

Chapter: Introduction

Origin of Banking:

There was no such word as 'banking' before 1640, although the practice of safe-keeping and savings flourished in the temple of Babylon as early as 2000 B.C. Chanakya in his Arthashastra written in about 300 B.C. mentioned about the existence of powerful guilds of merchant bankers who received deposits, and advanced loans and issued hundis (letters of transfer). The Jain scriptures mention the names of two bankers who built the famous Dilware Temples of Mount Abu during 1197 and 1247 A.D.

The first bank called the 'Bank of Venice' was established in Venice, Italy in 1157 to finance the monarch in his wars. The bankers of Lombardy were famous in England. But modern banking began with the English goldsmiths only after 1640. The first bank in India was the 'Bank of Hindustan' started in 1770 by Alexander & Co., an English agency house in Calcutta which failed in 1782 with the closure of the agency house. But the first bank in the modern sense was established in the Bengal Presidency as the Bank of Bengal in 1806.

History apart, it was the 'merchant banker' who first evolved the system of banking by trading in commodities than money. Their trading activities required the remittances of money from one place to another. For this, they issued 'hundis' to remit funds. In India, such merchant bankers were known as 'Seths'.

The next stage in the growth of banking was the goldsmith. The business of goldsmith was such that he had to take special precautions against theft of gold and jewellery. If he seemed to be an honest person, merchants in the neighbourhood started leaving their bullion, money and ornaments in his care. As this practice spread, the goldsmith started charging something for taking care of the money and bullion.

As evidence for receiving valuables, he issues a receipt. Since gold and silver coins had no marks of the owner, the goldsmith started lending them. As the goldsmith was prepared to give the holder of the receipt and equal amount of money on demand, the goldsmith receipt became like cheques as a medium of exchange and a means of payment.

The next stage in the growth of banking is the moneylender. The goldsmith found that on an average the withdrawals of coins were much less than the deposits with him. So he started advancing the coins on loan by charging interest. As a safeguard, he kept some money in the reserve. Thus the goldsmith-money-lender became a banker who started performing the two functions of modern banking, that of accepting deposits and advancing loans.

What Is Banking? Or Definition of Banking:

Banking consists of many activities that can be done through a number of financial institutions that accept deposits from individuals and other entities, and then use this money to offer loans, and to invest and earn profit.

Banks can be placed into certain categories based on the type of business they conduct. Commercial banks provide services to private individuals and businesses. Retail banking provides credit, deposit, and money management to individuals and families.

BANKER CUSTOMER RELATIONSHIP:

It obviously means that to become a customer account relationship is must. Account relationship is a contractual relationship. Banking is a trust-based relationship. There are numerous kinds of relationship between the bank and the customer. The relationship between a banker and a customer depends on the type of transaction. Thus the relationship is based on contract, and on certain terms and conditions.

These relationships confer certain rights and obligations both on the part of the banker and on the customer. However, the personal relationship between the bank and its customers is the long lasting relationship. Some banks even say that they have generation-to-generation banking relationship with their customers.

Classification of Relationship: The relationship between banker and customer is of utmost importance. The relationship between a bank and its customers can be broadly categorized in to General Relationship and Special Relationship.

A. General Relationship: If we look at Sec 5(b) of Banking Regulation Act, we would notice that bank's business is accepting of deposits for the purposes of lending. Thus, the relationship arising out of these two main activities are known as General Relationship.

1. Debtor and Creditor: When a 'customer' opens an account with a bank, he fills in and signs the account opening form. By signing the form he enters into an agreement/contract with the bank. When customer deposits money in his account the bank becomes a debtor of the customer and customer a creditor. The money so deposited by customer becomes bank's property and bank has a right to use the money as it likes. The bank is not bound to inform the depositor the

manner of utilization of funds deposited by him. Bank does not give any security to the depositor i.e. debtor. The bank has borrowed money and it is only when the depositor demands, banker pays. Bank's position is quite different from normal debtors.

While issuing Demand Draft, Mail / Telegraphic Transfer, bank becomes a debtor as it owns money to the payee/ beneficiary.

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

B. Special Relationship: In addition to these two activities banks also undertake other activities mentioned in Sec.6 of Banking Regulation Act. In addition to opening of a deposit/loan account banks provide variety of services, which makes the relationship more wide and complex. Depending upon the type of services rendered and the nature of transaction, the banker acts as a bailee, trustee, principal, agent, lessor, custodian etc.

1. **Trustee and Beneficiary (Bank as a Trustee and Customer as a Beneficiary):** As per Sec. 3 of Indian Trust Act 1882, a "trust" is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner. Thus, trustee is the holder of property on behalf of a beneficiary.

In case of trust, banker customer relationship is a special contract. When a person entrusts valuable items with another person with an intention that such items would be returned on demand to the keeper the relationship becomes of a trustee and trustier. Customers keep certain valuables or securities with the bank for safekeeping or deposits certain money for a specific purpose (Escrow accounts) the banker in such cases acts as a trustee. Banks charge fee for safekeeping valuables.

