A Study on the Banks as Financial Institution

Laveena Mehta*
Assistant Professor
Chitkara University
Research Scholar
Punjab Technical University
Email Id: lave81@gmail.com

Shivali Jindal**
Assistant Professor
Chitkara University
Email Id:Jindal.shivali@gmail.com

Baljinder Kaur**
Assistant Professor
Chitkara University
Email Id:baljinderrainu@yahoo.in

Banmeet Kaur***
Student,
Chitkara University Punjab

Abstract :

A financial organisation is an institution that conducts monetary transactions like investments, loans and deposits. Nearly everybody deals with monetary establishments on a daily basis. Everything from depositing cash to putting off loans and exchanging currencies should be done through monetary establishments. This work defines that however the banks act as financial organisation. Banks borrow and lend consecutive on their own account as middle men. Thanks to their importance within the monetary stability of a rustic, banks square measure extremely regulated in most countries. Banking business is business of receiving cash on current or time deposit account, paying and collection cheques drawn by or paid in by customers, the creating of advances to customers, and includes such different business because the Authority could dictate for the needs of this Act; (Banking Act (Singapore), Section 2, Interpretation).Banking business suggests that the business of either or each of the following:

1. Receiving from the overall public cash on current, deposit, savings or different similar account due on demand or inside but [3 months] ... or with an amount of decision or notice of but that period;

2. Paying or collection cheques drawn by or paid in by customers.

Banks act as payment agents by conducting checking or current accounts for patrons, paying cheques drawn by customers on the bank, and collection cheques deposited to customers' current accounts. Banks additionally alter client payments via different payment strategies like automatic financial organisation (ACH), Wire Transfer or telegraphic transfer, EFTPOS and automatic Teller Machines, (ATMs). Banks borrow cash by

acceptive funds deposited on current accounts, by acceptive term deposits, and by supply debt securities like banks notes and bonds. Banks lend cash by creating advances to customers on current accounts, by creating instalment loans, and by finance in marketable debt securities and different sorts of cash disposal.

Banks give completely different payment services, and a checking account is taken into account indispensable by most businesses and people. Non-banks that give payment services like remittal firms square measure ordinarily not thought of as AN adequate substitute for a checking account. This study examined the bank as a financial organisation.

Banks will produce new cash once they build a loan. New loans throughout the banking industry generate new deposits elsewhere within the system. The cash provide is typically multiplied by the act of disposal, and reduced once loans square measure repaid quicker than new ones square measure generated.

However the miscroscopic analysis has been done to grasp this report is incredibly informative in such contents Banks as a financial organisation.

INTRODUCTION:-

A bank may be a financial organisation that accepts deposits from the general public and creates credit. Disposal activities will be performed either directly or indirectly through capital markets. Because of their importance within the money stability of a rustic, banks are extremely regulated in most countries. Most nations have institutionalized a system referred to as third reserve banking underneath that banks hold quick assets adequate to solely some of their current liabilities. Additionally to alternative laws supposed to make sure liquidity, banks are typically subject to minimum capital needs supported a global set of capital standards, referred to as the Basel Accords.

A financial organisation is an institution that conducts money transactions like investments, loans and deposits. Virtually everybody deals with money establishments on an everyday basis. Everything from depositing cash to getting rid of loans and exchanging currencies should be done through money establishments.

Here is a summary of a number of the main classes of economic establishments and their roles within the economic system.

Commercial Banks

Commercial banks settle for deposits and supply security and convenience to their customers. a part of the first purpose of banks was to supply customers safe keeping for his or her cash. By keeping physical money reception or in an exceedingly notecase, there ar risks of loss thanks to thievery and accidents, to not mention the loss of attainable financial gain from interest. With banks, customers not have to be compelled to keep massive amounts of currency on hand; transactions will be handled with checks, debit cards or credit cards, instead.Commercial banks conjointly build loans that people and businesses use to shop for product or expand business operations that successively result in additional deposited funds that build their thanks to banks. If banks will lend cash at a better rate than they need to get funds and in operation prices, they create cash.

Banks conjointly serve usually under-appreciated roles as payment agents inside a rustic and between nations. Not solely do banks issue debit cards that enable account holders to get merchandise with the swipe of a card, they'll conjointly organize wire transfers with alternative establishments. Banks basically underwrite money transactions by loaning their name and quality to the transaction; a check is largely simply a debt instrument between 2 individuals, however while not a bank's name and knowledge thereon note, no businessperson would settle for it. As payment agents, banks build industrial transactions far more convenient; it's not necessary to hold around massive amounts of physical currency once merchants can settle for the checks, debit cards or credit cards that banks offer.

