Overview of Banks & their Organizational Structure

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Functions of Banks

These functions of banks are explained in following way-

A. Primary Functions of bank: The primary functions of a bank are also known as banking functions. They 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-

- **Saving Deposits:** This type of deposits encourages saving habit among the public. The rate of interest is low. At present it is about 4%p.a.
- **Fixed Deposits:** Lump sum amount is deposited at one time for a specific period.Higher rate of interest is paid.
- **Current Deposits:** This type of account is operated by businessmen. Withdrawals are freely allowed. No interest is paid.
- **Recurring Deposits:** This type of account is operated by salaried persons and petty traders.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 types of bank loans and advances are-

a) **Overdraft:** This type of advances are given to current account holders. An overdraft facility is granted against a collateral security. It is sanctioned to businessman and firms.

a) **Cash Credit:** The client is allowed cash credit upto a specific limit fixed in advance.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.

a) **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.Loans are normally secured against tangible assets of the company.

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

- **General Utility Functions:** The bank also performs general utility functions, such as-

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 travelers 'Cheque.'

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) Discounting of bill of exchange: The bank can advance money by discounting or by purchasing bills of exchange both domestic and foreign bills. 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-

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

a) **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.

d) Dealing in Foreign Exchange: The commercial banks are allowed by Bangladesh Bank 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 Programs: It undertakes social welfare programs, such as adult literacy programs, public welfare campaigns etc.

So, we can say that following are the functions of a bank.

Bank is a financial Intermediary

A financial intermediary is an entity that acts as the middleman between two parties in a financial transaction, such as a commercial bank, investment bank, mutual funds and pension funds. Banks are a financial intermediary, an institution that operates between a saver who deposits money in a bank and a borrower who receives a loan from that bank.

Financial intermediaries offer a number of benefits to the average consumer, including safety, liquidity and economies of scale involved in commercial banking, investment banking and asset management. Bank is one of the major financial intermediaries due to bank move funds from parties with excess capital to parties needing funds. The process creates efficient markets and lowers the cost of conducting business. For example- a financial advisor connects with clients through purchasing insurance, stocks, bonds, real estate and other assets. Insurance Companies collect premiums for policies and provide policy benefits. A pension fund collects funds on behalf of members and distributes payments to pensioners.

Deposit is the blood of a bank and bank is the blood of the economy of a country

It is truly said that **‘deposit is the blood of a bank and bank is the blood of the economy of a country.’**

Money may be compared with **the blood of the bank.** As long as blood remains in circulation, all the organs in the body will remain sound and healthy. If blood is not adequately supplied to any organ or part of the body, then that part will be starved of nutrients and oxygen and will become useless.

On the same way as long as money remains in circulation, **all the banks in a society will remain economically sound and healthy.** If money is not adequately supplied to the bank, then the bank lost its existence from the society.

Similarly a bank may be compared with the **blood of the society.**As long as all the banks in a society will remain economically sound and healthy society will develop gradually towards the prosperity and solvency.

Finally we can say that-**Deposit is the blood of a bank and bank is the blood of the economy of a country.**

Role of Banks in economic Development

Banks have always played an important position in the country's economy. They play a decisive role in the development of the industry and trade.We will now discuss the role of contribution of banks for the economic development of a nation-

- **Capital Formation:** Banks play an important role in capital formation,which is essential for the economic development of a country. Capital formation refers to the increase in the existing stock of capital goods in an economy. Banks reduce the capital deficiency by encouraging saving and investment.
- **Creation of Credit:** Banks create credit for the purchase of providing more funds for development projects. Credit creation leads to increased production,employment,sales and prices and thereby they cause faster economic development.
- **Money Transfer:** Banks have facilitated the making of payments from one place or persons to another by means of cheques,bill of exchange and drafts instead of cash.

- **Encourages savings:** Banks perform an invaluable service by encouraging savings among the people. These savings help in capital information.
- **Utilize the resources:** Savings pooled by banks are utilized to a greater extent for development purposes. It ensures to utilize the resources.
- **Bank rate policy:** Economists are of the view that by changing the bank rates, changes can be made in the money supply of a country.In our country the Bangladesh Bank regulates the rate of interest to be paid banks for the deposits accepted by them and also the rate of interest to be charged by them on the loans granted by them.
- **Finance to Government:** Government is acting as the promoter of industries in underdeveloped countries for which finance is needed for it. Banks provide long term credit to government by investing their funds in government securities and short term finance by purchasing treasury bills.
- **Bankers are Entrepreneurs:** In recent days banks have assumed the role of developing entrepreneurship particularly in developing countries like Bangladesh.It is a complex process. It includes the formation of project ideas, identification of specific projects suitable to local conditions etc.

Branch banking Vs. Unit banking

The Unit banking of a particular locality utilizes its resources for the development of its own locality only and and does not transfer them to other localities like branch banking.

Branch banking refers to a single bank when which operates through various branches in a city or in different locations or out of the cities.

The difference between both of them is discussed below:

Differences	**Branch Banking**	**Unit Banking**
Freedom	Less Operational freedom	More Operational freedom
Financial resources	Large pool of financial resources	Limited financial resources
Decision making	Delay in decision making as they have to depend on the head office	Time is saved as decision making is in the same branch.

