

COMMERCE
HIGHER SECONDARY - FIRST YEAR
7.BANKING

1. What is a bank?

“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, order or otherwise”

2. List the various types of deposits accepted by banks.

- Fixed or Time Deposit Account
- Savings Bank Deposits Account
- Current Deposits Account
- Recurring deposits Accounts

3. Lists the main types of banks.**On the Basis of Functions**

1. Commercial Banks
2. Industrial Banks
3. Regional Rural Banks
4. Exchange Banks
5. Central Bank

On the Basis of Ownership

1. Public Sector Banks
2. Private Sector Banks
3. Co - operative Banks

On the Basis of Schedules of RBI.

1. Scheduled Bank
2. Non - Scheduled Bank

4. What do you mean by indigenous banker?

- Indigenous bankers are those who do not come under the control of RBI.
- For example money lenders, marvadis, chettiars, pawn brokers are known as indigenous bankers.
- They accept deposit and deal in Hundis.
- The indigenous bankers rely on their own resources or borrow from one another to carry on their business

5. List the credit control methods of Reserve Bank of India**Credit control methods****I. Quantitative credit control methods**

- i) Bank Rate
- ii) Open market operations
- iii) Variable statutory reserve ratio

II. Qualitative control methods

- i) Fixation of Margins
- ii) Regulation of consumer credit
- iii) Direct action
- iv) Rationing of credit
- v) Moral suasion

6. Give the meaning of Internet banking.

- Banking through Internet is called internet banking.
- It can also be called as electronic banking.
- Many banks have their own websites.
- They offer banking facilities such as account enquiry, request for statement and Cheque books on the net.

7. What do you mean by Electronic Funds transfer (EFT)?

- Using the computers the settlement process is made fast by transmitting the information electronically.
- The use of data communications to transfer money among accounts is called as electronic fund transfer.
- EFT is a payment effected by communication of electronically transmitted message to his bank by a customer or a bank to another bank.

8. Define the term Cheque.

According to Negotiable Instruments Act 1881, “a cheque is a bill of exchange drawn on a specified banker payable on demand”.

9. What do you mean by MICR cheque? Give its uses.**MAGNETIC INK CHARACTER RECOGNITION**

- It is a system that uses a special machine that types characters on the documents using ink containing iron oxide.
- These characters can be read by people as well as by a computer input devices.
- Magnetic Ink characters for bank identification number, customer account number and cheque number are preprinted on cheques.

Uses:

- The MICR characters are easily readable and as such it reduces errors.
- Settlement between the banks is done fast and as such net position is quickly known.
- It reduces the manual sorting and totaling work.

10. What do you mean by Endorsement?

- Endorsement means writing the name of a person on the back of a negotiable instrument.
- A person entitled to get money on a negotiable instrument like a Cheque can transfer his right to another by signing on the back of the instrument.

11. What do you mean by ATM? What are its uses?

- An ATM is a device located on or off the bank's premises to receive and give out cash round the clock.
- It is a specialized terminal connected to a bank's central computer via public telephone network.
- ATMs allow access to a range of banking transactions by inserting a magnetic strip plastic card containing account details and keying in a personal identification number.

12. What do you mean by credit card? What are its uses?

- A credit card is a small plastic card issued by a bank to his customer.
- The name, account number of the holder and the validity period of the card are marked on the card.
- It also bears the specimen signature panel on the reverse of the card.
- A cardholder is also given the list of shops and establishments in each city where cards are accepted.
- The cardholder is also informed about the limit up to which he can make purchases in a month.

V. Paragraph Questions

1. EXPLAIN THE NEED FOR BANKING (Study any 3 point with explanation)

Savings and capital formation: Bank plays a vital role in mobilizing the savings of the people and promoting the capital formation for the economic development of the country.

Canalization of savings: The mobilized savings are allocated by the banks for the development of various fields such as agriculture, industry, communication, transport etc.,.

Implementation of Monetary Policy: A well-developed banking system can easily implement the monetary policy because development of the economy depends upon the control of credit given by the banks. So, banks are necessary for the effective implementation of monetary policy.

Encouragement of Industries: Banks provide various types of financial services such as granting cash credit loans, issuing letter of credit, and bill discounting etc., which encourages the development of various industries in the country.

Regional development: Banks, by transferring surplus money from the developed regions to the less developed regions reduces regional imbalances.

Development of Agriculture and other neglected sectors: Banks are necessary for the farmers. It also encourages the development of small-scale and cottage industries in rural areas.

