THE BASICS BANKING FUNCTIONS IN INDIA

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Banking

- A bank is a financial institution licensed to receive deposits and make loans. Bank may also provide financial service such as wealth management, currency exchange and safe deposit boxes.
- The reserve bank of India act, 1934 and the bank regulation act, 1949 govern the banking operation in India.
- There are two types of bank they are
  1. Commercial banks.
  2. Retail banks.

Introduction

- As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world.
- Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.
- Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.
- The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level 5 in the Faster Payments Innovation Index (FPII).
- In August 2017, Global rating agency Moody's announced that its outlook for the Indian banking system was stable. In November 2017, Global rating agency Moody's upgraded four Indian banks from Baa3 to Baa2.

Banking structure in India

A well regulated banking system is a key comfort for local and foreign stake holders in any country. Prudent banking regulation is recognized as one of the reason why India was less affected by the global financial crisis.

Banking can be broadly categorized as commercial banks or cooperative banks.

Bank which meet specific criteria are included in the second schedule of the RBI act, 1934. These are called scheduled banks. They may be commercial bank or co-operative banks.

Inclusion in the schedule also comes with its responsibilities of reporting to RBI and maintaining a percentage of its demand and times liabilities as cash reserve ratio (CRR) with RBI.

The basic banking terms

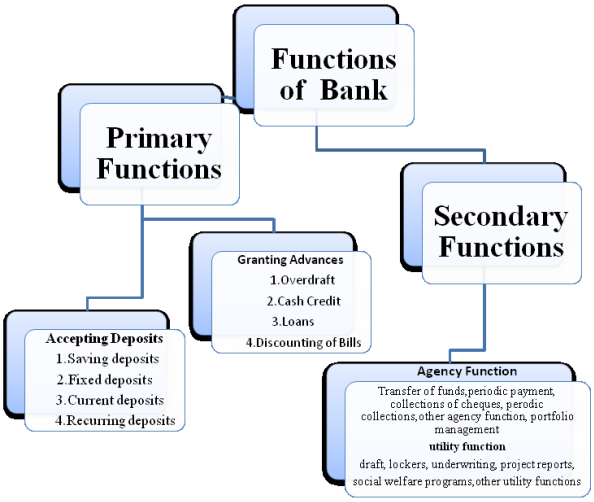
Finance: The proper management of money from the customer or from the reserve bank asked for loan.

Money: The current medium of exchange or means of payment.

Credit or loans: A sun of money to be returned normally with interest.

Banking system: The merchant, The gold smith(safe lockers), The money lender – receiving deposits and advancing loans

Functions of bank



Primary functions of bank

- The primary functions of bank are known as banking function.
- They are explained as follows:

Bank deposits

- Banks are also called custodians of public money. Banks are accepting money as deposits for safe keeping. Bank use this money to earn interest from people who need money by way of loans and they share a part of this interest with the depositors.
- The percentage of the interest depends upon the tenor – length of the time for which the depositor wishes to keep the money with the bank – and the easiness of withdrawal.
- The thumb rule is longer the tenor/term, higher the rate of interest and lesser the restriction on withdrawal, lesser the interest.
- Deposits are accepted from both domestic and non-resident Indian customers.

Granting advanced

Overdraft

- A bank overdraft is a line of credit that covers your transactions if your bank account balance drops below zero. An overdraft allows you to access extra funds through your transaction account up to an approved overdraft limit, avoiding overdrawn and dishonour fees.
- Interest is only charged on the amours overdrawn "When fees and charges are paid on time" a monthly service fee may also be charged depending on the type of your overdraft you choose.

  Type of overdraft

  - Personal overdraft – RS:16000 to RS:1600000
  - Temporary overdraft – RS:16000 to RS:3200000

Bank loans

- A loan is an arrangement between two parties (bank and customer) where money is lent by one person (banker) to another (customer/borrower) this is the legal contract between the lender and the borrower.

