

**B.Com. S.Y. III Sem.**

# **BANKING**

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# SECONDARY FUNCTIONS

- 1. Agency Services.
- 2. General Utility Services.

# 1. Agency Services:

- Banks act as agents to their customers in different ways:
- (i) Collection and Payment of Various Items: Banks collect cheques, rent, interest etc. on behalf of their customers and also make payment of taxes, insurance premia etc. on their behalf.

- (ii) Purchase and Sale of Securities: Banks normally are more knowledgeable with regard to stock and share business. As such they buy, sell and keep in safe custody the securities on behalf of their customers.

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- (iii) Trustee and Executor: Banks also act as trustees and executors of the property of their customers on their advice.
- (iv) Remitting of Money: Banks also remit money from one place to the other through bank drafts.

- v) Purchase and Sale of Foreign Exchange:
- Banks buy and sell foreign exchange and thus promote international trade. This function is mainly discharged by Foreign Exchange Banks.
- Vi) Letter of References: Banks also give information about economic position of their customers to domestic and foreign traders and likewise provide information about economic position of domestic and foreign traders to their customers. .

## 2. General Utility Services:

- Commercial banks also provide certain services of general utility to the society:
  - (i)Locker Facilities:
- Banks provide locker facilities to their customers. People can keep their gold or silver jewellery or other important documents in these lockers. Their annual rent is very nominal.

- (ii) Traveller's Cheque and Letters of Credit:
- Banks issue traveller's cheque and letters of credit to their customers so that they may be spared from the risk of carrying cash during their journey. (iii) Business Information and Statistics: Being familiar with the economic situation of the country, the banks give advice to their customers on financial matters on the basis of business information and statistical data collected by them.



# Role of Commercial banks in economic development of a country

- 1. Capital Formation
- 2. Creation of Credit
- 3. Channelizing the Funds to Productive Investment
- 4. Fuller Utilization of Resources
- 5. Encouraging Right Type of Industries
- 6. Bank Rate Policy
- 7. Bank Monetize Debt
- 8. Finance to Government
- 9. Bankers as Employers
- 10. Banks are Entrepreneurs

# REGIONAL RURAL BANKS

- The proposal for instituting a kind of 'rural banks' was first mooted by the
- Banking Commission in its Report published in 1972. To strengthen the field of co-operative banking in the rural sector, the
- commission in proposed the creation of a new category of 'rural banks' in
- one of the three possible ways:

- Conversion of selected viable or potentially viable primary agricultural societies (PACS) into 'rural cooperative banks' which would provide a full range of banking facilities, together with certain closely allied non-banking services.

Restructuring a sound primary agricultural credit society as a subsidiary of a commercial bank. It is to be called 'rural subsidiary bank'.

- Commercial banks may also set-up their own rural subsidiary banks with local participation in capital and management, where suitable primary societies are not available.

# The scheme of Regional Rural Banks

- The Government thought of instituting rural banks as part of its Twenty-Point Programme, also referred to as the New Economic Programme, in 1975, inspired by considerations of lowering the costs of rural banking and operating such banks with local staff in a homely atmosphere of the villages.

- The Government of India then appointed a Working Group on Rural Banks headed by Shri M. Narasimah, to examine in detail the issues involved in the establishment of new rural banks as subsidiaries of the public sector banks to deal with the problem of rural finance.

- The Working Group submitted its report on July 30, 1975. The Working Group, however, conceived a grossly different idea from the concept of 'rural banks' advocated by the banking Commission.
- The Group recommended the establishment of state-sponsored regionally based and rural oriented commercial banks called Regional Rural banks.

- Based on the recommendation and after due consideration of the scheme suggested by the Narasimah Committee's Report, the

Government of India instituted Regional Rural Banks Ordinance, 1975, promulgated by the President of India on September 26, 1975.

Subsequently, on February 9, 1976, the Government of India passed the Regional Rural Banks Act, 1976, with clarification on some issues.