

# BUSINESS STUDIES

## CHAPTER 1

### BANK TRANSACTIONS

#### ***We learn about the following in this chapter:***

- *Meaning of Banks*
- *Banks and post offices in financial transactions.*
- *Characteristics of Banks.*
- *Different accounts that can be opened in a Bank.*
- *Methods to open accounts in Banks.*
- *Advantages of Bank accounts.*

Banks developed about two hundred years ago. The nature of banks have changed as the time has changed. The term bank is related to financial transactions. Banks are financial institutions which use the money deposited by customers as investments and agreed to return whenever they require. Banks advance loans to the customers and charge interest on them. Banks exchange the money of different countries. The development of any country depends on the banking system of that country. Banks advance money to agriculture, industries, traders and all other sections of the society which are the main organs for the development of a country and accelerate the growth of the country.

#### **WHAT IS A BANK?**

The term bank is derived from old Italian word “Banco” or from a French word “Banque”, both mean a “Bench” or money exchange table.

A banking company may be defined as a company which transacts the business with finance. It accepts deposits from the public and lends it to those who need it in the form of loans. It receives money from those who want to save their money in the form of deposits and lends it to those who require in the form of loans. The services of banks is called Banking. A bank repay the deposits in the form of cheques, drafts or in some other forms.

#### **Characteristics of Banks**

1. **Dealing with money** : Banks are financial institutions which deal with the money of the public.

2. **Individual/Firm/Company:** Bank may be a person, firm or a company. Banking company means the institution that deals with money.
3. **Acceptance of deposits :** Banks accept deposits from the public. These deposits are returned whenever the customers demand it or after a prescribed period. Banks provide security to these deposits. Banks act as custodians of the deposits of the public.
3. **Lending loans:** Banks advance loans to Industrial sector, Agricultural sector, Education, House construction and for other purposes.
4. **Payment and withdrawal :** Banks facilitate the customers to withdraw their deposits in the form of cheques or drafts.
5. **Agency and Utility services:** Banks provide various banking facilities to its customers. They include general utility services and agency services.
6. **Profit and Service Orientation :** A bank is a profit seeking institution having service oriented approach.
7. **Ever increasing functions :** Banks continuously expand and diversify their functions, services and activities.
8. **Connecting link :** Banks act as connecting links between the depositors and borrowers. Banks collect surplus money of the customers and lend the same to those who are in need of money.
9. **Banking Business :** The main activity of the bank is banking business that is accepting deposits from the customers and lending the same to those who need money. It is not a subsidiary to any other business.
10. **Name identity :** Banks always add 'bank' to their names. ex:- Canara Bank, Vijaya Bank, Corporation Bank, State Bank of India, State Bank of Mysore etc., It enables the customers to know in which bank, that they are dealing with money.

### **Functions of Banks**

1. Accepting deposits from public and others.
2. Lending money to public (Loans) and other institutions.

3. Transferring money from one place to another (Remittances)
4. Collecting money by cheques, drafts and bills.
5. Discounting of bills.
6. Hiring safe deposit lockers.
7. Conducting foreign exchange transactions.
8. Keeping valuables in safe custody.
9. Issuing letters of credit and guarantee.
10. Conducting government transaction (State & Central).

### **Relation between a Bankers and customers**

The relation between a banker and customers falls under two broad categories, namely -

1. General relationship
2. Special relationship

#### **1. General relationship :**

- Primary Relationship (Debtor and creditor relationship).
- Subsidiary Relationship (Trustee and beneficiary relationship).
- Agent and Principal Relationship.

#### **2. Special relationship**

- Obligation to honour cheques.
- Obligation to maintain secrecy of accounts.

**Activity :** Visit a bank near your place and collect information about how it lends money or higher education.

#### **Services offered by banks :**

- |                           |                         |
|---------------------------|-------------------------|
| 1. Credit Cards           | 6. Safe Deposit Lockers |
| 2. Personal Loans         | 7. Debit Cards          |
| 3. Home and Vehicle Loans | 8. Trust Services       |
| 4. Mutual Funds           | 9. Signature Guarantees |
| 5. Business Loans         |                         |

#### **Banking Transactions - Banks and Post offices :**

Any sort of activity involving in money or exchange of money in an account is viewed as bank transaction. Banks are institutions

that deal with money. Banks keep money of the customers in the form of deposits and the money thus collected is lent to the customers who need money as loans. These loans are called Bank loans. Banks lend money and collect interest on these loans out of the money collected by the bank in the form of interest, a part is given to the depositors as interest. This interest forms the income to the depositors. Banks invest the customers money in National and International business and increase their funds.

