21. Commercial Banks

Objective

At the end of this chapter, the students should be able to state the functions and operation of commercial banks and merchant banks, mention some commercial banks, and describe how to operate a current account.

21.1 Commercial Banks

Commercial banks are distinguishable from other financial institutions by the functions they perform in general, and by the chequeing facilities they offer to their customers in particular. No other types of banks, except the commercial banks, offer chequeing facilities to their customers. The following is a list of some commercial banks in Nigeria.

21.1.1 List of some Commercial Banks in Nigeria

1. Access Bank of Nigeria Plc
2. Afribank Nigeria Plc
3. Chartered Bank Plc
4. Nal Bank Plc
5. Devcom Bank Ltd
6. Diamond Bank of Nigeria Ltd
7. Ecobank Nigeria Plc
8. Equity Bank of Nigeria Ltd
9. Fidelity Bank Plc
10. First Bank of Nigeria Plc
11. Gateway Bank of Nigeria Plc
12. Gulf Bank of Nigeria Plc
13. Habib Nigeria Bank Ltd
14. Hallmark Bank Plc
15. Island Bank (Nigeria) Plc
16. Intercontinental Bank Plc
17. Liberty Bank Plc
18. Lion Bank of Nigeria Plc
19. Magnum Trust Bank Ltd
20. Manny Bank Plc
21. Orient Bank Plc
22. Omegabank Plc
23. Standard Trust Bank

24. Trade Bank Plc
25. Union Bank of Nigeria Plc
26. United Bank for Africa Plc
27. Wema Bank Plc
28. Zenith International Bank Plc
29. Prudent Bank Plc
30. Omega Bank Plc

21.1.2 Functions of Commercial banks

(i) *As depositories of cash:* Banks serve as safekeepers of cash for their customers. In essence, they receive cash, cheques, etc. from and on behalf of their customers to the credit of the latterâ€™s accounts. They thereby relieve customers of the risks and dangers of carrying a lot of cash for their daily transactions. The three types of accounts that could be kept by the customers are current, deposit, and savings accounts. These are discussed later in this chapter.

(ii) *Giving of loans:* One of the likely facilities to enjoyed by a bank customer is getting bank loans or bank overdrafts from his bank. (The distinction between the two and the conditions of their guarantee are discussed later.)

(iii) *Discounting bills of exchange:* Commercial banks, as one of their functions, discount bills of exchange. This means that commercial banks pay less cash than the value of the bills. The customers discounting their bills gain by receiving immediate cash to carry on their businesses. Bills of Exchange are more commonly used in international trade than in home trade, and that is why businessmen engaged in export trade usually make use of this facility provided by their commercial banks which is a kind of loan.

(iv) *Foreign exchange transactions:* Commercial banks engage in foreign exchange transactions as they buy and sell foreign currencies on behalf of the Central Bank. They also participate in the periodic bidding for foreign currencies for their customers in the Foreign Exchange auction conducted by the Central Bank of Nigeria.

21.1.3 Non-banking Functions of Commercial Banks

(i) *As payment agents:* Since the commercial banks hold their customersâ€™ deposits, they could effect payments of debts on behalf of their customers, either through the issue of cheques, withdrawal of cash or issue of bank standing orders. Such payments would automatically reduce the depositorâ€™s account with the bank. Regular payments could be made for their customers in respect of insurance premiums, club subscriptions, monthly bills (electricity, water), etc.

(ii) *Foreign trade:* Commercial banks assist customers in the following ways:

(a) They offer advice on prospects in foreign trade.

(b) They assist in the finance of foreign trade by opening letters of credit on behalf of their customers in favour of an overseas exporter and they accept bills of exchange on behalf of Nigerian importers.

(c) They process foreign exchange requests and help in transfer of funds.

(d) Commercial banks sell travellers cheques to facilitate foreign business trips.

(e) They provide commercial credits to facilitate payment for imported goods.

(f) Commercial banks act as referees when foreign businessmen want to ascertain the financial status and personal integrity of their customers.

(g) They arrange delivery of shipping documents to the importers and assist in clearing the goods.

