Chapter 2

Banking Products and Services

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Learning Objectives

• Introduction
• Explain the main deposit products presently available in banking and outline the operations of deposit accounts.
• Discuss the main loan products in banks and instruments used by customers in banking transaction.
• Examine the retail banking products and list the channels of service delivery/distribution.
• Analyses the features of the money market products
INTRODUCTION

• The essence of banking is the acceptance of deposit from the public with the facility of withdrawal of money by cheques.

• Bank accept deposits from the public and advance them as loans/investments to those who need them.

• A unique feature of banks is “credit creation” that is creation of additional money for lending/investing.
DEPOSIT PRODUCTS

• The major source of bank funds is deposit.
• Deposits are product / services offered by banks across all segments of their customer base, that is, individuals/ professionals / corporate and so on.
• The approach to deposit product is based on the specific liquidity position of the bank and the time horizon to meet various obligation, from time to time.

Types of Deposits/Accounts

• Deposits of banks are classified into two categories:
  (i) Demand deposit
  (ii) Term / fixed deposit
I. Demand Deposit

- Demand deposits are repayable to the depositors on demand.
- There are two types of such deposit
  a. current deposits.
  b. saving deposits.

a. Current Deposits/Account

The features of current accounts/deposits are as follows:
- First, there are no restriction on the number and amount of withdrawals/deposit. Withdrawals are permitted by chques in favor of self as well as other parties.
- Secondly, current deposit is non-interest bearing. In case of accounts which do not maintain sufficient balances, the bank charge incidental expense from the depositors.
a. Current Deposits/Account

• Thirdly, overdraft of different duration (i.e. short period or on regular basis) are permitted in current accounts. The regular overdraft facility is extended as per prior arrangement between the bank and the accountholder.
a. Current Deposits/Account

- Finally, periodical statements of accounts for record and reconciliation are provided by the bank to the accountholders. They show all the debit/credit transactions and balances date wise as recorded in the ledger account of the banks.

- The primary object of current account/deposit is not to solicit savings of the depositors. It is meant for the convenience of the depositor who are relieved of handling cash/payments.
b. Saving Deposits

• Saving bank accounts collect saving from depositors who save a part of their current income to meet their future needs as well as earn income from them.
• The interest is computed on the daily balance in the saving deposit.
• No overdraft is permitted
II. Term Deposits

- Term deposit are repayable on maturity as agreed between the depositor and bank.
- Fixed Deposits such deposits are ones that are with banks for a fixed period specified at the time of making the deposit.
- They are repayable on the fixed maturity date along with the principal and accrued interest.
- On maturity, the deposit can be renewed for another term at the prevailing rate of interest.
Term Deposits

Traveler's cheque

- A traveler's cheque is preprinted, fixed amount cheque designed to allow the person signing it to make an unconditional payment to someone else as result of having paid the issuer for that privilege.

- As a traveler's cheque can usually be replaced if lost or stolen, they are often used by people on vacation in place of cash.
Traveler's cheque

- Traveler's cheques are available in several currencies such as U.S dollars, Canadian dollars, pounds sterling, Japanese yen, and euro; denominations usually being 20, 50, or 100 of whatever currency.
- Traveler's cheques do not expire so unused cheques can be kept by the purchaser to spend at any time in the future.
- The commission, where it is charged is usually 1% of the total face value sold.
Traveler's cheque

Benefits

• They are safer than cash. Cash once stolen or lost cannot be replaced.
• They are easy to use.
• They are accepted worldwide.
• They have no expiry date.

Operational Aspects of Deposits

The aspects of operations of deposits discussed below are:

(i) account opening / closing
(ii) deposit insurance
Opening of New Accounts

• In general, deposit accounts can be opened by person who are major (18 years of age) and of sound mind.

• While opening deposit accounts, banks have to comply with the Know Your Customer (KYC) procedure.

• The focus of KYC is on establishing the identity and residential address of the depositor-customer by the specified documentary evidences.

Closing of a Deposit Account

• The banker is duty bound to close an account. If an account remains unoperated for a very long period and the customer cannot be traced after reasonable effort, the balance is usually transferred by the bank to an Unclaimed deposit account and the account is closed.

• The operation of an account must be stopped by the bank on receipt of a notice of (i) death (ii) insanity of the depositor. Similarly, insolvency/liquidation of a depositor would also result in stoppage of operation account.
Insurance of Bank Deposits

• The Deposit Insurance provides insurance cover to every depositor to the extend of $300,000.
• The Deposit insurance reimburses the depositors in case the insured bank fails.

LOAN PRODUCTS

• The major use of bank funds are loans and advances.
• The loan product of banks are their assets which are used to finance bank customers.
• In banking transaction, certain other instruments are also used frequently by customers.
Credit Facilities

The credit facilities extended by banks to customers/borrowers are
(i) fund-based
(ii) non-fund based.

