

PRINCIPLES OF BANKING AND INVESTMENT



INTRODUCTION TO BANKING AND INVESTMENT

- **Meaning of Banking**

- Banking refers to the organized system of accepting deposits from the public and providing loans to individuals, businesses, and governments.
- Banks act as intermediaries between savers and borrowers.
- Banking is an essential part of every country's financial system.

- **Meaning of Investment**

- Investment means committing money into financial assets or projects with the expectation of earning profit or future income.
- Investments help individuals grow wealth and achieve financial goals.

- **Importance of Banking and Investment**

- Encourages savings habits among people.
- Provides funds for business and industrial growth.
- Creates employment and supports economic development.
- Helps individuals achieve long-term financial security.

EVOLUTION AND HISTORY OF BANKING

- **Ancient Banking System**

- Early banking activities began with merchants and money lenders.
- Temples and religious institutions were used to store valuables and gold.
- Trade expansion increased the need for money exchange and lending services.

- **Development of Modern Banking**

- Banking expanded rapidly during the Industrial Revolution.
- Establishment of central banks improved financial regulation.
- Banking became more organized with legal and technological support.

MEANING AND IMPORTANCE OF BANKING

- **Meaning of Banking**
- Banking involves financial activities such as deposits, lending, investments, and payment services.
- It provides financial support to both individuals and businesses.
- **Importance of Banking**
- **Promotes Savings**
- Banks encourage people to save money safely.

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- **Provides Credit**
 - Banks offer loans for education, housing, agriculture, and industries.
 - **Facilitates Trade and Commerce**
 - Banking services help domestic and international trade.
 - **Supports Economic Development**
 - Banking institutions finance infrastructure and industrial projects.
 - **Financial Inclusion**
 - Banking services help rural and underprivileged populations access finance.

FUNCTIONS OF BANKS

- **Primary Functions**
- **Accepting Deposits**
- Banks collect money from the public through different types of accounts.
- Deposits form the major source of bank funds.
- **Providing Loans and Advances**
- Banks lend money to individuals and organizations.
- Interest earned from loans is a major income source for banks.

Secondary Functions

Agency Services

Collection of cheques and bills.

Payment of insurance premiums and taxes.

Transfer of funds.

Utility Services

ATM services

Locker facilities

Internet banking

Debit and credit cards

TYPES OF BANKS

- **Commercial Banks**
- Provide general banking services to the public.
- Accept deposits and provide loans.
- Example: SBI, ICICI Bank, HDFC Bank.
- **Central Bank**
- Apex financial institution of a country.
- Controls monetary policy and banking regulations.
- Example: Reserve Bank of India.

- **Cooperative Banks**

- Operate mainly in rural and agricultural sectors.
- Owned and managed by members.

- **Development Banks**

- Provide long-term finance for industrial and infrastructure development.
- Example: NABARD, SIDBI.

- **Investment Banks**

- Help companies raise capital.
- Provide advisory services for mergers and acquisitions.

RESERVE BANK OF INDIA

- **Introduction**
- RBI is the central banking authority of India.
- Established in 1935.
- **Major Functions of RBI**
- **Issue of Currency**
- RBI has the authority to issue currency notes in India.
- **Banker to Government**
- Handles government banking transactions.

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- **Banker's Bank**
 - Maintains accounts of commercial banks.
 - **Controller of Credit**
 - Controls money supply and interest rates.
 - **Financial Stability**
 - Maintains stability in the banking and financial system.

PRINCIPLES OF SOUND BANKING

- **Liquidity Principle**
 - Banks should maintain sufficient liquid assets.
 - Ensures smooth customer withdrawals.
- **Safety Principle**
 - Loans and investments should be secure and low-risk.
 - Protects customer deposits.
- **Profitability Principle**
 - Banks must earn profits for survival and expansion

- **Diversification Principle**

- Banks should spread loans across different sectors.
- Reduces overall financial risk.

- **Solvency Principle**

- Banks should maintain adequate capital reserves.
- Helps face unexpected financial losses.

TYPES OF DEPOSITS

- **Savings Deposit**
 - Encourages regular savings among individuals.
 - Provides moderate interest.
- **Current Deposit**
 - Mainly for businesses and traders.
 - Allows unlimited transactions.

- **Fixed Deposit**

- Money deposited for a fixed period.
- Higher interest rates than savings accounts.

- **Recurring Deposit**

- Customers deposit a fixed amount monthly.
- Suitable for disciplined savings.

LOANS AND ADVANCES

- **Meaning**

- Loans are funds borrowed from banks with repayment obligations.

- **Types of Loans**

- **Personal Loans**

- Used for personal expenses.

- **Home Loans**

- Used to purchase or construct houses.

- **Educational Loans**

- Helps students finance higher education.

- **Vehicle Loans**

- Used for purchasing vehicles.

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- **Advances by Banks**
 - **Cash Credit**
 - Loan facility for businesses against security.
 - **Overdraft**
 - Customers withdraw more than available balance.
 - **Bill Discounting**
 - Banks provide immediate cash against bills receivable.

