Unit 1. Evolution of Banking

Introduction

Money in the Economy is like blood in the human body". The flow of money in the economy determines the characteristics of any economy. Robust money and capital markets are essentials for a developed economy. The short term and long term needs of money of individuals and institutions can be efficiently met by financial intermediaries. Pooling of scanty deposits into a large capital base and lending it to the desirable sectors is the core of banking business. In a developing economy like India, the role of banking sector becomes even more critical. In the initial years of economic development, when other sophisticated financial institutions were not present, banks were the only financial intermediaries which helped in bring about the change. The sense of confidence in the ethical functioning of financial intermediaries, in the minds of common man, was brought about by well-regulated commercial banks.

The word 'bank' is of Germanic origin though some persons trace its origin to the French word 'Banqui' and the Italian word 'Banca'. It referred to a bench for keeping, lending, and exchanging of money or coins in the market place by money lenders and money changers.

According to Banking Regulation Act, 1949 of India, "Banking means the accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, and an order or otherwise".

A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and lends money to those who need it. Modern banking is much more than accepting and lending of money. It is far more sophisticated and is the lifeline of the financial structure of any country, whether it is developed or developing.

1 History of Banking

From the very time human beings switched to settled life, they started saving and food items were the first thing which they started accumulating. As they evolved, their requirements started growing. Gradually they realised that all of them can't produce all the things required by them, so they started specialising in production of different products. And from there emerged the barter system wherein producers of a product used to exchange it for products which they needed but was produced by others. With further evolution and expansion of the society, they realized the problems of the barter system like coincidence of wants , storage of goods, risks involved in carrying them to distant places. Nevertheless people could lend or borrow in the form of specific goods which they received back or repaid in the same form or any other mutually acceptable form. The inconveniences of barter system led to the evolution of money which was accepted as the common mode of exchange of value for the goods. Initially money was in the form of coins, composed of gold, silver and copper etc. and the value of coins was based on the value of the metals they contained. This took care most of the disadvantages of the barter system but not fully. Also supply of precious metals was limited. This led to the evolution of paper money, then to credit money and now electronic money.

The business of accepting deposits and lending actually started with goldsmiths in medieval Europe. Since, it was the business of the goldsmith to deal with valuable commodities the goldsmith would build strong vaults to protect their inventory from theft. Soon, their neighbours also realised that it is safer to keep their gold with the goldsmiths who have strong vaults. They wanted to rent the goldsmiths secure vault in order to keep their gold safe. The goldsmith therefore started taking deposits, in form of gold, and this was in a way the birth of modern banking. As this practice spread, the goldsmith started charging for taking care of it. As proof of receiving valuables, he used to issue receipts. Since gold had no marks of the owner, the goldsmith started lending them. As the goldsmith was prepared to give the holder of the receipt and equal amount of money on demand, the goldsmith receipt became a medium of exchange and a means of payment. Over a period of time, the goldsmiths realized that the deposits are usually far in excess of the withdrawals. Therefore, the goldsmiths started lending out the gold that they had held on deposit even though it did not belong to them. This was the birth of the second major function of modern banking i.e. lending money. Taking deposits and making loans together changed the nature of the goldsmith's business to money lending. Over a period of time, this would further evolve and become banking.

The practice of safe-keeping and savings existed as early as 2000 B.C. in the temple of Babylon as early as 2000 B.C. The first bank called the 'Bank of Venice' was established in Venice, Italy in 1157 to finance the monarch in his wars. The bankers of Lombardy were famous in England.

2. History of Modern Banking

The modern era saw money lending transform into banking. Taking deposits and making loans out of deposits was now the usual business of institutions now called banks. Also, the depositors did not have to pay a fee to the banker to safeguard their gold in his secure vault. Instead they received compensation in the form of interest to park their excess gold with the bankers. This was the era of unregulated banks. Banking during this era was entrepreneurial in nature. Therefore, anyone who wanted to could set up a bank and enter the business. There were no licenses required and there was no regulation. This era continued till the 1600's. By then banking had become big business and some of the famous bankers like the Medici family and the Rothschild family were considered to be more powerful than kings.

As banking evolved over time, people realized that carrying large amounts of gold over long distances was unsafe as well as inconvenient. The area of trade began to spread far and wide and carrying gold over long distances became necessary. This gave rise to need of an exchange medium which was less voluminous but acceptable to the traders towards the value of the trade. This led to the birth of bank notes. Private Banks would issue private bank notes. The notes were nothing but a receipt for gold that had been deposited at the bank and could be withdrawn if the receipt was presented. Some of these notes were bearer notes i.e. the gold would be paid out to whoever brought in the note to the bank. This was the beginning of what we today refer to as fiat money.

As the number of such banks increased, many fly-by-night banks also came into existence during this period. Some of these banks were called "wildcat banks" and they fleeced entire towns and cities of their savings. It created tremendous confusion and as a result special books had to be published.

These books would specify the authenticity and the value of different bank notes and how safe was it to accept such notes as payments. In order to bring an order to this chaos and prevent the honest banks from losing business, central banks came into existence.

Central banks were banks created by special charter by the government. They would act as a banker to the government. Also, they would be responsible for the proper functioning of the other banks within their domain. This is when licenses became a requirement for banking business. However, Central banks are largely a 20th Century phenomenon. Many countries did not have a Central Bank till the late 1890s, however Central Banks are omnipresent in the modern world.

Another important development in the modern banking system is the fractional reserve system. This means that bankers only need to keep a fraction of the funds on deposit. Earlier, a certain amount of gold had to be held on deposit. However, nowadays bank notes themselves form the reserves based on which more bank notes are issued.

Thus we find that the banking business has undergone tremendous changes in the course of time. The basic nature of the business has drastically changed from safekeeping to full reserve money lending to the modern day fractional reserve banking.

3 History of Banking in India

Chanakya in his 'Arthashastra', written in about 300 B.C., mentioned about the existence of powerful guilds of merchant bankers who received deposits, and advanced loans and issued hundis (letters of transfer). The Jain scriptures mention the names of two bankers who built the famous Dilware Temples of Mount Abu during 1197 and 1247 A.D. However, the origin of western type commercial Banking in India dates back only to the 18th century.

The history of modern banking in India can be distinctly divided into following 3 phases:

I. The pre-independence phase(Before 1947): In the pre-independence period, most of the banks were small in size and suffered from high rate of failure.
Bank of Hindustan was the first bank in India which started in 1770 by Alexander & Co., an English agency house in Calcutta(now Kolkata) which failed in 1782 with the closure of the agency house. But the first bank in the modern sense was established in the Bengal Presidency as the Bank of Calcutta only in 1806. Some of the other banks which operated in pre-independence era were:

Because of high rate of failure, public confidence in the banks was low. As a result, deposit mobilization was very slow. People continued to rely on the money lenders for their monetary needs.

