University of Global Village
Department of Business Administration

Course Title: Management of Commercial Banks

Course Code: BFIB-413	Credit: 03
Semester End Exam (SEE) Hours : 03	CIE Marks : 90 SEE Marks : 60

❖ **Course Learning Outcomes: At the end of the Course, the Student will be able to-**

CLO 1	Gain a comprehensive understanding of the various operations within a commercial bank, including deposit mobilization, lending, and treasury functions.
CLO 2	Learn different type of bank accounts and cheques used by Commercial Banks in Bangladesh
CLO 3	Understand recent technological developments and trends followed by commercial banks.
CLO 4	Learn about the different strategies for managing bank assets and liabilities to optimize profitability and liquidity..
CLO 5	Learn about the different types of risks that banks face, such as credit risk, market risk, and operational risk, and the strategies used to manage these risks.
CLO 6	Understand principles and theories of liquidity management of commercial banks.

❖ **Course Plan Specifying Topic, Teaching Times and CLOs**

SL	Topics	Hrs.	CLOs
1	**Introduction to Commercial Banks**	4	CLO1
2	**Bank Accounts and Cheque**	6	CLO1
3	**Recent Trends in Banking**	5	CLO3
4	**Asset-liability Management (ALM)**	4	CLO4
5	**Risk Management of Banks** •	4	CLO4 CLO5
6	**Liquidity Management of Banks**	5	CLO6
7	**Islamic Banks and their Products.**	6	CLO1

- ❖ **Course plan specifying content, CLOs, teaching learning and assessment strategy mapped with CLOs:**
- ❖

Week	Topics	Teaching Learning Strategy	Assessment Strategy	Corresponding CLOs
1	**Introduction to Commercial Banks** ▪ Concept of Bank ▪ Banking ▪ Banking system ▪ Bankers ▪ Ancestors of Banks ▪ Various forms of banks in the economy. ▪	▪ Lecture ▪ Discussion ▪ Problem Solving ▪	▪ ▪ Question & Answer (Oral)	**CLO1**
2	**Commercial Banking** ▪ Meaning of commercial Banks ▪ Special Feature of Commercial Banks ▪ General functions of commercial banks ▪ Agency functions of commercial banks ▪ Public Utility functions of commercial Banks	▪ Lecture ▪ Discussion ▪ Problem Solving ▪	▪ Question & Answer (Oral) ▪ Written Exams ▪ Assignment	**CLO1**
3	**Types and competitors of Bank** ▪ Competitors of commercial banks ▪ Types of commercial banks ▪ Advantages of Commercial Banks ▪ Disadvantages of commercial banks		▪ Question & Answer (Oral) ▪ Written Exams ▪ Presentation	**CLO1**
4	**Bank Accounts and Cheques** ▪ Meaning of Bank	▪ Lecture ▪ Discussion	▪ Question & Answer	**CLO2**

	accounts ▪ Importance of Bank Accounts ▪ Saving accounts and ▪ Feature and objectives of Saving Accounts. ▪ Current accounts. ▪ Features and objectives of current accounts		(Oral) ▪ Assignment ▪ Quiz	
5	**Fixed Accounts** ▪ Meaning of Fixed Accounts ▪ Features of Fixed accounts ▪ Objectives of Fixed Accounts ▪ Current Vs Saving Accounts ▪ Formalities of opening a Bank Accounts ▪ Formalities of Closing a bank Accounts	▪ Lecture ▪ Discussion ▪ Problem Solving ▪	▪ Question & Answer (Oral) ▪ Presentation	**CLO2**
6	**Cheque of Banks** ▪ Meaning of checque ▪ Feature of Cheque ▪ Parties of Cheque ▪ Types of Cheque **Recent Trends in Banking** • Reasons for computerization • Concept of E-Banking . • Various forms of E-banking • Internet banking	▪ Lecture ▪ Discussion ▪ Problem Solving ▪ Exercise ▪ Assignment	▪ Question & Answer (Oral) ▪ Assignment	**CLO2** **CLO3**
7	**Recent Trends in Banking** • Mobile Banking • Benefits of e-banking	▪ Lecture ▪ Discussion ▪ Problem	▪ Question & Answer (Oral)	**CLO3**

	• Drawbacks of e-banking • **Tele-banking and E-check** • Concept of Tele Banking • Services Under Telebanking • Concept of E-check • Difference between e-check and paper check	Solving ▪ Exercise ▪ Assignment	▪ Class Test	
8	**ATM and Smart Card** • Concept of ATM • Advantages of ATM • Drawbacks of ATM • Define Smart Card • Types of Smart Cards • Benefits and Disadvantages of smart card	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Question & Answer (Oral) ▪ Class Test	**CLO3**
9	**Asset-liability Management (ALM)** • Meaning of Asset-liability Management. • Balance sheet of Banks • Objectives of ALM • Benefits of ALM • Limitation of ALM. • ALM System • Components of ALM systems	▪ Lecture ▪ Discussion ▪ Problem Solving ▪ Exercise ▪	▪ Question & Answer (Oral) ▪ Class Test	**CLO4**
10	**Approaches of ALM** • Management Approach • Regulatory Approach **Risk Management** • Common types of risk of	▪ Lecture ▪ Discussion	▪ Question & Answer (Oral)	**CLO4** **CLO5**

