

## **Syllabus - Banking. Paper I**

1. The Nature of Banking and the Functions of a Banker
2. Meaning of Banking
3. Negotiable Instruments - Cheque, Bill of Exchange, Promissory Note
4. History of Indian Banking for the 20th Century
5. The Central Banking System - R.B.I. Functions
6. Banks in the Public Sector - State Bank of India

**Introduction of Banking**  
**Meaning of Banking**

• **Origin :-**

The word Bank is not original word of English language. The word 'Bank' is said to have been derived/taken from words Banque, Bancus, Banco which mean a bench.

• **Meaning of Bank, Banker and Banking :-**

1) Bank - Bank is an institutions, firm, an office doing banking business.

2) Banker - Banker is a person, manager who manage the banking business. He is head of the bank.

3) Banking - It is business of banking, taking deposits of money and granting loans for lending or investment purpose.

• **Definition of Bank or Banking - As Per Banking Regulation Act 1949.**

Bank or Banking is the accepting (taking) for purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheques, drafts or otherwise.

Bank or Banking is the taking deposits of money from the public for purpose of lending or investment repayable on demand or otherwise and withdrawable by cheques, drafts or otherwise.

□ **Functions of Bank :-**

There are two functions of Bank

Primary Functions

Secondary Functions

- |                             |                     |
|-----------------------------|---------------------|
| 1) To Take Deposit of Money | 1) Agency Services  |
| 2) To Advance Loans         | 2) Utility Services |
| 3) Credit Creation          |                     |

**I] Primary Functions**

1. **To Take Deposit of Money :-**

Bank is the taking deposits of money for lending or investment purpose. Public keep deposits of money in bank. There are various account in the bank.

Example -

- 1) Saving Account
- 2) Current Account
- 3) Fixed Deposit Account etc.

Customer open any one account in the bank, he keep his money in the bank account. It is called to take deposit of moeny.

## 2. To Advance Loans :-

Bank is taking deposits of money from public for lending or investment purpose. Bank takes deposits for purpose of lending. It means bank give deposit to customer as loans and advances for period. There are so many types of loans and advances.

- 1) Money at call and short notice
- 2) Bank over drafts facility
- 3) Cash Credit
- 4) Term Loans
- 5) Discounting of Bills
- 6) Secured Loans and Unsecured Loans (Clean Loans)

Bank sanction any one type loans and give it for period. Customer take use of loans and he repay it by instalment. It is called to advance loans.

## 3. Credit Creation :-

Deposit creates loan and loan creates deposit, it is called credit creation. It is result of first two functions of the Bank.

Customer open bank account and keep money in the account. Bank give some of the money to customer as loans. It means deposits creates loans.

When Bank give loans to customer. Customer use it. It is called his expenditure and that expenditure means income of other person. Some of income keep in bank account. It is called loans creates deposit. It is called credit creation.

**J.B.Sayers** - "Banks are not only purveyors of money but they are an important sense the manufactures of money."

## **II] Secondary Function :** - It contain two services of the bank.

### 1. Agency services of the Bank :- Under this services Banker work for customer as his agent.

Example -

- 1) To give payment and collection of income.
- 2) Collection and payment of cheque, bills and promissory note.
- 3) Trustee.
- 4) Executor.
- 5) Purchase and sale of securities.
- 6) Remittances of money.

These are work of customer Banker work for customer as his agent.

### 2. Utility Services :- Bank provide useful services for customers purpose.

- 1) Safe Custody.
- 2) Safe deposit vault - Lockers facility.
- 3) To Issue letter of Credit, Traveller Cheque.
- 4) To Deal foreign Exchange.
- 5) Acting as referee. 6) Underwriter.

## **II] Nature of Banking**

Nature of Banking means importance of bank in the development of the country. What role played by bank for to increase standard of living of public.

1. To know importance of saving in the life of common man :-

Banking is taking deposits of money for lending or investment purpose. Bank collect surplus money from public and Bank give the money as loan to needy borrower. Besides Bank provide agency and utility services that are need for day today business. Customer attract towards bank. They keep deposits, bank give interest on deposits Bank start new schemes then Bank collect saving of public and making the funds for lending or investment.

2. Economic Development :-

Bank creates capital formation. Bank creates credit of money. Economic development depends upon investment and investment depends upon saving. Bank collect saving of public. Bank creates credit of money. Then money is invested in agriculture, industry, trade. Bank has played important role in the economic development of the country. Infact, banking is the life blood of modern commerce. Modern commerce is so depends upon banking.

3. To help for money market :-

Money is the commodity in the money market. A bank is a dealer in money. Bank works as under writer of shares of the company. Bank helps for development of money market. Then benefit goes in the hands of common man.

