



Research Report: Analytical Study on Sources and Uses of Funds in Commercial Banks

¹Harshita Upadhyay, ²Dr. Jyoti Sah

¹MBA (B&F), Amity Business School, Amity University Mumbai, Maharashtra

²Assistant Professor, Amity Business School, Amity University Mumbai, Maharashtra

ABSTRACT

Commercial banks are pivotal institutions in the economic structure of any nation, acting as financial intermediaries by mobilizing funds from depositors and lending them to various sectors of the economy. They play a crucial role in maintaining financial stability, supporting economic growth, and implementing monetary policy. This study investigates the sources through which commercial banks acquire funds—such as interest income, customer deposits, reserves, and paid-up capital—and how these funds are utilized for lending, investing, and maintaining operational infrastructure. Based on primary data collected from 200 banking professionals and extensive secondary research, the findings reveal that interest income constitutes the largest source of funds, while loans remain the primary use. The study also uncovers trends in investment strategies, employee compensation, digital infrastructure costs, and customer deposit patterns. The research contributes valuable insights into how commercial banks can optimize fund usage, diversify income sources, and enhance service delivery. It also offers practical recommendations aimed at improving banking efficiency, promoting financial inclusion, and strengthening rural banking networks. By highlighting the dynamic interaction between fund mobilization and utilization, the study provides a foundation for future strategic planning in the banking sector.

Keywords: Commercial Banks, Financial Intermediaries, Investment strategies, Loan Management, Economic Development, customer deposit patterns.

1. Introduction

Commercial banks are vital institutions in the financial system. They serve as intermediaries between depositors and borrowers, thereby facilitating capital allocation and liquidity management within the economy. Their dual function of accepting deposits and extending loans places them at the heart of financial activity, influencing monetary policy implementation, investment trends, and economic growth.

This study begins by exploring the historical evolution of banking in India, which has undergone massive transformation—from colonial-era private banks to state-dominated public banks, followed by liberalization that introduced private and foreign banks. The nationalization of banks in 1969 and 1980 significantly enhanced access to financial services, while post-1991 liberalization emphasized efficiency, competitiveness, and innovation.

A bank's funding sources generally include capital reserves, deposits, borrowings from other banks or central banks, and issuance of debt instruments like bonds and debentures. These funds are then deployed in various avenues—primarily as loans to individuals and enterprises, investments in government and corporate securities, and expenses related to infrastructure and human resource development.

Furthermore, the advantages of banking are numerous. Banks promote savings habits, support trade and commerce, provide credit, facilitate international trade, and ensure the economic development of both individuals and the nation. Particularly in India, where financial inclusion is a key developmental goal, commercial banks serve as engines of socioeconomic change.

This study focuses on understanding how commercial banks raise funds, where they allocate them, and how efficiently they utilize them. It also touches upon technological evolution in the banking sector, the rise of digital banking, and the increasing reliance on artificial intelligence and data analytics to improve decision-making.

Through data analysis, primary surveys, and literature reviews, this research provides a 360-degree understanding of fund dynamics in commercial banks. The aim is to enhance financial literacy among stakeholders, aid in academic discourse, and offer practical insights to bank management teams and policymakers.

2. Review of Literature

The review of literature is a critical component of any academic research, providing foundational insights, theoretical underpinnings, and supporting evidence for current studies.

Conceptual Understanding of Commercial Banks and Investment

Grywinshky (1991) highlights the crucial role of commercial banks in fostering economic development. According to him, banks are not just custodians of public money but act as economic agents that maintain stability, extend credit, and support confidence in financial systems.

Radha Swamy and Vasudevan (1979) emphasized the importance of liquidity management in banks. Their work points out the delicate balance banks must maintain between liquidity and profitability. They assert that while banks must be profitable to sustain themselves, they cannot compromise on liquidity, as depositors must be able to access their funds at any time.

The conceptual framework also includes insights into the nature and definition of investment. Francis (1991) defines investment as a commitment of funds made in the expectation of earning returns. Jones (1988) and Preety Singh (2001) further elaborate that investment may involve conservative instruments like fixed deposits or more aggressive options.

Investment Policy in Commercial Banks

A major theme in the literature is the development of investment policy within commercial banks. Bexley (1987) describes investment policy as the strategic decision-making framework that guides how bank funds are allocated between loans and investments. This policy not only ensures optimum returns but also aligns with regulatory norms and liquidity requirements. Singh and Singh (1983) reinforce the idea that banks must develop internal policies for fund utilization that support both profitability and financial discipline.

