

# Banking and Financial Institution

## Learning Objectives

- ❖ Introduction to Banks
- ❖ Commercial Banks and its functions
- ❖ Central Bank
- ❖ Investment Banking
- ❖ Development Banks
- ❖ Rural Banks
- ❖ Universal Banking

# Banks

The term bank is derived from the French word ***Banco*** which means a **Bench** or **Money exchange table**.

In olden days, European money lenders or money changers used to display (show) coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging.



# Banks

A bank is a **financial institution** which deals with **deposits** and **advances** and other related services. It receives money from those who want to save in the form of deposits and it **lends** money to those who need it.

Among the various forms of banks are:

1. Central bank
2. Commercial banks
3. Investment banks
4. Development banks
5. Rural banks
6. Merchant banks
7. Islamic banks

# Types of Banking Activities

**Retail Banking:** it deals directly with individuals and small businesses

**Business Banking:** provides services to mid-market business

**Corporate Banking:** direct activities to large business entities

**Private Banking:** provide wealth management services to high net worth individuals and families

**Investing banking:** creates capital for other companies



# Role of Banking to National Economy

1. To control and adjust the **rate of foreign exchange** .
2. To control the **financial stability** of the country.
3. To control the **interest rate**.
4. To control the **inflation** and **deflation**.
5. To supply and distribute money equally.
6. **Mobilize financial** resources
7. Play **advisory role** in development

# Commercial Banks

Commercial banks are financial institutions set up to do **banking business**

They are financial intermediaries who accept **deposits** from the public and make profit by granting **loans** to the public.

They are said to **create money** through their lending activities.

## Types of commercial Bank

1. The Branch banking type
2. The Unit banking type





# Types of Commercial Bank

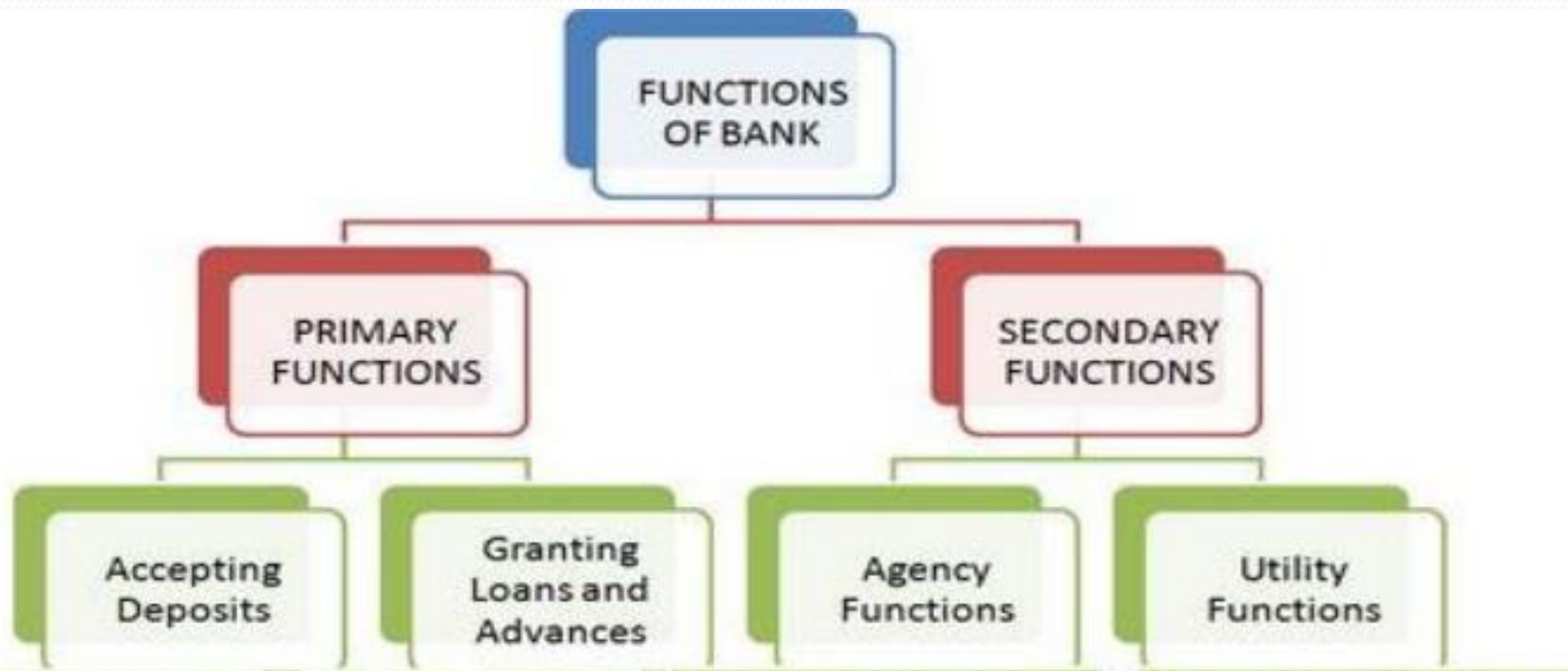
**Unit Banking** refers to a banking system in which the government restricts a bank to open branch offices

Unit banking system encourages either small, independent banks or large multibank that are theoretically independent but are in fact owned by a bank holding/parent company

**Branch Banking** refers to a single bank which operates through various branches in different locations. Eg. Barclays, GCB, Standard-Chartered.