Differences	**Branch Banking**	**Unit Banking**
Funds	Funds are transferred from one branch to another.	Funds are allocated in one branch and no support of other branches.
Cost of supervision	Comparatively high	Less
Mismanagement	Improper use of power and authority.	Proper checks are taken up
Competition	Exist between the bank branches	No or little within the bank

Differences	Branch Banking	Unit Banking
Local economy	It is not affected by the ups and downs of the local economy.	Affected by the ups and downs of the local economy.
Rate of interest	Fixed by the head office, and directed by the central bank.	Not fixed, as the bank has its own policies and norms
Independence of operations	Comparatively less	More

Banking

Simply, Banking is the business conducted or services offered by a bank. In broad sense, Banking is an industry that handles cash, credit and other **financial transactions.**

Some of the definitions are given below:

According to Collins English Dictionary - Banking is the business carried on by a bank or a banker.

According to Gaurav Akrani- **Banking is the function of a financial institution which deals with deposits and advances and other related services.** It receives money from those who want to save in the form of deposits and it lends money to those who need it.

So, **Banking carried out by financial intermediaries** , which performs the functions of safeguarding deposits and providing loans to the public.

What is meant by Banker?

Simply Banker is an officer of a bank. In broad sense , banker is one who conducts the business of banking. Generally **Banker is a person who is doing the banking activities or business.**

According to Richmond V. Blake- A banker is a private person, who keeps a bank one who is engaged in the business of banking.

According to Dr. H.L Hart- A banker or a bank is a person or a company carrying on the business of receiving moneys, and collecting drafts, for customers.

So, we can say that, A banker performs multifarious functions. Banker is an individual that is employed by a banking institution and participants in various financial transactions, which may or may not include investments.

Rights and obligations of banker

Rights and obligation of a bankers are given below-

A. Rights of Banker: For fulfilling the obligations towards the customers,bankers enjoy some rights. The following of the rights are available to a banker-

1. Right of General Lien: One of the most important rights enjoyed by a bank is the right of general lien. Lien is a right of a person to retain goods belonging to another.Until the demands of the person in possession are satisfied.

2. The right of set-off: The banker has the rights to set-off the accounts of its customers.This enables a debtor(banker) to set off a debt owed to him by a creditor(customer) before the latter recovers a debt due to him from the debtor. Banks can merge two accounts in the name of the same customer and set off the debit balance in one account with the credit balance in the other. But the funds should belong to the customer.To be on the safe side bankers must take a letter of set-off from the customer authorizing the bank to exercise the right of set-off without giving him any notice.

3. Right of Appropriation: In the normal course of business, a banker accepts payments from customers. If the customers have more than one account or he/she has taken more than one loan, the customer has the right to direct his banker against which debt the payment should be appropriated/settled. If the customer does not direct the banker and there is more than one debt outstanding in his/her name, the bank can exercise its right of appropriation and apply it in payment of any debt. The banker can apply it against time barred debts also. Once an appropriation has been made it cannot be reversed.

4. **Right to charge interest:** The banker has an implied right to charge interest on the advances granted to its customer. Bankers generally charge interest monthly, quarterly or semiannually or annually. There may be an agreement between the banker and customer in this case the manner agreed will decide how interest is to be charged.

5. Right to close the Account: If the bank is of the opinion that an account is not being operated properly, it may close the account by sending a written intimation to the customer. But the notice is mandatory, without sending such notice a banker can not close any customer account.

B. Obligations of Banker: The relationship between the banker and customers creates some obligations on the part of a bank. The fundamental obligations of a banker towards its' customers are as follows-

1.Obligation of Banker to Honour Cheques: The bank has a statutory obligation to honour the cheques of its customers up to the amount standing to the credit of the customers account.

2. Obligation of Banker to Maintain Secrecy: The banker must not disclose to any outsider the details about the customers account, as such disclosures may adversely affect the credit and business of the customer.

3. Obligation of Banker to Maintain proper Records: The banker is under an obligation to maintain accurate record of all the transactions (credits and debits) of the customers made with the bank.

4. Obligation of banker to Follow Customers Instructions: The banker is under a legal obligation to follow the instructions of the customer. This is so because there is the contractual relationship between the bank and the customer.

5. Obligation of Banker to give Notice before Closing the Account: If a banker wishes to close the account of a customer, it must give a reasonable notice to this effect to the customer.

Thus, a bank can not close the account of a customer on its own wish, because it may have serious consequences to the customer.

Bank Vs. Banking

Bank: A Bank is an institution that accepts the surplus money of the people in the form of deposit and gives it to other in the form of loans and advances.

Banking: Banking is the business conducted or services offered by a bank.

Difference between them is discussed below-

Factors	**Bank**	**Banking**
Nature	Bank is a financial intermediary institution.	Banking is the activities of bank
Organisational structure	It may be sole proprietorship, partnership or any other form of organisation.	Banking has no such structure.
Functions	Bank performs the banking functions	Collection of loans etc are banking.

Factors	Bank	Banking
Liability	Banker is liable for the bank’s activities.	Bank is liable for the banking activities.
Success	Success of bank depends on the efficiency of the banker.	The success of banking depends on the size and form of bank.
Relationships	Bank makes relationship with the customers	Banking make relationship with Bank.
Dissolution	The dissolution of bank is done by the local banking law.	When a bank dissolve then the banking activities end.
Dependency	Bank is dependent on banker	Banking is depended on the bank
Initiation	Banker initiates bank	Bank initiates banking
Entity	As a financial it has a separate entity	Banking has no separate entity. It’s based on the entity of bank