

commercial banks :-

Commercial bank is a financial institution that receives deposits from the public and lend money to Industry, trade and consumers.

Meaning :

Commercial bank borrow money from those who have surplus to save and lend to those who need funds for commercial purpose.

Definition :

According to Indian Banking regulation act, 1949, banking means accepting deposits of money from the public for the purpose of lending or investment.

Functions :-

Accepting Deposits :-

Commercial bank accept deposits from household sector, business enterprise and other institutions.

Deposits are there of three types

\* current deposit

\* saving deposit

\* Time deposit

## 2. Loans and Advances :-

Granting of loans in various forms is the most important function of commercial banks.

i) cash credit

ii) overdraft

iii) Discounting of bills

iv) short term, Medium term

and long term loans.

## 3. Agency Functions :-

Commercial banks also act as an agent of their customers.

Bank charges commission for all these activities.

#### 4. Dealings in foreign securities.

In developed countries commercial banks are allowed to buy foreign exchange and sell it to their customers for international trade and other purposes.

#### 5. Credit creation.

\* Commercial banks enjoy a unique distinction in the respect only they can create credit.

\* The entire structure of money market is influenced by credit creation.

#### 6. Popularising cheque system:-

\* Banks issue cheque books to their saving and current deposit holders.

\* Cheques are used for making payments.

#### 7. Transfer of funds:-

\* Banks provide a very economical and

usage, methods of transferring funds.

### 8. Other Function.

Banks render many other services such as provision of lockers for keeping values, credit cards etc.

### CLASSIFICATIONS :-

\* Based on Functions

\* Based on lending practices.

#### 1. Based on Function :-

1. central Bank

2. Commercial Bank

3. Exchange Banks

4. cooperative Banks

5. Agricultural Banks.

#### 2. Based on lending practices :-

1. Branch Banking:

The banking organisation.

can be divided into two types.

1. Pure banking
2. Mixed banking.

Under this system, a bank will carry on banking business through a network of branches all over the country.

### UNIT BANKING:-

Unit Banking refers to a system of banking in which the banking operations are carried on only through a single officer rather than a network of branches.

### Chain Banking:-

The Joint stock commercial Banking also be classified as Chain Banking and group banking.

### Group Banking:-

It is a system of banking under which two or more banks are controlled by an Association or Corporation.

## Pure banking :-

Pure banking refers to a system under which the commercial Banks would finance only short term requirements of all industries and trade.

## Cooperative Banking :-

Co-operative Credit Societies and bank provide short-term, medium term, credit to agriculture and Village Industries.

## Creation of credit :-

The power of commercial banks to expand deposits through expanding their loans and advances is known as credit creation.

## Technique of credit creation :-

1. The existence of number of banks X, Y, Z etc each with different sets of depositors.

2. Every bank has to keep 20% of cash reserves according to law.

3. A New deposit of ₹ 5000 has been made in Bank X.

Balance sheet of Bank X.

New deposit	5000	New cash	5000
	<hr/> 5000		<hr/> 5000.

Balance sheet of Bank X.

deposit	₹ 5000	cash	1000
	<hr/> 5000	loan to Ganesh	4000.
			<hr/> 5000

Balance sheet of Bank Y.

New deposit	4000	cash	800
	<hr/> 4000	Govt bonds	3200.
			<hr/> 3200

Balance sheet of Bank Y

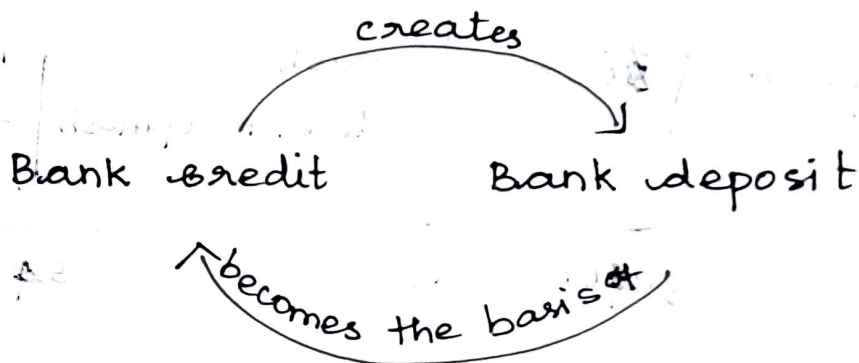
New cash	4000	cash	800
	<hr/> 4000	B/e	3200
			<hr/>

## Balance sheet of Bank Z

New deposit	3200	New cash	3200
	<hr/>		<hr/>
	3200		3200

## Balance sheet of Bank Z

deposit	3200	cash	640
	<hr/>	Govt bonds	2560
	3200		<hr/>
			3200



\* Bank credit is created and as a result

\* Bank deposits are multiplied.