	Banks • Concept of Risk Management of Banks. • Steps of Risk Management. • Risk Mitigated through ALM			
11	**Risk Management of ALM** • Board Oversight functions • Management oversight functions • Internal control and audit • Functions under internal control • Policies, procedures and risk limit • Management information systems	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Written Exam ▪ Class Test ▪ Assignment	**CLO4** **CLO5**
12	**Liquidity Management of Banks** ▪ Concept of liquidly. ▪ Need for liquidly. ▪ Types of liquidity in the banking system. ▪ How can bank achieve liquidity? ▪ Concept of liquidity management	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Written Exams ▪ Presentation	**CLO6**
13	**Principles of Liquidity Management** ▪ Development of Structure. ▪ Net funding requirements ▪ Management of market	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Question & Answer (Oral) ▪ Class Test ▪ Written Exams	**CLO6**

	access ▪ Contingency plan			
14	**Liquidity Management Theory** ▪ Meaning of Commercial loan theory ▪ Advantages and Disadvantages of commercial loan theory. ▪ Shift able theory ▪ Advantages and Disadvantages of Shift able theory. ▪ Anticipated Income theory ▪ Advantages and Disadvantages of Anticipated income theory.	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Written Exams ▪ Question & Answer (Oral)	**CLO6**
15	**Islamic Banks and their Products** ▪ Defining an Islamic Bank ▪ Goals of Islamic Bank ▪ The Distinct Features of the Islamic Banking System ▪ Is Islamic Bank is only meant for Muslims.	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Written Exam ▪ Class Test	**CLO1**
16	**Common Islamic Modes of Finance.** ▪ Mudrabah Financing ▪ Mechanism of Mudarabah financing ▪ Musharakah financing ▪ Mechanism of Mushrakah financing. ▪ Concept of Salam	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Written Exams ▪ Presentation ▪ Assignment	**CLO1**

	▪ Mechanism of Salam ▪ Murbabah Financing ▪ Mechanism of Murabahah Financing			
17	**Deposit products of Islamic Banks.** ▪ Al-Wadiah Current Account ▪ Feature of Al-Wadiah Current Account ▪ Mudarabah Savings Account ▪ Feature of Mudarabah Savings Account ▪ Term-Mudarabah Account. ▪ Feature of Term-Mudarabah Account	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Written Exams ▪ Presentation Assignment	**CLO1**

Mapping of Course Learning Outcomes to Program Learning Outcomes-

	PLO 1	PLO 2	PLO 3	PLO 4	PLO 5	PLO 6
CLO 1	3	3	2	2	3	1
CLO 2	3	3	3	3	3	2
CLO 3	2	3	3	3	3	3
CLO 4	2	2	3	3	3	3
CLO 5	3	3	2	2	3	1
CLO 6	3	3	3	3	3	2

Assessment and Evaluation

1) **Assessment Strategy:** Group Discussion, Class tests, Case Study, Term Paper, Presentation.

2) **Marks distribution:**

   a) **Continuous Assessment**:

- Class attendance is mandatory. Absent of 70% classes; disqualify the student for final examination only authority recommendation will be accepted with highly reasonable causes.
- Late submission of assignments is not allowed. Late submission of assignments will be only taken with highly reasonable causes and 20% mark will be deducted.
- To pass this course student will have to appear mid-term and final examination.

b) **Summative:**

CIE- Continuous Internal Evaluation (90 Marks)

Bloom's Category Marks (out of 90)	Quiz (15)	Assignments (15)	Attendance (15)	Mid Term Examination (45)
Remember				10
Understand	05	05		05
Apply	05			10
Analyze		05		05
Evaluate	05	05	15	10
Create				05

SEE- Semester End Examination (60 Marks)

Bloom's Category	Test
Remember	10
Understand	10
Apply	10
Analyze	10
Evaluate	10
Create	10

Grading Policy: University of Global Village

Marks	Grade	Grade Point	Remarks
80 - 100%	A+	4.00	Outstanding
75 - 79%	A	3.75	Excellent
70 - 74%	A-	3.50	Very Good
65 -69%	B+	3.25	Good
60 - 64%	B	3.00	Satisfactory
55 - 59%	B-	2.75	Above Average
50 - 54%	C+	2.50	Average
45 - 49%	C	2.25	Below Average

40 - 44%	D	2.00	Pass
0 - 39%	F	0.00	Fail

3) **Make-up Procedures:** Dates for exams will be strictly followed. No makeup exam (Normal case), for exceptional case university rules and regulation should be followed.

RECOMMENDED TEXT BOOKS:

[1] "Management of Banking and Financial Services" by Padmalatha Suresh and Justin Paul.
[2] "Commercial Bank Management" by Peter S. Rose and Sylvia C. Hudgins
[3] "Bank Management & Financial Services" by Peter S. Rose and Sylvia C. Hudgins

Week 1, 2 & 3

Chapter 1: Introduction to Commercial Banks

Chapter Objectives

- Explore the evolution of commercial banking from its origins to the modern-day banking system.
- Learn the fundamental roles and functions of commercial banks in the economy.
- Understand how commercial banks facilitate economic growth by providing financial services to businesses, individuals, and governments.

