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FUNCTIONS OF COMMERCIAL BANK:

Perhaps the above mentioned definitions make it difficult to know clearly what a commercial bank really is. To have a clear idea and concept about the commercial bank we must describe and discuss its function.

The functions of commercial bank can be classified as follows:

1. Primary Functions:
2. Secondary Functions:
3. Role in Economic Development (Development Functions)

These functions are discussed in detail below.

PRIMARY FUNCTIONS:

Primary Functions includes those which form the basis of commercial bank operations. These functions are central in nature and are the core of the whole operations of bank. Primary functions include the following.

ACCEPTANCE OF DEPOSITS:

The fundamental function of a commercial bank is the acceptance of deposits. All other functions of a commercial bank are based upon this function. Banks accepts deposits from those who have surplus money in their hands but they are unable to use it in a profitable way. The commercial bank provides an opportunity to general public to make good use of their savings by depositing them in the bank. In order to attract general public and to persuade people to deposit money in bank, three different types of accounts are maintained by commercial banks.

Current Account:

Current account is one where the depositor is allowed to withdraw his amount any time he wishes. Normally the traders and merchants keep such accounts with commercial banks. This makes it possible for them to deposit or withdraw money at their ease. As the amount from this account can be withdrawn at any time so the bank does not pay any interest on such account. Current Accounts are sometimes called demand deposits also.

Saving Account:

Saving Account are helpful for those people who have low levels of incomes and savings. Saving accounts help in the mobilization of the saving of low income people. The amount from this account can be withdrawn subject to certain terms and conditions of the bank. A nominal rate interest is paid by bank in such accounts.

Fixed deposits:

Fixed deposits as the name implies are accepted by the banks for a certain fixed period of time. Before the expiry of that fixed period of time, the amount can't be withdrawn by the depositor. The bank pays higher rate of interest on such accounts.

ADVANCING LOANS:

Now, what banks do with the money that they have received from the general public in the form of deposits? The answer is, they lend from this money at a rate of interest higher than that are paying to the depositors. This process of advancing loans is the second fundamental functions of the commercial bank. The commercial banks do not lend blindly while lending 5 basic principles are duly observed.

1.Safety, 2.Liquidity, 3.Dispersal, 4.Remuneratin, 5.Suitability.

Commercial banks may advance loans in any of the following form

1.Overdraft

This is a short period financing facility. Under this bank allows his client to withdraw certain amount from his account over and above the balance actually lying in his current account . The bank charges interest in the amount overdrawn by the client. When the client has surplus funds at his disposal, he can pay the amount to settle his overdraft balance. The overdraft facility is for short term and is provident o:: the current account only.

2.Discounting Bills of Exchange:

This is another form of bank lending. Discounting of the fills of exchange refers to the process of making payment before the maturity of the bill, The discount charged by the bank for making payment before maturity of bill constitutes the bank earnings. The payment made by the bank before the date of maturity is then loan to the holder of the bill .At the maturity the drawee makes the payment to the bank.

3.Loans:

Commercial banks advance short medium and long term loans to investors and businessmen . While advancing such loans a complete legal systematic procedure is followed. As the banks deal in some other people's money, the bank management takes all necessary precautions to make certain the return of the money advanced. The loans are normally advanced against securities which are valued by the bank's experts. The amount of the loan is credited in the borrower's account and from the money can be drawn through cheques . The interest is paid on the full amount borrowed.

4.Cash Credit: (C.C.Limit)

The bank normally provides this facility to business houses and commercial units. The facility is provided against appropriate security. The bank in this case sanctions a particular amount. The borrower is allowed to draw amount within the sanctioned limit. In this case the interest is charged only in the amount drawn by the borrower and not in the whole amount sanctioned.

II. SECONDARY FUNCTIONS:

The secondary functions can be classified as follows:

1. Agency functions
2. General Utility services
3. Miscellaneous / Other

a. **AGENCY FUNCTIONS:**

The bank performs different functions for their clients and while doing so they act as an agent of their clients. Such functions are called Agency functions and they are as follows

1. **Collection of Dividends:** Banks acting as an agent of their clients collect dividends and interest on stocks and shares. The bank charges a nominal commission against the provision of such services.
2. **Collection of Cheques:** Commercial banks act as an agent of its clients while collecting and making payments of bills, cheques etc.
3. **Selling & Purchasing Securities:** Commercial bank sometimes purchase or sells securities or shares on behalf of its clients.
4. **Obeying Standing Instructions:** Sometimes clients order the bank to make payments of regularly recurring nature directly. Such payments may include subscription fees of clubs or journals, annual membership fees etc. The bank charges a minute amount for the execution of such instructions.
5. **Executor or Trustee:** A client may direct his bank to act as an executor or trustee in dealing with other business parties or while settling business disputes with, other parties, He may ask his bank to provide technical knowledge or assistance on certain particular

matters. The bank shall perform such functions in the interest of his client. The bank charges a small fee for providing such services or technical assistance. Bank can also undertake the administration of estates as executor or trustee.

