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# Banks

## Types and functions

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# Bank

A **bank** is a financial institution that accepts deposits from the public and creates credit



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# Services of Retail Banking

Savings account

Recurring deposit account

Fixed deposit account

Money market account

Certificate of deposit (CD)

Individual retirement account (IRA)

Credit card

Debit card



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# Services

Mortgage

Mutual fund

Personal loan

Time deposits

ATM card

Current accounts

Cheque books

Automated Teller Machine (ATM)



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# Services of Business (or commercial/investment) banking

Business loan

Capital raising (equity / debt / hybrids)

Revolving credit

Risk management (foreign exchange (FX)),  
interest rates, commodities, derivatives)

Term loan

Cash management services (lock box, remote  
deposit capture, merchant processing)

Credit services



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# Banks in the Modern economy: Economic Functions

1. Issue of money, in the form of banknotes and current accounts subject to cheque or payment at the customer's order
2. Netting and settlement of payments
3. Credit intermediation – banks borrow and lend back-to-back on their own account as middle men.
4. Credit quality improvement – banks lend money to ordinary commercial and personal borrowers (ordinary credit quality), but are high quality borrowers.
5. Asset liability mismatch/Maturity transformation
6. Money creation/destruction



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# Banks' activities can be divided into

1. retail banking, dealing directly with individuals and small businesses;
2. business banking, providing services to mid-market business;
3. corporate banking, directed at large business entities;
4. private banking, providing wealth management services to high-net-worth individuals and families;
5. investment banking, relating to activities on the financial markets.



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# Types of Banks

1. Commercial banks
2. Commercial banks
3. Community development banks
4. Credit unions or co-operative banks
5. Postal savings banks
6. Offshore banks
7. Savings bank
8. Building societies and Landesbanks
9. direct or internet-only bank





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# Commercial Banks

A **commercial bank** is a type of financial institution that provides services such as accepting deposits, making business loans, and offering basic investment products.

Commercial bank can also refer to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/middle-sized business - as opposed to individual members of the public/small business - retail banking, or merchant banks.



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# Primary functions

Commercial banks accept various types of deposits from public especially from its clients, including saving account deposits, recurring account deposits, and fixed deposits.

Commercial banks provide loans and advances of various forms, including an overdraft facility, cash credit, bill discounting, money at call etc.



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# Core products and services

1. Accepting money on various types of Deposit accounts
2. Lending money in the form of Cash: by overdraft, instalment loan etc.
3. Lending money in Documentary form: Letters of credit, Guarantees, Performance bonds, securities, underwriting commitments, issuing Bank drafts and Bank cheques, and other forms of off-balance sheet exposure
4. Inter- Financial institutions relationship
5. Cash management
6. Treasury management
7. Private equity financing
8. Processing payments via telegraphic transfer, EFTPOS, Internet banking, or other payment methods.



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# Other functions

Along with core products and services, commercial banks perform several secondary functions. The secondary functions of commercial banks can be divided into agency functions and utility functions.

## **Agency functions include:**

To collect and clear cheques, dividends and interest warrant

To make payments of rent, insurance premium, etc.

To deal in foreign exchange transactions

To purchase and sell securities

To act as trustee, attorney, correspondent and executor

To accept tax proceeds and tax returns.



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## **Utility functions include:**

To provide safety locker facility to customers

To provide money transfer facility

To issue traveller's cheque

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

To provide various cards: credit cards, debit cards, smart cards, etc.



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# Central banks

A **central bank, reserve bank, or monetary authority** is an institution that manages a state's currency, money supply, and interest rates.

Central banks also usually oversee the commercial banking system of their respective countries. In contrast to a commercial bank, a central bank possesses a monopoly on increasing the monetary base in the state, and usually also prints the national currency, which usually serves as the state's legal tender



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# Functions of a central bank may include:

1. implementing monetary policies.
2. setting the official interest rate – used to manage both inflation and the country's exchange rate – and ensuring that this rate takes effect via a variety of policy mechanisms
3. controlling the nation's entire money supply
4. the Government's banker and the bankers' bank ("lender of last resort")
5. managing the country's foreign exchange and gold reserves and the Government's stock register
6. regulating and supervising the banking industry



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# Credit Creation Policy

*Credit creation means that on the basis of primary deposits commercial banks make loans and expand the money supply. It results in multiple expansion of banks demand deposits.*





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It is an open secret that banks advance a major portion of their deposits to the borrowers and keep smaller part of them for the payment to the customers on demand.

Even then the customers of the banks have full confidence that their deposits lying in the banks are quit safe and can be withdrawn on demand.

The banks exploit this trust of the customers and expand loans several times than the amount of demand deposits posses



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