Investment Banks

The stock exchange crash of 1929 and succeeding slump caused the u. s. government to extend money market regulation. The Glass-Steagall Act of 1993 resulted within the separation of investment banking from industrial banking.

While investment banks are also known as "banks," their operations ar totally different than deposit-gathering industrial banks. AN investment bank may be a money negotiator that performs a range of services for businesses and a few governments. These services embody underwriting debt and equity offerings, acting as associate negotiator between AN institution of securities and also the finance public, creating markets, facilitating mergers and alternative company reorganizations, and acting as a broker for institutional shoppers. they will conjointly offer analysis and money informative services to firms. As a general rule, investment banks concentrate on initial public offerings (IPOs) and huge public and personal share offerings.

Traditionally, investment banks don't take care of the overall public. However, a number of the massive names in investment banking, like JP Morgan Chase, Bank of America and Citigroup, conjointly operate industrial banks. Alternative past and gift investment banks you'll have detected of are Morgan Stanley, nihilist Sachs, Lehman Brothers and 1st Hub of the Universe.

Generally speaking, investment banks ar subject to less regulation than industrial banks. whereas investment banks operate below the oversight of regulative bodies, just like the Securities and Exchange Commission, FINRA, and the U.S. Treasury, there ar generally fewer restrictions once it involves maintaining capital ratios or introducing new product.

Some functions of bank as a money institution:

1. Issue of cash, within the kind of banknotes and current accounts subject to cheque or payment at the customer's order. These claims on banks will act as cash as a result of their negotiable or owed on demand, and thence valued at par. they're effectively transferable by mere delivery, within the case of banknotes, or by drawing a cheque that the receiver might bank or money.

2. Netting and settlement of payments – Banks act as each collection and paying agents for purchasers, taking part in interbank clearing and settlement systems to gather, present, be given with, and pay payment instruments. this permits banks to economize on reserves held for settlement of payments, since inward and outward payments offset each other. It also enables the offsetting of payment flows between geographical areas, reducing the cost of settlement between them.

3. Credit intermediation – Banks borrows and lend back-to-back on their own account as middle men.

4. Credit quality improvement – Banks lend money to ordinary commercial and personal borrowers (ordinary credit quality), but are high quality borrowers. The improvement comes from diversification of the bank's assets and capital which provides a buffer to absorb losses without defaulting on its obligations. However, banknotes and deposits are generally unsecured; if the bank gets into difficulty and pledges assets as security, to rise the funding it needs to continue to operate, this puts the note holders and depositors in an economically subordinated position.

5. Asset liability mismatch/Maturity transformation- Banks borrow more on demand debt and short term debt, but provide more long term loans. In other words, they borrow short and lend long. With a stronger credit quality than most other borrowers, banks can do this by aggregating issues (e.g. accepting deposits and issuing banknotes) and redemptions (e.g. withdrawals and redemption of banknotes), maintaining reserves of cash, investing in marketable securities that can be readily converted to cash if needed, and raising replacement funding as required from varied sources (e.g. wholesale money markets and securities markets).

6. Cash Creation/destruction – Whenever a bank provides out a loan during a fractional-reserve industry, a brand new total of cash is formed and conversely, whenever the principal on it loan is repaid cash is destroyed.

OBJECTIVES OF THE RESEARCH:

The specific objectives of the research are:

1. The present paper seeks to analyze financial institutions such as banks.

2. It also studies the challenges, functions and opportunities particularly faced by the banks.

3. To study the potential Bank as financial institution.

4. To study the future prospects banking.

RESEARCH METHODOLOGY:

In this analysis secondary information are used. Secondary information is that is already on the market somewhere, whether or not it's in journals, on the net, in an exceedingly company's records or, on a bigger scale, in company or governmental archives. There's not primary information during this analysis. This sort of analysis is on the premise of qualitative terms. Qualitative analysis gathers info that's not in numerical kind. Qualitative analysis is helpful for studies at the individual level, and to search out, in depth, the ways in which within which folks suppose or feel. This analysis has been not done by conducting interviews from the organisations or the person to person.