4. Bank help for balance growth of the country :-

Bank grant loans to agriculture, industry, trade in backward area. Bank sanction loans to person to start business in backward resion at less rate of interest.

5. To increase standard of living of the public :-

Standard of living means quality and quantity of goods and services. Bank is taking deposits for purpose of lending or investment. Bank give loans for production of goods and services that should be in good quality and sufficient quantity. Bank played role to increase standard of living of the public.

### **III] Negotiable Instrument Act 1881**

• **Definition of Negotiable Instrument :-**

Negotiable instrument Act defines that, “Negotiable instruments means a promissory note, bill of exchange or cheque payable to order or bearer.”

• **Features :-**

1. Negotiability :-

It is quality to transfer ownership of instrument from person to person with giving real ownership to holder in case of wrong transferer also.

2. Easy transfer of ownership :- There are two instruments

i. Bearer instrument :- Transfer ownership only with giving possession of the instrument.

ii. Order instrument :- It is transfer ownership by endorsement and giving possession of the instrument.

3. No need to give notice of transfer of instrument :-

There is no need to give notice of transfer instrument to the debtor. When instrument is present for payment debtors duty is to give payment of the instrument.

4. Right of action about recovery :-

If wrong person transfer instrument, there is loss of real owner. Owner has right to recover his loss from wrong transfer and not from holder of instrument.

5. Presumptions of negotiable instrument :- There are following presumptions for N.I

i. Date - issuing date ii. Consideration - Purpose, Object for to give N.I. iii. Instrument accepted transfer, endorse before maturity date.

iv. Stamp - Promissory note, bill of exchange required stamp as per their value cheque does not required stamp

v. Recovery - Real owner of the instrument has right to recover his loss from wrong transferer and not from holder of instrument.

6. Holder of the N.I. is a holder in due course :-

Holder means person who hold the negotiable instrument he is called holder in due course. It means that holder is called real owner of the Negotiable Instrument.

## □ Cheque

- Meaning :- Cheque is a bank printed form. It is signed by account holder. It is drawn up on bank of account holder. It is an order to the bank to give payment to the person named on the cheque.

- Definition :- "A cheque is an instrument in writing, containing an unconditional order, signed by drawer (depositor) addressed to a specified banker, directing the banker to pay on demand a certain sum of money only to the certain person or to the order of the certain person or to the bearer of the instrument."

- Parties :- There are three parties

i - Drawer :- Drawer is person who draws a cheque. Who give order of cheque. Account holder signed the cheque.

ii - Drawee :- Account holder draw cheque on his bank. On which bank cheque is drawn the bank is called drawee. The bank give payment of cheque. Cheque is not drawn on person.

iii - Payee :- Payee is person who get payment of the cheque. In whose favour cheque is drawn. He is called payee.

- **Features of the cheque**

1) In writing :-

A cheque is an instrument in writing. It is no oral. Cheque is a bank printed form.

2) Unconditional Order :-

A cheque is an order to pay money. Cheque is not request, it is not promise. Cheque

is contain an unconditional order. Unconditional order means without conditional order. It is free from condition.

3) Signed by drawer :-

A Cheque is signed by drawer. Drawer is person who draw a cheque. Account holder draw the cheque. He signed cheque Bank tally the signature with specimen signature. Then bank give payment of the cheque.

4) Specified banker :-

Cheque is always drawn upon specified bank. It menas the bank which takes deposits

of account holder. Account holder draw cheque on his bank so cheque always drawn upon specified bank only. Cheque is not drawn on person but on bank only.

5) Payable on demand only :-

Cheque is always payable on demand only. It means payee present cheque for payment

then bank give payment of the cheque otherwise bank may not give payment of cheque if cheque is not presented for payment towards bank. So cheque is always payable on demand only.

6) Directing to pay certain money only :-

A cheque is an order to pay certain money. The order give by account holder. He signed the cheque Bank give certain money of cheque to payee.

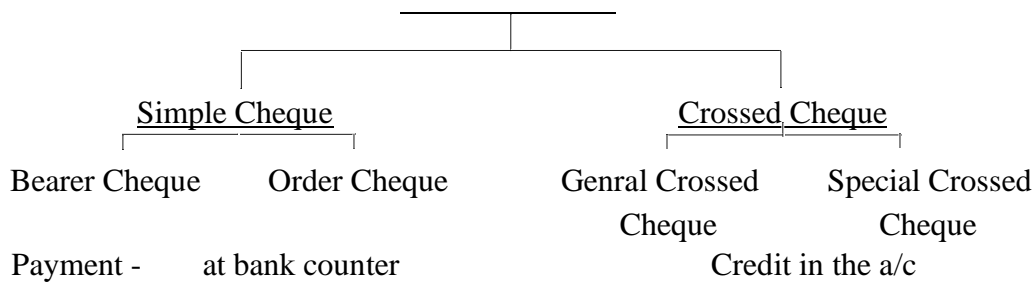
7) Certain Payee :-

Bank give payment of cheque to the certain person, named on the cheque. In whose favour cheque is drawn, who get payment of cheque, the person is called payee. So payee must be certain for cheque.

