BANKING SERVICES

1/ DEFINITION

Banking refers to the system of financial institutions, such as banks and credit unions, that provide various financial services to individuals, businesses, and governments. Banking services mainly include accepting deposits, lending money, facilitating transactions, and offering various financial products like savings accounts, loans, and credit cards.

Banking plays a crucial role in the economy by facilitating the flow of money and enabling economic activities.

A bank is a financial institution that is licensed to accept checking and savings deposits and make loans. Banks also provide related services such as individual retirement accounts (IRAs), certificates of deposit (CDs), currency exchange, personal loans, and safe deposit boxes.

There are several types of banks including retail banks, commercial or corporate banks, and investment banks.

Key Takeaways

- A bank is a financial institution licensed to receive deposits and make loans.
- There are several types of banks including retail, commercial, and investment banks.
- In most countries, banks are regulated by the national government or central bank.

2/ Functions of Banks

Banks offer a wide range of banking services, such as savings and checking accounts, loans (personal, business, and mortgages), credit cards, investment services, and electronic banking options like online and mobile banking.

Some of the major functions of banks are mentioned below:

- **Checking Accounts**

  Checking accounts are deposits used by consumers and businesses to pay their bills and make cash withdrawals. They pay little or no interest and typically come with monthly fees, usage fees, or both.

Today's consumers generally have their paychecks and any other regular payments automatically deposited in one of these accounts.

- **Accepting Deposits**: Banks provide a safe place for individuals and businesses to deposit their money, which can be withdrawn when needed.

  Savings accounts pay interest to the depositor. Depending on how long account holders hope to keep their money in the bank, they can open a regular savings account that pays a little interest or a certificate of deposit (CD) that pays a little more interest. The CDs can earn interest for as little as a few months or as long as five years or more.

- **Providing Loans**: Banks lend money to individuals and businesses for various purposes, such as home mortgages, business expansion, or personal loans.

  Banks make loans to consumers and businesses. The cash that is deposited by their customers is lent out to other customers at a higher rate of interest than the depositor is paid. At the highest level, this is the process that keeps the economy humming. People deposit their money in banks; the bank lends the money out in car loans, credit cards, and business loans. The loan recipients spend the money they borrow, the bank earns interest on the loans, and the process keeps money moving through the system.

- **Payments and Settlements**: Banks enable transactions through various payment methods, like checks, debit/credit cards, and electronic transfers.
- **Currency Exchange**: Many banks offer foreign exchange services, allowing customers to buy, sell, or exchange foreign currencies.
- **Safekeeping of Valuables**: Some banks offer safe deposit boxes for customers to securely store valuable items and documents.
- **Investment Services**: Banks also provide investment products like mutual funds, stocks, and bonds, helping customers grow their wealth.
- **Internet Banking Services**: Banks offer online and mobile banking services, making it convenient for customers to access their accounts, pay bills, and transfer funds.

3/ The benefits of Banking as a Service

Banking as a service boasts a range of **advantages** and uses both for financial institutions and for businesses.

Specifically, using banking as a service allows **financial institutions** to:

- Make their internal **processes faster** and **more efficient**.
- Offer fast and functional **new financial services** to their customers.
- **Integrate solutions** to increase their per-customer Banks face a number of risks in order to conduct their business, and how well these risks are managed and understood is a key driver behind profitability, and how much capital a bank is required to hold. Bank capital consists principally of equity, retained earnings and subordinated debt.

Some of the main risks faced by banks include:

- Credit risk: risk of loss arising from a borrower who does not make payments as promised.
- Liquidity risk: risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).
- Market risk: risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors.
- Operational risk: risk arising from the execution of a company's business functions.
- Reputational risk: a type of risk related to the trustworthiness of the business.
- Macroeconomic risk: risks related to the aggregate economy the bank is operating in.
- The capital requirement is a bank regulation, which sets a framework within which a bank or depository institution must manage its balance sheet. The categorization of assets and capital is highly standardized so that it can be risk weighted.