

Commercial Banking

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Services of Commercial Bank

In the modern world, banks offer the variety of services to attract customers, however some basic modern services offered by the banks are discussed below-

1.Advancing of Loans : Banks are profit oriented business organizations. So they have to advance loan to the public and generate interest from them as profit.

2.Overdraft : Sometimes, the bank provides overdraft facilities to its customers through which they are allowed to withdraw more than their deposits. Interest is charged from the customers on the overdrawn amount.

3. Discounting of bills of Exchange: This is another popular type of lending by the modern banks. By this method, a holder of a bill of exchange can get it discounted by the bank, in a bill of exchange, the debtor accepts the bill drawn upon him by the creditor.

4. Cheque Payment: Banks provide cheque pads to the account holders. Account holders can draw cheque upon the bank to pay money.

5. Collection and payment of credit Instruments: In modern business, different types of credit instruments such as the bill of exchange , promissory notes, cheques etc are used.

6. Foreign Currency Exchange: Banks deal with foreign currencies. As the requirement of customers banks exchange foreign currencies with local currencies which is essential to settle down the dues in the international trade.

7.Consultancy: Modern commercial banks expand their function to a consultancy business. Banks hire financial, legal and market experts who provide advice to customers regarding investment, industry and trade, income etc.

8.Bank Guarantee: Customers are provide the facility of bank guarantee by modern commercial bank.

9. Remittance of funds: Banks help their customers in transferring funds from one place to another through cheques, drafts etc.

10. ATM service: ATMs replace human bank tellers in performing giving banking functions such as deposits, withdrawals and account inquiries etc.

11. Debit Card: Debit cards are used to electronically withdraw funds directly from the card holders accounts.

12. Home Banking: Home banking is the process of completing the financial transaction from one's own home as opposed to utilizing a branch of a bank.

13. Online banking

14. Mobile Banking

15. Accepting Deposit

16. Priority banking

Commercial Banking Principles

Commercial banks follow certain principles to serve the maintain some principles which are very important for banks to remain in the competition in modern days. There are 9 principles that commercial banks follows-

1.Principle of Liquidity

2.Principle of Solvency

3.Principle of profitability

4.Principle of loans and investment

5.principles of Savings

6.Principles of secrecy

7.Principles of services

8.Principles of efficiency

9.Principles of Locations

10.Principles of goodwill

11.Principles of technology

Definition of Loan

A loan is when you receive money from a friend, bank or financial institution in exchange for future repayment of the principal, plus interest.

A loan is the temporary borrowing of a sum of money.

According to signoriello, vincent j- A loan is the lending of money from one individual, organisation or entity to another individual, organisation or entity.

Features of Loan

Loans have the following distinguishing characteristics-

- ❖ Parties
- ❖ Time to maturity
- ❖ Amount of loan
- ❖ Ultimate decision
- ❖ Mode of loan
- ❖ Nature of distribution
- ❖ Process of disbursement
- ❖ Security

- ❖ Interest
- ❖ Periodicity
- ❖ Repayment of Loan

Definition of Security: A security is a tradable financial asset. Security is an asset or asset to which a lender can have recourse if the borrowers defaults on any loan repayment.

The Economists defines security as, “Sometimes of value given to a lender by a borrower to support his or her intention to repay.

