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UNIT - I
BANKER AND CUSTOMER

BANKER:

A person who is providing banking services to the public is called a banker.

DEFINITION OF BANKER:

Sir Johnpaget defines,

1. Take deposit account
2. Take current account
3. Issue and pay cheque and collect cheques crossed and uncrossed, for his customers.

CUSTOMER:

A person who has an account with the bank is called as a customer of the bank.

Relationship between banker and customer:

Banker and a customer may be grouped into two categories

I.General relationship
II.Special relationship

I.General relationship:

1. **Debtor and customer relationship:**
   A banker and his customer are basically debtors and creditors.

2. **Relationship as trustee:**
   A trustee holds money or assists and performs certain function for the benefit of Some other person called the beneficiary.

3. **Relationships as principal and agent:**
   The relationship between a banker and customer are that of a principal and agent. Agency functions are
   - Collection of cheque.
   - Collection of bills and exchange.
   - Purchasing and selling of securities.
   - Payment of insurance premium on behalf of its customer.

4. **Relationship as bailee and bailor:**
   When a customer deposits with his bank valuables, document securities etc. for safe custody then the customer becomes a bailerand the banker as bailee.

II. Special relationship:

Two special obligationofthe banker

1. obligation to honour cheque.
2. obligation to maintain secrecy of accounts.

1)Obligation to honour cheque:

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A banker has to honour the customer's cheque provided to him

A) He has sufficient balance of the customer
B) The funds are properly applicable to the payment of cheque.
C) The banker has been duly required to pay.
D) The cheque has been presented within a reasonable time
E) No garnishee orders.

2)Obligation to maintain secrecy:

It is obligatory for the banker to observe strict secrecy with regard to his customers account.

RIGHTS OF THE BANKER

Following are the rights of banker,

1) Right of general lien
2) A banker has the right of general lien in respect of the amount to him by the customer.

TYPES OF LIEN:

Particular lien:

A particular lien is attached to some specific goods.

General lien:

This type of lien available only to certain specified categories of person such as,

a) Banker
b) Factors
c) Attorneys of high court
d) Policy broker

Right of set off:

A banker possesses this right of set off which enables the banker to combine two accounts in the name of the customer and to adjust the debit balance in one account of the customer with the credit balance in some other account. Rules regarding the bankers right of set off are given below:

1) debts in the same name and same rights
2) debits must be due
3) debts must be certain
4) no agreement to the contrary
5) garnishee order
6) bankers

NEGOTIABLE INSTRUMENT

Meaning:

Negotiable instrument means a written document which creates a right in favor of some person and is freely transferable.

Definition:

"A promissory Note bill of exchange, or cheque payable either to order or to bearer whether the words "order" or "bearer" appear on the instrument or not.

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Features of a negotiable instrument:

1) Negotiability:

It is easily transferrable from person to person and the ownership of the property in the instrument can be transferred by mere delivery.

1. **Good title of the transferee:**
   "Holder in due course" the holder in due course takes a negotiable instrument in good faith and for value gets it free from all defects.
2. **Recovery:**
   The holder of a negotiable instrument gets the right to sue upon the instrument in his own name.
3. **Presumption:**
   Anegotiable instrument is always subject to certain presumptions.

Kinds of negotiable instrument:

There are two broad kinds of negotiable instruments. They are.

Negotiable instruments by statue:

The negotiable instrument act 1881, states that there are three kinds of negotiable instruments,

- Cheque
- bills of exchange
- promissory notes

Negotiable instrument by custom or usage:

Sec, 137 of the transfer of property act, 1882 states that there are some negotiable instruments which may be negotiated by custom and their negotiability will be recognized by court.

Promissory note:

A promissory note as an "instrument in writing containing an unconditional undertaking signed by the makes to pay a certain sum of money only to or to the order of certain person or to bearer of the instrument".

<u>Characteristics fora promissory note:</u>

Following are the features of promissory note,

Instrument in writing:

A negotiable instrument in writing, the writing may be in ink or pencil or printing or lithographing.

Promise to pay:

There must be an express understanding or promise to pay, a mere acknowledgement must of the debit will not suffice.

The knowledge to pay is unconditional:

There should be an express promise or clear undertaking by a debit to his creditor.

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Certain amount:

The amount payable should be certain.

Signed by the maker:

A promissory note may be written or printed. The promissory note is complete only if it is signed by the promissory.

Payee must be certain:

A promissory note is drawn payable to a certain person or to his order or to the bearerof the instrument thus, the payee is certain.

Bills of exchange

Bill of exchange is defined as an instrument in writing containing "an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bear of the instrument".

Features of bills of exchange:

It may be summarized as follows,

1. It must be in writing.
2. It contains an express order to pay money only.
3. It must be unconditional.
4. It must be signed by the drawer.

Types of bills:

a) Inland bills and foreign bill:

Inland bills drawn on Indian resident are called "inland bills"on a person residing in India whether payable in or outside India.

b) Foreign bills:

A foreign bill of exchange is the bill which is drawn in one country and made payable inanother country, or drawn upon a person resident in some other country.

c) Time bill

A bill payable after a fixed time is formed as a time bill. A bill payable after date is a time bill.

d) Demand bill:

A bill payable at sight or on demand is termed as a demand bill.

e) Trade bill:

"A bill drawn and accepted for a genuine is trade transactions is termed as trade bill"

f) Documentary and clean bill:

Documentary bill may be,

1. Documents against acceptance
2. Documents against payment.

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CHEQUE

Meaning:

Cheque is a bill of exchange which is drawn on a specified banker and is always payable on demand.

Definition:

"A bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand.

Features of a cheque:

1. A cheque is an instrument in writing .
2. It is drawn on a specified banker.
3. It is an unconditional order.
4. It is payable on demand.
5. It is to be signed by the drawer.