2. GIVE THE PRIMARY FUNCTIONS OF A COMMERCIAL BANK.

Accepting Deposits:

- Banks accept deposit from the public.
- These deposit carry interest.
- It also provides safety for their money.

Making loans and advances:

- Banks grant loans and advances to the needed persons.
- Interest is charged on these loans.
- It promotes the economic development of the country by giving assistance to industry and trade.

Agency functions:

- Collection of cheque, bill, and interest
- Executing standing instructions
- Purchase and sale of securities
- Transfer of funds

3. NARRATE THE SECONDARY FUNCTIONS OF COMMERCIAL BANK.

Agency functions

a. Collection of cheque, bills, interest etc.,

The banks provide services by collecting cheques, bills, promissory notes, dividend warrants and interest etc., on behalf of their customers.

b. Performing standing instructions

The bank makes payments for insurance premium, subscriptions and other periodical payments after getting standing instructions from the customer

c. Purchase and sale of securities

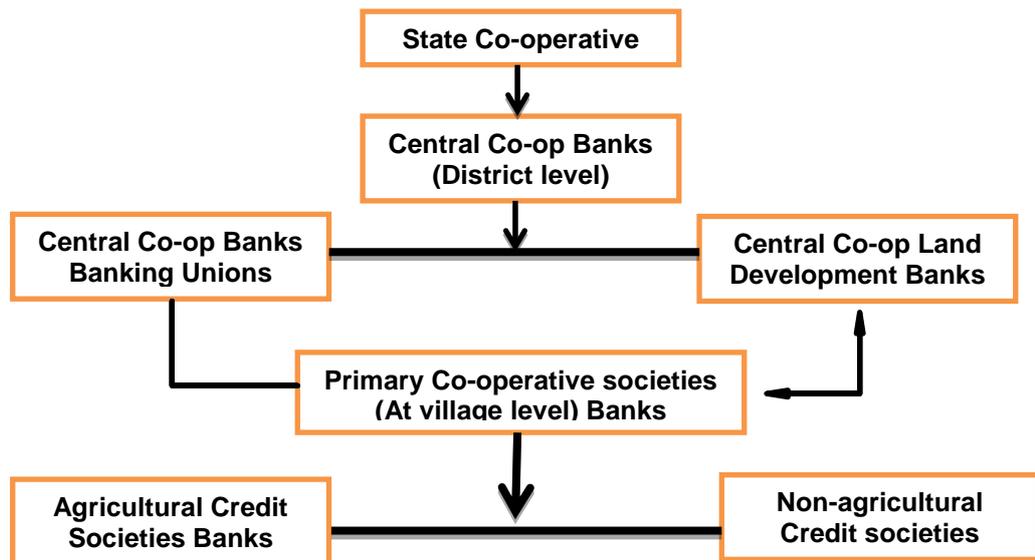
After getting instructions from the customers the banker purchase or sell securities on behalf of the customers

d. Transfer of funds.

On behalf of the customers a bank may transfer funds from one place to another place through drafts, A telegram and internet

Utility Functions or services

- a. Safe Custody of valuables
- b. Safety locker facility
- c. Accepts bills
- d. Underwrites Capital issues
- e. Provides information about the customers and trade
- f. Helps in foreign trade
- g. Issues Travellers cheques
- h. Issues Gift Cheques
- i. Issues Stock Invest
- j. Provides Credit card services
- k. Provides ATM service

4. EXPLAIN THE STRUCTURE OF CO-OPERATIVE BANKS.**Structure of Co-operative Banks****5. GIVE THE FEATURES OF A CHEQUE. (ANY 3POINTS)****An instrument in writing:**

- A cheque is an instrument in writing.
- Writing in pencil is not allowed.

Contains an unconditional order

An order to pay the amount subject to the fulfillment of certain conditions is not a cheque.

Certain some of money only

The amount ordered to be paid by the banker must be certain and must be payable only in money.

Signature of the Drawer

The drawer should sign a cheque and that signature should resemble with the specimen signature.

Payable on demand

- The amount stated in the cheque must be payable on demand.
- If demand is not made cheque need not be paid.