On the recommendation of Hilton Young Commission, Reserve Bank of India(RBI) was set up
in 1935 as a shareholders' bank. RBI was constituted to regulate the issue of banknotes, maintain reserves with a view to securing monetary stability and to operate the credit and currency system of the country to its advantage. It began its operations by taking over from the Government the functions so far being performed by the Controller of Currency and from the Imperial Bank of India, the management of Government accounts and public debt. The existing currency offices at Calcutta, Bombay, Madras, Rangoon, Karachi, Lahore and Cawnpore (Kanpur) became branches of the Issue Department. Offices of the Banking Department were established in Calcutta, Bombay, Madras, Delhi and Rangoon. Burma (Myanmar) seceded from the Indian Union in 1937 but the Reserve Bank continued to act as the Central Bank for Burma till Japanese Occupation of Burma and later up to April, 1947. After the partition of India, the Reserve Bank served as the central bank of Pakistan up to June 1948 when the State Bank of Pakistan commenced operations.

II. Post-Independence Period(1947-1991): The year 1949 started with the nationalization of RBI. Further, to streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949, which was later changed to the Banking Regulation Act, 1949. As per the Act, no new bank or new branch of an existing bank could be opened without a license from the RBI.

In 1955, government nationalised the Imperial Bank of India and renamed it as State Bank of India which was to act the principal agent of the RBI and to handle banking transaction of the Union Government and State Government all over the country. 7 banks owned by the Princely state were nationalised in 1959 and they become subsidiaries of the State Bank of India.

All India Rural Credit Survey conducted in 1964 found that per capita bank deposit was less than one rupee. It also pointed out that banks mostly catered to the need of large industries and big business houses. Agriculture, small-scale industries had little or no access to banking. And poor masses were exploited by of the money-lenders. All these called for some drastic action which came by way of nationalisation of banks.

On 19th July 1969, the following 14 banks were nationalised at one go:

- Central Bank of India
- Bank of India
- Punjab National Bank
- Bank of Baroda
- United Commercial Bank(better known as UCO Bank)
- Canara Bank
- Dena Bank
- United Bank of India
- Syndicate Bank
- Allahabad Bank
- Indian Bank
- Union Bank of India
- Bank of Maharashtra
- Indian Overseas Bank

The nationalization of the banks boosted the confidence of the public in the Banking system of the country. However, in the early 1970s, there was a feeling that even after nationalization, there were cultural issues which made it difficult for commercial banks, even under government ownership, to lend to farmers. This issue was taken up by the government and it set up Narasimham Working Group in 1975. On the recommendation of the Group, Regional Rural Banks(RRBs) were set up, first of which was on 2nd October, 1975. The rural banks had the legislative backing of the Regional Rural Banks Act 1976 . This act allowed the government to set up banks from time to time wherever it considered necessary. The RRBs were owned by three entities with their respective shares as follows:

Central Government - 50%

State government - 15%

Sponsor bank - 35%

Regional Rural Banks were conceived as low cost institutions having a rural ethos, local feel and pro poor focus. Every bank was to be sponsored by a "Public Sector Bank", however, they were planned as the self-sustaining credit institution which were able to refinance their internal resources in themselves and were excepted from the statutory pre-emptions.

Again in 1980, 6 more banks were nationalised. They were:

- Andhra Bank
- Corporation Bank
- New Bank of India
- Oriental Bank of Commerce
- Punjab & Sindh Bank
- Vijaya Bank

With this round of nationalisation, almost 80% of the banking sector in India was owned by the Government.

With a view to meet the specific requirements of different sectors, some apex level banking Institutions were also set up by the Government, viz.

National Bank for Agriculture and Rural

Development(NABARD) in 1982 Export-Import Bank

of India(EXIM Bank) in 1982

National Housing Bank(NHB) in 1988

Small Industries Development Bank of India(SIDBI) in 1990

III. Post-Liberalisation Period(1991 and beyond): The globalization process initiated in 1991 prompted every sector in the economy for the readiness for the competition. All major sectors in the economy were experiencing the changes. Improvement in the productivity and use of latest technology were the only ways to stand the competition. The economic reforms were to bring in real and financial sector out of license raj. The external shock could be felt in the domestic economy, thereby a sound and flexible policy was needed to benefit from the changes in long run. Financial sector reforms were needed to augment the changes in other sectors.

The RBI had control over all the functions of banks before reform process started. The need was felt that commercial banks will have to be given some autonomy. The interest rates in India were very high. The system of regulations hardly left any space for banks to implement the policy of their choice. The CRR and SLR were maintained at very high levels. The deposit interest rate and interest rates charged on advances were dictated by monetary authority. The banking sector was increasing demanding autonomy in the couple of functions. The foreign competition in all sectors which was foreseen made it compulsory to liberalize functions of banks in step by step manner.

A committee was constituted in 1991 under the chairmanship of Mr M. Narsimhan to suggest reforms for banking industry in India. The

Narsimham committee gave revolutionizing recommendations to match Indian banks with the world's best. The phased autonomy proposed in the report helped Indian banks to come out of its own shackles. The reduction in CRR and SLR were the major recommendations to free up liquidity to reduce overall interest rates.
Determination of interest rate was to be deregulated and it was recommended that market forces should be prime movers of interest rates. It was recommended that to increase competition and efficiency public sector banks should be given more autonomy. Erstwhile Development Financial Institutions were allowed to do banking business. As a result of these reforms, RBI was allowed to grant licences for private banks. Following this, 10 licences were given to private entities out of which only UTI Bank(now Axis Bank), ICICI Banking Corporation(now ICICI Bank), HDFC Bank, IndusInd Bank and DCB Bank survived the market demands.

In 1998, Narsimham committee gave another set of and path breaking suggestions to bring in more efficiency and readiness for more competition. It was felt that in the context of Current Account Convertibility banks should be able to handle domestic liquidity and foreign exchange. This required Indian banks to be strong enough to handle the pressure of globalization and have international presence to be better equipped to handle these issues. Capital adequacy was given more importance as non-performing assets were high. Market risk should be considered along with credit risk in the banking sector. The committee recommended that minimum capital to risk assets ratio should be increased. Capitalization of public sector banks was to happen either from government or by diluting the government ownership in these banks; banks were to be allowed to accesses Indian capital market and abroad. It was observed that directed credit had major role in creation of NPAs, and hence it was suggested that loans to agriculture and small scale industries should be granted on commercial considerations and on the basis of credit worthiness of the borrower. This resulted in RBI giving banking licences to Kotak Mahindra Bank(2001) and Yes Bank(2004). In 2013-14, the third round of banking licensing took place leading to emergence of IDFC Bank and Bandhan Bank in 2015.