Kinds of cheque:

On the basis of nature

a) Open cheque
b) Crossed cheque

On the basis of date of issue

a) state cheque
b) anti-dated cheque
c) current dated cheque
d) postdated cheque

Open cheque:

It is also known as bearer cheque.

Crossed cheque:

It is also known as order cheque Payment made through a fellow banker.

Current dated cheque:

A cheque bears the present date on which the cheque is presented. The cheque will be honoured if other legal formalities are fulfilled,

a) instrument in writing
b) drawn a specified banker
c) unconditional order

1.16) Difference between a cheque and a bill of exchange:

CHEQUE	BILLS OF EXCHANGE
1)Drawn on a printed form	1.Need not be drawn on a printed form
2) Always payable on demand	2. May be payable on demand

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3) Drawn on a banker	3. Drawn on any person
4) May be crossed	4. cannot be crossed
5)Doesn't require acceptance	5. requires acceptance
6) cheque may be countermanded	6. cannot be countermanded by the drawer
7) It does not require proper stamp	7. requires no stamp

CROSSING

Meaning of crossing:

Two parallel transverse lines are generally drawn on the top corner of the left hand side of the cheque.

Drawing of two parallel transverse lines across the face of a negotiable instrument is called crossing.

Definition:

"Where a cheque bears across its face an addition of the words and company" or any abbreviation shall be deemed a crossing.

TYPE OF CROSSING:

General crossing:

"Where a cheque bears across its face two transverse parallel lines with or without any words it is called general crossing".

Essential of general crossing:

a. There must be two parallel lines
b. The two lines must be across the face of the cheque
c. The two lines must be in crosswise
d. The words and company, or its abbreviations may be written.

Importance of general crossing:

i) A crossed cheque is to be paid only through a fellow banker.
ii) It gives direction to the paying banker.

ii) Special crossing:

A special crossing refers to writing on the face of the instrument the name of a banker with or without the words "not negotiable" in between the two transverse parallel lines across the cheque.

Essential of special crossing:

1. It is a type of statutory crossing.
2. Drawing of two parallel lines on the face of the cheque is not essential for a special crossing.

Importance of special crossing:

It gives direction to the paying banker, sometimes name of the collecting banker itself might appear without parallel transverse lines.

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a) Restrictive crossing:

In restrictive crossing, the lines of crossing contain the words “Account payee only “or “Payee account only”.

b) Not negotiable crossing:

“A person taking a cheque crossed generally or specially bearing in either case the words, “not negotiable” shall not have, and shall not be capable of giving better title to the cheque than that of the transferer.”

c) **Account payee crossing:**

If the words account payee is added to crossing, it becomes an account payee crossing. Thesewords constitute an instruction to the collecting banker that he should collect the amount of the cheque for the benefits of the payee’s account only.

d) Double crossing:

A cheque crossed specially can be crossed again by the collecting banker authorizing another banker for the purpose of collection. it is known as double crossing.

ENDORSEMENT

Endorsement-meaning

The term endorsement refers writing a person’s name on the back of instrument for the purpose of negotiation

Endorsement-Definition

‘Where the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation, on the back or face thereof, or on a slip of paper annexed’’ there to – he is said to endorse the same, and is called the endorser”.

Types or kinds of endorsement

General or blank endorsement

If an endorser signs his name only without mentioning the name of endorsee, then the endorsement the instrument is said to be blank. In this type of endorsement, the instrument must be in blank

Special or full endorsement

When the endorser adds to his signature a direction to pay the amount mentioned in the instrument to or to the order of a specified person, the endorsement is said to be in ‘full’

Partial endorsement

Partial endorsement is a type of instrument in which only a part of theamount of the instrument is endorsed.

Restrictive endorsement

Restrictive endorsement is a type of endorsement which limits the endorsee from further negotiation of the instrument. That is, this type of endorsement restricts the negotiability ofthe instrument

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Conditional endorsement:

When the endorser includes a condition in his endorsement it is known as conditional Endorsement,it is a type of endorsement which limits the liability of the endorser.

Prepare endorsement:

It is one in which endorsement is made by an authorized agent.

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UNIT - II
INDIGENOUS BANK

Indigenous Bank:

These bankers do the banking business as a side occupation.

i. Who deal only in banking business
ii. Who combine banking business with trade and
iii. Who deal mainly in trade and also have limited banking business.

The important reasons for the indigenous bankers:

b. These bankers provide flexible creditors
c. These bankers give loans to the small productive units
d. These bankers have closely relationship with the customers.

Function of indigenous bankers:

i) Accepting deposits:

Indigenous bankers accept deposits both demand and time deposits. generally indigenous bankers pay high rate of interest than that paid by commercial banks.

ii) Lending advances:

The indigenous bankers' advance loans to their customers against securities and also gives credit against personal security.

iii) Non-banking business:

Most of the indigenous banks carry on their non-banking business along with the banking activities. Non-banking business such as retailing business, speculation business etc...

iv) Businesshundies

Indigenous banks writehundiesand buy and sell hundies. They also discount hundies.it helps to transfer funds from one place to another.

v) Valuables for safety custody:

Indigenous bankers accept valuable of their clients for safe custody.

Limitations of indigenous bankers:

Following are the limitations of indigenous bankers.

i. Unorganized banking system
ii. Insufficient capital
iii. Defective lending
iv. Unproductive loans
v. Higher rate of interest on loans

MONEY LENDERS:

The money lenders are not bankers. Because, their business is to lend money from their own funds. They will not accept deposits from the public. The money lenders lend loans against standing crops. Money lenders are classified into two groups.

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Professional money lenders:

Professional money lenders are those whose business is only lending money. They do the business of money lending with licenses.

Nonprofessional money lenders:

Nonprofessional money lenders are those who combine money lending with other activities and do not depend entirely on money lending business. they hold no license to carry on money lending business.