All the banking transations in India are controlled by The Reserve Bank of India (RBI) which is known as Mother of Banks or Bankers Bank or Central Bank of India. RBI formulates the monetary policy which should be followed by all banks. Today we have State bank group, 20 Nationalised banks, 21 Private banks and 19 Foreign banks. The Network of banks consist of 8000 bank branches. There are Rural banks, Regional Banks, Govt and Private Banks also.

The recent development in banking industry is the inclusion of Post Offices into its fold. The Indian Postal Department is planning to start a bank to be tentatively called the "Postal Bank of India" with a network of over 1.55 lakh post offices spread all over India, 90 percent of them are in and around semi-urban and rural areas. The Department is already providing various financial services including a Post Office Savings Bank, National Savings Certificate, Kissan Vikas Patra, Monthly Recurring deposits, Postal Life Insurance, Pension payment, Money transfer etc. The Postal Department is promoting a capital investment of Rs.1, 000 crores for the bank transactions. It will be set up as a subsidiary with the Postal Department.

**Activity :** Visit a Post Office and get information about the working of Postal Banking system.

### **Types of banks :**

There are different types of Banks. Each type of Bank is specialised in different types of activities.

The Important types of Banks are:

- 1) Central Bank or Reserve Bank of India
- 2) Commercial Banks.
- 3) Industrial Development Banks
- 4) Land Development Banks
- 5) Indigenous Banks (Money lenders or Sahukars)
- 6) Co-operative Banks.

(The details about these banks have been learnt in economics section of previous class)

## **TYPES OF BANK ACCOUNTS**

Generally four kinds of accounts can be opened in a Bank.

- They are :
- (1) Savings Bank Account.
  - (2) Current Account.
  - (3) Recurring Deposit Account.
  - (4) Term Deposit Account.

**1. Savings Bank Account :** This type of account is generally opened in banks by salaried persons or by the persons who have a fixed regular income. This facility is also given to the students, senior citizens,

pensioners etc., savings accounts are opened to encourage people to save money and pool their savings. There is no restriction on the number and amount of deposits. The money can be withdrawn either by cheque or through a withdrawal slip available in the respective bank.

**Activity :** Know the rate of interest Banks offer to  
1) Saving Bank account  
2) current account  
3) recurring deposit account.

**2. Current Account :** Current account is opened by businessmen who have a large number of regular transactions with the Bank. It includes deposits, withdrawals and contra transactions. In current account, amount can be deposited or withdrawn any number of times in a day. Generally banks do not give any interest on these deposits but collect service charges or bank charges on such account.

**3. Recurring Deposit Account :** These deposit accounts are generally opened for a purpose to be saved for a future date. For future requirements deposits are made regularly on monthly basis (For the purposes of Wedding expenses of children to buy costly items like land, car etc.,) After the period is over the total amount is repaid with interest.

**4. Term Deposit Account :** This type of account is opened for a fixed period by depositing a particular sum of money (the term of the deposit may be a month, six months, one year, five years or Ten years). The Deposit amount cannot be withdrawn before the expiry of the term. The Rate of interest is more depending upon the term in this deposit account.

**Activity :** Calculate interest at 8% p.a for Rs.50000/- Payable monthly.

**Activity :** Visit a nearby Bank and learn about the working methods of it.

## PROCEDURE TO OPEN A BANK ACCOUNT

To-day Banks have emerged as important financial institutions. Banks provide a safe environment and help to manage financial transactions. To avail professional banking service, it is mandatory for every individual to open a bank account. Opening a bank account is not a difficult task. It takes seven easy steps to open a bank account. they are :

**Do you know this :**

**Joint Account:** An account which is opened and operated by two or more persons is called 'Joint Account'.

**1. Decide the type of account which you want to open :** There are several types of Bank accounts such as saving bank account, current account, recurring Deposit account and fixed deposit or Term Deposit account. Decide which type of account you want to open in the bank.

