Application and Classification of Banking

Dr. Mounica Vallabhaneni
Assistant Professor, Department of Commerce And Economics, Presidency University, Bangalore, India,
Email Id-mounicav@presidencyuniversity.in

ABSTRACT:

Any financial institution that aids in the storage, investment, and borrowing of funds is known as a bank. It is crucial to how money moves throughout the economy. Deposits, lending, and investment opportunities are among services that banks offer. There are many different kinds of specialized banks that offer certain services to different sectors of the economy, including enterprises, new businesses, people, and more. The Reserve Bank of India (RBI), the nation's national financial institution, oversees the regulation of banks in India. Every nation has a central bank, such as the Federal Reserve in the United States and the European Central Bank.

KEYWORDS:

Bank Offer, Commercial Banks, Central Bank, Deposits Withdrawn, Economic Growth.

I. INTRODUCTION

According to legend, the Greek word banquet, which means bench, is where the word banking originated. Banc is the German name for a joint stock company. Commercial banking plays a significant role in today's economies. It plays a significant role in the financial system of a nation.The history of contemporary banking begins in antiquity. The New Testament makes reference of money changers' activities in Jerusalem. Ephesus, Delphi, and Olympia were well-known temples in ancient Greece that served as depositories for persons with extra money. These temples served as the locations for money lending. The Vedic era's lending transactions are mentioned in India's ancient Hindu scriptures. During the Ramayana and Mahabharata eras, banking developed into a full-fledged profession. The Vanish group engaged in considerable banking activities throughout the Smite period, which came following the Vedic and Epic ages. The majority of the tasks carried out by modern banks during the Smite era by the bankers included receiving deposits, making secured and unsecured loans, serving as the state's treasurer and banker, and maintaining the nation's currency. In the industrialized nations of the world, the modern commercial banking system did not emerge until the nineteenth century[1], [2].

Business Banks

A financial entity that lends and receives money is a bank. It is a business that mostly deals in money. As a result, a bank is a type of financial institution that allows customers to deposit money that may later be withdrawn using checks. Banks use the money they have gathered to lend to individuals, businesses, and the government. People put their extra cash in banks for two reasons: for the money's protection and to earn interest. A bank is defined as one that accepts for the purpose of lending or investing money from the public, repayable on demand or otherwise, and withdraw able by cheese, draught, order or otherwise. This is in accordance with the Banking Regulation Act of 1949. A bank is a type of financial institution that trades with money, according to the definitions given above. It receives surplus funds from the public and gives loans in advance to the borrowers[3], [4].

Company Commercial Banks Purpose

Today's commercial banks serve their clients in a variety of ways and carry out a variety of tasks. The following headings can be used to discuss the crucial duties performed by commercial banks:

Deposit Acceptance: The public's ability to deposit money is what commercial banks do best. Banks take money from customers or depositors who have excess funds. Banks typically accept deposits by creating accounts in their clients' names. Demand deposits and term or fixed deposits are the two types of deposits they take. Demand deposits can be withdrawn at any moment, whereas term deposits cannot be withdrawn until the time period for which they were deposited has passed. Current accounts, savings accounts, and fixed deposit accounts are the three major types of accounts in which people want to deposit their money. Current accounts are especially designed for businesspeople who frequently need to deposit or withdraw money. Therefore, these deposits are payable upon demand. In lieu of paying interest on these accounts, banks instead charge their customers an incidental charge, often known as a maintenance fee, for a variety of services. Bank savings accounts are likewise demand-payable. Banks set restrictions on the volume and frequency of withdrawals during a given time period. The general public opens these accounts.

On these deposits, a respectable interest rate is paid. Money is retained in fixed deposit accounts for a predetermined amount of time, such as a year, five years, or six months. Although these deposits pay a greater interest rate, they cannot be withdrawn immediately. In other words, the sum of these deposits can only be removed after they mature. It should be noted that these deposits can be withdrawn by presenting the fixed deposit receipt (FDR) that was provided when the account was opened. FDR cannot be substituted with checks. Time deposits are another name for these deposits. Recurring deposit accounts, which require payments for a regular term at regular intervals, are a subset of fixed deposit accounts. For instance, a person could select a maturity time of five years and earn a particular amount each month for five years. These deposits have a high interest rate as well [5]–[7].