(iii) *Act as referees:* Commercial banks give references on their customers who are entering into new business ventures. They even assist their customers in the registration of new companies.

(iv) *Issue of travellersâ€™ cheques:* Commercial banks issue travellersâ€™ cheques and other legitimate foreign currencies to their customers travelling abroad.

(v) *Investment functions:* Commercial banks buy stocks and shares on behalf of their customers and arrange for dividends and interests to be paid directly into their customersâ€™ current accounts.

(vi) *Keeper of customersâ€™ valuables:* Commercial banks own strong – rooms where their customersâ€™ valuables like gold chains, wills, conveyances, etc. could be stored for safekeeping.

(vii) *Trustees and executors:* Commercial banks do act as trustees and executors for their young customers, for whom some fortunes and inheritance have been left by their deceased parents or relations, until such young customers are of age to take investment decisions of their own on such fortunes.

(viii) *Income tax returns:* Commercial banks could make income tax returns on behalf of their customers.

(ix) *Night safe facilities:* A bank customer is provided with night safe facilities during closing hours, to relieve customers of the burden of carrying much cash after office hours, or at weekends. A customer is provided with a special key to the night safe, into which he drops his cash that has been duly entered in a pay-in-book and dropped in a special bag provided for the purpose. The entry is credited to the customerâ€™s account the following working day.

(x) *Credit cards and cheques*

(a) *Credit card:* This facility gives the holder ready credit which will enable him to buy goods within certain limit. Many commercial banks in Nigeria provide their customers with various versions of this card.

(b) *Cheque card:* With a cheque card, a customer can withdraw money from any branch of his bank to the limit set on the card. Some banks in Nigeria offer this product to their customers as a result of high tech introduced in banking.

(xi) *Payment of staff salaries:* Employees who have bank accounts could have their salaries paid to their bank accounts through their employersâ€™ bank accounts. In addition, banks could provide their customers with notes and coins of convenient small denominations for the purposes of paying their employeesâ€™ wages.

(xii) *Offering credit and cheque cards facilities:* One must be a bank customer to be entitled to such facilities; and the practice allows the eligible customers to buy now on the security and guarantee of their banks, and pay later.

21.1.4 Opening a Bank Account

Once a person opens a bank account, he is entitled to the numerous bank facilities mentioned above, including cheque facilities. It is logical, therefore, that the banks must satisfy themselves as to the caliber and integrity of the persons to be accepted as customers.

References: The banks ask for references from a potential customerâ€™s employers, banks if any, or any reputable bank, current account holder as to the quality of character of the applicant.

Bank applicant and signature forms: Once the references are favourable and acceptable to the bank, the applicant would be asked to fill an application form and append the specimen signatures of the signatories to the account on the signature form.

The signatories are the only authorized persons to sign cheques withdrawing money from the account. In the case of a personal account, the signature of the owner of the account is the only required signature.

Companyâ€™s accounts: In the case of a companyâ€™s account, there could be as many as three to four signatories: two of which would be acceptable on every cheque. Such signatories to a companyâ€™s accounts could be the managing director or any other company directors, the accountant or the general manager.

Joint accounts: This is when a wife and her husband jointly open one account. Normally, for the signatures on cheques to be acceptable to the bank, both of them must have duly signed the cheque. In the alternative, they could decide that the signature of either of them would be enough.

Teller: The bank offers its customers a paying-in-booklet which contains many paying-in slips bound together in book form. They are usually in duplicates. One copy is kept by the bank for crediting customerâ€™s accounts, while the other copy is kept by the customer for reference purposes.

Statement of accounts (SOA): The banks provide their customers operating current accounts with periodical statements of their accounts. This enables customers to follow the transactions – deposits and withdrawals – on their accounts. Should the customers specifically ask for a statement of accounts, they would be issued with one but at the cost of a special bank charge.

