

**Theory and Practice of Banking  
First Year Second Semester  
Bachelor Of Business Administration (BBA)**

## **Chapter-2**

**Commercial Banking**

# Bank, Banking & Banker

Bank is a financial institution that deals with money.

Banking is the business activity of a bank.

Banker is a Person who carries banking activities of a bank

# Characteristics or features of a bank

**Dealing in Money**

**Individual / Firm / Company**

**Acceptance of Deposit**

**Giving Advances**

**Payment and Withdrawal**

**Agency and Utility Services**

**Profit and Service Orientation**

**Ever increasing Functions**

**Connecting Link**

**Banking Business**

**Name Identity**

# Commercial bank

Commercial bank is a financial institution that offer deposit products to individuals and businesses such as current accounts, savings accounts, fixed deposit, etc.

# Qualities of a successful banker

**Customer-oriented Attitude**

**Good Communication Skills**

**Good Negotiation Skills**

**Excellent Product Knowledge**

**Impeccable Time Management**

**Being Responsible**

**Exhibiting Professionalism**

**Being an Initiator/Pioneer**

**Sound Judgement**

**Risk Management**

# Objectives of bank

## Objectives from the viewpoints of bank owners

Earning profit

Rendering services

Investment of funds

Earning good will

Rising efficiency

## Objectives from the viewpoints of government

Issuance of note and currency

Formation of capital

Investment of capital and industrialization

Control of money market

Creation of employee

Counseling in financial matter

## Objectives from the viewpoints of customers

Safe custodian to the public money

Counselor of public money

Representative credit facility

Providing credit facilities

# Difference of Bank and Banking

Factors	Bank	Banking
Nature	Bank is a financial intermediary institution.	Banking is a combination of all banking activities.
Organizational structure	Bank may be sole-proprietorship, partnership or any other form of organization.	Banking has no organ-gram.
Functions	Bank performs the banking functions.	Collections of deposits, granting loans etc. are the function of banking.
Liability	Banker is liable for the bank's activities.	Bank is liable for banking activities.
Success	Success of bank depends on the efficiency of the banker.	Success of banking depends on the size and form of the bank.
Relationship	Bank makes relationship with customers.	Banking makes relationship with the bank.
Dependency	Bank depends on banker.	Banking depends on bank.
Entity	As a financial institution, it has separate entity.	Banking has no separate entity. It is based on the entity of bank.



# Types of bank

## 1. On the basis of ownership

**Government bank**

**Private bank**

## 2. On the basis of functions

**Central bank**

**Commercial bank**

**Industrial bank**

**Cooperative bank**

**Saving bank**

**Mortgage bank**

## 3. On the basis of organizational structure

**Unit banking**

**Branch banking**

**Group banking**

**Chain banking**

**Mixed banking**

## 4. On the basis of Registration

**Scheduled bank**

**Non-schedule bank**



# scheduled bank VS. non-scheduled bank

Key Points	Scheduled Bank	Non-Scheduled Bank
Enlisted	Scheduled Banks are enlisted in the scheme of central bank.	Non-Scheduled Banks are not enlisted in the scheme of central bank.
Control	Scheduled Banks are fully controlled by central bank of a country.	These banks are not under the direction of central bank of the country.
Paid up capital	These banks must have at least four hundred <u>crore</u> take paid up capital.	There are no specific limits for non-scheduled banks.
Deposit	These banks shell have to deposit 18% to the central bank.	There are no bindings for such banks.
Acceptance of privileges	These banks get the privileges of clearing facility and a discounting bill to the Bangladesh Bank.	These banks do not get such facility.
Submission of statement	These banks must submit statement of weekly activities to Bangladesh Bank.	These banks need not to submit the statement to Bangladesh Bank.
Rate of interest	Rate of interest of these banks is comparatively low.	Rate of interest is comparatively high.
Public confidence	These banks can earn the public confidence by their activities.	They do not create any confidence of public.

# Utility services provide by commercial banks

To provide safety locker facility to customers.

To provide money transfer facility.