## Techniques of credit creation :-

### Balance sheet of Bank X

deposit	49000	cash	9000
	<hr/>	Loan & Investment	40000
	49000		<hr/>
			49000



Balance sheet of Bank X

deposit	49000	cash	9800
		loans & Invest ment	39200
	<u>49000</u>		<u>49000</u>

Balance sheet of Bank Y

deposit	49200	cash	4200
		Loans & Investment	49000
	<u>49200</u>		<u>49200</u>

Balance sheet of Bank Y.

deposit	49200	cash	9,840
		loans & Investment	39,360
	<u>49200</u>		<u>49200</u>

Balance sheet of Bank Z

deposit	49360	cash	9360
		loans & Investment	40000
	<u>49360</u>		<u>49360</u>

— X — X —

## Banker meaning :-

A banker is a body of person whether incorporated or not who carry on the banking business.

Sec(b) of the banking regulation Act 1949 describes the activities which a banker may engage itself in.

## Banker definition

Findley shares defines a banker 'A banker is a person, firm or company having place of business where credits are opened by the banker or collection of money or currency or subject to be paid or remitted upon draft cheque or loaned or stocks, bonds, billions and Bills of exchange and promisory Notes are received for discount and sale.

## The customer - definition

DR. D. L. Wast says that a customer is one who has an account with a banker or for whom a banker habitually undertakes as such.

## Relationship between banker and customer :-

### General relationship :-

The relationship between the banker and the customer is important from

- \* legal point of view
- \* special point of view.

### Special relationship :-

\* special relationship as an agent or principal

- \* special relationship as a

Trustee.

# Banking.

Unit- 4.

## PAYING BANKER.

### Payment of cheques:

It is a contractual obligation which a banker has to fulfil. Relationship between banker and his customer is contractual. Precautions to be taken by Paying Banker:

- (i) sufficient funds in Account.  
a. overdraft, b. instruments deposited for collection & c) Availability of funds for payment;
- (ii) Payment in chronological order.
- (iii) Proper form of the cheque.
- (iv) Date of cheque.
- (v) Amount of the cheque.
- (vi) Material alteration in cheques.
- (vii) Signature of customer.
- (viii) Time of payment of cheque.

Banker's liability in case of payment after Business hrs:

Payment of cheque should be in Banking hrs. In case the payment is irregular the banker may be asked

to make good the loss which the customer has suffered because of the banker's irresponsible behaviour.

Mode of Presentment for payment:

It refers to presentment of a cheque at the counter of a banker. "where authorized by agreement or usage a presentment through the post office by means of a registered letter is sufficient."

statutory protections to the Paying Banker:-

1. Protection in case of an order cheque.
2. Protection in case of a Bearer cheque.
3. Protection in case of crossed cheque.

Refusal for payment:-

1. when the customer has issued the stop payment.
2. Death of customer.
3. Insolvency of customer.
4. Insanity of customer.
5. Receipt of Garnishee order.
6. Receipt of notice of Assignment.
7. Doubts entertained by the banker to misuse of Trust money.
8. Defective title of party.

## collecting Banker.

Bank collects the cheques for two reasons:

(i). As a holder in its own right and

(ii). As an agent of his customers. and

also as a creator of credit.

(i) Banker as a holder for value:-

It is the rights acquired by the banker as a holder for value; in

the following ways:-

a. Granting advance on the security of cheques.

b. Accepting the money in the customer's account before the cheque are cleared.

c. Consenting to allow the customer to withdraw the amt of the cheque.

d. Accepting the cheques with a writ to reduce customer's old

e. Making payment in cash.

Rights of the Banker as Holder in due course:-

1. collecting banker is responsible to the true owner of the cheque.

2. If the cheque is dishonoured, the collecting banker in his capacity

act as holder for value may file a suit against all parties of the cheque. (7)

2. Banker as an Agent of the customer:

He acts as an agent of the customer when ~~the~~ the banker deposits the money of collected cheques in customer's account. For this the banker charges commission.

Duties of collecting banker:

a) General duties.

1. To accept the cheque from customer.

2. To verify the ownership right of his customer, related to cheque.

3. To accept the cheque for collection only for customers who have opened account in proper way.

4. To verify the regularity of endorsement

5. To verify the correct position of the customer.

b. Duties toward customer:

1. Presentation of cheques for payment

2. Notice of dishonour.