

Introduction to Banking Operations

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Designed as a quick-reference guide for students, new hires, or anyone needing a concise overview of how modern banks work.

1. Core Functions of a Bank

Function	Purpose	Typical Products/Services
Deposit Taking	Safeguard customer funds & provide liquidity	Savings accounts, checking/current accounts, term deposits (CDs)
Lending	Allocate capital to borrowers, earn interest margin	Personal loans, mortgages, auto loans, commercial loans, credit lines
Payments & Settlements	Move money efficiently between parties	Wire transfers, ACH, RTGS, card networks, mobile payments
Wealth Management	Grow client assets & generate fee income	Investment advisory, mutual funds, custodial services
Foreign Exchange (FX)	Facilitate cross-border trade & travel	Spot/forward contracts, currency swaps, remittances
Risk Management	Protect the bank's balance sheet	Hedging, insurance, capital allocation, credit scoring

2. Key Operational Areas

Area	Main Activities	Supporting Systems
Front Office	Customer interaction, sales, account opening, loan underwriting	CRM, loan origination platforms, digital banking portals
Middle Office	Risk monitoring, pricing, product control, compliance	Risk engines, market data feeds, AML/KYC tools
Back Office	Transaction processing, reconciliation, settlement, reporting	Core banking system (CBS), batch processing, document management
IT & Security	System development, cybersecurity, data governance	Core banking software, cloud infrastructure, SIEM, encryption

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3. The Banking Value Chain

1. **Customer Acquisition** – Marketing, onboarding, KYC verification.
 2. **Product Delivery** – Account creation, loan approval, card issuance.
 3. **Transaction Processing** – Real-time (e.g., debit card) or batch (e.g., end-of-day clearing).
 4. **Risk & Compliance** – Credit assessment, AML screening, regulatory reporting.
 5. **Settlement & Funding** – Interbank transfers, liquidity management, treasury operations.
 6. **Service & Support** – Call-center, digital self-service, dispute resolution.
 7. **Analytics & Insight** – Performance dashboards, customer segmentation, predictive modeling.
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4. Core Banking System (CBS)

Component	Function	Typical Technologies
Core Ledger	Record every debit/credit entry; maintain balances	Relational DB (Oracle, PostgreSQL)
Product Engine	Define interest rates, fees, amortization schedules	Rule-based engines, configuration modules
Transaction Processor	Real-time posting, batch runs, exception handling	Middleware (IBM MQ, Apache Kafka)
Channel Integration	Connect ATMs, mobile apps, internet banking	APIs (REST/ SOAP), micro-services
Reporting & Analytics	Regulatory reports, management dashboards	BI tools (Power BI, Tableau), data warehouses

5. Payments Lifecycle (Simplified)

1. **Initiation** – Customer triggers a payment (e.g., swipe card, online transfer).
2. **Authorization** – Issuer validates funds, applies fraud rules.
3. **Clearing** – Transaction details exchanged between banks (e.g., via ACH, SWIFT).
4. **Settlement** – Final transfer of funds; balances updated on both sides.
5. **Reconciliation** – Back-office matches internal records with external statements.

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Key standards: ISO 20022, NAC