However, there were two important differences compared with reforms in other countries. First, the reforms in banking were much more gradualist than in most countries, a course of action that was in line with the general strategy of reforms in India, made possible by the fact that the reforms were not

introduced in the midst of a banking sector crisis, which might have entailed greater urgency. Second, unlike the case in many other countries, there was never any intention to privatize public sector banks. It was clearly recognized that competition was desirable, and this implied that both private sector banks and foreign banks should be allowed to expand their market share if they could. However, the government also declared its intention to strengthen public sector banks and enable them to meet competition. There was also a great deal of progress in introducing prudential norms for income recognition, asset classification, and capital adequacy in a phased manner.
It was also realised that by harnessing the new technologies banking can be extended in far flung unbanked areas, which was beyond the reach of traditional bank branches Hence, the "Committee on Comprehensive Financial Services for Small Businesses and Low Income Households" was set up by the RBI in Sep 2013 under the chairmanship of Nachiket Mor, an RBI board member. RBI released the detailed Report of this committee in Jan 2014. Even though the recommendations put forth in this report have been termed as too ambitious and unrealistic by some, they have nevertheless led to a sort of banking revolution creating a modern, inclusive financial system in India. One of its recommendations was the formation of a new category of bank called payments banks. It was decided that RBI will create a framework for licensing small banks and other differentiated banks. The objective was to provide small savings account and payment/ remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users, by enabling high volume-low value transactions in deposits and payments / remittance services in a secured technology-driven environment. RBI came out with Guidelines on licensing of Payment Banks and on fulfilling of the requirements, it granted in-principle approval to 11 entities to set up Payment Banks.
However, only 6 of them commenced operations viz., Airtel Payment Bank Ltd.(in 2016), Paytm Payments Bank, Fino Payments Bank & Jio Payments Bank(all three in 2017) and Aditya Birla Idea Payments Bank & India Post Payment Bank(both in 2018).

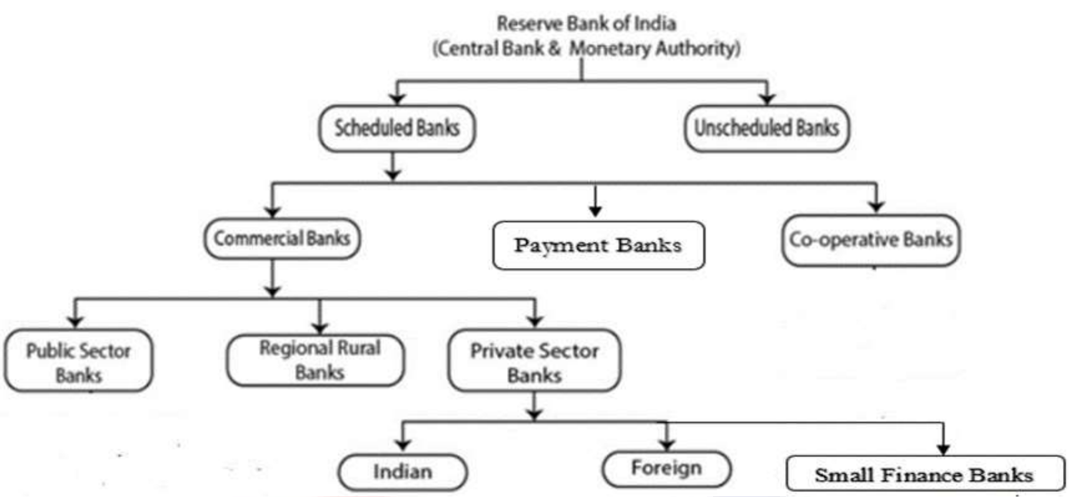
Additionally, establishment of Small Finance Banks was recommended with the objective of providing saving vehicle to unserved and underserved section of the population and supply of credit to small business units, small and marginal farmers, micro and small industries and other unorganised sector entities through high technology-low cost operations. In 2015, in-principle approval for Small Finance Banks was granted to 10 entities. Two of them commenced their operations in 2016(Capital Small Finance Bank and Equitas Small Finance Bank), seven in 2017(Ujjivan Small Finance Bank, AU Small Finance Bank, ESAF Small Finance Bank, Utkarsh Small Finance Bank, Suryoday Small Finance Bank and Fincare Small Finance Bank) and one in 2018(Janalakshmi Small Finance Bank).

Having extended the banking facility to almost every citizen of the country, focus shifted to consolidation of public sector banks with the objective of fewer but stronger banks. Though on 13th August 2008 State Bank of Saurashtra and on 19th June 2009 State Bank of Indore merged with SBI, first major merger happened in 2017 when 5 associate banks of SBI viz., State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), besides Bharatiya Mahila Bank (BMB), merged with it with effect from April 1, 2017. Then Dena Bank and Vijaya Bank were merged with Bank of Baroda with effect from 1st April 2019. Oriental Bank of Commerce and United Bank of India with Punjab National Bank; Syndicate Bank with Canara Bank; Andhra Bank and Corporation Bank with Union Bank of India; and Allahabad Bank with Indian Bank.

After all the above amalgamations and mergers, we now have only 12 public sector banks.

1.3 Banking Structure in India

Indian banking industry has been divided into organised and unorganised sectors. The organised sector consists of Reserve Bank of India, Scheduled Banks and Unscheduled Banks.



Reserve Bank of India:

The Reserve Bank of India (RBI) is India's central banking institution. Central banks regulate the banks in the country and are also responsible for currency stability, controlling inflation and monetary policy and overseeing money supply in the economy. RBI commenced its operations on 1 April 1935 during the British Rule in accordance with the provisions of the Reserve Bank of India Act, 1934 and in 1949 it was nationalized. RBI's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the Reserve Bank of India Act.

Scheduled Banks

Scheduled Banks in India refer to those banks which have been included in the Second Schedule of Reserve Bank of India Act, 1934. They can either be Commercial, Payment or Co-operative Banks.

Commercial Banks

A commercial bank is a type of financial institution that provides services such as accepting deposits, making business loans, and offering basic investment products to the general public and to companies. Depending on the shareholding pattern, Commercial Banks may be of the following types:

Public Sector Banks

The Government of India holds majority of the shares of a public sector bank. Example: State Bank of India

Regional Rural Banks

Regional Rural Banks are local level banking organizations operating in different States of India and are also known as Gramin Banks. They have been created with a view to serve primarily the rural areas of India with basic banking and financial services. However, RRBs may have branches set up for urban operations and their area of operation may include urban areas too. The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts but within the State. Central Government holds 50% shares in a RRB while the State Government holds 15% and Sponsor Bank holds the remaining 35%. Example: Maharashtra Grameen Bank.