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

Banks secure their advances by obtaining tangible securities. In some cases physical possession of securities goods (Pledge), valuables, bonds etc., are taken. While taking physical possession of securities the bank becomes bailee and the customer bailor. Banks also keeps articles, valuables, securities etc., of its customers in Safe Custody and acts as a Bailee. As a bailee the bank is required to take care of the goods bailed.

3. **Lessor and Lessee (Bank- Lessor and Customer- Lessee):** Sec.105 of 'Transfer of property Act 1882' defines lease, Lessor, lessee, premium and rent. As per the section "A lease of immovable property is a transfer of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or promised, or of money, a share of crops, service or any other thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms."

Definition of Lessor, lessee, premium and rent:

- (1) The transferor is called the lessor,
- (2) The transferee is called the lessee,
- (3) The price is called the premium, and
- (4) The money, share, service or other thing to be so rendered is called the rent.

Providing safe deposit lockers is as an ancillary service provided by banks to customers. While providing Safe Deposit Vault/locker facility to their customers' bank enters into an agreement with the customer. The agreement is known as "Memorandum of letting" and attracts stamp duty.

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

4. **Agent and Principal (Bank- Agent and Customer- Principal):** Sec. 182 of 'The Indian Contract Act, 1872' defines "an agent" as a person employed to do any act for another or to represent another in dealings with third persons. The person for whom such act is done or who is so represented is called "the Principal".

Thus an agent is a person, who acts for and on behalf of the principal and under the latter's express or implied authority and the acts done within such authority are binding on his principal and, the principal is liable to the party for the acts of the agent.

Banks collect cheques, bills, and makes payment to various authorities' viz., rent, telephone bills, insurance premium etc., on behalf of customers. . Banks also abides by the standing instructions given by its customers. In all such cases bank acts as an agent of its customer, and charges for these services. As per Indian contract Act agent is entitled to charges. No charges are levied in collection of local cheques through clearing house. Charges are levied in only when the cheque is returned in the clearinghouse.

5. **Indemnity holder and Indemnifier (Bank-Indemnity holder and Customer-Indemnifier):** The dictionary meaning of the word Indemnity means ‘security or protection against a loss or other financial burden’. As per Section 124 of the Indian Contract Act 1872 the definition of the Indemnity is as follows. ‘A contract by which one party promises to save the other from loss caused to him by the contract of the promisor himself, or by the conduct of any other person, is called a “contract of indemnity”’. Right of indemnity-holder is defined in Section 124 of the Indian Contract Act 1872. An indemnity is an obligation by a person to provide compensation for a particular loss suffered by another person. In case of banking, the relationship happens in transactions of issue duplicate demand draft, TDR, deceased account payment etc. In that case indemnifier will compensate any loss arising from the wrong or excess payment. In these cases banks is Indemnity Holder (Promisee) and customer is Indemnifier (Promisor).
6. **Hypothecator and Hypothecatee (Bank- Hypothecatee and Customer- Hypothecator):** The relationship between customer and banker can be that of Hypothecator and Hypothecatee. This happens when the customer hypothecates certain movable or non-movable property or assets with the banker in order to get a loan. In this case, the customer became the Hypothecator, and the Banker became the Hypothecatee.
7. **Pledger and Pledgee (Bank- Pledgee or Pawnee and Customer- Pledger or Pawnor):** The relationship between customer and banker can be that of Pledger and Pledgee. This happens when customer pledges (promises) certain assets or security with the bank in order to get a loan. In this case, the customer becomes the Pledger or Pawnor, and the bank becomes the Pledgee or Pawnee. Under this agreement, the assets or security will remain with the bank until a customer repays the loan.
8. **Mortgagor and Mortgagee (Bank- Mortgagee and Customer- Mortgagor):** As per section 58 of Transfer of Property Act 1882, mortgage is transfer of interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, an existing or future debt or the performance of an engagement which may give rise to pecuniary liability. The mortgagor only parts with the interest in the property and not the ownership. The transferor of interest in property, is called a mortgagor and the transferee is called a mortgagee. In this case, the customer became the Mortgagor, and the Banker became the Mortgagee.
9. **As a Custodian:** A custodian is a person who acts as a caretaker of something. Banks take legal responsibility for a customer’s securities. While opening a D-Mat account bank becomes a custodian.
10. **As a Guarantor:** Banks give guarantee on behalf of their customers and enter in to their shoes. Guarantee is a contingent contract. As per sec 31, of Indian contract Act guarantee is a “contingent contract”. Contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.
11. **Advisor and Client (Bank- Advisor and Customer- client):** When a customer invests in securities, the banker acts as an advisor. The advice can be given officially or unofficially. While giving advice the banker has to take maximum care and caution. Here, the banker is an Advisor, and the customer is a Client.