A specimen of statement of accounts in respect of Mr. Saloloye is shown below:

A Specimen Bank Statement of Accounts

Mr. Saloloye M.O.
P.O. Box 12481,
Dugbe Post Office,
Ibadan

IN ACCOUNT WITH - - - - - - - - -

SHEET No.- - - - - - - - - -

DEBIT		CREDIT	DATE	BALANCE
BALANCE FORWARD	BROUGHT			
10		1,000.00	04 06 81	3.79
8	465.00		04 06 81	1,003.79
6	31.80		04 06 81	538.79
6	1.00		10 06 81	506.99
1.59	400.00		10 06 81	505.99
9.69	120.00		12 06 81	14.01
3	8.00		17 06 81	22.01
7		706.42	23 06 81	684.41
1.50	274.00		26 06 81	410.41
8	300		30 06 81	110.41
2.77	100.00		01 07 81	10.41
6	27.60		10 07 81	17.19
6	1.00		10 07 81	18.19
5	1.00		20 07 81	997.48
2.80	850.00			
5	11.15			
2		260.00		
2		40.00	21 07 81	771.33
2.81	80.00		24 07 81	696.33
8	300.00		29 07 81	396.33
2.78	200.00		03 08 81	196.33

CQ/CHQ/1/2 – CHEQUE TR/TFR/6 = TRANSFER+CHARGES
CS/CSH/3 – CASH IN/INT/7 = INTEREST
CM/COM/4 – COMMISSION SL/SAL/8 = SALARY
CB/CBK/5 – CHEQUE BOOK SO/PMT/9 = PERIODICAL PAYMENT
TC/TC9/10 = TRAVELLER'S CHEQUES PLUS CHARGES
11 = RETURNED CHEQUE

FALLING RECEIPT BY THE MANAGER WITHIN 15 DAYS FROM THE DATE OF DESPATCH OF THIS STATEMENT OF NOTICE OF DISAGREEMENT WITH ANY OF THE ENTRIES. CONFIRMATION OF THE CORRECTNESS OF THE STATEMENT AS RENDERED WILL BE ASSUMED.

Fig. 21.1: *A Specimen Bank Statement of Account*

With the provision of bank statements, customers can check on deposits and withdrawals from their bank accounts. Again, individuals or companies can effect a reconciliation of their accounts and any discrepancies reported to the banks for correction.

A cheque book: Once a new customer opens an account on satisfaction of good references, he is issued a cheque book or a passbook (depending on the type of account he operates) with which he can draw money on his account from the bank, or make payments to his creditors. The customer can apply for a new cheque book as he finishes one.

Cheque stubs: A cheque leaf consists of the main cheque and the cheque stub. They are separated by perforations. The stub is left intact inside the cheque book, while the remaining part of the cheque leaf is detached for use. The cheque stubs carry all the information in a nutshell contained on the detached and issued cheque leaves including the same cheque numbers. The stubs, therefore, contain the history of the holderâ€™s bank transactions, including the amount withdrawn, payees, purposes and dates of payments, and even bank deposits, since some customers state their balances on the stubs.

362486/413582	362486/413582 6:10:1981
6:10:1981	UNION BANK OF NIGERIA LIMITED 72 Lebanon Street IFE
DR JIM BEATER	PA: DR JIM BEATER..........OR ORDER
House rents	Five Thousand Naira Only ₦5,000.00
₦5,000.00	Ayodele Asaolu
A cheque stub	The main cheque leaf

Fig. 21.2: ***Specimen of a Cheque with a Stub***

(N.B. Die stub carries all the information on the actual cheque leaf).

21.1.5 The Cheque System of Payment

(a) **Definition of a Cheque:** A cheque is simply defined, by Section 73 of the Bill of Exchange Act of 1882 as â€œA bill of exchange drawn on a banker payable on demand.â€ In a plain language, a cheque is a written order to a bank, made on a specially printed sheet of paper, supplied by the bank to current account holder, to pay a certain sum of money from oneâ€™s bank account to oneself or to another person.

As an order, it is signed by the account holder known as the *drawer,* requesting the banker known as the *drawee,* to pay the amount indicated in the cheque to oneself or to the named person or business known as *payee.*

(b) **Uses of Cheque:** (i) It is a safer means of carrying money than cash for transactions involving large sums of money; (ii) It is a convenient method of settling debt or payment; (iii) A cleared cheque is evidence that payment has been made and receipt may not be necessary.