# Functions of Commercial Bank

## 1. Primary function





# Differences between Primary and Secondary Functions

PRIMARY FUNCTION	SECONDARY FUNCTION
These functions are the <b>core purpose</b> of the business	These are auxiliary activities offered by the bank
They are the <b>main sources</b> of income	As a means of acquiring other incomes
They are obliged to perform these functions	These functions are not obligatory

# Primary functions

**1. Acceptance of deposits:** it accepts deposits like the Current Accounts, fixed Account, Savings Account, and time deposit. All but current account receive interest on their accounts.

Acting as agents for payments through the honouring of cheques drawn on current accounts

## **2. Granting of loans and overdrafts**

Loans may have longer duration than advances. Interest is charged on loans and advances.

**Other modes** of short-term financial assistance include: cash credit, bank overdraft and discounting bill.



# Different modes of Acceptance of Deposits

## Current Deposit (Demand Deposit)

- It can be withdrawn by the depositor at any time by cheque.
- Businessmen often open current account
- The account does not carry any interest as the amount deposited in these account is repayable on demand without any restriction
- Banks charge a small amount known as *incidental charges* depending on the number of transaction

# Different modes of Acceptance of Deposits

## Saving Deposits

It is opened by individuals who wish to deposit small amounts out of their current disposable income.

It helps to safeguard their future and also *earn interest* on their savings

There are restrictions on the withdrawals from this account.

The depositor withdraws using *withdrawal form or book*



# Different modes of Acceptance of Deposits

## Fixed Deposit

- The account signifies deposit repayable after the expiry of a specified period.
- It is also a form of time deposit
- Holders of this account *receive interest* depending on the period of deposit
- The longer the period the higher the rate of interest offered
- Banks usually invest these funds profitably by lending it at a high rates of interest and for relatively longer periods.

# Different modes of Acceptance of Deposits

## Time Deposit (Certificate of Deposit)

- it is a short-term deposit held on a fixed term that pays fixed rate of interest until its given maturity.
- It usually a *90 days* term of more.
- It is often issued by large companies who have a reputable credit ratings



# Modes of Short-term financial Assistance

**Cash Credit:** it is an arrangement whereby the bank allows the borrower to draw amounts to a specified limit.

The amount is *credited* to the customer . Interest is charged on the amount actually withdrawn

**Overdraft:** it is a credit *temporary* facility granted by the bank to current account holders to withdraw more than the amount of credit balance in the account.

**Discounting of Bills:** it is where bills are purchased at face value less interest at current rate of interest for the period of the bill.

# Secondary functions

Agency functions:

- Funds transfer
- Issue demand drafts and pay orders
- Portfolio management

Utility functions

- Issue letters of credit, travelers' cheque, letters of credit
- Underwriting of shares
- Facilitates the exchange of foreign currency
- Receiving and making payment on behalf of clients Eg., standing orders, direct debit, credit transfer, letters of credit



- GN Bank Ghana\*
- Standard Chartered Ghana
- Ghana Commercial Bank
- Société Générale Ghana
- UT Bank\*
- The Royal Bank Limited\*
- UniBank\*
- National Investment Bank
- ADB, Ghana
- Prudential Bank Limited
- Universal Merchant Bank\*
- Ecobank Ghana
- CAL Bank

- HFC Bank
- United Bank for Africa
- Stanbic Bank
- Bank of Baroda
- Zenith Bank
- Guaranty Trust Bank
- Fidelity Bank Ghana
- First Atlantic Bank
- Bank of Africa Ghana Limited
- Banque Sahélo-Saharienne pour l'Investissement et le Commerce (BSIC)
- Access Bank Ghana
- Attijariwafa Bank
- Barclays Bank of Ghana



# Central Bank

A central bank is a **State bank** established to control the country's financial system.

It regulates all the currency supplies in the economy and ensures that national currency remains stable

Examples of Central Banks are:

1. Bank of Ghana
2. Bank of England
3. Bank of Nigeria
4. Federal Reserve Bank in the USA

# Functions of Bank of Ghana

The primary **objective** of BoG is to maintain economic stability (stabilize level of prices), in order to promote economic development.

The functions of the Bank of Ghana are stipulated in section 2 of the Banking Act, Act 612, 2002:

- As banker and fiscal agent of government
- Credit control
- Domestic operation
- Foreign operation like exchange rate



# Functions of Bank of Ghana

## **As banker and fiscal agent of government**

It acts as custodian to state funds, advisor to government on fiscal policies, managing public debts and making temporary advances to the government

## **Credit Control**

It reports on unusual movement in supply of money and managing the monetary and banking system.