VARIOUS TYPES OF RELATIONSHIPS

Type of Transaction	Bank	Customer
Deposit in bank	Debtor	Creditor
Loan from bank	Creditor	Debtor
Safe Deposit Vault (SDV Locker)	Lessor	Lessee
Safe Custody	Bailee	Bailor
Issue of Draft	Debtor	Creditor
Payee of a Draft	Trustee	Beneficiary
Collection of Cheque	Agent	Principal
Pledge	Pledgee (Pawnee)	Pledger (Pawnor)
Mortgage	Mortgagee	Mortgagor

Hypothecation	Hypothecatee	Hypothecator
Sale/purchase of security on behalf of customer	Agent	Principal
Money deposited, but no instructions for its disposal	Trustee	Beneficiary
Article/Goods left by mistake by customer	Trustee	Beneficiary

Termination of relationship between a banker and a customer:

It would thus be observed that banker customer relationship is transaction relationship. The relationship between a bank and a customer ceases on:

- (a) The death, insolvency, lunacy of the customer;
- (b) The customer closing the account i.e. Voluntary termination;
- (c) Liquidation of the company;
- (d) The closing of the account by the bank after giving due notice;
- (e) The completion of the contract or the specific transaction.
- (f) Lends to the borrower or
- (g) Invests the money so collected by way of deposits.

Bankers' Special Relationship: Normally, customer operates himself his bank account. There are many situations in one's life where an individual possessing property, bank accounts, etc. may not be in a position to perform his duties due to reasons like being abroad, ill, old etc. In such situations if the transaction requires the presence of the individual who is not able to be present personally, then the only way out is to give the powers to act on behalf of the individual to another person. This is when a Power of Attorney deed is to be created. It is very common these days to give the powers to a trustworthy person to conduct the registrations, or sale or rent out etc. if you are busy with your other schedules.

For banking operation, the customer may authorise, for his convenience, an agent or nominee to operate on his account. Such an authority is given either by way of Mandate Letter or Power of Attorney. By mandate letter the particular banker is informed that certain powers have been delegated whereas a power of attorney acts as a general notice and authority.

MANDATE LETTERS: A letter of mandate is addressed by a customer to the bank informing that powers to operate the account (ordinary deposit account) have been delegated by the customer (the mandator) to a particular person (the mandatory). Such letters of mandate do not attract stamp duty.

As far as possible, branches should require customers to execute powers of attorney when they desire to authorise their agent or nominee to operate on their account on a more or less permanent basis. The procedure of obtaining mandate letters instead of powers of attorney should, as far as possible, be limited to operations on ordinary credit accounts.

POWER OF ATTORNEY: A Power of Attorney is a legal document by which one person gives the right to perform or powers of transacting in matters relating to property, banking, legal and judicial proceedings, tax payments, etc. to another person due to certain reasons like being out of country, or getting old, or not able to look after one's duties in those matters etc. A power of Attorney is an authority given by a written formal instrument whereby one person termed the donor or principal authorises another person termed the donee, attorney or agent to act on his behalf.

Powers of Attorney on Bank Accounts: A power of attorney may be special or general. A special power of attorney authorises a person to act in a single transaction whereas authority to act in more than one transaction such as a bank account or generally, is a general power of attorney. The power of attorney is a stamped document. A power to operate an account will not include, by itself, a power to overdraw or borrow money. Authority or power to borrow by the attorney should definitely/explicitly be stated/embodyed in the instrument. Drawing on an overdraft account is borrowing.

Types of Power of Attorney: Power of Attorney can be of mainly two type;

1. **General Power of Attorney:** A person can give to another person a complete general right or power to act lawfully with respect to his property or bank accounts or tax payments, or

registration work or to sue a third party etc. It is commonly termed as General Power of Attorney.

Either you can give a General Power of Attorney for all your properties, banking transactions, tax matters, registration, legal disputes and court matters etc. or you can give a general power to any one category like only for all property matters or only for all Banking processes etc. This type of power is very wide and has lot of risk if the attorney is not a trustworthy person.

2. **Special Power of Attorney:** The other type of power granted is the special power which means it is granted for only a specific task or work. A special power of attorney is to be made by a person when any particular or specific task or act is to be done. Once the particular act is completed the special power of attorney comes to an end.

This is generally used when you want to rent out your property or appear for the registration of any property or appear in a court on behalf of the Principal or to appear before the Tax authorities etc.

Types Of Deposit and Accounts

Money and banking are part of everyday life. Banks offer all sorts of financial products to help you manage your money on a day-to-day basis. The bank is such a place where once we deposit money, it remains safe and also earns interest over some time. This is known as the deposit and to each deposit, the bank assigns a unique identity which is known as the account. Each deposit corresponds to a unique account and vice versa.

Sometimes we use numbers to uniquely identify an account. This is what we call the account number. It may also be a combination of alphanumeric letters. 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 interest or to accumulate savings with interest so as to buy a flat, or to meet hospital expenses in old age, etc. Some, mostly businessmen, deposit all their income from sales in a bank account and pay all business expenses out of the deposits.

Types of Deposits

On the basis of purpose they serve, bank deposit accounts may be classified as follows:

- Savings Bank Account
- Current Deposit Account
- Fixed Deposit Account
- Recurring Deposit Account

Savings Bank Account

As the name suggests this type of account is suitable for people who have a definite income and are looking to save money. For example, the people who get salaries or the people who work as laborers. This type of account can be opened with a minimum initial deposit that varies from bank to bank. Money can be deposited at any time in this account.

