CHAPTER SEVEN
BANK SERVICES

In the modern world, banks offer a variety of services to attract customers, however, some

However, some basic modern services offered by the banks are discussed below:

List of 18 banking services are;

1. Advancing of Loans.
2. Overdraft.
3. Discounting of Bills of Exchange.
4. Check/Cheque Payment
5. Collection and Payment Of Credit Instruments
6. Foreign Currency Exchange.
7. Consultancy.
8. Bank Guarantee.
9. Remittance of Funds.
10. Credit cards.
11. ATMs Services.
12. Debit cards.
13. Home banking.
14. Online banking.
15. Mobile Banking.
16. Accepting Deposit.
17. Priority banking
18. Private banking.

1. Advancing of Loans

Banks are profit-oriented business organizations. So they have to advance a loan to the public and generate interest from them as profit.

After keeping certain cash reserves, banks provide short-term, medium-term and long-term loans to needy borrowers.

2. Overdraft

Sometimes, the bank provides overdraft facilities to its customers through which they are allowed to withdraw more than their deposits. Interest is charged from the customers on the over drawn amount.

3. Discounting of Bills of Exchange

This is another popular type of lending by modern banks. Through this method, a holder of a bill of exchange can get it discounted by the bank, in a bill of exchange; the debtor accepts the bill drawn upon him by the creditor *(i.e.,* holder of the bill) and agrees to pay the amount mentioned on maturity.

After making some marginal deductions (in the form of commission), the bank pays the value of the bill to the holder.

When the bill of exchange matures, the bank gets its payment from the party, which had accepted the bill.

4. Check/Cheque Payment

Banks provide cheque pads to the account holders. Account holders can draw cheque upon the bank to pay money.

Banks pay for cheques of customers after formal verification and official procedures.

5. Collection and Payment of Credit Instruments

In modern business, different types of credit instruments such as the bill of exchange, promissory notes, cheques etc. are used.

Banks deal with such instruments. Modern banks collect and pay different types of credit instruments as the representative of the customers.

6. Foreign Currency Exchange

Banks deal with foreign currencies. As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to settle down the dues in the international trade.

7. Consultancy

Modern commercial banks are large organizations. They can expand their function to a consultancy business. In this function, banks hire financial,

legal and market experts who provide advice to customers regarding investment, industry, trade, income, tax etc.

8. Bank Guarantee

Customers are provided the facility of bank guarantee by modern commercial banks.

When customers have to deposit certain fund in governmental offices or courts for a specific purpose, a bank can present itself as the guarantee for the customer, instead of depositing fund by customers.

9. Remittance of Funds

Banks help their customers in transferring funds from one place to another through cheques, drafts, etc.

10. Credit cards

A credit card is cards that allow their holders to make purchases of goods and services in exchange for the credit card's provider immediately paying for the goods or service, and the cardholder promising to pay back the amount of the purchase to the card provider over a period of time, and with interest.

11. ATMs Services

ATMs replace human bank tellers in performing giving banking functions such as deposits, withdrawals, and account inquiries. Key advantages of ATMs include:

- 24-hour availability
- Elimination of labor cost
- Convenience of location

12. Debit cards

Debit cards are used to electronically withdraw funds directly from the cardholders' accounts.

Most debit cards require a Personal Identification Number (PIN) to be used to verify the transaction.

13. Home banking

Home banking is the process of completing the financial transaction from one's own home as opposed to utilizing a branch of a bank.

It includes actions such as making account inquiries, transferring money, paying bills, applying for loans, directing deposits.

14. Online banking

Online banking is a service offered by banks that allows account holders to access their account data via the internet. Online banking is also known as "Internet banking" or "Web banking."

Online banking through traditional banks enable customers to perform all routine transactions, such as account transfers, balance inquiries, bill payments, and stop-payment requests, and some even offer online loan and credit card applications.

Account information can be accessed anytime, day or night, and can be done from anywhere.

15. Mobile Banking

Mobile banking (also known as M-Banking) is a term used for performing balance checks, account transactions, payments, credit applications and other banking transactions through a mobile device such as a mobile phone or Personal Digital Assistant (PDA),

16. Accepting Deposit

Accepting deposit from savers or account holders is the primary function of a bank. Banks accept deposit from those who can save money but cannot utilize in profitable sectors.

People prefer to deposit their savings in a bank because by doing so, they earn interest.