2Loan Advancing: Offering loans and advances to consumers is another crucial duty of commercial banks. The interest that banks demand from borrowers is generally higher than the interest that they offer on client deposits. Banks profit from these deals. Banks offer advances in a number of ways. By crediting the entire sanctioned loan amount to the borrower's current account, they offer term loans for a predetermined duration. The total amount borrowed plus interest is paid by the borrower. Another technique to give loans, especially to businessmen, is through cash credit. In this arrangement, the sanctioned amount is not granted entirely at once; instead, an account is formed, from which the borrower may withdraw funds as needed. Only the money that is actually removed from the account is subject to interest charges by the bank. Banks also offer loans to their clients through overdraft facilities.

In accordance with the allowable overdraft limit, a customer who uses this service may withdraw money up to the amount of his credit balance. Only current accounts are eligible for overdrafts. Banks only assess interest on amounts that are overdrawn. Discounting bills of exchange is a significant additional method of lending. The creditor issues a bill to the debtor that includes the debt's amount as well as the due date. Typically, these bills are issued for a 90-day span. This indicates that the debtor must wait 90 days before paying the creditor. However, if the creditor requires cash prior to this time, he may sell also known as being discounted by the bankto a bank. After deducting any commission or discount, the bank pays the amount mentioned on the invoice. The bank purchases the matured bill amount from the debtor.

Movement of Monies: Through the use of different credit instruments like checks, draughts, mail transfers, internet communications, etc., banks assist in the remittance or movement of monies from one location to another.Banks offer their clients a range of agency services. The fees that the banks charge is really minimal. The following are crucial agency services:

II. DISCUSSION

In contemporary economies, banking is essential for fostering economic growth and development through acting as the foundation of financial systems. This chapter gives a general summary of the idea of banking while stressing its most important uses, contributions, and importance to the economy. A comprehensive variety of financial intermediation activities, including receiving deposits, disbursing loans, providing a range of financial services, and managing risks, are all included in banking. In their capacity as go-betweens for savers and borrowers, banks mobilize funds from individuals and organizations with excess cash and direct them towards profitable ventures. Deposit acceptance is the main purpose of banking. For people, companies, and organizations to deposit money in a safe and secure location that can later be retrieved or used for a variety of needs is provided by banks.

By performing this job, banks are able to build up a resource pool that may be used for lending and investment operations in addition to giving people a simple way to hold and manage their money. The supply of loans and credit is a crucial function of banking. For a variety of reasons, including corporate growth, property purchases, and personal financing, banks analyses creditworthiness, assess risks, and make loans to borrowers. Banks assist investment, encourage economic growth, and promote economic activity by extending credit [8], [9]. Banks provide a wide range of financial services to individuals and companies in addition to deposits and loans. The processing of payments, wire transfers, currency conversion, financial planning, wealth management, and insurance products are among these services. Such services improve financial efficiency, ease commerce, and address the various client wants. In managing risks in the financial system, banks are also quite important. They use risk management strategies like asset-liability management, credit scoring, and diversification to reduce the risks involved with lending and investment activities.

Banks maintain the general stability of the economy, secure consumer savings, and improve financial stability by managing risks properly. Additionally, supervision and regulation of the banking sector are crucial elements of the banking sector. Governments and regulatory bodies keep an eye on banking operations, enforce prudential rules, and guarantee adherence to the law and moral principles. Regulatory frameworks are designed to uphold stability, safeguard customers, encourage just competition, and reduce systemic risks to the financial system. Banking plays a crucial role in contemporary economies by acting as a financial intermediary, facilitating lending, mobilizing savings, providing a variety of financial services, reducing risk, and promoting economic growth. In order to analyses the financial system, create monetary policies, and make wise financial decisions, policymakers, economists, and individuals must have a thorough understanding of the roles and functions of banking.

- **i.** Payment and collection of insurance premiums, pensions, scholarships, dividends, interest, and other payments made on behalf of clients.
- **ii.** Collection of checks, draughts, bills of exchange, and dollars
- **iii.** Sale and purchase of securities. By serving as underwriters and bankers for new public securities issuance.
- **iv.** Buying and selling foreign currency on behalf of clients.
- **v.** Acting as trusties and executors, they offer investment services to the corporations. For instance, they store the wills of their clients and carry them out after they pass away.