Private Sector Banks

All those commercial banks where the majority of shares are owned by public, non-government Institutions or promoters are known as private sector banks. It may again be of any of the following types:

Indian Private Sector Banks: These are private sector banks where the majority of shares are held by Indian individuals or Institutions. Example: Kotak Mahindra Bank

Foreign Private Sector Banks: These are private sector banks where the majority of shares are held by foreign individuals or Institutions. Example: Citi Bank

Small Finance Banks: These are private sector banks owned by Indian. However, there are restrictions on the size of loans they can extend. Example: AU Small Finance Bank

Payment Banks

A payments bank is like any other bank, but operating on a smaller scale without involving any credit risk. In simple words, it can carry out most banking operations but can't advance loans or issue credit cards. Example: Jio Payments Bank

Co-operative Banks

Cooperative banking is retail and commercial banking organized on a cooperative basis. Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business, but registered under the Cooperative Societies Act, of the concerned state. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans. However, cooperative bank shares are of unlimited liability and one shareholder has one vote whatever the number of shares he may hold. Example: Saraswat Co- operative Bank

Non-Scheduled Banks

Banks not under Second Schedule of RBI Act are called Non-Scheduled Banks. Unlike scheduled banks, they are not entitled to borrow from the RBI for normal banking purposes, except, in emergency or "abnormal circumstances." Example: Coastal Local Area Bank Ltd (Vijayawada, AP)

Unit 2. Functions of Bank

Functions of Commercial Banks

The main function of commercial banks are as follows:

1.2.1 Receive deposits: The most important activity of a Commercial Banks is to mobilise deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts which banks. Depending upon the nature of deposits, funds deposited with bank also earn interest. Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the banks. some important account under received deposits.

Current Account: It is a calculation of a Country's foreign transactions and along with the capital account is a component of a Country's balance of payment. The current account also includes net income, such as interest and dividends, as well as transfers, such as foreign aid, though these components tend to make up a smaller percentage of the current account than exports and imports.

Saving Account: Saving account are opened to encourage the people to save money and collect their savings. The saving account holder is allowed to withdraw money from the account as and when required. The interest which is given on saving account is sometime attractive, but often nominal.

Fixed Term Deposits: A deposit of money that pays higher interest than a savings account, but impose condition on the amount, frequency, and / or period of withdrawals. Also called time deposit. All these accounts are secure and carry a government guarantee.

Cash Credit Account: It will be opened as per term and conditions of sanction of such credit limits. The rules prescribe for the current accounts, will also apply to Cash Credit account in addition to the sanctioned terms and conditions.

Recurring Deposit Account: In banking terminology, the term recurring deposit refers to the periodic placement of a fixed sum of funds with a bank or financial institution into a special term account, with a specified tenure, generally between 1 and 5 years. At the end of the tenure, the funds are typically withdrawn by the depositor with accrued interest.

1.2.2 To Lend Money: The second important function of a Commercial Bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts.

The rate of Interest changed on loans and advances varies depending upon the purpose, period and the mode of repayment. The difference between the rate of interest allowed on deposits and the rate changed on the loans is the main source of a bank's income.

1.2.3 Agency functions: Modern day banking is not restricted to just accepting deposits and advancing loans. Banker acts as an agent to the customer. When a customer deposits cheques, drafts, bills or any other promissory notes, the banker collects them and on realization credits the account of the customer. For this activity, the banker is given commission. Banks also act as a correspondent, representative of their customers. As the customer may be a shareholder or debenture holder of companies, he will be receiving dividend warrants and interest warrants, which will be deposited by the customer in the bank. The bank will collect the same and credit it to the account of respective customers. Some banks may even get the travellers' tickets, passport etc. for their customers. In addition, they now undertake various other functions, some of which are detailed below:

Collection of Cheques, Dividends, Interests etc.: Collecting cheques, drafts, bill of exchange, dividends, interests etc. on behalf of its customers and credit the amount in their account is one of the most important agency services rendered by the banks. Banker accepts standing instructions from the customers and arranges to collect dividend, interest, pension, salaries, bills etc. on behalf of his customers.

Payment of Subscription, Rent, Insurance Premium etc.: Banks undertake the payment of subscriptions, rent, insurance premium etc. on behalf of the customers and debit the account with the amount. It accepts the standing instructions of the customer and arranges for the payment of such expenses on their behalf. It charges a small amount by way of commission for these services.

Conduct of Stock Exchange Transactions: Banks purchase and sell various securities such as shares, debentures, bonds etc. of joint stock companies both private and Government on behalf of their customers.

Acting as Executor, Trustees, Attorneys etc.: Banks act as executors of will, trustees, attorneys and administrators. As an executor it preserves the "Wills" of the customers and executes them after their death. As a trustee, it takes care of the funds of the customers. As an attorney, it signs transfer forms and documents on behalf of the customer

Preparation of Income Tax Returns: Banks prepare income tax returns for their customers through their tax service departments.

Conducting Foreign Exchange Transactions: Commercial banks purchase and sell foreign exchange for their customers.

Executing standing instructions: As the customer has to pay certain periodical payments such as monthly, quarterly, half yearly, the banker is informed by a standing instruction. Thus, club subscription, insurance premium, road tax, electricity charges and telephone bills of the customers are paid by the bank after debiting the customers' account.

Financial Advisory: When customers are left with huge amount of money in their account, they can be invested in company securities for capital appreciation or for getting a good return. The banker will be able to advise customers about various investment opportunities as he has the services of experts.

Transfer of Funds: In certain business transactions, payments are made with the help of banks by transferring funds to different centres. In the present days, these transfers could be made within few hours through electronic media. We have electronic transfer with the help of computers.

Salary disbursement: In a huge factory, employing thousands of persons, salary disbursement can be done through bank branches. The salary of the employee will be credited to his individual account every month and he can either make cheque payment or even withdraw cash.

(ii) E-KYC authentication with consent of the customer where customer is desirous of receiving any benefit or subsidy under any scheme notified under Section 7 of Aadhaar Act, 2016.

SPECIMEN SIGNATURE AND VERIFICATION

A Specimen (sample) signature of the customer is obtained on the account opening form in the presence of the bank staff and it is attested by an authorized bank officer on the form itself.

A customer is recognized mainly by signature on the cheque / vouchers and these are compared with the specimen signature on record to verify the genuineness of the customer's signature.

Nomination

In case of death of an account holder, the problem of whom to pay the balance arises. Now-a- days banks take nomination in writing in case of all accounts.

In case of the death of an account holder the bank pays the money to the nominee and closes the account.

A nomination made by a depositor in the prescribed manner will confer the nominee right to receive the amount of deposit from the bank.

The nominee shall be entitled to all the rights of the depositor.

The depositor may amend or cancel nomination in a prescribed manner.

POWER OF ATTORNEY

At times a depositor would like to transact his business through another person.

Banks accept this arrangement if account holder authorizes his/her representative as power of attorney.

A power of attorney is a document which is correctly stamped as per Stamp Act and submitted to the bank by the account holder.

Power of attorney gives permission to the person whose name is on the document to operate the account in the place of the account holder, for example - Attorney or Agent.

Unit 3. Procedure for Opening and Operating of Deposit Account

The relationship between a banker and his customer begins with the opening of an account by the customer in the bank. Initially all the accounts are opened with a deposit of money and hence these accounts are called deposits accounts

One of the primary function of a commercial bank is accepting deposits from public and in return, bank will give interest earnings for the deposited money to the account holder depending on the type of deposit accounts.