Withdrawals can be made either by signing a withdrawal form or by issuing a cheque or by using an ATM card. Normally banks put some restriction on the number of withdrawal from this account. Interest is allowed on the balance of deposit in the account. The rate of interest on savings 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.

A savings account is like a bank vault in which you store your hard-earned money. Unlike a current account, a savings account does not allow unlimited transactions and has no overdraft facility. There are different types of savings account that can be opened depending on the customer's need:

- **Regular Savings Account:** These are the easiest to open. Such accounts do not see huge transactions and are mostly a virtual safe for storing excess cash.
- **Salary Based Savings Account:** Many corporations tie up with banks to help their employees open a salaried account. This helps the company as the task of disbursing the monthly salaries becomes easier.
- **Savings Accounts for Senior Citizens:** These accounts are created exclusively for senior citizens with added privileges and benefits.
- **Savings Accounts for Children and Minors:** These accounts are created exclusively for children and minors under the guardianship of their parents.
- **Exclusive Benefits Accounts for Women:** As the name suggests, this is an account exclusively for female customers and entrepreneurs. It is a relatively new offering from some banks and comes with added benefits.
- **Zero Balance Savings Account:** A savings account where the customer need not maintain a minimum balance for the account to remain functional.
- **Linked Savings Account:** A linked account is one which is linked to either a given Checking Account or a NOW Account (Negotiable Order of Withdrawal).
- **Post Office Savings Account:** These are savings accounts which can be opened in a Post Office.

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 restrictions on the number of withdrawals from a savings bank account, that type of account is not suitable for them. They need to have an account from which withdrawal can be made any number of times.

Banks open a current account for them. Like a savings bank account, this account also requires a certain minimum amount of deposit while opening the account. On this deposit, the bank does not

pay any interest on the balances. Rather the account holder pays a certain amount each year as an operational charge.

These accounts also have what we call the overdraft facility. For the convenience of the accountholders banks also allow withdrawal of amounts in excess of the balance of the deposit. This facility is known as an overdraft facility. It is allowed to some specific customers and up to a certain limit subject to previous agreement with the bank concerned.

Fixed Deposit Account

Some bank customers may like to put away money for a longer time. Such deposits offer a higher interest rate. If money is deposited in a savings bank account, banks allow a lower rate of interest. Therefore, money is deposited in a fixed deposit account to earn interest at a higher rate.

This type of deposit account allows the 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 a 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 a loan on the security of the fixed deposit receipt.

Recurring Deposit Account

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.

The Recurring Deposit Accounts may be of the following types:

1. Home Safe Account or Money Box Scheme: For regular savings, the bank provides a safe or box (Gullak) to the depositor. The safe or box cannot be opened by the depositor, who can put money in it regularly, which is collected by the bank's representative at intervals and the amount is credited to the depositor's account. The deposits carry a nominal rate of interest.
2. Cumulative-cum-Sickness deposit Account: A certain fixed sum is deposited at regular intervals in this account. The accumulated deposits over time along with interest can be used for payment of medical expenses, hospital charges, etc.
3. Home Construction deposit Scheme/Saving Account: In this account, we can deposit the money regularly either for the purchase or construction of a flat or house in future. The rate of

interest offered on the deposit, in this case, is relatively higher than in other recurring deposit accounts.

Financial Services Offered in India:

India's diverse and comprehensive financial services industry is growing rapidly, owing to demand drivers (higher disposable incomes, customized financial solutions, etc.) and supply drivers (new service providers in existing markets, new financial solutions and products, etc.). The Indian financial services industry comprises several key subsegments. These include, but are not limited to- mutual funds, pension funds, insurance companies, stock-brokers, wealth managers, financial advisory companies, and commercial banks- ranging from small domestic players to large multinational companies. The services are provided to a diverse client base- including individuals, private businesses and public organizations.

10 Types of Financial Services:

1. Banking
2. Professional Advisory
3. Wealth Management
4. Mutual Funds
5. Insurance
6. Stock Market
7. Treasury/Debt Instruments
8. Tax/Audit Consulting
9. Capital Restructuring
10. Portfolio Management

These financial services are explained below:

1. Banking

The banking industry is the backbone of India's financial services industry. The country has several public sector (27), private sector (21), foreign (49), regional rural (56) and urban/rural cooperative (95,000+) banks. The financial services offered in this segment include:

- Individual Banking (checking accounts, savings accounts, debit/credit cards, etc.)
- Business Banking (merchant services, checking accounts and savings accounts for businesses, treasury services, etc.)
- Loans (business loans, personal loans, home loans, automobile loans, working-capital loans, etc.)

The banking sector is regulated by the Reserve Bank of India (RBI), which monitors and maintains the segment's liquidity, capitalization, and financial health.

2. Professional Advisory

India has a strong presence of professional financial advisory service providers, which offer individuals and businesses a wide portfolio of services, including investment due diligence, M&A advisory, valuation, real-estate consulting, risk consulting, taxation consulting. These offerings are made by a range of providers, including individual domestic consultants to large multi-national organizations.