## **Domestic Operations**

It issues and redeems note and currency; engages in exchange of currency; appoint other banks as currency agents etc.

## **Foreign Operations**

It has power to act as a guarantor to state transactions; it borrows from other countries and organisations; holds the state foreign exchange.

# Functions of Bank of Ghana

1. Sole right of note issue and withdrawal
2. Issue and redemption of currency notes and coins
3. Act as banker and financial adviser to the Government
4. It also acts as the bankers' bank
5. Formulate and implement monetary policy
6. International relations
7. License, regulates, promote and supervise non-banking financial institutions.
8. Promote, regulate and supervise payment and settlement system



# Monetary Policy

- It is the process by which the central bank and government control: the supply of money; Availability of money; Cost of money in order to attain a set of objectives oriented towards the growth and stability of the economy
- Monetary policy can either be **expansionary** (increases supply of money in the economy) or **contractionary** policy.
- Expansionary is used to combat **unemployment** in recession by **lowering interest rates** whilst contractionary involves **raising interest rate** in order to combat **inflation**.

# Monetary Policy

- Monetary policies seek economic growth, full employment and low inflation
- Fiscal policy refers to government borrowing, spending and taxation.



# Tools for Monetary Policy

**Monetary base:** it involves directly changing the total amount of money in circulation. The central bank use Open Market Operation to change the size of the monetary base

It sells treasury bills to mop up excess money in circulation or buy bills sold to the public to increase the currency in circulation

**Reserve requirement:** it involves changing the proportion of total assets that banks must hold in reserve with the central bank like loans and mortgages.

Banks only maintain a small portion of their assets as cash available for immediate withdrawal: the rest is invested in illiquid assets like mortgages and loans

# Tools for Monetary Policy

**Discount Window lending:** it involves the authority to lend or call in for existing funds rendered to financial institutions within the country by the central banks

**Interest Rates:** it involves the use of nominal interest rate to expand or contract the level of money supply in the economy. It does so by either raising the interest rate to increase saving and discourage borrowing or by reducing the interest.



# Tools for Monetary Policy

**Special Deposit:** it involves the authority of the central bank to instruct banks to deposits money with it. The impact of this tool is akin to raising interest rate or increasing the reserve requirement.

**Announcements and Directions (Moral Suasion):** it is the weakest tool since it is not backed by law

The central bank only appeal to financial institutions to either increase or decrease their amount of lending activities depending on the state of the economy

# Development Banks

- Financial institutions dedicated to fund new and upcoming businesses and economic development projects by providing equity and/or debt.
- Their **mission** is to “expedite the pace of development in accordance with the national priorities and aspirations of the people”
- Example: ADB Bank



# Investment Bank

A financial institution that raises capital, trade securities and manages corporate mergers and acquisition. It is also called **corporate finance**

They raise money through issuing and selling securities in the capital markets and insuring bonds (eg. Selling credit default swaps)

Eg. National Investment Bank

# Functions of Investment Banks

- As an underwriter or agent for corporations and municipalities issuing securities.
- Facilitating mergers and acquisitions, private equity placements and corporate restructuring.
- Offer strategic advisory services to investors



# Merchant Bank

- It is a financial institution primarily engaged in offering financial services and advice to corporation. And to wealthy individuals.
- It is used to describe the private equity activities of banking
- It *differs* from investment bank in that merchant bank invest its own capital in a client company whereas an investment bank purely trades securities of that company in its capital raising role.

# Functions of Merchant Banks

1. It undertakes underwriting.
2. It provides consultancy to its clients
3. Offer project finance
4. Portfolio management
5. Loan syndication
6. Issues management
7. Leasing



# Rural Bank

- Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use.
- Rural banking is popular for very small towns and farmers who live far away from areas of larger population and cannot make the drive to these locations whenever they need to use banking services.
- Typically, an agent of the bank will visit these rural locations and offer to make transactions in an official capacity.
- The first rural bank in Ghana was established at Agona Nyakrom

# Characteristics of Rural Bank

1. It is a public limited liability company
2. It mobilizes savings and provide lending to people with the community
3. It operates in the rural communities and specializes in giving credit facilities to craft men
4. It belongs to the people in the area and its management and control are vested in the people.
5. It has the power to engage in the business of banking within the framework of the Banking law



# Functions of Rural Banks

1. Mobilization of deposits from the community
2. Acceptance of securities for safe deposit
3. Provisions of loans and overdraft to customers
4. Promotion of social and economic development of the community

# Universal Banking

- A universal bank is a bank that participates in many kinds of banking activities.
- Universal banks combine the aspect of both investment banking with commercial banking, thus allowing these banks to offer a much wider variety of financial options to their customer.
- These are also called *full-service* financial firms, although there can also be full-service investment banks which provide asset management, trading, and underwriting