6. Distinguish between restrictive endorsement and conditional endorsement.

Restrictive endorsement	Conditional endorsement
If the endorser restricts further transfer of the bill, the endorsement is called restrictive endorsement.	If the endorser imposes a condition for the transfer of the right to receive money on the instrument, it is called conditional endorsement.
For example : “Pay to L.Rajan only”	For exapmle : “Pay to L.Rajan if he returns from US within two months

7. What are the differences between fixed deposit account, savings deposit account and current deposit account?

Fixed Deposit A/c	Saving bank deposits A/c	Current deposits A/C
<ul style="list-style-type: none"> • When money is deposited for a fixed period it is called fixed deposit. 	<p>In this account money can be deposited for any number of times but can be withdrawn only once or twice in a week.</p>	<p>It is also called as an open account. In this account money can be deposited and withdrawn at any time during the working hours.</p>
<ul style="list-style-type: none"> • Interest rate increases with the increase in period of deposit • The longer the period, the higher will be the interest rate. 	<p>Interest rate is fixed</p>	<p>The bank pays no interest on such accounts</p>
<ul style="list-style-type: none"> • The bank issue deposit receipt after collecting the amount towards fixed deposit. • The depositor can borrow money against the security of the fixed deposit receipt. 	<p>Any person can open a saving account.</p>	<p>These types of accounts are useful for businessmen, companies, public institutions etc.</p>

1. Explain the various types of banks.

BASIS OF FUNCTIONS

1. Commercial bank:

- ✓ Banks, which help for the development of trade and commerce, are called Commercial Banks.

For example:

- ✓ Canara Bank,
- ✓ Punjab National Bank,
- ✓ Lakshmi Vilas Bank,
- ✓ Karur Visya Bank etc

2. Industrial bank :

- These banks assist to promote industrial development by providing medium and long-term loans, underwrites the shares and debentures, assisting in the preparation of project reports, providing technical advice and managerial service to the industries.

➤ Examples :

- ✓ Industrial Development Bank of India (IDBI),
- ✓ Industrial Credit and Investment Corporation of India (ICICI)

3. Regional rural bank:

- These banks are established in rural areas.
- Its object is to develop the rural economy by providing credit and other facilities for agriculture, trade, commerce, industry and other productive activities in the rural areas.

4. Exchange bank:

- Exchange banks deal in foreign exchange and specialize in foreign trade.
- It plays an important role in promoting international trade.

5. Central bank:

- Every country has a central bank of its own which is called as central bank.
- It is the apex bank and the statutory institution in the money market of a country.
- The central bank occupies a central position in the monetary and banking system of the country and is the superior financial authority.

BASIS OF OWNERSHIP:

1. Public Sector Banks:

These types of banks are owned and controlled by the government.

The nationalized banks and regional rural banks come under this category.

2. Private sector Banks:

These Banks are owned by private individuals and corporations.

3. Co-operative Banks:

These banks are operated on co- operative principles.

- It is a voluntary association of members for self-help and caters to their financial needs on a mutual basis.
- These banks are also subject to control and inspection by Reserve Bank of India

BASIS OF SCHEDULES OF RBI:

a) Scheduled banks:

- i) Its paid up capital and reserves are at least Rs.5 Lakhs.
- ii) Its operations are not detrimental to the interest of the depositors.
- iii) It is a corporation or co-operative society and not a partnership or a single owner firm.

b) Non-Scheduled banks:

The banks, which are not covered by the second schedule of Reserve Bank of India, are called as non-scheduled banks.

2.Explain the different types of crossings. Give their significance.

1. Open cheque:

- ✓ An open cheque is payable across the counter of the bank.
- ✓ It can be encashed at the counter of the bank.

i) Bearer Cheque:

- ✓ When a Cheque is payable to a named person mentioned in the cheque or the bearer thereof it is called a bearer cheque. For e.g., **“Pay Thangarasu or bearer”**.

ii) Order cheque:

- ✓ An order cheque is payable to the person mentioned in the cheque or his order, e.g., **“Pay Thangarasu or Order”**

2. Crossed cheque:

- ✓ A crossed cheque is one on which two parallel transverse parallel lines with or without the word “& Co”, “Not negotiable” etc are drawn.

i.General crossing ii.Special crossing.

1) General Crossing:

- ✓ Where a cheque bears across its face an addition of the words, “and company” or any abbreviation there of, between two parallel transverse parallel lines, either with or without “Not negotiable” that addition shall be deemed to be crossed generally.

Significance of general Crossing:

1. When a cheque is crossed generally the banker should not pay the amount across the counter.

The paying banker is directed to make payment through a banker.

2. The receiver of the amount of the cheque can be easily traced in case the cheque is lost or stolen, and collected. Thus the crossing assures safety.

2. Special crossing:

When the name of the banker is written on the face of the Cheque it is called special crossing.