To issue travelers' cheque.

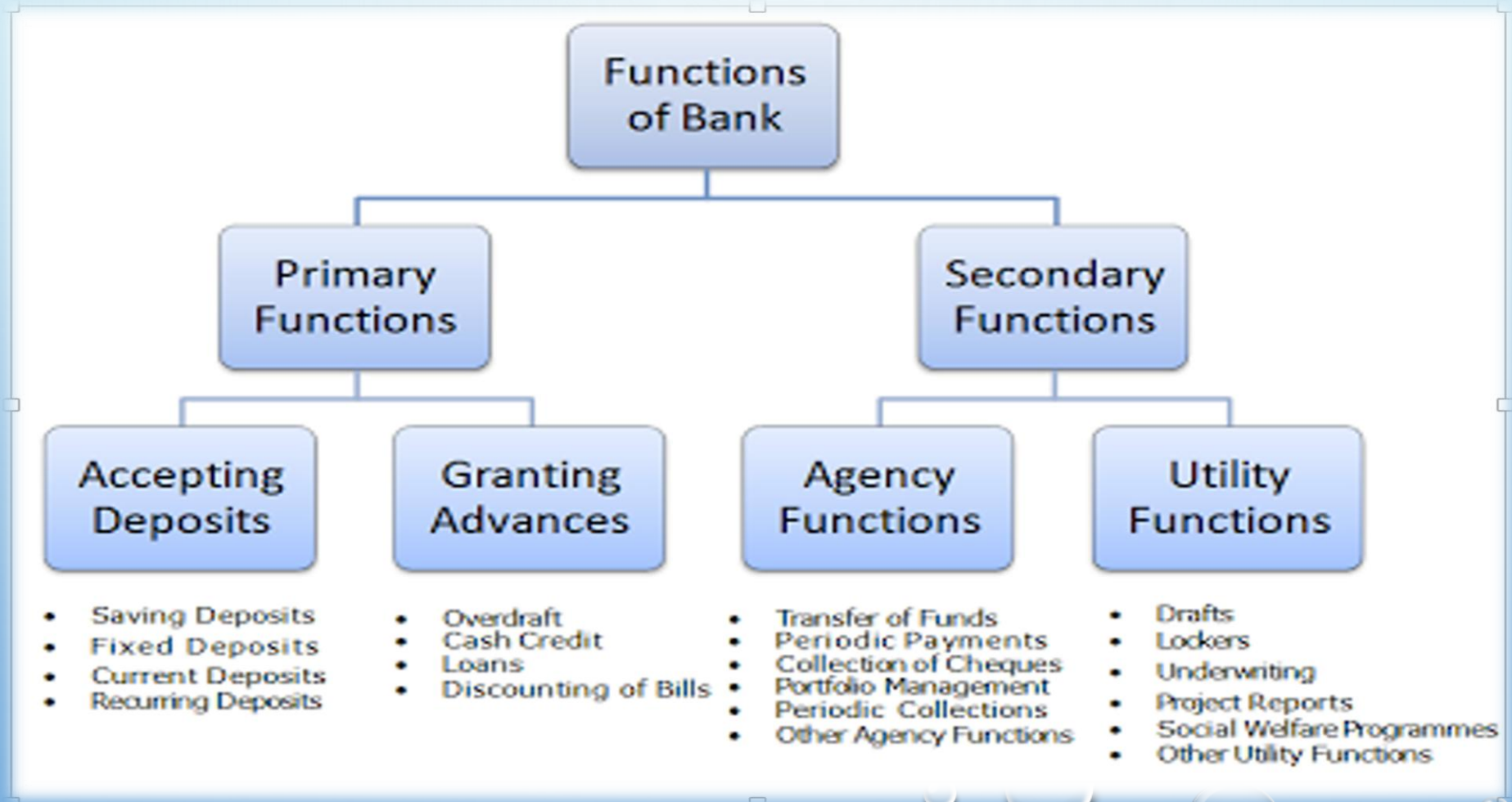
To act as referees.

