

Financial Institutions and Services

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Reserve Bank of India

- The Reserve Bank of India is the apex bank of India.
- It was established in 1935.
- Its headquarters is in Mumbai.

Functions of Reserve Bank

- Printing of currency.
- Controlling credit.
- Banker to government.
- Banker's bank.

How does the Reserve Bank print notes?

- ◆ All currencies except the one rupee note are printed by the Reserve Bank of India.
- ◆ The one rupee note and its subsidiary coins are issued by the Central Finance Department.
- ◆ The gold or foreign exchange reserves which hold the fixed value of the note hold as security.

How the Reserve Bank controls credit?

- ◆ Control of credit is one of the main functions of the Reserve Bank.
- ◆ This is made possible by bringing about changes in the rate of interest.
- ◆ As rate of interest increases, volume of loans decreases.
- ◆ When interest rates fall, the amount of loans increases.
- ◆ The Reserve Bank of India increases the money supply in Indian economy through the distribution of printed currency and through credit creation.

How does the Reserve Bank of India act as a Banker to government?

- ◆ Another function of the Reserve Bank of India is to serve as the banker to the central and state governments.
- ◆ As a banker to the government, the Reserve Bank of India accepts deposits from the government, sanctions loans and renders other banking services to them.
- ◆ The Reserve Bank of India does not charge any fees for these services.

How does the Reserve Bank of India act as a Banker's bank?

- ◆ The Reserve Bank is the apex bank of all banks.
- ◆ To advise and assist all banks in their operations is a function of the Reserve Bank.
- ◆ It acts as a last resort to all banks in their financial matters.

Function of Commercial Banks

- ✓ Accepting deposits
- ✓ Providing loans
- ✓ Providing other services

Deposits received by commercial banks

- Savings Deposit
- Current Deposit
- Fixed Deposit
- Recurring Deposit

Savings Deposit

- This scheme helps the public to deposit their savings.
- Banks provide low interest rate for such deposits.
- The depositor can withdraw the money from the deposit, subject to restrictions.
- Different banks have adopted different regulations regarding the number of times and the amount of money that can be withdrawn during a particular time period.

Current Deposit

- ◆ This deposit facilitates depositing and withdrawing money many times in a day.
- ◆ These deposits are used mainly by traders and industrialists.
- ◆ This type of deposits does not receive any interest.

Fixed Deposit

- ◆ Fixed deposits are ideal for depositing money in banks by individuals and institutions for a specific period of time.
- ◆ The interest rate is calculated on the basis of the time period for which the money is deposited.
- ◆ If the amount is withdrawn before the maturity of deposits, then the interest rate will be lower.

Recurring deposits

- ◆ Recurring deposits receive a specific amount every month for a specified period of time.
- ◆ The interest rate of recurring deposits will be higher than that of saving deposits but less than that of fixed deposits.
- ◆ The interest rate will be less if the deposits are withdrawn before the maturity date.

Loans provided by commercial banks

- The amount of money accepted as deposit from the public is granted as loans by the banks.
- The interest rate of loans will be higher than the interest rate of deposits.
- There will be differences in the interest rate depending on the duration of loan, its purpose, etc.
- Normally, bank loans are provided by accepting a collateral.

- Physical assets such as gold and property documents; fixed deposit certificates and salary certificates are bank accept as collaterals.

Loans issued by commercial banks

- 1) Cash credit
- 2) Overdraft

Cash credit

- ➔ The loans given to individuals and institutions by accepting collaterals are called cash credit.

What are the purposes for which banks provide cash credit to the public?

- Agricultural purposes
- Industrial purposes
- Constructing houses
- Purchasing vehicles
- Purchasing home appliances

Overdraft

- This is an opportunity for a customer to withdraw money over and above the balance in his/her account.
- This facility is provided to individuals who have frequent transactions with the bank.
- Generally, this opportunity is provided to individuals who maintain current deposits.
- The bank will charge interest on the additional withdrawal amount.

Facilities provided by commercial banks

- Locker facility
- Demand Draft
- Mail Transfer
- Telegraphic Transfer
- ATM facility
- Credit Card facility

Modern trends in banking sector

1. Electronic Banking
2. Core Banking are the modern trends in banking.

Electronic Banking(E- Banking)

- Electronic banking is a method by which all transaction can be carried out through net banking and tele banking.
- Any time banking, Anywhere banking , Net banking, Mobile phone banking etc. are part of electronic banking.
- For this, the assistance of the bank employees is not required.
- Bank account and net banking facility alone are required for this.

Benefits (merits) of Net Banking:

- Money can be sent and bills can be paid anywhere in the world from home.
- Saves time
- Low service charge

Core banking (Centralised Online Real-time Exchange Banking)

- ✓ Core banking is the facility which is arranged in such a way that the branches of all banks are brought under a central server so that banking services from one bank to another is made Possible.

Advantages of Core banking:

- As a result, ATM, debit card, credit card, net banking, tele banking, mobile banking etc. have been brought together.
- Transactions have become simple.
- By using this facility, an individual can send money from his bank account to his friend's account elsewhere.

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