Opening aspects and KYC is the first part that everybody should know before they get into the bank for having relationship with bank and their deposit accounts.

Application Form

To open a deposit account, person has to fill up an account opening application form, submit to the concerned branch. Application form should be accompanied with the following documents in order to avoid misuse or illegal dealings:

Introductory reference of an acceptable person or an existing account holder with the branch.

Acceptable proof of his / her identity and residential address. It may be one of: Aadhaar Card / photo identity card such as Passport, Ration card, PAN card, Driving license, Election identity card etc.

Recent photographs (2 to 3 varies from bank to bank, branch to branch).

An initial deposit amount not less than the minimum amount decided by the bank (amount varies from bank to bank ranging from 0 to Rs 10,000/ or even more).

The bank keeps attested photo copies of all the documents along with the

account opening form. Need of KYC Norms

The main objective of the KYC policy is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering activities.

In 2002, RBI issued an order to all banks to follow the procedure of "Know Your Customer" with all their new and existing Domestic customers and Non-resident customers

It helps to verify the identity and residential address of the customers with the help of specific documental evidence. Hence proper KYC prevents misuse of the banking system for money laundering and financing of terrorist activities.

These "Rules" would help to stop illegal moneys coming into the banking stream. It is mandatory requirement to all religious and non-religious trust accounts should also have to follow all KYC processes.

As per RBI KYC directions, banks are required to obtain following documents from the customer –

a) Recent Photograph and

b) PAN or Form 60 as defined in income tax rules 1962 and

(i) Officially Valid documents (OVD) for proof of identity and address or

No-Frills Account

The Reserve Bank of India (RBI) has taken several measures to ensure the most basic banking facilities are made available to the Indian population. Very often, individuals from low-income backgrounds rarely ever have bank accounts where their finances can be saved. This is largely because opening a savings account in most banks includes having to maintain a minimum balance in your account at all times. If the balance of the savings account dips below the required minimum balance to be maintained, the bank usually levies a fine.

In an attempt at financial inclusion, the RBI launched the “No Frills” account in 2005. The No Frills account aimed to offer the most basic banking service to those from the low-income backgrounds. The concept was formulated as means of providing individuals from low-income backgrounds the opportunity to benefit from the credit and savings programs offered by most financial institutions.

No Frills account was launched and it allows its holders the ability to open and maintain a savings account with zero balance. Those who hold No Frills accounts are offered basic banking services such as mobile and internet banking, a free Debit Card and access to ATMs all over the country

Procedure for Operating Deposit Account

The word operate in relation to a bank account means that the customer deposits further sums of money and cheques etc., into the bank and withdrawals money according to his need or convenience.

A customer is, therefore, required to make use of pay in slips for depositing money and withdrawal slip of cheques for withdrawing money from the bank

Pay in Slips

The pay-in-slip book contains slips with perforated counterfoils to be filled in by the account holder himself or by his agent at the time of depositing cash, cheques, drafts, bills, etc. to the credit of his account.

(ii) Every bank provides separate pay-in-slips free of cost to the customers for depositing an amount of money in his account.

The design and size of such slips vary from bank to bank but the contents include information relating to the date of deposit, name and account number of the customer, amount to be deposited, the denomination of currency notes, etc

In case of cheques the cheque number and the name of the drawee is to be filled in

Withdrawal Slip

Like the pay-in-slips, the bank provides the withdrawal slips free of cost to its customers for withdrawing money from their accounts

These slips include the information regarding the name, account number, amount to be withdrawn in figures and in words.

The slip must be signed by the account holder. The signature must be as per the specimen signature given to the bank

The withdrawal slip must be accompanied by the pass book

Issue of Passbook

A pass book is a small handy book issued by a bank to its customer.

All the dealings between the bank and the customers are recorded in this book. It is an authenticated copy of the customer's account in the account books of the bank

The object of a pass book is to inform the customer from time to time the condition of his account as it appears in the books of the bank.

The customer deposits the pass book periodically with the bank for the purpose of recording entries therein

A pass book is very important for the customer

Issue of Cheque Book

For making withdrawals of money from the account a bank provides a cheque book to the customer.

The request for the supply of the first cheque book can be made on the basis of the request embodied in the account opening form itself or by means of a separate letter.

The customer's signature on the letter should be verified with the specimen signature on the bank record.

Every cheque book contains a requisition slip which is required to be filled up and signed by the customer for obtaining a cheque book.

Issue of Fixed Deposit Receipt

Banks accept term deposits. These deposits may be from 15 days up to 5 years.

The rate of interest increases as the term deposits may be short term or

long term deposits. A depositor is given the receipt of his deposit

credited in his account.

A depositor can receive the amount of his deposit with interest after the maturity of his deposit or he may have an option of monthly, quarterly interest on his deposit up to its maturity.

These deposits may be of individual or joint account

Premature Encashment of Fixed Deposit

If the depositor needs money before the due date he has two options.

He should approach the bank either to encash the deposit receipt before the due date or to raise a loan against the receipt.

The bank has the discretion to encash the deposit receipt at the rate of two percent below the rate applicable to the period for which the deposit has run as per the schedule of rates prevailing at the time when the deposit was originally accepted.

Loan Against Fixed Deposit

Alternatively, the loan is granted at a rate two percent higher than the rate allowed on the deposit and the margin of 25 percent is kept.

In either case, the receipt should be discharged by all the depositors and in the case of prepayment on letter of request and in the case of a loan, a letter of pledge should be signed by all the depositors.

(iii) A receipt holder of his deposit can mortgage the receipt with the bank if he requires loan on his receipt.

He has to pay additional one percent of interest more than the interest rate he gets on his deposit.

He may repay the amount of loan with interest before the maturity of his deposit or in case if he fails to repay the loan, the banker may deduct the amount of loan and interest from the amount he gets after maturity of his deposit and pays the balance to him.

Recurring Deposit :

The Recurring Deposit account is an account in the bank (or a Post office in some countries) where an investor deposits a fixed amount of money every month for a fixed tenure (mostly ranging from one year to five years).

This scheme is meant for investors who want to deposit a fixed amount every month, in order to get a lump sum after some years

Interest at term deposit rates is computable on quarterly compounded basis

It is similar to making FDs of a certain amount in monthly installments, for example Rs 1000 every month

Premature Encashment of Recurring Deposit

When the RD account is opened, the maturity value is indicated to the customer assuming that the monthly instalments will be paid regularly on due dates.

But premature withdrawal is allowed. Each institution follows its own premature closure or withdrawal policy

For example, In case of Post Office RD Premature closure is allowed after three years. In fact Post Office RD offers part withdrawal facility .

In case of State Bank of India Loan / Overdraft facility available against the balance in RD account and Premature withdrawal is allowed at 1% below the rate applicable for the period the deposit has remained with the BankNo partial withdrawal is allowed.