To accept various bills for payment e.g. phone bills, gas bills, water bills, etc.

To provide merchant banking facility.

To provide various cards such as credit cards, debit cards, Smart cards, etc.

# Functions of bank



# Types of modern banking system

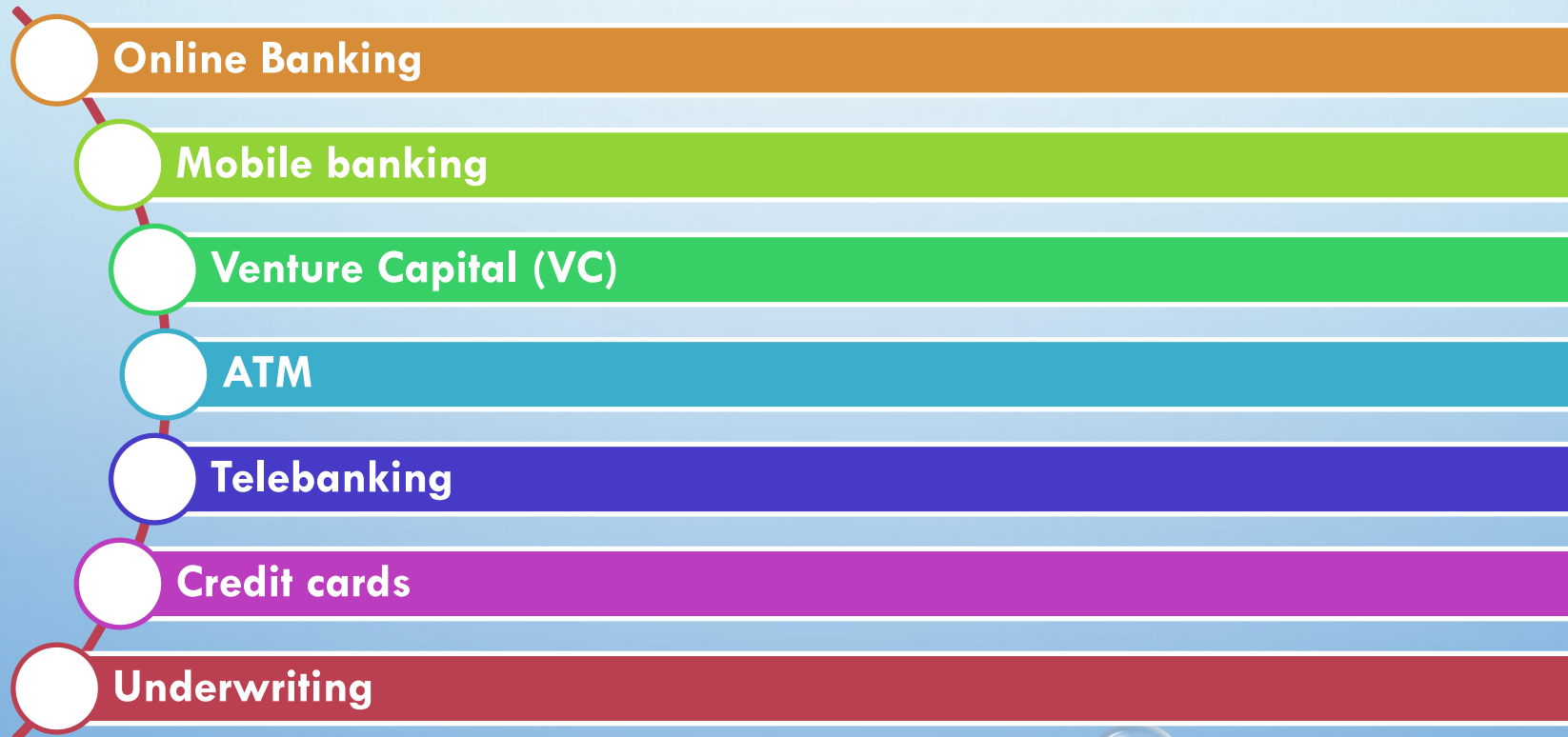
## 1. On the basis of organizational structure