Some basic Concepts

What is Bank ?

- In general, Bank is an Financial Intermediary that deals with money
- In other word, A bank is a financial institution licensed to receive deposits and make loans. It may also provide financial services such as wealth management and currency exchange

What is Banking ?

- Banking can be defined as the business activities performed by the bankers in the bank.
- Banking activities include accepting, lending out loans, opening a account, ATM services, and online transfer of funds across the country/world.

Some Basic concepts

Banker ?

- In simple words, a banker is the one who perform banking.
- A banker is a professional who advises clients on financial concerns and how to better manage their finances. Savings, loans, taxes, investments, and securities are all part of a banker's responsibilities.

Banking System?

- A banking system refers to a collection of a network of institutions that provides financial services to the people.
- The network covers Central banks, commercial banks, internet banks, investment banks, savings and loan associations, insurance companies, and credit unions are

Ancestors of Banks

The Goldsmiths

- From the very ancient periods the Goldsmiths, used to act as custodians of the surplus funds of the general people of the society
- On receipt of money they used to issue receipts and on return of money they used to take acknowledgements. Later on, these receipts were treated deposit slip and cheque respectively.

The Money-Lenders

- The Money-Lenders (Mahajan) also used to keep surplus money of the people and refund those in case of need.
- Later, they took it as a profession. They used to pay interest to the depositors and earn interest on loans. They also used to take security, mortgage against loan

Ancestor of Banks

Businessmen

- From the ancient periods the Business people were trustworthy to the general people. They were honest ,faithful and solvent.
- As a result, general people used to deposit money to them for the safety and security of fund. In course of time they were involved in money-lending business. The businessmen of seven-hills of Rome were world-famous.

Forms of Banks

Central banks: A central bank is a public institution that is responsible for implementing monetary policy, managing the currency of a country, or group of countries, and controlling the money supply Issuance of money.

- **Functions of Central Banks**
  - lender of last resort to other commercial banks.
  - Ensuring the stability of financial systems.
  - Formulation of monetary policies.
  - Targeting growth and unemployment.
  - lender of last resort to the government.

Forms of Banks

Commercial banks are financial institutions accept deposits, offer consumer loans, offer insurance and investment services. The general purpose of commercial banks is to provide service to the public and organizations such as Exim Bank.

.**Community development banks:** Community development banks are privately owned banks that focus on social responsibility and may receive support from the federal government such as Grammen Bank.

Investment banks: Instead of focusing on lending, investment banks make money through investing either their own money or a client's money. For example, an investment bank may help clients with mergers and acquisitions such as JPMorgan Chase.

Forms of Banks

Credit unions: A credit union is a financial institution that's cooperatively owned and run by its members. Like banks, these not-for-profit organizations also accept deposits and offer loans. But unlike banks credit unions pass earnings on to members rather than shareholders. You may find that credit unions offer fewer fees, lower interest rates on loans and higher rates on your savings.

Savings and loan associations: Savings and loan associations, also known as thrifts, are a type of financial institution that focuses on helping people become homeowners. Unlike banks, which are solely owned by shareholders, customers and shareholders can mutually own a thrift.

Define commercial Bank

- A financial institution that carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, and other such activities.
- These banks are profit-making institutions and do business only to make a profit.
- A financial intermediary that serves businesses by providing essential liquidity functions within an economy via various products and services.

Special Feature of Commercial Banks

Lending: Lending is the process by which a financial institution provides funds to a borrower. The rate at which a bank lends money is known as the lending rate

Borrowing : Borrowing is the process by which bank receive money from the depositor. The rate of interest that a bank offers to the depositors is known as the borrowing rate.

Objectives of Commercial Banks

1. Making Profit : Commercial banks are established with the fundamental objective of making profit.

2. Capital Formation: Collecting surplus money from the people and formation of capital is one of the main objectives of commercial banks.

3. Medium of Exchange: Commercial banks introduce cheques, bills of exchange etc. as mediums of exchange

4. Assisting in Regulation of Loans: Participating and assisting the central bank in formation of loan policy and loan regulation is one of the objectives of commercial banks.

5. **To extend services to the customers:** Utility bills, remittance etc.

Functions of Commercial Banks

General Functions

- **Receiving Deposits**: Receive or collect deposits from the public in different forms of accounts e.g. current, savings, term deposits.
- **Accommodation of loans and advances:** Providing loans and advances at a higher rates than the deposit rates.
- **Creation of medium of exchange**:, Commercial Bank creates medium of exchange by issuing cheques, notes etc.
- **Contribution in foreign trade**: It contributes greatly in the economy through import finance and export finance and thus, earn foreign exchange for the country.

Functions of Commercial Banks

General Functions

- **Formation of capital**: Commercial Bank extends financial assistance for the formation of capital in the trade, commerce and industry in the country which expedites its economic development.
- **Creation of Investment Environment**: Commercial Bank plays a significant role in creating investment environments in the country

Functions of Commercial Banks

Public Utility Functions

- **Remittance of Money**: Remittance of money to the public from one place to another is one of the functions of commercial bank.
- **Act as an Adviser**: provides valuable advice to the customers on different products, business growth and development, feasibility of business and industry
- **Safe custody of valuables**: Commercial Bank introduces „locker‟ services to the customers for safe custody of valuables e.g. documents, shares, securities etc.
- **Help in Foreign Exchange business**: While opening letter of credit , commercial bank obtains credit report of the suppliers and thus help expedite import and export business.
- **Collect utility service bills**: Collects utility service bills e.g. water, electricity, gas, telephone etc. from the public.