While Banks like HDFC and ICICI do not allow partial withdrawal. Premature closure is allowed but with some penalty

Loan Against Recurring Deposit

A fixed deposit receipt is issued by a bank for a deposit made for a specific period. If, before the expiry of that period, the customer urgently needs money, he may take a loan from the bank on the security of the fixed deposit receipt or against the deposit in the recurring account of the account holder.

The amount of loan can be upto 75% of the actual deposit plus interest accrued thereupon upto the time the loan is given.

On such advances the bank charges a rate of interest which is 2% higher than the interest payable on the deposit.

Closure Of Accounts

An account can be closed either by the bank or by the customer by giving due notice.

The account holder has to apply in writing for closure of his account with or without giving any reason for the closure.

However, the bank can suspend payment out of customer's account under the provisions of law.

The Rights and Obligations of a Bank in this Regard are as follows

1. **Customer's Application :**

A customer has to give an application for closure of his account. A bank is bound to comply with such direction. Bank cannot ask reasons for such closure. In such case, all the unused cheques should be returned to the bank and after paying the balance the account is closed.

2. Request by the Bank :

Sometimes, the bank may request the customer to close its account, if it is not operated for a very long period. If the customer could not be traced after reasonable effort the bank usually transfers the balance to an 'Unclaimed Deposit Account' and the account is closed.

3. Violation of Rules of Banks by a Customer

If the bank finds that the customer is no more a desirable customer, the bank can terminate its relationship with him. The bank takes this step in circumstances when the customer is guilty of conducting his account in an unsatisfactory manner such as convicted for forging cheques, issuing cheques without sufficient funds, bouncing of cheques deposited, etc.

4. Death of a Customer :

On receipt of the notice of death of a customer the bank must stop the operation of his account because the authority of the customer terminates with his death.

5. Insanity of a Customer :

If a bank receives a notice regarding the insanity of its customers, it is bound to stop payment from his account.

6) Insolvency of a Customer :

The relationship between the bank and customer is also affected if the customer becomes insolvent. The credit balance of the customer is transferred to the official receiver of the insolvent customer.

7. Notice of Assignment : When the bank has received a notice of assignment of the credit balance in the account of a customer to a third party, the bank is bound to pay the same amount to the said third party.

8 Issue of notice to the Customer :

In the case of the closure of the account by the bank, the bank has to give to the customer due notice of its intention to close the account. The bank should request the customer to close his account. Sufficient time should be given to the customer, to make alternative arrangements. The bank should not on its own, close the account without such notice or transfer the same to any other branch. If the account holder does not respond to notice of closure of account, his balance should be sent by draft on his address and the account is treated as closed.

Transfer Of Accounts to Other Branches/Banks

After opening an account in any bank, if a person wants to transfer his account to the other branch of his bank in the same city or in another city, he can transfer it by giving a simple application to the branch.

Generally persons working with Government or Semi-Government. offices have to face a problem of such transfer after their transfer from one office to the other

(iv) It will be helpful for them to transfer their accounts instead of opening a new one A person has to transfer his account in the following circumstances:

1) When he changes his place of residence in the same city or

2) When he migrates from one place to another.

Procedure for Transfer of an Account

To transfer his account to other branches he has to follow a procedure. It can be explained as below :

1. A person / a customer has to give an application in a prescribed form to the new branch of the bank for such transfer of account. This new branch sends its application to the bank having account with it.

2. He has to deposit his passbook and the cheque book with the cheques not used. Some banks allow to use the old cheque book in the new branch.

3. After calculating interest the amount is credited to his account. Bank puts an endorsement that account transferred to the new branch.

4. The bank prepares a debit note and sends debited amount to the new branch and old account is closed.

5. The amount received by the new branch is credited to the account by preparing a credit note.

6. Some banks prefer to take new application and format of the signature of the old customer to the new branch. But some allow the customers to operate their accounts on the basis of old cards.

Types of Account Holders

Individuals generally open transaction accounts like Savings accounts or Current accounts. It has already been mentioned that any adult person/individual competent to contract can open any account with any bank after observing usual formalities provided that the bank is satisfied about his identity, respectability and desirability.

On many occasions, identity is ascertained by the passports, voter identity cards (ID), certificates of ward commissioners, employer's certificates, and tax identification numbers (TIN) etc. They are required to furnish passport size photograph and an introduction from an acceptable person.

Normally individuals – either singly or jointly – are allowed to open Savings account.

Individual Account Holder (Single Or Joint) An account can be opened in the bank singly or jointly. A singly operated account means an account opened in the name of one person. It is operated by only one person, in whose name an account is opened in the bank

For this purpose, he has to apply in the prescribed form and manner to the bank. Joint account means an account which is opened in the names of two or more persons

When a joint account is opened with a bank, precise instructions in writing as to which members are entitled to draw cheques and whether the balance in the account has to be paid to the survivor in the event of the death of any of the parties to the joint account, or whether it is to be dealt with in any other manner, should be given to the bank. This written document should be signed by all parties in whose names the joint account is opened.

1. Illiterate Person
   A person who, for want of education, cannot read or/and write is known as illiterate. As per section 11 of Indian Contract Act- "Every person is competent to contract who is of the age of majority according to the law to which he is subject, and who is of sound mind and is not disqualified from contracting by any law to which he is subject."
   Thus, an illiterate is competent to contract and bank may open the accounts of illiterate persons
   The account of such person may be opened provided he/she calls on the bank personally along with a witness who is known to both the depositor and the bank
2. Minor Person
   The minor is a person who is below the age of 18 years generally or below the age of 21 years in case his guardian is appointed by the court. Special provisions have been made in laws for the protection of the general welfare of the minors.
   The law protects them, preserves their rights and estates, excuseth their laches and assists them in their pleadings; the judges are their counsellors, the jury is their servants and law is their guardian.
3. Non Resident Accounts
   In the last few decades, a large number of Indians have gone abroad either temporarily on a job or have permanently settled there.
   Most of them earn and save and even repatriate large sums of money to their dependents or relatives in India.

To mobilise such savings and attract the savings as deposits in Indian banks, the government has offered many concessions and incentives to Non-Resident Indians (NRI).

Foreign Currency (Non-Resident) Account Scheme
Under this scheme, NRI's are permitted to open accounts in foreign currencies in India. The amount to be deposited may be remitted by the depositor by bank draft, cheque, mail transfer or telegraphic transfer.
Interest on deposit is free of income tax.

Institutional Account Holder :

Like an individual various institutions can open different types of accounts in banks. Institutions are legal entities in the eyes of law.

So they can open accounts in banks. These institutional account holders are as follows :

1) Sole Proprietorship :

A sole proprietor of a firm is in business by himself for himself. The account of a sole proprietorship of business is not very different from the ordinary personal banking account.