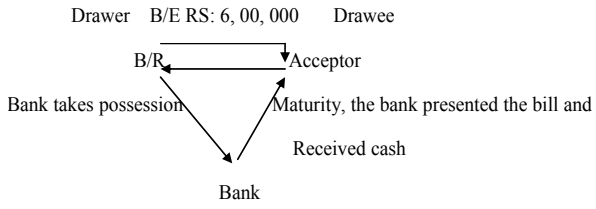
- unlike most other type of loan, those involving cash will gradually be paid back over a period of time previously arranged at the same time it is possible to make 3 to 6 monthly repayments, the usual time period is one month.
- Arranging the mortgage is little more complicate, the use for which it is required is not flexible and the money can never be used for anything other than buying/building a house or land.
- A loan is a type of debt. It is basically a temporary provision of money to be repaid with some interest. Banks in India are controlled under Reserve Bank of India. There are many types of loan.
  - Home loan
  - Personal loan
  - Car loan
  - Education loan
  - Credit card.

Cash credit

- Cash credit is a short term source of finance. Under cash credit the bank offers its customer to take a loan up to a certain limit. Cash credit is also known as Bank Overdraft.
- Features of Cash credit:
  - This loan is given to meet the working capital requirements of the company.
  - It is given against the collateral security.
  - Interest is charged only on the amount of loan taken by the customer and not on the amount of credit sanctioned.

Discounting of Bills

- If the drawer of the bill doesn't want to wait till the date of the bill and is in need of money he may sell his bill in bank at a certain rate of discount. The bill will be endorsed by the drawer with a signed and dated order to pay the bank.
- The bank will become the owner and holder of the bill. After getting the bill the bank will pay the cash to the drawer equal to the face value less interest or discount at the agreed rate for the number of days it has to run.



Accounting Deposits

Saving deposits

- A saving account is the most basic type of account at a bank or credit union allowing you to deposit money keeps the funds safe and withdraws funds as needed.
- Saving accounts typically pay interest on your deposits which helps you grow money but rates are relatively low on these low on these low- risk accounts.

Fixed deposits

- A fixed deposit (FD) is a financial instrument provided by banks or NBFCs which provides investors a higher rate of interest than a regular saving account until the given maturity date.
- It is important to note that banks may offer lesser interest rate under uncertain economic conditions. The interest rate varies between 4 and 7.25 percent. The tenure of an FD can vary

from 7, 15, or 45 days to 1.5 years and can be as high as 10 years. Fixed deposit is high interest yielding deposit.

- The most popular form of term deposit is fixed deposit while other form of deposits is recurring deposits and flexi fixed deposits.
- The main benefits of FD are customer can avail loan against FDs up to 80 to 90 percent of the value of deposits. The rate of interest of loan could be 1 to 2 percent over the rate offered on the deposit.

"Residents of India can open these accounts for a minimum of 3 months"

Current deposits

- A current deposit will often be made into a bank or other financial institutions account in the local currency. The deposit will then generally be made available to the customer for withdrawal at anytime and without any early withdrawal penalty.
- Current deposit is known as transactional accounts. A deposit account for the purpose of securely and quickly providing frequent access to funds on demand, through various different channels. Because is available on demand these account are also referred to as "Demand accounts" or "Demand deposit account"

Recurring deposits

- Recurring deposits is a special kind of term deposit offered by banks in India which helps people with regular income to deposit a fixed amount every month into their recurring deposit account and earn interest at this rate applicable to fixed deposits.
- The formula to calculate RD is $I = \frac{p*n(n+1)r}{12*2*100}$
- The formula to calculate the maturity amount
- Total sum deposited + interest = $p\ (n) + I = p*n\ [1 + \frac{(n+1)}{2400}\ r]$

Agency function

Collection of cheques, dividends, interest etc: Collecting cheques, drafts, bills of exchange, dividends, interest etc. On behalf of its customer and credit the amount in their account is one of the most important agency services rendered by the banks.

Payment of subscription, Rent, Insurance premium etc: The customer and debit the account with the amount. It accepts the sanding instructions of the customer and arranges for the payment of such expenses on their behalf, if charges a small amount by way of commission for these services.

Stock Exchange Transactions: Bank purchase and sell various securities such as shares, debentures, bonds etc of joint stock companies both private and Government on behalf of their Customers.

Acting as Executor, Trustees, Attorneys etc: As an executor it preserves the "Wills" of the customers and executes them after their death. As a trustee it takes care of the funds of the customers it signs transfer forms and documents on behalf of the customer.

Preparation of Income Tax Returns: Banks prepare income tax returns for their customers through their tax service departments.

Conducting Foreign Exchange Transactions: Commercial banks purchase and sell foreign exchange for their customers.