COMMERCIAL BANKING

Commercial banks are those banks which accept deposit from the general public and make short term loans to customers and traders. Commercial banks receive deposit in the form of fixed deposits, savings bank account and current account.

Primary functions:

The primary functions of commercial banks are classified into two groups:

i. Receiving deposit
ii. Lending advances

i.**Receiving deposits:**

The most important function of a modern bank is borrowing of money or receipt of deposit from the public. Deposit mobilization is made specifically for fulfilling three needs or functions:

a. Creation of saving habit
b. Creation of banking habit and
c. Rising of funds for the purpose of investment.

Deposits may be classified into two groups. They are,

1. Demand deposits
2. Time deposits

i) Demand deposits:

Demand deposits are those which may be withdrawn by the depositor or transferred to someone else at any time without previous notice to the bank.

ii) Time deposit:

Time deposit is those that are deposited with banks for a certain period of time. These deposits may be also termed as term deposits are made by the customers for a specific period. Time deposit consists of,

i) Fixed deposits
ii) Recurring deposits
iii) Special deposit scheme.

CO-OPERATIVE BANKS:

Co-operative banks, another component of Indian Banking System, originated with the enactment of the co-operative credit societies act of 1904.The main objective of this act was to

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establish credit societies "to encourage thrift, self-help. The co-operative banks are engaged in providing banking facilities to the agricultural sector.Long term agricultural credit is provided by the land development banks.

CLASSIFICATION OF CO-OPERATIVE BANKS:
Co-operative institutions are classified into two groups,

i. Agricultural credit institutions
ii. Nonagricultural credit institutions

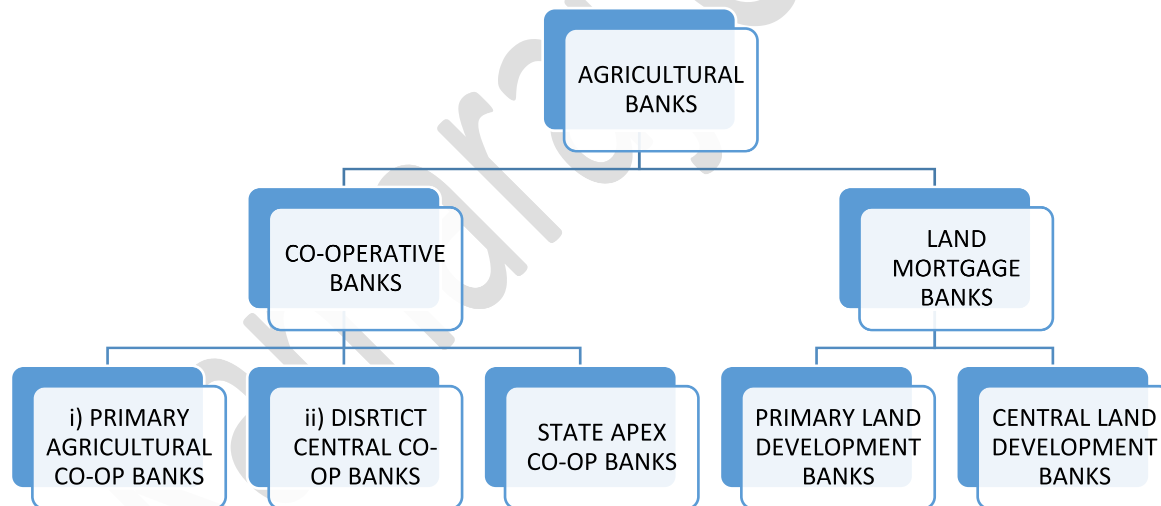
Agricultural credit institutions are further divided into two groups.

i. Short term agricultural credit institutions
ii. Long term agricultural credit institutions.

A pyramid type of a three tier structure comp rising,

i. Primary agricultural co-operative credit societies at village level.
ii. District central co-operative bank at district level.
iii. State apex co-operative banks, at the apex.

Agricultural banks are classified into two types:



Primary agricultural credit societies:

It is a village level institution which directly deals with the rural people. A primary agricultural credit society may be started with 25 or more persons of village. The members of the society have unlimited liability. It means that the member undertakes full responsibility of the entire loss of the society, if in case of its failure.

LAND DEVELOPMENT BANKS:

Land development banks provide long term credit for agricultural purpose. These banks are registered as co-operative societies but with limited liability. The long-term credit requirements of agriculturists were met by the money lenders. The money lenders charge a high rate of interest. The first land development bank was established in Punjab in 1920. These banks have two tier structures,

1. Central land development banks
2. Primary land development banks.

Land development banks provide long term loans to the agriculturists.

a) For redemption of old debts
b) For improvements of land and method of cultivation
c) For purchasing costly machinery and
d) For purchasing land.

Nonagricultural co-operative credit institutions are classified as follows:

a) Urban co-operative banks
b) Co-operative housing societies.

Industrial development banks of India (IDBI)

The industrial Development Bank of India was started on July, 1964 as a wholly owned subsidiary of the Reserve Bank of India. It provides long-term finance to industry.

Functions of IDBI

i. Direct Financial Assistance
ii. Indirect Financial Assistance
iii. Development Assistance

Capital

The share capital was transferred to the government India.The authorized capital of IDBI was Rs.50 crore.

Resource:

i. Share capital
ii. Borrowing from Central Government
iii. Acceptance of deposits.
iv. Issue of bonds

NATIONAL BANK FOR ARICULTURAL AND RURAL DEVELOPMENT (NABARD)

The NABARD was established in july1982with a view to expand refinance facilities to agricultural sectors. The NABARD has taken the entire refinancing functions of RBI. The sphere of agricultural finance has been handed over to the NABARD.

