

THEORY & PRACTICES OF BANKING

[Course Code: 510113]

Chapter 1

Overview of Banks & their Organizational Structure



Bank

A bank is a financial institution licensed to receive deposits and make loans.

“ Bank is an institution which collects idle money temporarily from the public and lends to other people as per need.”

- R.P. Kent

“ Bank is such a financial institution which collects money in current, savings or fixed deposit account; collects cheques as deposits and pays money from the depositors” account through cheques.”

- Sir John Pagette

History of Bank in Bangladesh

- Pre-British Period (From 14th Century)
- British Period (1846-1947)
- Pakistan Period (1947-1971)
- Bangladesh Period (1972- Present)

The First Bank

The Romans, great builders and administrators in their own right, took banking out of the temples and formalized it within distinct buildings. During this time moneylenders still profited, as loan sharks do today, but most legitimate commerce, and almost all governmental spending, involved the use of an institutional bank.



Pre-British Period (From 14th Century)

Many Economists and Experts have expressed their opinion that banking business have been going on since ancient era. Many evidences are found with the archaeological symbols of Harappa and Mohenjodaro.

In 13th century the Muslim businessmen from Kabul came to India and started money lending business. They are famously known as Kabuliwalas in the history. Though there was no form of institutional banking general financial transaction took place at that time.

The banking system has been extensively developed during the Moghal Era. During that time government treasury was formed. Among the local bankers marwari, multani, kabuliwala, sharaf, chetti etc. worth mention. In 1700 The Hindustan Bank was established as a joint venture bank.

British Period (1846-1947)

In 1784 the Bengal Bank introduced paper currency notes and gold coins of different denominations. Later, in 1787 General Bank of India, in 1806 Bank of Bengal, in 1840 Bank of Bombay and in 1843 Bank of Madras were established.

During the period of British rule merchants established the Dacca Bank in 1846. Which is the first private owned bank in the present Bangladeshi territory. Later it was purchased by Bank of Bengal in 1862. The Bank of Bengal opened its first branch in the eastern piece of Bengal (presently Bangladesh).

With merging of three banks (General Bank of India, Bank of Bengal, Bank of Bombay) the Imperial Bank of India was established in 1920. Gradually, Imperial Bank of India spread its branches in various parts lying within Bangladesh.

Pakistan Period (1947-1971)

In 1947 during the separation of India, 639 branches of different banks were the parts of Pakistan. Besides, Head Offices of Habib Bank Limited and Muslim Commercial Bank Limited were transferred to Karachi.

In 1948 the State Bank of Pakistan was established.



Bangladesh Period (1972- Present)

Bangladesh came into being in 1971. Since then a branch of state bank of Pakistan stationed at Dhaka was declared Central Bank of Bangladesh named as Bangladesh Bank under Special Act. In this country of 14 crores people about 57 banks (Govt. bank 4; Local private 30; Foreign 12; specialized 7 and others 4) with about 5500 branches and about 1,10,000 officers / staff; are functioning for socio-economic development.

Eastern Mercantile Bank Limited(1959) , Eastern Banking Corporation Limited(1965) & 10 banks were located in Bangladesh. In 1972 Government, pursuant to Presidents" Order 26, had nationalized all banks & renamed those banks.

Objective of Bank

- Business objectives
- Social objectives



Business objectives

- Making profits.
- Providing services.
- Currency issue.
- Creation of transaction media.
- Receiving deposit.
- Making loan.
- Ensuring safety.
- Investment.

