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## **BANKING SERVICES**

While walking in the streets of any town or city you might have seen some signboards on buildings with names—Canara Bank, Punjab National Bank, State Bank of India, United Commercial Bank, etc. What do these names stand for? Did you ever try to know about them? If you enter any such building you will find some kind of a business office. You will see some employees sitting behind counters dealing with visitors standing in front of them. You will find that some are depositing cash at one counter while some are receiving cash at another counter. Behind the counters in the office, you will see tables and chairs occupied by officers. On one side of the office you will also see a chamber (small partitioned room) where the manager is sitting with papers on his table. This is the office of a ‘Bank’.

Let us know in detail about Banks and their activities.



### **OBJECTIVES**

After studying this lesson, you will be able to:

- state the meaning of ‘Bank’;
- explain the role of ‘Banking’;
- identify the different types of Banks; and
- describe the functions of a commercial Bank.

### **9.1 MEANING OF BANK**

An establishment authorized by a Government to accept deposits, pay interest, clear cheques, advance loans, act as an intermediary in financial transactions, and provide other financial services to its customers. You know people earn money to meet their day-to-day expenses on food, clothing, education of children, housing, etc. They also need money to meet future expenses on marriage, higher education of children, house building and other social functions. These are heavy expenses, which can be met if some money is saved out of the present income. Saving of money is also necessary for old age and

ill health when it may not be possible for people to work and earn their living.

The necessity of saving money was felt by people even in older days. They used to keep money in their homes. With this practice, savings were available for use whenever needed, but it also involved the risk of loss by theft, robbery and other accidents. Thus, people were in need of a place where money could be saved safely and would be available when required. Banks are such places where people can deposit their savings with the assurance that they will be able to withdraw money from the deposits whenever required. People who wish to borrow money for business and other purposes can also get loans from the banks at reasonable rate of interest. Bank is a financial institution that accepts deposits and channels the money into lending activities.



Picture of Banks Logos.

“Bank is a lawful organization, which accepts deposits that can be withdrawn on demand. It also lends money to individuals and business houses that need it.”

Banks also render many other useful services – like collection of bills, payment of foreign bills, safe-keeping of jewellery and other valuable items, certifying the credit-worthiness of business, and so on. Banks accept deposits from the general public as well as from the business community. Any one who saves money for future can deposit his savings in a bank. Businessmen have income from sales out of which they have to make payment for expenses. They can keep their earnings from sales safely deposited in banks. Banks give two assurances to the depositors :

- a. Safety of deposits, and
- b. Withdrawal of deposits, whenever needed

On deposits, Banks give interest, which adds to the original amount of deposits. It is a great incentive to the depositors. It promotes saving habits among the public. On the basis of deposits banks also grant loans and advances to farmers, traders and businessmen for productive purposes. Thereby banks contribute to the economic development of the country and well being of the people in general. Banks charge interest on loans. The rate of interest is generally higher than the rate of interest allowed on deposits. Banks also charge fees for the



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various other services, which they render to the business community and public in general. Interest received on loans and fees charged for services which exceed the interest allowed on deposits are the main sources of income for banks from which they meet their administrative expenses. The activities carried on by banks are called banking activities. ‘Banking’ as an activity involves acceptance of deposits and lending or investment of money. It facilitates business activities by providing money and certain services that help in exchange of goods and services. Therefore, banking is an important auxiliary to trade. It not only provides money for the production of goods and services but also facilitates their exchange between the buyer and seller. You may be aware that there are laws which regulate the banking activities in our country. Depositing money in banks and borrowing from banks are legal transactions. Banks are also under the control of government. Hence they enjoy the trust and confidence of people. Banks depend a great deal on public confidence. Without public confidence Banks cannot survive.

**9.2 DIFFERENCE BETWEEN BANKS AND MONEY-LENDERS**

You may be thinking that a bank is like a moneylender who provides funds to borrowers and charges interest on the loan. But it is not so. A bank is quite different from a moneylender. A Bank performs two main functions. Firstly, it accepts deposits, and on that basis it lends money. The moneylenders, on the other hand, advance money out of their own private wealth and usually do not accept deposits from others. The following table shows the distinction between a bank and moneylender.

<b>Basis</b>	<b>Banks</b>	<b>Moneylenders</b>
1. Entity	Bank are organised institutions.	Moneylenders are individuals.
2. Activity	Banking activities include acceptance of deposits as lending of money.	Activities of moneylenders may not include acceptance of deopsits.
3. Clients	Banks meet the needs of people in general and the business community in particular.	Moneylenders meet the needs of agriculturists and poor people.
4. Security	Banks accept tangible and personal security against loans.	Moneylenders generally accept gold, jewellery or land as security for giving loan.



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5. Process of recovery of loans.	The process of recovery is flexible.	The process of recovery is rigid and strict.
6. Interest Rate	Interest charged by banks on loan is governed by RBI.	Rate of Interest is decided by the moneylender and is normally very high.

**Role of Banking**

Banks provide funds for the business and play a vital role in the development of a nation. Let us know about the role of banking.

- It encourages saving habits amongst people and thereby makes funds available for productive use.
- It acts as an intermediary between people having surplus money and those requiring money for various business activities.
- It facilitates business transactions through receipts and payments by cheques instead of currency.
- It provides loans and advances to businessmen for short term and long-term purposes.
- It also facilitates import export transactions.
- It helps in national development by providing credit to farmers, small-scale industries and self-employed people as well as to large business houses which leads to balanced economic development in the country.
- It helps in raising the standard of living of people in general by providing loans for purchase of consumer durable goods, houses, automobiles, etc.