Banks offer a variety of services including the provision of safe deposit boxes for the safekeeping of jeweler and other valuables, the issuance of traveler's checks, gift checks, credit cards, ATM Automated Teller Machine services, internet banking services, tax preparation, and investment advice. The creation of credits Credit creation is a crucial role that modern banks play in the economy. Banks have the ability to generate credit. By taking deposits from and disbursing loans to their clients, they are able to build credit. Simply said, banks are able to greatly double the initial deposits, a process known as credit creation.Banks can only create so much credit, though. These are listed below:

1. The total amount of cash held in reserves by banks. More credit will be created as cash reserves increase.
2. The central bank established the cash reserve ratio. Less credit can be created the higher the ratio, and vice versa.
3. Countrywide banking practices of the populace. It refers to financial transactions made via checks, draughts, invoices, etc. A good banking habit reduces the quantity of money kept in the banks, allowing for greater loan ability. Large credit will result from this.

Category of Commercial Banks

Scheduled commercial banks and Non-scheduled commercial banks make up the majority of the categories for commercial banks in India. Those commercial banks listed in the Second Schedule of the RBI Act of 1934 are considered scheduled commercial banks. These banks operate in the interest of depositors and have paid-up capital and reserves with a combined value of at least Rs. 5 lakh. Commercial banks that are not included in the Second Schedule of the RBI Act of 1934 are referred to as non-scheduled commercial banks. Twenty-seven public sector banks, thirty private sector banks, of which twenty-two are old private banks and eight are new, forty foreign banks, and 169 regional rural banks make up the schedule of commercial banks. The State Bank of India, its seven subsidiaries, and the other nineteen nationalized banks are public sector commercial banks.

State Bank

The supreme institution in a nation's banking and financial system is its central bank. Every country has a central bank, called by many names, that plays a significant role in organizing, regulating, overseeing, and growing the banking and financial system of that nation. For instance, it is known as the Reserve Bank of India in India, the Bank of England in England, and the Federal Reserve System in the USA. On April 1st, 1935, the Reserve Bank of India was created. However, there are several, significant ways in which a central bank differs from commercial banks. First of all, unlike commercial banks, it is not a for-profit organization. In order to manage and oversee the nation's banking and financial system, it acts in the public interest. Second, a central bank doesn't carry out typical banking tasks like taking deposits from the public and disbursing loans to them. A country's government controls and owns its central bank, but shareholders in commercial banks might be either the government or private persons. There are numerous commercial banks in every country, but each one has a central bank.

Efforts A Central Bank Makes

Several crucial tasks carried out by a central bank are outlined below.

1. Bank of Note Issue: The nation's central bank has the authority to print banknotes. Legal tender consists of banknotes that have been issued by the central bank. A central bank's issuance division is responsible for issuing money and coins. In order to offset the issuance of notes, the central bank must keep a specific quantity of foreign securities and gold on hand.

2. Banker and Government Advisor: A central bank serves as the government's banker, representative, and advisor. It accepts government deposits of cash, checks, and draughts, among other things, in its capacity as banker to the government. It offers the government short-term loans and acts as the government's agent for buying and selling foreign currency. Additionally, it oversees the management of the nation's public debt, issues new loans, collects subscriptions for them, pays interest on them, and ultimately repays them. The government receives financial guidance from the central bank. It aids in the formulation of various economic policies and provides the government with advice on all fiscal and monetary issues.

3. Banker to Banks: The central bank serves a number of purposes as a bankers' bank. It serves as the custodian of commercial and other banks' cash reserves. Additionally, it keeps cash reserve deposits that are needed by commercial banks. Additionally, it reduces commercial banks' expenses. It regulates the activities of all banks and offers recommendations to them.

4. Keeper of Foreign Reserves: A nation's central bank is in charge of keeping its foreign exchange reserves. A nation's central bank handles all of its foreign exchange transactions. It manages both foreign exchange payments and receipts. By purchasing and selling foreign currencies on the market, it aids in keeping the exchange rate stable.