(c) **Types of Cheque or Kinds of Cheque:** The four types or kinds of cheque are bearer cheque, order cheque, open cheque and crossed cheque. These four types are discussed below:

(i) *The Bearer Cheque:* This type of cheque is drawn without the name of any person written on it. Any person who presents such a cheque to the bank (whether he is the owner or not) will be paid over the counter by the bank. This type of cheque is highly risky.

(ii) *The Order Cheque:* This is drawn payable to the person named on it or his order. In this case, the person to whom the money will be paid is specified. The person whose name is on the cheque may order that the money be paid to another person by endorsement, that is by endorsing the cheque to another person. This is done by signing the back of the cheque after the instruction, e.g. â€œPay John Bubuâ€. Comparatively an order cheque is safer than the bearer cheque.

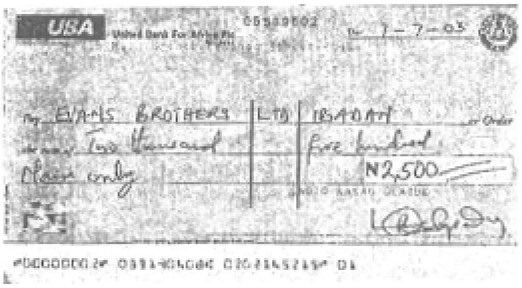

Fig. 21.3: *Order Cheque*

(iii) *The Open Cheque:* An open cheque is the one without the transverse lines drawn across its face and which can be cashed at the counter of the bank on which it is drawn, e.g. the bearer cheque.

(iv) *The Crossed Cheque:* A crossed cheque is a cheque with two parallel lines (transverse lines) drawn across its face. A cheque is crossed to prevent it from being cashed at the counter if it falls into wrong hands. A crossed cheque must be paid into an account, usually the payeeâ€™s account. If the payee has no current account, he can then endorse the crossed cheque to anybody who has a current account. Crossing improves the security of the cheque as it secures it from falling into fraudulent hands.

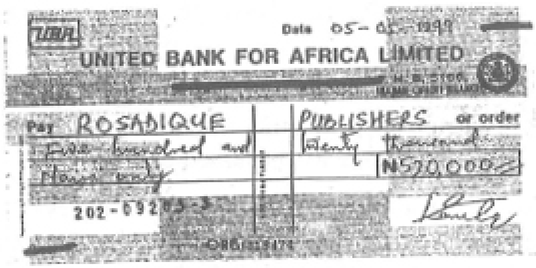

Fig. 21.4: *Crossed Cheque*

Terms Used in Connection with Cheque

1. *Stale cheque:* Once a cheque is issued its life span is 6 months from the date of issue. That is the cheque must be cashed within 6 months, failing which the currency of the cheque lapses and it becomes a stale cheque. For it to be cashed after 6 months it must be re-validated by the drawer.
2. *Post-dated cheque:* This is a cheque meant to be paid at a later date. The holder of such cheque need not present it for payment until or after the date put on it.
3. To honour a cheque means that the bank has accepted the cheque for payment or allowed the cheque to be cashed.
4. Reasons for not honouring a cheque:

â€¢ *Insufficiency of fund.* A cheque may not be honoured if the drawer has no sufficient fund in his account.

â€¢ Iregularity of the signature may cause a cheque not to be honoured.

â€¢ Discrepancy between the amount in words and the amount in figures.

â€¢ Unsigned cancellation or alteration may present a cheque from being honoured.

â€¢ If the cheque is not properly signed or signed by unauthorized persons, the cheque may not be honoured.

â€¢ If a cheque of certain amount is not confirmed by the drawer, it may not be honoured

â€¢ If a cheque is stale it will not be honoured by the bank.

5. The bank has a polite way of telling the payee that the cheque will not be honoured. The bank can ask the payee to see the drawer usually written as â€œR/Dâ€, that is refer to the drawer.

   Some banks issue their customers cheque books with printed crossing. Where this is the case the owner of the cheque books can open the cheques by writing â€œPay Cashâ€ and signing his name over the crossing. After this has been done, the crossed cheque becomes an open cheque.