17. Priority banking

Priority banking can include a number of various services, but some of the popular ones include free checking, online bill pay, financial consultation, and information.

18. Private banking

Personalized financial and banking services are traditionally offered to a bank's digital, high net worth individuals (HNWIs). For wealth management purposes, HNWIs have accrued far more wealth than the average person, and therefore have the means to access a larger variety of conventional and alternative investments.

Private Banks aim to match such individuals with the most appropriate options.

1.2 Paying Banker

A banker on whom a check is drawn is known as paying banker and he should pay the check when it is presented for payment. This obligation has been imposed on him and he is bound to honor his customer's checks, to the extent of the funds available. The paying banker should use reasonable care in paying a check, so as to avoid any damage to his customer's credit. If the paying banker wrongfully dishonors a check, he will be asked to pay heavy damages. Atthe same time, if he makes payment, when there is no sufficient balance, the banker will not be allowed to debit the customer's account. Thus a paying banker should be very cautions both at the time of honoring as well as dishonoring his customer's checks.

Precautions to be taken by a paying banker:

In order to prevent its own interest and the interest of the customer, the paying banker should take the following precautions while making payment of his customer's checks;

1. Precaution regarding "form of the check ": -

The check should be in proper form. Banks in Ethiopia provide printed form of checks to their customers and the customers are expected draw the check only in these printed forms. The banker reserves the right of dishonoring a check if it is not in the prescribed form. The check does not

become invalid merely because it is in the form supplied to some other customers of the bank. The bank should make payment of such checks in such circumstances.

2. Precaution regarding date: -

The banker should refuse to honor undated check, which has been presented to it for payment. In case a check is postdated, the bank should honor it only on or after the date mentioned on the check. In case a banker honors a post-dated check, it has the following risks;

(i) The drawer may countermand the payment before the date mentioned on the check.

(ii) The drawer may make the banker liable for dishonoring of other checks on account of insufficiency of funds resulting because of payment of post-dated check.

(iii) In case of insolvency or death of the drawer before the date mentioned, the banker should not be entitled to debit the customer's account, if it has already made payments.

If a stale check is presented to the banker, he should not pay the check as the validity of the check has been ceased to exist. Thus if the banker pays a stale check, he will have to compensate the drawer for the loss if any.

3. Precaution regarding amount: -

The banker should see that the amount mentioned both in figures and words in the check are the same. In case they differ, as per law, the amount stated in words may be taken as correct and the banker may make the payment. In case, the amount has been stated in words only and not in figures, the banker should pay the check. But if the amount has been mentioned in figures only and not in words the banker should return the check.

4. Precautions regarding "funds" of the customer: -

There should be sufficient funds in the account of the customer for payment of the check. Check has to be paid in full and not in part. Therefore, inadequacy of funds will result in dishonor of check.

The checks should be paid in chronological order of their receipt by the bank. The date or serial number is not significant. Therefore, in case of insufficiency of funds, the checks will be paid in the order in which they are received by the bank; and the rest will be dishonored.

However, if the banker receives several checks simultaneously, there will be a problem for the banker to honor the checks. For e.g. the drawer has only Br.5000 in his account, and two checks for Br.3000 & other of Br.4000 are received by the bank.In such a case, the banker must honor the check drawn for smaller amount, because check dishonored for smallest amount requires the banker to pay more compensation than high amount checks.

5. Precautions regarding Material alteration: -

In case a check is materially altered and the banker makes the payment, he shall be discharged from liability only when he proves the following:

(i) The alteration could not be detected with reasonable care, prudence and scrutiny.

(ii) The payment has been made in due courses.

6. Precautions regarding drawer's signature: -

A paying banker is expected to know the signature of his customers and therefore, if the drawer's signature has been forged, and the banker makes the payment, it shall not be entitled to debit the customer's account. The loss will be borne by banker. If the signature of the drawer seems to be forged and the banker seeks the drawer's confirmation about the check the drawer confirms the issue of check without verifying himself and the bank makes the payment, the bank will not be liable.

7. Precautions regarding Mutilated Checks: -

A check is said to be mutilated when it is torn into two or more pieces. Such a check should not be paid unless the banker is satisfied that mutilation was unintentional and it also obtains confirmation of the drawer.

8. Precaution regarding banking hours: -

The banker should make payment of only such checks, which have been presented to it for payment during its banking hour. Any payment of check which was presented after banking hours will not be taken as payment in due course, and the banker will not be entitled to debit the customer's account, if the drawer countermands the check.

