Introduction of Banking Operations in India

A Bank is an institution which accepts deposits from the general public and extends loans to the households, the firms and the government. Banks are those institutions which operate in money. Thus, they are money traders, with the process of development functions of banks are also increasing and diversifying now, the banks are not nearly the traders of money, they also create credit. Their activities are increasing and diversifying. Hence it is very difficult to give a universally acceptable definition of bank."Banking business" means the business of receiving money on current or deposit account, paying and collecting cheques drawn by or paid in by customers, the making of advances to customers, and includes such other business as the Authority may prescribe for the purposes of this Act".

History of Indian Banking System

The first banks were Bank of Hindustan (1770-1829) and The General Bank of India, established 1786 and since defunct. The largest bank, and the oldest still in existence, is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company.

The three banks 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 acted as quasi- central banks, as did their successors, until the Reserve Bank of India was established in 1935. In 1955, RBI acquired control on Imperial Bank of India, which was renamed as State Bank of India. In 1959, SBI took over control of eight private banks floated in the erstwhile princely states and making them as its 100% subsidiaries.

In 1969 the Indian government nationalized all the major banks that it did not already own and these have remained under government ownership. They are run under a structure known as 'profit-making public sector undertaking' (PSU) and are allowed to compete and operate as commercial banks. The Indian banking sector is made up of four types of banks, as well as the PSUs and the state banks; they have been joined since the 1990s by new private commercial banks and a number of foreign banks.

Need of the Banks

i. To provide the security to the savings of customers.

ii. To control the supply of money and credit.

iii. To encourage public confidence in the working of the financial system, increase savings speedily and efficiently.

iv. To avoid focus of financial powers in the hands of a few individuals and institutions.

v. To set equal norms and conditions (i.e. rate of interest, period of lending etc.) to all types of customers.

Products and Services offered by Banks

1. **Advancing of Loans:** A loan is granted for a specific time period. Generally commercial banks provide short-term loans. But term loans, i.e., loans for more than a year may also be granted. The borrower may be given the entire amount in lump sum or in installments. Loans are generally granted against the security of certain assets.

2. **Overdraft:** Overdraft is also a credit facility granted by bank. A customer who has a current account with the bank is allowed to withdraw more than the amount of credit balance in his account.

3. **Discounting of Bills of Exchange:** Banks provide short-term finance by discounting bills that is, making payment of the amount before the due date of the bills after deducting a certain rate of discount.

4. **Cheque Payment:** Banks provide cheque pads to the account holders. Account holders can draw cheque upon the bank to pay money. Banks pay for cheques of customers after formal verification and official procedures.

5. **Collection and Payment of Credit Instruments:** In modern business, different types of credit instruments such as the bill of exchange, promissory notes, cheques etc. are used. Banks deal with such instruments. Modern banks collect and pay different types of credit instruments as the representative of the customers.

6. **Foreign Currency Exchange:** Banks deal with foreign currencies. As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to settle down the dues in the international trade.

7. **Consultancy:** Banks hire financial, legal and market experts who provide advice to customers regarding investment, industry, trade, income, tax etc.

8. **Bank Guarantee:** When customers have to deposit certain fund in governmental offices or courts for a specific purpose, a bank can present itself as the guarantee for the customer, instead of depositing fund by customers.

9. **Remittance of Funds:** Banks help their customers in transferring funds from one place to another through cheques, drafts, etc.

10. **Credit cards:** A credit card is cards that allow their holders to make purchases of goods and services in exchange for the credit card's provider immediately paying for the goods or service, and the cardholder promising to pay back the amount of the purchase to the card provider over a period of time, and with interest.

11. **ATMs Services:** ATMs replace human bank tellers in performing giving banking functions such as deposits, withdrawals, and account inquiries. Key advantages of ATMs include:

    - 24-hour availability
    - Elimination of labor cost
    - Convenience of location

12. **Debit cards:** Debit cards are used to electronically withdraw funds directly from the cardholders' accounts. Most debit cards require a Personal Identification Number (PIN) to be used to verify the transaction.

13. **Home banking:** Home banking is the process of completing the financial transaction from one's own home as opposed to utilizing a branch of a bank. It includes actions such as making account inquiries, transferring money, paying bills, applying for loans, directing deposits.

14. **Online banking:** Online banking is a service offered by banks that allows account holders to access their account data via the internet. Online banking is also known as "Internet banking" or "Web banking."

15. **Mobile Banking:** Mobile banking (also known as M-Banking) is a term used for performing balance checks, account transactions, payments, credit applications and other banking transactions through a mobile device such as a mobile phone or Personal Digital Assistant (PDA).

16. **Accepting Deposit:** The most important activity of a commercial bank is to mobilize deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks.

17. **Priority banking:** Priority banking can include a number of various services, but some of the popular ones include free checking, online bill pay, financial consultation, and information.

18. **Private banking:** Personalized financial and banking services that are traditionally offered to a bank's digital, high net worth individuals (HNWIs). For wealth management purposes, HNWIs have accrued far more wealth than the average person, and therefore have the means to access a larger variety of conventional and alternative investments.