Functions of Commercial Banks

Agency Functions

- **Collection and payment:** Commercial Bank is engaged in collection and payment of cheque, bill of exchange, promissory notes, pension, dividends, subscription, insurance premium, interest etc. on behalf of the clients.
- **Purchase and sale of shares and securities**: Commercial Bank is entrusted with the responsibility of purchase and sale of shares and securities on behalf of the customers.
- **Maintenance of secrecy:** Maintenance of secrecy is one of the most important functions of commercial bank.
- **Act as a trustee:** Commercial Bank acts as a trustee on behalf of the customer.

Competitors of Commercial Banks

Mutual Funds

- A mutual fund is a company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt.

Real Estate Developers

- Supplying building and construction expertise and construction financing to their customers.

Credit Union

- A financial cooperative created for and by its members who are its depositors, borrowers, and shareholders. They offer many banking services, such as Consumer and Commercial loans (usually at lower than market interest rates) and time deposits (usually at higher than market interest rates)

Competitors of Commercial Banks

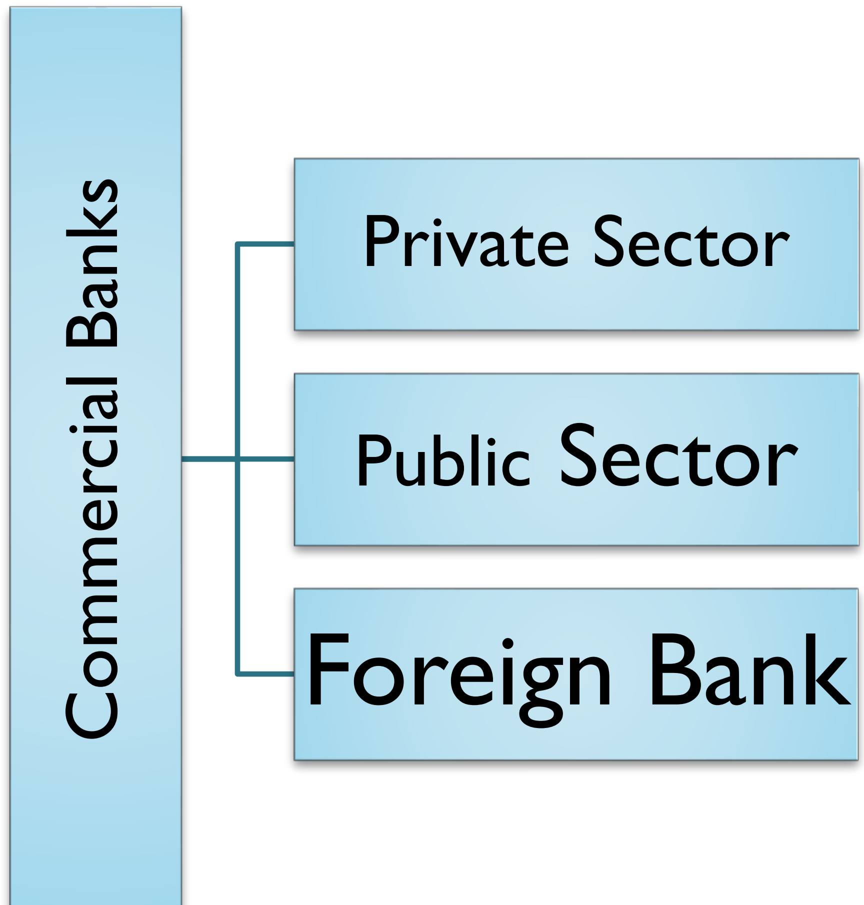
Insurance companies and Pension plans

- Providing customer with long time savings plans.
- Providing risk protection.

Finance Companies

- An institution engaged in such specialized forms of financing as purchasing accounts receivable, extending credit to retailers and manufacturers, granting loan with goods as security.

Types of Commercial Banks



Types of Commercial Banks

Private Bank: When the private individuals own more than 51% of the share capital, then that banking company is a private one. However, these banks are publicly listed companies in a recognized exchange.

Public Bank: When the Government holds more than 51% of the share capital of a publicly listed banking company, then that bank is called as Public sector bank.

Foreign Bank: Banks set up in foreign countries, and operate their branches in the home country are called as foreign banks.

Advantages of Commercial Bank

Confidentiality of Information: The banks when lends funds or accept deposits do not share the information with anyone.

Economical: Banking services under commercial banks are free from any sort of hidden charges.

Flexibility: The banks make the funds available as and when needed by the borrowers. Also, borrowers can repay the money when they don't feel the requirement.

Encourage Savings: Commercial Banks encourage savings among the general public through offering a safer way to collect money from individuals.

