Overview of Banks & their Organizational Structure

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What is meant by “Bank”?

“Bank” came from the latin word “Banco, Bancus,Bangk”.A bank is a financial institution that accepts deposits from the public and creates a demand deposit while simultaneously making loans.

Some of the definitions of banks are given below-

Oxford Dictionary defines a bank as “an establishment for custody of money,which it pays out on customer’s order.”
According to Peter Rose, “ Bank is a financial intermediary accepting deposits and granting loans”.

According to W. Hock, “Bank is such an institution which creates money by money only.”

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So,we can define bank as- the organisation which is engaged into money transaction.we can also find the following characteristics of bank-

- ★ It deals with money; it accepts deposits and advances loans.
- ★ It also deals with credit; it has ability to create credit.
- ★ It is commercial institution
- ★ It aims at earning profit.
- ★ It is a unique financial institution that creates demand deposits.

From the above all, we can say that bank is an organisational where people and businesses can invest or borrow money,change it to foreign money.

Banking System

There are several types of banking undertaken by various types of banks all over the world.

Some of the types of banks have been discussed below:

1.Branch Banking: Branch banking refers to a bank that is connected to one or more other banks in an area or outside of it. In broad branch banking refers to a single bank which operates through various branches in a city or in different locations or out of the cities. It offers a wide array of face to face service to its customers.

2. Unit Banking: Unit banking refers to a bank that is a single,usually small bank that provides financial services to its local community.A unit bank is an independent and does not have any connecting banks,branches in other areas.

3. Mixed Banking: Mixed banking is a system of banking where a bank a bank combines both deposit banking as well as investment banking.In other words,the bank will provide short-term loans for commerce and trade and long-term finance for industrial units.

4. Chain Banking: Chain banking is a form of banking when a small group of individuals control three or more banks which are independently chartered.

5. Group Banking: Group banking is a plan offered by banks designed to be used by groups rather than individuals. In group banking the bank will offer incentives such as discounts,lower fees and interest rates,as well as other benefits not available to individual customers.

6. Retail Banking: Retail banking means banking where transactions are held directly with customers and there are no transactions with other banks or corporations.

7. Wholesale Banking: Wholesale banking involves banking services for high net-worth clients lite corporate,commercial banks, mid-size companies etc.

8. Investment Banking: Investment banking is a special segment of banking operation that helps individuals or organisations raise capital and provide financial consultancy services to them.They act as intermediaries between security issuers and investors and help new firms to go public.

9.Relationship Banking: Relationship banking is a banking system in which banks make deliberate efforts to understand customer needs and offer him products accordingly.

10. Rural Banking: Rural banking has changed the dynamics of rural economy and made rural people more self-sufficient. They have moved from the clutches of the traditional and informal finance by money-lenders and embraced the benefits and ease of the new banking channels.

11. Universal Banking: Universal banking is a system of banking under which big banks undertake a variety of banking services like commercial banking, investment banking, mutual funds, merchant banking, insurance etc.

12. Social Banking: Social banking system has caught the eye of bankers internationally especially after the economic crisis which left many homeless,jobless and without any savings.

13. Virtual Banking: Virtual or internet banking is a system where all the transactions of the bank are done online and there are no physical branches of the banks.

14. Islamic Banking: Islamic banking is banking or banking activity that is consistent with the principles of Sharia and its practical application through the development of islamic economics.

So from the above all we can say that following are the different types of banking system that we found in Bangladesh.

Bank Vs Non-bank Financial Institutions

The major difference between **NBFC** and **bank** is that unlike banks,an **NBFC** can not issue self-drwan cheque and demand drafts.

The difference between NBFC and Bank can be drawn clearly on the following grounds-

Basis	**NBFC**	**Bank**
● **Meaning**	An NBFC is a company that provides banking services to people without holding a bank licence.	Bank is a Government authorized financial intermediary that aims at providing banking services to the general public.
● **Incorporated Under**	Companies Act 1956.	Banking Regulation Act,1949.
● **Demand Deposit**	Not Accepted	Accepted
● **Foreign Investment**	Allowed up to 100%	Allowed up to 74% for private sector banks.
● **Payment and settlement System**	Not a part of system	Integral part of the system.

Basis	**NBFC**	**Bank**
● **Maintenance of Reserve Ratio**	Not required	Compulsory
● **Deposit insurance facility**	Not available	Available
● **Credit creation**	NBFC do not create credit	Banks create credit
● **Transaction services**	Not provided by NBFC	Provided by banks

NBFC’s are mainly established to grant credit to the poor section of the society,whereas the banks are chartered by the government to receive deposits and grant credit to the public.

Banking problems in case of Bangladesh:

The banking industry of Bangladesh is presently in a deep crisis. The amount of default loan is increasing day by day.On the other hand, presently this sector is in acute liquidity crisis due to some reasons. Political interventions in various levels, corruption & unethical practices, and unhealthy competition among banks are further intensifying the crisis.

