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Objectives of a commercial bank

The objectives of a commercial bank include profit maximization, risk management, treasury management, liquidity management, obtaining savings, wealth management, credit and financing, money flow, granting loans, and facilitating payments. Commercial banks help to promote investment in production, entrepreneurship, and cultural innovation.

Types of commercial banks

There are seven types of commercial banks in India that include public sector banks (PSBs), private sector banks, foreign banks, and regional rural banks. Overall, there are 33 private and public sector licensed banks in India, *according to Statista* article titled “*Number of banks across India as of November 2023, by type*,”.

The types of commercial banks in India are listed below.

1. Public Sector Banks (PSBs):

Public sector banks (PSBs), also known as government banks or nationalized banks, are those banks in which the majority of the stake is owned by the government either directly or through other government agencies, usually at least 51%. These banks were formed when private banks were nationalized in 1969 and 1980 with the aim of expanding banking services to unbanked areas that had not been reached before or had missed out on economic programming.

PSBs are the backbone of India's banking system with extensive branch networks that play a huge role in implementing government schemes, providing priority sector loans, and serving the mass market.

State Bank of India (SBI) is the largest and oldest public sector bank in India. The Indian banking system consists of 13 public sector banks, with a total asset size of US\$ 1861.72 billion in 2024, as per the article titled “*Banking Sector in India*” published by *India Brand Equity Foundation* (IBEF).

2. Private sector banks

Private sector banks are those banks owned by a private company, individual, or group of people and are free to operate based on market forces and make independent decisions. These banks follow the regulations set by the central bank, such as the Reserve Bank of India in India.

The primary goal of a private bank is to maximize profits, focus on putting customers first, and manage risks efficiently.

3. Foreign banks

Foreign banks are those banks headquartered in a different country but have operations and provide financial services, including lending, borrowing, deposits, and accounts in India. These banks follow the rules of their home country and the country where they operate as banks or as subsidiaries.

The foreign banks are important because they provide competition in the banking sector by improving services, attracting foreign investment, and providing access to the global market.

The popular foreign banks in India include Citibank, HSBC and Standard Chartered Bank, BNP Paribas, DBS Bank, and Barclays Bank.

4. Regional rural banks (RRBs)

Regional rural banks (RRBs) are scheduled commercial banks that operate at the regional level in different states of India and are owned by the Ministry of Finance, the Government of India, the Sponsored Bank, and the State Government in the ratio of 50:35:15, respectively.

Regional rural banks offer basic financial services, including retail banking, corporate banking, investment banking, mortgage loans, debit cards, internet banking, mobile banking, finance, and insurance.

RRBs are the main source of finance for agricultural, small-scale industries, and micro-enterprises, leading to rural economic development

5. Payment banks

Payment banks are those banks that offer financial and payment services to low-income households, small businesses, and migratory workers and are regulated by the Reserve Bank of India (RBI). These banks are technology-driven and only accept deposits limited to a certain amount.

The payment banks only offer services like digital passbooks, virtual debit cards, and money transfers, and don't issue credit or loans.

6. Small finance banks

Small finance banks (SFBs) are financial institutions providing basic banking services to underserved communities. These banks' SFBs focus on small business units, micro and small industries, marginal farmers, and unorganized sectors offering services including deposits, lending, savings accounts, fixed deposits, recurring deposits (RD), and customized savings schemes.

Functions of commercial banks in India

The functions of commercial banks are listed below.