Empirical Studies and Observations

Several research studies have been reviewed to understand the empirical dimensions of fund management in commercial banks. William J. Sharpe and Gordon (1999) define investment in terms of risk and time, emphasizing the importance of balancing current sacrifices.

Cheney and Moses (1999) discuss the relationship between risk and return, suggesting that higher returns come with higher risk, a concept that is central to the banking industry's loan and investment decisions.

Sunity Shrestha (1998) explores how commercial banks in Nepal have contributed to fulfilling the credit needs of various sectors, especially in developing economies. She emphasizes that the investment behavior of banks is guided by their objective to maximize profit.

Role of Foreign and Joint Venture Banks

Articles like "Role of Foreign Banks in Nepal" by Sunil Chopra (1989) and Bhagat Bista's (1991) "Nepalma Adhunik Banking Byabastha" highlight how foreign and joint venture banks have introduced new technologies, innovative products, and global best practices into the domestic banking sector.

Sunil Chopra notes that foreign banks bring dynamic strategies and international exposure, which improve overall fund utilization efficiency. Bista underscores the technological transformation brought about by joint venture banks, including practices like hypothecation, consortium financing, and computerization.

Thesis and Research Paper Reviews

Numerous dissertations have also contributed to the understanding of banking fund strategies. Shiba Raj Shrestha's work on "Portfolio Management in Commercial Banks" stresses the importance of intelligent portfolio diversification to maximize return and minimize risk.

Bohara (2002) conducted a comparative study on joint venture banks and finance companies in Nepal. His findings revealed that finance companies had better deposit mobilization and profitability compared to joint venture banks.

Similarly, Joshi (2005) evaluated Everest Bank, NABIL Bank, and Bank of Kathmandu and found that while all three had distinct approaches to fund mobilization and investment, Everest Bank maintained better liquidity ratios and moderate profitability.

3. Objectives of the Study

Main Objective:

To explore the sources and uses of funds in commercial banks, with a view to understanding their operational strategies and financial management practices.

Specific Objectives:

1. To analyze the historical evolution and present role of commercial banks in the economy

2. To classify and evaluate the primary and secondary sources of funds used by banks including loan disbursements, investments, and operational expenditures.
3. To assess employee perceptions about fund sourcing and usage based on primary data and also to propose recommendations for improving fund efficiency and operational profitability
4. To identify the challenges and limitations banks face in fund management

4. Methodology

Research Approach

This study adopts a **mixed-methods research design**, integrating both qualitative and quantitative methodologies to thoroughly investigate the sources and uses of funds in commercial banks.

Qualitative Approach:

The qualitative component focuses on theoretical and conceptual understanding derived from literature reviews, academic journals, previous dissertations, and secondary reports. It includes an exploration of historical trends, policy shifts, and expert commentary on fund management practices in banking.

Quantitative Approach:

The quantitative side involves primary data collection from 200 respondents—employees of various commercial banks in Ambernath. Data was collected using a structured questionnaire, designed in Google Forms, and distributed digitally. The form included closed-ended, multiple-choice questions.

Sampling Method and Scope

- **Sampling Technique:**

A **non-probability convenience sampling** method was adopted due to its feasibility and the accessibility of respondents.

- **Sample Size:**

The sample consisted of **200 employees** from commercial banks in Ambernath

Geographical Focus:

The city of Ambernath was selected for its representative mix of small and medium-sized

Tools for Data Collection and Analysis

- **Primary Data Collection:**

- Google Forms was used to design and disseminate the questionnaire.

- **Secondary Data Sources:**

The secondary data was collected through financial reports of banks, RBI circulars, academic textbooks, dissertations, journal articles, and reliable online databases.

- **Data Analysis Techniques:**

- The collected data was analyzed using Microsoft Excel and data visualization tools. Percentages, distributions, and cross-tabulations were computed

Limitations of the Study

The survey responses were subject to participant bias, and some respondents were reluctant

Time and resource constraints limited the geographical scope to Ambernath.

The use of convenience sampling restricts the ability to generalize findings across the national banking sector.

Who Will Benefit from This Study?

Banking Professionals

Policy Makers and Regulators

Academics and Researchers

Investors and Analysts

Students and Educators in Finance and Banking

5. Analysis and Interpretation

Based on the survey of 200 commercial bank employees in Ambarnath, key insights into the sources and uses of funds were gathered. Here's a summarized interpretation:

1. Employee Demographics

Majority (54%) of bank employees fall within the age group of 21–40 years.

