the features of both current account and fixed deposits. They are payable on demand and also withdraw able by cheque. But bank gives this facility with some restrictions, e.g., a bank may allow four or five cheques in a month. Interest paid on savings account deposits is lesser than that of fixed deposit.
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loans and advances:

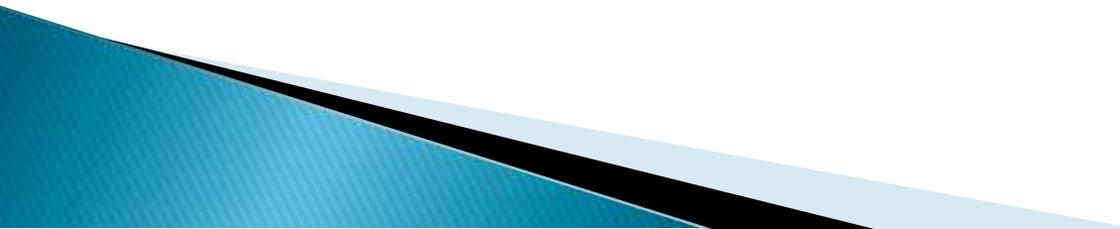
- ▶ Cash Credit
 - ▶ Demand Loans
 - ▶ Short-term Loans
- 

- ▶ **Cash Credit:** An eligible borrower is first sanctioned a credit limit and within that limit he is allowed to withdraw a certain amount on a given security. The withdrawing power depends upon the borrower's current assets, the stock statement of which is submitted by him to the bank as the basis of security. Interest is charged by the bank on the drawn or utilised portion of credit (loan).
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- ▶ Demand Loans: A loan which can be recalled on demand is called demand loan. There is no stated maturity. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower. Those like security brokers whose credit needs fluctuate generally, take such loans on personal security and financial assets.
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- ▶ **Short-term Loans:** Short-term loans are given against some security as personal loans to finance working capital or as priority sector advances. The entire amount is repaid either in one instalment or in a number of instalments over the period of loan.
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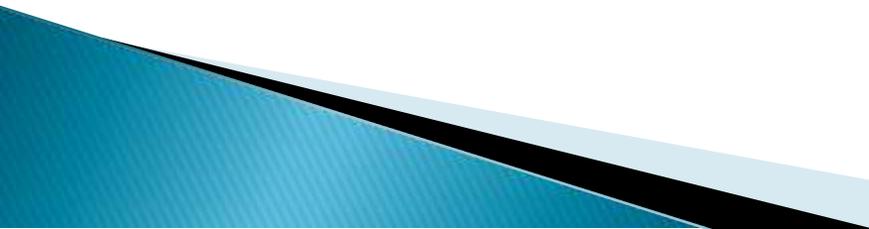
Overdraft facility

- ▶ An overdraft is an advance given by allowing a customer keeping current account to overdraw his current account up to an agreed limit. It is a facility to a depositor for overdrawing the amount than the balance amount in his account.
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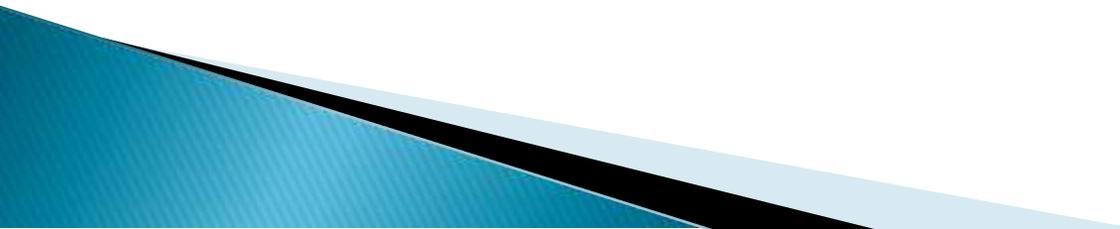
Discounting bills of exchange

- It is a written agreement acknowledging the amount of money to be paid against the goods purchased at a given point of time in the future. The amount can also be cleared before the quoted time through a discounting method of a commercial bank.

