Commercial Bank

A commercial bank is a typical financial institution that accepts as well as deposits from the general public and also, they give loans for the purposes of consumption activities and investment activities, to make their own profit. Commercial banks are profit-based institutions that offer financial services like loans, as well as services like deposits, electronic transfers of funds, etc. to their customers. Commercial banks have a significant role in a country's economy as these organizations fulfill the short and mid-term financial requirements of industries. The functions of commercial banks are primarily based on a business model of accepting public deposits and utilizing that fund for various investment purposes.

Such functions can be classified into two categories, primary and secondary functions.

Primary Functions

- **Accepting Deposits –** Commercial banks accept deposits from their customers in the form of saving, fixed, and current deposits.
- **Savings Deposits** – Savings deposits allow a customer to credit funds towards their accounts for up to a certain limit. These deposits are preferred by individuals with a fixed income, utilized to create savings over time.
- **Fixed Deposits –** Fixed deposits come with a predetermined lock-in period. Fixed deposits are also referred to as time deposits as the funds are deposited for a specific time frame.
- **Current Deposits –** Current deposits allow account holders to deposit and withdraw money whenever necessary. In some cases, current accounts also offer overdrafts until a pre-specified limit to individuals and businesses.

- **Providing Loans** – One of the main functions of commercial banks is providing credit to organizations and individuals, and profit from the earned interest. Usually, banks retain a small reserve for their expenses while offering the remaining amount to customers as various types of short and long-term credits.
- **Credit Creation –** A unique function of commercial banks is credit creation. Instead of offering liquid cash, banks create a line of credit and transfer the loan to a business or commercial body all at once.

Secondary Functions

The following can be considered as the secondary functions of commercial banks –

1. **Providing locker Facilities** – Commercial banks provide locker facilities to customers who want to store valuables safely. Locker facilities eliminate the impending risk of theft or loss, which prevail when kept at home.
2. **Dealing in Foreign Exchange** – Commercial banks help provide foreign exchange to individuals and organizations that export or import goods from overseas. However, only certain banks which have the license to deal in foreign exchange are eligible for such transactions.
3. **Exchange of Securities** – Another function of commercial banks is to trade in bonds and securities. Customers can purchase or sell the units from the financial institution itself, which offers more convenience than alternate approaches.
4. **Discounting Bills of Exchange –** The main function of a commercial bank in today's date is to discount bills of businesses. Bill discounting is considered a profitable investment for banks. Bills create a steady flow of funds, while not becoming a risky venture during payment as it is considered as a negotiable instrument. These also do not involve the financial institution in any litigation.

Bank as an Agent –

Commercial Bank and its Function also require them to provide finance-related services to customers, fulfilling the role of an agent. These services usually include –

- Acting as an administrator, trustee, or executor of a customer-owned estate.
- Assisting customers with tax returns, tax refunds, and other similar tasks.
- Serving as a platform to pay premiums, repay loan installments, etc.
- Offering a platform for electronic transaction of funds, processing of cheques, drafts, bills, etc.

Importance of Commercial Banks

Thus, we now know how important are commercial banks in performing the balanced function in an economy. In a parallel universe, if commercial banks cease to perform these banking functions, then the economy will collapse out of thirst for money liquidity. Along with the growth, economic and social stability will be shattered completely.