REVIEW OF LITERATURE:

Many printed articles square measure on the market within the space of Bank as a establishment. A review of the relevant literature has been delineated. (R DE Young, KP Roland) within the study of Product combine and earnings volatility at business banks: proof from degree of total leverage model describes that Banks have reacted to declining shares of their most ancient business activities by increasing the assembly and sale of fee primarily based money services. These studies conjointly offer proof that combining banking and nonbank activities will probably scale back risk. These studies conjointly notice that returns to diversification tend to diminish quickly; that diversifying into some non bank activities might really increase bank s riskiness' which any risk reduction achieved via diversification are often undone by taking different risk like money leverage. This study employs a spread of methodologies to match earnings streams across money industries service industries and across individual banking corporations with completely different product mixes.(T Hoshi, A Kashyap, D Scharfstein,) within the study of " The role of banks in reducing the prices {of monetary of economic} distress in Japan studies that financial distress is dear as a result of the issues that square measure free rider and knowledge asymmetries create it tough for the corporations to renegotiates with their creditors in time of distress. Their analysis helps to clarify some variations between Japanese and US corporations. (A Berger, R DE Young)In the analysis papers the establishment had a good attention and also the one in every of the matter is that the issue of loans. There square measure some policies that problems rest on distinguishing the underlying relationship between downside loans and bank failures. Loan quality at the establishment has received shut scrutiny since the failures waves within the business banking and thrift industries. (L Rojas-Suarez) This study deals with the appropriateness for rising markets of implementing capital necessities as suggested by the urban center committee on banking supervising and conjointly presents various proposals to strengthen banks in line with degree of economic development in rising markets. wherever the capital necessities are often enforced , the paper advances suggestions for associate degree improved capital commonplace. (L Angbaz) banking concern web interest margins, default risk, charge per unit risk and off record banking studies that banks with additional risky loans and better charge per unit risk exposure would choose loan and deposit rates to attain higher web interest margins. Cyberspace interest margins of cash centre banks square measure defected by default risk, however to not default risk. (KY Tam) Mehta and Malhotra (2014) asserted that NPAs are threat for the Banks in India. Non-performing assets must be managed properly for the healthy working environment of Indian banks. Their view was that Recession was one of the reasons for the continuous increase in the NPAs. Predicting Banking Failures: neutral approach studies the predicting the banking failures and compare it with existing predicting strategies. The task of constructing a prediction model is forged united of coaching a network with the set of bankruptcy cases. Problems associated with potential and limitations of neutral network as modelling tool conjointly addressed. (JY Lin) The paper argues that the prices and also the potency of providing money services to {different totally completely } size of enterprises square measure different, looking on the structure {of money|of monetary of economic} system the paper concludes that the event of medium and tiny sized money establishments is to beat the problem in providing financial services to china's MSE. (D DE Meza, C Southely) It defines the features of small scale business, including high failure rates, reliance on bank credit rather than equity finance, relatively low interest rates margins and credit rationing, can be explained by a tendency for those who are excessively optimistic to dominate new entrants. (B Minton, A Sanders) Unregulated finance companies and investment banks are much more apt to securitize assets than banks, and that risky and highly levered financial institutions are more likely to engage in securitization than safer ones. At the same time, highly levered banks – banks with low capital ratios – are less likely than better capitalized banks to securitize.

Analysis and interpretation of research:

Economy financial markets are critical to its overall development. Banking systems and stock market enhance growth, the main factor in poverty reduction. Strong financial systems provide reliable and accessible information that lowers transaction costs, which turn bolsters resource allocation and economic growth. Indicators here include the size and the liquidity of stock markets; the accessibility, stability, and efficiency of financial systems; and international migration and workers' remittances, which affect growth and social welfare in both sending and receiving countries.

Fixed-interest rate on new mortgages at 2015 level:

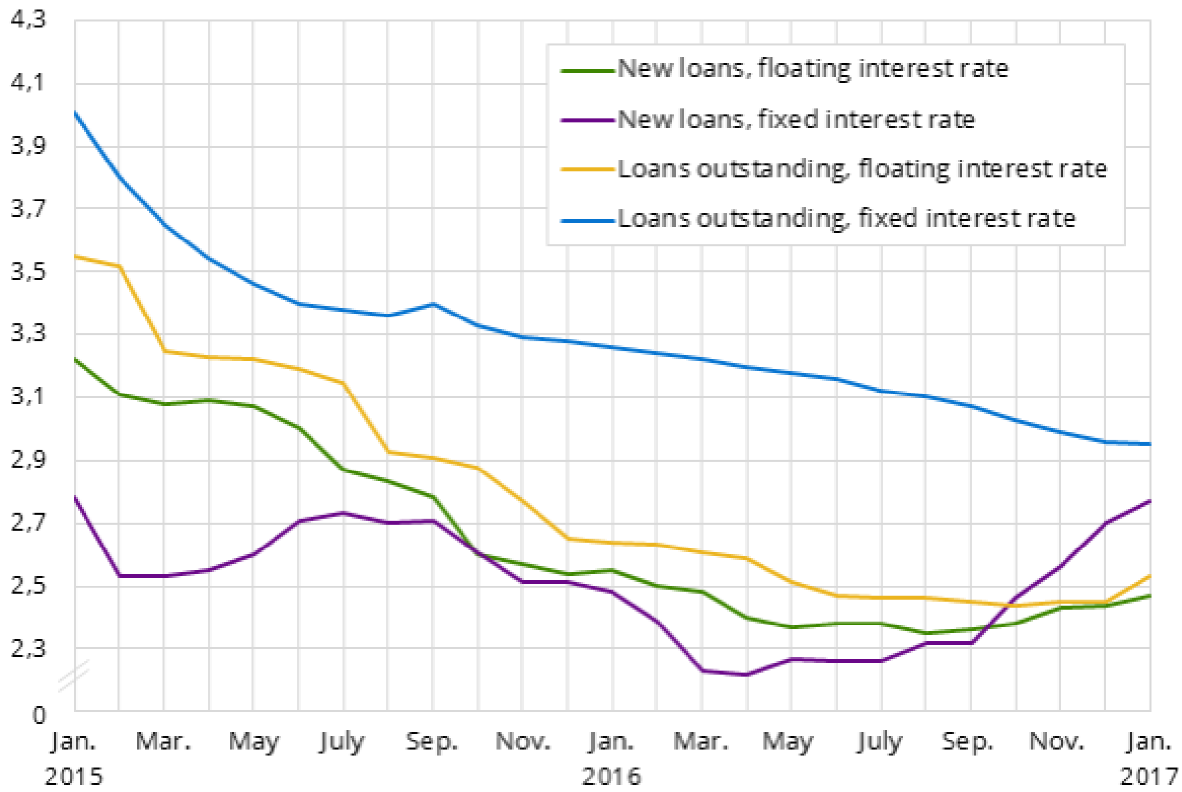
The interest rate on new mortgage loans increased by 0.03 percentage points 2.49 per cent in January 2017. The interest rate on outstanding loans increased by 0.07 percentage points to 2.56 per cent.

	January 2017	December 2016	Monthly change
Banks and mortgage companies, interest rates on loans			
Interest rates, new loans			
Total loans secured on dwellings to households	2.49	2.46	0.03
Total loans secured on dwellings, floating interest rate	2.47	2.44	0.03
Total loans secured on dwellings, fixed interest rate	2.77	2.70	0.07
Interest rates, loans outstanding			
Total loans secured on dwellings to households	2.56	2.49	0.07
Total loans secured on dwellings,	2.53	2.45	0.08

	January 2017	December 2016	Monthly change
Banks and mortgage companies, interest rates on loans			
floating interest rate			
Total loans secured on dwellings, fixed interest rate	2.95	2.96	-0.01
Loan margins			
Loan margins, new total loans secured on dwellings to households	1.45	1.27	0.18
Loan margins, total outstanding loans secured on dwellings to households	1.52	1.30	0.22

Banks and mortgage companies in monthly sample

Figure 1. Interest rates on new and outstanding loans secured on dwellings to households. Monthly sample of banks and mortage companies



Source: Statistics Norway.

In January 2017, the fastened charge per unit on households new mortgage firms multiplied by zero.07 share points to two.77 per cent, the best level since January 2015. The floating rate on new mortgage loans accrued by zero.03 share points to two.47 per cent. The rate of interest on new credit lines secured on dwellings accrued by zero.02 share points to two.39 per cent. The charge per unit on new mortgage loans has accrued within the last 5 months.

The fixed-interest rate on outstanding mortgages to households was nearly stable at two.95 per cent. The floating charge per unit on households' outstanding mortgages enhanced by zero.08 share points to two.53 per cent. The charge per unit on outstanding credit lines secured on dwellings magnified by zero.09 share points to two.56 per cent.

Lower interest rates on deposits from non-financial firms

The charge per unit on deposits from non-financial firms fell by zero.10 share points to zero.65 per cent, however was stable at zero.76 per cent on deposits from households in January 2017.