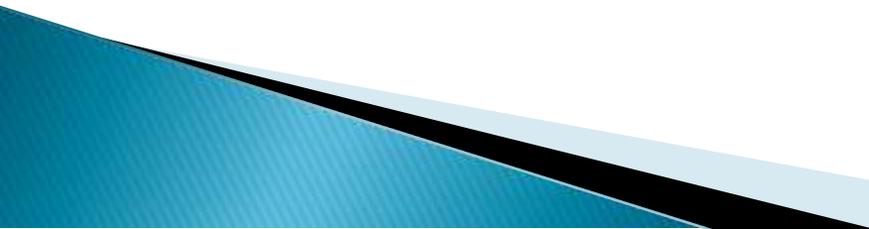
Agency functions of the bank

- ▶ Transfer of funds: It provides facility for cheap and easy remittance of funds from place-to-place through demand drafts, mail transfers, telegraphic transfers, etc.
 - ▶ Collection of funds: It collects funds through cheques, bills, bundles and demand drafts on behalf of its customers.
 - ▶ Payments of various items: It makes payment of taxes, insurance premium, bills, etc. as per the directions of its customers.
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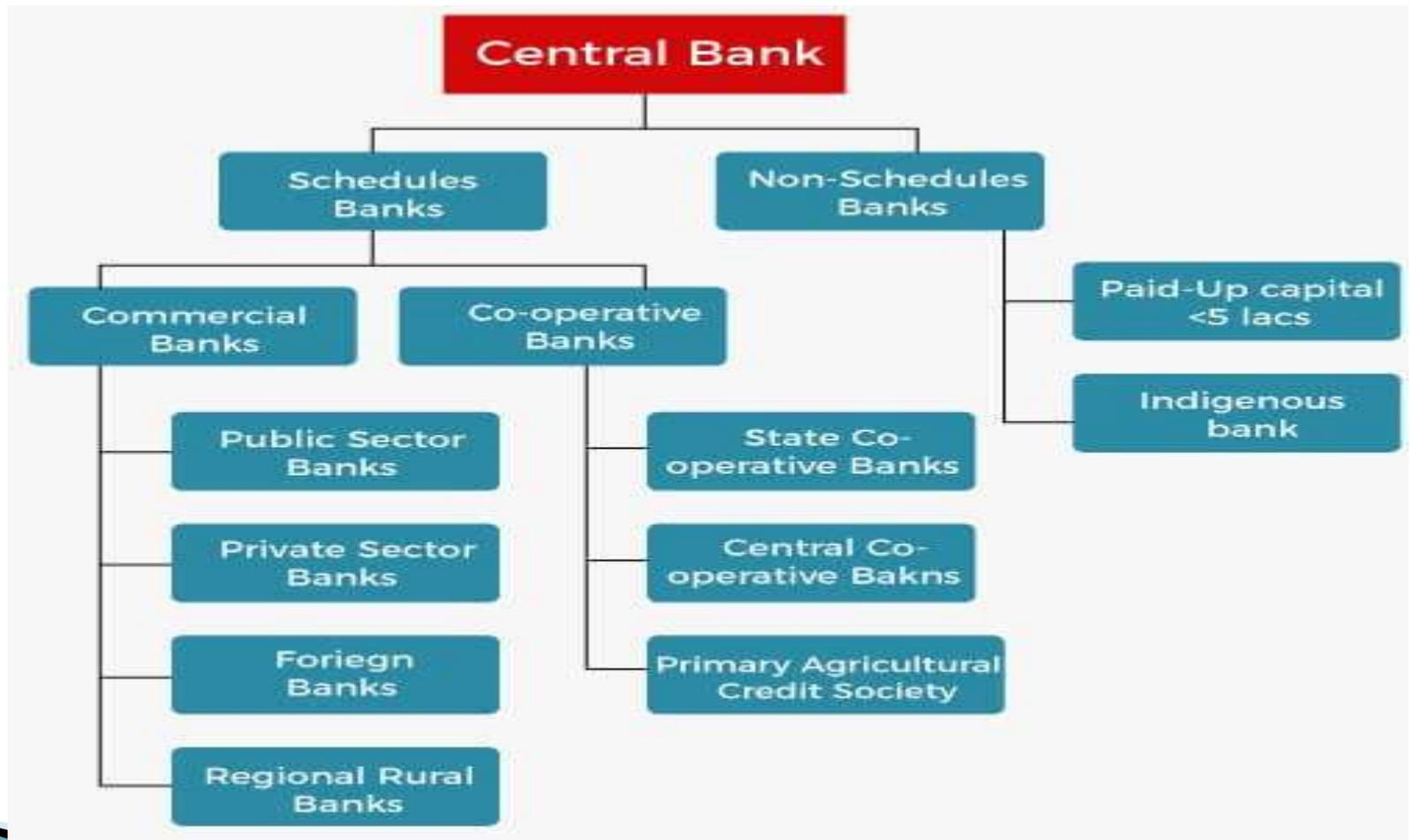
Cont...