Indicates a young and energetic workforce, ideal for adapting to digital banking trends.

2. Types of Accounts Held

Savings accounts (86%) are most common among employees.

Reflects regular salary deposits and general preference for low-risk savings.

3. Sources of Bank Funds

Interest income (73%) is the primary source of revenue.

Other key sources include:

- Paid-up capital (34%)
- Mortgages (32%)
- Reserves (25%)
- Undistributed profit (17%)

4. Uses of Funds

- 65% of funds are used for offering loans.
- 21% kept as cash reserves for liquidity.
- 12% invested in capital and securities.
- Emphasizes that lending remains the primary focus of banks.

5. Loan Types Offered

- Banks provide diverse loan options: personal, home, education, commercial, agriculture, and credit card loans.
- Indicates support for economic growth across sectors.

6. Interest Rates on Loans

- Most loans (60%) carry interest between 5% and 10%.
- Higher rates (10–15%) charged for unsecured loans like personal loans.
- Lower rates offered on secured loans such as home loans.

7. Investment in Securities

- 20–40% of funds are invested in securities like equities, debts, and treasury bills.
- Indicates a balanced portfolio strategy for steady returns and risk mitigation.

8. Operational & Tech Costs

- Maintenance costs for branches are generally under ₹10 lakhs.
- Technology & infrastructure spending also mostly falls below ₹10 lakhs.
- Suggests banks are cost-conscious yet investing in essential digital tools.

9. Employee Salary Insights

- Majority of bank employees earn between ₹6 to ₹8 lakhs annually.

- Many receive benefits like job security, training, and health insurance.

Overall graph of the data

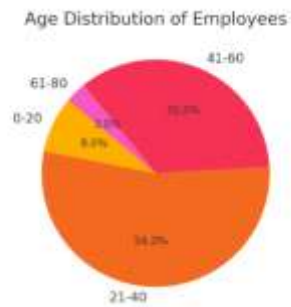


FIG. 5.1

Fig 5.1 This pie chart illustrates the age demographics of the 200 employees surveyed from commercial banks in Ambarnath.

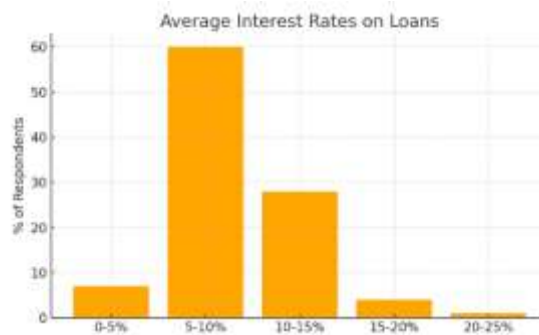


FIG. 5.2

Fig. 5.2 This chart shows the distribution of loan interest rates charged by banks.

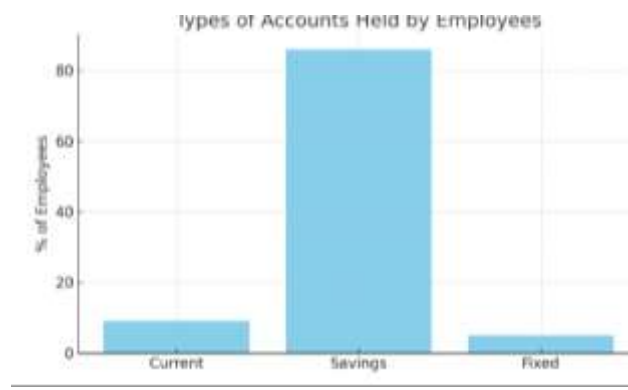


FIG. 5.3

Fig. 5.3 This bar chart presents the distribution of bank account types held by employees.

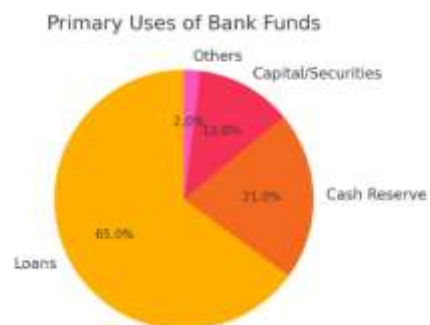


FIG. 5.4

Fig 5.4 This pie chart outlines how banks use the funds they gather.