**INTEXT QUESTIONS 9.1**

Fill in the blanks with suitable word (s):

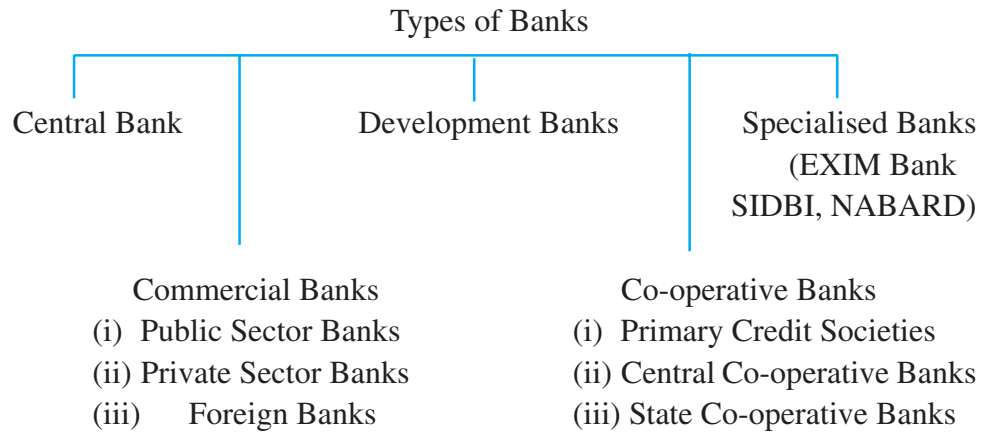
- i. A Bank accepts deposits from people and \_\_\_\_\_ money to those who need it for various purposes.
- ii. Banks act as \_\_\_\_\_ between people having surplus money and those borrowing money.
- iii. Banking facilitates business activities and is considered as an important auxiliary to \_\_\_\_\_.
- iv. Banks facilitate payment through \_\_\_\_\_ instead of currency.
- v. A \_\_\_\_\_ advances money out of his own private wealth and generally does not accept deposits from others.



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### 9.3 TYPES OF BANKS

There are various types of Banks which operate in our country to meet the financial requirements of different categories of people engaged in agriculture, business, profession, etc. On the basis of functions, the banking institutions in India may be divided into the following types:



#### a) Central Bank

A Bank which is entrusted with the functions of guiding and regulating the banking system of a country is known as its Central bank. Such a bank does not deal with the general public. It acts essentially as Government’s banker; maintain deposit accounts of all other banks and advances money to other banks, when needed. The Central Bank provides guidance to other banks whenever they face any problem. It is therefore known as the banker’s bank. The Reserve Bank of India is the central bank of our country.



The Central Bank maintains records of Government revenue and expenditure under various heads. It also advises the Government on monetary and credit policies and decides on the interest rates for Bank deposits and Bank loans. In addition, foreign exchange rates are also determined by the central Bank. Another important function of the Central Bank is the issuance of currency notes, regulating their circulation in the country by different methods. No other Bank than the Central Bank can issue currency.

#### b) Commercial Banks

Commercial Banks are banking institutions that accept deposits and grant short-

term loans and advances to their customers. In addition to giving short-term loans, commercial banks also give medium-term and long-term loan to business enterprises. Now-a-days some of the commercial Banks are also providing housing loan on a long-term basis to individuals.

**Types of Commercial Banks:** Commercial banks are of three types i.e., Public sector banks, Private sector Banks and foreign Banks.

(i) **Public Sector Banks:** These are banks where majority stake is held by the Government of India or Reserve Bank of India. Examples of public sector banks are: State Bank of India, Corporation Bank, Bank of Baroda, Punjab National Bank, Canara Bank, Bank of India and Oriental Bank of Commerce, etc.



(ii) **Private Sectors Banks:** In case of private sector banks majority of share capital of the Bank is held by private individuals. These Banks are registered as companies with limited liability. For example: The Jammu and Kashmir Bank Ltd., ICICI Bank Ltd., Development Credit Bank Ltd, Lord Krishna Bank Ltd., Bharat Overseas Bank Ltd., Global Trust Bank, ING Vysya Bank, etc.



(iii) **Foreign Banks:** These Banks are registered and have their headquarters in a foreign country but operate their branches in our country. Some of the foreign banks operating in our country are Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, American Express Bank, Standard & Chartered Bank, Grindlay's Bank, etc. The number of foreign banks operating in our country has increased since the financial sector reforms of 1991.



### c) Development Banks

Business often requires medium and long-term capital for purchase of machinery and equipment, for using latest technology, or for expansion and modernization. Such financial assistance is provided by Development Banks. They also undertake other development measures like Public Sector Banks comprise 19 nationalized banks and State Bank of India and its 7 associate Banks subscribing to the shares and debentures issued by companies, in case of under subscription of the issue by the public. Industrial Finance Corporation of India (IFCI) and State Financial Corporations (SFCs) are examples of development banks in India.



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**d) Co-operative Banks**

A co-operative Bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often formed by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide a wide range of banking and financial services to their members.

People who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act. When a co-operative society engages itself in banking business it is called a Co-operative Bank. The society has to obtain a license from the Reserve Bank of India before starting banking business. Any co-operative bank as a society has to function under the overall supervision of the Registrar, Co-operative Societies of the State. As regards banking business, the society must follow the guidelines issued by the Reserve Bank of India.