- **Branch banking**
- **Unit banking**
- **Group banking**
- **Chain banking**

## 2. On the basis of functions

- **Saving bank**
- **Investment Banks**
- **Merchant Banks**
- **Mixed banking**

# Services provided by modern bank



# Different types of account

**Checking  
account**

**Savings account**

**Certificate of  
Deposit**

**Money market  
account**

**Individual  
Retirement  
Accounts (IRAs)**



# Functions of commercial banking to the development of the economy of BD

Receive deposits - take money in from individuals and businesses (called depositors)

Disburse payments - make payments upon the direction of its depositors, such as honoring a check

Collections - a bank will act as your agent to collect funds from another bank payable to you, such as when someone pays you by check drawn on an account from a different bank

Invest funds in securities for a return

Safeguard money - banks are considered a safe place to store your wealth

Maintain and service savings and checking accounts of its depositors

Maintain custodial accounts - accounts controlled by one person but for the benefit of another person, such as a trust account



# Unit banking

Unit office

Particular area

Owner ship

Limited capital

Small size

Easy formation

Scale of operation

Efficient management

Method of functioning

Rapid decision

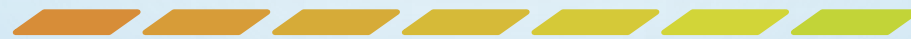
Legal entity

## Role of private commercial bank to the development of the economy of Bangladesh.

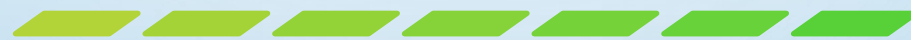
- Banks promote capital formation
- Investment in new enterprises
- Promotion of trade and industry
- Development of agriculture
- Balanced development of different regions
- Influencing economic activity
- Implementation of Monetary policy

# Expectation of the society and the nation from the nationalized banks

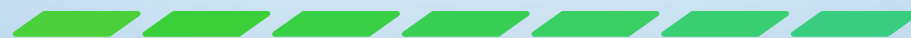
**Banking facility to the unbanked location**



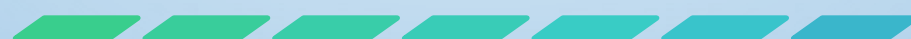
**Provide credit to neglected section of the society**



**Financing small scale industry**



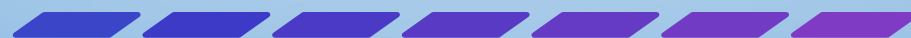
**Small business finance**



**Assistance to women**



**Financing to agriculture**



**Welfare of minorities**



**Assistance to students**



# Primary functions and secondary functions of Bank

## Primary functions:

The primary functions of a bank includes the function of accepting deposits and granting advances i.e. Accepting deposits of money from the public for the purpose of lending or investment where the depositor can demand for repay through cheque, draft, order or otherwise. These are also known as quantitative functions of a bank.

## Secondary functions:

The secondary functions of a bank includes the agent function which refers to the banking function of transferring money, purchase and sale of securities, consultancy business etc. And general utility services which includes locker facility, letter of credit etc. These are also called qualitative services of a bank.

# Distinguish between branch banking and unit banking.

Particulars	Branch banking	Unit banking
Definition	Under branch banking system banking business is carried out through a network of branches in the same town or country under the guidance and control of single banking.	The banking business is carried out through a single office without any branch is called unit banking.
Rate of interest	Rate of interest is uniformed.	It is not uniformed.
Operational freedom	Less operational freedom.	More operational freedom.
Management Quality	Efficient trained and supervised.	Less trained, skilled and supervised.
Financial resources	Large financial resources are available.	Large financial resources are not available.
Decision making	Delay in decision making process.	Quick decision can make.
Cost and Competition	Cost and competition is very high.	Less cost and competition.

# Main sources of bank earnings

Interest on  
loans

Interest on  
investments

Fees income

Forex  
operations

Commission  
on third  
party  
products



Thank you for your patience