9. Precautions regarding Crossing: -

If a check is crossed one it should not be paid on the counter but through a collecting banker.

10. Precaution regarding Endorsement: -

Before honoring a check the paying banker must verify the regularity of endorsement. In case of order check it requires endorsement before its delivery. Thus the paying banker has to be very careful in honoring an endorsed check.

DEVELOPMENT AND INVESTMENT BANKING

Development banks are nothing but financial institutions providing long-term funds for capital-intensive investments for a long period of time. Their lending yields low rates of returns, such as irrigation systems, urban infrastructure, mining, and heavy industries, etc.

It is a specialized financial institution which provides medium term and long term lending facilities. It provides financial assistance to both private as well as public sector institutions. The objective of this bank is to serve Public Interest rather than earning profits.

Development banks are those which have been set up mainly to provide infrastructure facilities for the industrial growth of the country. They provide financial assistance for both public and private sector industries.

Development Banks are special industrial financing Institutions. This concept is of recent origin. These banks were mostly set up after World War II in both developed and underdeveloped countries. The role of Development Banks is more pronounced in developing countries where governments have taken upon themselves the task of accelerating the pace of economic development. Development Banks do not mobilize savings like other banks but invest the resources in a productive manner.

Objectives of Development Banks:

The main objectives of the development banks are:

1. They promote industrial growth.
2. To develop backward areas.
3. To create more employment opportunities.
4. They generate more exports and encourage import substitution.
5. To encourage modernization and improvement in technology.
6. To promote more self-employment projects.
7. The revive sick units.
8. To improve the management of large industries by providing training.
9. To remove regional disparities or regional imbalance.

10. They promote science and technology in new areas by providing risk capital, and.
11. To improve the capital market in the country.

Operational activities of Development Banks

1. Project appraisal and Eligibility of applicant - every financial institution serves a particular area of activity are there are certain limits prescribed beyond which we cannot go. Before processing the application, it is important to find out whether the applicant is eligible under the norms of the institution or not. The second aspect which is looked into is to determine whether the enterprise has fulfilled various conditions prescribed by the government.
2. Technical appraisal - Technical appraisal involves the study of:
    - ❖ Feasibility and suitability of Technical process in Indian conditions.
    - ❖ The scale of operations and its suitability for the planned project.
    - ❖ The technical soundness of the projects etc

3. Economic viability - The economic appraisal will consider the national and industrial priorities of the project export potential of the product employment potential, study of market.
4. Assessing commercial aspects- The examination of commercial aspects related to the arrangements for the purchase of raw materials and sale of finished products. If the concern has some arrangement for sale then the position of the party should be assessed. 5. Financial feasibility -the analysis of existing capital structure contribution of owners' debt equity ratio past performance help in assessing the financial position of the concern and viability for investing in the project.
6. Managerial competence
7. National contribution

8. Balancing of various factors

9. Loan sanction -if the Advisory Committee is satisfied by the proposal than it recommends the case to the Managing Director or board of directors along with its own report.

10. Loan disbursement - the loan is disbursed after the execution of loan Agreement the execution of Documents of security or guarantee etc should proceed the disbursement of loan.

Cooperative Banking and Its Functions

Co-operative banks are **financial entities established on a co-operative basis and belonging to their members**. This means that the customers of a co-operative bank are also its owners. These banks provide a wide range of regular banking and financial services.

According to the Commission, cooperatives have several defining characteristics:

1) They are open and voluntary associations;

2) They have a democratic structure, with each member having one vote; and

3) They have an equitable and fair distribution of economic results based on the volume of operations made through them

The functions of Co-operative banks are:

1. Provides Credit: it provides credit/loan at lower rate of interest
2. *Encourage saving*: cooperative banks encourage the habit of saving among members/customers.
3. *Employment Generation*: These cooperatives require different types of human resources like technicians, administrators, workers etc. So, they provide employment opportunities.
4. *Helps to develop rural areas*: cooperatives are basically established in the rural areas to support the weaker section of the people. They help them to start their own business and provide various job opportunities. This helps to develop the rural areas.
5. *Improves living standard*: cooperatives provide credit facilities at low rate of interest to the people. It also provides job opportunities which improve the standard of living of the people.
6. *Agricultural Development*: cooperative societies provide loans at low rate of interest to small farmers to buy improved seeds, chemical fertilizers, agricultural tools etc. to increase their

production. These way cooperative banks play an important role in agricultural development.