TRINITY COLLEGE FOR WOMEN NAMAKKAL

Department of Commerce

BANKING THEORY LAW & PRACTICE

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Unit: I Banking Theory Law and Practice

Meaning of Banks:

A bank denotes a financial institution dealing in money. A bank is an institution that is prepared to accept deposits of money and repay the same on demand. The system of banking is very old and the same was prevalent in Greece, India and Rome.

Definition of a Bank

A bank is a financial institution which performs the deposit and lending function. A bank allows a person with excess money (Saver) to deposit his money in the bank and earns an interest rate.

Banking Regulation Act 1949:

The law governing the working and functions of banks in India was passed in 1949 and named as the Banking Regulation Act , 1949.Before passing this Act , the banking companies were governed by the Indian Companies Act, 1913.

Licensing of Banking:

For commencing banking business in India, every banking company is required to obtain a licence from the Reserve Bank of India, under the provisions of Section 22 of the Banking Regulation Act, 1949.

The primary functions of a bank are two:

1. Accepting Deposits: Deposits are the amount of money that a customer hands over to the bank. This is known as making a deposit. The deposits are of a few types namely: Saving Deposit, Fixed Deposit, Current Deposit, and the Recurrent Deposit.

2.Saving Deposit

In a saving deposit, the amount and the rate of interest are low. Withdrawals are also allowed but only in a limited number. The account is suitable for people who want to save on salaries and similar sources of income.

3.Fixed Deposits:

Similarly, the fixed deposit is a fixed sum that one gives to the bank for a certain agreed time. The withdrawals are not allowed before the completion of the time of the fixed deposit.

4.Current Deposit

On the other hand, the current account or deposit, there is no interest paid by the bank and the customer can withdraw or deposit any number of times.

Secondary Functions of the Bank

1.Agency Functions: The bank is an agent for its customers in a way that it invests on behalf of its customers. Acting as the agent of the customer the bank may transfer funds, the collection of cheques, portfolio management, periodic collections, and several other agency functions.

Transfer of funds

Collection of Cheques

Periodic Payments

Portfolio management

Unit : II

Commercial Bank:

Meaning of Commercial Bank

It is a kind of bank which promotes commercial activities by lending for various commercial activities. The bank cannot afford to give long – term loan and can provide only working capital for business purpose. The commercial activities in the country such as trade, warehousing, transport, etc., are financed by the commercial banks.

General Utility Services:

In addition to the aforesaid agency services, banks also extend the following general utility services:

Safe custody service: The service facilities the customers to keep their valuables, such as gold and silver ornaments, documents of titles, certificates, etc. For this purpose, certain charges are levied annually.

Issue of traveler's Cheques: For the benefit of the traveling customers, banks issue traveler's cheques and circular letters of credit.

Credit Information: An important general utility service rendered by a bank is to furnish reliable information about the credit worthiness of their customers to those who are in need of such information.

Business Information: A modern banker, in addition to providing credit information about the customer, also engages in the task of collection of statistics pertaining to money, banking, trade, and commerce.

Underwriting Service: The banks provide the much-needed guarantee and confidence to the investing community to subscribe the issue. The facility is made available by charging a small underwriting commission.

Universal Banking

Banks that are engaged in diverse kinds of banking business, which are generally handled by different types of banking entities, are known as Universal banks. Banking that includes investment services in addition to services related to savings and loans, is known as universal banking.

Types: Fully integrated universal banks:

These are banks which function as a single institutional entity offering a complete range of banking and financial products and services.

Partly integrated financial conglomerates:

These are banks that offer a range of services with some of the services such as mortgage banking, leasing and insurance being provided through wholly owned or partially owned subsidiaries.

Bank holding company structure:

Where by banking and financial products are offered a financial holding company that owns both banking and nonbanking subsidiaries that are legally separate.

Bank subsidiary company structure:

These are banks that offer functions such as investment banking and insurance in addition to focusing on regular commercial banking functions.