Higher charge per unit margin

In January 2017, the charge per unit margin interest on new mortgages to households from a sample of banks and mortgage firms enhanced by zero.18 share points to one.45 per cent, whereas the corresponding charge per unit margin on outstanding loans increased by zero.12 share points to one.52 per cent. The banks' deposit margin fell by zero.12 share points to zero.32 per cent. The banks NIBOR fell by zero.15 share points to one.04 per cent during this amount.Lower interest rates on loans to non-financial firms

The charge per unit on new different compensation loans to non-financial corporation fell by zero.07 share points to three.02 per cent, whereas the charge per

unit on outstanding loans was nearly stable at three.22 per cent.
(Source: Statistisk sentralbyra)

FUTURE PROSPECTS:

In trendy time there are large reductions to the barriers of world competition within the industry. Will increase in telecommunications and alternative monetary technologies, like Bloomberg, have allowed banks to increase their reach everywhere the planet, since they now not have to be compelled to be close to customers to manage each their finances and their risk. The expansion in cross-border activities has conjointly multiplied the demand for banks which will give numerous services across borders to completely different nationalities. However, despite these reductions in barriers and growth in cross-border activities, the industry is obscurity close to as globalized as other industries. In the USA, as an example, only a few banks even worry concerning the Riegle–Neal Act that promotes a lot of economical interstate banking.
In the overwhelming majority of countries around globe the market share for foreign closely-held banks is presently but a tenth of all market shares for banks during a specific nation. One reason the industry has not been absolutely globalized is that it's a lot of convenient to own native banks give loans to little business and people. On the opposite hand, for big firms, it's not as vital in what nation the bank is in, since the corporation's monetary data is offered round the globe.

CONCLUSION:

Finance has terribly shut ties with the majority. Varied monetary product and services have penetrated our lives. The world is dynamical and monetary product and services have to be compelled to sustain with the pace of people’s demand. Banks that assume a number one position in most monetary systems have to be compelled to be ready for the growing would like of their customers. In some countries, universal banks, which supply a large vary of economic services, have proven tuned in to client demand and useful in facilitating economic developments. India’s monetary sector is comparatively bank-oriented, and banks square measure the first provider of monetary services. With the restrictive allowance for universal banking, Indian banks still expand its coverage of economic services in response to client demand and profit issues. In countries with universal banking industry, banks sometimes function a crucial supply of external finance for enterprises. India’s banking sector follows closely the world trend of economic developments. it's believed that the conception of economic supermarkets might play a big role in future on condition that associate increasing variety of multinational firms are discovered within the region and conjointly by the gap of Indian Banking sector to foreign players.

REFERENCES:

1. R De Young, KP Roland,” Product Mix and earnings volatility at commercial banks: Evidence from a degree of total leverage model, Research Journal of Financial Intermediation, March 1999.
2. T Hoshi, A Kashyap, D Scharfstein,”The role of banks in reducing the costs of financial distress in Japan, Research Journal of Financial Economics, 1990.
3. A Berger, R De Young, “Problem loans and cost efficiency in commercial banks, Research Journal of Banking and Finance, 1997.
4. L Rojas- Suarez, “Can international capital standards strengthen banks in emerging markets?, Research Journal of Banking and Finance, 2002.
5. L Angbaz,” Commercial banks net interest margins, default risk, interest

rate risk, off balance sheet banking, Research Journal of Banking and finance,1997

6. KY Tam, M kiang, "Predicting Bank Failures: A neutral approach, 1986.
7. JY Lin, "Promoting the growth of medium and small sized financial institutions, Journal Of Economic Reasearch,2001
8. D De Meza, C Southely,"The borrower s curse: optimism, finance and entrepreneurship, The Economic Journal,1996
9. DM Lloyd-Williams, P Molyneux, J Thornton, "Market Structure and performance in Spanish banking, Journal of Banking and Finance, 1994.
10. B Minton, A Sanders, "Securitization by banks and finance companies: Efficient financial contracting or regulatory arbitrage?, 2004.
11. Laveena and Guleria.K (2016)," A Study of Non Performing Assets of Public Sector Banks in India", International Journal of Research in Engineering, IT and Social Sciences,april 2016,6(4),26-34
12. Laveena and Kumar.H (2016), "Management Of Non-Performing Assets On Profitability Of Public And Private Sectors Banks", IRACST- International Journal of Research in Management & Technology,6(2),86-93
13. Mehta, L., & Malhotra, M. (2014). Empirical Analysis of Non Performing Assets Related to Private Banks of India. International Journal of Management Excellence, 3(1), 386-391.
14. Approach to banking.(2007,February). Retrieved January 2012, from www.banknetindia.com.
15. BNVParthasarathi.Consolidation of Bank challenges. The ICFAI University Press.
16. www.india foline.com
17. M.Guruprasad.Banking in the New Millennium.
18. Wikipedia.