3. Wealth Management

Financial services offered within this segment include managing and investing customers' wealth across various financial instruments- including debt, equity, mutual funds, insurance products,

derivatives, structured products, commodities, and real estate, based on the clients' financial goals, risk profile and time horizons.

4. Mutual Funds

Mutual fund service providers offer professional investment services across funds that are composed of different asset classes, primarily debt and equity-linked assets. The buy-in for mutual fund solutions is generally lower compared to the stock market and debt products. These products are very popular in India as they generally have lower risks, tax benefits, stable returns and properties of diversification. The mutual funds segment has witnessed double-digit growth in assets under management over the last five years, owing to its popularity as a low-risk wealth multiplier.

5. Insurance

Financial services offerings in this segment are primarily offered across two categories:

- General Insurance (automotive, home, medical, fire, travel, etc.)
- Life Insurance (term-life, money-back, unit-linked, pension plans, etc.)

Insurance solutions enable individuals and organizations to safeguard against unforeseen circumstances and accidents. Payouts for these products vary across the nature of the product, time horizons, customer risk assessment, premiums, and several other key qualitative and quantitative aspects. In India, there is a strong presence of insurance providers across life insurance (24) and general insurance (39) categories. The insurance market is regulated by the Insurance Regulatory and Development Authority of India (IRDAI).

6. Stock Market

The stock market segment includes investment solutions for customers in Indian stock markets (National Stock Exchange and Bombay Stock Exchange), across various equity-linked products. The returns for customers are based on capital appreciation – growth in the value of the equity solution and/or dividends – and payouts made by companies to its investors.

7. Treasury/Debt Instruments

Services offered in this segment include investments into government and private organization bonds (debt). The issuer of the bonds (borrower) offers fixed payments (interest) and principal repayment to the investor at the end of the investment period. The types of instruments in this segment include listed bonds, non-convertible debentures, capital-gain bonds, GoI savings bonds, tax-free bonds, etc.

8. Tax/Audit Consulting

This segment includes a large portfolio of financial services within the tax and auditing domain. This services domain can be segmented based on individual and business clients. They include:

- Tax – Individual (determining tax liability, filing tax-returns, tax-savings advisory, etc.)
- Tax – Business (determining tax liability, transfer pricing analysis and structuring, GST registrations, tax compliance advisory, etc.)

In the auditing segment, service providers offer solutions including statutory audits, internal audits, service tax audits, tax audits, process/transaction audits, risk audits, stock audits, etc. These services are essential to ensure the smooth operation of business entities from a qualitative and quantitative perspective, as well as to mitigate risk. You can read more about taxation in India.

9. Capital Restructuring

These services are offered primarily to organizations and involve the restructuring of capital structure (debt and equity) to bolster profitability or respond to crises such as bankruptcy, volatile markets, liquidity crunch or hostile takeovers. The types of financial solutions in this

segment typically include structured transactions, lender negotiations, accelerated M&A and capital raising.

10. Portfolio Management

This segment includes a highly specialized and customized range of solutions that enables clients to reach their financial goals through portfolio managers who analyze and optimize investments for clients across a wide range of assets (debt, equity, insurance, real estate, etc.). These services are broadly targeted at HNIs and are discretionary (investment only at the discretion of fund manager with no client intervention) and non-discretionary (decisions made with client intervention).

Role of Commercial Banks in the Economic Development

Commercial Banks play an important role in the growth and development of economy in general and enterprise sector in particular. Commercial Bank in India comprises the State Bank of India (SBI) and its subsidiaries, nationalized banks, foreign banks and other scheduled commercial banks, regional rural banks and non-scheduled commercial banks.

The total numbers of branches of commercial banks are more than 50,000 and the regional rural banks are approximately 8,000 covering 280 districts in the country. Commercial banks mostly provide short term loans and in some cases medium term financial assistance also to small scale units. According to the Data compiled by RBI, of all the advances given to small scale industries by the commercial banks, the share of 'term loan' is nearly 30%. The lead in this regard was taken by the State Bank of India (SBI) in 1956 when a pilot scheme for guaranteed credit to small scale units was started. Initially, the scheme was confined to the branches of the SBI in the country. Subsequently, some of the other commercial banks also adopted the scheme. Under this scheme, the banks provide to the SSIs the medium term and installment credit for acquiring fixed asset for the purpose of establishment and extension of their units, and term credit for meeting their working capital needs. The borrower is required to make a down payment of 20 to 33 1/3% of cost of equipment to be purchased from one's own resources while the rest is financed out of the loan. The rate of interest charged on these loans varies from time to time as per the directive of the Reserve Bank of India (RBI). The period for which this loan is granted varies from 7 to 10 years. These loans are repayable in half yearly or yearly instalments. Most of the commercial banks have got specialized units in their administrative structure to take care of the financial needs of the small scale industrial units. The fixed capital needs or the long and medium term needs of the small scale industrial units are presently being taken care of by the banks under their integrated scheme of credit for the small entrepreneurs. New units apart from the existing units are also eligible to avail of the advances financed to meet their medium and long-term credit needs for replacement of machinery, addition of the machinery, modernisation etc. The rate of interest charged normally from the small scale industrial units is between 12% and 15% against 18 % from the large scale units.