**Types of Co-operative Banks**

There are three types of co-operative banks operating in our country. They are primary credit societies, central co-operative banks and state co-operative banks. These banks are organized at three levels, village or town level, district level and state level.

- (i) Primary Credit Societies:** These are formed at the village or town level with borrower and non-borrower members residing in one locality. The operations of each society are restricted to a small area so that the members know each other and are able to watch over the activities of all members to prevent frauds.
- (ii) Central Co-operative Banks:** These banks operate at the district level having some of the primary credit societies belonging to the same district as their members. These banks provide loans to their members (i.e., primary credit societies) and function as a link between the primary credit societies and state co-operative banks.
- (iii) State Co-operative Banks:** These are the apex (highest level) co-operative banks in all the states of the country. They mobilise funds and help in its proper channelization among various sectors. The money reaches the individual borrowers from the state co-operative banks through the central co-operative banks and the primary credit societies.

**e) Specialised Banks**

There are some banks, which cater to the requirements and provide overall support for setting up business in specific areas of activity. EXIM Bank, SIDBI and NABARD are examples of such banks. They engage themselves in some specific area or activity and thus, are called specialised banks. Let us know about them.

**i. Export Import Bank of India (EXIM Bank):** If you want to set up a business for exporting products abroad or importing products from foreign countries for sale in our country, EXIM bank can provide you the required support and assistance. The bank grants loans to exporters and importers and also provides information about the international market. It gives guidance about the opportunities for export or import, the risks involved in it and the competition to be faced, etc.



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**ii. Small Industries Development Bank of India (SIDBI):** If you want to establish a small-scale business unit or industry, loan on easy terms can be available through SIDBI. It also finances modernisation of small-scale industrial units, use of new technology and market activities. The aim and focus of SIDBI is to promote, finance and develop small-scale industries.



**iii. National Bank for Agricultural and Rural Development (NABARD):** It is a central or apex institution for financing agricultural and rural sectors. If a person is engaged in agriculture or other activities like handloom weaving, fishing, etc. NABARD can provide credit, both short-term and long-term, through regional rural banks. It provides financial assistance, especially, to co-operative credit, in the field of agriculture, small-scale industries, cottage and village industries handicrafts and allied economic activities in rural areas.



### INTEXT QUESTIONS 9.2

Identify the type of Bank being talked about in each of the following statements:

- The commercial Bank where the majority of share capital is held by the private individual.
- The Bank that provides assistance and guidance for export of products abroad.
- The Bank formed by a group of people to serve their common interest.
- The Bank that issues currency notes.
- The commercial Bank where the Government holds majority stake.

## 9.4 FUNCTIONS OF COMMERCIAL BANKS

The functions of commercial Banks can be classified into two types.

- Primary functions; and
- Secondary functions.





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Let us discuss about these functions in detail.

**(A) Primary functions :** This is the main function which is performed compulsorily by every Bank or we can say that the organisation which performs these functions is known as a Banks.

The primary functions of a commercial bank include:

- a) Accepting deposits; and
- b) Granting loans and advances.

**a) Accepting deposits**

The most important activity of a commercial Bank is to mobilise deposits from the public. People who have surplus income and savings find it convenient to deposit the same with Banks. Depending upon the nature of deposits, funds deposited with Bank also earn interest. Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

**b) Grant of loans and advances**

The second important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts. The rate of interest charged on loans and advances varies according to the purpose and period of loan and also the mode of repayment.

**i) Loans**

A loan is granted for a specific time period. Generally commercial banks provide short-term loans. But term loans, i.e., loans for more than a year may also be granted. The borrower may be given the entire amount in lump sum or in instalments. Loans are generally granted against the security of certain assets. A loan is normally repaid in instalments. However, it may also be repaid in lump sum.

**ii) Advances**

An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances is to meet the day-to-day requirements of business. The rate of interest charged on advances varies from bank to bank. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

**Types of Advances**

Banks grant short-term financial assistance by way of cash credit, overdraft and bill discounting bills of exchange. Let us learn about these.

**a) Cash Credit**

Cash credit is an arrangement whereby the bank allows the borrower to draw amount upto a specified limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when he requires. Interest is charged on the amount actually withdrawn. Cash Credit is granted as per terms and conditions agreed with the customers.

**b) Overdraft**

Overdraft is also a credit facility granted by bank. A customer who has a current account with the bank is allowed to withdraw more than the amount of credit balance in his account. It is a temporary arrangement. Overdraft facility with a specified limit may be allowed either on the security of assets, or on personal security, or both.

**c) Discounting Bills of Exchange**

Banks provide short-term finance by discounting bills, i.e., making payment of the amount before the due date of the bills after deducting a certain rate of discount. The party gets the funds without waiting for the date of maturity of the bills. In case any bill is dishonoured on the due date, the bank can recover the amount from the customer.

**B) Secondary functions**

In addition to the primary functions of accepting deposits and lending money, banks perform a number of other functions, which are called secondary functions. These are as follows :

- a. Issuing letters of credit, travellers' cheque, etc.
- b. Undertaking safe custody of valuables, important document and securities by providing safe deposit vaults or lockers.
- c. Providing customers with facilities of foreign exchange dealings.
- d. Transferring money from one account to another; and from one branch to another branch of the bank through cheque, pay order, demand draft.
- e. Standing guarantee on behalf of its customers, for making payment for purchase of goods, machinery, vehicles etc.