- **Accepting deposits:** This is the primary function of a commercial bank. Commercial banks accept various types of deposits, such as savings, current, and fixed deposits.
- **Granting loans and advances:** Commercial banks lend money to borrowers in the form of home loans, vehicle loans, personal loans, business loans, etc.
- **Credit cash:** Credit creation is a primary activity of commercial banks, and by lending loans and advances to the general population, they actually supply money equivalent to living expenses or investments. Banks simply make a deposit in the borrower's account rather than giving out physical cash as loan funds. Credit creation is very important because it will result in more funds being available for investment and consumption in the economy.
- **Discounting bills of exchange:** A bill of exchange is an agreement on paper acknowledging the amount of money to be paid against the goods purchased at a given point in time in the future. Banks use discounting methods to clear these dues before the quoted time.
- **Providing overdraft facilities:** An overdraft is a banking facility that allows customers to temporarily overdraw from their checking accounts. This service is designed to cover short-term cash deficiencies. Banks set a customer's maximum overdraft limit by considering his creditworthiness and account history.
- **Investment in securities:** Securities are financial instruments that represent an ownership interest (stocks) or a debt claim (bonds) in a company or government. Commercial banks, act as brokers and facilitate the buying and selling of securities on behalf of their clients (investors).
- **Locker facilities:** The Bank provides locker facilities for the safekeeping of valuables like jewelry, important documents (property deeds, wills, etc.), and other precious items. But, it also charges an annual fee for the use of a locker, which varies based on the size of the locker and the bank's location.
- **Paying and gathering the credit:** It refers to the process of extending credit (lending money) and then collecting the funds back from the borrower. Instruments used in this process include *Promissory Notes*, *Cheques*, and *Bills of Exchange*.

What are the primary functions of a commercial bank?

The primary functions of a commercial bank are accepting deposits as savings, current, or time deposits, and lending funds in the form of loans and cash credit.

What are the secondary functions of a commercial bank?

The secondary functions of a commercial bank include the collection of bills of exchange and cheques, providing foreign exchange, locker facilities for safe keeping of valuable items, and acting as a collection center of income by collecting dividends, salaries, pensions, rents, and interests on investments for their customers.

Role of a commercial bank

The role of a commercial bank includes providing funding to commercial ventures to hire employees, expand their business, and become a profitable organization. They also provide credit that allows so many companies to operate seamlessly.

Commercial banks help in the successful implementation of monetary policies. They also offer agency services, overdraft facilities, and other solutions to wholesale and retail businesses to accelerate trade.

Major assets of commercial banks

The major assets of commercial banks include loans, marketable securities, reserves of base money, held with the central bank in the form of bank notes, coins, or in the form of a credit (deposit) balance, as per an article published by *George A. Selgin* on *Britannica Money* on Jan. 21, 2025.

The major assets of commercial banks are listed below.

- **Cash and Reserves:** This includes physical currency held by the bank and deposits held at the central bank.
- **Investments:** This includes putting money into assets to obtain further returns in the future. It also includes government securities, company shares, corporate bonds, and other types of stock holding.
- **Loans:** This is typically the largest asset category and encompasses various types of loans including personal loans, home loans, business loans, and auto loans.
- **Property and equipment:** This includes bank buildings, technology infrastructure, real estate, or other financial instruments.
- **Interest:** This includes interest from consumer loans and other assets.
- **Fees:** This includes general fees that a bank charges from its customers.

What are the strategies for making commercial banks viable?

The strategies for making commercial banks viable are listed below.

- **Diversification of revenue streams:** Expansion of bank services into different revenue-generating streams like investment banking, wealth management, insurance, and digital financial services, diversifying the risk and creating multiple sources of income generation. *For instance*, a bank offers brokerage services, wealth management advice, and online banking platforms alongside traditional loans.
- **Implementation of effective risk management practices to minimize losses:** The risk management practices help banks to prevent losses and maintain financial stability. The effective risk management practices include credit risk management (assessment of borrowers' creditworthiness to minimize loan defaults), market risk management (hedging against fluctuations in interest rates), and operational risk management (implementing robust internal controls to prevent fraud, errors, and system failures).
- **Adoption of innovative technologies to enhance efficiency and reduce costs:** Technology is transforming the banking industry and continuous digital

innovation enhances efficiency, reduces costs, and improves customer experience. The examples of adoption of innovative technology include online and mobile banking services, artificial intelligence (AI) and machine learning to automate tasks, detect fraud, and provide personalized financial advice, and blockchain technology to streamline payment processes and improve security.

- **Maintaining a strong capital base to withstand economic fluctuations:** A strong capital base allows banks to absorb unexpected losses, withstand economic downturns, and continue lending activities. *For instance*, banks raise capital by issuing new shares, retaining earnings, and seeking investments from other institutions.
- **Developing and providing strong customer relationships and service:** Building trust and loyalty with customers is paramount, and strong customer relationships and excellent customer service, attract and retain customers. For instance, banks offer personalized financial advice, provide responsive customer support, and use customer feedback to improve products and services.