

Good Morning Students

This lesson is for class 9th for the subject of Commercial Studies. The topic for today is 'Commercial Banks and Functions of Commercial Banks' which is covered in chapter 22 titled 'Banking' of your book.

This lesson is being submitted to you on 12.08.24.

All the students now please open page number 197 of your book

Bank and Banking

According to the Banking Regulations Act, 1949, "Banking means accepting for the purpose of lending or investment, of deposits of money from public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise."

Thus bank may be defined as an institution which accepts deposits of money from public for the purpose of lending or investment.

Banks are described as dealers in money when a bank accepts deposits, it purchases money at a certain rate of interest. When it lends money, it sells money at a higher rate of interest. The difference is its profit.

Types of Banks:-

1. Central Bank:-

Central bank is the bank which controls the banking system of the country. It

regulates money supply and credit with the help of the government. It exercises supervision and control over all other banks in the country. The 'Reserve Bank of India' is the central bank of the country.

2. Commercial Banks:-

These are joint stock banks which receive deposits from the public and business firms. They also provide short-term and medium term loans to customers.

These banks carry on all kinds of banking functions within the framework of the Banking Regulations Act, 1949.

In India, commercial banks are owned and controlled by the Government, private businessmen and foreign businessmen.

State Bank of India, Bank of Baroda, Punjab National Bank are examples of public sector banks. ICICI bank, Axis bank, HDFC bank are examples of private sector banks.

Citi Bank, HSBC bank, American Express bank are examples of foreign banks.

3. Industrial Banks:-

These banks provide medium term and long term finance to industrial concerns. They also purchase and underwrite shares and debentures of industrial concern. They also provide managerial and technical assistance to industries. These are also called as development banks. For example IDBI (Industrial

Development Bank of India), IFCI (Industrial Finance Corporation of India)

4. Agricultural Bank:-

These banks provide medium term and long term loans to farmers against the security of land. They are, therefore called Land

Development Banks or Land Mortgage Banks. Agricultural banks also provide loans for permanent improvement in agricultural land.

Difference between Central Bank and Commercial Bank.

Refer to page no. 198 of your book.

Functions of Commercial Banks:-

Functions of Commercial Banks can be divided as follows

1. Primary Functions
- (a) Accepting Deposits
- (b) Lending Money.

2. Secondary Functions
- (a) Agency Functions
- (b) General Utility Functions

Accepting Deposits:-

Accepting deposits is the main function of a commercial bank. It attracts deposits for the purpose of making loans and investments. Bank offer different types of deposit accounts to suit the needs of various depositors. Bank receive the following types of deposits:

(a) Fixed Deposits:-

Under this account, a person makes a

deposit of money in one lumpsum for a specified period of time, say, one year, three years, four years or more. Pass book or cheque is not issued to the depositor. High rate of interest is allowed on the deposits. The customer is not allowed to withdraw from the account before the expiry of the specified period. This account is mainly opened for the purpose of earning interest.

(b) Saving Deposit Account:-

This account can be opened by anyone by depositing a small amount of money usually ₹ 200. The object of a saving bank account is to encourage thrift and foster the habit of savings and to collect small savings of people. A passbook and cheque book is issued to the depositor. Interest is allowed at a very low rate of interest. Account holder can deposit any number of times, but there is a restriction on number of withdrawals (not on amount only on number like 8 in one month).

(c) Current Deposit Account:-

A current account is opened & generally by businessmen. There is no restrictions on number of withdrawals. This account is opened to carry out business transactions. Passbook and cheque book issued to the depositor. No interest is paid by banks on current account. Rather a small amount is charged by the banks for providing

bank services. Overdraft facility (withdrawing more money than the account balance) is available in this account.

(d) Recurring Deposit Account:-

In this type of account, a customer is required to deposit a fixed amount of money (say ₹1000, 2000, 5000 etc.) every month for a specified period of time like 1 year to 5 years. Thus, a person can gradually save money for purchase of costly articles, for education or marriage of children, etc. A customer cannot withdraw the money before the expiry of the term. Therefore cheque book is not available. A pass book showing the instalments deposited by the customer is issued. No overdraft facility is available. Interest rate is higher than savings but less than fixed deposits.

For comparison between different types of bank accounts refer to page number 202-203 of your book.

Before going further let's take a short break. Write the answers of the following questions during the break.

1. Define Industrial bank.
2. What is the difference between saving account and current account?
3. What is fixed deposit account?

⑤

2. Lending Money!:-

Commercial banks lend money in the following ways:-

(a) Loans and Advances!:-

A specified amount is granted for a specified period. The whole amount of loan is credited to the account of the borrower. The borrower can withdraw the entire amount in lumpsum or in instalments. However, interest is charged on the full amount of the loan. Such loans are generally granted against the security of certain assets.

(b) Cash Credit!:-

In this arrangement, the bank allows the borrower to borrow up to a certain limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when requires. Interest is charged on the amount actually withdrawn. Cash credit is usually granted to the businessmen on the security of the stock or on personal guarantee.

(c) Overdraft!:-

Under this arrangement, a customer who has a current account with the bank can withdraw more than the amount standing to his credit up to a specified limit. This is a temporary arrangement on which interest is

being charged by the bank. It may be allowed on the security of assets or on personal guarantee.

(d) Discounting of Bills:-

A bill of exchange is a written undertaking (promise) by the debtor (the person who has to pay money) to the creditor (the person who has to receive money) regarding the payment to be made in future. Banks make payment against the bills before the date of maturity. In case the bill is dishonoured on the due date, the bank can recover the amount from the customer. Bank charge some commission for this service.

2. Secondary Functions

(a) Agency Functions (b) General Utility Functions
refer to page number 200 and 201
for Agency and General Utility Functions

With this, I am ending my topic here.
Write the answers of following questions in your note-books.

1. What is overdraft?
2. Give difference between Central Bank and Commercial bank.
3. Give any two agency functions of Commercial banks.