COMMERCIAL BANKs

profit-based institutions that offer financial products like loans, as well as services like deposit, electronic transfer of funds, etc. to their customers. Commercial banks have a significant role in a country's economy as these organisations fulfil the short and mid-term financial requirements of industries.

Functions of commercial banks are primarily based on a business model of accepting public deposits and utilising that fund for various investment purposes. Such functions can be classified into two categories, primary and secondary functions.

What are the Functions of Commercial Bank

Following is a brief overview of both **primary and secondary functions** undertaken by a commercial bank –

PRIMARY FUNCTIONS

1. **Accepting Deposits** – Commercial banks accept deposits from their customers in the form of saving, fixed, and current deposits.

- **Savings Deposits** – Savings deposits allow a customer to credit funds towards their accounts for up to a certain limit. These deposits are preferred by individuals
- **Fixed Deposits** – Fixed deposits come with a predetermined lock-in period. Fixed deposits are also referred to as time deposits as the funds are deposited for a specific time frame.
- **Current Deposits** – Current deposits allow account holders to deposit and withdraw money whenever necessary. In some cases, current accounts also offer overdrafts until a pre-specified limit to individuals and bubusinesses

2. **Providing Loans** – One of the main functions of commercial banks is providing credit to organisations and individuals, and profit from the earned interest. Usually, banks retain a small reserve for their expenses while offering the remaining amount to customers as various types of short and long-term credits.

Commercial banks provide both secured and unsecured loans, categories are-

Cash Credit – Commercial Banks and its Functions include extending advances to individuals and organisations against bonds, inventories, and other types of securities. This facility, commonly known as cash credit, provides a more substantial sum when compared to other forms of credits.

Short-Term Credits – Short-term loans are usually pledged without any security, offering a smaller loan amount and repayment tenor. These are also referred to as personal loans.

3. Credit Creation – A unique function of commercial banks is credit creation. Instead of offering liquid cash, banks create a line of credit and transfer the loan to a business or commercial body all at once.

SECONDARY FUNCTIONS

The following can be considered as the secondary functions of commercial banks –

1**. Providing locker Facilities –** Commercial banks provide locker facilities to customers who want to store valuables safely. Locker facilities eliminate the impending risk of theft or loss, which prevail when kept at home.

2**. Dealing in Foreign Exchange** – Commercial banks help provide foreign exchange to individuals and organisations which export or import goods from overseas. However, only certain banks which have the licence to deal in foreign exchange are eligible for such transactions.

3. **Exchange of Securities** – Another function of commercial banks is to trade in bonds and securities. Customers can purchase or sell the units from the financial institution itself, which offers more convenience than alternate approaches.

4 – The main function of a commercial bank in today's date is to discount bills of businesses. Bill discounting is considered as a profitable investment for banks. Bills create a steady flow of funds, while not becoming a risky venture during payment as it is considered as a negotiable instrument. These also do not involve the financial institution in any litigation.

5. Bank as an Agent – Commercial Bank and its Function also requires them to provide finance-related services to customers, fulfilling the role of an agent. These services usually include –

- Acting as an administrator, trustee, or executor of a customer-owned estate.
- Assisting customers with tax returns, tax refunds, and other similar tasks.
- Serving as a platform to pay premiums, repay loan instalments, etc.

- Offering a platform for electronic transaction of funds, processing of cheques, drafts, bills, etc.

TYPES OF COMMERCIAL BANKS

It is necessary to understand the different types of financial institutions to explain the functions of commercial banks effectively. Commercial banks are commonly categorised into **three** types.

1. Public Sector Banks

Public sector banks refer to a type of financial institution that is state-owned by the corresponding Government. A significant part of the share of such organisations is held by the Government.
In India, the Reserve Bank of India, which acts as the central bank, creates operating guidelines for the public sector banks.

2. Private Sector Banks

Private sector banks are financial institutions registered as companies with limited liabilities. The major part of the share capital of such companies is owned by individuals or private businesses.

3. Foreign Banks

Foreign banks are financial institutions that are operating overseas within a foreign nation. Post the financial reform of India (in 1991), there was a marked increase in the number of foreign banks on Indian soil. They are essential for the economic development of a nation.