Functions:

The functions of NABARD have been grouped into three groups,

i. Credit functions
ii. Regulatory functions
iii. Development functions

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The above three functions can be grouped into the following functions:

i. It functions as an apex institution.
ii. It serves as refinancing agency for the institution which provide production and investment credit for promoting various development activities in rural areas.
iii. The NABARD provides short term credit to state co-operative banks for agricultural activities and also medium term credit to state co-operative banks and the regional rural banks.
iv. It co-ordinates the rural financing activities of all the institutions which are engaged in the development of agriculture.

Capital:

The authorized capital of the NABARD is Rs.500 Crore. Its paid up capital is Rs.100 Crores. The government of INDIA and Reserve Bank of INDIA have contributed Rs.50 Crore each to the paid up Capital.

Resources:

1. Borrows funds from government of INDIA, the World Bank.
2. Raises funds from the market.
3. Borrows funds from the RBI.
4. Borrows funds from international agency for project implementation.

FORIGIN EXCHANGE BANKS:

Exchange banks are those banks which deal with foreign exchange and are specialized in financing foreign trade. These banks are foreign banks. They supply foreign exchange required for settlement of transactions in foreign trade. These banks discount foreign bills of exchange.

Function of exchange banks:

Following are the functions of exchange banks.

1. Financing of foreign trade
2. Financing internal trade
3. Discount of bills
4. Other banking functions.

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UNIT - III
TRADITIONAL BANKING

Deposit is the lifeblood of commercial banks. The commercial banks receive deposits from the public by way of time deposits and demand deposits.

Receiving deposits:

The most important function of a modern bank is borrowing of money or receipt of deposit from the public. Deposit mobilization is made specifically for fulfilling three needs or functions:

a) Creation of saving habit
b) Creation of banking habit and
c) Raising of funds for the purpose of investment.

Kinds of deposit:

A banker accepts deposits of the following types:

1. Fixed deposit account
2. Current deposit account
3. Savings deposit account
4. Recurring deposits
5. Deposits at call

1. Fixed deposit:

A fixed deposit is one which is repayable after the expiry of a predetermined period fixed by the customer himself. The period varies from seven days to two years. A fixed deposit account can be opened for a period of more than two years and in that case, the rate of interest is less than the deposit for a period of two years.

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2. Current deposit:

Current deposit account can be opened only by businessmen and traders for their business purpose.

1. The banks give overdraft facilities also in certain cases.
2. The loans and advances are granted by the banks through current account.

3. Savings deposit:

A saving account can be opened by individuals for the purpose of saving. Savings deposit account is an interest-bearing domestic account. A saving bank account meant for the people of the lower and middle classes who wish to save a part of their current income to meet their future needs and also intend to earn an income from their opening savings. The depositor is supplied with a pass book.

4. Recurring deposit:

Recurring deposits are those deposits received by the banks in equal monthly installment for certain number of years the total of which will be paid to the depositor with interest due there on after the expiry of the date of maturity.

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5. Deposit at call:

These deposits may be withdrawn when asked for by the depositor, deposits at short notice by which depositors are required to give notice before certain number of days for withdrawal of deposits. The rate of interest may be lower than that of the other deposits.

Advancing loans

Credit is the corner stone of banking. The second important function of a bank is lending money to the traders, framers and industrialists.

1. Demand loan:

A bank lends advances in the following types. Generally, a commercial bank issues only short-term advance.

1. Demand loan
2. Cash credit
3. Overdraft
4. Discounting of bills
5. Money at call

2) Investing funds:

As per the banking regulations act, 1949, every commercial bank has to invest its surplus funds in government and approved securities.

3) Promoting banking habit:

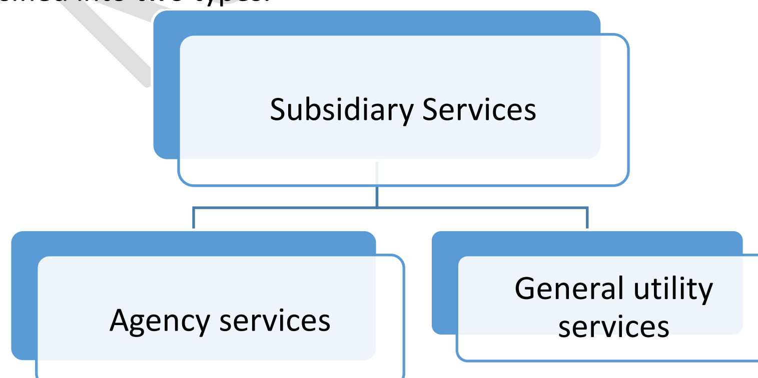
Commercial banks have to promote banking habit among the rural mass. This is done through frequent advertising campaigning on new account opening, deposit acceptance, etc.

4) Credit creation:

Economic growth of a country depends upon the efficient mechanism of credit creation. Expansion of credit results in increase in investments, production and employment opportunities.

Subsidiary services

Subsidiary services are those services which are not considered to be primary functions. Subsidiary functions are also known as secondary services. Subsidiary services are again classified into two types.



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Agency services:

A commercial bank provides the following agency services on behalf of its customers.

i. Remittance of funds
ii. Funds collection
iii. Realizing dividends on shares
iv. Periodic payments under standing instructions
v. Buying and selling of securities
vi. Income tax consultancy

General utility services:

General utility services are provided to all people irrespective of account holding.

a) Safe custody of valuables
b) Safe deposit locker
c) Travelers cheques
d) Letter of credit
e) Underwriting securities
f) Accepting telephone and other bills
g) Gift cheque
h) Acting as referee

Difference between savings bank deposits and current account:

I. Savings bank deposits account can be opened by an individual. But current account can be opened only by businessmen.
II. Interest is paid to savings bank depositors whereas interest is not payable to current account holders
III. Overdraft facility is not available to all savings bank deposit accounts. But overdraft facility is available to all current account holders.
IV. Amount can be withdrawn from savings bank deposit through cheque or withdrawal slip whereas in case of current account, amount can be withdrawn by cheque only.
V. The purpose of opening savings bank deposit is to promote saving habit whereas the purpose of opening current account is to preserve the amount safely.