8) Cheque is not stamped instmment :-

Cheque is bank printed form. Cheque does not required stamp.

□ Types of Cheque



1) Bearer Cheque :- It is simple cheque. When the word bearer is printed on the cheque or Drawer struck out the word order on the cheque it is called Bearer Cheque.

Bearere is a person who bears the cheque who present the heque at bank counter. The bank give payment of the cheque at bank counter to any person, who present cheque for payment.

Specimen

Bank of India Latur Branch	
Cheque No <u>1855</u>	Date <u>28.09.2017</u>
Pay <u>B and Company</u>	Bearer <del>or</del> Order. Rs Ten Thousand only.
Rs. 10,000 /-	
A/c No <u>01234567890</u>	Signature of 'A'

Example :-

- 1) Drawer - 'A'
- 2) Drawee - Bank of India
- 3) Payee - B
- 4) Amount Rs - Ten thousand (Rs. 10,000 /-)
- 5) Account No - 01234567890
- 6) Date - 28-09-2017

2) Order cheque :- It is also simple cheque. If the word order is printed on the cheque or Drawer struck out the word bearer on the cheque it is called order cheque.

Drawee bank give payment of order cheque at bank counter to the certain person. Bank take singnature of payee on back side of the cheque with witness of one more person.

Specimen

Bank of India Latur Branch	
Cheque No. <u>1855</u>	Date <u>28.09.2017</u>
Pay <u>B and Company</u>	<del>Bearer or Order.</del> Rs Ten Thousand only.
<div style="border: 1px solid black; padding: 2px; display: inline-block;">Rs. 10,000 /-</div>	
A/c No <u>01234567890</u>	Signature of 'A'

Example :-

- |               |   |                              |
|---------------|---|------------------------------|
| 1) Drawer     | - | 'A'                          |
| 2) Drawee     | - | Bank of India                |
| 3) Payee      | - | B                            |
| 4) Amount Rs  | - | Ten thousand (Rs. 10,000 /-) |
| 5) Account No | - | 01234567890                  |
| 6) Date       | - | 28-09-2017                   |

3) Crossed Cheque :- It is not simple cheque. It is not payable at bank counter. Crossed cheque is payable with to credit in the account of payee. Drawer can cross the cheque. Drawer puts two transverse parallel lines on face side of the cheque. The meaning of lines is that Bank give payment of cheque to credit account of payee and not at bank counter. • Two types of crossed cheque :-

- i. General Crossed Cheque
- ii. Special Crossed Cheque

i. General Crossed Cheque :- Where a cheque bearers two transverse parallel lines across on face side of the cheque 'with or without words' and 'company' or 'not negotiable' or 'account payee only', it is called General Crossed Cheque.

Specimen

Bank of India Latur Branch	
Cheque No. <u>1855</u>	Date <u>28.09.2017</u>
Pay <u>B and Company</u>	Bearer or Order. Rs Ten Thousand only.
<div style="border: 1px solid black; padding: 2px; display: inline-block;">Rs. 10,000 /-</div>	
A/c No <u>01234567890</u>	Signature of 'A'

Example :-

- |           |   |               |
|-----------|---|---------------|
| 1) Drawer | - | 'A'           |
| 2) Drawee | - | Bank of India |



- 3) Payee - B  
 4) Amount Rs - Ten thousand (Rs. 10,000 /-)  
 5) Account No- 01234567890  
 6) Date - 28-09-2017

It is not payable at bank counter it is credit in the account of payee through any collecting Bank.

ii. Special Crossed Cheque :-

To write a name of specified bank on face side of the cheque is called special crossed cheque.

Where a cheque bears on its face side to write the name of bank with or without putting parallel lines or with or without the words and company, account payee only or not negotiable. It is called special crossed cheque.

Specimen

SBI	Bank of India Latur Branch
Cheque No	Date : 28/09/2017
Pay <u>B and Company</u>	Bearer or Order Rs.
Ten thousand only	
Rs. 10,000/-	
A/c No. <u>01234567890</u>	Signature of 'A'

Example :-

- 1) Drawer - 'A'  
 2) Drawee - Bank of India  
 3) Payee - B and Comapy  
 4) Amount - Inwards - Ten thousand only (Rs. 10,000 /-)  
 5) Account No. - 01234567890  
 6) Date - 28/09/2017  
 7) Crossed Bank - SBI Latur Branch.

Bank of India give paymet of this cheque to credit accout of payee through collection Bank S. B.

