

INVESTMENT BANKS

- Investment banks help companies and governments and their agencies to raise money by issuing and selling securities in the primary market.
- They assist public and private corporations in raising funds in the capital markets (both equity and debt),
- as well as in providing strategic advisory services for mergers, acquisitions and other types of financial transactions.

WHATS THE DIFFERENCE?

Commercial Bank

- Individual or small to midsized companies.
- Loans to buy a house or future education etc.
- Bank- Creditor & General Public – Debtor
- Earns money through the interest charged on loans

Investment Banks

- Companies/ Start-ups
- Borrows to finance the growth of a company
- Investors - Creditor & Companies – Debtor
- Earns money through the fees charged for providing services

- Main functions at investment banks:
- Fulfilling client's objectives.
- Raising capital
- Advise on mergers and acquisition
- Market maker
- Brokerage service
- Research Activities
- Sales and trading
- Proprietary trading

- PUBLIC SECTOR BANKS
- Banks who are socially controlled and publicly owned
- Ownership is with Govt. (At least 51% shares)
- Objective: Professional touch to bank management and provision of adequate credit for agricultural and rural sector, small industries, exports and a new class of entrepreneurs
- PRIVATE SECTOR BANKS
- Private sector banks , where majority stake or equity is held by private shareholders or general public and not GOI.

- NEED FOR REGULATION AND SUPERVISION OF BANKS
- **Supervision** involves examining the financial condition of individual banks and evaluating their compliance with laws and **regulations**. Bank **regulation** involves setting rules and guidelines for the banking system

- 1. Banking regulation:
- Objectives:
- **Prudential** to reduce the level of risk to which bank creditors are exposed i.e. to protect the depositors.
- Systemic risk reduction
- Avoid misuse of banks
- To protect banking confidentiality

Reasons for regulation

- Safety and soundness
 - Monetary stability
 - Efficient and competitive financial system
 - Protect customers
 - Integrity
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- General principles
 - Minimum requirements
 - Supervisory review
 - Market discipline

- 2. Banking supervision
- It deals with:
 - Compliance with legal and regulatory framework.
 - Compliance with best banking practices.
 - Financial data, past and present.
 - The bank's management structure, policies, procedures.
 - Comparison of performance

- Why should there be supervision?
- To protect depositors of banking organisations against avoidable losses, thereby contributing to confidence in the financial system and the mobilization of credit.
- To promote the smooth operation of the payments system

- Mechanisms used to supervise
- So, Supervision consists of
- Licensing new banks
- On-site examination and off - site monitoring,
- Accounting and reporting requirements .
- Enforcement of laws, regulations and principles of sound financial management.
- The promotion of orderly exit of financial institution from the market when necessary.