**INTEXT QUESTIONS 9.3**

Which of the following statements are True and which are false?

- i. Loans and advances are both granted by banks to customers for a long period of time.
- ii. Banks keep customers jewellery and important documents safe with them.

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- iii. Banks grant loans to students for their studies at reasonable interest rate.
- iv. Discounting of bills of exchange is done by banks free of cost.
- v. Through overdraft, a customer can withdraw more money than the amount available in his/her bank account.

### 9.5 CENTRAL BANK

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated. Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India. Its main function is the general superintendence and direction of the Bank's affairs and advise the Central Board on local matters and to represent territorial and economic interests of local cooperative and indigenous banks; to perform such other functions as delegated by Central Board from time to time.

### 9.6 BANK DEPOSIT ACCOUNT

You have already learnt that the main banking activities consist of acceptance of deposit from the public for the purpose of lending to businessmen and others who may seek loans. Actually the money deposited in any bank is mostly the saving of the people. As you know, if someone earns money and has regular income, he or she not only spends it for day-to-day expenses but also tries to save a part of the income for future needs. Money may be needed in future for various purposes like medical treatment in case of illness in the family, expenses on account of marriage, or for higher studies of the children, or to celebrate religious festivals, etc. The money saved to meet future needs may be kept at home. But will it be safe at home? It may be stolen. Moreover, the money saved will remain idle at home without any return. So people keep their savings with someone where it will be safe and earn a return. Bank is such a place where money deposited remains safe and also earns interest. In this lesson, we shall learn about the types of deposit accounts that can be opened in a bank, and also discuss how a savings bank account can be opened and operated.

### 9.7 TYPES OF BANK DEPOSIT ACCOUNTS

Bank deposits serve different purposes for different people. Some people cannot save regularly; they deposit money in the bank only when they have extra income. The purpose of deposit then is to keep money safe for future needs. Some may want to deposit money in a bank for as long as possible to earn

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interest or to accumulate savings with interest so as to buy a flat, or to meet hospital expenses in old age, etc. Mostly businessmen, deposit all their income from sales in a bank account and pay all business expenses out of the deposits. Keeping in view these differences, banks offer the facility of opening different types of deposit accounts by people to suit their purpose and convenience. On the basis of purpose they serve, bank deposit accounts may be classified as follows:

- a. Savings Bank Account
- b. Current Deposit Account
- c. Fixed Deposit Account
- d. Recurring Deposit Account.

Let us briefly discuss the nature of the above accounts.

- a. **Savings Bank Account** : If a person has limited income and wants to save money for future needs, the Savings Bank Account is most suited for his purpose. This type of account can be opened with a minimum initial deposit that varies from bank to bank. Money can be deposited any time in this account. Withdrawals can be made either by signing a withdrawal form or by issuing a cheque or by using ATM card. Normally banks put some restriction on the number of withdrawals from this account. Interest is allowed on the balance of deposit in the account. The rate of interest on saving bank account varies from bank to bank and also changes from time to time. A minimum balance has to be maintained in the account as prescribed by the bank.
- b. **Current Deposit Account** : Big businessmen, companies and institutions such as schools, colleges, and hospitals have to make payment through their bank accounts. Since there are restriction on number of withdrawals from saving bank account, that type of account is not suitable for them. They need to have an account from which withdrawals can be made any number of times. Banks open current account for them. Like saving bank account, this account also requires certain minimum amount of deposit while opening the account. On this deposit bank does not pay any interest on the balances. Rather the accountholder pays certain amount each year as operational charge.

For the convenience of the accountholders banks also allow withdrawals of amounts in excess of the balance of deposit. This facility is known as overdraft facility. It is allowed to some specific customers and upto a certain limit subject to previous agreement with the bank concerned.

- c. **Fixed Deposit Account (also known as Term Deposit Account)**: Many a time people want to save money for long period. If money is deposited in

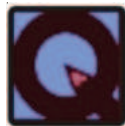


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savings bank account, banks allow a lower rate of interest. Therefore, money is deposited in a fixed deposit account to earn a interest at a higher rate.

This type of deposit account allows deposit to be made of an amount for a specified period. This period of deposit may range from 15 days to three years or more during which no withdrawal is allowed. However, on request, the depositor can encash the amount before its maturity. In that case Banks give lower interest than what was agreed upon. The interest on fixed deposit account can be withdrawn at certain intervals of time. At the end of the period, the deposit may be withdrawn or renewed for a further period. Banks also grant loan on the security of fixed deposit receipt.

- d. Recurring Deposit Account :** This type of account is suitable for those who can save regularly and expect to earn a fair return on the deposits over a period of time. While opening the account a person has to agree to deposit a fixed amount once in a month for a certain period. The total deposit along with the interest therein is payable on maturity. However, the depositor can also be allowed to close the account before its maturity and get back the money along with the interest till that period. The account can be opened by a person individually, or jointly with another, or by the guardian in the name of a minor. The rate of interest allowed on the deposits is higher than that on a savings Bank deposit but lower than the rate allowed on a fixed deposit for the same period.



#### INTEXT QUESTIONS 9.4

- I. Which of the following statements are true and which are false?
- i. Deposits made in savings bank account serve to meet present as well as future needs.
  - ii. A fixed amount is required to be deposited in a Fixed Deposit Account every month.
  - iii. The rate of interest on deposits made in a Recurring Deposit Account is relatively higher than on savings bank deposits.
  - iv. Current Deposit Account can be opened only by businessmen, not by an educational institutions.
  - v. Home Construction Saving Deposit Account is a type of recurring deposit account.
  - vi. The rate of interest allowed on fixed deposit depends on the length of the period for which the deposit is made.