The commercial banks also establish letter of credit on behalf of their clients for favoring supplies of raw materials/ machinery (both Indian and foreign) which extend the bankers assurance for payment and thus help their delivery.

Most of the commercial banks are now geared to provide counseling services to prospective and existing entrepreneurs. Some of the banks have even established consultancy cells to provide guidance to entrepreneurs at the time of project report preparation. Such consultancy cells undertake detailed studies in established units also for

improving their functioning.

Changing Role of Banks in India

The role of banks in India has changed a lot since economic reforms of 1991. These changes came due to LPG, i.e. liberalization, privatization and globalization policy being followed by GOI. Since then most traditional and outdated concepts, practices, procedures and methods of banking have changed significantly. Today, banks in India have become more customer-focused and service-oriented than they were before 1991. They now also give a lot of importance to their rural customers. They are even willing ready to help them and serve regularly the banking needs of country-side India.

The changing role of banks in India can be glanced in points depicted below.

The following points briefly highlight the changing role of banks in India.

1. Better customer service,
2. Mobile banking facility,
3. Bank on wheels scheme,
4. Portfolio management,
5. Issue of electro-magnetic cards,
6. Universal banking,
7. Automated teller machine (ATM),
8. Internet banking,
9. Encouragement to bank amalgamation,
10. Encouragement to personal loans,
11. Marketing of mutual funds,
12. Social banking, etc.

The above-mentioned points indicate the role of banks in India is changing. Now let's discuss how banking in India is getting much better day after day.

1. Better Customer Service

Before 1991, the overall service of banks in India was very poor. There were very long queues (lines) to receive payment for cheques and to deposit money. In those days, some bank staffs were very rude to their customers. However, all this changed remarkably after Indian economic reforms of 1991.

Banks in India have now become very customer and service focus. Their service has become quick, efficient and customer-friendly. This positive change is mostly due to rising competition from new private banks and initiation of Ombudsman Scheme by RBI.

2. Mobile Banking

Under mobile banking service, customers can easily carry out major banking transactions by simply using their cell phones or mobiles.

Here, first a customer needs to activate this service by contacting his bank. Generally, bank officer asks the customer to fill a simple form to register (authorize) his mobile number. After registration, this service is activated, and the customer is provided with a username and password. Using secret credentials and registered phone, customer can now comfortably and securely, find his bank balance, transfer money from his account to another, ask for a cheque book, stop payment of a cheque, etc. Today, almost all banks in India provide a mobile-banking service.

3. Bank on Wheels

The 'Bank on Wheels' scheme was introduced in the North-East Region of India. Under this scheme, banking services are made accessible to people staying in the far-flung (remote) areas of India. This scheme is a generous attempt to serve banking needs of rural India.

4. Portfolio Management

In portfolio management, banks do all the investments work of their clients. Banks invest their clients' money in shares, debentures, fixed deposits, etc. They first enter a contract with their clients and charge them a fee for this service. Then they have the full power to invest or disinvest their clients' money. However, they have to give safety and profit to their clients.

5. Issue of Electro-Magnetic Cards

Banks in India have already started issuing Electro-Magnetic Cards to their customers. These cards help to carry out cash-less transactions, make an online purchase, avail ATM facility, book a railway ticket, etc.

Banks issue many types of electro-magnetic cards, which are as follows:

1. **Credit cards** help customers to spend money (loaned up to a certain limit as previously settled by the bank) which they don't have in hand. They get a monthly statement of their purchases and withdrawals. Along with the transacted amount, this statement also includes the interest and service fee. The entire amount (as reflected in the statement of credit card) must be paid back to the bank either fully or in installments, but before due date.
2. **Debit cards** help customers to spend that money which they have saved (credited) in their individual bank accounts. They need not carry cash but instead can use a debit card to make a purchase (for shopping) and/or withdraw money (get cash) from an ATM. No interest is charged on the usage of debit cards.
3. **Charge cards** are used to spend money up to a certain limit for a month. At the end of the month, customer gets a statement. If he has a sufficient balance, then he only had to pay a small fee. However, if he doesn't have a necessary balance, he is given a grace period (which is generally of 25 to 50 days) to repay the money.

4. **Smart cards** are currently being used as an alternative to avail public transport services. In India, this covers Railways, State Transport and City (Local) Buses. Smart card has an integrated circuit (IC) embedded in its plastic body. It is made as per norms specified by ISO.
5. **Kisan credit cards** are used for the benefit of the rural population of India. The Indian farmers (kisans) can use this card to buy agricultural inputs and goods for self-consumption. These cards are issued by both Commercial and Co-operative banks.

6. Universal Banking

In India, the concept of universal banking has gained recognition after year 2000. The customers can get all banking and non-banking services under one roof. Universal bank is like a super store. It offers a wide range of services, including banking and other financial services like insurance, merchant banking, etc.