5. Lender of Last Resort: The lender of last resort is the central bank. By discounting recognized securities, collateral loans, and advances, it meets all banks' financial needs in the most fundamental way possible.

6. Clearing House for Transfer and Settlement: The commercial banks' mutual claims are transferred and settled through the central bank, which serves as a clearing house. Since commercial banks retain their cash reserves with the central bank, clearing and settling claims between them is simpler and more straightforward when transfer entries are made in their accounts kept with the central bank.

7. Credit Controller: The primary duty of the central bank is to regulate the issuance of credit by commercial banks. To guarantee the economy runs smoothly, the supply of credit must be controlled. Quantitative and qualitative techniques are used by the central bank to manage credit in the economy. While qualitative methods have an impact on the use and direction of credit, quantitative methods try to control the cost and availability of credit.

8. Development and promotion of a sound financial system: This is done by the central bank. It supports the growth of financial organizations like developmental banks, which offer investable cash for the development of industry, agriculture, and other economic sectors. It promotes the growth of the nation's currency and capital markets.

Banks Classified as Commercial

Planned Banks

A list of the banks that are designated as scheduled banks is included in the second schedule of the RBI Act. A bank must have the recommended paid-up capital and reserves in order to be nominated as a scheduled bank. In accordance with section 42(6) of the RBI Act of 1934, the required sum is simply five million dollars. But in a short period of time, The Reserve Bank of India suggested the minimum capital of 100 crores and that its business should be handled in a way that, in their opinion, does not harm the interests of its depositors. The scheduled banks must work with the RBI to manage a deposit in the form of a CRR (Cash Reserve Ratio) that is based on their time and demand liabilities at the suggested rate. The concept of a nationalized bank must be understood since scheduled banks entail nationalized banks.

Government-Owned Banks

In addition to being nationalized, scheduled banks also include 20 nationalized banks, of which 14 were nationalized on July 19, 1969, and 6 on April 15, 1980. Following the nationalization, these banks now perform various sorts of essential social duties. The government makes use of these banks in an effort to carry out its budgetary policies and particular welfare programmers. Public sector banks are another name for these institutions. Commercial banks SBI (State Bank of India) and its branches provide services that are identical to those of nationalized banks.

Banks not on the Schedule

Banks that do not fall within the second schedule of the RBI Act are referred to as non-scheduled banks. Compared to scheduled banks, these banks are less well-known to the general public since they are less well-liked. These banks also don't offer many amenities like refinancing and bill discounts, for example. These banks are significantly less secure than commercial banks in terms of security as well because they are exempt from following RBI regulations.

Primary Purposes

1. Deposit Acceptance

After a set amount of time, time deposits mature and cannot be withdrawn via check, draught or any other method. Among these deposits are: Fixed Deposits: Deposits that can be withdrawn once the predetermined time period, such as six months, a year, two years, etc., has passed. Recurring Deposits: In this scenario, the client registers an account and deposits a set quantity each month. After a predetermined amount of time, such as a year or two, the collected amount is paid to the client together with interest. Certificates of Cash: They are made available to the general public for the extended time frame. People find it fascinating since the maturity value is multiples of the investment. Demand deposits are those that can be withdrawn at any time by the client without prior notification. It may be withdrawn in any manner, including by cheese, draught, etc. The following are contained in these deposits Savings accounts these accounts promote financial responsibility among people and can only be held by an individual or non-profit organization (NPO), although their interest rates are lower than those of time deposits. Deposits into current accounts typically, businessmen who need a liquid balance have current accounts. High liquidity is proposed by this account. There is no interest accrued and no withdrawal cap on this account.

2. Loan Advancing

Loans and advances are given by commercial banks in many kinds. These are what they are: Overdraft: The bank only offers the overdraft facility to those who have current accounts with the bank. There is an agreement between the bankers and the client that permits customers to withdraw more money than is now in their account. Cash credit is a type of working capital loan given to a company entity. The customer registers an account as part of this settlement, and the allowed amount is credited to it. The client is entitled to utilize that account up to the allowed limit. Bill discounting: This is an additional method of obtaining bank credit. The bank has the option to purchase up-country and overseas bills at a discount before the drawer or borrower is due to make a payout. Advances and Loans: The loan kinds discussed in this section are term loans and demand loans. These are the loans and advances made to customers, such as investors and business owners, in exchange for some types of personal securities, goods, or real estate.

