

B.Com. S.Y. III Sem.

BANKING

Dr. Dhammpal N. Ghumbre

Dept. of Commerce

**Kalikadevi Arts, Commerce and Science College, Shirur
(Ka.). Dist. Beed.**

MODERN BANKING PRACTICES

- INTRODUCTION
- Bank is the main confluence that maintains and controls the “flow of money” to make the commerce of the land possible. Government uses it to control the flow of money by managing Cash Reserve Ratio (CRR) and thereby influencing the inflation level.

- Banking regulation act came in existence in 1949 with numerous provisions which may be classified into two categories: (i) built in safeguards and (ii) power and consequential functions and responsibilities of the Reserve Bank of India. The other important set of provisions pertains to the suspension of business by and winding up of banking companies.

ORGIN OF BANKS

- The word Bank comes from the Italian word ‘Banco’ which means bench.
- In the mid ages , the money changers of Italy did their business in the street on a bench. In fact, earlier the temples usually served as the place to deposit money. In Rome in the 210 B.C., an ordinance was issued that set aside a place for money changers.

Banking in India

- **Banking in India**, in the modern sense, originated in the last decade of the 18th century. Among the first banks were the *Bank of Hindustan*, which was established in 1770 and liquidated in 1829–32; and the General Bank of India, established in 1786 but failed in 1791.

- The largest bank, and the oldest still in existence, is the [State Bank of India](#) (S.B.I). It originated and started working as the [Bank of Calcutta](#) in mid-June 1806. In 1809, it was renamed as the [Bank of Bengal](#). This was one of the three banks founded by a [presidency government](#), the other two were the [Bank of Bombay](#) in 1840 and the [Bank of Madras](#) in 1843.

- The three banks were merged in 1921 to form the [Imperial Bank of India](#), which upon India's independence, became the [State Bank of India](#) in 1955.
- For many years the presidency banks had acted as quasi-central banks, as did their successors, until the [Reserve Bank of India](#)^[5] was established in 1935, under the [Reserve Bank of India Act, 1934](#)

- **Reserve Bank of India Act, 1934** is the legislative act under which the [Reserve Bank of India](#) was formed. This act along with the [Companies Act](#), which was amended in 1936, were meant to provide a framework for the supervision of banking firms in [India](#)

- In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its [associate banks](#).
- In 1969 the [Indian government nationalised](#) 14 major private banks, one of the big bank 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.
- The Indian banking sector is broadly classified into [scheduled](#) and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the Reserve Bank of India Act, 1934

- The scheduled banks are further classified into: nationalised banks; [State Bank of India](#) and its associates; [Regional Rural Banks](#) (RRBs); foreign banks; and other Indian private sector banks.^[7] The term commercial banks refers to both scheduled and non-scheduled commercial banks regulated under the [Banking Regulation Act, 1949](#)

- The **Banking Regulation Act, 1949** is a legislation in [India](#) that regulates all banking firms in India.^[1] Passed as the Banking Companies Act 1949, it came into force from 16 March 1949 and changed to Banking Regulation Act 1949 from 1 March 1966. It is applicable in jammu and kashmir from 1956. Initially, the law was applicable only to banking companies. But, 1965 it was amended to make it applicable to cooperative banks and to introduce other changes

- Banking Company means any company which transacts the business of banking in India. Explanation: Any company which is engaged in the manufacture of goods, or which carries on any trade, and accepts deposits of money from the public merely for the purpose of financing its business , shall not be deemed to transact the business of banking within the meaning of this clause.

- Any resolution passed by the Banking Company in General Meeting or by its Board of Directors, whether the same be registered, executed or passed, as the case may be. It is further provided that any provision contained in the memorandum, articles, agreement or resolution aforesaid shall, to the extent to which it is repugnant to the provisions of the Act, become or be void.

- Any agreement executed by its Memorandum or Articles of a Banking Company ACT TO HAVE OVERRIDING EFFECT Section 5A of the Banking Regulation Act, 1949 provides that the provisions of this Act shall have effect notwithstanding anything to the contrary contained in:

- Any association of banks formed for the protection of their mutual interests and registered under Section 8 of the Companies Act, 2013.⌘ A Subsidiary of a Banking Company formed for one or more of the purposes mentioned in Section 19(1), whose name indicates that it is a subsidiary of that banking company.⌘RESTRICTION ON USE OF WORD ‘BANK’, ETC.

- Section 7 of the Act provides that Individual, Firm or Group of Individuals and any Company other than a Banking Company shall not use as part of its name or, in connection with its business, any of the words 'bank', 'banker' or 'banking' and No company shall carry on the business of banking in India unless it uses as part of its name at least one of such words. Exceptions:-

- NOT TO ENGAGE IN TRADING ACTIVITIES
Section 8 provides that any banking company shall not directly or indirectly deal in the buying or selling or bartering of goods, except in connection with the realization of security given to or held by it, or engage in any trade, or buy, sell or barter goods for others otherwise than: •

DEFINITION OF BANK

- Section 5(b) of the BRA 1949, defines Banking as “accepting, for the purpose of lending or investment of deposits of money received from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise” •