CREDIT CREATION BY BANKS

- **Meaning of Credit Creation**
- Banks create money through lending activities.
- **Process of Credit Creation**
- Banks keep only a portion of deposits as reserves.
- Remaining funds are provided as loans.
- Borrowers spend money, which again becomes deposits.
- **Importance**
- Increases money supply in the economy.
- Encourages industrial and economic growth.

- **Limitations**

- Excessive lending can increase inflation.

- Credit creation depends on reserve requirements and demand for loans.

BANKING RISKS

- **Credit Risk**
 - Borrowers may fail to repay loans.
- **Liquidity Risk**
 - Bank may not have enough cash to meet withdrawals.
- **Market Risk**
 - Losses due to changes in interest rates or market prices.
- **Operational Risk**
 - Errors in systems, technology, or employees.

- **Cybersecurity Risk**

- Threats from hacking and online fraud.

- **Reputation Risk**

- Loss of customer trust due to poor services or scandals.

MODERN BANKING SERVICES

- **Internet Banking**

- Customers can access banking services online anytime.

- **Mobile Banking**

- Banking through mobile applications.

- **ATM Services**

- Provides cash withdrawal and account services 24/7.

- **Electronic Fund Transfer**

- NEFT, RTGS, and IMPS enable fast money transfer.

- **UPI Services**

- Instant payment system widely used in India.

- **Digital Wallets**

- Applications like Paytm and Google Pay support cashless transactions.

INTRODUCTION TO INVESTMENT

- **Meaning of Investment**

- Investment means allocating money into assets to generate future income or appreciation.
- **Objectives of Investment**
- **Wealth Creation**
- Helps increase financial value over time.
- **Income Generation**
- Investments provide dividends, interest, or rent.
- **Financial Security**
- Supports future needs and emergencies.
- **Tax Benefits**
- Certain investments provide tax deductions.

FEATURES OF INVESTMENT

- **Risk**
 - Chance of losing part or all of the invested amount.
- **Return**
 - Profit earned from investments.
- **Liquidity**
 - Ease of converting investment into cash.
- **Safety**
 - Protection against loss of capital.
- **Stability**
 - Consistency in returns over time.
- **Marketability**
 - Ease of buying and selling investment assets.

INVESTMENT PROCESS

- **Step 1 – Financial Goal Setting**

- Identify short-term and long-term goals.
- **Step 2 – Risk Analysis**
- Determine risk tolerance of the investor.
- **Step 3 – Selection of Investment Options**
- Choose suitable investment avenues.
- **Step 4 – Portfolio Construction**
- Diversify investments across different assets.
- **Step 5 – Monitoring and Review**
- Evaluate investment performance regularly.

PRINCIPLES OF INVESTMENT

- **Safety Principle**

- Protecting the original invested capital.

- **Liquidity Principle**

- Investment should be easily convertible into cash.

- **Profitability Principle**

- Investment should generate reasonable returns.

- **Diversification Principle**

- Spread investments to reduce risk.

- **Stability Principle**

- Preference for investments with stable returns.

- **Tax Efficiency Principle**

- Select investments with tax advantages.

RISK AND RETURN RELATIONSHIP

- Higher risk investments usually offer higher return potential.
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- **Low Risk Investments**

- Bank deposits
- Government securities

- **Moderate Risk Investments**

- Mutual funds
- Corporate bonds

- **High Risk Investments**

- Equity shares
- Cryptocurrencies

- **Importance**

- Investors must balance risk and return according to goals.

TYPES OF INVESTMENT AVENUES

- **Bank Deposits**
 - Safe and fixed returns.
- **Shares**
 - Ownership in companies.
- **Bonds**
 - Fixed income securities.
- **Mutual Funds**
 - Professionally managed investment pools.
- **Real Estate**
 - Property investment for appreciation and rental income.
- **Gold**
 - Traditional and inflation-protected investment.
- **Insurance Plans**
 - Combines protection and savings.

EQUITY SHARES

- **Meaning**

- Equity shares represent ownership in a company.

- **Features**

- Voting rights
- Dividend income
- Capital appreciation

- **Advantages**

- High growth potential.
- Ownership participation.

- **Disadvantages**

- High market volatility.
- No guaranteed returns.

PREFERENCE SHARES

- Shareholders receive fixed dividends before equity shareholders.
- **Features**
 - Fixed rate of dividend.
 - Preference during liquidation.
- **Advantages**
 - Stable income source.
 - Lower risk compared to equity shares.
- **Limitations**
 - Limited voting rights.
 - Lower capital appreciation opportunities.

BONDS AND DEBENTURES

- **Bonds**
- Debt instruments issued by governments or corporations.
- **Debentures**
- Long-term borrowing instruments issued by companies.
- **Features**
- Fixed interest payments.
- Maturity period.
- Lower risk than equities.
- **Importance**
- Helps organizations raise long-term capital.