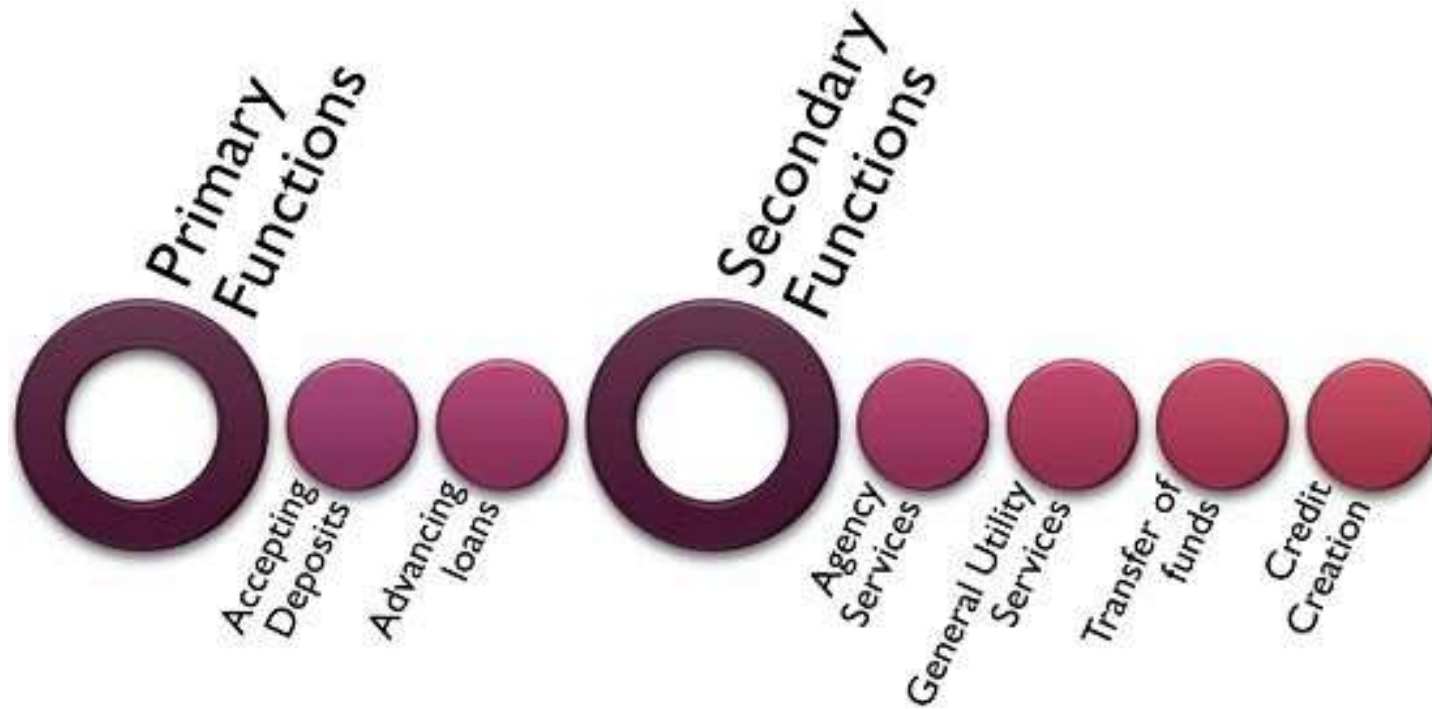


Social objectives

- Creating savings.
- Capital formation.
- Industrialization.
- Employment.
- Developing living standard.
- Economic development.



Functions of Bank



Banking

Banking is defined as the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to conduct economic activities such as making profit or simply covering operating expenses.

Accepting of deposits of money from public for the purpose of Lending or Investment, repayable on demand or otherwise and withdrawable by cheque, draft, or otherwise.



Bank vs Banking

Bank

Origin: Entrepreneurs are the father of banking.

Definition: Bank is a financial institution which receives a deposit from a group of people and lends it to other groups of people.

Purpose: The success of a bank depends on the efficient banking system.

Success: The success of an efficient banking system.

Legal: As the bank is created from a law it has a legal entity.

Liability: Banks are liable to their customers for their functions.

Banking

Origin: Bank is the father of banking.

Definition: Banking means the activities undertaken by banks which include personal banking and commercial banking and corporate banking.

Purpose: The purpose of banking is to help the bank to perform its task.

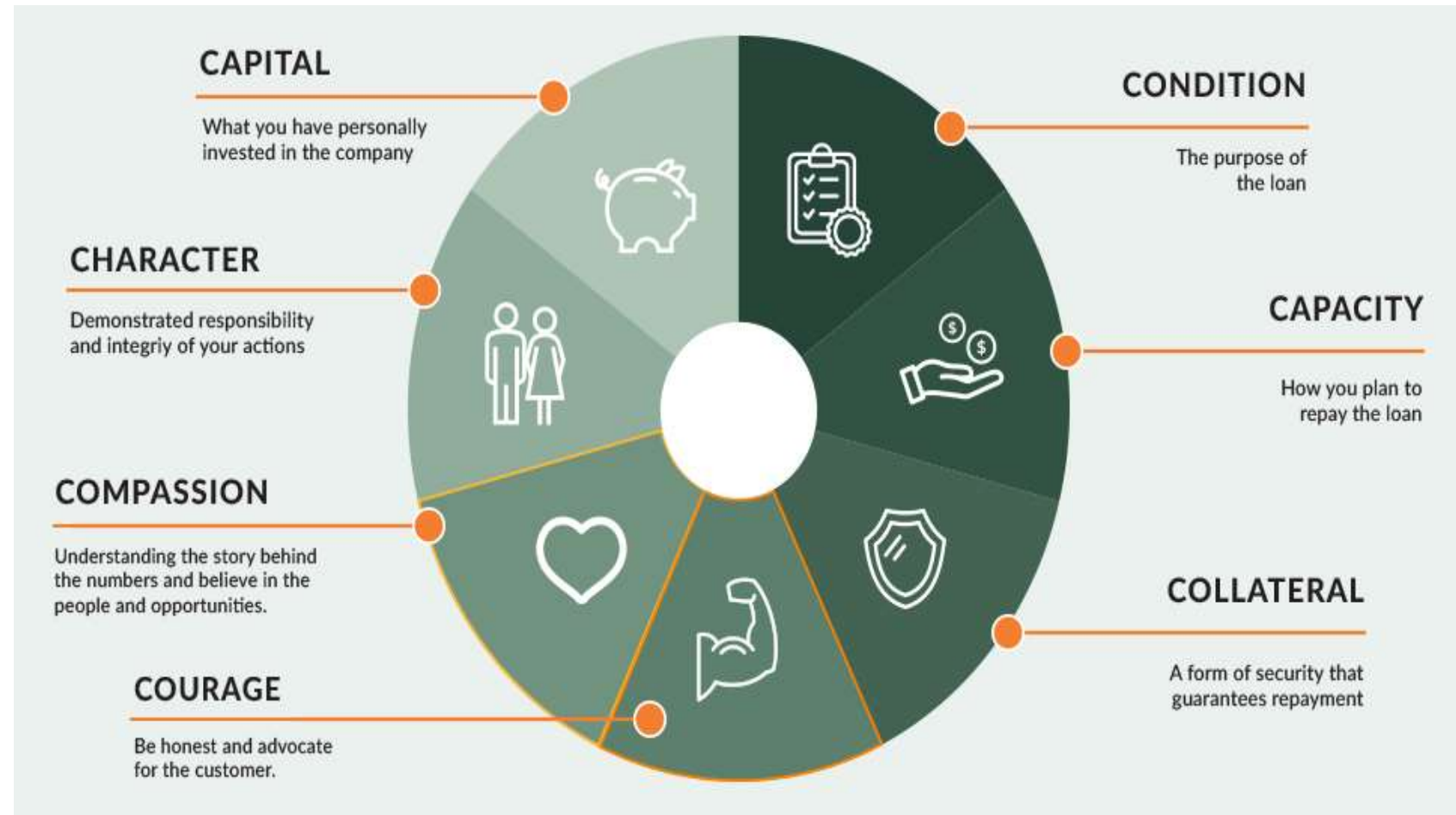
Success: The success of banking depends on the banker's efficiency in planning and management.