- ▶ Purchase and sale of shares and securities: It buys sells and keeps in safe custody securities and shares on behalf of its customers.
 - ▶ Collection of dividends, interest on shares and debentures is made on behalf of its customers.
 - ▶ Acts as Trustee and Executor of property of its customers on advice of its customers.
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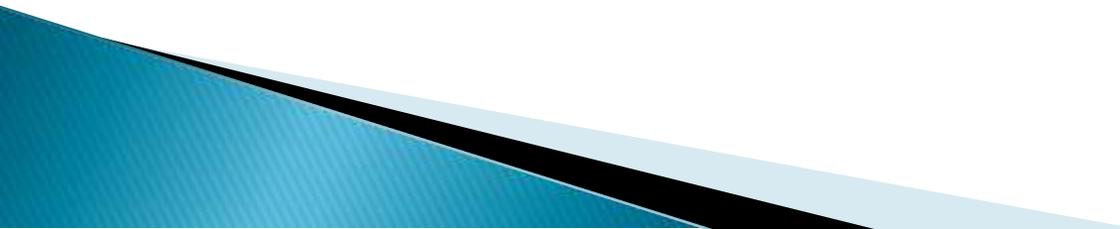
General utility services

- ▶ Traveller's cheques .The banks issue traveler's cheques and gift cheques.
 - ▶ Locker facility. The customers can keep their ornaments and important documents in lockers for safe custody.
 - ▶ Underwriting securities issued by government, public or private bodies.
 - ▶ Purchase and sale of foreign exchange (currency).
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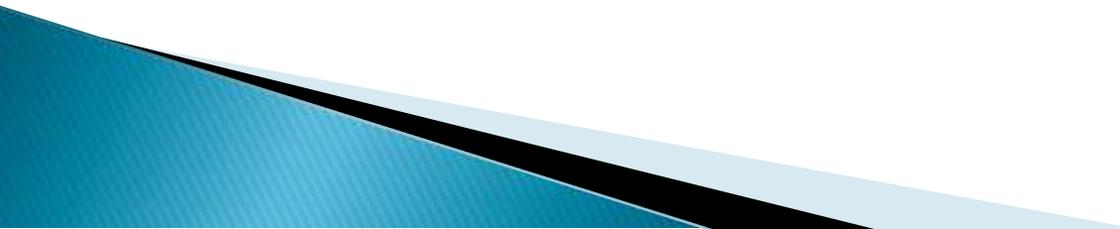
Types of Bank