Difference between savings deposit account and fixed deposit account:

I. In fixed deposit, deposit amount can be withdrawn after the specified period whereas in savings deposit, amount can be withdrawn at any time.
II. Cheque facility is not available in fixed deposit whereas cheque facility is available in savings deposit.
III. In fixed deposit, fixed deposit receipt is given as an evidence for deposit whereas in savings Deposit, passbook is issued.
IV. Higher rate of interest is given to fixed deposit whereas lower rate of interest is given to savings deposit account.
V. There is no prescribed minimum amount of fixed deposit whereas there is a prescribed minimum amount of deposit to open a savings bank account.
VI. FDR can be used as a collateral security to borrow loan whereas pass book cannot be used as a collateral security.

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Principles of sound lending:

Following are the principles of sound lending,

Safety:

A bank deals in the money of the public. It receives deposit from the public and promises to repay the same along with interest at the predetermined rate.Hence, the banker has to see the safety of the advances made by it. The repayment of the loan depends upon the borrower's

a. capacity to pay and
b. willingness to pay

Liquidity:

Liquidity means the possibility of converting loans into cash without much loss within a short time.

Profitability:

The sound of principle of lending is not to sacrifice safety or liquidity for the sake of higher profitability. A banker earns its profit mainly through advances and therefore it cannot ignore the consideration of profitability while making advances.

Security:

Security is considered to be secondary consideration while advancing loans. The securities must be adequate, marketable and free from encumbrances. Generally, securities which could be marketed easily, quickly and without loss should be preferred.

Purpose:

Purpose of the loan has assumed a special significance in the present-day concept of banking, loans for productive purposes should be given in priority to loans for unproductive purposes.

Sources of repayment:

The banker has to see whether the project for which it is advancing loan will generate necessary cash to repay the loan and interest as per the agreed Programme.

Diversification of risks:

This means that a banker should not lend a major portion of his loanable funds to any single borrower or to an region or to one particular region. A banker must advance moderate amounts to a large number of customers spread over a wide area and belonging to different industries.

Forms and advances

A bank may make advances to traders and industrial and others in many ways. But the main forms in which money is advanced by the banks are:

1. Loans
2. Cash credit
3. Overdraft
4. Purchase and discounting of bills.

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1. Loans:

Loans are oldest and very popular form of lending by the banks in case of loans, financial assistance is given for a specific purpose for a fixed period. When a bank makes an advance in lump sum the whole of which is withdrawn in cash immediately by the borrower who undertakes to repay it in installments, it is called a loan.

TYPES OF LOANS:

Loan may be of two kinds.

a) Term loan
b) Demand loan

a. Term loan:

Term loan's payment is spread over a long period. It may be medium term or long-term loan. Medium term loan are granted for a period of one to five years. Long term loans are granted for a longer period of time.

b. Demand loan:

Demand loan is payable on demand. it is for a short period and usually granted to meet working capital needs of the borrower.

On the basis of purpose, loans may be classified as follows:

i. commercial loan
ii. consumer loan
iii. agricultural loan

Loans may be of three types. They are,

i. Short term loan is a loan taken for a period of less than one year.
ii. Medium term loan is a loan taken for a period ranging from one year to three years.
iii. Long term loan is a loan taken for a period ranging from three years to 20 years or more to meet long term requirements.

3. Overdraft:

A person is said to be availing overdraft from a bank, when his account with the bank shows a debit balance. The customer is required to pay interest on the actual amount used by him.

The borrower is permitted to draw and repay any number of times, provided the total amount overdrawn does not exceed the agreed limit. The interest is changed only for the amount drawn and not for the whole amount sanctioned.

4. Bills discounted and purchased:

Banks also give advances to their customers by discounting their bills. The net amount after deducting the amount of discount is credited to the account of the customer. The term "bills purchased" seems imply that the bank becomes the purchase /owner of such bills. Bills which are accompanied by documents to title to goods such as bills of lading or railway receipt are purchased by the bankers.

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Modes of charging security:

Following are the important modes of charging a security:

1. lien
2. pledge
3. mortgage
4. hypothecation
5. assignment

1. Lien:

Lien is the right of a creditor to hold possession of the goods of the debtor till he discharges his debt. Right of lien entitles the creditor to retain the security or goods belonging to the debtor till the payment of debt. But he cannot sell the securities.

Types of lien:

There are two types of lien.

1. Particular lien
2. General lien

Particular lien is a specific lien which confers a right to retain those goods for which the amount is to be paid.

General lien entitles the creditor in possession to retain the goods till all his claims against the owner of the goods have been met.

2. Pledge:

A pledge is a special kind of bailment. It is a bailment of goods,

1. as a security
2. for the payment of debt or
3. for the performance of a promise

Any kind of movable property may be pledged.

Essential elements of pledge:

1. There must be deliveryof goods. The delivery may be actual or constructive.
2. The delivery of goods should be by way of security

3. Mortgages:

Loan is granted against immovable property. It is said to be mortgage. A mortgage is a method of creating change on immovable properties like land and building, machineries, etc. it is the transfer of an interest in the specific immovable property.

Features of a mortgages:

1. There must be a transfer of interest in an immovable property
2. The immovable property intended to be mortgaged must be a specific one.
3. It must be supported by a lawful consideration
4. The actual possession of the mortgaged property is generally with the mortgager

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5. The mortgager gets back all his rights regarding the mortgaged property on repayment of loan with interest due thereon.

Types of mortgage:

1. Simple mortgage
2. Mortgage by conditional sale
3. English mortgage
4. Mortgage by deposit of title deeds
5. Anomalous mortgage.