Unit : III Central Bank:

A central bank is a financial institution given privileged control over the production and distribution of money and credit for a nation or a group of nations. In modern economies, the central bank is usually responsible for the formulation of monetary policy and the regulation of member banks.

Functions of Central Bank

1 Bank of Issue:

Central bank now-a-days has the monopoly of note-issue in every country. The currency notes printed and issued by the central bank are declared unlimited legal tender throughout the country.

2. Banker, Agent and Adviser to the Government:

Central bank, everywhere, performs the functions of banker, agent and adviser to the government.

3. Custodian of Cash Reserves:

All commercial banks in a country keep a part of their cash balances as deposits with the central bank, may be on account of convention or legal compulsion. They draw during busy seasons and pay back during slack seasons.

4. Custodian of Foreign Balances:

Under the gold standard or when the country is on the gold standard, the management of that standard, with a view to securing stability of exchange rate, is left to the central bank.

5.Lender of Last Resort:

Central bank is the lender of last resort, for it can give cash to the member banks to strengthen their cash reserves position by rediscounting first class bills in case there is a crisis or panic which develops into ‘run’ on banks or when there is a seasonal strain. Member banks can also take advances on approved short-term securities from the central bank to add to their cash resources at the shortest time.

Unit:4 Negotiable Instruments:

Definition:

A negotiable instruments, thus, plays a key role in the modern business as a document which is transferable with ease. Wills defines it as “one, in which the property is acquired by any one, who takes it bonafide and for value, notwithstanding defect of title in the person, from whom he took it”.

Features of Negotiable Instruments:

(i) **Free Transfer:** There is no formality to be complied with the transfer of a negotiable instrument. It can be very easily transferred from one person to another.

(ii) **Transfer free from defects:** It confers an absolute and good title on the transferee. Even if the transferor has a bad title to the instrument, he can still pass on a good title to any holder who takes it in good faith and without negligence and for valuable consideration.

(iii) **Right to sue:** It confers a right on the holder to sue in his own name, in case of need.

(iv) **No Notice to transfer:** The transferor of a negotiable instrument can simply transfer the document, without serving any notice of transfer, to the party who is liable n the instrument to pay.

(v) **Presumptions as to negotiable instruments**: Secs. 118 and 119 of the negotiable instruments Act deal with certain presumptions which are applicable only to all negotiable instruments.

(vi) **Credit of the party:** The credit of the party who signs the instrument is pledged to the instrument. Therefore, such instrument will never be dishonored normally.

Unit: V E-Banking

Meaning of E-Banking:

E-banking is a product designed for the purposes of online *banking* that enables you to have easy and safe access to your *bank* account. *E-banking* is a safe, fast, easy and efficient electronic service that enables you access to *bank* account and to carry out online *banking* services, 24 hours a day, and 7 days a week.

Benefits of E-banking:

- It saves time spent in banks.
- It provides ways for international banking.
- It provides banking throughout the year 24/7 days from any place have internet access.
- It provides well-organized cash management for internet optimization
- It provides convenience in terms of capital, labour, time all the resources needed to make a transaction.
- Taking advantage of integrated banking services, banks may compete in new markets can get new customers and grow their market share.
- It provides some security and privacy to customers, by using state-of-the-art encryption and security technologies.

Advantages of E-Banking:

1.Benefits and Rewards
2.Notifications and Alerts
3.Faster Transactions
4.Convenience

Disadvantage of E-banking:

- Difficult for Beginners
- Trust and Responsibility
- Inconvenience
- Inability to Handle Complex Transactions
- Financial Jargon

ATM- Automated Teller Machine:

An automated teller machine (ATM) is an electronic banking outlet that allows customers to complete basic transactions without the aid of a branch representative or teller. Anyone with a credit card or debit card can access cash at most ATMs.

Features of ATM:

Anywhere Banking
Anything Banking
Safety
User Interface
Visual Messages
Swallowed Card
ATMs Security

Advantages of ATM

Withdrawing money.
Checking how much money is remaining in the account.
Round the Clock Services: ATM provides banking services to its customers round the clock, 24 hours a day, 7 days a week and 365 days a year.

THANK YOU

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