Subject : Business studies

Topic : Financial Institutions

Class : JSS2 A&B

Week : Week 4

Learning Objectives

1. Define Financial Institution

2. Types of financial institution

3. Functions of financial institution

Definition of Financial Institution (FI)?

A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange.

Financial institutions encompass a broad range of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers.

Types of Financial Institutions

1. Commercial Banks

A commercial bank is a type of financial institution that accepts deposits, offers checking account services, makes business, personal, and mortgage loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses. A commercial bank is where most people do their banking, as opposed to an investment bank.

2. Investment Banks

Investment banks specialize in providing services designed to facilitate business operations, such as capital expenditure financing and equity offerings, including initial public offerings (IPOs). They also commonly offer brokerage services for investors, act as market makers for trading exchanges, and manage mergers, acquisitions, and other corporate restructurings.

3. Insurance Companies

Among the most familiar non-bank financial institutions are insurance companies. Providing insurance, whether for individuals or corporations, is one of the oldest financial services. Protection of assets and protection against financial risk, secured through insurance products, is an essential service that facilitates individual and corporate investments that fuel economic growth.

4. Brokerage Firms

Investment companies and brokerages, such as mutual fund and exchange-traded fund (ETF) provider Fidelity Investments, specialize in investment services that include wealth management and financial advisory services. They also offer access to investment products ranging from stocks and bonds to lesser-known alternative investments, such as hedge funds and private equity investments.

5. Micro-Finance Bank : this refers to the provision of financial services to low-income individuals who lack access to banking and related services. Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and micro-insurance.

6. Primary Mortgage institutions: Mortgage institutions are usually banks, either commercial or savings and loans. It may be local, privately owned, state-owned or a corporation. Primary Mortgage institutions are direct lender of the money that potential homeowners use to purchase houses or other property. The money is paid back monthly by the borrower to the institution.

Functions of Financial Institutions:

Financial institutions are essential because they provide a marketplace for money and assets so that capital can be efficiently allocated to where it is most useful. For example, a bank takes in customer deposits and lends the money to borrowers.

2. Provision of Mortgage loans

3. Accepting deposits

4.Provision of insurance

5. Management of pensions

6. Purchase of shares

What's the Difference Between a Commercial and Investment Bank?

A commercial bank, where most people do their banking, is a type of financial institution that accepts deposits, offers checking account services, makes business, personal, and mortgage loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses.

Investment banks specialize in providing services designed to facilitate business operations, such as capital expenditure financing and equity offerings, including initial public offerings (IPOs). They also commonly offer brokerage services for investors, act as market makers for trading exchanges, and manage mergers, acquisitions, and other corporate restructurings. The Security ?

Products and services provided by financial institutions are as following :

1. Keeping money deposited safe and allowing withdrawal when needed.

2. Giving of cheque books.

3. Provision of loans.

4. Giving of credit and debit cards.

5. Allowing of financial transactions through the Automated Teller Machine (ATM).

Assignment

1. Explain four (4) roles of financial institutions in Nigeria.

2. Mention three (3) products and services offered by financial institutions.