Legal: It has no specific law under which the functions of banking are performed.

Liability: The liabilities of banking functions are on the owner of a bank.

7 C's of Banking

- 7 C's of Credit: Condition
- 7 C's of Credit: Collateral
- 7 C's of Credit: Credit
- 7 C's of Credit: Character
- 7 C's of Credit: Capacity
- 7 C's of Credit: Currency
- 7 C's of Credit: Country



Types of Banking

- Group banking
- Chain banking
- Branch banking
- Unit banking
- Mixed banking
- Virtual banking
- Islamic banking
- Investment banking



Banking System in Bangladesh

- Bangladesh Bank
- Commercial Banks
- Islamic Banks
- Leasing Companies
- Finance Companies



Alternative Banking System in the 21st Century

- ❑ Automatic Teller Machines(ATM) ; (Debit & Credit Card)
- ❑ Tele Banking
- ❑ Electronic Fund Transfer
- ❑ E-banking
- ❑ Digital Payment System
- ❑ E-Cheques
- ❑ Demat Accounts



Banker

A banker is an employee of a bank or financial institution who services the financial needs of clients. These clients can be individuals or institutions, both with different needs. A banker tries to maximize the profit of a bank while maintaining appropriate risk levels.

Banker is one who conducts the business of banking.

“ A banker is a private person, who keeps a bank; one who is engaged in the business of banking.”

- **Richmond V. Blake**



Rights & Obligations of Bankers

Rights Of Bankers

- ❖ Right of General Lien
- ❖ The Right of Set-off
- ❖ Right of Appropriation
- ❖ Right to Charge Instead & Commission
- ❖ Right to Close the Account

Obligations of Bankers

- ❖ Honour Cheques
- ❖ Maintain Secrecy
- ❖ Maintain Proper Records
- ❖ Follow Customer's Instruction
- ❖ Provide notice before Closing the Account



Recent Banking Trends

- ❖ Reduced CRR(Cash Reserve Ratio) & SLR(Statutory Liquidity Ratio)
- ❖ Deregulation of Interest Rate
- ❖ New Generation Bank
- ❖ Banking Diversification
- ❖ Fixing Prudential Norms
- ❖ Introduction of CRAR(Capital of Risk Weighted Asset Ratio)
- ❖ Operational Autonomy
- ❖ Improved Efficiency & Profitability

CRR

Banking Problems in Bangladesh

- Surplus liquidity
- Governance
- Risk management system
- Industrial loan
- Credit growth
- Non performing loans
- Borrowing from the Govt. bank
- Technology



Banks & Economic Development

- ❑ Capital Formation
- ❑ Creation of Credit
- ❑ Finance to Govt.
- ❑ Bank Rate Policy
- ❑ Fuller Utilization of Resources
- ❑ Banks are Entrepreneurs
- ❑ Bank Monetize Debt
- ❑ Encouraging Right



Services Offered to Customers by Modern Banks

- ❖ Loans
- ❖ Overdraft
- ❖ Cheque payment
- ❖ Foreign exchange
- ❖ Bank assurance
- ❖ ATM services
- ❖ Financial services
- ❖ Credit cards



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DO YOU HAVE
ANY QUESTIONS?