SANGHAMAM COLLEGE OF ARTS AND SCIENCE- ANNAMANGALAM.

DEPARTMENT OF BUSINESS ADMINISTRATION

BBA –I (SEMESTER II)

PRINCIPLES OF BANKING SYSTEM

Definition of Banking-Development of banking in india-Classification of banks –Nationalization of banks..

Definition of banking.

Banking has been defined as "Accepting for the purpose of lending & investment, of deposit of money from the public, repayable on demand order or otherwise and withdraw able by cheque, draft or otherwise."

Development of banking in India.

- In India, modern banking originated in the middle of the 18th century.
- The first banking institution was the bank of Hindustan established in 1770 and it was the first bank at Calcutta under European management.
- It was liquidated in 1830-32. In 1786 General bank of India was set up but it failed in 1791.

Classification of Banks.

1.Cooperative banks:

- Cooperative banks are owned and operated by their members. They provide a range of financial services, including savings accounts, loans, and agricultural credit. Cooperative banks play an important role in the rural economy.

2.Commericial Banks: Commercial banks can be further classified into public sector banks,

private sector banks, foreign banks and regional rural banks(RRB).On the other hand, cooperative

banks are classified into urban and rural. Apart from there, a fairly new addition to the structure is

a payments bank

- Commercial banks can be further classified into public sector banks, private sector banks, foreign banks and regional rural banks(RRB).On the other hand, cooperative banks are classified into urban and rural. Apart from there, a fairly new addition to the structure is a payments bank.
- 3. **Scheduled Banks**:
- Scheduled banks are those banks that are listed under schedule II of the reserve bank of India Act,1934. The bank's paid –up capital and raised funds must be at least Rs.5 lakh to qualify as a scheduled bank. These banks are liable for low interest loans from the RBI. They also have membership in clearing houses.

4.Central bank:

- A central bank, reserve bank, or monetary authority is an institution that manages the currency and monetary policy of a country or monetary union. In contrast to a commercial bank, a central bank possesses a monopoly on increasing the monetary base.

5.Payments bank:

- Payments banks are a new model of banks, conceptualised by the Reserve bank of India, which cannot issue credit. These banks can accept a restricted deposit, which is currently limited to Rs. 2000,000 per customer and may be increased further. These banks cannot issue loans and credit cards.

5. REGIONAL RURAL BANKS:

- Regional rural banks (RRBs) are government owned scheduled commercial banks of India that operate at regional level in different states of India. These banks are under the ownership of ministry of finance, government of India, sponsered bank and concerned state government in the ratio of 50:35:15 respectively. They were created to serve rural areas with basic banking and financial services. However, RRBS also have urban branches.

7. Private sector banks:

- Private sector banks are banks where the majority of the bank's equity is owned by a private company or a group of individuals. They comply with the central bank's guidelines yet have a unique financial system.

SMALL FINANCE BANKS:

- Small finance banks basically work as savings vehicles as well, as they are engaged in offering credit facilities to small business units, micro and small industries, small and marginal farmers and other unorganised sectors through their advanced technology & low-cost operations.

9. Foreign banks:

- Foreign banks are those banking companies which open a branch in a different nation than the headquarters.

  They have their registered office in one country. These foreign banks open a branch in other countries.

  It is to provide better service and convenience

  Multinational customers.

10. Specialized banks.

- Specialized banks are financial institutions that focus on providing specific types of banking services or serving specific customer groups.
- Examples include commercial banks, investment banks, savings banks, and central

Nationalization of banks.

- In 1969, the government of India nationalised 14 major private banks; one of the big banks was bank of India.
- In 1980,6 more private banks were nationalised. These nationalised banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and widespread networks.

UNIT –II

Definition of the terms bankers and customer- Differential relationship between banker and customer- general and special relationship.

Definition of the terms bankers and customer.

- The bank and customer are two different terms that are related to the bank.
- The person doing the banking business is called a banker and the person who is connected with the bank, either depositing his money or taking a loan from the bank is called a bank customer.

Differential Relationship between banker andcustomer.

- Relationship of debtor and creditor.
- Relationship of Pledger and pledge.
- Relationship of Licensor and Licensee.
- Relationship of Bailor and Bailee.
- Relationship of hypothecator and hypothecate.
- Relationship of trustee and beneficiary.
- Relationship of agent and principal.
- Relationship of advisor and client.
- Other relationship.

1.General relationship and special relationship.

- Debtor and creditor.
- Pledger and pledge.
- Licensor and Licence.
- Relationship Agent and principal.
- Advisor and client.

2. Special relationship.

- Statutory obligation to honour cheques.
- Banker’s duty to maintain secrecy of customer’s account.
- Banker’s right to claim incidental charges.
- Law of limitation on bank deposits.