

Chapter – 12

Functions of Commercial Banks

I. Choose the Correct Answer

Question 1.

Electronic banking can be done through

- (a) Computers
- (b) Mobile phones
- (c) ATM
- (d) All of the above

Answer:

- (d) All of the above

Question 2.

Minimum how much amount can be transferred through RTGS?

- (a) Any amount
- (b) 50,000
- (c) 2 lakh
- (d) 5 lakh

Answer:

- (c) 2 lakh

Question 3.

The largest commercial bank of India is

- (a) ICICI
- (b) SBI
- (c) PNB
- (d) RBI

Answer:

- (b) SBI

Question 4.

In which kind of account, it is compulsory to deposit a certain amount at a

certain time?

- (a) Saving deposit
- (b) Fixed deposit
- (c) Current deposit
- (d) Recurring deposit

Answer:

- (d) Recurring deposit

Question 5.

Which of the following is not a type of advance provided by a commercial bank?

- (a) Collecting and supplying business information
- (b) Overdraft
- (c) Cash credit
- (d) Discounting of bills

Answer:

- (a) Collecting and supplying business information

II. Very Short Answer Questions

Question 1.

What is Mobile Banking?

Answer:

Most of the commercial banks have designed computer programs called apps with this app in the smartphone a customer can operate his account transactions from anywhere. This service is known as mobile banking.

Question 2.

Briefly explain the need for a Debit card.

Answer:

An ATM card is also called a debit card. This card is more useful in the purchase of goods and services anywhere in India if the shop maintains a swiping machine facility.

Question 3.

Briefly explain the term – Credit card.

Answer:

Banks issue credit cards to customers and other eligible persons. With this card, the holder can purchase goods and services on credit at any shop in India. If the dues are paid within the stipulated time no interest is charged. The credit limit is fixed by the issuing bank based on the income of the cardholder.

Question 4.

What do you mean by ATM?

Answer:

The Auto Mated Teller Machine is a machine built into the wall of a bank or other building which allows people to take out money from their bank account by using the ATM card given by their bank. Nowadays debit cards are used as ATM cards.

Question 5.

Write a note on – ECS.

Answer:

Electronic Clearing Service (ECS) was launched by the RBI in 1995. It is an electronic method of fund transfer from a bank to another bank.

III. Short Answer Questions

Question 1.

What is E-Banking?

Answer:

Using electronic means funds can be transferred directly from one account to another, rather than by cheque or cash. It helps to have easy and safe access to the bank account. The main advantage of e-banking is using our own computer and personal finance software to coordinate the total personal financial management process leads to prompt financial analysis and decision-making process.

Question 2.

Write a short note on – RTGS.

Answer:

Real-Time Gross Settlement Systems (RTGS) was launched by the RBI in 2013. The transactions are settled on real time basis. Gross settlement means the transaction is settled between one bank and another bank without adding any other transactions.

Question 3.

Briefly explain the Diversified banking services of commercial banks.

Answer:

The diversified financial services rendered by commercial banks are purely other than banking services. It is also called universal banking. It includes the following services:

- Bank Assurance: It refers to the offering of insurance policies by a bank in association with another insurance company.
- Merchant banking: It may offer services like project counseling, underwriting, etc. required for starting a company.
- Retail Banking (Personal Banking): It refers to mass-market banking which reaches out to a large number of individual end customers.
- Housing Finance: It is provided against the security of the immovable property of land and buildings.
- Mutual Fund: Helps the investors to invest in diversified portfolio securities.
- Venture Capital Fund Provides start-up share capital to new ventures of private business.
- Factoring: It is a continuing arrangement between the financial intermediary(factor) and a business concern(client).

Question 4.

Explain NEFT.

Answer:

National Electronic Fund Transfer (NEFT) was launched by the RBI in 2005. Under this electronic funds transfer system, the bulk transfer of transactions

is settled in batches during specific timings across India. Individuals and institutions which maintain accounts with an NEFT enabled bank branch are eligible for using NEFT.

Question 5.

What do you mean by Core Banking Solutions?

Answer:

'CORE' stands for 'Centralized Online Real-time Exchange'. In the centralized server of the bank, all the details of all the accounts of all the branches of the bank are available. A customer can withdraw money through a cheque at any branch of that bank throughout the similarly anyone can deposit money into the account.

The entry of the transactions is recorded in the centralized server of the bank in real-time and can be seen in all the branches of the bank. This facility is called core banking solutions.

IV. Long Answer Questions

Question 1.

Discuss the various primary functions performed by the commercial banks.

Answer:

The primary functions of a commercial bank are of three types. They are:

1. Accepting Deposits
2. Granting Loans and Advances
3. Creation of Credit

1. Accepting Deposits: The basic deposit accounts offered by commercial banks are listed below. Broadly deposit accounts can be classified into demand deposits and time deposits.

A. Demand Deposits: These deposits are repayable on demand on any day. This consists of savings deposits and current deposits.

a. Savings Deposits: General public deposits their savings into this account. This account can be opened in one individual's name or more than one name.

b. Current Deposits: This account is suitable for business institutions. Individuals too can open this account. A higher minimum balance should be kept in this account.

B. Time Deposits: These include fixed deposits and recurring deposits which are repayable after a period.

a. Fixed Deposits (FD): Certain amount is deposited for a fixed period for a fixed rate of interest.

b. Recurring Deposits (RD): Certain sum is deposited into the account every month for one year or five years or the agreed period. Interest rate is more than savings deposits and almost equal to fixed deposits.

Granting Loans and Advances: The second primary function of commercial banks is lending money in order to earn interest income.

A. Advances

a. Overdraft: It is a credit facility extended mostly to the current account holding business community customers.

b. Cash Credit: It is a secured credit facility given mostly to business institutions. Stock in hand, raw materials, other tangible assets, etc. are provided as collateral.

c. Discounting of Bills: Business customers approach banks to discount the commercial bills of exchanges and provide money.

B. Loans:

Short-term and medium-term loans are provided by commercial banks against eligible collateral to business concerns.

- Housing Loan
- Consumer Loans
- Vehicle Loans
- Educational Loan
- Jewel Loan

3. Creation of Credit: Apart from the currency money issued by the RBI, the credit money in circulation created by commercial banks influence the economic activities of a country to a large extent. Credit money of commercial banks is far greater in volume than the currency money.

Question 2.

Explain the various secondary functions of commercial banks.

Answer:

Apart from the basic function, the commercial banks render various other services. These services can be broadly classified into agency services and general utility services. They are:

Agency functions:

Banks act as agents of customers and provide certain services. They are called agency functions which are as follows:

Transfer of funds

- Periodic payment of premiums, rent, etc.
- Collection and payment of cheques
- Acting as Executors, trustees, and Attorneys
- Conduct share market transactions
- Preparation of Income Tax Return
- Dealing in Foreign Exchange
- Acting as correspondent

General Utility Function:

In addition to the various functions, the commercial banks offer some services for the general welfare of the customers. They are as follows:

- Issue of demand drafts and banker's cheques
- Accepting bills of exchange on behalf of the customers
- Safety locker
- Letters of credit
- Traveler's cheques
- Gift cheques
- Reference services.