Service Areas in the Modern CB

- ✓ The credit function
- ✓ The payment(transactions) function
- ✓ The thrift(savings) function
- ✓ The investment/financial planning function
- ✓ The cash management function
- ✓ The real estate and community development function
- ✓ The merchant (temporary stock investment) banking function

Disadvantages of Commercial Bank

Stringent Terms and Conditions: Commercial banks sometimes put forward a few challenging conditions for borrowers before lending loans or funds.

Difficulty in Renewal: Loans from Commercial Banks can be generally borrowed for a short period of time only. It's almost difficult to renew or extend the borrowings.

Need for Security: Loans from commercial banks can't be provided without any security.

Risk of Online Frauds: Cyber attacks have become more common and often nowadays.

Thanks

Week 4, 5 & 6

Chapter 2 : Bank Accounts and Cheque

Chapter Objectives

At the end of the Chapter, The students will be able to

- Learn about the different types of bank accounts, including savings current and fixed deposit accounts.
- Understand the features and objectives of each type of account.
- Familiarize with the procedures and requirements for opening and closing various types of bank accounts.
- Understand the concept and purpose of cheques as a payment instrument.
- Learn about the different types of cheques.

Meaning of Bank Account

Meaning

- A **bank account** is a financial account maintained by a bank or other financial institution in which the financial transactions between the bank and a customer are recorded.

Definition

- According to **Professor R. N. Dover**, Bank account means the record of business transactions maintained by the bank.

Importance of Bank Account

- Safe Custody of Money
- Gives convenience Transactions.
- Earning Sources.
- Enables Payment and Collection of Money.
- Loan Facilities.
- Online Banking Facilities.

Types of Bank Accounts

Current Account

A demand deposit and Bank is obliged to pay the money on Demand

Features

- No Limit of Transactions.
- Need to maintain minimum balance.
- Overdraft and Short term borrowing facility.
- No restriction on deposit made.
- No Interest Paid.

Objectives

- Enable the businessman to conduct their business.

Types of Bank Accounts

Saving Account

An Interest –bearing account used for saving purpose

Features

- Limit of withdrawals.
- Need to maintain minimum balance.
- Overdraft and Short term borrowing facility.
- No restriction on deposit made.
- Small Interest Paid.

Objective

- .To Promote saving habit among common people.

Types of Bank Accounts

Fixed Account

An Interest –bearing account used for Particular Fixed Period.

Features

- Amount can be deposit only once.
- Withdrawals are not allowed.
- Paid higher interest rate .
- Deposited period 1-12 years.
- Interest is tax deductible income.

Objective

- .Enable individual to earn higher rate of interest .
- Locking up the money for a particular period.

Differences VS Current and Savings Accounts

	Current Account	Savings
Purpose	Used for day-to-day transactions in your business or personal life.	Used to save for short to medium term.
Suitability	Businessman	Job holders
Interest rates	No interest is provided	average interest rate for traditional banks is 4%.
Transaction limit	No limit	restricted number of daily transactions.
Minimum Balance	Lower	Comparatively higher

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Formalities of Opening a Bank Account

- Decide the type of Bank Account.
- Choice Bank and Meet its Bank Officers.
- Fill up Bank Account Opening Form.
- Gives References for Opening accounts .
- Submit Account Opening Form and Documents.
- Verify Bank Account Opening Form.
- Initial Amount placement

Formalities of Closing a Bank Account

- Ask for Account Closure.
- Fill up Bank account closure Form.
- Choose the method of receiving your balance .
- Manage few documents required .
- Keep photocopies of the documents.
- Submit Bank Account closure Form with the required documents.