Utility Function

Underwriting: Underwriting is the detailed credit analysis preceding the granting of a loan, based on credit information furnished by the borrower. It can also refer to the purchase of corporate bonds, commercial paper, government securities, and municipal general obligation bonds by a commercial bank or dealer bank for its own account or for resale to investors.

Project reports: The project report is a document. This gives an account of the project proposal to ascertain the prospects of the proposed plan/activity. A project report is prepared with the help of prescribed guidelines available with MSMEDI's DIC's and financial institutions.

Economic function of bank

- Financial intermediary asset market share yearned 2000 – 2017 (%)
- Financial companies – 4%
- Real-estate investment trust – 0.8%
- Pension funds - 27.9%
- Property of causality insurance – 3.2%
- Life insurance – 11.4%
- Bank – 23.4%
- Saving intuitions – 4.4%
- Credit union – 1.6%
- Money market funds – 6.6%
- Mutual funds – 16.7%

Indian banking sector credit growth has grown at a healthy pace

- Credit off-take has been surging ahead over the past decade, aided by strong economic growth, rising disposable incomes, increasing consumerism and easier access to credit.
- Total credit extended went up to US$ 1,089 billion by FY15.
- Credit to non-food industries increased 9.75 per cent to US$ 1,073.4 billion in FY15, from the previous financial year.
- Demand has grown for both corporate and retail loan.

Bank rates as per the month of February (2018)

Bank Rates

Policy Repo Rate	: 6.00%
Reverse Repo Rate	: 5.75%
Marginal Standing Facility Rate	: 6.25%
Bank Rate	: 6.25%

Current CRR and SLR rates

- CRR : 4%
- SLR : 19.5%

Balance Sheet of RBI

- In the emerging scenario, there is need to accord the respect that is due to the balance sheet of a central bank. Fortunately, RBI has been devoting special attention to several aspects of its balance sheet viz.

- Avoiding contingent liabilities, building up adequate reserves thereby regaining some control over its balance sheet and further enhancing accounting and transparency standards. In view of significant amounts of foreign currency assets on its portfolio and the need to adopt internationally accepted valuation norms for all its assets, RBI should be strong enough in its internal reserves so that it can withstand any possible adverse impact on its balance sheet.
- A fear of adverse impact on its balance sheet may inhibit RBI to pursue otherwise desirable and prudent policies and the level of its reserves should be enough to remove such fears. RBI should guard itself against pressures to dilute the policy framework on transfer to reserves between Board of RBI and Government.
- It will be interesting to note that as the fiscal adjustment progresses and succeeds the potential for RBI's profits decreases. Finally, the balance sheet of the RBI can command credibility as well as effectiveness in its policy interventions, domestically as well as internationally; when among other things it has sufficient autonomy and control over its balance sheet.

Conclusion

- I believe that the RBI has continued to acquit itself well in discharging its functions during the reform period. It has deservedly gained importance, credibility and respect. It is currently well equipped in terms of technical skills to meet domestic and international challenges.
- It must be recognised that close understanding between the RBI and Government was instrumental in bringing about structural reform and meeting crisis-like situations during the recent years. In particular, RBI has been providing analytical inputs in policy making in so far as financial sector is concerned.
- This approach should be carried forward while respecting the need for RBI's autonomy in conducting its monetary operations. Another significant recent achievement of RBI is the close links it developed with State Governments - as banker, as debt manager and as policy adviser, and keeping up this momentum is desirable.
- There has been a notable change in the work practices and approaches to policy making as well as problem solving. These include constant review of international experience, working group approach and multi-disciplinary and multi-departmental standing committees to aid decision making.
- The gains from this approach are evident and should be carried forward. Finally, there is great merit in devoting urgent and serious attention to three aspects. First, there should be deliberate efforts to continuously upgrade skills on a more extensive scale.
- For this purpose, both, facilities as well as incentives would be needed. Second, whether, as a regulator or in performing other functions such as banker to Government or issuer of currency, there is significant interaction with users
- With interest shown by Governor Dr. Jalan, there has been discernible impact but some more drastic changes in attitudes and procedures may be necessary. 14 Third, the work practices including placement, deployment, redeployment etc need to be visited and thoroughly revamped to bring them in alignment with demands of a rapidly modernising financial sector.
- In all these areas, it would be worthwhile for an immediate examination and consensus for moving forward. Let me once again thank the organisers for giving me this opportunity to freely set out my random thoughts on changes in the RBI's role in future.