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- vii. In the case of savings bank account withdrawal of money is allowed only by the account-holder.
  - viii. Banks do not pay interest on the balance of current deposit account.
- II. Fill in the blanks with suitable word.
- i. Savings Bank Account can be opened with a \_\_\_\_\_ amount of deposit.
  - ii. A fixed Deposit Account carries interest at a rate, which is \_\_\_\_\_ than that on savings bank account.
  - iii. Overdraft facility is allowed to holders of \_\_\_\_\_ deposit account.
  - iv. Money can be withdrawn from current account by issuing \_\_\_\_\_.
  - v. The rate of interest allowed on the balance of recurring deposit account is \_\_\_\_\_ than the rate allowed on fixed deposit account.

### 9.8 HOW TO OPEN A SAVINGS BANK ACCOUNT

To open a savings bank account in a commercial bank, you have to first decide what amount of money you would like to deposit initially. You may enquire and find out from the nearest bank what is the minimum amount to be deposited while opening a savings bank account. You have to deposit at least that amount or more, if you want. On entering a bank (any branch of a bank) you will find a counter for enquiry (or a counter with: 'May I help you' board). Having known the minimum amount to be deposited, you should ask for a form of application for opening Savings Bank Account. You are not required to pay anything for it. You should then take the following steps:

#### i. Filling up the Form

The application form has to be filled up giving the following necessary information:

- a. Name of the person (applicant)
- b. His/her occupation
- c. Residential Address
- d. Specimen signature of the applicant
- e. Name, address, account number and signature of the person introducing the applicant. Besides the above information you have to give an undertaking that you will abide by the rules and regulations of the bank, which are in force. At the end of the application form, you have to put your signature. (In some banks it is required to attach two passport size photographs of the applicant along with the application.)



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### ii. Proper Introduction

Every bank requires that a person known to the bank should introduce the applicant. It may be convenient to be introduced by a person having already an account in that bank. Some banks may accept the attested copy of Passport or Driving Licence, if any, of the applicant. In that case personal introduction is not necessary. Introduction is required to prevent the possibility of opening of account by an undesirable person.

### iii. Specimen Signature

The applicant has to put his/her specimen signatures at the blank space provided on the application form for that purpose. In addition, specimen signatures have to be put separately on a card on which a photograph of the applicant has to be pasted, along with his/her name and account number.

After the above steps have been taken and the officer concerned is satisfied that the application form is in order, money is to be deposited at the cash counter after filling in a printed 'Pay-in-slip'. An account number will then be allotted and written on the application form as well as the card having your specimen signatures. At the same time you will be issued a Pass Book with the initial deposit recorded in it. All future deposits and withdrawals are entered in the Pass Book, which will be handed over to you. If you want to use cheques for withdrawal or payment of money out of your deposits, a cheque book will be issued on your request. A cheque form is a printed form in which you may issue an order to the bank to pay the amount specified in it to a person.

## 9.9 PROCEDURE FOR OPERATING SAVINGS BANK ACCOUNT

Once you have opened the account, you must also know how to operate the account. In other words, you have to know the procedure to be followed for further deposits to be made in the account and for withdrawing money from the account.

### i. Deposit in the Account

How will you deposit money in your account? You have already used a 'Pay-in-slip' for deposit of the initial amount while opening your account. It is a printed form, which you get in the bank. Each 'pay-in-slip' has two parts divided by perforation, the right-hand part known as 'foil' and the left-hand part known as 'counter-foil'. The slip has to be filled up while depositing cash or a cheque. Separate pay-in-slip form will have to be filled up while depositing both cash and cheques.

Suppose you have to deposit cash in your account. The pay-in-slip has to be filled up giving the date of deposit, your name or account-holder's name if you



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deposit money in somebody's account, account number, and the amount deposited in figures and words. Besides you have to enter on the slip, in the place indicated, how many currency notes of different denominations (Rs. 5, 10, 20, 50, 100, etc.) are being deposited along with the amount against the types of notes. The bank has have a counter for cash receipts. You have to sign and present the pay-in-slip there and also hand over the amount of cash. The receiver will keep the foil (right hand part) of the pay-in-slip while the left-hand part (counter-foil) will be rubber-stamped, signed by him, and returned to you.

**Specimen of pay-in-slip**

Instead of cash, suppose you have to deposit cheque, which you have got in payment of your salary from the office in which you are employed. You may like to deposit it in your bank account instead of going to another bank to encash it. Your bank will collect the amount of the cheque and record it as a deposit in your savings bank account.

To deposit the cheque you have to use the pay-in-slip again, filling in particulars like the date of deposit, the account number, name of the account-holder, the serial number and date of the cheque, name and address of the bank on which the cheque is drawn, and the amount of the cheque in figures and words. After signing the slip, you have to attach the cheque with the foil by an all pin (steel pin), and present the slip at the counter for cheque receipt. The person at the counter will keep the foil with the cheque attached, and return to you the counter-foil with bank rubber stamp and his signature. In some banks, there is a box kept near the counter. The bank rubber stamp is also available at the counter. The depositor is to put the rubber stamp on the foil and counterfoil. Then after separating the counter-foil, the cheque along with the foil is to be dropped in the box through a slit.

