

Different Types of Banking- Key Points To Know



Para Banking:

- Para banking activities are defined as those banking activities which a bank performs apart from its daily activities like withdrawal or deposit of money.
- Under para banking activities banks can undertake activities either departmentally or by setting up subsidiaries.

Narrow Banking:

- This is a type of banking in which banks invest money mostly in government bonds and securities.

- This is done to avoid risk in the market.
- Banks dedicated to such type of banking are also known as Narrow Banks.

Offshore Banking

- When a bank accepts currencies of countries abroad, such an activity is known as Offshore banking
- Sometimes people require more than their local banks can offer. In such cases, they opt for Offshore banking.
- It provides financial and legal benefits like privacy and minimal taxation.

Difference between Offshore and Onshore Banking

Green Banking

- **Green banking** promotes deployment of clean energy technologies.
- It stresses on environmentally friendly practices and aims at reducing the carbon footprint from banking activities.
- These activities seek to reduce costs of energy for ratepayers, private sector investments and other economic activities.

Retail Banking

- Retail banking is a type of banking in which direct dealing with the retail customers is done. This type of banking is also popularly known as consumer banking or personal banking
- **Retail banking** is the visible face of banking to the general public.

Retail Banking v/s Corporate Banking

Wholesale Banking

- **Wholesale banking** can be referred to as the services provided by banks to organisations like Mortgage Brokers, corporate clients, medium scale companies, real estate developers and investors, international trade finance businesses, institutional customers (such as pension funds & government agencies) and services offered to other banks or financial institutions.

Universal Banking

- The recommendation of the concept of Universal Banking was done by the R H Khan committee.
- This is a type of banking in which banks are allowed to undertake all types of financial activities regarding banking or development in accordance with the statutory and other requirements of RBI, Government and related legal Acts.
- Universal Banking includes activities like accepting deposits, issuing credit cards, investing in securities, merchant banking, foreign exchange operations, etc.

Islamic Banking

- Islamic banking is a kind of banking activity which strictly follows the principles of the Islamic law (Sharia) and its application practically through the development in Islamic economics
- A better and more apt term for Islamic banking is Sharia Compliant Finance.

Unit Banking

- USA is where such type of banking was first introduced.
- In such a type of banking, all the operations are performed from a single branch.
- A customer having an account in a specified branch has to undergo all banking activities through that branch.
- Examples are Regional Rural Banks and Local Area Banks.

Mixed Banking

- Mixed banking is a type of banking in which deposits and investment activities take place simultaneously.
- It can also be described as the dual functioning of investment banking and commercial banking.

Chain Banking:

- Chain banking is a type of banking which is a group of minimum 3 banks held together by a group of people to carry out effective banking activities.

- Instead of having a holding company the bank functions independently.
- The revenue is maximised since there is no overlap of activities.

Relationship Banking

- In such a type of banking, the the major needs of the customers are understood by the bank and accordingly banking services are provided to the individual.
- Banks get to know if the customer is credit worthy since they have to gather information about its customers.

Correspondent Banking

- In more than 200 countries, this type of banking is prevalent and is considered the most profitable way of doing business.
- In such a type of banking, the bank does not have a physical presence or any limitations in the permission of operations.
- It acts as a banking agent for a home bank. (**Correspondent Banking**)