The Banks

The definition of a bank varies from country to country. Under English common law, a banker is defined as a person who carries on the business of banking, which is specified as:g

- conducting current accounts for his customers,
- paying cheques drawn on him/her, and
- collecting cheques for his/her customers.

However a **bank** is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. The word *bank* was borrowed in Middle English from Middle French *banque*, from Old Italian *banca*, from Old High German *banc, bank* "bench, counter". Benches were used as desks or exchange counters during the Renaissance by Florentine bankers, who used to make their transactions atop desks covered by green tablecloths.One of the oldest items found showing money-changing activity is a silver Greek drachm coin from ancient Hellenic colony Trapezus on the Black Sea, modern Trabzon, c. 350–325 BC, presented in the British Museum in London. The coin shows a banker's table (*trapeza*) laden with coins, a pun on the name of the city. In fact, even today in Modern Greek the word Trapeza (*Τράπεζα*) means both a table and a bank. A bank connects customers that have capital deficits to customers with capital surpluses.Due to their critical status within the financial system and the economy generally, banks are highly regulated in most countries.

Most banks operate under a system known as fractional reserve banking where they hold only a small reserve of the funds deposited and lend out the rest for profit. They are generally subject to minimum capital requirements which are based on an international set of capital standards, known as the Basel Accords. The oldest bank still in existence is Monte dei Paschi di Siena, headquartered in Siena, Italy, which has been operating continuously since 1472. However, Banking in the modern sense of the word can be traced to medieval and early Renaissance Italy, to the rich cities in the north like Florence, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe. Perhaps the most famous Italian bank was the Medici bank, set up by Giovanni Medici in 1397. The earliest known state deposit bank, *Banco di San Giorgio* (Bank of St. George), was founded in 1407 at Genoa, Italy.

Standard activities

Banks act as payment agents by conducting checking or current accounts for customers, paying checks drawn by customers on the bank, and collecting checks deposited to customers' current accounts. Banks also enable customer payments via other payment methods such as Automated Clearing House (ACH), Wire transfers or telegraphic transfer, EFTPOS, and automated teller machine (ATM). Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds. Banks lend money by making advances to customers on current accounts, by making installment loans, and by investing in marketable debt securities and other forms of money lending.

Banks provide almost all payment services, and a bank account is considered indispensable by most businesses, individuals and governments. Non-banks that provide payment services such as remittance companies are not normally considered an adequate substitute for having a bank account. Banks borrow most funds from households and non-financial businesses, and lend most funds to households and non-financial businesses, but non-bank lenders provide a significant and in many cases adequate substitute for bank loans, and money market funds, cash management trusts and other non-bank financial institutions in many cases provide an adequate substitute to banks for lending savings too. Therefore the Banks offer Savings account - Money market account - Certificate of deposit (CD) - Individual retirement account (IRA) - Credit card - Debit card - Mortgage - Home equity loan - Mutual fund - Personal loan - Time deposits . The economic functions of banks include:

1. Issue of money, in the form of banknotes and current accounts subject to check or payment at the customer's order.
2. Netting and settlement of payments – banks act as paying agents for customers. This enables banks to economize on reserves held for settlement of payments. It also enables the offsetting of payment flows between geographical areas, reducing the cost of settlement between them.
3. Credit intermediation – banks borrow 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.

However, Banks face a number of risks in order to conduct their business, and how well these risks are managed and understood is a key driver behind profitability, and how much capital a bank is required to hold. Some of the main risks faced by banks include:

- Credit risk: risk of loss arising from a borrower who does not make payments as promised.

- Liquidity risk: risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).
- Market risk: risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors.
- Operational risk: risk arising from execution of a company's business functions.
- Reputational risk: a type of risk related to the trustworthiness of business.

The capital requirement is a bank regulation, which sets a framework on how banks and depository institutions must handle their capital. The categorization of assets and capital is highly standardized so that it can be risk weighted (see risk-weighted asset).

Types of banks - There are many different types of bank :

- **Commercial bank**: the term used for a normal bank to distinguish it from an investment bank. Some use the term "commercial bank" to refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses.
- **Credit unions:** not-for-profit cooperatives owned by the depositors and often offering rates more favorable than for-profit banks. Typically, membership is restricted to employees of a particular company, residents of a defined neighborhood, members of a certain labor union or religious organizations, and their immediate families.
- **Postal savings banks:** savings banks associated with national postal systems.
- **Private banks**: banks that manage the assets of high net worth individuals. Historically a minimum of USD 1 million was required to open an account .
- **Offshore banks:** banks located in jurisdictions with low taxation and regulation. Many offshore banks are essentially private banks.
- **Savings bank**: in Europe, savings banks took their roots in the 19th or sometimes even in the 18th century. Nowadays, European savings banks have kept their focus on retail banking: payments, savings products, credits and insurances for individuals or small and medium-sized enterprises .
- **Building societies and Landesbanks**: institutions that conduct retail banking.
- **A Direct or Internet-Only bank** is a banking operation without any physical bank branches, conceived and implemented wholly with networked computers.
- **Investment banks** "underwrite" (guarantee the sale of) stock and bond issues, trade for their own accounts, make markets, and advise corporations on capital market activities such as mergers and acquisitions.
- **Merchant banks** were traditionally banks which engaged in trade finance. The modern definition, however, refers to banks which provide capital to firms in the form of shares rather than loans. Unlike venture capital firms, they tend not to invest in new companies.
- **Universal banks**, more commonly known as financial services companies, engage in several of these activities. Central banks are normally government-owned and charged with quasi-regulatory responsibilities, such as supervising commercial banks, or controlling the cash

interest rate. They generally provide liquidity to the banking system and act as the lender of last resort in event of a crisis.

Bank crisis

Banks are susceptible to many forms of risk which have triggered occasional systemic crises. These include liquidity risk (where many depositors may request withdrawals in excess of available funds), credit risk (the chance that those who owe money to the bank will not repay it), and interest rate risk (the possibility that the bank will become unprofitable, if rising interest rates force it to pay relatively more on its deposits than it receives on its loans).

Banking crises have developed many times throughout history, when one or more risks have materialized for a banking sector as a whole. Prominent examples include the bank run that occurred during the Great Depression, the U.S. Savings and Loan crisis in the 1980s and early 1990s, the Japanese banking crisis during the 1990s, and the sub-prime mortgage crisis in the 2000s.