I. Bill of Exchange

• Meaning :-

Bill of Exchange is an unconditional order given by seller to the buyer directing the buyer to pay certain money to the seller or order of the "person or to the bearer of the instrument."

• Definition :-

"Bill of Exchange is an instrument in writing, containing an unconditional order signed by the maker, directing to a certain person, to pay certain sum of money only to or to the order of a certain person or to the bearer of the instrument."

• Features :-

- 1) In writing :- Bill of Exchange is an instrument in writing. It is not oral. Two or three lines are required to write for bill. So, it is in writing.

2) An unconditional order :- Bill of Exchange is an order to pay money. It is not request or not promise. Order showing words “Pay to” are written on the bill but the order is an unconditional means order is free from condition order is not supported by only condition.

3) Signed by the marker :- Bill of Exchange is signed by the maker. Maker is person who makes the bill, who signed bill. Maker is drawer of the bill. Seller draw the bill on buyer.

4) Directing to the certain person :- Drawer draw the bill on certain person. He give order to the certain person to pay money. On which person the bill is drawn. He give payment of the bill to the drawer.

5) To pay certain sum of money to :- Bill of Exchange is an order to pay certain money. Drawer give this order to the drawee. Drawee give payment of bill to the drawer or order of drawer so to pay certain money is quality of bill.

6) Payee must be certain :- Bill of Exchange is an order to pay certain money to the drawer or order of the drawer. Drawer writes the name of payee on the bill. In whose favour bill is drawn. Who get payment of the bill he is called payee. In this way payment taking person must be certain for the bill.

7) Stamp :- Bill of Exchange required stamp. It is stamped instrument.

• Parties of Bill of Exchange :- There are three parties of Bill of Exchange.

1) Drawer :- Drawer is the person who draw the bill on another person. Bill of Exchange is an order to pay money. Who signed the bill ie. maker of the bill is called drawer.

2) Drawee :- Drawer draw the bill on another person. On which person the bill is drawn and who give payment of bill. He is called drawee.

3) Payee :- Drawee give payment of bill to the certain person named on the bill. In whose favour the bill is drawn. Who get amount of the bill. He is called payee.

• Type of Bill of Exchange :-

1) Time Bill of Exchange :- Drawer writes period of the bill then drawee give payment of bill to payee after over period so which bill is payable after over given period of the bill it is called time Bill of Exchange.

2) Demand Bill of Exchange :- Drawer writes the bill as, “On demand pay to ....”. So drawee give payment of bill to the payee on his demand, it is called demand Bill of Exchange.

3) Documentary Bill of Exchange :- If the bill is with any one transporting document like railway receipt, bill of landing, truck receipt etc. Any one document is needed to the bill, it is called documentary bill of Exchange.

4) Clean Bill of exchange :- Where as which bill has no need of any one document, it is called clean bill of Exchange.

- 5) Usance Bill of Exchange :- It is called time bill. Which bill is payable after over given period. It is called Usance Bill of Exchange.
- 6) Sight Bill of Exchange :- It is called demand bill of Exchange. Sight means to present the bill for payment payee present bill for payment drawee give payment. Drawer writes the bill as “At sight pay to .....” It is called Sight Bill of Exchange.
- 7) Inland Bill of Exchange :- The party of the bill that is drawer, drawee and payee if these are living in one and same country. So the bill is drawn and payable in India it is called Inland Bill of Exchange.
- 8) Foreign Bill of Exchange :- If the party of bill, drawer is living in one country and drawer is living another country. So bill is drawn in India and it is payable outside India, it is called foreign bill of Exchange.
- 9) Trade Bill Of Exchange :- When seller draw bill after selling goods to buyer on credit then buyer signed the bill. In this way bill is drawn from selling of goods on credit it is called trade Bill of Exchange.
- 10) Accomodation Bill of Exchange :- Accomodation means to help. When one trader need of fund. Second trader wants to help to first trader. First trader draw bill on second trader. Second trader accepts the bill without purchase goods. So without trade the bill is drawn for the purpose of to help it is called Accomadation bill of Exchange.

• Specimen of Bill

1) Specimen of Time Bill :-

Example -

- i) Drawer- ABC ii)  
Drawee - XYZ
- iii) Payee - SSK
- iv) Amount - Rs. Ten Thousand v) Date -  
01/10/2017 vi) Period - 03 Months

### Time Bill of Exchange

		ABC
Stamp	Samata Nagar Nagpur - 3 maharashtra	Date - 01/10/2017
“After three months pay to SSK or his order rupees Ten thousand only. Value received.”		
Rs. 10,000 /-		Sd/Sign
ABC		
To,	Accepted	
XYZ	Sd/Sign	
Sanchi Nagar	XYZ.	
Patana - 3		
Bihar		