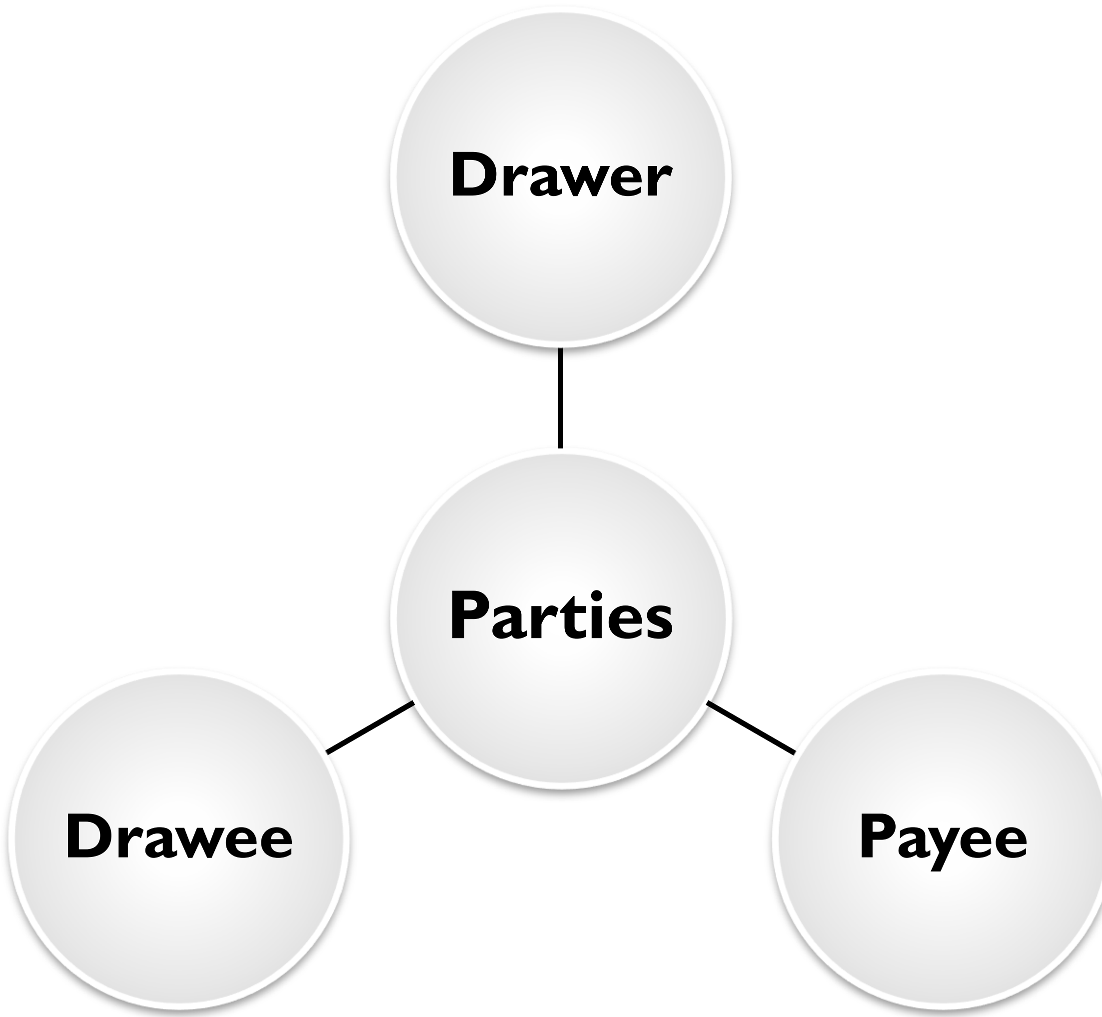
Definition of Cheque

- Cheque is an order to a bank to pay a stated sum from the drawer's account, written on a specially printed form.
- According to **Lewis E. David**, Cheque is a bill of exchange drawn on a bank, payable on demand.

Features of a Cheque

- Must be Written
- Unconditional Order
- Payee must be certain
- Amount and date must be fixed
- Must be signed
- Payable on demand and duly dated.

Parties to a Cheque



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Parties to a Cheque

- **Drawer**: Drawer is the account holder who sign the check.
- **Drawee**: Drawee is the bank on whom a cheque is drawn.
- **Payee**: Payee is the party who represents the cheque for payment or whom the payment is made.

Other Parties

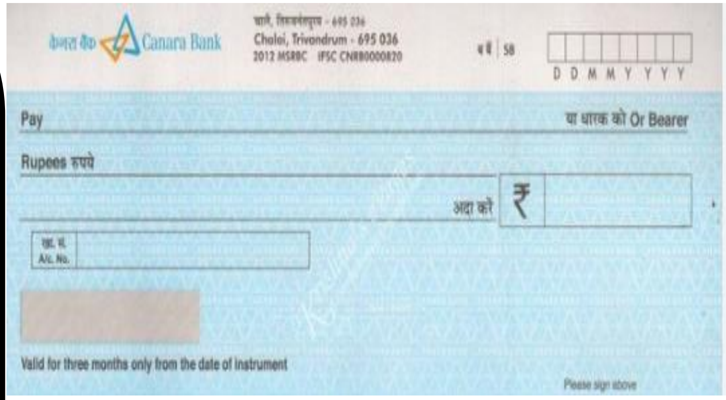
- **Endorser:** When person who sign on the back portion of check**.**
- **Endorsee:** When the Endorser transfer the check to other person is know as Endorsee**.**

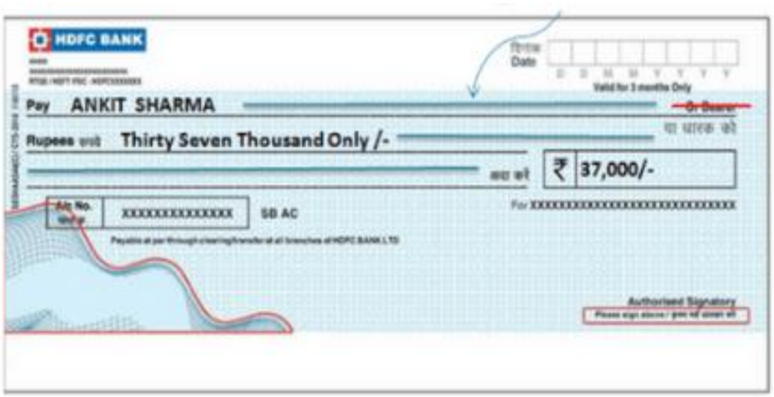
Types of Cheque

- **Open Cheque:** A signed check which does not have the amount of money written on it.

- **Bearer Cheque:** Bearer Cheque is the one payable to the bearer, i.e. holder who carries and presents the cheque at the bank counter gets the payment.

