THE ROLE OF BANKS IN THE WORLD OF FINANCE

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***Abstract**: Banks play a major role in all the economic and financial activities in modern society. They are playing key role in activities financing the industries. All trade and commerce would slow down badly if banks were not there to handle their financial transactions. The economic development of a modern society depends on industrial growth and modernization of agriculture. Banks promote both these activities; they mobilize small deposits from the public and provide financial resource to big industries. Thus the banks perform the major task of capital formation. They motivate and lure the common people to save money and earn interest. This money otherwise would be wasted in marriages or hoarded and lie unused in iron safes. Banks mop up the funds lying idle in every home.*

***Keywords**: bank, history of banking, banking system, bank functions, types of bank, law of banking, banking channels.*

1. INTRODUCTION

There are many definitions for the word *bank*. Čunderlík (1991) says that *Bank is universal naming for business (institution) specialized in money trading, money and capital intermediation*. Bernard and Colli (2002) say that *Bank is a business, which professional externalization is receiving funds from public in forms of deposits or other ways on own account and using them on discount operations, loans and other financial operations*. Wikipedia also provides information about what a bank is. It says, that *A bank is a financial institution that accepts deposits and channels those deposits into lending activities. Banks primarily provide financial services to customers while enriching investors. Banks are important players in financial markets and offer services such as investment funds and loans*.

2. ORIGIN OF THE WORD

The name bank derives from the Italian word *banco*, which means "desk" or "bench". This word was used during the Renaissance by Jewish Florentine bankers, who used to make their transactions above a desk covered by a green tablecloth. However, there are traces of banking activity even in ancient times, which indicates that the word 'bank' might not necessarily come from the word 'banco'.

In fact, the word traces its origins back to the Ancient Roman Empire, where moneylenders would set up their stalls in the middle of enclosed courtyards called *macella* on a long bench called a *bancu*, from which the words banco and bank are derived. In the British Museum in London is presented the earliest evidence of money-changing activity on a silver drachm coin from ancient Hellenic colony Trapezus on the Black Sea. 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.

3. HISTORY OF BANKING

Many people don’t know that banks probably predated the invention of money. The first banks were probably the religious temples of the ancient world, established sometime during the third millennium B.C. Deposits initially consisted of grain and later other goods including cattle, agricultural implements, and eventually precious metals such as gold, in the form of easy-to-carry compressed plates. Temples and palaces were the safest places to store gold as they were constantly attended and well built. There are extant records of loans from the 18th century BC in Babylon that were made by temple priests/monks to merchants. Ancient Greece holds further evidence of banking. Greek temples, as well as private and civic entities, conducted financial transactions such as loans, deposits, currency exchange, and validation of coinage (Wikipedia).

4. BANKING SYSTEM

Banking system includes generally central bank and network of commercial banks. Banking systems of individual countries are miscellaneous, their formation contingents on specific historical and economical conditions of a certain country. We distinguish 2 types of banking systems: one - stage banking system and two - stage banking system.

For one-stage banking system is characteristic that there is only one main bank institution which executes all the banking functions (functions of central bank and commercial bank). The main areas of specialization are usually foreign business, public sector and investment redevelopment. This type of banking system was typical for former centrally planned economy. This type of banking system does not exclude the existence of several banks in economy, but they all are fully subordinated one “monobank”. They are not independent commercial subjects; they just help the main bank in the area of division of labor.

For two-stage banking system is characteristic the existence of central bank and network of commercial banks. This type of banking system is typical for most of modern countries.

4.1 Central bank. Central bank is a national bank institution. It plays a lot of roles (Lisy, 2007): bank of issue, the top subject of monetary policy, the bank of banks, state bank, represents the state in monetary area, insures exchange reserves, influences exchange rate, keeps an eye on activities of commercial banks and subsidiaries of foreign banks.

4.2 Commercial banks. We usually define commercial banks as a financial mediator which transfers temporary free recourses in economy and receives deposits of those, who save up and provides loans for those, who have investment opportunity. Commercial banks play the main role in (Lisy, 2007): receiving deposits, providing loans, realization of system of payment, providing other financial and advisory services, influencing the emission of loan money etc.