### 2) Demand Bill of Exchange :-

Example -

- i) Drawer- ABC ii)
- Drawee - XYZ iii)
- Payee - SSK
- iv) Amount - Rs. Ten thousand v) Date - 01/10/2017

### Demand Bill

		ABC
Stamp	Samata Nagar Nagpur - 3 maharashtra	Date - 01/10/2017
“On demand pay to SSK or his order rupees Ten thousand only. Value received.”		
Rs. 10,000 /-		Sd/Sign
		ABC
To,		
XYZ		
Sanchi Nagar		
Patana - 3		
Bihar		

### 3) Sight Bill

Example

- 
- i) Drawer - ABC
- ii) Drawee - XYZ
- iii) Payee - SSK
- iv) Amount - Rs. Ten thousand
- v) Date - 01/10/2017

### Sight Bill

	ABC
Stamp Samata Nagar Nagpur - 3 maharashtra	Date - 01/10/2017
"At Sight pay to SSK or his order rupees Ten thousand only. Value received."	
Rs. 10,000 /-	Sd/Sign ABC
To, XYZ Sanchi Nagar Patana - 3 Bihar	

#### 4) Inland Bill of Exchange :

Example -

1) Drawer - ABC    3) Pay - SSK

Samata nagar

Nagpur - 3 5) Date - 01/10/2017 Maharashtra  
India.

4) Amount Rs. Ten thousand

6) Period - 3 Months.

2) Drawee -        XYZ

Sanchi Nagar

Patana    -    3

Bihar

India.

### Inland Bill of Exchange

	ABC
Stamp Samata Nagar Nagpur - 3 maharashtra India.	Date - 01/10/2017
"After three months pay to SSK or his order rupees Ten thousand only. Value received."	
Rs. 10,000 /-	Sd/Sign ABC
To,	
	Accepted
XYZ	Sd/Sign
Sanchi Nagar	XYZ.
Patana - 3	
Bihar	

#### 5) Foreign Bill of Exchange :

Example -

1) Drawer - ABC 3) Pay - SSK

Samata nagar  
Nagpur - 3  
Maharashtra  
India.

4) Amount Rs. Ten thousand  
5) Date - 01/10/2017

2) Drawee - XYZ

South weles Zone,  
New York.

### Foreign Bill of Exchange

ABC	
Stamp Samata Nagar Nagpur - 3 maharashtra India.	Date - 01/10/2017
"On demand pay to SSK or his order rupees Ten thousand only.	
Value received."	
\$ - 10,000 /-	Sd/Sign ABC
To, XYZ South weles Zone, New York	

- Foreign Bill of Exchange does not require Drawee's Acceptance.

### □ Promissory Note

- Definition :- : "A Promissory Note is an instrument in writing (not being a bank note or currency note) containing an unconditional undertaking. Signed by the maker, directign to pay certain sum of money only to or the order of a certain person or to the bearer of the instrument."

- Features of Promissory Note :-

1) In writing :- Promissory Note is an instrument in writing. It is not oral. Two or three lines are required to write for the Promissory Note. There is no meaning for oral Promise. There fore "I Orally Undertake" this sentence is not suitable for Promissory Note.

2) Not being a bank note or currency note :- We take these two notes as money but Promissory Note take as promise to pay money. So Promissory Note is not being a bank note or currency note.

3) Unconditional undertaking :- Undertaking menas promise. Promise is about to pay money. But there is quality of promise is that, it is unconditional. Unconditional means without condition, free from condition so promissroy note contain an unconditional promise to pay money.

4) Signed by Maker :- Promissory Note is signed by maker. Maker menas the person who makes the Promissory Note. He takes loan from creditor so he writes and signed the

Promissory Note. Without signature of maker it become meaningless. So promissory Note must be signed by maker.

5) To Pay certain sum of money :- Promissory Note contain undertaking or promise. The promise is about that to pay certain sum of money. Maker give amount of the note to the creditor. In whose favour the Promissory Note is issued is called promisee. It is called payee. Maker give certain sum of money to promisee or payee.

6) Stamp :- Promissory Note requires stamp duty. It is a stamped instrument. Stamp duty depends up on the value of the Promissory Note then Note become legal document.

7) Certain Money :- Promissory Note certain promise to pay certain money. Maker writes amount in words and figures on the note. That amount must be certain Rs. Ten thousand only. Ex. "I promise to pay B or his order Rs. Ten thousand only."

8) Certain Payee :- Promissory Note contain promise to pay cerain money. Maker give money to the creditor. Who grant Loans to debtor. In whose favour Promissory Note is issued the person is called payee. Maker give money to the payee. He must be certain person.

9) No need to write consideration :- Promissory Note is issued for certain purpose. Consideration means purpose. But purpose is not write on the Promissory Note.

• Parties :- There are two Parties of the promissory Note.

