

Function of Banks.

★ Two main functions of Banks /-

- ★ Primary function
- ★ Secondary function

Primary Function of Bank /-

- All banks perform majorly two functions.
 1. Accepting of deposits.
 2. Granting of loans & advances.

1. Accepting of deposits /-

- Basic function of all commercial bank is mobilising public funds, providing safe custody of savings.

Banks accept different types of deposits from the public /-

- Saving deposits → Encourage saving habits among the public.
 - ✓ Suitable for salary & wage earners.
 - ✓ Low interest rate
 - ✓ No restriction of withdrawals.
 - ✓ Account opens in single name and jointed.

★ Bank provide

- ✓ ATM
- ✓ Debit cards
- ✓ cheque books
- ✓ Internet banking facility.

- Fixed deposits :->

- ✓ money deposits for fixed tenure.
- ✓ No withdrawal money during this period allowed.
- ✓ In case withdrawal, bank levy a penalty for premature withdrawal.
- ✓ The rate of interest is high but varies with the period of deposits.

- Current deposits → ✓ Opened by businessmen.

- ✓ The account holder get an overdraft facility on this account.
- ✓ Deposits act as a short term loan to meet urgent needs.

9. { ✓ Bank charges a high-interest rate along with charges for overdraft facility in order to maintain a reserve for unknown demands for the overdraft.

- Recurring Deposits → ✓ Certain amount is deposited in bank at regular interval.
- ✓ Money withdrawn only after expiry of a certain period.
- ✓ High interest rate paid it provide compound rate of interest.
- ✓ Operated by salaried person & petty traders.

2. Granting of Loans & Advances / -

- ✓ Deposits are utilised by the banks to advance loans to business, individual.
- ✓ Charges high interest rate on loans.

Banks offers the following types of loans and Advances / -

* Bank Overdraft →

- ✓ Account facility for current account holders.
- ✓ Allow withdrawal money anytime more than balance.
- ✓ Against collateral security.
- ✓ Interest paid on borrowed amount for the period for loan is taken.

* Cash Credits → ✓ Short term loan facility up to a specific limit fixed in advance.

- ✓ Customer takes loan against a mortgage of certain property (Guarantee).
- ✓ Allow for any type of bank holder.
- ✓ Interest charge on amount with bank.
- ✓ Through, cash credit, a larger amount of loan is sanctioned than overdraft for a longer period.

* Loans → ✓ Bank lend money short term or medium for 1 to 5 years against tangible assets.

- ✓ Now, Banks do lend money for long period.
- ✓ Money repays the money either in lump-sum or in instalments over time-period.
- ✓ Bank charges interest on loans, whether withdrawn or not.

* Interest rate is lower than overdraft and cash credit facilities.

* Discounting the Bill of Exchange →

- ✓ Type of short-term loan.
- ✓ where the seller discounts the bills from the bank for some fees.

NOTE The bank advances money by discounting or purchasing the bills of exchange.

✓ It pays bill amount to the drawer (seller) on behalf the drawee (buyer) by deducting usual discount charges.

✓ On maturity, the bank presents the bills to the drawee or acceptor to collect the bill amount.

Secondary Function of Bank

Secondary Function of Banks :-

1. Agency Function
2. Utility Functions.

① Agency Functions of Banks :-

Banks are the agents for their customers, performs various agency functions as :-

- ①. Transfer of Funds → ✓ Allow transfer funds branch/place to another.
- ②. Periodic Collections — collecting dividend, salary, pension, & similar collections on client's behalf.
- ③. Periodic Payments → Make payments behalf of client. like Rents, electricity bills, etc.
- ④. Collection of cheques → Like collecting money from bills of exchange.
✓ Bank collects money of cheque through the clearing section of its customers.
- ⑤. Portfolio Management → ✓ Bank manage client's portfolio.
✓ Collect activity to purchase of clients debits or credits the amount.
- ⑥. Other Agency Functions → ✓ Under this bank act as a representative of its clients.
✓ It acts as an executor, trustee, admin, advisor, etc for clients.

2. Utility Function of Banks →

- ✓ Issuing of letters of credit, traveller's cheque, etc.
- ✓ Undertake of safe custody of valuables, important documents, and security by providing safe deposits, vault or lockers.
- ✓ Dealing in foreign exchanges.
- ✓ Social welfare programme.
- ✓ Project Reports.
- ✓ Standing guarantee on behalf of its customers, etc.