5. BANK FUNCTIONS

Banks play a lot of roles in the world of finance which are shown in their economic and commercial roles and functions. In this part, we will tell you something more about their functions.

5.1 Economic functions. The economic functions of banks include:

∗ *issue of money*, in the form of banknotes and current accounts subject to cheque or payment at the customer's order. These claims on banks can act as money because they are negotiable and/or repayable on demand, and hence valued at par. They are effectively transferable by mere delivery, in the case of banknotes, or by drawing a cheque that the payee may bank or cash.

∗ *netting and settlement of payments* – banks act as both collection and paying agents for customers, participating in interbank clearing and settlement systems to collect, present, be presented with, and pay payment instruments. This enables 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.

∗ *credit intermediation* – banks borrow and lend back-to-back on their own account as middle men.

∗ *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 raise the funding it needs to continue to operate, this puts the note holders and depositors in an economically subordinated position.

* *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 redemptions of banknotes), maintaining reserves of cash, investing in marketable securities that can be readily converted to cash if needed, and raising replacement funding as needed from various sources (e.g. wholesale cash markets and securities markets).

5.2 Commercial role. The commercial role of banks is not limited to banking, and includes:

* *issue of banknotes* (promissory notes issued by a banker and payable to bearer on demand)
* *processing of payments* by way of telegraphic transfer, EFTPOS, internet banking or other means
* *issuing bank drafts and bank cheques*
* *accepting money* on term deposit
* *lending money* by way of overdraft, installment loan or otherwise
* *providing documentary and standby letters of credit* (trade finance), guarantees, performance bonds, securities underwriting commitments and other forms of off-balance sheet exposures
* *safekeeping of documents and other items* in safe deposit boxes
* *currency exchange*
* *acting as a 'financial supermarket'* for the sale, distribution or brokerage, with or without advice, of insurance, unit trusts and similar financial products

6. TYPES OF BANKS

Banks' activities can be divided into (Wikipedia):

* *retail banking*, dealing directly with individuals and small businesses;
* *business banking*, providing services to mid-market business;
* *corporate banking*, directed at large business entities;
* *private banking*, providing wealth management services to high net worth individuals and families;
* *investment banking*, relating to activities on the financial markets.

Most banks are profit-making, private enterprises. However, some are owned by government, or are non-profit organizations. 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.

6.1 Types of retail banks

* *Commercial bank*: the term used for a normal bank to distinguish it from an investment bank. After the Great Depression, the U.S. Congress required that banks only engage in banking activities, whereas investment banks were limited to capital market activities. Since the two no longer have to be under separate ownership, 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.
* *Community Banks*: locally operated financial institutions that empower employees to make local decisions to serve their customers and the partners.
* *Community development banks*: regulated banks that provide financial services and credit to under-served markets or populations.
* *Postal savings banks*: savings banks associated with national postal systems.
* *Private banks*: banks that manage the assets of high net worth individuals.

* *Offshore banks*: banks located in jurisdictions with low taxation and regulation. Many offshore banks are essentially private banks.

* *Savings bank*: in Europe, savings banks take their roots in the 19th or sometimes even 18th century. Their original objective was to provide easily accessible savings products to all strata of the population. In some countries, savings banks were created on public initiative; in others, socially committed individuals created foundations to put in place the necessary infrastructure. 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. Apart from this retail focus, they also differ from commercial banks by their broadly decentralised distribution network, providing local and regional outreach and by their socially responsible approach to business and society.

* *Building societies and Landesbanks*: institutions that conduct retail banking.

* *Ethical banks*: banks that prioritize the transparency of all operations and make only what they consider to be socially-responsible investments.

* *Islamic banks*: Banks that transact according to Islamic principles.

6.2 Types of investment banks

* *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.

* *Both combined*

* *Universal banks*, more commonly known as financial services companies, engage in several of these activities. These big banks are much diversified groups that, among other services, also distribute insurance hence the term banc assurance, a portmanteau word combining "banque or bank" and "assurance", signifying that both banking and insurance are provided by the same corporate entity.