(d) **Methods of Crossing a Cheque:** (Ordinary or General; and Special or Restricted)

   (i) *Ordinary or General Crossing:* Ordinary or general crossing is done by drawing two parallel lines across the face of the cheque. In some cases, it is the practice to write â€œ& Coâ€ inside the parallel lines but in some cases nothing is written, the lines are left blank. The effect of this type of crossing is to compel the payee to pay the crossed cheque into his current account or endorse it at the back to make it payable to someone else.

   (ii) *Special or Restricted Crossing:* A cheque crossed in a special way will further improve the security of the cheque crossed in a general way, when inside the parallel lines are written â€œA/C Payee Onlyâ€. This types of crossing specifies the account into which the cheque will be paid. In this case, it is the account of the named payee.

   (iii) The payment of a crossed cheque can further be restricted in two ways by writing in between the two parallel lines â€œNot Negotiableâ€ or the name of a bank.

   When â€œNot Negotiableâ€ is written, the right of the payee to endorse the cheque to another person is restricted. He cannot endorse the cheque to another person. It must be paid into his account. If a name of a bank is written inside the parallel lines, e.g. â€œCommunity Bank, Imenyiâ€, this restricts the payment of cheque to an account in the named bank. In this case, the cheque must be paid into an account in the Community Bank, Imenyi.

(e) **Other Methods of Payment by Cheque**

   (i) **Certified cheque:** This is a guarantee by the bank that the drawer of the cheque has enough funds to pay the debt or discharge the obligation or the amount stated on the cheque.

   (ii) **Bank draft:** This is sometimes called bankerâ€™s draft. It is a method of payment in which the bank undertakes to pay the sum stated on the cheque to the payee, thus making the cheque have the reputation of the bank firmly behind it. In other words, it is a cheque a bank draws on itself to guarantee payment.

   (iii) **Credit transfer:** This is a situation where debtors and creditors who have current accounts in the same bank, by giving instructions to their bank to transfer money from one account to the other, settle their debts.

21.1.6 Loans and Overdrafts

The banks make money available to their customers in pursuance of trade, either in form of loans or overdrafts.

(a) **Bank loan:** This is a specific amount of money advanced to a customer by a bank to be used for an approved trading purpose. For a customer to be qualified for a loan, he must be seen to be capable of making a repayment of the original loan plus interest. In addition, the customer must be engaged in legitimate trade, and be capable of providing reasonable security in case he defaults. The interest is determined by the bank, and is chargeable on the whole amount of the loan.

(b) **Bank overdraft:** This is similar to bank loan in the sense that it is also a way of making money available to a customer over and above what he has in his bank account. The customer, for a bank overdraft, will also have to fulfill the same conditions as for a bank loan. However, bank overdraft is different in the sense that interest is payable only on the amount of overdraft used. For instance, in a case where a customer draws only ₦2,000.00 out of the ₦4,000.00 overdraft facility granted him by the bank, interest will be charged only on ₦2,000.00 and not on ₦4,000.00.

Both loans and overdrafts are a means of allowing a bank customer to draw from his account over and above what he has in his account with the bank.

The distinction between the two are:

(i) In the case of loans, it is assumed that the customer can withdraw or has withdrawn the whole amount of the loan once granted; whereas in the case of overdraft, it is a mere stand-by credit facility which the customer can make use of as needs arise.

(ii) Following (i) above, interests are charged on the total amount of loans as from the date they are granted; whereas in the case of overdrafts, interests are charged on a daily basis depending on the amount of the overdraft used.

(iii) In the case of loans, a loan account is opened and debited to the accounts of the customer. In the case of overdrafts, however, the current account of the customer is marked by the amount of overdraft used.

(iv) A loan is repayable at a fixed amount periodically, while overdrafts are made good as the account holder makes further deposits into his account. It must be added that, both loans and overdrafts are granted for a fixed period; although, both could be made revolving, i.e. renegotiated from time to time subject to the discretion of the bank manager.

21.1.7 Conditions under which a bank manager would consider granting a loan or overdraft to a customer

A bank manager is personally liable for the failure of a customer to repay his loan or overdraft.

