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جامعة محمد بوضياف – المسيلة
كلية العلوم الاقتصادية والتجارية
وعلوم التسيير
قسم العلوم المالية والمحاسبة

ENGLISH FOR FINANCE AND BANKING

Masters (2)

Course for Master students in Finance and Banking

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Chapter 6

BANKS AND BANKING

➤ **Banks**

A bank is a financial institution that is licensed to accept checking and savings deposits and make loans.

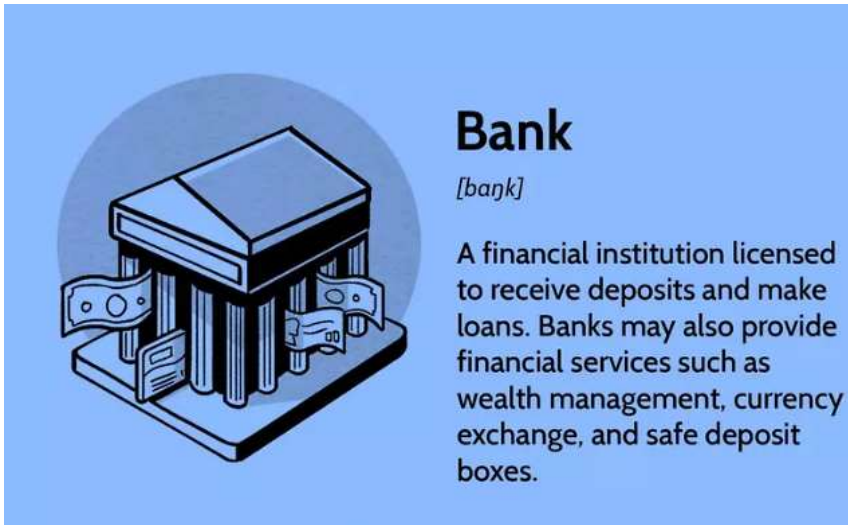
Banks provide a safe place for consumers and business owners to stow their cash and a source of loans for personal purchases and business ventures. In turn, the banks use the cash that is deposited to make loans and collect interest on them.

In most countries, banks are regulated by the national government or central bank.

➤ **Banking**

Banking is the business conducted or services provided by the bank. Banking is the business of protecting money for others and lending it to generate interest that creates profits for the bank and its customers.

Banking is essential for managing and safeguarding money. Financial institutions, like banks and credit unions, gather deposits from individuals. They then lend these to those in need, acting as intermediaries. Banks offer many financial services that help people save, manage and invest money. These services benefit both individuals and businesses.



➤ **Types of banks**

Most banks can be categorized as retail, commercial or corporate, or investment banks.

- **Retail Banks**

Retail banks offer their services to the general public and usually have branch offices as well as main offices for the convenience of their customers. They provide a range of services such as checking and savings accounts, loan and mortgage services, financing for automobiles, and short-term loans such as overdraft protection. Many also offer credit cards.

- **Commercial (Corporate) Banks**

Commercial or corporate banks tailor their services to business clients, from small business owners to large, corporate entities. These banks also offer credit services, cash management, commercial real estate services, employer services, and trade finance.

- **Investment Banks**

Investment banks focus on providing corporate clients with complex services and financial transactions such as underwriting and assisting with merger and acquisition (M&A) activity. (They are primarily financial intermediaries in these transactions). Their clients include large corporations, other financial institutions, pension funds, governments, and hedge funds.

- **Central Banks**

A central bank is an independent institution authorized by a government to oversee the nation's money supply and its monetary policy. (Unlike the banks above, central banks does not deal directly with the public). Central banks are responsible for the stability of the currency and of the economic system as a whole. They also have a role in regulating the capital and reserve requirements of the nation's banks.

➤ **Major functions and uses of banking**

- **Money storage**

- Banks provide savings accounts that give the account owner interest on their deposit so that the money does not sit idly
- Businesses store money in current accounts which are special accounts designed for the everyday financial needs of a business

- **Loan facility**

Banks also give out loans to both individuals and businesses. These loans are to be paid back over a period of time with a certain amount of

interest added. People take loans for a number of reasons: to buy a new asset like a car, or house or for education. On the other hand, businesses take loans to meet liquidity needs, fund daily operations, execute payroll etc.

- **Corporate finance management**

When businesses reach a mature stage and are looking to merge/acquire other organizations that might serve their long-term revenue prospects, they reach out to specialized banks known as investment banks to help with complex financial transactions like mergers and acquisitions or IPOs.

Generally, these banks do not offer retail or consumer banking services and only specialize in corporate finances. They are intermediaries in the transaction and work with large corporations, hedge funds, and other financial institutions.

- **Modes of banking**

- Mobile banking
- Internet banking
- Digital banking
- Neo-banking