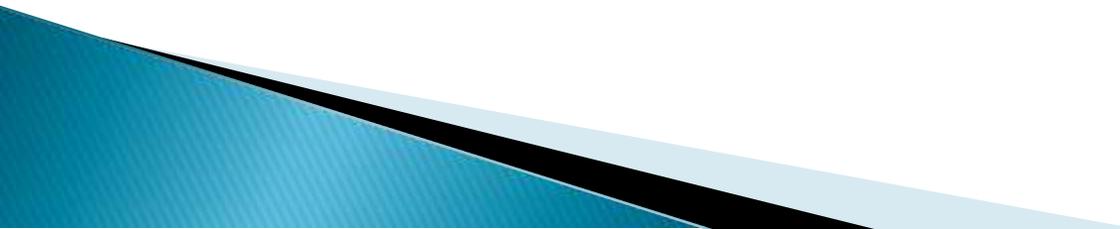
Role of bank in economic development

- ▶ 1. Banks promote capital formation.
 - ▶ 2. Investment in new enterprises
 - ▶ 3. Promotion of trade and industry
 - ▶ 4. Development of agriculture
 - ▶ 5. Balanced development of different regions
 - ▶ 6. Influencing economy activity
 - ▶ 7. Implementation of Monetary policy
 - ▶ 8. Monetization of the economy
 - ▶ 9. Export promotion cells
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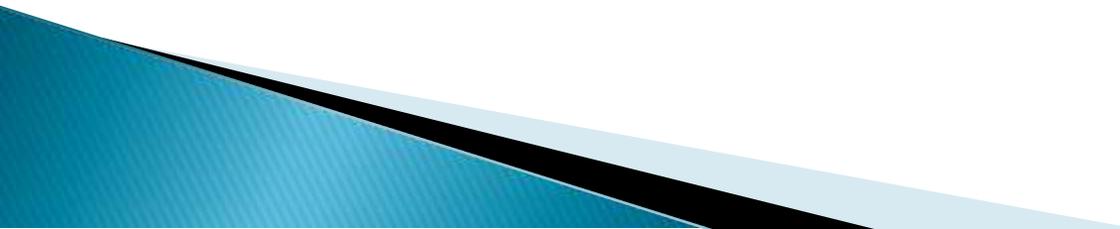
Banks promote capital formation

- ▶ Commercial banks accept deposits from individuals and businesses, these deposits are then made available to the businesses which make use of them for productive purposes in the country.
 - ▶ The banks are, therefore, not only the store houses of the country's wealth, but also provide financial resources necessary for economic development.
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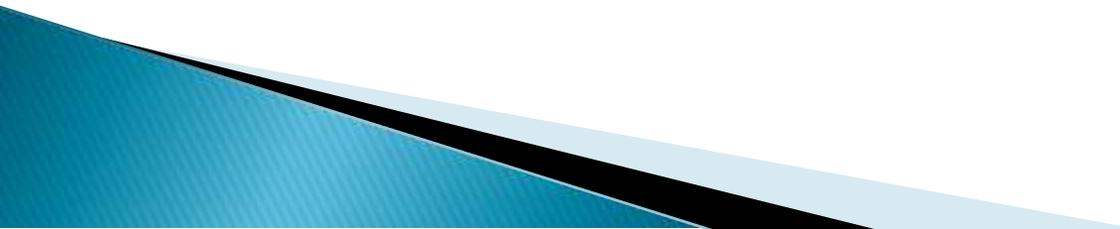
Investment in new enterprises

- ▶ Businessmen normally hesitate to invest their money in risky enterprises. The commercial banks generally provide short and medium term loans to entrepreneurs to invest in new enterprises and adopt new methods of production.
 - ▶ The provision of timely credit increases the productive capacity of the economy.
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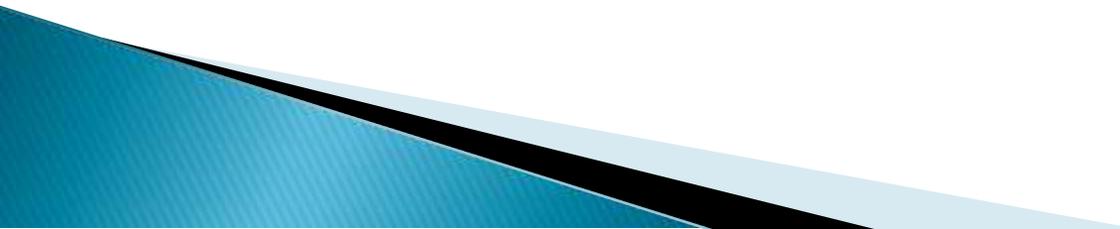
Promotion of trade and industry

- ▶ With the growth of commercial banking, there is vast expansion in trade and industry.
 - ▶ The use of bank draft, check, bill of exchange, credit cards and letters of credit etc has revolutionized both national and international trade
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Development of agriculture