7. Automated Teller Machine (ATM)

There are many advantages of ATM. As a result, many banks have opened up ATM centres to offer convenience to their customers. Now banks are operating ATM centres not only in their branches but also at public places like airports, railway stations, hotels, etc. Some banks have joined together and agreed upon to set up common ATM centres all over India.

8. Internet Banking

Internet banking is also called as an E-banking or net banking. Here, the customer can do banking transactions through the medium of the internet or world wide web (WWW). The customer need not visit the bank's branch. Through this facility, the customer can easily inquiry about bank balance, transfer funds, request for a cheque book, etc. Most large banks offer this service to their tech-savvy customers.

9. Encouragement to Bank Amalgamation

Failure of banks is well-protected with the facility of amalgamation. So depositors need not worry about their deposits. When weaker banks are absorbed by stronger banks, it is called amalgamation of banks.

10. Encouragement to Personal Loans

Today, the purchasing power of Indian consumers has increased dramatically because banks give them easy personal loans. Generally, interest charged by the banks on such loans is very high.

Interest is calculated on reducing balance. Large banks offer loans up to a huge amount like one crore. Some banks even organise Loan Mela (Fair) where a loan is sanctioned on the spot to deserving candidates after they submit proper documents.

11. Marketing of Mutual Funds

A mutual fund collects money from many investors and invests the money in shares, bonds, short-term money market instruments, gold assets; etc. Mutual funds earn income by interest and dividend or both from its investments. It pays a dividend to subscribers. The rate of dividend fluctuates with the income on mutual fund investments. Now banks have started selling these funds in their own names. These funds are not insured like other bank deposits. There are different types of funds such as open-ended funds, closed-ended funds, growth funds, balanced funds, income funds, etc.

12. Social Banking

The government uses the banking system to alleviate poverty and unemployment. Many social development programmes are initiated by the banks from time to time. The success of these programmes depends on financial support provided by the banks. Banks supply a lot of finance to farmers, artisans, scheduled castes (SC) and scheduled tribe (ST) families, unemployed youth and people living below the poverty line (BPL).

The

Type of Banks :

Banking is no new term to anyone be it homemakers, salaried people, businessmen, farmers, students or any other profession. Especially the Indian homes are well connected with banks and banking. The banking industry takes care of the finances of a country which includes credit and cash.

Banks are the backbone of the economy in a country and hence strict rules and regulations are imposed on the modus-operandi of banks. The major transactions that happen at banks are granting credits and accepting deposits from various entities. RBI is the apex body that governs and monitors bank across India. It is responsible for regulating the monetary policy in the country.

BANK CLASSIFICATION IN INDIA

There are two broad categories under which banks are classified in India- **SCHEDULED AND**

NON-SCHEDULED BANKS.

The scheduled banks include **COMMERCIAL BANKS AND COOPERATIVE BANKS**. The commercial banks include **REGIONAL RURAL BANKS, SMALL FINANCE BANK, FOREIGN BANKS, PRIVATE SECTOR BANKS, and PUBLIC SECTOR BANKS**. **PAYMENTS BANK** is a new introduction to the category. Cooperative banks include **URBAN AND RURAL BANKS**.

Let us understand the nomenclature better;

SCHEDULED BANKS are the banks which are covered under the second schedule of the Reserve Bank of India Act, 1934. To qualify for being a scheduled bank, a minimum of 5 lakh paid-up capital is required on the bank's behalf. The RBI lends loan to these banks at bank rate as and when required.

COMMERCIAL BANKS are regulated and managed under the Banking Regulation Act, 1949. These are profit making banks based on their business model. Granting loans to the government, general public, and corporate and accepting deposits counts as the primary function.

There are four types of commercial banks:

PUBLIC SECTOR BANKS

These banks for more than 75% of the total banking business in the nation. They are called nationalized banks. The government holds the majority stakes at these banks. Post-merger, SBI is the largest public sector banks by volume. It also ranks amongst the top 50 banks in the world. There are 21 nationalized banks in India, they are:

1. STATE BANK OF INDIA
2. BANK OF INDIA
3. ALLAHABAD BANK
4. BANK OF MAHARASHTRA
5. CANARA BANK
6. INDIAN OVERSEAS BANK
7. IDBI BANK
8. ORIENTAL BANK OF COMMERCE
9. CENTRAL BANK OF INDIA
10. CORPORATION BANK
11. ANDHRA BANK
12. UCO BANK
13. BANK OF BARODA
14. UNION BANK OF INDIA
15. UNITED BANK OF INDIA
16. VIJAYA BANK
17. DENA BANK
18. INDIAN BANK
19. PUNJAB & SIND BANK
20. PUNJAB NATIONAL BANK
21. SYNDICATE BANK

PRIVATE SECTOR BANKS

Private shareholders hold majority stakes in private sector banks. Reserve Bank of India lays down all the rules and regulations. Following are the private sector banks in India:

