BANKING MODUL

Introduction to Banking

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INTRODUCTION TO BANKING

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1.4 How The Banking System Work
1.5 Role of Central Bank
1.6 Other Financial Institution
Lesson 1.1

DEFINITION AND TYPE OF BANKS

GOALS

Define the business of banking
Identify trends in modern banking
Financial institutions are firms whose assets and liabilities are primarily financial instruments.

- Depository Institutions:
  Financial institutions that accept deposits.
  Includes banks, savings and loans, savings banks, and credit unions.

- Non-Depository institutions:
  Financial institutions – insurance companies, pension funds, mutual funds and the like – do not accept deposits.
WHAT IS A BANK?

- A bank is a financial intermediary accepting deposits and granting loans; offers the widest menu of services of any financial institution.
- Banks sell their services to earn money.
- Banks must earn a profit to survive.
TRADITIONAL BANKING ACTIVITIES

- Exchange of Currency
- Commercial Notes and Loans
- Offering Savings Deposits
- Safekeeping of Valuables
- Supporting Government Activities with Credit
- Checking Accounts
- Trust Services
MODERN BANKING ACTIVITIES

- Consumer Loans
- Financial Advice
- Cash Management
- Equipment Leasing
- Venture Capital Loans
- Selling Insurance Products
- Security Underwriting and Brokerage Services
- Mutual Funds and Annuities
- Merchant Banking Services
As government regulations have changed, competition between banks has become fiercer.

Banks compete with each other and with other businesses that sell financial services.
Lesson 1.2

ROLE OF BANKS IN THE ECONOMY

GOALS

List banking activities that contribute to economic stability
Explain how banking expands the economy
Funds Flow – Financial Institution

Main channels for money flows between investors and borrowers:

- Deposits made: Commercial banks
  - Deposit withdrawals & interest payments
- Loans drawn down: Principal repayments & interest paid
- Providers of capital:
  - Individual savers
  - Companies
  - Public sector entities
  - Governments
- Users of capital:
  - Individual borrowers
  - Companies
  - Public sector entities
  - Governments
- Investments:
  - Dividends & capital returns
- Security markets:
  - Securities bought: Security payments
    - Cash for security issues
  - Securities issued:
    - Security payments
    - Cash for security issues
ROLE OF A BANK

- Intermediation Role
- Payment Role
- Guarantor Role
- Risk Management Role
- Savings/Investment Advisor Role
- Safekeeping/Certification of Value Role
- Agency Role
- Policy Role
TRENDS AFFECTING BANKS

- Service Proliferation
- Rising Competition
- Government Deregulation
- Increased Interest Rate Sensitivity
- Technological Change
- Consolidation and Geographic Expansion
- E-Banking and E-Commerce
- Convergence
- Globalization
- Increased Risk of Poor Performance and Failure
BANKS AND ECONOMICS

- Money is a medium of exchange and the basis of the modern economy.
- Banks and other institutions play a critical role in performing services that are essential to the functioning of an economy.
Banks play a key role in transferring money to provide growth and stabilizing the monetary supply.

Bank lending makes money available to consumers and businesses to make purchases they might not otherwise be able to make.
Lesson 1.3
BANKING PRODUCTS

GOALS

List banking activities that contribute to economic stability

Explain how banking expands the economy
ASSET – LENDING PRODUCTS

- Money Market
- Marketable Securities
  1. Certificate of Bank Indonesia
  2. Government Bonds
  3. Corporate Bonds
- Credit
  1. Retail
  2. Wholesale/Corporate
- Investment
LIABILITIES - BORROWING

- Current Accounts
- Saving Accounts
- Deposit
  1. Call Deposit
  2. Time Deposit
  3. Certificate Deposit
- Money Market Borrowing
- Marketable securities Issued
- Subordinated Loans
OFF BALANCE SHEET PRODUCTS

- Derivative
  1. Option
  2. Forward
  3. Swap
  4. Future
- Letter of Credit
- Bank Guarantee
Lesson 1.4
HOW THE BANKING SYSTEM WORKS

GOALS

Explain how banks acquire money to do business

Identify new services that banks offer to stay competitive
Banks earn money in various ways.

Most of their income comes from the interest that people or businesses pay as they repay a loan.

When banks lend money, they put it to work.
THE SPREAD

- The difference between what a bank pays in interest and what it receives in interest is called the spread, or net interest income.
- The spread is not pure profit. The spread is income, or revenue.
- Profit (or net income) is what is left of revenue after expenses are deducted.
OTHER FUNDS

In addition to interest income, banks have other sources of income.

- They charge for various services such as rental of safe-deposit boxes, account maintenance fees for checking accounts, fees for online bill payments, and ATM transaction fees.
- Banks make money on managing corporate hedging.
- Banks may facilitate international trade: LC, BG, etc.
Lesson 1.5
ROLE OF CENTRAL BANK

GOALS
Explain the role of Central Bank
BANK INDONESIA OBJECTIVE

BI’s objective is to “maintain the stability of the rupiah value”, and in meeting this objective it is responsible for:

- Formulating and implementing monetary policy
- Maintaining & safeguarding a smooth payment system
- Regulating and supervising banks
BI implements monetary policy by targeting its official interest rate (BI Rate). The selling of BI Rate is the primary tool in managing monetary policy along with BI’s other operations, which include:

1. Open market operation to influence liquidity.
2. Setting minimum reserve requirements to tighten or loosen monetary policy.
3. Acting as lender of last resort to ease short-term funding difficulties.
4. Implementation of an exchange rate policy to maintain stability of the Rupiah.
5. Management of exchange rate reserve to facilitate international trade.
PAYMENT SYSTEM

- BI is the sole institution authorized to issue and distribute IDR.
- BI is responsible for the clearing system for payments in IDR and FCY.
- BI has developed national payment system which include a number of distinct sub-system such as:
  1. National Electronic Clearing System
  2. Real Time Gross Settlement System (RTGS)
  3. US Dollar Fund Transfer System
REGULATION AND SUPERVISION

- BI issues banking regulations and grants license for banks.
- In addition BI also:
  1. Approves the opening or closing bank offices
  2. Approves the suitability of bank’s owners and management
  3. Grant permission for certain banking activities
- In its role as a supervisor, the monitoring can be:
  1. Onsite Examination - Annual Audit
  2. Onsite Presence (OSP) - Special Review
  3. Offsite - Based on the reporting requirement set for banks.
Lesson 1.6
OTHER FINANCIAL INSTITUTIONS

GOALS

**Explain** depository financial institutions

**Explain** nondepository financial institutions
TYPES OF FINANCIAL INSTITUTIONS

- Depository intermediaries
  - Obtain funds from the public
  - Use the funds to finance their business

- Nondepository intermediaries
  - Do not take or hold deposits
  - Earn their money by selling specific services or policies
DEPOSITORY INTERMEDIARIES

- Commercial banks
- Savings and loan associations
- Mutual savings banks
- Credit unions
NONDEPOSITORY INTERMEDIARIES

- Insurance companies
- Trusts companies/pension funds
- Brokerage houses
- Loan companies
- Currency exchanges