- ▶ The commercial banks particularly in developing countries are now providing credit for development of agriculture and small scale industries in rural areas.
 - ▶ The provision of credit to agriculture sector has greatly helped in raising agriculture productivity and income of the farmers.
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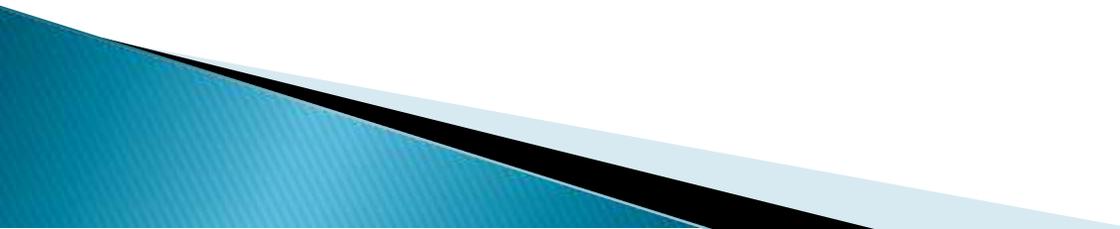
Balanced development of different regions

- ▶ The commercial banks play an important role in achieving balanced development in different regions of the country.
 - ▶ They help in transferring surplus capital from developed regions to the less developed regions.
 - ▶ The traders, industrialist etc of less developed regions are able to get adequate capital for meeting their business needs.
 - ▶ This in turn increases investment, trade and production in the economy.
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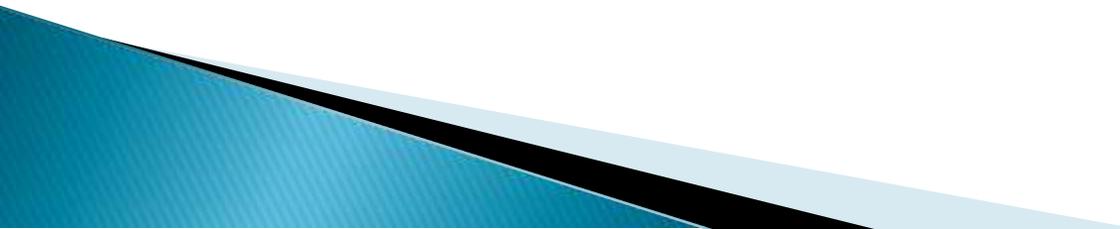
Influencing economic activity

- ▶ The banks can also influence the economic activity of the country through its influence on
 - a. Availability of credit
 - b. The rate of interest
 - ▶ If the commercial banks are able to increase the amount of money in circulation through credit creation or by lowering the rate of interest, it directly affects economic development.
 - ▶ A low rate of interest can encourage investment.
 - ▶ The credit creation activity can raise aggregate demand which leads to more production in the economy.
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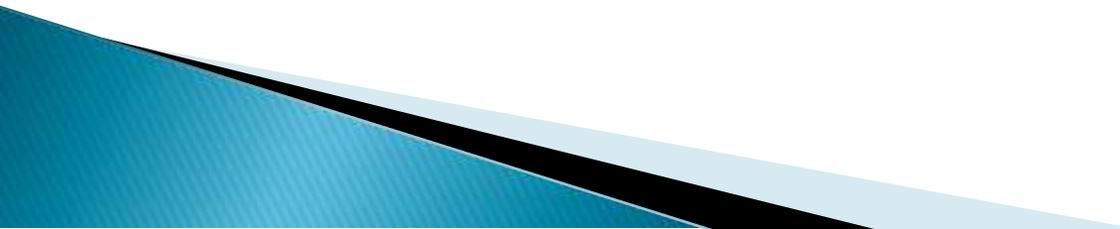
Implementation of Monetary policy

- ▶ The central bank of the country controls and regulates volume of credit through the active cooperation of the banking system in the country.
 - ▶ It helps in bringing price stability and promotes economic growth with in the shortest possible period of time.
- 

Monetization of the economy

- The commercial banks by opening branches in the rural and backward areas are reducing the exchange of goods through barter.
 - The use of money has greatly increased the volume of production of goods.
 - The non monetized sector (barter economy) is now being converted into monetized sector with the help of commercial banks.
- 

Export promotion cells

- ▶ In order to increase the exports of the country, the commercial banks have established export promotion cells.
 - ▶ They provide information about general trade and economic conditions both inside and outside the country to its customers.
 - ▶ The banks are therefore, making positive contribution in the process of economic development.
- 

Balance Sheet

Assets (+)

- Required Reserves
- Excess Reserves
- Loans
- Securities
- Physical assets

Liabilities (-)

- Checkable Deposits
- Other Deposits
- Other liabilities
- Owner Equity







