

BANKING

Commercial banks are an organisation which normally performs certain financial transactions. It performs the twin task of accepting deposits from members of public and make advances to needy and worthy people from the society.

A. Primary Functions of Banks ↓

The primary functions of a bank are the main functions of a bank. These primary functions of banks are explained below.

1. Accepting Deposits

The bank collects deposits from the public. These deposits can be of different types, such as :-

- a. Saving Deposits
- b. Fixed Deposits
- c. Current Deposits
- d. Recurring Deposits

a. Saving Deposits

This type of deposits encourages saving habit among the public. The rate of interest is low. Withdrawals of deposits are allowed subject to certain restrictions. This account is suitable to salary and wage earners. This account can be opened in single name or in joint names.

b. Fixed Deposits

Lump sum amount is deposited at one time for a specific period. Higher rate of interest is paid, which varies with the period of deposit. Withdrawals are not allowed before the expiry of the period. Those who have surplus funds go for fixed deposit.

c. Current Deposits

This type of account is operated by businessmen. Withdrawals are freely allowed. No interest is paid. In fact, there are service charges. The account holders can get the benefit of overdraft facility.

d. Recurring Deposits

This type of account is operated by salaried persons and petty traders. A certain sum of money is periodically deposited into the bank. Withdrawals are permitted only after the expiry of certain period. A higher rate of interest is paid.

2. Granting of Loans and Advances

The bank advances loans to the business community and other members of the public. The rate charged is higher than what it pays on deposits. The difference in the interest rates (lending rate and the deposit rate) is its profit.

The types of bank loans and advances are :-

- a. Overdraft
- b. Cash Credits
- c. Loans
- d. Discounting of Bill of Exchange

a. Overdraft

This type of advances are given to current account holders. A certain amount is sanctioned as overdraft which can be withdrawn within a certain period of time say three months or so. Interest is charged on actual amount withdrawn. An overdraft facility is granted against a collateral security. It is sanctioned to businessman and firms.

b. Cash Credits

The client is allowed cash credit upto a specific limit fixed in advance. It can be given to current account holders as well as to others who do not have an account with bank. Separate cash credit account is maintained. Interest is charged on the amount withdrawn in excess of limit. The cash

credit is given against the security of tangible assets and / or guarantees. The advance is given for a longer period and a larger amount of loan is sanctioned than that of overdraft.

c. 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. Repayment of money can be in the form of installments spread over a period of time or in a lumpsum amount. Interest is charged on the actual amount sanctioned, whether withdrawn or not. The rate of interest may be slightly lower than what is charged on overdrafts and cash credits. Loans are normally secured against tangible assets of the company.

d. Discounting of Bill of Exchange

The bank can advance money by discounting or by purchasing bills of exchange both domestic and foreign bills. The bank pays the bill amount to the drawer or the beneficiary of the bill by deducting usual discount charges. On maturity, the bill is presented to the drawee or acceptor of the bill and the amount is collected.

B. Secondary Functions of Banks ↓

The bank performs a number of secondary functions, also called as non-banking functions.

These important secondary functions of banks are explained below.

1. Agency Functions

The bank acts as an agent of its customers. The bank performs a number of agency functions which includes :-

- a. Transfer of Funds
- b. Collection of Cheques
- c. Periodic Payments
- d. Portfolio Management
- e. Periodic Collections
- f. Other Agency Functions

a. Transfer of Fund

The bank transfer funds from one branch to another or from one place to another.

b. Collection of Cheques

The bank collects the money of the cheques through clearing section of its customers. The bank also collects money of the bills of exchange.

c. Periodic Payments

On standing instructions of the client, the bank makes periodic payments in respect of electricity bills, rent, etc.

d. Portfolio Management

The banks also undertakes to purchase and sell the shares and debentures on behalf of the clients and accordingly debits or credits the account. This facility is called portfolio management.

e. Periodic Collections

The bank collects salary, pension, dividend and such other periodic collections on behalf of the client.

f. Other Agency Functions

They act as trustees, executors, advisers and administrators on behalf of its clients. They act as representatives of clients to deal with other banks and institutions.

2. General Utility Functions

The bank also performs general utility functions, such as :-

- a. Issue of Drafts, Letter of Credits, etc.
- b. Locker Facility
- c. Underwriting of Shares
- d. Dealing in Foreign Exchange

- e. Project Reports
- f. Social Welfare Programmes
- g. Other Utility Functions

a. 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. It also issues travellers' cheques.

b. Locker Facility

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

c. Underwriting of Shares

The bank underwrites shares and debentures through its merchant banking division.

d. Dealing in Foreign Exchange

The commercial banks are allowed by RBI to deal in foreign exchange.

e. Project Reports

The bank may also undertake to prepare project reports on behalf of its clients.

f. Social Welfare Programmes

It undertakes social welfare programmes, such as adult literacy programmes, public welfare campaigns, etc.

g. Other Utility Functions

It acts as a referee to financial standing of customers. It collects creditworthiness information about clients of its customers. It provides market information to its customers, etc. It provides travellers' cheque facility.

Features of Cheque

- 1) A cheque must be in writing. It can be written in ink pen, ball point pen, typed or even printed. Oral orders are not considered as cheques.
- 2) Every cheque contains an unconditional order issued by the customer to his bank. It does not contain a request for payment
- 3) A cheque is always drawn on a specific bank mentioned therein.
- 4) A cheque must be signed by customer (Account holder) .
- 5) A cheque when presented for payment must be paid on demand.
- 6) The amount to be paid by the banker must be certain. It must be written in words and figures.
- 7) The name of the payee must be written on the cheque or it can be made payable to bearer.
- 8) A cheque must be duly dated by the customer of bank.
- 9) Cheque has 3 parties : 1. Drawer : A drawer is a person, who draws a cheque.
 2. Drawee : A drawee is a bank on whom a cheque is drawn.
 3. Payee : A payee is a person in whose favour a cheque is drawn.

