

SBI PROBATIONARY OFFICERS

GENERAL AWARENESS

Primary and Secondary Functions of Commercial Banks

A commercial bank is a type of bank that provides services such as accepting deposits, making business loans, and offering basic investment products. On day to day functioning it discharge many functions broadly classified as Primary and Secondary Functions mentioned below.

I. Primary Functions

- 1) Accepting Deposits
- 2) Advancing Loans

II. Secondary Functions

- 1) Overdraft Facility
- 2) Discounting Bills of Exchange
- 3) Agency Functions
- 4) General Utility Functions

PRIMARY FUNCTIONS

1. **Accepting Deposits:** It is one of the most important function of commercial banks. The commercial banks accept the deposits at lower rates and provide the loans. They accept deposits in several forms according to requirements of different sections of the society.

* **The main kinds of deposits are:**

i) **Current Account Deposits or Demand Deposits:** These deposits refer to those deposits which are repayable by the banks on demand.

★ Such deposits are generally maintained by businessmen with the intention of making transactions with such deposits. The business men usually deposit from their excess cash balances and withdraw when they need.

★ They can be drawn upon by a cheque without any restriction.

★ Banks do not pay any interest on these accounts. Rather, banks impose service charges for running these accounts.

ii) **Fixed Deposits or Time Deposits:** Fixed deposits refer to those deposits, in which the amount is deposited with the bank for a fixed period of time.

★ Such deposits do not enjoy cheque-able facility.

★ These deposits carry a high rate of interest.

iii) **Saving Deposits:** These deposits combine features of both current account deposits and fixed deposits.

★ The depositors are given cheque facility to withdraw money from their account. But, some restrictions are imposed on number and amount of withdrawals, in order to discourage frequent use of saving deposits.

★ They carry a rate of interest which is less than interest rate on fixed deposits. It must be noted that Current Account deposits and saving deposits are chequable deposits, whereas, fixed deposit is a non-chequable deposit.

2. **Advancing of Loans:** The deposits received by banks are not allowed to remain idle. So, after keeping certain cash reserves, the balance is given to needy borrowers and interest is charged from them, which is the main source of income for these banks.

✱ **Different types of loans and advances made by Commercial banks are:**

- i) **Cash Credit:** The Cash credit refers to a loan given to the borrower against his current assets like shares, stocks, bonds, etc., A credit limit is sanctioned and the amount is credited in his account. The borrower may withdraw any amount within his credit limit and interest is charged on the amount actually withdrawn.
- ii) **Demand Loans:** Demand loans refer to those loans which can be recalled on demand by the bank at any time. The entire sum of demand loan is credited to the account and interest is payable on the entire sum.
- iii) **Short-term Loans:** They are given as personal loans against some collateral security. The money is credited to the account of borrower and the borrower can withdraw money from his account and interest is payable on the entire sum of loan granted.

SECONDARY FUNCTIONS

1. **Overdraft Facility:** It refers to a facility in which a customer is allowed to overdraw his current account up to an agreed limit. This facility is generally given to respectable and reliable customers for a short period. Customers have to pay interest to the bank on the amount overdrawn by them.
2. **Discounting Bills of Exchange:** It refers to a facility in which holder of a bill of exchange can get the bill discounted with bank before the maturity. After deducting the commission, bank pays the balance to the holder. On maturity, bank gets its payment from the party which had accepted the bill.
3. **Agency Functions:** Commercial banks also perform certain agency functions for their customers. For these services, banks charge some commission from their clients.

✱ **Some of the agency functions are:**

- i) **Transfer of Funds:** Banks provide the facility of economical and easy remittance of funds from place-to-place with the help of instruments like demand drafts, mail transfers etc.,
- ii) **Collection and Payment of Various Bill Payments:** Commercial banks collect cheques, bills, interest, dividends, subscriptions, rents and other periodical receipts on behalf of their customers and also make payments of taxes, insurance premium etc., on standing instructions of their clients.
- iii) **Purchase and Sale of Foreign Exchange:** Some commercial banks are authorized by the central bank to deal in foreign exchange. They buy and sell foreign exchange on behalf of their customers and help in promoting international trade.
- iv) **Purchase and Sale of Securities:** Commercial banks buy and sell stocks and shares of private companies as well as government securities on behalf of their customers.
- v) **Income Tax Consultancy:** They also give advice to their customers on matters relating to income tax and even prepare their income tax returns.
- vi) **Trustee and Executor:** Commercial banks preserve the wills of their customers as trustees and execute them after their death as executors.

4. **General Utility Functions:**

Commercial banks render some general utility services like:

- i) **Locker Facility:** Commercial banks provide facility of safety vaults or lockers to keep valuable articles of customers in safe custody.
- ii) **Traveller's Cheques:** Commercial banks issue traveler's cheques to their customers to avoid risk of taking cash during their journey.

