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शक्तिउत्थानआश्रमलखीसरायबिहार

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Money and Banking

Q21. Explain the following functions of the Central Bank of India.

1. Bank of Issue
2. Banker's bank

Ans.

1. Bank of Issue – A country's main bank whose responsibilities include the issue of currency, the administration of monetary policy, open market operations, and engaging in transactions designed to facilitate healthy business interactions. For e.g. Reserve Bank of India, Bank of England or the U.S. Federal Reserve banks. In simple words, a bank that has the official right to produce currency, it can be paper money and coins, etc. In India, The Reserve Bank has the sole authority to issue banknotes in India. Reserve Bank, like other central banks the world over, changes the design of banknotes from time to time. The Reserve Bank has introduced banknotes in the Mahatma Gandhi Series since 1996 and has so far issued notes in the denominations of Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.200 and Rs.500 in this series.

2. Banker's bank – A bankers' bank is specific type of bank that a group of larger, more established banks create. Bankers' banks exist for the purpose of servicing the charter banks that founded them. While their banking services are not generally open to the public in any fashion, these institutions are designed to support community banks. The commercial banks maintain a current account with the central bank and can borrow money in the very short term. Thus, the banks which have to supply banknotes for their customers (either over the counter or through automatic teller machines) obtain them from the central bank which has an issuing monopoly. In India, RBI as an apex bank acts as the banker's bank. All the commercial banks in India are supposed to keep a cash reserve ratio with this bank. Commercial banks create credit. It is the duty of the RBI to control the credit through the CRR, bank rate and open market operations.

Q22. Explain the leading functions of commercial banks.

Ans. Commercial banks are the most important components of the whole banking system. A commercial bank is a profit-based financial institution that grants loans, accepts deposits, and offers other financial services, such as overdraft facilities and electronic transfer of funds.

According to Culbertson, “Commercial Banks are the institutions that make short term bans to business and in the process create money.”

As per above illustration, commercial banks has divided its functionality in two divisions, viz, Primary and Secondary functions.

(a) Primary Functions mainly refer to the basic functions of commercial banks that include the following:

i. Accepting Deposits implies that commercial banks are mainly dependent on public deposits. There are two types of deposits mainly demand and time deposits. Demand deposits refer to kind of deposits that can be easily withdrawn by individuals without any prior notice to the bank. Time deposits refer to deposits that are for certain period of time. Banks pay higher interest on this deposits.

ii. Advancing Loans means the public deposits are used by commercial banks for the purpose of granting loans to individuals and businesses. Commercial banks grant loans in the form of overdraft, cash credit, and discounting bills of exchange.

(b) Secondary Functions mainly refer to crucial functions of commercial banks. The secondary functions can be classified under three heads, namely, agency functions, general utility functions, and other functions.

i. Agency Functions means commercial banks act as agents of customers by performing various functions, which includes, Collecting Checks, Collecting Income, and Paying Expenses.

ii. General Utility Functions which includes Providing Locker Facilities, Issuing Traveller’s Checks, Dealing in Foreign Exchange, Transferring Funds.

iii. Other functions include Creating Money by lending money to individual and opening demand deposit, Electronic Banking which includes services, such as debit cards, credit cards, and Internet banking, etc.