“Where a cheque bears across its face an addition of the name of a banker with or without the words, not negotiable that addition shall be deemed to be crossed specially and to be crossed to that banker” It

should be noted that in special crossing two transverse parallel lines are not necessary

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Significance of special crossing:

1. In this case the paying banker should pay the amount only to the banker whose name is stated on the face of the cheque or to its agent for collection.

2. Suppose a person issues a cheque on the state bank of India, Salem in favour of Thangarasu for Rs.5, 000 with the name of the ICICI bank It written on it.

It means that the paying banker (the State Bank Of India, Salem) must pay the amount to the ICICI Bank Ltd., or to its agent.

3. Give the circumstances under which the banker can refuse payment for the Cheque issued by his customer

DISHONOUR OF CHEQUE (Study any 10 points with explanation)

1. Countermanding of payment by drawer:

The customer may ask his banker not to pay a particular cheque issued by him.

This is called as countermanding or stopping the payment.

2. Notice of customer's death:

When a banker receives notice of customer's death or comes to know it, the banker should not Pay the cheques issued by his customer prior to his death.

The banker should return such cheques with the remark "drawer deceased".

3. Insanity of the customer:

When a banker receives notice of insanity of his customer or comes to know of it, the banker should not pay the cheques drawn by the insane customer.

4. Insolvency:

When a banker comes to know that customer has become insolvent he should not honour the cheques.

5. Court order:

When a bank receives the order from the court attaching the money belonging to the customer, the banker should not honour the cheques. This court order is called as Garnishee Order.

6. Notice of assignment:

When a banker receives notice that his customer has assigned the credit balance in the account to another, the banker should not honour the cheques.

7. Knowledge of breach of trust:

When a banker comes to know that the customer operating the trust account misuses the funds against the rules of the trust, he should not honour the cheques.

8. Knowledge of defect in the title of the holder:

When the banker believes that the person presenting the cheque is not the real owner, he should not honour the cheques.

9. Insufficient fund: If sufficient money is not available in the account of the customer the banker should not honour the cheques.

10. Post dated cheque: If a cheque contains a future date, the banker should not honour the cheque.

11. Stale cheque: If a cheque is in circulation for more than six months, it is recorded as stale cheque or out-of-date. The banker should not honour the cheques.

12. Signature difference:

If there is any difference between the actual signature of the drawer on the cheque and his specimen signature, the banker should not honour the cheques.

13. Irregular endorsements:

If the endorsement is not in the proper order, the banker should not honour the cheques.

14. Words and figures differ:

If the amount stated in words is different from the amount stated in figures, the banker should not honour the cheques.

15. Alteration:

If there is alteration of the cheques and such alteration is not conformed by the drawer by putting his full signature, the banker should not honour the cheques.

16. Form of the cheque:

If a cheque is not properly drawn, the banker should not honour the cheques.

17. Drawn on another branch:

If a cheque is presented for payment at a branch other than the one where the account is kept, the banker should not honour the cheques.

4. Explain the different types of endorsement.

KINDS OF ENDORSEMENT:

There are various kinds of endorsements. They are:

1. Endorsement in blank:

- ❖ If the endorser signs his name only without mentioning the name of the person to whom the negotiable instrument is transferred, the endorsement is called endorsement in blank

2. Endorsement in full or special endorsement:

- ❖ If the endorser directs that the amount stated in the instrument is to be paid to certain person or to his order, and then the endorsement is called the endorsement in full.

3. Restrictive endorsement:

- ❖ If the endorser restricts further transfer of the bill, the endorsement is called restrictive endorsement.
- ❖ For example : “Pay to L.Rajan only”

4. Conditional endorsement:

- ❖ If the endorser imposes a condition for the transfer of the right to receive money on the instrument, it is called conditional endorsement.
- ❖ In this case the endorsee secures the right to receive the amount on the fulfillment of the conditions stated in the instrument.
- ❖ For example : “Pay to L.Rajan if he returns from US within two months”.

5. Sans recourse endorsement:

- ❖ If the endorser endorses the instrument in such a way as to escape from his liability in the case of dishonour, the endorsement is called “Sans recourse endorsement” Sans recourse means “without recourse to me.”
- ❖ The words sans recours are written after the endorsement.
- ❖ The endorsement is as follows: For example “Pay to L.Rajan” Sans recourse.

6. Facultative endorsement:

- ❖ If the endorser waives the right of receiving the notice of dishonour, the endorsement is called “Facultative endorsement” The endorsement is as follows:
- ❖ For example “Pay to L.Rajan, notice of dishonour waived”

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