7. LAW OF BANKING

Banking law is based on a contractual analysis of the relationship between the bank and the customer defined as any entity for which the bank agrees to conduct an account. The law implies rights and obligations into this relationship as follows:

1. The bank account balance is the financial position between the bank and the customer: when the account is in credit, the bank owes the balance to the customer; when the account is overdrawn, the customer owes the balance to the bank.
2. The bank agrees to pay the customer's cheques up to the amount standing to the credit of the customer's account, plus any agreed overdraft limit.
3. The bank may not pay from the customer's account without a mandate from the customer, e.g. a cheque drawn by the customer.
4. The bank agrees to promptly collect the cheques deposited to the customer's account as the customer's agent, and to credit the proceeds to the customer's account.
5. The bank has a right to combine the customer's accounts, since each account is just an aspect of the same credit relationship.
6. The bank has a lien on cheques deposited to the customer's account, to the extent that the customer is indebted to the bank.
7. The bank must not disclose details of transactions through the customer's account—unless the customer consents, there is a public duty to disclose, the bank's interests require it, or the law demands it.
8. The bank must not close a customer's account without reasonable notice, since cheques are outstanding in the ordinary course of business for several days.

These implied contractual terms may be modified by express agreement between the customer and the bank. The statutes and regulations in force within a particular jurisdiction may also modify the above terms and/or create new rights, obligations or limitations relevant to the bank-customer relationship. Some types of financial institution, such as building societies and credit unions, may be partly or wholly exempt from bank license requirements, and therefore regulated under separate rules. The requirements for the issue of a bank license vary between jurisdictions but typically include:

1. Minimum capital.
2. Minimum capital ratio.
3. Fit and Proper requirements for the bank's controllers, owners, directors, and/or senior officers.
4. Approval of the bank's business plan as being sufficiently prudent and plausible.

7. BANKING CHANNELS

Banks offer many different channels to access their banking and other services:

∗ A *branch*, banking centre or financial centre is a retail location where a bank or financial institution offers a wide array of face-to-face service to its customers.

∗ *ATM* is a computerized telecommunications device that provides a financial institution's customers a method of financial transactions in a public space without the need for a human clerk or bank teller. Most banks now have more ATMs than branches, and ATMs are providing a wider range of services to a wider range of users. For example in Hong Kong, most ATMs enable anyone to deposit cash to any customer of the bank's account by feeding in the notes and entering the account number to be credited. Also, most ATMs enable card holders from other banks to get their account balance and withdraw cash, even if the card is issued by a foreign bank.

∗ *Mail* is part of the postal system which itself is a system wherein written documents typically enclosed in envelopes, and also small packages containing other matter, are delivered to destinations around the world. This can be used to deposit cheques and to send orders to the bank to pay money to third parties. Banks also normally use mail to deliver periodic account statements to customers.

∗ *Telephone banking* is a service provided by a financial institution which allows its customers to perform transactions over the telephone. This normally includes bill payments for bills from major billers.

∗ *Online banking* is a term used for performing transactions, payments etc. over the Internet through a bank, credit union or building society's secure website.

∗ *Mobile banking* is a method of using one's mobile phone to conduct simple banking transactions by remotely linking into a banking network.

∗ *Video banking* is a term used for performing banking transactions or professional banking consultations via a remote video and audio connection. Video banking can be performed via purpose built banking transaction machines (similar to an Automated teller machine), or via a videoconference enabled bank branch.

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1st Annex

The list of Slovak banks: Československá obchodná banka, a.s., ČSOB stavebná sporiteľňa, a. s., Dexia banka Slovensko, a. s., Komerční banka Bratislava, a. s., OTP Banka Slovensko, a. s., Poštová banka, a.s., Privatbanka, a. s., Prvá stavebná sporiteľňa, a. s., Slovenská sporiteľňa, a. s., Slovenská záručná a rozvojová banka, a. s., Tatra banka, a. s., UniCredit Bank Slovakia, a. s., VOLKSBANK Slovensko, a. s., Všeobecná úverová banka, a. s., Wüstenrot stavebná sporiteľňa, a. s.

The list of external affiliated branches: ABN AMRO Bank N. V., Banco Mais, S. A., BRE Bank SA, CALYON S. A., Citibank Europe plc, COMMERZBANK Aktiengesellschaft, HSBC Bank plc, ING Bank N. V., J & T BANKA, a. s., Oberbank AG.