



## Banking Activities and Current Issues in Banking:

In order to better understand how banks work, we need to examine their assets...

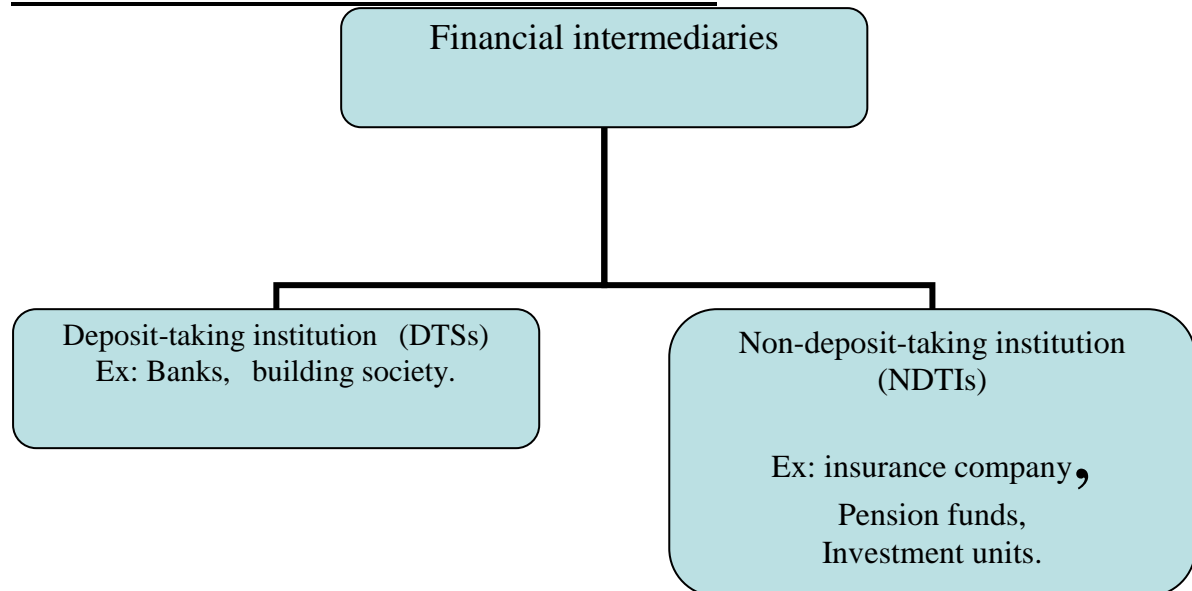
Ex: balance sheet

- √ For banks the main source of funding is customer deposits (Liability) which are invested in loans, other investment and fixed assets (building for the branch network)
- √ Banks make profits by charging interest rates on their loans higher than the one they pay to depositors.

## Banks and other financial institutions

- √ Banks are = deposit-taking institutions (DTIs) also known as Monetary financial institutions (MFI).
- √ An expansion of bank deposits results in an increase in the stock of money circulation in an economy.

## Classification of financial intermediaries in the UK:



The Financial activities that banks can undertake is given by the UK's Financial Services and Market Act 2000 which defines the range of activities that banks can engage in including:

- √ Accepting deposits
- √ Issuing e-money (or digital money on the internet)
- √ Implementing or carrying out contracts of insurance as principal.
- √ Dealing in investment ( as principal agent)
- √ Managing investments
- √ Safeguarding deals in investments and arranging regulated mortgage activities.
- √ Advising on regulated mortgage contracts
- √ Entering into and administering a regulated mortgage contracts.
- √ Establishing and managing collective investment schemes
- √ Establishing and managing pension schemes.

### **Banking services:**

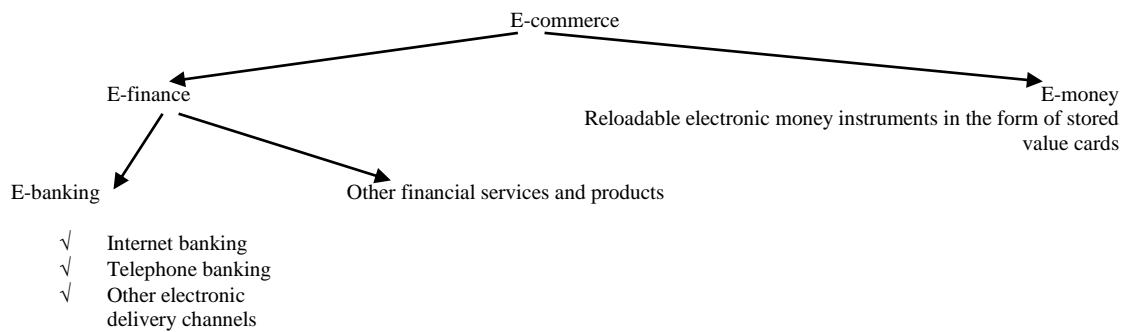
Modern banks offer a wide range of financial services;

1. Payment services
  - Cheques
  - Credit transfers
  - Standing orders = instructions from the customer (account holder) to the bank to pay a fixed amount of regular intervals into the account of another individual or company.
  - Direct debits
  - Plastic cards;
    - credit card
    - debit card
    - cheque guarantee cards (like debit cards)
2. Deposit and lending services
  - √ Current or checking accounts (no rates of interest)
  - √ Time or saving deposits (interest rates)
  - √ Consumer loans and mortgages.
  - √ Mortgage;
    - variable rates
    - fixed rates
    - capped
    - discount mortgages:
    - cashback mortgage

### 3. Investment, pension and insurance services

- √ Investment products: mutual funds, company funds, bonds.
- √ Pensions: provides retirement income (pension plans)
- √ Insurance: save individuals from adverse events (bad decisions). Investor pay regular premium and issuer promises compensation if the specific insured event occurs. Ex: life insurance, home, travel, medicine, auto....

### 4. E-banking



Payment products in E-banking:

1. E-money: includes reloaded electronic money instruments in the form of stored value cards and electronic token stored in computer memory.
2. Remote payments: are payment instruments that allow (remote) access to a customer's account.

Services of internet banking

1. Traditional: ATMs, telephone banking
2. Modern banking: Internet/online banking