While opening the account the sole proprietor declares that no other person is sharing in his business as partner or otherwise and that all transactions are being entered into by him as a sole proprietor of the concern and that he will be personally liable for all dealings and obligations in the name of his business.

Partnership Firm :

Partnership is governed by the Indian Partnership Act of 1932.

The account of partnership is difficult for a bank because each of the partners can act on behalf of other and all have unlimited liability.

The firm does not have separate existence from the partners.

Legal Precautions to be taken by Banks : While opening the account of a partnership following precautions should be taken:

1. Certified Copy of Deed of Partnership, Details about Partners and Rights of Partners

Joint Stock Company

Every company is required to have two documents, one called the Memorandum of Association which defines its constitution, and the other, the Articles of Association, which specifies its rules of conduct

Documents To Be Obtained Before Opening

An Account: Memorandum of Association:

Articles of Association:

(v) Certificate of Incorporation OR Certificate to commence business : Resolution of Board of Directors :

Unit 4

Methods of Remittance

Remittance means the sending of money to someone at a distance

Different kinds of agency services are provided by the banks.

Banks act as agents for their customers. Remittance of funds is one of these services. Remittance means the sending of money to someone at a distance.

It may be a transfer of money by a foreign worker to his or her home country. Remittances contribute to economic growth and to the livelihood of people worldwide. Remittances of funds by banks are simple, convenient, safe and inexpensive.

Demand Drafts

A demand draft is an order from one bank to another branch of the same bank to pay a specified sum of money to a person named there in or to his order.

A draft is always payable on demand. Banks issue demand drafts on their branch at the place of destination for remitting money from one place to another.

According to Section 85-A of the Negotiable Instrument Act, "A demand draft is an order to pay money, drawn by one office of the bank upon another office of the same bank for a sum of money payable to order on demand.“

"A person may buy a draft by paying the amount in advance to the bank. The bank then issues the draft.

Definitation

The Demand Draft is an instrument used to transfer payments from one bank account to another. Demand Draft also is like cash, but much more secured than cash.

Some secured features are:

1) Extremely unlikely to be stolen and used

3) No chance of fake notes circulating in IndiaCan be encashed only by the person on whom it is issued

4) Can be easily carried, no threat to life due to robbers when carried

5) Can be safely sent by courier or post

6) Can be easily cancelled

7) Sender can be easily identified It is quite popular instrument.

Also it's the preferred method of payment for applying any admission in institutes, paying fees, applying for subscriptions etc.

Parties

There are three parties to a demand draft :

1) The drawer branch. 2) The drawee branch. 3) The Payee.

The person who receives the draft can get the money from the local

branch at his residence. The purchaser of a draft may not be a customer

or account holder of the bank.

The service is provided by the bank to the public in general.

Legal Status of a Bank Draft :

A bank draft is a bill of exchange because it fulfils all the essential requisites of a bill. e.g.

i) It is an instrument in writing.

ii) It contains an unconditional order.

iii) It is signed by its maker.

Actually a bank draft is not specially mentioned as a negotiable instrument in Section 13 of the Negotiable Instrument Act.

But because of the resemblance of a bill of exchange as mentioned above, it is considered as a negotiable instrument.

Stopping Payments of Bank Draft Though a bank draft is recognised as equal to a cheque for certain purpose it is different from cheque as far as the issuing bank's position concerned.

A cheque is drawn by the drawer on his banker.

The drawer possesses the right to stop its payment before it is actually made.

But, the purchaser of a bank draft does not stand at part with the

drawer of a cheque. In fact, the drawer of a draft is not deemed to

be a party to the instrument.

The parties to the draft are the issuing branch, the paying branch and the payee.

By issuing a bank draft, the banker takes upon himself a commitment in favour of the payee who is third party to a draft, to pay a certain amount of money.

It is an assurance of the bank to pay the amount to the payee as the consideration is paid by the purchaser of a draft.

Therefore, the purchaser of a draft do not have any right to stop payment of a draft.

The banker should not comply with stop payment instruction given by the purchaser of a draft. When the bank draft is passed on to the payee, he acquires a right in the instrument. Such right cannot be set aside by the stop payment order issued by the purchaser

Sample Format of Demand Draft : Banker's Cheques

A cheque which is payable by a bank itself, as opposed to an ordinary cheque payable only out of the funds of a particular customer's account.

A bank cheque is normally obtained by a bank customer (by paying its face value), the point is that the person receiving the cheque has the security of knowing it's payable by the bank and thus cannot bounce.

Banker's cheque or bankers Draft is a cheque (or check) where the funds are withdrawn directly from a bank's funds, not from an individual's account.

Banker's Cheques are negotiable instruments payable to order and attract all provisions applicable to an order cheque and are valid for six months from the date of issue and in genuine cases may be revalidated.

Electronic Fund Transfer

Electronic funds transfer or EFT refers to the computer-based systems used to perform financial transactions electronically. This term is used for a number of different concepts :

1) Cardholder initiated transactions, where a cardholder makes use of a payment card.

2) Electronic payments by business, including salary payments.

3) Electronic check (for cheque) clearing. Electronic fund transfer provides for electronic payments and collections. EFT is safe, secure, efficient and less expensive than paper cheque payments and collection.

Transaction Types

A number of transactions may be performed by EFT. It includes following transactions

1) Sale : Where the cardholder pays for goods or service.

2) Refund : Where a merchant refunds an earlier payment made by a cardholder.

3) Withdrawal : The cardholder withdraws funds from their account, e.g. from an ATM. The term Cash Advance may also be used, typically where the funds are advanced by a merchant rather than at an ATM.
5) Deposit : Where a cardholder deposits funds to their own account (typically at an ATM) Cashback : Where a cardholder withdraws funds from their own account at the same time as making a purchase.

6) Inter-account Transfer : Transferring funds between linked accounts belonging to the same cardholder.

7) Payment : Transferring funds to a third party account.

8) Enquiry : A transaction without financial impact, for instance balance enquiry, available funds enquiry, linked accounts enquiry or request for a statement of recent transactions on the account

9) E top-up : Where a cardholder can use a device (typically POS or ATM) to add funds (top-up) their pre-pay mobile phone.

10) Administrative : This covers a variety of non-financial transactions including PIN change.

Procedures

1) Debit from Remitting Branch : The remitting branch will debit the customer's account and prepare the necessary information in the software supplied by RBI. Each message contains a unique. "Message Id. No." with suitable encryption. This message is sent through computer / or by hand delivery through floppies to the service branch of the bank.

2) Process at Service Branch : The service branch will process the messages, give another code and send the message in electronic media to local National Clearing Centre of RBI.

3) Clearance at Clearing Centre : The National Clearing Centre of RBI will debit the current account of different remitting banks and will send the message through RBINET to different of destination National Clearing Centres of RBI.

4) Message to Service Branch : The destination National Clearing Centres after processing the messages will credit the respective bank's current accounts with RBI and will send the messages to service branches of banks either through RBINET or computer media.

