

INTRODUCTION
of
BANKING BUSINESS

By
Dr Rahmatullah

Janseva Cooperative Credit Society Ltd.
AICMEU- 179 Vazeer building, I.R. Road
Mumbai -400003

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1. WHAT IS BANK AND BANKING?

According to Indian Banking Regulation Act 1949 “A banking company means any company which transacts the business of banking. 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 or otherwise

2. BANKING BUSINESS

Banks are financial institutions which deal with short term financial transactions..They undertake following business-

A-Primary business-----

- I. Acceptance of deposits from the public
- II. Lending of funds
- III. Use of cheque system and
- IV. Remittance of funds

B-Secondary business-----

- I. Agency business -----various activities on behalf of the clients like receipts ,payments, trustee etc
- II. General utility services----like Loc, underwriting, guarantee, referee statistical information, safe deposit vaults etc.

3. SOURCES OF FUNDS

- 1-Paid up share capital
- 2-Reserves and surpluses
- 3-Demand Deposits
- 4-Term Deposits
- 5-Borrowings

4. APPLICATION OF FUNDS

- 1-Cash at hands
- 2-CRR and SLR investments
- 3-Advancement of loans
- 4-Investments (portfolio management)
- 5-Other assets

5. BANK'S BALANCE SHEET

Based on the sources of funds and its application bank prepares its balance sheet as below

	LIABILITIES		ASSETS
1	SUBSCRIBED SHARE CAPITAL	1	CASH AT HAND
2	RESERVE FUNDS	2	MONEY AT CALL AND SHORT NOTICE
3	DEPOSITS	3	CASH WITH CENTRAL BANK (CRR)
4	BORROWINGS	4	INVESTMENTS IN GOVT SECURITIES (SLR)

5	OTHER LIABILITIES LIKE CHEQUES BILLSPAYABLE ETC	5-	BILLS DISCOUNTED INCLUDING TREASURY BILLS
		6	LOANS AND ADVANCES
		7	OTHER ASSETS SUCH AS BUSINESS /RESIDENTIAL PREMISES,FURNITURES AND FIXTURES ETC

6. RULES OF ASSETS –LIABILITIES MANAGERMENTS

Soundness of the banking system is based on

- 1- High capital adequacy norm and
- 2- Lowest NPA (non performing assets—substandard, bad and doubtful and loss assets)

7. GOLDEN RULE OF BANKING

While conducting financial transactions, banks have to keep three things in mind namely liquidity, profitability and solvency

Liquidity means the capacity of the banks to give cash on demand in exchange of deposits

Profitability means income accruing on from the assets the bank holds

Solvency means liquidity and shift ability of the assets held by the bank

The first two are primary in nature while the last one is supportive But first two objectives are contradictory in nature. High liquidity means less investments and low profit. And high profit requires large investments hence lower liquidity. It may be noted that banks inability to show the satisfactory on any of the two will weaken it to the point of closure. Hence it is said that the golden rule of banking is to

8. STRIKE A GOLDEN BALANCE BETWEEN LIQUIDITY AND PROFITABILITY

Now let us have a look at factors determining them

a. FACTORS DETERMINING LIQUIDITY

- 1- Statutory requirements
- 2- Banking habits of the people
- 3- Nature of money market
- 4- Structure of banking system
- 5- Number and size of deposits
- 6- Nature of deposits

b. FACTORS DETERMINING PROFITABILITY

- 1-Amount of working funds deployed (Total fund used in business)
- 2-Cost of funds (Interest expenses on capital)
- 3-Yields on funds (Returns on capital invested)
- 4-Spread (Difference between interest income and interest expenses)
- 5-Operating costs (Management cost excluding cost of funds and provisions)
- 6-Risk costs (provisions made for bad and doubtful debts etc)
- 7-Burden (Difference between non interest income and miscellaneous income)
- 8-Level of NPA (Assets which have no EMI of interest or capital or both for more than three months)
- 9-Level of competition

9. JANSEVA FUNCTIONS AS A FINANCIAL INSTITUTION

1-SOCIAL BANKING SERVICES

Financial inclusion of relatively unbanked people of the society by way of opening account and availing interest free loans and advances and providing training and financial support to self help groups (SHG)

2-INVESTMENT BANKING SERVICES

Investment in various avenues where not only investors get profits free from interest, gambling and speculations but also helps small entrepreneurs, traders to get easy finance for expansion of their business activities

3-SERVICE/SUPPORT SCHEMES

Provision of providing various services ranging from catering information marketing support to primarily SHG's, training, insurance services, financial intermediation, safe deposit vaults, money transfer, and supply of qualitative domestic /business goods on competitive prices.