I) Maker (Promiser) :- Promissroy Note is signed by maker. He takes loan from creditor, so he gives promise to pay money to the creditor. Who give amount of Promissory Note. He is called Promiser.

II) Promisee (Payee) :- To whom the promise is given. In whose favour the Promissory Note is issued and who gets the payment of the Note he is called payee. He is a creditor.

• Specimen of Promissory Note :-

Example -	i)	Promiser	- Raju Patil, Shivaji, Nagar Latur - 08
	ii)	Promisee	- Vijay Mane
	iii)	Date	- 30/04/2017
	iv)	Amount	- Rs. 10,000 /-
	v)	Witness	- 1) A - 2) B

Promissroy Note

Shivaji Nagar

Stamp
Rs. 10,000 /-
Witness - (1)
(2)
B

Raju Patil

Latur - 08

Date :

30/04/2017

“ I Promise to pay Rupees Ten thousand only to Vijay Mane, Vama Nagar Pune or order. Value received.”

Sd/-

Raju Patil

Sd  
A  
Sd

2 ) Joint Promissroy Note :-

Example :-

- i) Promiser - 1) Pawna Kumar  
2) Rohan Mule
- ii) Promisee - Ram Kadam iii) Date - 30/04/2017 iv) Amount - Rs. Ten thousand
- v) Witness - 1) A  
2) B

Joint Promissory Note

Stamp	1) Pawan Kumar Ram nagar Latur 2) Rohan Mule Shivaji Nagar, Latur Date : 30/04/2017
“On demand. We jointly or severally promise to pay rupees Ten thousand only to Ram Kadam or order. Value received.”	
Rs. 10,000 /-	
Witness - (1) A	Sd/- 1) Pawan Kumar
(2) B	Sd/- 2) Rohan Mule

• Qustions :

Q. 1) Explain the features of cheque ?



Q. 2) Explain the type of Bill of Exchange ?

Q. 3) Define Bill of Exchange, Explain features of Bill of Exchange ?

Q. 4) Define the Promissory Note. Explain features of the Promissory Note ?

#### **IV) History of Indian Banking for the 20th Century**

At the beginning of 20th century, so many companies started banking business. Those companies carried banking business. That are called Banks.

1. Agency Houses :- East India company was established in England for trading with India. The English Agency Houses in Calcutta and Bombay were started for trading with banking business. Mess rs. Alexander & Co. established the earlist European Bank in India under the name of “The Bank of Hindoostan.”

2. Joint Stock Bank :- Trading firm and European traders were established joint stock Bank on the principles of limited liability.

3. Presidency Banks :- The earlist Banks established in India were -

Name of the Bank	Year
1) The Bank of Bengal	1809
2) The Bank of Bombay	1840
3) The Bank of Madras	1843

These three banks were also called as Presidency Banks.

4. Except (other than) the Presidency Banks. Following

:Two Banks established :-

- 1) The Allahabad Bank Ltd. 1865
- 2) The Punjab National Bank 1895

5. Swadeshi Movement :- In the wake of Swadeshi movement in the country, the following banks with Indian management were established -

Name of the Bank	Year
1) Bank of India	1906
2) Canara Bank Ltd.	1906
3) The Indian Bank Ltd.	1907
4) The Bank of Baroda Ltd.	1908
5) Central Bank of India Ltd.	1911
6) The Punjab National Bank	1895

6. Establishment of Imperial Bank :- The Presidency Banks continued until the year 1920. The Imperial Bank of India Act of 1920 was passed with amalgamation of the three Presidency Bank.

7. Among the new banks established the important one were

-

Name of Bank	Year
1) The Union Bank of India Ltd.	1919
2) The Andhra Bank Ltd.	1923

- |                                  |      |
|----------------------------------|------|
| 3) The Sydicate Bank Ltd.        | 1925 |
| 4) The Bank of Maharashtra Ltd.  | 1935 |
| 5) The Indian Overseas Bank Ltd. | 1936 |
| 6) The Dena Bank Ltd.            | 1938 |
| 7) United Commercial Bank Ltd.   | 1943 |
| 8) United Bank of India.         | 1950 |

8. RBI Act 1934 :- The Reserve Bank of India Act 1934 has passed in the year 1934. RBI came in to existence on April 1, 1935. RBI was formed to act as a central Bank of the country.

9. Indian Companies Act :- Under the Indian Companies Act of 1913 as amended in the year 1936. A special chapter was added part XA. Which Act for Banking joint-stock companies.

10. Nationalisation of RBI :- Our Reserve bank of India was nationalized by the passing of the Reserve Bank Act 1948. By this Act, all the shares in the capital of the Bank transferred to the central Government.