Fund-Based Credit Facilities

• Fund based credit facilities provide funds to borrower (i) working capital and (ii) capital expenditure/project finance.

(i) Working capital finance are granted for a short period, generally up to one year, and are renewed/rolled over from year to year depending upon fresh assessment of the requirement of the borrower.
Credit Facilities

(ii) Term Loans/Project Finance are given by bank for capital expenditure, that is, acquisition of fixed assets for setting up a new unit.

The loan is secured by mortgage of either the specified fixed assets finance or the entire block of fixed assets of the borrower.

Non Fund-Based Credit Facilities

• Non fund credit facilities are a sort of a commitment to honor certain promises and are known as off balance items.

• Outlay of funds is contingent upon the devolvement of commitments (contingent liabilities) included in such facilities are (i) letter of credit and (ii) bank guarantees.
Currency Exchanges

• A banker stood ready to trade one form of coin or currency (such as dollars) for another (such as francs or pesos) in return for a service fee.

• Such exchange have been important to travelers over the centuries, because the traveler’s survival and comfort may depend on gaining access to local funds.
Safekeeping of Valuable and Certification of Value

• Bankers and other merchants began the practice of holding gold and other valuables owned by their customers inside secure vaults.
• Thus reassuring customers of their safekeeping.
Financial Advising

• Customer have long asked financial institutions for advice, particularly when it comes to the use of credit and the saving or investing of funds.
• Many service provider today offer a wide range of financial advisory services, from helping to prepare financial plans for individuals to consulting about marketing opportunities at home and abroad for business.
Offering Equipment Leasing

• Many banks and finance companies have moved to aggressively offer their business customers the option to purchase equipment through a lease arrangement in which the lending institution buys the equipment and rents it to the customer.
• These equipment leasing services benefit leasing institutions as well as their customers because the lender can depreciate the leased equipment to save on taxes.
Selling and Managing Retirement Plans

• Bank and insurance company are active in managing the retirement plans that most business make available to their employees.
• This involves investing incoming funds and dispensing payment to qualified recipients who have reached retirement or become disabled.
E-Banking Service

Internet Banking
Telephone Banking

• Telephone banking is facility offered to customers whereby they can, by dialing a number, issue instructions or seek information.

• The customer when he makes a call is answered by an operator in a call centre. This person has access to customer’s account. To ensure that it is indeed an authorized person who is seeking information, the customer would be required to state an identifying number (personal identification number – T-Pin), date of birth, billing address or any other unique information.
Telephone Banking

• On being satisfied that it is indeed the customer, the transaction required is carried out, These may include:
  – Transfers to a fixed deposit;
  – Balance enquiry;
  – Request for a cheque book;
  – Request for a statement;
  – Payment of bill.

Mobile Banking
Mobile Banking

• Mobile banking is being increasingly seen as an alternative channel of delivery of banking services.
• Mobile banking is undertaking banking services using mobile phones that involve debits/credits to their account.
• Banks offer information based services like balance enquiry, stop payment instruction of cheques, transactions enquiry, location of the nearest ATM/branch etc.
RETAIL BANKING PRODUCTS

• Retail banking is a part of a bank that offers products/service/professionals/self-employed individuals/small businesses and so on.
• It focuses on creating products/services that meet the needs of target customers and are profitable to the bank as well.

Channels of Retail Banking Service

• Consumer behavior is changing rapidly due to the developments of technology and the use banking service is characterized by individuality, mobility, independence of time and place and flexibility.
• The channels below are:
  – Automated Teller Machine (ATM) Card
  – Telebanking
  – Internet Banking
Retail Banking Products
• Credit Cards / Debit Card
  – A plastic card that allows its holder to buy goods/services on credit from approved sales outlets and to pay it at fixed interval through the card issuing agency (bank)
  – It guarantees payment against a sales voucher signed by the credit card holder.
  – When goods/service are purchased/supplied, the holder gives his card to the supplier.
  – The particulars of the transactions are also added on the voucher.
  – The holder signs the voucher.

Credit Cards / Debit Card
Retail Banking Products

• Home Loan
  – Home purchase loan
  – Home improvement loan
  – Construction loan
  – Home conversion loan
  – Land purchase loan
Retail Banking Products

• Consumer Durable Loans
  – Cover purchase of durable such as refrigerators, washing machines, air conditioners, microwave ovens, televisions, DVD players and so on.

• Educational Loan
  – Cover a variety of courses to meet the cost of (i) tuition /mess /examination fee (ii) books / equipment/ instrument required by the students.
Money Market Product

- The money market is a market for overnight to short-term funds, and for short-term money and financial assets that are close substitutes for money.
- “Short-term” in context, generally means a period up to one year; close substitute for money” denotes any financial asset that can be quickly converted into money with minimum transaction cost and without loss in value.

Question?