- **Order Cheque:** Order cheque is paid to the person whose name is mentioned on the cheque i.e., only that person can go and collect the cash from the bank





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Types of Cheque

- **Crossed Cheque**: A crossed check is any check that is crossed with two parallel lines, either across the whole check or through the top left-hand corner of the check.
- This double-line notation signifies that the check may only be deposited directly into a bank account.

Types of Cheque

- **Anti-Dated Cheque**: The check on which the drawer mentions the date earlier than the date on which it is presented to the bank. It is called as anti-dated cheque.

- **Post Dated Cheque**: Cheque on which drawer mentions a date which is yet to come (future date) to the date on which it is prsensted.

- **Stale Cheque**: A cheque turns stale after six months of the date written on cheque. A stale cheque can not be honored by bank.

- **Mutilated Cheque:** When cheque gets turned into two or more parts and presented in bank for payment.

Thanks

Week 7 & 8

Chapter 3: Recent Trends in Commercial Banks

Chapter Objectives

- Learn about the impact of digital transformation on the banking industry.
- Explore how technologies such as are revolutionizing commercial banking operations and customer services.
- Explore recent developments in payment systems.
- Understand how these advancements are enhancing the efficiency and convenience of financial transactions.

The Concept of E-banking

E-banking is an electronic payment gateway which enables all the customers of a bank to do banking transactions through their computers without the need to go physically to the bank

It includes electronic funds transfer (EFT), mobile payments for retail purchases, automatic teller machines (ATMs), automatic paycheck deposits, and automated bill payment.

Significance of E-banking

Importance to Clients

- **Lower cost per exchange**: Client doesn't need to visit the branch for each exchange, it saves him both time and cash.
- **No geographical hindrances**: In conventional frameworks, geological distances could hamper specific financial exchanges. Nonetheless, with e-banking, geological obstructions are diminished.
- **Convenience**: A client can get to his record or bank account and execute from any place at any time.

Significance of E-banking

Importance to Banks

- **Lesser exchange costs:** Electronic exchanges are the least expensive methods of exchange
- **Lesser desk work:** Advanced records decrease desk work, paperwork, and make the cycle simpler to deal with. Likewise, it is ecological.
- **Less Human Error:** Since the data is handed-off electronically, there is no space for human mistakes or errors.
- **More Loyal clients:** E-banking administrations or services are convenient to the clients, banks experience higher reliability from their clients

Various Forms of E-Banking

Internet Banking

- A system that enables customers of a bank to conduct a range of financial transactions through the financial institution's website or PC or Laptop.
- It is s a digital method to conduct banking transactions by the means of the internet.

Benefits of Internet Banking

Transferring Funds: With internet banking, you can transfer money from one account to another.

Booking Deposits: Another benefit of internet banking is that you can conveniently open fixed and periodic deposit accounts online.

Paying Bills & Recharging: You can pay utility bills like electricity, telephone, gas, etc.

Tracking Account and Checking balances: You can constantly track your account and check account balances from anywhere, at any time.

Benefits of Internet Banking

Products: It allows you to place orders for bank products like cheque Books and Bank Cards.

Add-on Services: You can enjoy a wide variety of add-on services, including buying or selling mutual funds, buying insurance policies, and applying for various types of loans.

Automated Teller Machine

Concept of ATM
• An Electronic banking outlet which allows customers to complete basic transactions without the aid of any representative from the bank. • It allows you to withdraw money, deposit cash or checks, view your balance or transfer money between accounts.

Key Functions of ATM

Cash withdrawals	You can conveniently withdraw money from an ATM using your debit or ATM card. Simply insert your card, enter your PIN, and enter the amount you wish to withdraw.
Balance inquiries	ATMs allow you to check your account balance, enabling you to stay updated on your finances.
Fund transfers	Many ATMs allow you to transfer funds between your accounts. This feature enables quick and easy money movement without visiting a bank branch.
Account deposits	Some ATMs are equipped with deposit functions, allowing you to deposit cash or cheques directly into your account via the machine.

Merits of ATM

Provide Convenience To Customers: Customers are able to do financial transactions conveniently with the use of ATMs.

Offer 24×7 Service: ATMs provides 24 hours a day, 7 days a week and 365 days a year to all its customers.

Reduce Banks Workload: Customers are not required to stand in long queues and fill up various forms for availing basic withdrawal and deposit facilities.

Demerits of ATM

Charges Fees: Bank charges routines charges as per their standard rates for providing them ATM facility.

Limitation On Cash Withdrawal: Bank imposes restrictions on withdrawal limit of their customers using ATM. There are limitations on both no. of free transactions and the amount of money that can be withdrawn per transactions.

Possibility Of Frauds: Customers performing online transactions using ATM are likely to be affected by various frauds. There is a chance of stealing various account information by online hackers while doing online transactions.

Non-Reachable In Rural Areas: There are limited ATM machines installed in rural areas which also do not operate properly. Therefore ATM services are not properly available in rural areas.

Mobile Banking

Definition
• Mobile banking (m-banking) refers to the use of a mobile device like a smartphone or tablet to perform banking activities. • It is done through a mobile app, USSD, or SMS. • The key difference between mobile and internet banking is that the former uses a mobile device while the latter employs a desktop or PC.

