B.Com. S.Y. III Sem.

BANKING

Dr. Dhammpal N. Ghumbre

Dept. of Commerce

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

Objectives of Banking Regulation Act 1949

- The Banking Act was enacted in February1949 with the following objectives:
- (i) The provision of the Indian Companies Act 1913 was found inadequate and unsatisfactory to regulate banking companies in India. Therefore a need was felt to have a specific legislation having comprehensive coverage on banking business in India.

- (ii) Due to inadequacy of capital many banks failed and hence prescribing a minimum capital requirement was felt necessary. The banking regulation act brought in certain minimum capital requirements for banks.
- (iii) One of the key objectives of this act was to avoid cut throat competition among banking companies. The act was regulated the opening of branches and changing location of existing branches.

- iv. To prevent indiscriminate opening of new branches and ensure balanced development of banking companies by system of licensing.
- v) Assign power to RBI to appoint, reappoint and removal of chairman, director and officers of the banks. This could ensure the smooth and efficient functioning of banks in India.

- (vi) To protect the interest of depositors and public at large by incorporating certain provisions, viz. prescribing cash reserve and liquidity reserve ratios. This enable bank to meet demand depositors.
- (vii) Provider compulsory amalgamation of weaker banks with senior banks, and thereby strengthens the banking system in India.

- (viii) Introduce few provisions to restrict foreign banks in investing funds of Indian depositors outside India.
- (ix) Provide quick and easy liquidation of banks when they are unable to continue further or amalgamate with other banks.

COMMERCIAL BANKS

- According to CULBERSTON "Commercial banks are the institutions that make short term loans to business and in the process create money".
- FUNCTIONS OF CB:
- Primary Functions-Banking Activities
- Secondary Functions- Non-Banking Activities

A. PRIMARY FUNCTIONS

- ACCEPTING DEPOSITS
- Acceptance of deposits is the most important function of commercial banks. They accept deposits in several forms according to requirements of different sections of the society. The main kinds of deposits are:

i.Current Account Deposits or Demand Deposits:

- These deposits refer to those deposits which are repayable by the banks on demand:
- 1. Such deposits are generally maintained by businessmen with the intention of making transactions with such deposits.
- 2.They can be drawn upon by a cheque without any restriction.
- 3. Banks do not pay any interest on these accounts. Rather, banks impose service charges for running these accounts.

(ii) Fixed Deposits or Time Deposits

- Fixed deposits refer to those deposits, in which the amount is deposited with the bank for a fixed period of time.
- 1. Such deposits do not enjoy cheque-able facility.
- 2.These deposits carry a high rate of interest.

(iii) Saving Deposits:

- These deposits combine features of both current account deposits and fixed deposits:
- 1.The depositors are given cheque facility to withdraw money from their account. But, some restrictions are imposed on number and amount of withdrawals, in order to discourage frequent use of saving deposits.

- They carry a rate of interest which is less than interest rate on fixed deposits. It must be noted that Current Account deposits and saving deposits are chequable deposits, whereas, fixed deposit is a non-chequable deposit.

2. Advancing of Loans

- The deposits received by banks are not allowed to remain idle. So, after keeping certain cash reserves, the balance is given to needy borrowers and interest is charged from them, which is the main source of income for these banks.

(i) Cash Credit

- 1.Cash credit refers to a loan given to the borrower against his current assets like shares, stocks, bonds, etc. A credit limit is sanctioned and the amount is credited in his account.The borrower may withdraw any amount within his credit limit and interest is charged on the amount actually withdrawn

(ii) Demand Loans:

- Demand loans refer to those loans which can be recalled on demand by the bank at any time.The entire sum of demand loan is credited to the account and interest is payable on the entire sum.

(iii) Short-term Loans

- They are given as personal loans against some collateral security.The money is credited to the account of borrower and the borrower can withdraw money from his account and interest is payable on the entire sum of loan granted.

3. Creation of credit

- Credit creation is most significant function of commercial banks. While sanctioning a loan to a customer, they do not provide cash to the borrower. Instead, they open a deposit account from which the borrower can withdraw. In other words, while sanctioning a loan, they automatically create deposits, known as a credit creation from commercial banks.

4. Clearing of cheques.

It is the process of moving a cheque from the bank in which it was deposited to the bank on which it was drawn, and the movement of the money in the opposite direction. This process is called the clearing cycle and normally results in a credit to the account at the bank of deposit, and an equivalent debit to the account at the bank on which it was drawn