

MODERN BANKING

- No unanimity regarding the origin of the word *BANK*
- *BANC* --- German word --- Joint Stock Company
- *BANCO*— Italian word ---- Heap of money
- *BANCUS* ---- Latin word----
- *BANQUE*--- French word---- Bench
- *Early Jews of Lombardy transacted banking business by sitting on Benches*

DEVELOPMENT OF BANKING INSTITUTIONS

- business of banking as old as human civilisation
- 2000 BC Babylonians had developed system of banking
- Used temples for money lending against security of gold/silver- interest high
- Same period Greek temples were depositories of surplus funds of people & they were used for lending

DEVELOPMENT OF BANKING INSTITUTIONS

- In Greek temples the priest performed the role of financial agents
- In Rome bankers were called *Argentarii, Mensarii, or Callybistoe*
- A bank was called *Tabernoae Argentarioe*

DEVELOPMENT OF BANKING INSTITUTIONS

- The Roman banks performed all the business of modern banks
- They allowed settlement of debts by means of cheques or drafts
- Paying money by means of drafts was called *prescribere or rescribere*
- A cheque was called *attributio*

DEVELOPMENT OF BANKING INSTITUTIONS

- In England in the middle ages gold & silver used as money-- specie
- Safely Keeping money was a problem
- The gold smiths were having strong vaults
- People started to deposit surplus money with gold smiths
- They used to charge a small fee for the service

DEVELOPMENT OF BANKING INSTITUTIONS

- People started to give written orders to pay deposited money to third parties=== Cheques
- Eg
- *I, Jane K the depositor order Gary the gold smith to pay Sam J --- amount of gold*
- Options before Sam J- either produce the order to gold smith & get the amount or hand over it to his creditor

DEVELOPMENT OF BANKING INSTITUTIONS

- There was difficulty to correct cheques
- The gold smiths used to give a receipt when he receives gold for safe custody
- These receipts were the predecessors of modern bank notes
- Eg
- *I promise to pay 30 onz of gold to Jane or holder of this document. Sd. Gary*

DEVELOPMENT OF BANKING INSTITUTIONS

- Business of gold smiths suffered a major setback during the time of Charles II
- Gold smiths used to deposit the surplus fund with the treasury of the King
- Govt also used to support goldsmiths
- Charles II ordered not to repay the funds deposited by gold smiths
- It ruined the business of gold smiths

DEVELOPMENT OF BANKING INSTITUTIONS

- People felt the urgent need of banking institutions with the ruin of gold smiths
- A number of banks came into existence
- Bank of Barcelona 1401
- Bank of Genova 1407
- Bank of Amsterdam 1609
- Bank of England 1694
- *Oldest bank is Bank of Venice 1157*

STAGES IN THE DEVT OF BANKS

- *Geofrey Crowther* :3 predecessors to modern banks
- The merchant banker
- The money lender
- The gold smith

STAGES IN THE DEVT OF BANKS

- *The Merchant*
- Earliest stage in the devt of banks
- Merchant with reputation used to collect money from their customers for financing their trade
- Used to issue documents/ receipts for money borrowed
- These documents were the predecessors of modern system of remittance of money from one place to another

STAGES IN THE DEVT OF BANKS

- *The money lender*
- Money lenders used to lend their surplus funds to other at high interest rates
- Later they started accepting surplus funds of others at interest
- *Gold Smiths*
- In england - bank notes= receipts

DEVELOPMENT OF BANKS IN INDIA

- **Some naïve form of banking existed during the vedic period**
- **Vaisyas– traders**
- **Manusmriti contains reference about deposits, loans, pledges etc**
- **Modern banks came into existence after the enactment of Joint Stock Companies Act in 1850**

DEVELOPMENT OF BANKS IN INDIA

- The General Bank of India 1786
 - Bank of Bengal 1806
 - Bank of Bombay 1840
 - Bank of Madras 1843
- Presidency Banks
- 1921- Presidency Banks merged to form Imperial Bank of India
 - Till The Establishment of RBI in 1935, Imperial bank performed all banking transactions of govt.

DEVELOPMENT OF BANKS IN INDIA

- In 1955 Imperial Bank was renamed as State Bank of India (All India Rural Credit Survey committee) SBI Act 1955
- More banks were established after the passing of the Banking Regulation Act of 1949

DEFINITION & FUNCTIONS OF BANKS

- **Difficult to define a bank as the functions of banks are changing overtime**
- **New functions and new banking products are added from time to time**
- **Modern banks attempt to provide multitude of services and are trying to become financial super markets**

DEFINITION OF BANK

- Bank are institutions whose debts – usually referred to as – bank deposits are commonly accepted in the final settlement of peoples' debts – R. S. Sayers
- Any company which transacts banking business in India– *Banking Regulation Act 1949*
- Banking means accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheques, draft, order or otherwise

FUNCTIONS OF BANKS

- 1. Primary Functions
- 2. Secondary Functions
- *PRIMARY FUNCTIONS*
- A. Accepting deposits
- B. Lending money
- *SECONDARY FUNCTIONS*
- A. Agency Functions
- B. General Utility Functions

FUNCTIONS OF BANKS

- **ACCEPTING DEPOSITS**
- **1. Current Deposits**
- **2. Savings Bank Deposits**
- **3. Recurring Deposits**
- **4. Fixed Deposits**
- **5. Home Safe Deposits**

DEPOSIT SCHEMES OF BANKS

- ***1. CURRENT DEPOSIT A/C***
- **Opened for liquidity and safety of funds & to meet daily expenses**
- **Usually maintained by business & commercial enterprises**
- **No interest earnings- but OD available**
- **Minimum balance- Rs. 500- 10,000**
- **Varies from bank to bank & location of branch**

DEPOSIT SCHEMES OF BANKS

- **2. SAVINGS BANK ACCOUNTS**
- Opened for savings, liquidity, , safety of funds and to meet day to day expenses
- Interest is paid on the a/c but low
- Inculcate the habit of thrift among people
- 25 Oct 2011 – deregulation of interest
- Interest varies from 4 to 7 percent

DEPOSIT SCHEMES OF BANKS

- *2. SAVINGS BANK ACCOUNTS*
- Previously interest on the lowest balance on 10th & last day of a month
- From April 1 2010 interest is calculated on daily basis.
- a/c can be opened single or jointly by adults
- Minors above the age of 10 can also open a/c
- Min . Balance Rs.100 – 10000- varies (cheque book or not) ATM cards, cheques

DEPOSIT SCHEMES OF BANKS

- **3.RECURRING DEPOSIT**
- For saving purpose
- A fixed amount is deposited at regular intervals for a fixed period of time
- Earn higher interest than SB a/c
- Can be opened singly or jointly by adults
- Min amount Rs.100– varies
- Period 12 months to 10 yrs
- Delayed payment invite penalties

DEPOSIT SCHEMES OF BANKS

- *4. TIME DEPOSITS/ TERM DEPOSITS*
- Certain amount of money deposited for specified period of time
- Min amount Rs. 1000 (varies from bank to bank)
- Period – 15 days to 10 years
- Higher for longer periods
- Premature closing – penalty in the form of lower interest

DEPOSIT SCHEMES OF BANKS

- **HOME SAFE ACCOUNT**
- **For children**
- **A sealed safe given to the child**
- **He carries it home**
- **Deposits money in it**
- **Occasionally the safe is brought to bank counter**
- **Bank credits the amount to the a/c**