3. Creating Credit

It is a crucial part of what commercial banks do on a daily basis. The bank won't deliver cash when it authorizes a loan for a customer. However, a client-named deposit account is formed in a bank, and the amount is credited to this account. He/she may withdraw the money as and when needed. In this way, the bank increases the amount of money in the economy, a process known as credit creation.

Secondary Purposes

Agency and general utility functions are included in the banks' secondary functions. The overview of these functions is shown here:

1. Agency Activities

These tasks include the following:

1. Collection of dividends, checks, etc.
2. Rent and insurance premium payments.
3. Purchase and sale of securities.
4. Trading foreign currency.
5. Serve as executor, agent, or advisor.
6. Take part by contributing.
7. Income tax return creation.
8. Others.

The following are included in these services:

1. Facility with security lockers.
2. Transfer of money.
3. Travelers’ checks.
4. Letter of credit in the round.
5. Issuing traveler's checks.
6. Assurances of credit.

7. Referring parties.
8. Gives trade-related information.
9. ATM services.
10. Cards of credit.
11. Gift cards.
12. Taking payments.
13. Business banking.
14. Advice on concerns of finance.
15. Service for factoring.
16. Others.

III. CONCLUSION

Modern economies are based on banking, which is a key component of financial intermediation, economic growth, and stability. The acceptance of deposits, the provision of loans and credit, the provision of a wide range of financial services, the management of risks, and adherence to regulatory frameworks are all included in the tasks and functions of banking.Financial organizations like banks offer simple ways for people and companies to store and manage their money in a safe and secure environment. As banks direct these funds towards profitable projects, they act as a basis for lending and investment operations and promote economic growth and development. Banks assist people and organizations with their diverse financial needs, such as growth, property purchases, or money for personal endeavors, by offering loans and credit. This loan distribution fosters entrepreneurship, employment growth, and economic activity, ultimately leading to general economic development.

REFERENCES

[1] I. Safi'i, Klasifikasi Atribut Pelayanan Mobile Banking dengan Kano Model Berdasarkan Dimensi E-Servqual, *J. Sist. dan Manaj. Ind.*, 2018, doi: 10.30656/jsmi.v2i2.696.

[2] R. Adawiyah en J. Nugraha, Sentiment Analysis on Mobile Banking Application Using Naive Bayes Classifer and Association Methods, *Int. J. Eng. Technol.*, 2018, doi: 10.14419/ijet.v7i4.15.22998.

[3] P. Yildirim, D. Birant, en T. Alpyildiz, Data mining and machine learning in textile industry, *Wiley Interdisciplinary Reviews: Data Mining and Knowledge Discovery*. 2018. doi: 10.1002/widm.1228.

[4] J. Jedrzejowicz, R. Kostrzewski, J. Neumann, en M. Zakrzewska, Imbalanced data classification using MapReduce and relief, *J. Inf. Telecommun.*, 2018, doi: 10.1080/24751839.2018.1440454.

[5] L. Deshpande en M. N. Rao, Concept drift identification using classifier ensemble approach, *Int. J. Electr. Comput. Eng.*, 2018, doi: 10.11591/ijece.v8i1.pp19-25.

[6] A. Wang, C. Wang, M. Bi, en J. Xu, A Review of Privacy-Preserving Machine Learning Classification, 2018. doi: 10.1007/978-3-030-00015-8_58.

[7] G. P. Mali, Pros and Cons of Artificial Intelligence (AI) in Banking, *Small Business Bonfire*, 2018.

[8] A. Malathi, J. Amudha, en P. Narayana, A prototype to detect anomalies using machine learning algorithms and deep neural network, in *Lecture Notes in Computational Vision and Biomechanics*, 2018. doi: 10.1007/978-3-319-71767-8_93.

[9] M. Bayraktar, M. S. Aktas, O. Kalipsiz, O. Susuz, en S. Bayraci, Credit risk analysis with classification Restricted Boltzmann Machine, 2018. doi: 10.1109/SIU.2018.8404397.