Chapter One

An Overview of the Changing Financial-Services Sector

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Key Topics

- What Is a Bank?
- The Financial System and Competing Financial-Service Institutions
- Old and New Services Offered to the Public
- Key Trends Affecting All Financial-Service Firms

Introduction

- A bank are the principal source of credit (loanable funds) for millions of individuals and families and for many units of government.
- For small businesses ranging from grocery stores to automobile dealers, banks are often the major source of credit.
- Bank grant more installment loan to consumers (individuals and families) than any other financial-service institution.
What is a Bank?

A bank can be defined in terms of:

A. the economic functions it serves
B. the services it offer its customers
C. the legal basis for its existence

A. The economic functions it serves

- Certainly banks can be identified by the functions they perform in the economy.
- They are involved in transferring funds from savers to borrowers (financial intermediation) and in paying for goods and services.

B. The services it offer its customers

- Bank have been recognized for the great range of financial services they offer – from checking accounts and savings plans to loans for business, consumers, and governments.
- However bank service menus are expanding rapidly today to include security trading and underwriting, insurance protection, financial planning, and the management of pension plans.
C. The legal basis for its existence

- License
- Law of Banking and Financial Institution
- Regulation & Prakas
- Bank Supervision

The Different Kinds of Financial Service Firms Calling Themselves Banks

- Commercial Banks
- Savings Banks
- Cooperative Banks
- Mortgage Banks
- Community Banks
- Money Center Banks
- Investment Banks
- Merchant Banks
- International Banks
- Wholesale Banks
- Retail Banks
- Limited Purpose Banks
- Bankers’ Banks
- Minority Banks
- National Banks
- State Banks
- Insured Banks
- Member Banks
- Affiliated Banks
- Virtual Banks
- Fringe Banks
- Universal Banks

The Financial Service Competitors of Banks

- Savings Associations
- Credit Unions
- Money Market Funds
- Mutual Funds (Investment Companies)
- Hedge Funds
- Security Brokers and Dealers
- Investment Banks
- Finance Companies
- Financial Holding Companies
- Life and Property–Casualty Insurance Companies
Quick Quiz

• What is a bank? How does a bank differ from most other financial-service providers?

• Under current U.S. federal law what must a corporation do to qualify and be regulated as a commercial bank?

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Traditional Services Offered By Banks

• Carrying Out Currency Exchange
• Discounting Commercial Notes and Making Business Loans
• Offering Savings Deposits
• Safekeeping of Valuables
• Supporting Government Activities with Credit
• Offering Checking Accounts
• Offering Trust Services

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Typical Services Provided by Banks
More Recent Services Offered by Banks

- Granting Consumer Loans
- Providing Financial Advice
- Managing Cash
- Offering Equipment Leasing
- Making Venture Capital Loans
- Selling Insurance Policies
- Selling Retirement Plans

Offering Security Brokerage and Investment Banking Services

- Underwriting Securities
- Offering Mutual Funds and Annuities
- Offering Merchant Banking Services
- Offering Risk Management and Hedging Services

Trends Affecting Banks and Other Financial Service Firms Today

- Service Proliferation
- Rising Competition
- Government Deregulation
- Increased Interest Rate Sensitivity
- Technological Change and Automation
- Consolidation and Geographic Expansion
- E-Banking and E-Commerce
- Convergence
- Globalization
Quick Quiz

• Why do banks and other financial intermediaries exist in modern society, according to the theory of finance?

• How have banking and the financial services market changed in recent years?

• What powerful forces are shaping financial markets and institutions today? Which of these forces do you think will continue into the future?