



CHAPTER FOUR

FACULTY OF COMMERCE

BANK: MEANING AND FUNCTIONS

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— جامعة مدينة السادات —

Bank

- ✓ Bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets.
- ✓ system and the economy, banks are highly regulated in most countries. Most banks operate under a system known as fractional reserve banking

Mobile banking is a method of using one's mobile phone to conduct banking transactions

Automated Teller Machines

A branch is a retail location

Telephone banking

Online banking

Call center

Mail

Banks offer many different channels to access their banking and other services:

banker

is a person who carries on the business of banking.

Banker is specified as

1. conducting current accounts for his customers.
2. paying cheques drawn on him/her.
3. Collecting cheques for his/her customers

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The economic functions of banks

Issue of money.

settlement of payments.

Credit quality improvement.

Money creation.

Features of a Bank

1- DEALING IN MONEY:

- ✓ Bank is a financial institution which deals with other people's money.
- ✓ The banks accept deposits from the public and advancing them as loans to the needy people.

2- INDIVIDUAL / FIRM / COMPANY:

- ✓ A bank may be a person, firm or a company.

3- ACCEPTANCE OF DEPOSIT:

- ✓ A bank accepts money from the people in the form of deposits.

4- PAYMENT AND WITHDRAWAL:

- ✓ A bank provides easy payment and withdrawal facility to its customers in the form of cheques

5- CONNECTING LINK:

- ✓ A bank acts as a connecting link between borrowers and lenders of money.

6- NAME IDENTITY:

- ✓ A bank should always add the word "bank" to its name to enable people to know that it is a bank and that it is dealing in money.

Functions of bank



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graph TD; A[Functions of bank] --> B[Primary functions]; A --> C[Secondary functions]; B --> D[Accepting Deposits]; B --> E[Granting Advances]; C --> F[Agency Functions]; C --> G[Utility Functions];
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The diagram is a hierarchical flowchart titled 'Functions of bank'. It starts with a blue box at the top containing the title. Two arrows point down from this box to two separate light gray boxes: 'Primary functions' on the left and 'Secondary functions' on the right. From 'Primary functions', two arrows point down to 'Accepting Deposits' and 'Granting Advances'. From 'Secondary functions', two arrows point down to 'Agency Functions' and 'Utility Functions'. The background features a large, faint watermark of a university crest with the text 'FACULTY OF COMMERCE' and 'USC' in the center, and Arabic text at the bottom.

Primary functions

Accepting
Deposits

Granting
Advances

Secondary functions

Agency
Functions

Utility
Functions

Primary functions

1- ACCEPTING DEPOSITS

- ✓ **Saving Deposits:** used to encourage saving, and the rate of interest is low.
- ✓ **Fixed Deposits:** amount is deposited at one time for a specific period.
Higher rate of interest is paid.
- ✓ **Current Deposits:** operated by businessmen. Withdrawals are freely allowed. No interest is paid.
- ✓ **Recurring Deposits:** operated by salaried persons and petty traders. A higher rate of interest is paid.

2- GRANTING OF LOANS AND ADVANCES:

✓ The types of bank loans and advances are:-

- **Overdraft:** given to current account holders.
- **Cash Credits:** It can be given to current account holders as well as to others who do not have an account with bank.
- **Loans:** It is normally for short term say a period of one year or medium term say a period of five years. Now-a-days, banks do lend money for long term.
- **Discounting of Bill of Exchange:** The bank can advance money by discounting or by purchasing bills of exchange both domestic and foreign bills.

Secondary Functions

1- AGENCY FUNCTIONS:

- 1. Transfer of Funds:-**The bank transfer funds from one branch to another or from one place to another.
- 2. Collection of Cheques:-**The bank collects the money of the cheques.
- 3. Periodic Payments:** the bank makes periodic payments in respect of electricity bills, rent, etc.
- 4. Portfolio Management:-**The banks also undertake to purchase and sell the shares and accordingly debits or credits the account. This facility is called portfolio management.
- 5. Periodic Collections:-**The bank collects salary, pension, dividend and such other periodic collections on behalf of the client.

2- GENERAL UTILITY FUNCTIONS:

Issue of Drafts and Letter of Credits:-Banks issue drafts for transferring money from one place to another. It also issues letter of credit, especially in case of, import trade.

Locker Facility:-The bank provides a locker facility for the safe custody of valuable documents, gold ornaments and other valuables.

Dealing in Foreign Exchange:-The commercial banks are allowed by RBI to deal in foreign exchange.

TYPES OF BANKS

1- SAVING BANKS:

- Saving banks are established to create saving habit among the people.
- These banks are helpful for salaried people and low-income groups.

2- COMMERCIAL BANKS:

- Commercial banks are established with an objective to help businessmen.
- These banks collect money from general public and give short-term loans to businessmen

3- INDUSTRIAL BANKS / DEVELOPMENT BANKS:

- collect cash by issuing shares and providing long- term loans to industries.
- The main objective of these banks is to provide long-term loans for expansion and modernization of industries.

4- LAND MORTGAGE / LAND DEVELOPMENT BANKS:

- They also known as *Agricultural Banks* because these are formed to finance agricultural sector.

5- INDIGENOUS BANKS:

- These indigenous banks are popular in villages and small towns.
- They perform combined functions of trading and banking activities.

6- CENTRAL / FEDERAL / NATIONAL BANK:

- Every country of the world has a central bank.
- These central banks are the bankers of the other banks.
- They provide specialized functions i.e. issue of paper currency, working as bankers of government, supervising and controlling foreign exchange.
- A central bank is a non-profit making institution.

7- CO-OPERATIVE BANKS:

- They generally give credit facilities to small farmers, salaried employees, small-scale industries
- The functions of these banks are just similar to commercial banks.

8- EXCHANGE BANKS:

- These banks are mainly concerned with financing foreign trade.

9- CONSUMERS BANKS:

- Such banks are usually found only in advanced countries like U.S.A. and Germany.
- The main objective of this bank is to give loans to consumers for purchase of the durables like Motor car, television, furniture, etc.
- The consumers have to repay the loans in easy installments.



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