**2. Approach the bank of your choice and meet its office :** When once you have decided to open a particular type of account. Approach the bank officer and inform him about your wish to open the account. The Bank officer will give you required forms and instructions.

**3. Fill up the Bank account form or proposal form :** Fill up this form in all respects such as your name, address, occupation and other details in the spaces provided. Make two or three specimen signatures on the specimen signature card. This signature should not be changed. If the account is to be opened in joint names, then the form must be signed jointly and specimen signatures should be given in separate specimen signature cards. Now a days the banks insist on submitting the passport size photographs for the purpose of identification, submit them.

**4. Give reference for opening your Bank account :** Banks normally require reference or introduction of the prospective account holder by any of the existing account holder or some respectable person. The introducer introduces the prospective account holder by signing his specimen signature in the column meant for it. This reference or introduction is required to safeguard the interest of the Bank.

**5. Submit the Bank account form fully filled in** all respects and along with required documents that is address proof, PAN Card, Aadhaar card, photograph etc.,

**6. The officer will verify all the particulars submitted :** He checks whether the form is filled completely in all respects and the other documents. If he is satisfied. Then he clears the proposal form.

**7. Initial Deposit to be made :** After getting the proposal form cleared. The necessary amount is deposited in the bank. Then the bank issues a passbook, a cheque book and a pay-in-slip book in case of savings accounts. In case of term deposit or fixed deposit, a fixed deposit receipt is issued. In the case of current account a pay-in-slip book and cheque books are issued. For recurring deposit account pass book and pay-in-slip book are issued.

**Advantages of opening Bank Account :**

- Bank account facilitates a safe custody of money.
- Bank account helps in making payments.

- Bank account helps in collection of money.
- Bank account holders get advances and loans.
- Bank account helps in smooth financial transactions.
- Bank account holders get safe deposit locker facilities.

### **Bank Operations :**

The following major operations are provided by a banker :

- Provides savings bank facility to build up savings.
- Focuses on mobilising deposits and looking for lending.
- No restriction on number of deposits. No deposit less than Rs.10/- are accepted by the banker.
- Cheques, drafts or other instruments drawn only in favour of the account holder will be accepted for collection and crediting to the concerned account.
- Cash can be withdrawn through cheques or withdrawal forms. If the withdrawal is through withdrawal slip, the concerned account holder only can draw the money. Passbook should be produced at the time of withdrawal. Withdrawal can also be done through ATM (Automatic Teller Machine) debit cards.
- The account holder can give a standing instruction and request the banker for effective periodical payments such as Insurance premium, Income tax, Electricity & Telephone bills, Water bill etc.,
- Interest at the prescribed rate will be calculated for each calendar month on the minimum balance of credit of the account and is credited to the account monthly, quarterly, half yearly or yearly, generally in April and October or Feb and July.
- Account may be transferred between branches of the Bank at the request of account holder. The request to closure of account should state the reason for closure. The pass book, the unused cheque leaves and the ATM debit card must accompany for such request. (ATM cards are cut into two pieces across the magnetic strip)

## EXERCISES

### I Fill in the blanks with suitable words :

1. The word 'Bank' has been derived from the French word \_\_\_\_\_.
2. The Banker's Bank is \_\_\_\_\_.
3. An example for Nationalised bank is \_\_\_\_\_.
4. The National saving certificates are issued by \_\_\_\_\_.
5. The type of account where any number of transactions can be made with Bank is \_\_\_\_\_.
6. The deposits for a fixed term can be deposited in \_\_\_\_\_ account.

### II Answer the following questions after discussion with your friends.

1. What is a bank?
2. List out the characteristics relating to bank transactions.
3. What are the functions of a bank?
4. Explain the relation between the bank and its customers.
5. "The number of saving bank account holders is increasing" - Give reasons.
6. What are the advantages of opening a bank account ?

### III Activity :

1. Make a List of the names of the banks which you know.
2. Visit the branch of a bank and collect information regarding getting the periodical interest banks offer to term deposit account.

### IV Project Work :

Prepare a report on how to open a bank account by visiting a bank branch and meeting its officer and if you need, open your account.