**ii. Withdrawal from Deposit Account**

You deposit your savings for use in future. The need for money may arise any time. So you should know how to get back your money from the bank. In the above section you have learnt about the procedure for deposit of money in the savings bank account. Let us know the procedure for withdrawal of money from your account.



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Money can be withdrawn by using

- a) Withdrawal form
- b) Cheque
- c) ATM card

a. **Withdrawal Form:** Every bank has printed withdrawal forms, which can be used by account holders to withdraw cash from deposit accounts.

The form has to be filled in, mentioning the date of withdrawal, account number, amount to be withdrawn (in figures and words) and the signature of the account holder. You have to produce it along with your pass book at the counter at which your account is handled. At the counter the officer concerned generally passes the form for payment after checking the balance in the account and the signature on the withdrawal form against the specimen signatures on record. The amount of withdrawal is recorded in the pass book, and payment is made at the counter if the amount is within a certain limit (say, Rs. 5,000), otherwise a disc or token is given which bears a number. This has to be presented at the cash payment counter for receiving the amount withdrawn.

Specimen of withdrawal form

b. **Cheque:** As an account-holder, you can withdraw cash from your savings bank account by making use of a cheque also.

	.....20.....
Pay to .....	.....or Bearer
Rupees.....	
<b>STATE BANK OF INDIA</b>	
J.N.U., N.Delhi	Rs. <input style="width: 50px;" type="text"/>
MSBL/97	
<b>6 5 3 0 0 3 1 1 0 0 0 2 0 5 6 1 0</b>	<b>Signature</b>

Specimen of Cheque

Cheques can also be issued for payment to other parties. Thus, a cheque issued to another person can be either encashed by him at the bank, or deposited in his account in some other bank.

Withdrawal by issue of cheque requires the same procedure to be followed as that for withdrawal by filling in and signing the withdrawal form explained

above. In both cases the amount of withdrawal is recorded in the books of the bank in the relevant savings bank account. Interest allowed on the balance of deposit is also recorded in the relevant accounts maintained in the books of account of the bank. These are also entered in the Pass Book as and when presented by the account-holder to the bank.

**c. ATM Card:** Banks issue ATM card to its depositors for easy withdrawal of money from their accounts. This card is used for withdrawal of money from saving and current deposit account through Automated Teller Machine (ATM). It is a magnetic card, which can be operated by using a particular secret number. It is the most convenient system of withdrawal of money.

- **Teller Counters :** To facilitate quick transaction, banks provide teller counters to withdraw money from the deposit account. There are two types of teller counters:
  - a) Manual teller counter; and
  - b) Automatic teller counter.

In manual teller counters banks generally allow withdrawal of money from the savings accounts for amount upto a limit. The cheque or withdrawal form is presented at the counter and payment is made after verifying the balance in the account, and tallying the specimen signature of the account holder.



Teller System

In automatic teller counters ATMs are installed to handle cash transactions 24 hours without any break. There is no need to appoint anybody to verify your balance, compare the specimen signature or hand over or take over the cash. Let us learn how an ATM machine operates.

When a bank installs ATMs, it gives a magnetic card along with a secret code number to every account holder. This code number is called Personal Identification Number (PIN). When a cardholder wants to withdraw or deposit money, first he has to establish his identity to operate the ATM by mentioning his PIN. When an ATM card is inserted into the machine it asks for the PIN. The PIN can be entered either by using the keyboard or touching the screen of the machine.



Specimen of ATM card



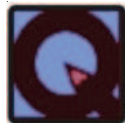
Notes





**Notes**

Once the identity is established then money can either be deposited or withdrawn simply by following the instruction given by the machine. For deposit of cash it is required to keep the amount in a special envelop, which is available at the ATM center. After sealing the envelope and writing the necessary information on it, the envelope will be kept near a slit. Then on pressing the deposit button the envelope will automatically be entered into the machine. The bank officials will collect those envelopes at regular intervals and credit the amount in the respective accounts. Similarly, withdrawal of money can be made by pressing or touching the withdrawal button and then mentioning the amount of money required. The exact amount of money will be made available to you instantly through the outlet.



**INTEXT QUESTIONS 9.5**

- I. Which of the following statements are true and which are false?
  - (i) Pay-in-slip is required to be used while opening a savings bank account.
  - (ii) Withdrawal form cannot be used by an account-holder if he/she uses cheques for withdrawing cash from savings bank account.
  - (iii) A savings bank account-holder cannot introduce another person at the time of opening a savings bank account.
  - (iv) The Pass Book must be presented by the account-holder for entering deposits and withdrawals by the bank.
  - (v) Application form for opening a savings bank account is available free of charge.
  - (vi) To make payment to a third party by cheque, the name of the party must be mentioned on the cheque.
  - (vii) Cheque Book is issued by the bank only on the request made by an account-holder.
  - (viii) A Pass Book is issued by the bank immediately after opening of the savings bank account.
  
- II. Fill in the blanks with appropriate word's:
  - i. Counterfoil of the pay-in-slip is returned to the \_\_\_\_\_ by the bank.
  - ii. The right-hand part of the pay-in-slip is called the \_\_\_\_\_.
  - iii. A cheque needs to be attached to the \_\_\_\_\_ of the pay-in-slip before depositing.
  - iv. Before payment of a cheque, the signature of the account-holder is verified with the \_\_\_\_\_.