6. Funds Transfers: Commercial banks can transfer funds from one bank or branch to another. This gives an ease to the clients and in a way increases the liquidity of the money deposited in the bank. A client can use his cheque book even at a place where his bank has no branch and some other banks are working.
7. Agent Representative: A commercial bank may act as an agent of his client in dealing with other banks or financial institutions. A bank can also be a representative and correspondent of his client as required by the circumstances.

b. GENERAL UTILITY SERVICES:

Commercial banks perform variety of utility services for their clients. There are as follows:

1. Providing Lockers: Commercial banks provide lockers for their clients. This is a means of providing safe custody to the valuables of the clients. This has minimized the risk of losing valuables due to robbery.

2. Issuance of Credit Instruments: Commercial banks issue various forms of credit instruments and through this they play a unique role in increasing the liquidity power of their clients. Commercial banks issue Travelers Cheques (TCs), Draft etc. which are now considered more convenient and safe substitute for cash.

3. Providing Trade Information's:

Certain famous commercial banks have a separate panel of experts. This panel provides necessary trade information's as required by different clients. Also some banks publish journals that contain information about ongoing economic situation. Such information's help the client in deciding that whether it is a right time to invest or purchase or it is better to wait.

4. Underwriting Services:

Commercial banks underwrite shares and debentures of companies. They also underwrite loans raised by joint stock companies or government > Banks also play role in carrying out of different public private affairs.

5. Financing Foreign Trade:

Commercial banks discount foreign bills of exchange. While performing this function they play their role in foreign trade and in facilitating exports. This not only produces

good effects on the national economy but also acts as an important source of income for a bank.

6. Export Promotion Cells:

Export earnings r the volume of exports has now because an important factor in deciding the economic fate of numerous people. Commercial banks are well aware of this fact and they play their required role in order to boost exports. Several banks have export promotion cells working under competent experts. Such cells provide necessary information about exports to prospective exporters.

7. L/C Operations:

Commercial bank plays an important role in foreign trade by performing L/C operations. L/C is a guarantee that ensures a reliable import / export deal.

c. Miscellaneous/others

1. Zakat Collection:

Commercial bank in Pakistan and other Islamic countries collects zakat from the Account holders. Zakat is deducted from the account on a prescribed date on behalf of government.

2. Collection of Utility Bills :

Commercial banks on the behalf of government collect utility bills from the general public. In this way it becomes convenient for the masses to pay off the utility bills in time.

3. Encashment Services:

Commercial banks also play their role in the encashment of Foreign Exchange Bearer Certificates and other different banks.

4. Guarantee, Indemnity Business:

Commercial Banks are also involved in guarantee and indemnity business Guarantee is a contract to perform the promise or discharge the liability of a third person in case of his default. In indemnity one person promises to compensate other from the los which may arise due to the conduct of any person. Commercial banks transact different kinds of guarantee and indemnity business.

III. ROLE IN ECONOMIC DEVELOPMENT (DEVELOPMENT FUNCTION)

Commercial banks today are the biggest financial intermediary. It is in these commercial banks that most of the nation's deposits are housed. This has made commercial banks extremely important in the economic arena. The recent century has marked another immensely important function of Commercial banks i.e. Development role of these banks.

In the present day economics, Commercial banks while standing close to central banks play their role in achieving the economic targets set by the government. They help the state bank in order to implement effectively the desired monetary and fiscal policy.

Apart from this commercial banks channel the nation's money. They locate and allocate the savings of the nation. They take essential steps to generate savings, then they chalk out policies to mobilize such savings and then in the end they ensure their usage in the productive and creative ways.

This three stage system if managed properly can turn the fate of a nation. Disparity and depression can be changed into prosperity and boom.

The power of the commercial banks future will be judged by the ability and competency with which the banks perform their development role.