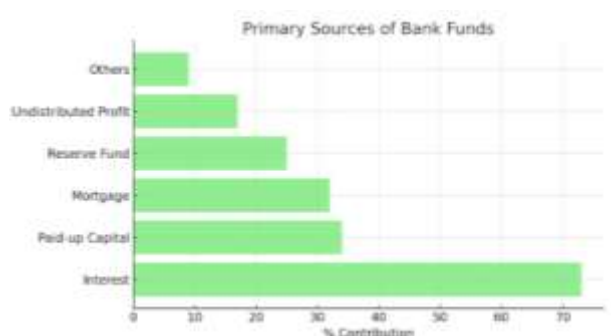


FIG 5.5

Fig 5.5 This chart reveals the major sources of funding for commercial banks.

6. FINDINGS OF THE STUDY

Based on the above analysis & interpretation the findings extracted from the study are:

1. Dominance of Interest-Based Income: A significant 73% of a commercial bank's funds are generated from interest income, affirming the central role of lending activities in bank revenue. Loans such as personal, home, and education loans are major contributors.

2. Diverse Sources of Funding: In addition to interest, banks raise capital through paid-up capital (34%), mortgages (32%), reserves (25%), and retained profits (17%). Bonds and cash certificates also contribute to secondary income.

3. Customer Deposits as Core Funding Source: Between 40% and 60% of bank funds are sourced from public deposits, especially savings and fixed deposits. This highlights the importance of public trust and deposit mobilization.

4. Primary Use of Funds - Lending: The majority of bank funds (65%) are allocated to loans, underlining the banks' essential role in credit creation. The loan portfolio is diversified, including sectors like agriculture, personal finance, education, housing, and business.

5. Investments in Securities: About 20% to 40% of bank funds are invested in securities. Equity instruments (50%) are the most preferred, followed by debt securities (46%) and hybrid instruments (41%).

6. Interest Rate Patterns: The most common interest rate on bank loans ranges from 5% to 10%. Personal loans attract the highest interest due to their unsecured nature, whereas home loans bear the lowest rate due to collateral.

7. Operational Costs and Technology Investments: A large portion of bank expenditure goes towards branch maintenance (typically under ₹10 lakhs) and IT infrastructure. Technology like AI, automation, and digital banking tools.

8. Employee Demographics and Compensation: Most bank employees fall within the 21–40 age group, with a majority earning between ₹6 to ₹8 lakhs per annum. Benefits like job security, health insurance, and professional training are common.

7. Conclusions and Recommendations

The study on the "Sources and Uses of Funds in Commercial Banks" presents a comprehensive analysis of the operational mechanisms that underpin modern banking institutions. By examining how commercial banks acquire capital and deploy it strategically, we gain deeper insight into their critical role in financial intermediation, economic development, and societal well-being.

The research begins with a detailed understanding of the evolution of banking, particularly within the Indian context. It is evident that the banking system in India has undergone several transformations—from colonial-era institutions to modern, tech-driven banks. The nationalization of major banks in the 1960s and the liberalization reforms of the 1990s have significantly influenced the fund mobilization and deployment strategies of commercial banks.

On the sources side, the study highlights that customer deposits remain the backbone of commercial banks' funding. These include current accounts, savings accounts, and fixed deposits, each with varying interest and liquidity characteristics. In addition to deposits, banks rely on reserves, retained earnings, equity capital, and borrowings from central banks.

Regarding uses of funds, commercial banks channel resources into a broad range of activities. Lending remains the primary avenue for fund utilization, encompassing personal loans, business loans, home loans, and agriculture loans, among others. These loans not only serve the profit motive of banks but also fuel entrepreneurship, housing development, and economic growth.

Operational costs—including branch maintenance, employee salaries, IT infrastructure, and administrative overheads—also form a significant part of fund usage. As banks expand and digitize, the share of expenditure on technology continues to rise. Digital banking tools such as ATMs, online platforms, and mobile apps are now essential services, increasing both customer convenience and institutional efficiency.

The employee survey conducted as part of this research provides an internal lens into banking practices. Insights reveal that staff perceive interest-based income as the most stable and significant source of funds, while loans are viewed as the most impactful use. The study also identifies several challenges that banks face in managing their funds. These include regulatory compliance, fluctuating interest rates, non-performing assets (NPAs), increasing cyber risks, and the costs associated with technology upgrades.

From a strategic standpoint, commercial banks need to adopt a diversified approach to both sourcing and using funds. Reducing over-reliance on a single revenue stream, improving credit appraisal systems, investing in scalable digital infrastructure.

In conclusion, this study reaffirms the central role that commercial banks play in a country's economy. Their ability to manage funds prudently affects everything from inflation control and industrial development to personal financial security.

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