

Functions of Commercial Banks

Primary Functions

1. Accepting Deposits

Demand Deposits:

Withdrawable without prior notice.

Examples: Savings Account, Current Account.

Time Deposits:

Deposits committed for a specific period.

Higher interest rates compared to demand deposits.

2. Advancing Loans

Loans provided to individuals and businesses in forms such as:

Overdrafts, Cash Credit, Discounting Bills of Exchange.

Secondary Functions

1. Agency Functions (Banks as agents for customers):

o Collecting Cheques:

Collect cheques and bills of exchange via central bank clearing facilities.

o Collecting Income:

Collect dividends, pensions, salaries, rents, and investment interests.

o Paying Expenses:

Pay customer obligations, e.g., telephone bills, insurance premiums, school fees, and rents.

2. General Utility Functions:

o Providing Locker Facilities:

Safe storage for valuables like jewellery, shares, and documents.

o Issuing Traveler's Cheques:

For customers traveling abroad.

o Dealing in Foreign Exchange:

Facilitates foreign exchange for international business.

Other Services:

o Transferring Funds:

Transfer money between banks or accounts.

o Letter of Credit:

Certifies creditworthiness for customers.

o Underwriting Securities:

Helps with issuing and guaranteeing securities.

o Electronic Banking:

Includes debit cards, credit cards, and internet banking services.



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