The following factors guide his decision:

(i) *Customerâ€™s personal integrity:* The loan or overdraft applicant must have proved himself, by his past associations with the bank, to be of high reputation and integrity. Where this is not so obvious, reference could be made to the customerâ€™s other banks, employers, or business associates, who could guarantee repayment of loans in the event of a default.

(ii) *Legitimacy of business:* The bank manager would ascertain that the business in respect of which the loan or overdraft is taken is genuine and legitimate, and not merely speculative.

(iii) *Government policy and directives:* The business for which the loan or overdraft is needed must be in conformity with government policy and directives, e.g. loan to agric or any other economic sector.

(iv) *Business profitability viability:* The bank manager will ensure that the business would be successful to the extent of generating enough funds, not only to service interests on loans, but for repayment of loan capital as and when due.

(v) *Collateral security:* These are liquid assets which the bank can readily turn into cash, should the borrower default on repayment of loans or overdrafts. These are:

(a) *Government stocks or shares of public companies:* These are easily marketable and can be readily cashed for money.

(b) *Title deeds to property:* These are ownerships of landed property which can be resold to pay for the loans.

(c) *Life assurance policies:* These must have acquired some surrender value equal, at least, to the given loan.

(d) *A guarantor:* This is somebody of considerable financial means, who can easily be called upon to make good the loans or overdrafts.

21.1.8 Types of accounts

Savings

Some of the capital invested in projects in a country comes from personal savings of individuals, groups of people or companies. Because the banks obtain a lot of their loanable funds from these savings, they encourage savings in the form of three different types of accounts. These are current, savings, and fixed deposit accounts.

In the main, these are the three types of accounts:

(i) Current account

(ii) Deposit account

(iii) Savings account

(i) *Current account:* This takes customersâ€™ deposits like any other accounts. It allows withdrawal at no given notice. It is the only account that enjoys cheque facilities. No interest is paid on this account since it can be drawn from at will; rather, the bank makes charges on the frequency with which transactions are effected on the account, called cost on turnover (COT).

It is the account that is most handy to businessmen who engage in various payments and receipts by cheque. It is operational only with the commercial banks.

(ii) *Deposit accounts:* This is the account that holds the surplus of customerâ€™s deposits that is not wanted for immediate use. Usually, the cash deposited here is for a fixed period of time, a situation which allows the bank to lend out such deposits and earn some interest on it.

The bank is, therefore, able to pay some interest on the same to the owner of the account. The longer the period of deposit the higher the interest paid.

Withdrawal is done at the expiration of the specified period otherwise the interest will be forfeited or the normal interest will be paid on the fixed deposit.

(iii) *Savings account:* This has almost identical features with the deposit account. It can be for a specific purpose like saving for Christmas. It earns interest and could be withdrawn at a given notice which will be presented personally by the holder. In practice, banks usually overlook this, and withdrawal can be made on demand but interest for seven days could be least. It is not subject to cheque facilities and the amounts of withdrawals and deposits are usually operated through a bank passbook.

21.2 Savings Banks

Introduction

Savings banks provide savings facilities for small savers or depositors, in the United Kingdom, there are two type of savings banks – the Trustee Savings Bank and the National Savings Bank. In Nigeria, however, as at 1981, there was the Federal Savings Bank. Others were the Mortgage Banks and the Building Societies.

21.2.1 Federal Savings Bank

This was established in order to tap all small saversâ€™ deposits. There are many post offices and postal agencies throughout Nigeria operating the Federal Savings Bank scheme as branches. The holder of a savings account can withdraw from any branch of the savings bank in Nigeria.

21.2.2 Mortgage Banks

The oldest known mortgage bank in this country is the Federal Mortgage Bank of Nigerian (FMBN) which has its headquarters in Abuja. The purpose of mortgage banking is to encourage the people to save towards house-ownership. It grants loan to people for the development of residential houses. It works closely with the Federal Housing Authority (FHA) and the various state housing corporations as its primary objective is to promote private ownership of houses. Other mortgage banks such as Abbey Mortgage Bank and Union Home Mortgage Bank now exist in Nigeria.