Crossed cheque[\[edit\]](#)

A crossed cheque is a cheque that is payable only through a collecting **banker** and not directly at the counter of the bank. Crossing ensures security to the holder of the cheque as only the collecting banker credits the proceeds to the account of the payee of the cheque.

When two parallel **transverse** lines, with or without any words, are drawn generally, on the left hand top corner of the cheque. A crossed cheque does not affect the negotiability of the instrument.

It warns the collecting banker that the proceeds are to be credited only to the account of the payee, or the party named on the cheque, or his agent .

Two parallel lines are made in corner of the cheque. It can be endorsed. For ex. A issued crossed cheque in favour of B. Now B can endorse this cheque in favour of C by signing on its back and C can get money into his account even if cheque is in name of B.

In between those parallel lines if 'account payee' is also written. In above ex., if cheque is account payee, B cannot endorse in favour of any other person. The money will go into B's account only.

A person reaches the Bank with a Demand Draft payable to his account. At this situation, the Bank works as which of the following? a) Creditor b) Debtor c) Beneficiary d) Trustee Ans. D

	Cheque	Draft
Facility	The <u>current account</u> and <u>saving account</u> holders get a cheque facility.	Draft is issued to anyone even to non-account holders
Purpose	Cheques are used to make payments or to settle transactions. There is no certainty of payment in the case of cheques as they can be dishonoured or payment can be stopped.	The main purpose of a draft is to transfer money from one place to another or to guarantee the certainty of payment to the payee.
Drawer	In case of cheque, the drawer is the customer of the bank	In case of draft, the drawer is the bank itself.
Bank charges	The bank may not charge for issuing the cheque book.	The bank charges a nominal fee or commission to issue a draft.
Dishonour	Cheques can be dishonoured for various reasons	There is no question of dishonouring of draft.
Stopping of payment	In case of cheque, the drawer can ask the bank to stop payment of the cheque even if it is delivered to the payee.	In case of draft, the purchaser of the draft can ask the bank to stop payment before the draft is delivered to the payee.
Clearance	In case of cheque, there is a need for clearance.	In case of a draft, there is no need for clearance, if DD is drawn on the same bank.
Parties involved	Three parties are involved in cheque transaction viz., (a) Drawer, (b) Drawee, and (c) Payee.	Two parties are involved in draft transaction viz., (a) Drawer, and (b) Payee.

Permanent Account Number (PAN) is a code that acts as identification of Indians, especially those who pay Income Tax. It is a unique, 10-character alpha-numeric identifier, issued to all judicial entities identifiable under the Indian Income Tax Act 1961. An example number would be in the form of **ARLPA0061H**. It is issued by the Indian Income Tax Department under the supervision of the Central Board for Direct Taxes (CBDT) and it also serves as an important proof of identification.

From January 1, quoting PAN or permanent account number will be mandatory for opening all bank accounts, the government announced on Tuesday. With the aim of checking domestic black money, the government today announced a slew of measures that will make the use of PAN mandatory not just for opening accounts but several other transactions including buying gold or jewellery for Rs. 2 lakh or paying a bill of Rs.50,000 at a restaurant.

Do's

- Write clearly and legibly and always use permanent ink pens such as a ball pen
- Ensure no alteration/amendment/erasure on the face of the cheque as banks will reject such cheques

Begin writing the amount in words close to the word "Ringgit" without leaving too much space in between the words written and always write the amount payable ending with the

word "only". The amount in figures must be written close to the letters "RM" and should be written legibly

Make sure that no cheque is being removed from the cheque book without your knowledge and ensure that spoiled cheques are completely destroyed

Ensure that cheques are kept in a safe and locked place and never leave cheques whether signed or unsigned unattended

Undertake regular review of your stock of unused cheques and conduct regular reconciliation of cheques paid with your bank statement

Report immediately to your bank if there are cheques missing from your cheque book or discrepancies in your bank statement

Ensure your account has sufficient funds before you issue a cheque. It is not the duty of your bank to call you when there are insufficient funds although some banks may do so as part of their service to their customers

When sending cheques by mail using window envelope, ensure that the envelope is of good quality. This prevent cheques from being revealed when the envelope is held against any light

Don'ts

- Write below the MICR (Magnetic Ink Character Recognition) field of the cheque to allow smooth clearing of your cheque. The MICR field is usually a 5/8 inch band at the bottom of the cheque

Sign any blank cheque or give any blank cheque as payment

Use laser printer, felt tip pen, erasable pen or pencil or other printing techniques which can be easily erased and written over, to write details on a cheque. If you are using a typewriter, you should not use correctable ribbons

Fold, pin or staple written cheques. If the cheque is folded, the clarity of the wordings which fall across the "folded" lines may be affected. In addition, folding may break the MICR field of the cheque, resulting in the cheque being rejected by the cheque processing system.

Cheques should not be stapled to prevent accidental tearing



- If you often **delay depositing your cheques** for credit into your bank account, be warned. From 1 April 2012, cheques, drafts, pay orders and banker's cheques are valid for only three months. Banks will have to mention the three-month validity on cheques and drafts issued from the next financial year.