

Overview of Banking and Finance

Overview of Banking and Finance – Study Notes

1. Core Concepts

Term	Definition	Key Points
Banking	The business of accepting deposits, providing loans, and offering payment/settlement services.	• Central role in money creation (fractional reserve). • Regulated by central banks and supervisory authorities.
Finance	Management of money, assets, and liabilities over time, including investment, risk, and valuation.	• Encompasses corporate, personal, and public finance. • Uses tools such as budgeting, forecasting, and financial analysis.
Financial System	Network of institutions, markets, instruments, and regulations that channel funds from savers to borrowers.	• Provides liquidity, price discovery, risk sharing, and information processing.

2. Types of Financial Institutions

Category	Primary Functions	Examples
Commercial Banks	Accept deposits, extend loans, process payments, issue cards.	JPMorgan Chase, HSBC, Bank of America
Investment Banks	Underwrite securities, advise on M&A, trade securities, asset management.	Goldman Sachs, Morgan Stanley
Retail Banks	Focus on individual consumers: savings accounts, mortgages, personal loans.	Wells Fargo, Barclays Retail
Co-operatives & Credit Unions	Member-owned, non-profit, provide banking services at lower cost.	Navy Federal Credit Union
Non-Bank Financial Intermediaries	Provide credit, leasing, factoring, micro-finance.	PayPal, Square, micro-finance NGOs

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Category	Primary Functions	Examples
Central Banks	Issue currency, set monetary policy, act as lender of last resort, supervise banks.	Federal Reserve (US), European Central Bank (ECB)

3. Key Banking Activities

1. Deposit Taking

- Types: demand (checking), time (savings, CDs), term deposits.
- Deposit insurance (e.g., FDIC) protects depositors.

2. Lending

- **Retail Loans:** mortgages, auto, personal.
- **Corporate Loans:** term loans, revolving credit facilities, syndicated loans.
- **Risk Management:** credit analysis, collateral, covenants, loan loss provisions.

3. Payments & Settlements

- **Domestic:** ACH, RTGS, checks, card networks.
- **International:** SWIFT, correspondent banking, cross-border remittances.

4. Asset Management & Wealth Services

- Mutual funds, ETFs, private banking, trust services.

5. Risk Management & Compliance

- Market, credit, operational, liquidity risk.
 - Regulatory frameworks: Basel III, Dodd-Frank, AML/KYC.
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4. Financial Markets Overview

Market	Instruments	Participants	Purpose
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Money Market	Treasury bills, commercial paper, repos, certificates of deposit	Banks, corporations, governments	Short-term financing (<1 year)
Capital Market	Bonds, equities, preferred shares	Investors, issuers, underwriters	Long-term financing
Foreign Exchange (FX) Market	Spot, forwards, swaps, options	Banks, corporates, hedge funds, central banks	Currency conversion, hedging, speculation
Derivatives Market	Futures, options, swaps, CDS	Hedgers, speculators, arbitrageurs	Risk transfer, price discovery
Alternative Finance	Crowdfunding, peer-to-peer lending, fintech platforms	Startups, SMEs, retail investors	