21.2.3 Building Societies

The building societies are savings banks with which members of the public do make regular savings. Such regular savers are in two categories. There are those savers who are in search of higher interest rates than the commercial banks could afford to give (the societies pay higher interests than the commercial banks). There is the other category of savers: they save in the hope of raising a loan from the building societies; or save enough to build their own houses in later years. This latter category is usually in the majority, and it is usually made up of young people. Consequently, building societies are usually flooded with plenty of funds out of which they give loans, known as mortgages to those who wish to have their own houses. After mortgage loans, they are still usually left with surplus funds which they can divert to investments in industries and other businesses.

The building societies normally lend at a higher interest rate than their borrowing rate (say 2% at least above borrowing rates). They live comfortably on the difference.

21.3 Bank Clearing House

Bank clearance is the procedure by which a cheque drawn by a customer of a bank in favour of another bankâ€™s customer is settled through the banking system. We shall examine three different circumstances:

(i) Where a cheque is drawn by a customer in favour of another customer of the same bank, in this case the clearing process is simple. The account of the drawer is simply debited, while that of the payee is credited. This is in-house clearance by internal adjustment of the accounts.

(ii) Where the cheque is drawn by a customer of one branch in favour of customer of another branch of the same bank. For instance, a customer of the Union Bank of Nigeria Plc Agodi, issues a cheque in favour of a customer of the Union Bank of Nigeria Plc. Lebanon Street, Dugbe Ibadan. The two branches would meet at their head office Ibadan and balance cheques that are for one branch against the other. For instance, if Agodi branch has ₦10,000.00 against it but has ₦12,000.00 in its favour the net credit figure would be ₦2,000.00.

(iii) Here several cheques are drawn against a bank by a number of customers of different banks, then the clearing process is a bit complex. Let us examine these illustrations:

(iv)

The Union Bank (UB)	***The Co-operative Bank (CB)***	***The IBWA Ltd.***
Holds ₦10,000.00 cheques drawn on IBWA; and ₦25,000.00 on CB	Holds cheques of ₦50,000 on UB and ₦75,000 on IBWA	Holds ₦30,000 on UB and ₦50,000.00 on CB

Each of the banks would make a summary of cheques in favour and against them and have their accounts credited and debited accordingly with the Central Bank which hosts the banking clearing house.

For instance

	(UB)	**(CB)**	**(IBWA)**
Cheques in favour	50,000 (CB)	25,000 (BU)	10,000.00 (UB)
	30,000 (IBWA)	50,000 (BWA)	75,000.00 (CB)
	80,000	75,000	85,000.00
Total cheque against	10,000 (IBWA)	50,000 (UB)	30,000.00 (UB)
	25,000 (CB)	75,000 (BWA)	75,000.00 (CB)
	35,000	125,000	105,000.00
Total			

Net Credit to UBA A/C at the Central Bank ₦ (80,000 – 35,000) = ₦15,000.00 credit

Net Debit ₦50,000.00 CBâ€™s A/C at the Central Bank would be reduced by ₦50,000.00 (i.e.₦75,000 – ₦125,000.

Net Credit to IBWA A/C at the Central Bank ₦105,000.00 – 85,000.00 = $420,000.00

After the cheques have been exchanged, the methods of settlement among the banks may be by cash, by a demand draft, by telegraphic transfer between the head offices or by credit transfer in the Central Bank, where the clearing house is located or where the clearing business takes place, or where the banks have accounts.

The clearing practice is one reason why commercial banks maintain a compulsory cash deposit with the Central Bank. Any commercial bank whose statutory cash deposits fall below the acceptable limit following the clearing operation, must make it good either by restricting further lending to customers or borrowing at a â€˜penalâ€™ rate (as mentioned earlier on).

