Study Notes on Commercial Bank Management

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A financial institution that provides services such as making business loans, accepting deposits, and offering basic investment products is commonly referred to as a commercial bank. The term itself can refer to a bank or a division of a large bank, which might precisely be dealing with deposits & loan services provided to large corporations or middle-scale enterprises as opposed to individual personnel of the public or small enterprises. For example, say, retail banking, or merchant banks. In other words, a commercial bank is a financial institution that is licensed by law to accept money from different enterprises and individuals & lend money to them.

The type of bank that people tend to use regularly is the commercial bank. They are formulated on the basis of coordination and the services they provide by state and federal laws. Commercial banks are apparently the largest source of financing for private capital investment in a country, especially one, like India. A commercial bank has the license to assist the following functions in a broad spectrum:

- **Accept Deposits –** To receive money from individuals & firms known as depositors.
- **Collections –** Banks play as an agent to collect funds from another bank's receivable to the depositor.
- **Safeguard money –** A bank is also regarded as a safe place to store wealth i.e., jewelry, assets etc.
- **Invest funds** – Banks contribute or spend money on insecurities to make more money. For example, mutual funds.
- **Dispense payments** – Banks are also obliged to make payments according to the convenience of the depositors.

A very important concept underlying bank management is that of liquidity. In terms of banking, liquidity is basically the ability of a bank to meet its financial obligations as they come due. It can come from direct cash holdings in currency or even on account at the Federal Reserve bank of any other central bank. Nevertheless, a bank's liquidity condition, especially during a crisis, will be affected by much more than the reserve of highly liquid securities and cash.

Now we'll talk about a few important theories in commercial bank management which pertain to the 'Liquidity Management Theory'. Well, there definitely are probable contradictions between the objectives of safety, liquidity & profitability when linked to a commercial bank. Efforts have also been made by economists to resolve these contradictions by laying down several theories from time to time. The fact is, these theories actually monitor the distribution of assets considering these objectives. Some of the prominent such theories are:

- **Commercial Loan Theory** – It states that a bank should forward only short-term self-liquidating productive loans to businesses.
- **Suitability Theory** – It insists that if the banks continue a considerable amount of assets that can be moved to other banks for cash without loss of any material.
- **Anticipated Income Theory** – It states that irrespective of the nature and feature of a borrower's business, the bank plans the liquidation of the term loan from the anticipated income of the borrower.

The final part of the text now attempts to highlight some key pointers pertaining to relationship banking which basically is defined as a process that involves proactively predicting the demands of individual bank customers & taking steps to meet them before the client shows them. It includes:

- Improving customer relationships
- Increased revenues and product penetration
- Higher purchase intent and consideration
- Becoming a financial partner