Financial Institution and Services Commercial banks

Introduction

Commercial banks are established for trading and financing purpose. It caters the needs of trade, commerce etc.

Definition

Banks are not nearly traders in money but also important manufacturers of money
- R.Sayers

Meaning

Every banks deals with money. It borrows and lends money. The banks also create credit.

Functions of commercial banks

1. Acceptance of deposits

The first and foremost function performed by the bank is the acceptance of deposits from the public. Usually a bank accepts the following deposits:



- ✓ Accept deposits of money for a fixed period of time from its customers
- ✓ repayable only after the expiry of the fixed period which ordinarly varies from fifteen days to five years or more

Recurring deposits

- ✓ It can be opened by any person including a minor
- ✓ depending upon the financial convenience the depositor decides to deposit
 - ✓ after expiry of the fixed period who gets the principal amounts along with the interest in a lumpsum



Current deposits

- ✓ it suit the needs of big business people, joint stock companies, public undertakings, public corporations etc.
- ✓ it relieves big businessmen and undertakings from the botheration and risk of keeping ready cash to meet their obligations
 - ✓ bank do not allow interest on current deposits



Saving deposits

- ✓ it is introduced to create saving habit for lower and middle class people
- ✓ banks offer reasonable rates of interest on saving deposit

2. Advancing of loans

the banks do not keep the deposits idle. After keeping certain cash reserves, the balance is given by the bank to the needy borrowers by way of loans and advances. The various types of loans and advances are as follows:

Making ordinary loans

✓ The bank gives a specified sum to a person or a firm against some collateral security



- ✓ The bank gives loans to the borrowers against certain security
- ✓ The loan amount is credited at the debtors account and the debtors allowed to withdraw the money from time to time up to a certain limit

Overdraft

- ✓ The bank permits the respectable and reliable customers to overdraw the sum through cheques
- ✓ The customers pay interest to the bank for the amount overdrawn by them

Discounting bills of exchange

If the customer has a bill to be exchanged for his immediate needs, he can get it discounted by the banks

- ✓ After the deducting its commission, the bank pays the present price of the bill to the holder
- ✓ The bank will collect the amount, when the bill gets matured



Investment of funds

- ✓ The modern commercial bank also invest a part of its surplus funds in government securities and earns interest on them
 - ✓ Keeping a part of their funds in such government securities is statutory

4. Promote the use of cheques

The bank also gives facility to the customers such as cheque for easy and quick transactions

>5.Agency functions

The following are the agency functions perform by the banks for its customers

Transfer of Funds

- The bank helps its customers in transferring funds from one place to another
 - ✓ The instrument used for this purpose is known as 'Bank Draft' or 'Demand Draft'
 - ✓ The bank collects a small commission from the customers



Collecting customers funds

✓ The bank also collects the funds of its customers from other banks and credits them to their accounts

Purchase and sale of Shares and Securities

✓ It purchases and sells the shares and securities for its customers

Collecting Dividends on the shares of the customerS

✓ The bank collects dividends as well as interest on the shares and debentures of its customers and credits them in their accounts



✓ It pays the premium to the insurance companies for its customers

The bank acts as a Trustee and Executor

✓ the bank also preserves the 'wills' of the customers and executes them after their death



Income tax consultant

- ✓ It acts as an adviser to its customers in income tax matters.
 - ✓ It even prepares income-tax returns of its customers on payment of its fee



Acts as correspondent

- ✓ The bank also acts as a correspondent, agent, or reprensetatitive of its customers
- ✓ the bank may obtain passports, travellers' tickets and even secure air and sea passages for its customers

6. Business in Foreign Exchange

- ✓ The bank also performs another business of buying and selling foreign currencies
- ✓ In commercial banks separate section is opened and it deals with such business of buying and selling foreign currencies

7. Financing Internal and Foreign Trade

- ✓ The bank finances internal and external/Foreign trade through discounting of exchange bills
- ✓ It also comes forward to give short-term loans to the traders on the security of commercial papers which facilitate the movement of internal and external trade