Welcome students.

In this module we are going to

continue with the first unit.

And the topic is systems of banking.

So the outline of this module is

group and chain

banking and unit and branch banking.

The learning outcomes are to

describe the systems of banking and

differentiate between the systems.

So systems of banking have been emerged

due to the modernisation

occurring in the banking structure.

So banks can be classified

based on volume of operation,

area of operation and business pattern.

Altogether,

We have seven different systems of banking.

Let's start with the first one.

The first one is branch banking.

In branch banking,

the business is carried out

from the main central office.

The directors will

take all the decisions.

And this mean head office has various

branches around or across the country.

Now in this branch banking system,

each branch will have a manager who

is given authority as well as

responsibility to carry out the

activities of that particular branch bank.

So each bank act as a single entity,

which is held by shareholders and

controlled by a group of directors.

So in India we can say most of the banks

are operating under branch banking.

The advantages of branch banking.

The first one,

economies of large scale operation.

Since the branches are across the country,

this branches can have the merit of

Division of Labor and specialization

since they get funds from the main head

office as well as they also earn profits,

they can employ skilled labor.

Second one is the economy of reserves.

The branches do not rely

only on their reserves,

but also they get help from the

main office as well as the profits

which are on from other branches.

Third one, spreading of risk.

If one branch is not doing

well due to some reasons,

it can always rely on the profits

which are earned from other banks.

Fourth one is remittance services or facilities.

When there is remittance of funds

from one branch to another branch,

there are no extra charges.

So in this way they can cut on

their cost and the fifth one is

effective central bank control.

So in branch banking, the head office can control only the main

head offices of this bank.

Next we have the disadvantages

of branch banking.

The first disadvantage is

lack of effective control.

When there are more branches

across the country,

the head office cannot have direct

supervision and control of all the

branches which are existing in the country.

Second one lack of initiative.

Each branch manager can feel why

should I give my hundred percent when

the funds or the profits realized

by that branch are not used for

that particular branch but

is shared between all the branches.

Third, one lack of personal knowledge.

In branch banking,

the branch managers are not permanent at each branch. They go on

shifting from one branch to another branch.

So in this way they lose a personal

relationship with their customers.

4th one is monopolistic tendencies,

sometimes in branch banking system there

is a monopoly because finally even though

branch managers are taking decision,

it has to be approved by the head office.

And the last one is neglect

of a particular locality,

because in branch banking all the profits

which are earned by the branches are

finally headed towards the main office.

So the main office decides which

branch should be given with how

much portion of the profit.

So in this way,

a branch which is contributing a high

proportion of profit may not be able

to enjoy as further contributions are made.

Next we have the second system of banking,

that is unit banking.

Unit banking is just the opposite

of branch banking.

Which originated in the USA.

In unit banking,

banking operations are carried

on at one place,

whereas in branch banking we had

the main head office at one place

and branches across the country.

But in unit banking it does not have

any branches across the country.

It is independent and takes the

sole responsibility and authority

of all the operations.

The advantages of unit banking.

First one is efficient management.

There is no monopoly.

You are responsible for your own actions,

so quick decisions can be taken.

Second,

personal contact.

You have a personal relationship

with the customers.

As a result you have a better customer base,

a quick decision on the spot can be taken.

No confirmation from the head

office is required and the 4th

one it promotes regional balance.

Because the profits which are owned can be contributed

back to the society for the

development of that particular area.

Disadvantages of unit banking.

First, one, limited financial resources.

As a result,

they cannot employ skilled

employees and there is no division

of Labor and specialization.

Second,

one personal relationship sometimes

becomes a risk because when you are

having a good relationship with the customer,

the customer can also try to react to the situation and take

loan without giving any collateral.

The third one is economic impact.

When the economy is doing well,

the unit banks might be doing

well and during depression times

they might go into depression.

So it has a direct relationship

with the economic status and 4th

one is the problem of supervision

by Central Bank with the number

of unit banks across the country,

the central bank cannot have or direct

control on all the number of unit banks.

Next we have group banking.

In Group Banking,

group of banks are brought under

the control of a holding company.

So this holding company tries to control

a group of banks in one particular area.

The purpose is to Unite the

management of banks.

Achieve economies of large scale

operation and to grab more power.

The advantages are each bank did

not carry huge cash reserves.

They can be related on the

reserves depending upon their

Expenses and income.

Second one is support from big banks.

Big banks which are doing

very well in the business.

They can contribute to the working

requirements of small banks and the

third one economies of large scale

production due to low operating costs.

Bulk purchases an improved

and efficiency of management.

Disadvantages of group banking.

The first disadvantages non banking

financial companies position is

endangered because in Group banking

both banking companies and non

banking companies will be grouped

together and to make more profit.

The funds or banking companies will

be directed to NBF sees there by

their position will be endangered.

Because they might not be

knowing how much actual revenue

or expenses they are incurring,

and the 2nd disadvantage is,

it leads to monopoly and restricts

healthy competition in the market.

The 4th system of banking is chain banking.

In chain banking,

two or more banking companies

are controlled by one person or

it can be by few individuals or

same group of persons may control

banks through purchase of shares.

The main difference between these

two systems are in Group banking.

Affairs are controlled by a holding company,

whereas in chain banking there is no such

intervention from the holding company.

So in the conclusion we have.

Branch banking, unit banking, group

banking and chain banking.

As the types of systems of banking.

Thank you.