MUTUAL FUNDS

- Collective investment managed by professionals.
- **Types of Mutual Funds**
- **Equity Funds**
- Invest mainly in shares.
- **Debt Funds**
- Invest in fixed-income securities.
- **Hybrid Funds**
- Combination of equity and debt.

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- **Advantages**
 - Diversification
 - Professional management
 - Affordable investment
 - **Limitations**
 - Market risks
 - Management fees

INSURANCE AS INVESTMENT

- Insurance provides financial protection and investment benefits.
- **Types**
- Life insurance
- ULIPs
- Pension plans
- **Benefits**
- Financial security for families.
- Savings and investment growth.
- Tax advantages.

REAL ESTATE INVESTMENT

- Investment in land and buildings.
 - **Advantages**
 - Long-term appreciation.
 - Rental income generation.
 - Tangible asset ownership.
 - **Limitations**
 - Requires large capital investment.
 - Low liquidity.
 - Legal and maintenance issues.
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GOLD AND PRECIOUS METALS

- **Importance of Gold**

- Considered a safe investment during uncertainty.
- **Forms of Gold Investment**
- Physical gold
- Gold ETFs
- Sovereign Gold Bonds
- Digital gold
- **Advantages**
- Protection against inflation.
- High liquidity.
- **Disadvantages**
- Price fluctuations.
- Storage concerns for physical gold.

FINANCIAL MARKETS

- Platforms where financial assets are traded.
- **Importance**
- Mobilizes savings.
- Provides investment opportunities.
- Supports economic growth.
- **Types of Financial Markets**
- Money market
- Capital market
- Foreign exchange market
- Derivatives market

MONEY MARKET

- Deals with short-term financial instruments.
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- **Features**

- High liquidity
- Low risk
- Short maturity period

- **Instruments**

- Treasury bills
- Commercial papers
- Certificates of deposit
- Call money

- **Importance**

- Helps maintain liquidity in the financial system.

CAPITAL MARKET

- Market for long-term financial securities.
- **Components**
- **Primary Market**
- New securities are issued.
- **Secondary Market**
- Existing securities are traded.
- **Importance**
- Encourages industrial development.
- Provides long-term capital to businesses.

STOCK EXCHANGE

- Organized marketplace for securities trading.
- **Major Indian Stock Exchanges**
- Bombay Stock Exchange (BSE)
- National Stock Exchange (NSE)
- **Functions**
- Facilitates trading.
- Provides liquidity.
- Ensures fair pricing.
- Protects investor interests.

SEBI AND INVESTOR PROTECTION

- **Introduction to SEBI**
- Regulatory authority for securities markets in India.
- **Functions of SEBI**
- Regulates stock exchanges.
- Prevents unfair trade practices.
- Protects investor interests.
- **Investor Protection Measures**
- Mandatory disclosures
- Insider trading regulations
- Investor education programs

PORTFOLIO MANAGEMENT

- Managing a combination of investments.
- **Objectives**
- Risk reduction
- Return maximization
- Financial stability
- **Types of Portfolio Management**
- Active portfolio management
- Passive portfolio management
- **Importance of Diversification**
- Reduces dependence on a single asset.

INVESTMENT STRATEGIES

- **Conservative Strategy**

- Focuses on safety and fixed income.
- **Aggressive Strategy**
- Targets high growth with higher risk.
- **Balanced Strategy**
- Mix of equity and debt investments.
- **Long-Term Investment Strategy**
- Focuses on wealth creation over years.
- **Short-Term Investment Strategy**
- Aims for quick returns and liquidity.

TIME VALUE OF MONEY

- Money available today is more valuable than the same amount in the future.
- **Reasons**
- Inflation
- Investment opportunities
- Purchasing power changes
- **Applications**
- Loan repayment calculations
- Investment decision making
- Retirement planning

INFLATION AND INVESTMENT

- **Inflation**

- Continuous rise in prices over time.

- **Effects on Investments**

- Reduces purchasing power.
- Impacts real returns.

- **Inflation-Protected Investments**

- Real estate
- Equities
- Gold
- Inflation-indexed bonds

ETHICS IN BANKING AND INVESTMENT

- Ethics build trust and transparency.
- Customer confidentiality is essential.
- Fraud and insider trading are unethical.
- Ethical finance strengthens markets.

DIGITAL TRANSFORMATION IN BANKING

- **FinTech**
- Technology-based financial innovations.
- **Artificial Intelligence in Banking**
- Chatbots
- Fraud detection systems
- Automated customer support
- **Benefits of Digital Banking**
- Convenience
- Faster services
- Reduced operational costs

CONCLUSION

- Banking is essential for economic and financial stability.
- Investment helps individuals and businesses grow wealth.
- Risk and return must be balanced carefully.
- Diversification reduces financial risk.
- Ethical and informed financial decisions are necessary for long-term success.
- Strong banking systems and wise investment practices contribute significantly to national economic growth and personal financial security.

THANK YOU

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