

9. Financial institutions

9.1. The banking sector

9.1.1. Retail and wholesale banking

| Retail banks | Wholesale banking |
|---|---|
| <ul style="list-style-type: none"> - Small deposit from the public repackaged and lent to businesses and households. <ul style="list-style-type: none"> - Volume transformation: engaged in high-volume and low-value business - Provide payment services - Clearing banks → - | <ul style="list-style-type: none"> - Low-volume but each transaction is for high value. - Eg Northern Rock |
| <p>The distinction between retail and wholesale banks has become blurred over recent years as the large institutions have diversified their operations.</p> | |

A commercial bank that is part of a network of banks that can clear checks for its clients regardless of whether or not the check originates from the same commercial bank. Clearing a check means processing it so that funds are deducted from the payer's account and put into the payee's account.

9.1.2. Investment banks

- **Investment banks** → concentrate on dealing with other large Org^s, corporations, institutional investors and Gvts. While they undertake some lending, their main focus is on generating fee & commission income by providing advice and facilitating deals.
 - US
 - Swiss
 - UK
 - German
- 5 main areas of activity:
 - (1) **Raising external finance for companies**
 - Provide advice
 - Arrange finance for corporate clients
 - Sometimes, Provide loans
 - Often, assist the setting up of a bank syndicate to make a joint loans or make arrangement with other institutions.
 - (2) **Broking & Dealing**
 - Act as agents for the buying and selling of securities on the financial markets, including shares and bonds.
 - Market-making arms
 - Trade on the market on their own accounts
 - Assist companies with export finance.
 - (3) **Fund (asset) management**
 - Banks who offer services to rich individuals
 - (4) **Assistance in corporate restructuring**
 - Advising mergers & acquirers and assisting on the merger process.
 - Corporate disposal programmes
 - (5) **Assisting Risk management using derivatives**