Course Name:-B.A.LLB-IIth Sem

Subject:-Economics-II

Teacher:-Ms.Munesh

Topic:- Functions of Commercial Bank

Banking in India

Modern **banking in India** originated in the last decade of the 18th century. Among the first banks were the Bank of Hindustan, which was established in 1770 and liquidated in 1829–32; and the General Bank of India, established in 1786 but failed in 1791.

The largest and the oldest bank which is still in existence is the State Bank of India (S.B.I). It originated and started working as the Bank of Calcutta in mid-June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks founded by a presidency government, the other two were the Bank of Bombay in 1840 and the Bank of Madras in 1843. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. For many years the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934.

In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks. In 1969 the Indian government nationalised 14 major private banks; one of the big banks was Bank of India. In 1980, 6 more private banks were nationalised. These nationalised banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and widespread networks.

The Indian banking sector is broadly classified into scheduled and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalised banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks. The term commercial banks refers to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949.

Generally the supply, product range and reach of banking in India is fairly mature-even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State Bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development (NABARD) with facilities like microfinance.

Commercial Bank

A commercial bank is a kind of financial institution which carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, etc. These banks are profit-making institutions and do business only to make a profit.

The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest (profit). The rate of interest that a bank offers to the depositors are known as the borrowing rate, while the rate at which banks lends the money is called the lending rate.

Function of Commercial Bank:

The functions of commercial banks are classified into two main division.

(a) Primary functions –

- **Accepts deposit –** The bank takes deposits in the form of saving, current, and fixed deposits. The surplus balances collected from the firm and individuals are lent to the temporary required of commercial transactions.
- **Provides Loan and Advances –** Another critical function of this bank is to offer loans and advances to the entrepreneurs and businesspeople and collect interest. For every bank, it is the primary source of making profits. In this process, a bank retains

a small number of deposits as a reserve and offers (lends) the remaining amount to the borrowers in demand loans, overdraft, cash credit, and short-run loans etc.

- **Credit Cash-** When a customer is provided with credit or loan, they are not provided with liquid cash. First, a bank account is opened for the customer and then the money is transferred to the account. This process allows a bank to create money.

(b) Secondary functions –

- **Discounting bills of exchange –** It is a written agreement acknowledging the amount of money to be paid against the goods purchased at a given point of time in future. The amount can also be cleared before the quoted time through a discounting method of a commercial bank.
- **Overdraft Facility –** It is an advance given to a customer by keeping the current account to overdraw up to the given limit.
- **Purchasing and Selling of the Securities –** The bank offers you with the facility of selling and buying the securities.
- **Locker Facilities –** Bank provides lockers facility to the customers to keep their valuable belonging or documents safely. Banks charge a minimum of an annual fee for this service.
- **Paying and Gather the Credit –** It uses different instruments like a promissory note, cheques, and bill of exchange.

Types of Commercial Bank:

There are three different types of commercial bank.

- **Private Bank –** It is one type of commercial banks where private individuals and businesses own a majority of the share capital. All private banks are recorded as companies with limited liability. For example, Bank of Baroda, State Bank of India (SBI), Dena Bank, Corporation Bank, and Punjab National Bank.
- **Public Bank –** It is those type of bank that is nationalized, and the government holds a significant stake. Such as Housing Development Finance Corporation (HDFC) Bank, Industrial Credit and Investment Corporation of India (ICICI) Bank, and Vysya Bank etc.
- **Foreign Bank –** These banks are established in foreign countries and have branches in other countries. For instance, American Express Bank, Hong Kong and Shanghai Banking Corporation (HSBC), Standard & Chartered Bank, and Citibank etc.

Examples of Commercial Bank

Few examples of commercial bank in India are.

- State Bank of India (SBI)
- Housing Development Finance Corporation (HDFC) Bank
- Industrial Credit and Investment Corporation of India (ICICI) Bank

- Dena Bank
- Corporation Bank

Some other Types of Banking

Banks can be classified into different groups either on the basis of their structure or on the basis of their function. Structurally banking can be divided into Branch banking and Unit Banking. Functionally, banking can be divided into Deposit Banking, Investment Banking and Mixed Banking.

Branch Banking

This refers to a system under which two or more banks are opened under a single ownership. Examples are State Bank of India, Punjab National Bank, Indian Bank etc. which have several branches spread all-over India.

Unit Banking

This refers to that system of banking in which banking operations are carried on through a single organisation, without any branches. This system used to be popular in America.

One great advantage of branch banking is that the same bank can cater to several parts of a large country (through its branches situated in those parts) which a unit bank would find difficult to do. As against this, a unit bank has the advantage that its efforts are concentrated in one area so that it can serve that area well.

Group Banking

This is a system under which two or more banks, separately incorporated, are connected by being controlled by a single holding company as trust.

Chain Banking

This is similar to Group Banking. Here two or more banks are controlled by a single group through the ownership of shares or otherwise.

Deposit Banking

In this category, the banks act as custodian or trustees of the depositors.

Investment Banking

This refers to banks whose main function is to provide finance for investment to industrial concerns. They provide this by purchasing shares and debentures of newly floated companies.

Mixed Banking

Most banks in India play both roles. Deposit Banking and Investment Banking. Such type of banking is called mixed banking.