Hypothecation:

Hypothecation is a mode of securing loan by creating a charge on movable goods without the surrender of possession or ownership. A charge over movable properties like goods, raw materials, work in progress is created. Hypothecation defined by hart as "a charge against property for an amount where neither ownership nor possession is passed to the creditor''.

Features of hypothecation

1. It applies to movable goods
2. The ownership as well as the possession of the security remains with the borrower.
3. The banker has the right to get the possession of the property
4. It is created by a deed of hypothecation
5. The banker has a right to inspect the security at any time.

Assignment:

Assignment means transfer of an existing or future right, property or a debt by one person to another person. The person who assigns the property is called "assignor" or 'transferor' and the person to whom it is transferred is called "assignee" or "transferee".

Types of assignment:

Assignment may be of two types,

1. Legal assignment
2. Equitable assignment

A legal assignment is one where

i. Assignment deed is in writing duly signed by the assignor.
ii. The transfer of actionable claim is absolute and
iii. The assignee informs the assignor's debtor about the assignment and also gets balance confirmed from him.

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UNIT – IV
MODERNIZED BANKING

Exchange Core (Centralized online Real time) Banking

Core banking is the meeting point of the largest banking services namely retail and commercial banking, information technology.

Features of core banking

- Different Core banking works simultaneously
- Issues with increased efficiency
- It increases the efficiency and productivity
- It provides opportunity to empower on customers
- It helps to management of change, competition, etc.
- It helps to maintain customer relationship

Merits

- Software components is designed to meet challenges of the day
- It helps to produce products which are made functionally, technically robust
- It provides customer relationship
- It helps to provide various products and services according to customer requirements
- It can help develop and build products and packages forcustomers.
- It supports multicurrency, operations anywhere, any day, anytime etc.

Home Banking

Home banking is the use of computers at home for conducting their banking operations with their banking operations with their bank.

Features at Home banking

Personal Computer

Customers can use their personal computers at home or in office for handling his bank account. It helps to save time to their customers of a bank.

Qualities

- Simplicity of use
- Comfort
- High level of security
- Wide communication possibility
- Openness of the system

Services of home banking

- To get balance of bank account
- To get a statement of account for any predefined period
- To order and to get cheque book
- To transfer funds through inter-bank

- To issue instructions to stop the payment of a cheque.

Benefits of Home Banking

- It is very popular with customers
- Home banking is a multi-user of security
- It ensures high level of security
- It ensures simplicity of use
- It provides with communication possibilities

Retail Banking

Retail banking is a typical mass market banking where individual customers use local branches of large commercial banks.

Retail banking refers to banking in which banking institutions execute the transactions directly with consumer rather than other banks. It offers service including savings, checking accounts, mortgages, personal loans and debit cards.

Internet Banking

- Public issue of shares
- Transfer of balances or funds
- To reconcile the transaction
- To post a transaction
- To perform basic banking transactions

Merits

- To access their account from anywhere in the world
- To view statement of account
- To conduct financial transaction
- To send notice of change of address
- To view the details of past 3 month's transactions
- More beneficial to NRI's

Drawbacks of Internet Banking

- To avail internet banking facilities, there is a necessity of personal computer
- Only limited services can be availed
- To avail internet facilities, phone connection is also needed.
- Validity of transactions cannot be recognized
- Secret cannot be maintained.
- Inordinate delay may happen.

Online banking

Online banking means, making banking transactions through the internet. It is a Self-service attitude of banking.

Types of transactions of online banking

- Pay utility bills

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- View and print the account statement
- Transfer of funds online between accounts
- Make deposits
- Pay credit cards bill
- Stop cheque, request cheque book, etc.

Advantages of online banking

- Online banking gives more interest rates
- All banking transactions can be done beyond banking hours.
- Online banking helps to save time
- There is nothing manual, hence the records are perfect and accurate
- There are no extra charges
- The bank can access more customers within a short time through the internet.

Disadvantages of online banking

- Online banking has reduced the bank to customer personal interaction, since all the transactions are handled by the customer from the internet account.
- Secrecy cannot be maintained.
- This password can be used by anyone to access your account and transfer funds or cause financial problem
- There are more chances of fraud and information leak.

Mobile Banking

Mobile banking is recently innovated banking service, to reach and attract rural areas to perform and fulfill the bank's social responsibility. Now, mobile banks are giving much and more services to secure public deposits from the scattered people in different places. Otherwise the banking facilities can never be reached and it requires a mobile van which sagely travels on roads and it is fitted with a concern bullet proof cash sage having a radio telephone facility. The bank is staffed with a manager, an accountant, one or two clerks and driver who also acts as a guard.

Features

Mobile customers

Only those customers who use mobile phones can avail mobile banking services**.**

Mobile commerce's

Mobile banking is a part of mobile commerce under which business and trade are carried on through mobile online

Technology base

It is based on technology developments. Mobile banking makes use of the internet for transmission, transaction and delivery of banking services.

Types of services

Internet based banking services such as on line account opening verification, funds transfer etc.

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Eligibility

Branches which offer internet banking facility are eligible to provide mobile banking services.

Application

Customers who register internet banking has to register their names for mobile banking

National Electronic Fund Transfer (NEFT) System

The Reserve Bank of India started EFT system in February 1966.This system facilitates transfer of funds from one center to another across bank.

Objectives

- To Protect resources
- To ensure quick delivery of funds
- To ensure efficient, economic and reliable transfer of funds
- To help banks to reduce paper work

Advantages

- A customer can withdraw money from any branch of the bank
- The cost of fund transfers the customer has also reduced
- This system helps to improve customer service in banks
- Customers can get loan to be sanctioned at any branch of the bank
- Frauds in remittance of funds can be avoided

Automated teller machine

ATM means 24 hours money transaction. It is also known as cash machine.ATM is an electronic installed by a commercial bank and operated by the customer himself to withdraw money to make other financial transaction.

