

Basics of Banking System

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Bank: A bank is a financial institution that accepts deposits from the public and creates credit.

Regulatory body: Reserve Bank of India (RBI).

Types of banks: Public sector banks also known as Nationalized Banks, Private sector bank, Foreign Banks, Regional Rural Banks, Small Finance Banks, Cooperative Banks, Payments Banks. SBI is the largest public sector bank by volume.

Types of accounts: Saving Account, Current Account, NRI Account (NRO, NRE, FCNR Account).

Saving bank account: A basic type of bank account that allows you to deposit money, keep it safe, and withdraw funds, all while earning interest. Interest earning is in the range of 3.5%. Some private banks are even offering higher interest up to 6-7%.

Current bank account: Also known as financial account, it is a type of deposit account maintained by professionals, companies, firms, etc., who carry out significantly higher number of transactions with banks on a regular basis. Such account doesn't not earn any interest rate.

NRI account: Non-Resident Indian (NRI) or a Person of Indian Origin (PIO) can choose to open NR accounts with any bank or financial institution which is authorized by the RBI. These are rupee dominated and can be opened in the form of savings, current, recurring deposits or fixed deposits. These accounts can be jointly opened with any Resident Indian on Former or Survivor basis.

NR Accounts are of 2 types:

- Non-Resident External (NRE) – No tax levied on the interest earned from these accounts, i.e., they are tax exempt. Money is easily repatriable, i.e., transferable. These are primarily opened for transfer of foreign earnings in India.
- Non-Resident Ordinary (NRO) – TDS is applicable on the interest earned from these accounts. Money is only repatriable based on regulatory approval. These are primarily opened for depositing earnings earned within India.

- **Foreign Currency Non-Resident (FCNR) Account:** It can be opened in different currencies such as US Dollars, Canadian Dollars, Australian Dollars, Sterling Pounds, Euro, Japanese Yen, etc. Money is easily repatriable. Interest earned is tax-free. Usually interest earned is very low as compared to regular NR deposit.

Type of deposits: Fixed deposit account, Recurring deposit account, Tax saver fixed deposit -

- A fixed deposit also called as FD is a financial instrument provided by banks or NBFCs which provides investors pre-defined usually higher rate of interest than a regular savings account, until the given maturity date.
- Recurring Deposit provides a person with an opportunity to build up saving through regular monthly deposits of fixed sum over a period of time and helps individuals to invest fixed contribution systematically.
- Tax saver fixed deposit (FD) is a type of fixed deposit, by investing in which, you can get tax deduction under Section 80C of the Indian Income Tax Act, 1961. Any investor can claim a deduction of a maximum of Rs. 1.5 lakh by investing in tax saver fixed deposits. There is a lock-in period of 5 years.

Modes of operations: It specifies how a bank account will be operated and by whom -

- Singly - When account is in a single name.
- Either or survivor - Either of the two can operate.
- Anyone or survivor - if there are more than two account holders, anyone can operate the account singly.
- Former or survivor - Till such time the former, i.e., the first name holder is alive, only he can operate the account.
- Jointly - Account will be operated by both or all account holders jointly.

Bank Insurance: In case of an unlikely bank failure, deposit up to ₹1 lakh is insured and paid back to the depositor by Deposit Insurance and Credit Guarantee Corporation, a wholly owned subsidiary of the RBI. Recently the limit has been increased to 5 lakhs/depositor, effective from 4th February.

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