11. Banking Companies Act :- Before 1949, there was no separate Act governing banking companies in India. In order to regulate the banking business, after independence a bill was put in the parliament. It was passed in February 1949. It came into force in March 1949. At that time, it was known as the Banking companies Act. The amendment of 1966 changed the name of the Act. Since then it is known as the Banking Regulation Act.

12. State Bank of India Act :- The State Bank of India Act was passed in 1955. The Reserve Bank of India purchased the shares of the Imperial Bank of India. By this SBI Act, the Imperial Bank of India was converted into the State Bank of India.

13. Subsidiary Banks :- The State Bank of India (Subsidiary Banks) Act was passed in 1959, by which the following Banks 1) State Bank of Bikaner

- 2) State Bank of Jaipur
- 3) State Bank of Indore
- 4) State Bank of Mysore
- 5) State Bank of Patiala
- 6) State Bank of Hyderabad
- 7) State Bank of Saurashtra
- 8) State Bank of Travancore

The state Bank of Bikaner and The State Bank of Jaipur were jointed in 1963 under the name of the State Bank of Bikaner and Jaipur.

14. Social Control :- The Banking Regulation Act was amended in 1968 for the banks were required to perform certain functions for the social welfare of the weaker sections of the society.

15. Nationalization of 14 Major Banks :- In July 1969 the following banking companies were considered the fourteen major commercial banks 1) Central bank of India

- 2) Bank of India
- 3) Punjab National Bank

- 4) Bank of Baroda
- 5) United Commercial Bank
- 6) Canara Bank
- 7) United Bank of India
- 8) Dena Bank
- 9) Union Bank of India
- 10) Allahabad Bank
- 11) Syndicate Bank
- 12) Indian Overseas Bank
- 13) Indian Bank
- 14) Bank of Maharashtra

16. Nationalisation of Six banks :- In April 1980 six more commercial banks were nationalised.

They were -

- 1) Andhra Bank
- 2) Corporation Bank
- 3) The New Bank of India
- 4) Punjab and Sindh Bank
- 5) The Vijaya Bank
- 6) Oriental Bank of Commerce

Q.1 Fill in the blanks.

- i) Reserve Bank of India Act was passed in the Year 1934.
- ii) Banking Companies Act is known as Banking Regulation Act 1949.

Q.2 Answer in short of the following.

- i) Names of Presidency Banks.
- ii) State Names of Nationalised Banks.

**V) The Central Banking System - Reserve Bank of India and its functions. -  
Organisation of the R.B.I. (Functional & Structural)  
Apex bank - central Bank of the country.**

• Functions :-

1. Monopoly of Note Issue :- Regulator of currency

The most important one of the function of RBI is the right to issue note. It is monopoly right of RBI. The Indian Government has to issue one Rupee's note, coins and other less valued coins. RBI circulate them in transaction. R.B.I. has to issue notes of Rupee 5,10,20,50,100 and 500 on. This function carried by RBI with having separate department that is, The Issue Department. For to maintain public confidence on currency Note, R.B.I. is required to keep a certain amount of gold and foreign securities against the issue of notes. RBI is required to keep Rs 200 crores (Rs. 115 crores in gold and Rs. 85 crores in foreign securities) as per the Act 1957. There is no limit to the issue of notes after keeping minimum 40% in gold and foreign securities. It brings stability in value of money and creates confidence among the public. With monopoly of Note issue to RBI, the govt. is able to earn profits from printing notes whose cost is very low as compared with their face value. RBI control supply of currency as the need of economy.

2. Acting as a Banker Agent and Adviser of the Government :-

i. Banker of the govt. :- As banker RBI keeps the deposits of government and makes payment on behalf of government. It buyes and sells foreign currencies on behalf of the government. It keeps the stock of gold to the govt. It is the custodian of govt. money and wealth.

ii. RBI acts as an fisal agent of the Gov. :- RBI makes short term loans to the govt. for a period not more than 90 days. RBI floats loans, pays interest on them and finally repays there on behalf of the govt. Thus RBI manages the total public debit.

iii. RBI acts an Advises the Govt. :- RBI also give advise to the govt. On such economic and money matter as controlling inflation or deflation devaluation or revaluation of the currency deficit financing, balance of payments etc. RBI make connection between public finance and monetary affairs.

3. Custody and Management of Foreign Exchange Reserves :- RBI keeps and manages the foreign exchange reserves of the country. RBI holds Govt. gold and foreign currencies. It sells gold at fixed prices to the monetary power of other countries. It also buys and sells foreign currencies at international prices. It fixes the exchange rates of the local currency in terms of foreign currencies. RBI tries to bring stability in foreign exchange rates.

RBI manages exchange controle operations by giving foreign currencies to importers and persons visiting foreign countries on busiess, studies etc. in keeping with rules given by the government.