- v. The Teller system helps quick \_\_\_\_\_ of cash by account-holders.
- vi. Deposit of cash into savings bank account can be made at the \_\_\_\_\_ counter.

### 9.10 E-BANKING (ELECTRONIC BANKING)

E-banking is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels. E-banking includes the systems that enable financial institution customers, individuals or businesses, to access accounts, transact business, or obtain information on financial products and services through a public or private network, including the Internet. With advancement in information and communication technology, banking services are also made available through computer. Now, in most of the branches you see computers being used to record banking transactions. Information about the balance in your deposit account can be known through computers. In most banks now a days human or manual teller counter is being replaced by the Automated Teller Machine (ATM). Banking activity carried on through computers and other electronic means of communication is called 'electronic banking' or 'e-banking'. Let us now discuss about some of these modern trends in banking in India.

- **Automated Teller Machine**

A machine at a bank branch or other location which enables a customer to perform basic banking activities (checking one's balance , withdrawing or transferring funds) even when the bank is closed. Banks have now installed their own Automated Teller Machine (ATM) throughout the country at convenient locations. By using this, customers can deposit or withdraw money from their own account any time.

- **Debit Card**

A card which allows customers to access their funds immediately, electronically. Banks are now providing Debit Cards to their customers having saving or current account in the banks. The customers can use this card for purchasing goods and services at different places in lieu of cash. The amount paid through debit card is automatically debited to (deducted from) the customers' account.



**Debit Card**



**Notes**



**Notes**

- **Credit Card**

A card issued by a financial company 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. Interest usually begins one month after a purchase is made and borrowing limits are pre-set according to the individual's credit rating. Credit cards are issued by the bank to persons who may or may not have an account in the bank. Just like debit cards, credit cards are used to make payments for purchase, so that the individual does not have to carry cash. Banks allow certain credit period to the credit cardholder to make payment of the credit amount. Interest is charged if a cardholder is not able to pay back the credit extended to him within a stipulated time period. The interest rate charged is generally quite high.



**Credit Card**

- **Net Banking**

The Internet provides a secure medium for transferring funds electronically between bank accounts, and also for making banking transactions over the Internet. All banking activities that were conventionally carried by visiting a bank can now be done through a computer with Internet access. Credit cards transactions are a form on Internet Banking. With Net-Banking, you can not only view your account balance but also open a Fixed Deposit, transfer funds, pay your electricity, telephone or mobile phone bills and much more. Presently, through Net-Banking, you can view not only your in Bank account but also your account(s) in other Banks. So you can actually view your Bank accounts in different Banks at the same time on one screen.



**Net Banking System**

Thus, when banking transactions such as transfers, payments and often home loan applications can be made via the Internet, then it is known as Net Banking.

Net Banking allowing individuals to perform banking activities at home, via internet. Online banking through traditional banks enable customers to perform all routine transactions, such as account transfers, balance inquiries, bill payments, and stop-payment requests, and some even offer online loan and credit card applications.

Account information can be accessed anytime, day or night, and can be done from anywhere. With the extensive use of computer and Internet, banks have now started transactions over Internet. The customer having an account in the bank can log into the bank's website and access his bank account. He can make payments for bills, give instructions for money transfers, fixed deposits and collection of bill, etc.



**Notes**

• **Phone Banking**

A system in which customers can access their accounts and a variety of banking services up to 24 hours a day by telephone or it is a facility enabling customers to make use of banking services, such as oral payment instructions, account movements, raising loans, etc., over the telephone rather than by personal visit. In case of phone banking, a customer of the bank having an account can get information of his account, make banking transactions like, fixed deposits, money transfers, demand draft, collection and payment of bills, etc. by using telephone. As more and more people are now using mobile phones, phone banking is possible through mobile phones. In mobile phone a customer can receive and send messages (SMS) from and to the bank in addition to all the functions possible through phone banking.



**Phone Banking**



**INTEXT QUESTIONS 9.6**

I. Match the statement in column A with the word(s) / terms in column B:

**Column A**

**Column B**

- |  |                   |
|--|-------------------|
| (i) The banking facility that helps us to make payments out of our bank account without actually carrying money with us. | (a) ATM           |
| (ii) The banking facility enabling us to deposit or withdraw cash 24 hours a day.  | (b) Phone Banking |
| (iii) The facility that helps us to perform banking Transactions over the Internet.                                      | (c) Credit Card   |
| (iv) We can get information about the balance in our bank account over the mobile phone using this facility              | (d) Debit Card    |
| (v) The facility that enables us to make payment for purchase of goods by taking credit from the bank                    | (e) Net Banking   |



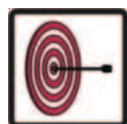
**Notes**

**II. Multiple Choice Questions**

- i. Which of the following is not a function of Central Bank?
  - a) Guiding and regulating the Banking System of a country
  - b) Acts essentially as Government Banker
  - c) Deals with the General Public
  - d) Maintains deposit accounts of all other Banks.
  