5) Payment to Destination Branch : Service branches will arrange to give the credit to the destination branch latest by the T + 1 day i.e. next day to the Transaction Day.

RTGS (Real Time Gross Settlement)
The real time gross settlement solution is a milestone in the history of Indian payment system. It is the key critical element. It provides the missing link in the process of the setting up of the Integrated payment and settlement system in the country. Now-adays, it is the preferred mode of

the settlement of large value interbank payments in the world over.

As a settlement process, RTGS minimises settlement risks by settling individual payments in real time in the books of account held at the central bank.

Under RTGS, the practically instant settlement ensures fast, secure, final and irrevocable settlement of payment transactions

The real time gross settlement system is designed to provide large value funds transfer and settlement in an on-line real time environment to the banking industry, with settlement on a gross basis.

RTGS payment system can also be called as one in which payment instructions between banks are processed and settled individually and continuously throughout the day.

Electronic Fund Transfer

Electronic funds transfer (EFT) are electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, via computer- based systems, without the direct intervention of bank staff.

EFT is a system whereby anyone who wants to make payment to another person / company etc. can approach his bank and make cash payment or give instructions / authorization to transfer funds directly from his own account to the bank account of the receiver / beneficiary. Electronic Fund Transfer at Point Of Sale (EFTPOS) is a payment system for making purchases through debit card at merchant establishments

Society for Worldwide Inter-bank Financial Telecommunications (SWIFT)

SWIFT, as a co-operative society was formed in May 1973 with 239 participating banks from 15 countries with its headquarters at Brussels. It started functioning in May 1977. RBI and 27 other public sector banks as well as 8 foreign banks in India have obtained the membership of the SWIFT. SWIFT provides have rapid, secure, reliable and cost effective mode of transmitting the financial messages worldwide. At present more than 3000 banks are the members of the network. To cater to the growth in messages, SWIFT was upgrade in the 80s and this version is called SWIFT-II. Banks in India are hooked to SWIFT-II system.

SWIFT is a method of the sophisticated message transmission of international repute. This is highly cost effective, reliable and safe means of fund transfer.

This network also facilitates the transfer of messages relating to fixed deposit, interest payment, debit-credit statements, foreign exchange etc.

This service is available throughout the year, 24 hours a day.

This system ensure against any loss of mutilation

against transmission. It serves almost all financial

institution and selected range of other users.

It is clear from the above benefit of SWIFT that it is very beneficial in effective customer service. SWIFT has extended its range to users like brokers, trust and other agents.

1.4 Technology and Banking Delivery Channels

Technology has touched every aspect of our lives in the recent years and banking has been no exception. Huge strides made by information technology have allowed banks to provide much better levels of service to their customers at drastically lower costs. The deployment of technology has also changed the channels via which customers interact with their banks. In this article, we will trace these changing channels of banking service delivery.

1.4.1 Traditional Delivery Format: Bank Branches

Bank branches form the traditional channel for delivery of banking services. Almost every bank in the world has branches although of late banks have reduced the reliance on these branches and are attempting to replace expensive branches with inexpensive technologies.

However, for the moment, branches still remain one of the most popular methods of delivering banking services because they enable banks to offer all services from the same location. Also, the size of the bank branches, in terms of real estate, has reduced considerably in the past few years. This is because of the technological innovation that has made it possible to have better storage and processing without utilizing any space. Technology has affected every area of banking and this includes traditional models like bank branches.

1.4.2 Modern Delivery Formats

The modern service delivery formats vary significantly from the branch based model. First of all the focus is on efficiency. This means that the banks aim to provide more and more services at the least cost possible. Secondly the focus is on educating the customers and making them accustomed to banking via these new channels.

Here is a list of some channels for providing banking services that have been developed recently.

1.4.2.1 Automated Systems: Automated systems have become extremely popular in the past few years. This is because they generally cost less than humans performing the same service. For instance the maintenance cost of an Automated Teller Machine (ATM) is far less than that of a human teller. Also, the machine can provide service 24 by 7 which a human cannot possible do. Therefore, along with ATM's a wide variety of other automated systems have also been deployed in bank branches. Some of the other automated system include cash deposit machine, machines which update pass books or provide bank statements or machines to recharge debit cards with predetermined values. Automates systems are now predominant in developed countries like United States and Europe where labour costs are high. These systems have also started reaching developing countries in the third world.

1.4.2.2 Telephone Banking: Telephone banking is the provision of banking services over a telephone line. Therefore, telephone banking is also equipped with providing almost all the services that a traditional brick and mortar bank can.

2 However, phone banking faces an additional challenge. Phone bankers also need to identify whether they are speaking to the correct person or else they may end up divulging sensitive information to the wrong person. Mechanisms have been created in order to ensure this. Such mechanisms include phone banking passwords and confirmation of personal information that can only be provided by the account holder.

3 Phone banking provides customers with extreme convenience as they can avail the service 24 by 7 and from any geographical location. Also, phone banking allows banks to reduce costs as they can outsource their

call centers to lower cost countries like India where the work can be done at a fraction of the cost. Hence, a win-win situation is created.

4 1.4.2.3 Online Banking: Online banking is the provisioning of banking services over the web. Like phone banking, internet banking can be used to replicate all the services that are offered in brick and mortar branches. Also, like phone banking, identification of customers is a problem. Internet banking faces its unique sets of risks like phishing attacks and hacking of customer accounts. However, the development in technology has allowed the banks to build secure systems which can defend against such attacks.

5 The main reason behind the massive thrust on internet banking is that the processing capability gets transferred from bank staff to users. Hence, if a user needs a bank statement, they can obtain it themselves. The requirement of bank staff is completely eliminated and this helps the bank save massive costs. It is for this reason that banks insist on educating customers about internet banking and prefer to deal with customers in that manner. Some banks charge customers additional money if the avail a service in a brick and mortar bank branch that can also be availed online.

6 1.4.2.3 Smartphone: Developments in information technology have made it possible for people to conduct banking transactions while on the go. The cell phones of people are connected with high speed internet. Also, mobile applications have been developed which enable customers to obtain all the services that they would be able to avail at a branch. Once again the threats of security attacks and hacking are present. However, these are risks that are being mitigated.

7 The banking industry believes that mobile banking of m-banking is the future of the industry wherein people will be able to avail any service they require at the click of a few buttons.

Technology is therefore enabling banks to provide customers with unprecedented service levels while simultaneously providing their shareholders with unprecedented return on equity, Technological developments in computing are certain to find more applications in the baking world. Therefore, the forerunners in the banking industry understand that their business has become intertwined with technology and the next industry leader will be someone who is able to utilize technology to the maximum.

Modern tools of banking has not only made banking easy for the customers nut has also added to the operational efficiency and profitability by way of faster and low cost of services delivery.

8 This study is an effort to analyze the operational and financial improvements in banks on adoption of technology. The outcome of the study may benefit banks in making decisions regarding further investments in technology.