4. Custodian of cash reserves of commercial Banks :- As per Banking Act, commercial Bank are required to keep reserve equal to certain percentage of both time and demand deposits, with RBI. RBI may holds cash reserves of commercial banks. In this way RBI works as custodian of cash reserves of Banks. RBI can transfer funds from one bank to another to facilitate of clearing

of cheque. RBI thus acts as custodian of the cash reserves of commercial banks and helps in facilitating their transactions.

5. Bankers Bank and lender of the last resort :- RBI acts as the Bankers Bank. This function of RBI is related to commercial Banks. The services rendered by the RBI to such banks is similar to the services given to customer by such banks -

i. RBI takes deposits of Commercial Bank :- Each and every commercial Bank open account with RBI and keep their deposit when banks are in need of funds the RBI may give loans to Commercial Banks. The RBI controls the credit policies of the banks and helps and guides them and manages the clearing House to facilitate payments between many banks.

ii. To Granting Loans to Commercial Bank in of rediscount Bills of Exchange and Promissory Note :- For the sake of profitability commercial Bank invest their major funds under discounting of bills. So for liquidity commercial Banks are in need of funds RBI rediscount Bills and Promissory Note.

iii. Lender of the last Resort :- RBI acts as the lender of the last resort by granting loans to needy commercial Bank in the form of re-discounts against collateral securities advances to commercial banks. RBI lends to such Banks in order to help them in terms of stress so as to save the financial structure of the country from collapse.

It acts as the lender of the last resort through discount houses on the basis of treasury bills, govt. Securities and bonds at "the front door." The other method is to give temporary helps to commercial banks or discount houses directly through the "back door." The difference between the two methods is the lending of the front door is the bank rate & in the second case at the market rate. Thus the RBI as the lender of the last resort is a big source of cash and also affects prices and market rates.

6. Clearing House for Transfer and Settlement :- Reserve bank acts as a clearing house for transfer and settlement of claims of commercial banks. RBI holds reserves of commercial banks it transfers funds from one bank to other banks to facilitate clearing of cheques. This is done by making transfer entries in their account on the basis of book-keeping. Reserve Bank operates clearing house. It is free service of RBI to the Commercial Banks.

When the RBI acts as clearing agency it is time-saving and convenient for the commercial banks to settle their claims at one place. RBI also takes less and less use of money and it is the testing at any time of degree of liquidity which the community is maintaining.

7. Controller of Credit :- Commercial Bank creates credit. Deposit creates Loans and Loans creates deposits it is called credit creation.

Banks are not only purveyors of money but they are an important sense the manufacturers of money.

Credit creation has effect on supply of money. To increase supply of money decrease value of money and to decrease supply of money increase value of money. It creates inflation or deflation in the economy. So RBI control supply of money. RBI works as controller of credit money.

□ Methods of Reserve Bank of India to Control credit Creation :-

RBI takes following two methods to control the credit creation of Commercial Bank.

(A) Quantitative Method :-

- 1) Manipulating the bank rates
- 2) Open market operations
- 3) Cash reserve ratio

(B) Qualitative Credit Control Method :-

- 1) to change the margin - the difference between value of property and loans amount.
- 2) REgulation of Consumer Credit
- 3) Rationing of credit
- 4) Direct Action
- 5) Moral Sausion
- 6) Publicity

□ Reseme Bank of India - Mangement and Organization :-

The management of the bank is under the supervision and control of 1)  
Contral Board of Directors, and  
2) Local Board

1) Contral Board :-

The Contral Board of Directors shall be made up of

- a) The Governer and not more than four Deputy Governors to be appointed by the central Government - Full time officers term not exceed syears.
- b) Four directors to be nominated by the central Government Cone each of the four Local Boards) for a period of four years
- c) Ten directors to be nominated by the Central Government and
- d) One Government Offical to be nomonated by the Central Government.

Local Boards

A Local Boards is constituted for each of the four areas speified in the first schedule of the Act.

As the 1) Western

2) Eastern

3) Northern4) Southern

Consisting of 5 members appointed by Central Government to represent, territorial and economic interest and the interest of co-operative and indigenious banks - the members elect cahirman of the Board from amoungst themselves, perel of office is 4 yers.

□ Reserve Bank of India :1)

Issue Department

- 2) Public Accounts Department
- 3) Public Accounts Department
- 5) Securities Department
- 6) Exchange Control Department

- 7) Department of Administration
- 8) Services Board
- 9) Department of Accounts and Expenditure
- 10) Department of Banking Operations and Development
- 11) Secretary's Department
- 12) Department of Non-Banking Companies
- 13) Legal Department
- 14) Inspection Department
- 15) Premises Department
- 16) Estate Department
- 17) Economic Department
- 18) Statistics Department

□ Other Departments :-

- 1) Credit Planning
- 2) Banking Developments cell
- 3) Industrial Finance Department
- 4) Management Services Division etc.