

UNIT BANKING AND BRANCH BANKING

Unit Banking

- ▶ Unit banking' means a system of banking under which banking services are provided by a single banking organization

Unit Banking

- ▶ It has its own governing body or board of directors

It also does not control any other bank

Unit Banking

- ▶ . Such a bank has a single office or place of work. It functions independently and is not controlled by any other individual, firm or body corporate

Advantages of Unit Banking

Efficient Management

- it can be managed efficiently because of its size

No Risks of Fraud

- Due to small size of the bank, there is stricter and closer control of management

Promotes Regional Balance

- Under unit banking system, there is no transfer of resources from rural and backward areas to the big industrial and commercial centres

Advantages of Unit Banking

No Evil Effects Due
to Strikes or Closure

- In case there is a strike or closure of a unit, it does not have much impact on the trade and industry because of its small size

Better Service

- Unit banks can render efficient service to their customers. Their area of operation being limited

Disadvantages of Unit Banking

No Economies of Large Scale

Since the size of a unit bank is small, it cannot reap the advantages of large scale viz., division of labour and specialisation.

Lack of Control

Since the number of unit banks is very large, their co-ordination and control would become very difficult.

Limited Resources

Under unit banking system the size of bank is small. Consequently its resources are also limited

Disadvantages of Unit Banking

Wastage of National Resources

Unit banks concentrate in big metropolitan cities whereas they do not have their places of work in rural areas.

Local Pressure

Since unit banks are highly localised in their business, local pressures and interferences generally disrupt their normal functioning.

Branch Banking

- Branch Banking refers to provision of banking product and services through **more than one office**.
- Branch offering branch banking , establish branching network within a city, **across cities**, throughout the **country** or even expanding **internationally**
- This kind of banking system is prevalent in India where all commercial banks have extensive branch network
- Branch banking is known as **financial centre or banking centre**
- This helps improving face to face to customers
- With the adverse of core banking system , customers have the advantages of accessing their accounts from wide network of branches
- Example: State bank of India

Branch Banking

Advantages

- Wide network of branches
- Risk diversification
- Uniform policy guidelines
- Proper delegation of powers
- Speedy collection of instruments and cheques
- Trained and well equipped

Disadvantages

- Limited scope to implement innovative ideas down the line
- Delay in decisions due to prevailing hierarchy system
- Laid back attitude
- After implementation of Core banking solution the physical branch system has less significance

Comparison chart

Particulars	Branch Banking	Unit Banking
Operational freedom	Less Operational freedom.	More Operational freedom.
Loans and advances	Loans and advances are based on merit, irrespective of the status .	Loans and advances can be influenced by authority and power.
Financial resources	Larger financial resources in each branch.	Larger financial resources in one branch
Decision-making	Delay in Decision-making as they have to depend on the head office.	Time is saved as Decision-making is in the same branch.
Funds	Funds are transferred from one branch to another. Underutilisation of funds by a branch would lead to regional imbalances	Funds are allocated in one branch and no support of other branches. During financial crisis, unit bank has to close down. hence lead to regional imbalances or no balance growth
Cost of supervision	High	Less
Concentration of power in the hand of few people	Yes	No
Specialisation	Division of labour is possible and hence specialisation possible	Specialisation not possible due to lack of trained staff and knowledge
Competition	High competition with the branches	Less competition within the bank
Profits	Shared by the bank with its branches	Used for the development of the bank
Specialised knowledge of the local borrowers	Not possible and hence bad debts are high	Possible and less risk of bad debts
Distribution of Capital	Proper distribution of capital and power.	No proper distribution of capital and power.
Rate of interest	Rate of interest is uniformed and specified by the head office or based on instructions from RBI.	Rate of interest is not uniformed as the bank has own policies and rates.
Deposits and assets	Deposits and assets are diversified, scattered and hence risk is spread at various places.	Deposits and assets are not diversified and are at one place, hence risk is not spread.