

Commercial Bank

A commercial bank is a kind of financial institution which carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, etc. These banks are profit-making institutions and do business only to make a profit.

The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest (profit). The rate of interest that a bank offers to the depositors is known as the borrowing rate, while the rate at which banks lends the money is called the lending rate.

Functions of Commercial Bank:

The functions of commercial banks are classified into two main divisions.

(a) Primary functions –

- **Accepts deposit** – The bank takes deposits in the form of saving, current and fixed deposits. The surplus balances collected from the firm and individuals are lent to the temporary required of commercial transactions.
- **Provides Loan and Advances** – Another critical function of this bank is to offer loans and advances to the entrepreneurs and businesspeople and collect interest. For every bank, it is the primary source of making profits. In this process, a bank retains a small number of deposits as a reserve and offers (lends) the remaining amount to the borrowers in demand loans, overdraft, cash credit and short-run loans, etc.
- **Credit Cash**- When a customer is provided with credit or loan, they are not provided with liquid cash. First, a bank account is opened for the customer and then the money is transferred to the account. This process allows a bank to create money.

(b) Secondary functions –

- **Discounting bills of exchange** – It is a written agreement acknowledging the amount of money to be paid against the goods purchased at a given point of time in the future. The amount can also be cleared before the quoted time through a discounting method of a commercial bank.
- **Overdraft Facility** – It is an advance given to a customer by keeping the current account to overdraw up to the given limit.
- **Purchasing and Selling of the Securities** – The bank offers you with the facility of selling and buying the securities.

- **Locker Facilities** – Bank provides lockers facility to the customers to keep their valuable belonging or documents safely. Banks charge a minimum of an annual fee for this service.
- **Paying and Gather the Credit** – It uses different instruments like a promissory note, checks and bill of exchange.

Types of Commercial Banks:

There are three different types of commercial banks.

- **Private Bank** – It is one type of commercial banks where private individuals and businesses own a majority of the share capital. All private banks are recorded as companies with limited liability. Such as Housing Development Finance Corporation (HDFC) Bank, Industrial Credit and Investment Corporation of India (ICICI) Bank and Yes Bank, etc.
- **Public Bank** – It is that type of bank that is nationalized, and the government holds a significant stake. For example, Bank of Baroda, State Bank of India (SBI), Corporation Bank and Punjab National Bank.
- **Foreign Bank** – These banks are established in foreign countries and have branches in other countries. For instance, American Express Bank, Hong Kong and Shanghai Banking Corporation (HSBC), Standard & Chartered Bank and Citibank, etc.