- ii. Which of the following is not a commercial Bank?
 

a) State Bank of India	b) Reserve Bank of India
c) ICICI Bank	d) Punjab National Bank
  
- iii. Which of the following is not a type of advance provided by Commercial Bank?
  - a) Cash Credit
  - b) Overdraft
  - c) Collecting and Supplying Business Information
  - d) Discounting of Bills
  
- iv. Fixed Deposit Account facility is available by :
  - a) Businessman
  - b) Salaried people
  - c) People want to save money for long period
  - d) Who want to get the interest on monthly basis
  
- v. Which is not a valid document to withdraw the money from the Bank?
 

a) Cheque	b) Withdrawal form
c) Personal Identity Card	d) ATM Card



**WHAT YOU HAVE LEARNT**

- A Bank is an institution that accepts deposits from public and lends money to the people who need it.
- Banking is an important auxiliary to trade.
- Banks encourage savings and act as an intermediary between depositors and borrowers.
- They help in credit transactions, facilitate export and import, help in national development and raise people's standard of living.
- Types of banks
  - The Central Bank, (RBI in India), acts as the government banker and issues currency notes in the country. It also acts as the banker's bank.



**Notes**

- The Commercial Banks provide short and medium term loans and charge interest on it. They are of three types – Public Sector Banks, Private Sector Banks and Foreign Banks.
- Development Banks lend funds to business for medium to long term.
- Co-operative Banks are formed to serve common interest of members. In India, we have Primary Credit Societies at (village level), Central co-operative Banks at (district level) and State Co-operative Banks at (State level).
- EXIM Bank provides guidance and support to exporters and importers.
- NABARD helps in financing agricultural and other rural activities.
- Functions of Commercial Banks:
  - Primary functions include accepting deposits, granting loans, advances, cash, credit, overdraft and discounting of bills.
  - Secondary functions include issuing letter of credit, undertaking safe custody of valuables, providing consumer finance, educational loans, etc.
- Bank deposits serve different purposes for different people. Keeping in view these differences, banks offer the facility of opening different types of deposit accounts by people to suit their convenience and purposes, as follows:
  - Savings Bank Account
  - Current Deposit Account
  - Fixed Deposit Account
  - Recurring Deposit Account
- There are different types of Recurring Deposit Accounts, like Home Safe Account, Cumulative-cum-Sickness Deposit Account, House construction Deposit Account, etc.
- To open a Savings Deposit Account in a commercial bank, you have to take the following steps: Filling up the form, Proper introduction, Spacemen Signature.
- E-banking: With advancement in information and communication technology, banking is performed electronically through Credit Card, Debit Card and ATM, etc.



**Notes**



**TERMINAL EXERCISE**

1. Define the term 'Bank'.
2. What is meant by 'Banking'?
3. Give two examples each of (a) Private Sector Commercial Banks; and (b) Foreign Banks, in India.
4. What facility is provided by credit cards to a bank's customers?
5. What is meant by cash credit?
6. What function does 'Development Bank' perform?
7. Explain the role of banking in about 100 words.
8. What is meant by Central Bank?
9. What are the functions performed by (a) EXIM Bank; and (b) NABARD.?
10. Give any four secondary functions of a commercial bank.
11. Explain the primary functions of a commercial bank.
12. Explain the different types of commercial bank giving example of each.
13. Distinguish between banks and moneylender on the basis of (i) Entity; (ii) Security; (iii) Activity; and (iv) Clients.
14. Describe the functions performed by a commercial bank.
15. Explain the recent development in the field of banking by giving examples of the latest facilities being offered to customers.
16. What is meant by co-operative bank? Explain the types of co-operative banks in India.
17. Describe the procedure of opening a savings bank account in a bank.
18. State the procedure for depositing cash in the savings bank account.
19. What procedure will you follow for depositing a cheque in your savings bank account?
20. Describe the use of withdrawal form for operating savings bank account.
21. What particulars do you have to fill in the form of application while opening a savings bank account?
22. State how will you withdraw cash from your savings bank account.
23. Describe briefly the use of pay-in-slips for depositing cash or cheques into the savings bank account.
24. What is pay-in-slip? State its utility.
25. Can you withdraw an amount in excess of the balance in your savings bank account? Give reason in support of your answer.
26. What is ATM? How does it help the customers of the bank?
27. While opening a savings bank account, why is it necessary to arrange introduction of the applicant by a person known to the bank?

28. What are the different methods of withdrawing money from the saving bank account?



## ANSWER TO INTEXT QUESTIONS

- 9.1** (i) lends, (ii) intermediary / middleman, (iii) trade,  
(iv) cheque, (v) moneylender
- 9.2** (i) Private Sector Bank, (ii) EXIM Bank, (iii) Co-operative Bank  
(iv) Central Bank, (v) Public Sector Bank
- 9.3** (i) F, (ii) T, (iii) T, (iv) F, (v) T
- 9.4** I. (i) T, (ii) F, (iii) T, (iv) F,  
(v) T, (vi) T, (vii) F, (viii) T
- II. (i) nominal, (ii) higher, (iii) current account,  
(iv) cheque, (v) same
- 9.5** I. (i) T, (ii) T, (iii) F, (iv) F,  
(v) T, (vi) T, (vii) T, (viii) T
- II. (i) depositor, (ii) foil, (iii) foil,  
(iv) specimen signature (v) withdrawal, (vi) bank
- 9.6** I. (i) (d), (ii) (a), (iii) (e),  
(iv) (b), (v) (c)
- II. (i) c (ii) b (iii) c  
(iv) b (v) c

Notes



## ACTIVITIES FOR YOU

- Make a list of Banks operating in your locality and classify them according to their functions.
  - i. Go to the nearest branch of any bank and collect a pay-in-slip form used for depositing money. Try to fill it with the help of imaginary figures.
  - ii. Collect information about
    - a. Minimum amount required to open various deposit accounts;
    - b. Rate of interest payable on savings bank, recurring and fixed deposit accounts;