Summary

- â€¢ Commercial banks perform various functions: accepting deposit; giving loans; assisting customers on overseas market situations; credit and card facilities; as well as being trustees and executors of wills among other things.
- â€¢ Some of the familiar documents for operating a current account are: applicant signature form; cheque books; tellers; statement of accounts; joint accounts; current and deposit accounts.
- â€¢ Types of accounts operated are current, fixed deposit and savings. Conditions for granting loans or overdrafts: customerâ€™s integrity, legitimacy of business and acceptable collateral security.
- â€¢ *Building societies:* These are savings banks in which the public may save. The Nigerian example is the Federal Government Mortgage Bank to which potential house owners can make regular contributions and may later apply for housing loans to build their own houses.

Revision Questions

A. Essay Questions

1. Compare and contrast: Current account and savings account. *(20 marks)*
2. What are the differences between bank loans and bank overdrafts? *(20 marks)*
3. Write short notes on the following: bank teller; night safe facilities; bank statement of accounts; cheque stubs; collateral security. *(4 marks each)*
4. Mention and explain FIVE ways by which commercial banks grant credit to customers. *(20 marks)*

(WASSCE 2002)

5. Explain the meaning of each of the following terms.
   (a) overdraft
   (b) current account
   (c) bank statement
   (d) dishonoured/bounced cheque
   (e) travellerâ€™s cheque *(20 marks)*

(NECO 2002)

6. Write explanatory notes on any FOUR of the following terms used in banking.
   (a) Cash ratio
   (b) Stale cheque
   (c) Post-dated cheque
   (d) Open market operation
   (e) Overdraft *(20 marks)*

(WASSCE 2001)

7. (a) Mention and explain FIVE ways by which the Central Bank regulates the activities of commercial banks *(15 marks)*
   (b) State FIVE factors which a bank manager considers in granting loans to customers *(5 marks)*

8. (a) What is money? *(2 marks)*
   (b) List and explain FOUR qualities of money *(8 marks)*
   (c) Explain any FIVE functions of a commercial bank *(10 marks)*

(NECO 2001)

B. Objective Questions

1. When a customer writes a cheque in his own name and withdraws cash with it from his account, he is both the
   A. drawee and payee
   B. drawer and payer
   C. drawer and drawee
   D. drawer and payee

(WASSCE 2002)

2. Which of the following services is not rendered by Commercial Banks?
   A. Business advice
   B. Currency notes issue
   C. Accepting deposits
   D. Credit transfers

(WASSCE 2002)

3. Which of the following is a creditor legally bound to accept for settlement of a debt?
   A. Bank draft
   B. Bank note
   C. Money order
   D. Cheque

(WASSCE 2001)

4. If a customer is allowed ₦1,000 overdraft and he received a bank statement showing an overdraft ₦100, this means that he
   A. cannot draw more cheques
   B. is owed ₦100 by the bank
   C. owes the bank at least ₦900
   D. owes the bank ₦100 only

(WASSCE 1999)

5. Which of the following cheques does not require endorsement?
   A. Specially crossed cheque
   B. Open cheque
   C. Bearer cheque
   D. Generally crossed cheque

(WASSCE 1999)

6. In foreign or international trade, which of the following services is rendered by the banks?
   A. Provision of treasury bills
   B. Collection of customas duties
   C. Facilitation of cash on delivery

D. Provision of documentary credits

7. A cheque which a bank draws on itself is known as a
   A. bankerâ€™s order
   B. bank teller
   C. crossed cheque
   D. certified cheque
   E. bank draft
8. A cheque which is payable to anyone who presents it across the counter is known as
   A. Crossed cheque
   B. Bearer cheque
   C. Order cheque
   D. Specially crossed cheque
9. In opening a current account the following are required except
   A. a refree
   B. initial deposit
   C. specimen signature
   D. a cheque book
10. Building societies and mortgage banks encourage people to save and borrow later principally
   A. to build their own factories
   B. to build their own houses
   C. to start agricultural production
   D. to develop co-operative ventures

Project

1. Discuss with an older member of your family and write on their personal experience in
   (i) dealing with any merchant banks or
   (ii) working with any merchant banks.
2. If you had the choice at all for which of these organizations would you wish to work?
   (i) a commercial bank;
   (ii) a merchant bank;
   (iii) the Central Bank

   You may also wish to discuss project 2 above with your teacher or any close relations for proper guidance.