Types of ATM

- **On premise ATM** are located at the premises of the bank branch. It is more expensive. It is also known as **onsite ATM**

- **Off line ATMs** are deployed by bank and independent of bank premises. It is less expensive**.**

Features of ATM

Anywhere banking:

Money can be withdrawn by the cardholders at any one of the ATM centers.

Any time banking:

ATMs offer round the clock banking services to customer.

Anything banking:

ATM card holders can get various banking services.

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Safety:
It provides safety to the bank as well as to the cardholders.

Visual message
ATM machines are provided with a touch screen with user friendly commands.

Function of ATM:
Basic functions: Is Cash withdrawal, Balance enquiry.

Additional functions: are Accepts deposits, **Mini statement** facilities, Pin change facility, pass book facility, Fund transfer facility, Sale of stamps, Ticket purchases etc.

Advantages of ATMs:
Benefits to customers:

- Withdraw Customer money from their account at anywhere, anytime and anything.
- Customer can deposit money to their account in the ATM.
- It provides privacy transactions.
- ATM facilities are available at any time, day or night.

Benefits to banks:

- It is used as a marketing tool to promote banking products.
- It is reduces the cost of operations of each banking.
- ATMs are free from human errors.
- ATMs reduce the work load to the employees of banks.

Limitation of ATMs

- Expensive
- Literacy
- Computerization of branches
- Limits to withdraw
- Network connection is essential

Debit card
A debit card is also a payment card. Debit cards are issued to customers having sufficient amount in their bank accounts. It is a plastic card.

Types of debit cards:
Direct debit card:
Direct debit card allows only online transaction. It is also called as point of sale or online debit card.

Deferred debit card
It is similar to the credit card bearing a visa or master card logo.It is also known as offline debit card

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Prepaid debit cards

It is also known as reloadable debit cards. It is designed to unbanked people

Benefits of debit cards:

- It is very easy to obtain a debit card.
- Debit cards are more readily accepted.
- It isnot necessary to carry cash or cheque book.
- It is not necessary to show identification papers.
- It is very useful for international travelers**.**

Demerits

- It will not take any grace period
- It is very costly
- It the balance is insufficient in account the transaction may be rejected
- Theft of cards may also be possible

Credit card:

Credit card is a postpaid card where the holder is required to pay the amount spent on the card on purchases. Credit cards popularly known as plastic money or plastic card have become increasingly popular in several countries.

Features of credit card:

- Credit card is used as a payment device used by banks
- The bank fixes credit limits for its cardholders
- It is a plastic money
- It is a technology dependent
- It is used at home
- It has owner identification

Advantages to credit cardholders:

- Credit cards are very convenient to use
- Credit cards are the tools to get facility
- Credit cards have wide acceptability

Advantages to issuing bank

- Credit cards help to earn income
- These cards help to sell other banking products also.

Advantages to merchant

- Credit cards help to increase the sale of products
- It allows for easy verification of transaction

Disadvantages of credit cards:

- Expenses on issue of credit cards involve huge expenses
- Credit cards may be misused
- Fraud may be occurred by dishonest buyers

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- Payment may be delayed by the issuing banks

Society for Worldwide Interbank Financial Telecommunication (swift)

SWIFT, as co-operative society, was formed in May 1973 with 239 participating banks 15 countries with its headquarters at Belgium. SWIFT provides rapid, secure, and reliable and cost - effective mode of transmitting the financial message worldwide.

Real Time Gross Settlement (RTGS)

RTGS was introduced since March 2004.This system gives electronic instruction by banks to transfer funds from their account to the account of another bank. Settlement in real time means payment is to be credited to the beneficiary as soon as they are processed.

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UNIT - V
RESERVE BANK OF INDIA

Functions of reserve bank of India

Following are the functions performed by the Reserve Bank of India.Function of Reserve Bank of India

1. Monetary functions
2. Non-monetary functions
3. Promotional Functions
4. Supervisory Functions

1.Monetary Functions:

Monetary functions are also known as Traditional Central Banking functions.

Bank of issue

The Reserve Bank of India has been entrusted with the monopoly of note. IssueBank of India has the sole right to issue currency notes except one rupee and coins in the countryOne-rupee currency and coins are issued by the Central Government

Different methods of note issue

The Reserve Bank of India issues currency notes under the following methods

I. Simple Deposit system
II. Fixed fiduciary system
III. Maximum fiduciary system
IV. Proportional reserve system
V. Minimum reserve system

Banker to Government:

I. As banker to government, the Reserve Bank of India receives deposits and makes payments on behalf of government, both Central and state.
II. As an agent of the government the Reserve Bank of India advances short term loans to be the government.
III. The Reserve Bank of India also makes ways and means for providing advances to the Government.

Custodian of cash Reserves:

I. The commercial banks are required to maintain a certain fixed percentage of both time and demand liabilities with the Reserve Bank of India
II. The Reserve Bank of India allocates transfer of funds from one bank to another for the clearance of Negotiable instruments.
III. The Reserve Bank of India acts as the custodian of cash reserves of commercial banks

Custodian of Foreign exchange:

I. The Reserve Bank of India also acts as the custodian of the foreign currency reserve of the country.
II. The Reserve Bank of India has a separate ‘Exchange Control Programme’ to supervise and control the source of foreign exchange.

III. The Reserve Bank of India keeps and manages the foreign exchange reserve of the country.

Lender of Last resort –Banker's Bank

I. The Reserve Bank of India acts as the lender to last resort, for commercial banks.
II. Every commercial bank is required to maintain a cash reserve with RBI
III. The commercial banks can borrow from the Reserve Bank of India on the basis of eligible securities or get financial accommodation in times of need by way of rediscounting of securities.

