**B.Com 6th Semester, 2020**

**Sub: Modern Banking Practices (MBP)**

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Q1. **Explain the modern functions of a commercial bank.**

A commercial bank is a financial institution, usually incorporated, whose business is to accept money on deposit, cash, cheques or drafts, discount commercial paper, provide loans and issue promissory notes payable to bearer known as ‘**banknotes’**.  
       A commercial bank is a monetary institution which serves the interests of its depositors by providing security to the deposits of money and on the other hand, makes profits by investing such deposits in the protective measures by extending loans. Commercial banks are the most common and important type of banking institutions.

The traditional activities of a commercial bank is to accept deposit and provide loans (lend money). They pay interest on deposit and receive interest from lending operations. **The margin between interest received and interest paid is called spread. Spread is the most important component of bank’s profit.**

Banks also undertake various fee based business by doing bill business, selling drafts and pay orders, hiring lockers, undertaking treasury, foreign exchange and bill business. They also undertake merchant banking activities. Bigger banks undertake project appraisal on behalf of their clients. They earn commission out of this business which enhances their profitability.

The modern functions of commercial banks are discussed below:

**i) Electronic Funds Transfer System (EFTs):**

This system enables employers to transfer salary/wages to the accounts of employees directly from the company (i.e. employer) bank account.

**(ii)Automated Teller Machines (ATMs):**

It is freestanding self-service terminal. To use an ATM, one has to insert a plastic card into the terminal and then enter an identification code.

The machine responds by:

1. Giving cash

2. Taking deposits

3. Handling other simple banking transactions

**(iii) Credit card:**

Credit card enables the card holders to have overdraft facilities of a certain amount. It can be used (by cardholders) for making payments of goods and services. Credit cards are issued to selected customers of the bank. The credit card is a plastic card having the photo identity and signatures of the customer. It includes the issuing bank’s name and validity period of the card.

**(iv) Debit card:**

Debit cards are issued by bank to those customers who keep deposits with it. The card holder can buy goods from the designated retail store and make payment through his/her debit card. A debit card is a plastic card, bearing banks’ name and customer’s name, identity and signatures.

**(v) Collection of information:**

Banks collect information about trade and industry and supply it to interested parties. They also offer advice on financial matters.

**vi) Phone Banking:**

Phone banking is a modern function provided by a bank which enables the customers to perform a wide range of financial transactions over the telephone that do not involve cash or financial assets without visiting a bank or ATM.

**vii) Inter**[**net banking**](https://indianmoney.com/articles/net-banking)**/ online Banking/ Net Banking/ Web Banking:**

Online banking may be termed as internet banking or net banking or web banking.It is an electronic system of payment that enables the bank customers to conduct a range of financial transactions through the bank’s website. It is typically a part of core banking system operated by a bank and is opposite to branch banking.

Some banks function as a **‘Direct Bank’** or **‘Virtual Bank’** where the transactions are completely based on internet banking.

**viii) Bancassurance:** Bancassurance is a relationship between a bank and an insurance company that aims at offering a variety of insurance products or benefits of insurance to the bank’s customers. In this partnership, the bank employees and tellers become the **‘point of sale’ and ‘point of contact’** for the banks customer. The employees of bank are advised and supported by the insurance company through wholesale product information, marketing campaigns and sales training. The commission is shared by both the bank and insurance company. However, the insurance policies are processed and administered by the insurance company.

**ix)** **SMS alerts/ alert messaging:**

SMS alerts are also termed as alert messaging or alert notification. It is a form of **‘machine-to-person communication’**.It is an alert or notification of a new message to the bank’s customers regarding any form of transaction in his account. It enables the customers to keep up with the information that matters most to them.

**x) Electronic ticket (Rail, bus and air ticket reservation):**

Anelectronic ticket often called an **‘e-ticket’** is adigital ticket equivalent to that of a paper ticket. It is a form of paperless ticket that is very efficient and less time consuming. A commercial bank offers its customers online booking and information through IRCTC or IATA payment gateway.

### xi) Merchant Banking Activities:

As a [**financial intermediary**](https://accountlearning.com/role-of-financial-intermediaries-in-economic-development/)**,** banks not only promote investments but also enable corporate sector to go in for huge borrowings to undertake large scale business both within and outside the country. A group of banks join together and undertake Consortium financing or Syndicate financing by which companies are enabled to buy huge assets such as the purchase of a ship or a plane or increase the existing fleet of airlines or shipping companies.

In addition to the above functions, as a [**merchant banker**](https://accountlearning.com/merchant-bankers-definition-services-offered-categories/)**,** banks help in promoting companies through NRI investments and the promoters are enabled to buy back their shares after a fixed period, out of the profits. Thus, they are able to channelize the savings of Indians living abroad.

**xii) NEFT/ RTGS:**

Instant remittance by the bank customer himself has now been made possible from one bank to another bank at different centers on the same day with the help of online Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer (NEFT) at modest charges.

NEFT is a Deferred Net Settlement (DNS) where all the orders are accumulated and only executed in batches after a particular time interval. RTGS is faster than NEFT and happens in real time.