- iii) **Letter of Credit:** Commercial banks issue letters of credit to their customers to certify their creditworthiness.
- iv) **Underwriting Securities:** Commercial banks also undertake the task of underwriting securities. As public has full faith in the creditworthiness of banks, public do not hesitate in buying the securities underwritten by banks.
- v) **Collection of Statistics:** Banks collect and publish statistics relating to trade, commerce and industry. Hence, they advice customers on financial matters. Commercial banks receive deposits from the public and use these deposits to give loans. However, loans offered are many times more than the deposits received by banks. This function of banks is known as 'Money Creation'.

MODEL QUESTIONS

1. Which of the following function is not relating to Commercial Bank?
 - 1) Accepting Time Deposits
 - 2) Providing Loans
 - 3) Doing Agriculture Activity
 - 4) Discounting Bills of Exchange
 - 5) Provide online technology nowadays for speed transfer of money
2. Why banks pay no rate of interest or very less rate of interest on current accounts?
 - 1) RBI orders bank not to pay rate of interest for current accounts.
 - 2) Banks do not pay rate of interest as the current accounts not offered by Scheduled banks.
 - 3) Banks cannot utilise these short-term deposits for lending purposes and must keep almost cent percent reserve against them.
 - 4) To maintain the current account is more expensive, so they do not pay rate of interest.
 - 5) None of above
3. Which of the following statement is wrong related to Overdraft?
 - 1) Overdraft provide by commercial banks as form of Loans.
 - 2) Banks collect rate of interest on Overdrafts.
 - 3) Overdraft can be issued to non-customer also.
 - 4) Some banks levy bank charges to process the overdraft loans.
 - 5) None of above
4. Hundi is a in an Indian language, governed by customs and local usage.
 - 1) Cheque
 - 2) Demand Draft
 - 3) Bill of Exchange
 - 4) Promissory Note
 - 5) None
5. Which of the following is not agency function of Commercial banks?
 - 1) Letters of Reference
 - 2) Tax Consultancy
 - 3) Accepting Deposits
 - 4) Purchase and Sale of Foreign Exchange
 - 5) Trustee and Executor

6. Which is the first commercial bank in India initiated to have Television Banking (TVB), avail the banking information on TV screens. This enable TV viewers to access information of Bank's services and products, from the convince of their homes?
- 1) SBI
2) Corporation Bank
3) ICICI
4) Canara Bank
5) Tamilnadu Mercantile Bank Limited
7. On 13th March 2015, the Union government declared that unused priority sector lending funds of commercial banks will be used to set up the Rs.20,000 crore corpus of the proposed
- 1) Bharathiya Mahila Bank
2) AIIB
3) PLB
4) New Development Bank
5) MUDRA Bank
8. Which bank launched the mobile app 'Chillr', which allows users to instantly transfer money to any contact in their phone book. The best part about using this money transfer mechanism is that, there is no need to add beneficiary details such as bank account number, IFSC codes etc
- 1) ICICI
2) SBI
3) HDFC
4) Citi Bank
5) Yes Bank
9. Which commercial bank has launched a mobile application 'Pingpay' that enables customers to make payments to any contact across social media platforms in seconds?
- 1) Central bank of India
2) Andhra Bank
3) Axis Bank
4) ICICI
5) SBI
10. Government ordered commercial banks to step up lending to minorities on 12th March 2015. Accordingly, all scheduled commercial banks are required to specially monitor the credit flow to minorities in how many districts?
- 1) 140
2) 121
3) 90
4) 640
5) 88
11. The statements related to corporate funding given. Locate the wrong statement.
- 1) RBI moves to restrict commercial banks exposure to corporate loans.
2) Banks would only be allowed to lend up to 25 percent of their core capital.
3) The earlier ceiling of up to 55 percent.
4) RBI proposes this new rule effective from 1st January 2019.
5) None
12. The rate at which RBI purchases or rediscounts bills of exchange of commercial banks is called
- 1) CRR
2) Base Rate
3) SLR
4) LAF
5) Bank Rate
13. In which year the Kotak Mahindra Finance Ltd. converted into a commercial bank - the first Indian company to do so?
- 1) 1996
2) 1998
3) 1994
4) 2003
5) 2010

14. The power of the commercial banks to expand deposits through expanding their loans and advances is known as which among the following?

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|----------------------|---------------------|
| 1) Capital Expansion | 2) Credit Expansion |
| 3) Credit Control | 4) Credit suasion |
| 5) Credit Creation | |

ANSWERS

1-3; 2-3; 3-3; 4-3; 5-3; 6-3; 7-5; 8-3; 9-3; 10-2; 11-5; 12-5; 13-4; 14-5.

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