1. HDFC BANK
2. ICICI BANK
3. AXIS BANK
4. YES BANK
5. INDUSIND BANK
6. KOTAK MAHINDRA BANK
7. DCB BANK
8. BANDHAN BANK
9. IDFC BANK
10. CITY UNION BANK
11. TAMILNAD MERCANTILE BANK
12. NAINITAL BANK
13. CATHOLIC SYRIAN BANK
14. FEDERAL BANK
15. JAMMU AND KASHMIR BANK
16. KARNATAKA BANK
17. DHANALAXMI BANK
18. SOUTH INDIAN BANK
19. LAKSHMI VILAS BANK
20. RBL BANK
21. KARUR VYSYA BANK

FOREIGN BANKS

A bank operating as a private entity in India but headquartered in a Foreign country is a foreign bank. They are governed by both the country they are located in as well the country they have headquarters in. Some of these are:

1. CITI BANK
2. STANDARD CHARTERED BANK
3. HSBC BANK

REGIONAL RURAL BANKS

These banks were established mainly to support the weaker and lesser fortunate section of the society like marginal farmers, laborers, small enterprises etc. they mainly operate at regional levels at different states and may have branches in urban areas as well. Their main features are:

1. Supporting rural and semi-urban region financially
2. Pension distribution and Wage disbursement of MGNREGA workers
3. Added banking facilities like locker, cards-debit, and credit

SMALL FINANCE BANKS

These banks cater to a niche segment in the society and help with financial inclusion of sections which are not taken care of by other leading banks. They look after micro industries, unorganized sector, small farmers etc. RBI and FEMA are the governing bodies of these banks. These are:

1. AU SMALL FINANCE BANK
2. CAPITAL SMALL FINANCE BANK
3. FINCARE SMALL FINANCE BANK
4. EQUITAS SMALL FINANCE BANK
5. ESAF SMALL FINANCE BANK
6. SURYODAY SMALL FINANCE BANK
7. UJJIVAN SMALL FINANCE BANK
8. UTKARSH SMALL FINANCE BANK
9. NORTHEAST SMALL FINANCE BANK
10. JANA SMALL FINANCE BANK

COOPERATIVE BANKS

Run by the elected members of a managing committee and registered under the Cooperative Societies Act, 1912 are the cooperative banks. These are no-profit, no-loss banks and mainly serve entrepreneurs, industries, small businesses, and self-employment.

PAYMENTS BANK

This is a new and upcoming model of banking in India. It has been conceptualized and signed-off by RBI with restricted operations. Maximum of Rs. One Lakh is acceptable per customer by these banks. Like other banks, they also offer para-banking services like ATM cards, Debit-Credit cards, net-banking, mobile banking etc.

List of Banking Services offered by Banks



Apart from primary jobs accepting deposits and granting loans, there are several other functions of banks in the modern banking era. Consider a few services offered by the banks.

1.Payment and Remittance Services:

This is another important function of banks that enables us to transfer funds from one account to another, from one city to another. Alongside, modern banking systems allow us to make the direct online money transfer, pay utility bills, collection of cheques, and more. With the evolution of technology, payments can be made and collected from any part of the world.

2. Overdraft:

Overdraft services allow account holders to withdraw more than what their deposits allow. Though, interest is charged on the overdrawn amount. This is one of the many ways banks lend money to their customers.

3. Currency Exchange:

Imagine if there were no banks where you would acquire foreign currency for travel or trading purposes. The banks provide foreign currency exchange with local currency in an easy manner.

4. Consultancy:

Modern banks have a holistic approach and they aim to provide all kinds of services to their customers that involve their financial situation. Modern banks are hiring financial and legal experts to provide advice and solutions about customers wealth, investment, and trading.

5. Online Banking:

In the digital world, every bank is striving to make space in online banking world. With the help of the internet, banks allow their customers to perform banking activities through their official website. This allows the customer to access their account 24/7 without having to visit a physical branch.

6. Mobile Banking:

Similarly, banks are also providing mobile banking services wherein customers can perform banking activities through their smartphone apps.

7. Home Banking:

Home banking is another rising trend wherein banking transaction can be made from home directly. These services require an internet connection or access to online banking.

8. Credit and Debit Cards:

Most of the banks offer credit and debit cards to their customers that can be used to purchase products and services, and even borrow or withdraw money. This is one of the most important steps towards a cashless society.

9. Lockers:

Banks also offer safe deposit to their clients to store their valuables safely, at minimal fees.

10. Money Transfer:

There are several ways banks offer to transfer money from one part of the world to the other with the help of demand drafts, money orders, cheques, online banking, and more.

11. Investment Banking:

Many banks now offer financial services to their customers. They help them make the best of their wealth by offering several investment products.

12. Wealth Management:

Wealth management is one of the many investment services offered by banks. It allows the customers to plan their finances to grow long-term wealth.

Apart from all this, banks also offer several auxiliary services to the customers such as solvency certificates, mutual funds, insurance services, gold coins, and more.

Today, we have a fairly well-organized and highly sophisticated banking system that includes new-generation banks along with traditional banks. In the banking industry of India, there has been extraordinary growth that has replaced traditional banking methods with simplified, accurate, and fast banking methods. Indian banks are subject to tremendous change and are expected to expand invariably.