Clearing house of banks:

I. The Reserve Bank of India acts as the clearing house for the commercial banks since all the scheduled commercial banks have their accounts with the Reserve bank of India.
II. The Reserve of India does the function by making transfer entries in their account.
III. These functions are performed by the Reserve Bank of India with a separate department known as "clearing house ".

Controller of credit:

I. Credit control is the most important function of the Reserve Bank of India.
II. Credit control refers to the regulation of the lending policy of commercial banks by the Reserve Bank of India and control of bank advances

Collection and publication of information:

The Reserve Bank of India collects information and statistical data relating to economic, financial and banking developments and publishes them.

II) Non-monetary policy:

a. Promotional functions
b. Supervisory functions

a) Promotional functions:

The Reserve Bank of India performs the following functions as promotional functions:

a. Promotion of a Banking habit
b. Extension of Banking system
c. Provision of agricultural credit
d. Provision of finance for foreign trade and industrial finance

The Reserve Bank of India has setup four funds from its profits.

a. National Rural Credit
b. National Rural Credit
c. National Housing Credit

Promotion of savings:

To promote savings Reserve Bank of India took initiative to setup the Deposit Insurance Corporation in 1962 and the Unit Trust of India in 1964.

Provisional of Agriculture credit:

It maintains an expert staff for studying all questions relating to agricultural credit. It finances the movement of crops and other agricultural operations through co-operative banks and other suitable credit agencies

Co-operative sectors:

Reserve Bank of India extends financing facilities to various co-operative institutions mostly routed through the NABARD to strengthen rural development through co-operative Sectors.

Supervisory functions:

I. Granting license to commercial banks
II. Prescribing minimum requirements
III. Inspecting matter specified
IV. Exercising control over investments
V. Collection of information

Credit control

Meaning

Credit control means the regulations of the creation and contraction of credit in the economy. Credit control is one of the most important functions of central bank of any country.

Objective of credit control

Stability of internal price level:

i. Stability of price can be maintained only when there is stability in money circulation.
ii. Lending money is one of the primary functions of commercial banks.
iii. Credit control measures are applied by the central bank. The helps to stabilize the price level of commodities.

Checking of booms and depressions:

i. In times of boom, Business activities are expanded.
ii. Business activitiesare contracted. That is, the operation of trade cycles causes instability in the economy.

Promotion of Economic Development:

i. To promote economic development in the country, credit control measures are adopted.
ii. In times of depression, business activities are contracted. So, to improve the business activities, liberal credit policy is to be followed.

Stability of the money market

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Credit control helps to stabilize the money market in the country. Credit control has the power to adjust the demand and supply of money at all times.

Stability in exchange Rate:

i. The technique of credit control influences the supply of money. Supply of money is, fluctuation of internal price level of the country.
ii. The internal price level automatically affects the volume of exports and imports of the country.

Methods of credit control

The Central bank of a country adopts many weapons to control the credit.

Methods of credit control

Quantitative Credit Control

a. Bank Rate Policy
b. Open Market Operations
c. Variation of reserve ratio

Qualitative Credit Control

a. Rationing of credit
b. Direct Actions
c. Moral Suasion
d. Regulation of consumer credit
e. Publicity

Quantitative Credit Control Methods:

Bank rate Policy:

i. Bank rate is the official rate at which the Central Bank is prepared to rediscount the approved bills of exchange.
ii. The bank rate policy is a traditional weapon of credit control used by a Central Bank.
iii. Eligible bills or gift-edged securities can be rediscounted. Treasury bills and bonds commercial bills are eligible securities that can be rediscounted with the Central Banks.

Operation of Bank Rate Policy

i. Repayment of loan may be increased
ii. Business activities may be reduced
iii. Profit may be reduced.
iv. Wages to the workers may be reduced
v. Prices of commodities may be reduced

Open Market Operations:

i. Open market operations of a Central Bank consist of purchase and Sale of government and other securities in the open market with a view to regulate the supply of money.
ii. Open market operations means deliberate and direct buying and selling of securities and bill in the money market by the Central Bank.

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Operation of open market operations

i. Sale of government securities by the Government
ii. Purchases of government securities by the Government

Variable reserve ratio:

i. The variable cash reserve ratio is a new method of credit control used by Central Banks in recent times.
ii. Variable reserve ratio was used as one of the credit control methods.
iii. This method was suggested by Keynes in 1930.This method was first introduced by Federal Reserve system of USA in 1935

Qualitative Credit Control Methods:

These are also known as selective credit control methods. Selective credit control methods are used to regulate the uses to which the loan amount.

Objective of selective credit control

i. To discriminate against non-essential lines of production in bank advances.
ii. To diversity credit towards more essential produces uses
iii. To discourage excessive consumer demand for certain goods

Rationing credit:

Rationing of credit is a method of controlling and regulating the purpose for which credit is granted by the commercial banks. Under this method, the central bank controls credit by rationing it among its various uses.

Regulations of Consumer Credit:

Consumer credit is the credit facilities provided by banks to purchase consumer durable like television sets, car, etc. Under this method, the Central Bank authorized to regulate the terms and conditions under which consumer credit is extended by the commercial banks.

Control through Directive:

The Central Bank issues directives to banks in connection to the issue of loans. It sets the maximum amount of loan, margin requirements, rate of interest, etc.

Margin requirements:

The Central Bank prescribes minimum margin requirements for advances against commodities. This system was introduced in 1956. Commercial banks may be directed by the central bank of the country to fix higher or lower margins.

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Moral suasion:

Moral suasion is a device of strengthening mutual confidence and understanding between the monetary authority, banks and financial institutions. Banks should not encourage speculation activities, banks have to increase their investment government securities etc.

Direct Action:

Direct action may be

i. Refusal to refinance facilities
ii. Refusal to grant permission to open new branch
iii. Cancellation of license
iv. Levy of penal interest etc.,

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