1.Low quality of asset: The main assets of any bank which they use as their uses or investments are: Reserve,Cash, item in process of collection,Deposits at other banks,securities and most importantly Loans.But in our banking sector there are several problems related to the low quality of assets which banks are using day by day.

2.Surplus: Our banking industry is burdened with liquidity surplus and it still continuous.

3.Governance: The banking industry of Bangladesh has continuously made considerable progress but despite this situation the foreign countries are consider our banking system.Because of the lack of good governance whatever the banks are publishing in their annual reports and the regulatory paperwork and the data they are putting in those papers are accurate or not.

4.Risk management system: The risk management system is a combination of some terms which includes: assets quality, capital adequacy,non-performing loan,expenditure income ratio,return on Asset (ROA),& return on Equity (ROE).

5.Credit Growth: Credit growth is the increase in the loans for the private sector,individuals,establishments and public organisations. The expansion of credit tends to cause the price of assets such as property and stocks to increase, thereby boosting the net worth of the public.

6.Surplus Liquidity: Surplus liquidity occurs where cash flows into the banking system persistently exceed withdrawals of liquidity from the market by the central bank.

7.Infrastructural: Infrastructural barriers were one of the most important challenges for e-banking in bangladesh.

8.Knowledge: E-business is still not very much progressed in Bangladesh.Mass awareness is not feasible. The country faces problem of developing trained human resources.

9.Security: In bangladeshi circumstance lack and limitation of regulation of law is one of the acute obstacles to e-banking.

10.Socio-cultural and Economic: As mentioned earlier,most of the people are not educated in Bangladesh.So, people are not willing to break the traditional way of conventional banking and always hold a negative perception regarding e-banking.

11.Lack of Awareness: E-business is still not very much progressed in Bangladesh. Mass awareness is not feasible. The country faces problem of developing human-capital.

12.Customer relationship: Nationalized commercial banks and specialized banks were lagging behind of online banking services. Moreover, customers were not satisfied with the quality of the services.

13.Software: Local banking software may be developed properly and must have greater accessibility within the country and outside the country.

14.Technology: Bangladesh Bank may adopt latest technology but due to lack of vision they were adopting old technology i.e. introduction of MICR for Bangladesh Bank automation procedure.

15.High Cost: The number of customers taking banking services does not capable to bear the cost of additional equipment like computer, computer accessories,internet etc. Using Internet facility still very costly.

Islamic Banking

Islamic bank is a financial institution whose statutes,rules and procedures expressly state its commitment to the principles of Islamic Shariah and to the banning of the receipt and payment of interest on any of its operation.

So, Islamic bank developed under Islamic framework, performs most standard banking service and investment activities conforming the principles of islamic Shari'ah.

Salient Features of Islamic Banks

Salient features of Islamic Banks are as follows-

- Islamic Banking activities are regulated according to Islamic Shari'ah.
- Islamic bank is directed by Shari'ah board which consists of many brilliant and famous intellectuals, economists, banker and lawyer.
- All economic activities are free from interest.
- It tries to coordinate economic and social development
- Islamic bank grants interest free loans to the poor students and needy people.
- Islamic bank avoid investment in debentures and bonds because of their fixed rate of interest.

So, we can say that Islamic Bank is a "Company" which carries on Islamic banking business.

Basic Objectives of Islamic Banks

The basic objectives of Islamic bank can be pointed out as follows-

- To conduct interest free banking systems according to Islamic Shariah.
- To make investment through different modes permitted under Islamic Shariah.
- Optimum allocation of scarce financial resources.
- To help ensure just and equitable distribution of income.
- To avoid the production of harmful goods and services.
- To eliminate socio-economic injustice.
- To establish economic equality and eliminate economic exploitation.

Features of a Bank

A bank is a financial institution licensed to receive deposits and make loans.Banks may also provide financial services, such as wealth management, currency exchange and safe deposit boxes. There are many features of a bank. The main features of a bank are discussed below-

1. **Dealing in Money:** Bank is a financial institution which deals with other people's money i.e. money given by depositors.
2. **Firm/Company:** A bank may be a person , firm or a company. A banking company means a company which is in the business of banking.
3. **Acceptance of Deposit:** A bank accepts money from the people in the form of deposits which are usually repayable on demand. It gives safety to the deposits of its customers.
4. **Giving advances:** A bank lends out money in the form of loans to those who require it for different purposes.
5. **Payment and withdrawal:** A bank provides easy payment and withdrawal facility to its customers in the form of cheques and drafts, it also brings bank money in circulation.

6. Agency and Utility Services: A bank provides various banking facilities to its customers.They include general utility services and agency services.

7.Profit and Service Orientation: A bank is a profit seeking institution having service oriented approach.

8. Connecting Link: A bank acts as a connecting link between borrowers and lenders of money. Banks collect money from those who have surplus money and give the same to those who are in need of money.

9. Banking Business: A bank's main activity should be to do business of banking which should not be subsidiary to any other business.

10. Name Identity: A bank should always add the word "Bank" to its name enable people to know that it is a bank and that it is dealing in money.