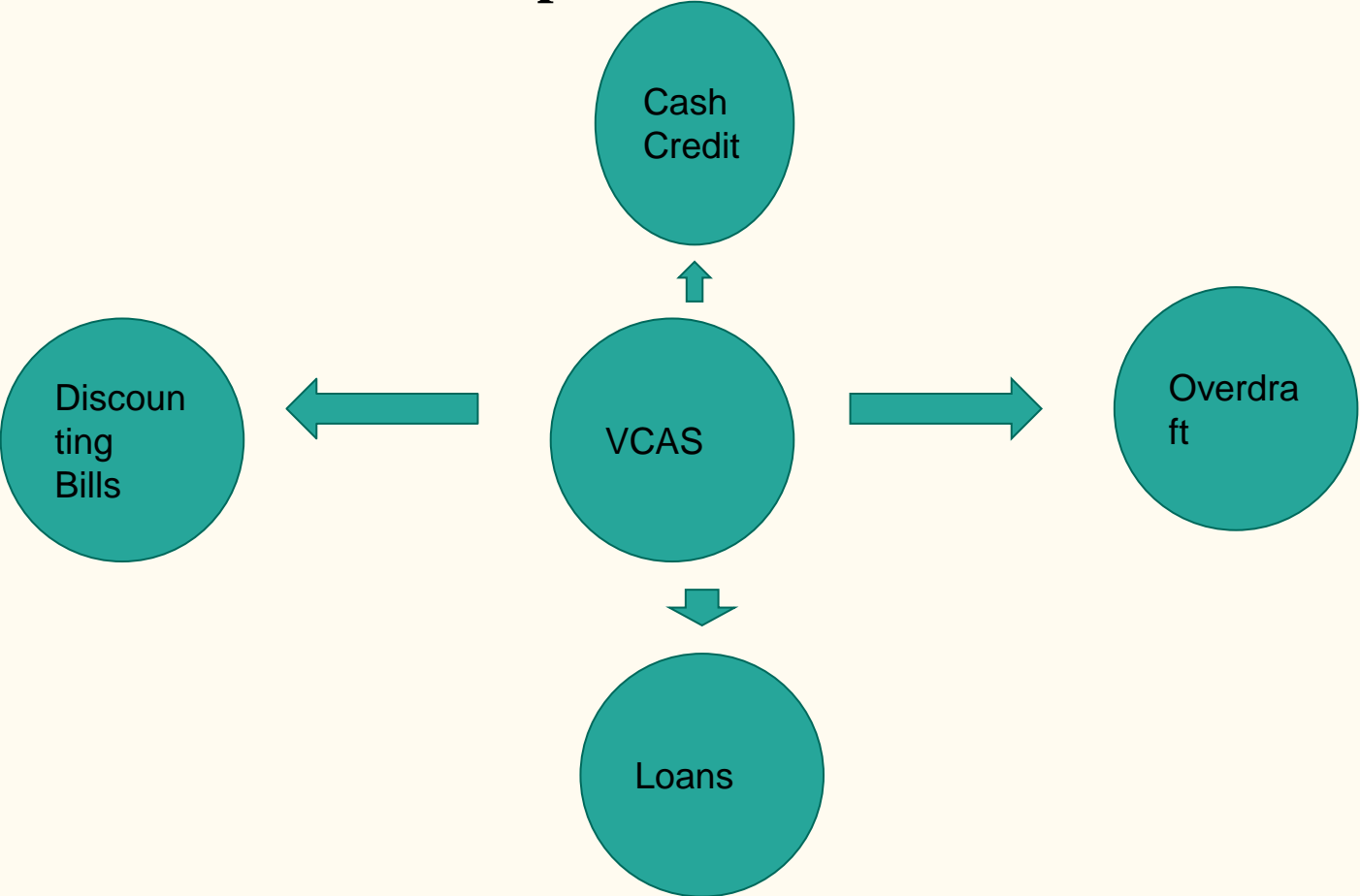
Features of good security

We can justify the suitability of a security provided by a client by checking the following distinguishing the features-

- ❖ Marketability
- ❖ Valuable
- ❖ Stability of price
- ❖ Easy storability
- ❖ Durability
- ❖ Transportability
- ❖ Cost Consideration

- ❖ Ownership
- ❖ Acceptability
- ❖ Documentation
- ❖ Financial Ability

Vital conditions for Acceptable Securities



- ❖ **Cash Credit:** Cash credit is an arrangement by which the customer is allowed to borrow money up to a certain limit known as the 'cash Credit limit'.
- ❖ **Overdraft:** Overdraft is an arrangement between a banker and his customer by which the latter is allowed to withdraw over and above his credit balance in the current account up to an agreed limit.
- ❖ **Loans:** Loan is defined as to give someone money that will be repaid with interest. The loans may be repaid in installments or at the expiry of a certain period.

❖ **Discounting Bills:** The terms ‘invoice discounting’ or ‘bills discounting’ or ‘purchase of bills’ are all same. Bill discounting is an arrangement whereby the seller recovers the amount of sales bill from the financial intermediaries before it is due.

“Thank You”