Types of service in M-banking

Account information access: Account information access allows clients to view their account balances and statements .

Transactions: enable clients to transfer funds to accounts, self-account transfers, pay third parties (such as bill payments), and make purchases.

Investments: enable clients to manage their portfolios or get a real-time view of their investment portfolios (term-deposits, etc.)

Support services: enable clients to check on the status of their requests for loan or credit facilities, follow up on their card requests, and locate ATMs.

Content and news: Content services provide news related to finance and the latest offers by the bank or institution.

Smart Cards

Concept

- A smart card is a small sized card which has a programmable microprocessor chip.
- The chip has the ability to store data, carry out on-card functions,
- Theses cards are mainly used for making payments and storing relevant information.
- **Example:** ID card, Debit card, Transportation card, medical card.

Benefits of Smart Card

More secure: Smart cards offer more security and confidentiality than any other financial or transaction card on the market.

Safe to transport: These cards give the holder the freedom to carry large sums of money. They are also safe because the cards can be easily replaced.

Time-saving: Making a payment with a smart card saves a lot of time because its chip contains details about the owner.

Less expensive: Smart cards are less expensive and provide faster transaction.

Drawbacks of Smart Card

Easily Lost: Smart cards are small, lightweight and can be easily lost if the person is irresponsible.

Security: Smart cards are secure for many applications, but they are still vulnerable to certain types of attack.

Slow Adoption: If you used as a payment card, not every store or restaurant will have the hardware necessary to use these cards.

Types of Smart Cards

Contact Smart Cards

- These cards require physical contact with the card reader. These cards are inserted into the card reader, which reads the information stored on the contact plate and carries out the required transaction such as ATM Card, SIM Card.

Contactless Smart cards

- Require only nearness to a card reader to be read; no direct contact is necessary such as ID card, medical card.

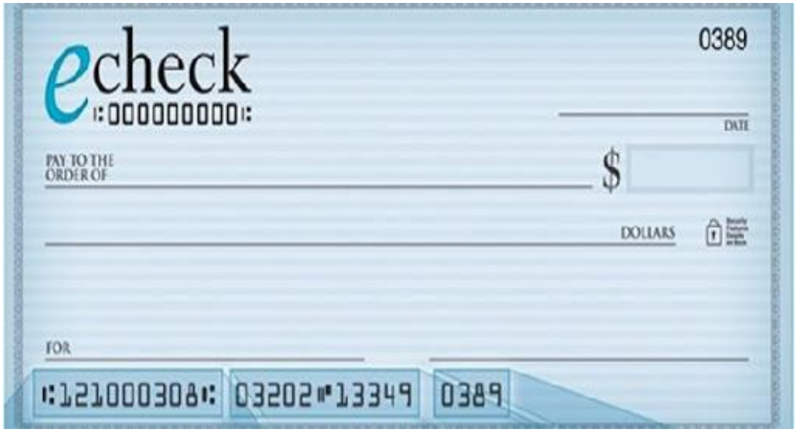
Hybrid smart Card

- These cards are a combination of both the cards mentioned above. They can work as contact smart cards as well as contactless smart cards depending upon the occasion such as master card.

E -Check

Concept of E-check

- An e-Cheque is the electronic version or representation of paper cheque.
- The Information and Legal Framework on the E-Cheque is the same as that of the paper cheque.
- It can now be used in place of paper cheques to do any and all remote transactions.



Benefits E -Check

Save time : Traditional paper checks can take 4 to 5 days to arrive, while e- checks move at the speed of email and give you the power to pay in 4 to 5 seconds.

Save Money: With traditional paper checks you're paying for the paper check, envelope, stamp, and time involved in preparing the check and getting it ready to mail. An e-check costs right around the cost of a stamp, but does the work of a check, an envelope and a stamp at a fraction of the cost. This saves you roughly $1 per check.

Pay More Safely : It doesn't take a high level of sophistication for a fraudster to walk up to an unattended mailbox and steal the contents

Thanks

Week 9 & 10

Chapter 4: Asset-liability Management

Chapter Objective

At the end of this chapter students will be able to ..

- Understand the basic concepts and importance of Asset-Liability Management in financial institutions.
- Learn about the objectives and goals of ALM, including optimizing the balance between assets and liabilities to ensure profitability and solvency.
- Explore Asset-liability Management System and its components of Asset-liability Management System.
- Understand the Approaches of Asset-liability Management.

Asset liability Management

- The practice of mitigating financial risks resulting from a mismatch of assets and liabilities
- **ALM is** managing the volume and timing of cash flows of assets and liabilities to increase profitability, manage risk, and maintain the safety and soundness of the bank.

Balance sheet of Banks

On the balance sheet	
Assets	**Liabilities**
Loans › Mortgages › Consumer loans › Lending to companies › Lending to governmental bodies	**Equity** › Share capital › Etc.
Liquid assets › Shares, corporate bonds › Government bonds › Interbank debt claims › Etc.	**Borrowed capital** › Deposits > Customer deposits > Certificates of deposits › Financial instruments > Bonds > Derivatives › Interbank market funding
Other assets › Real estate › Derivatives › Goodwill › Etc.	
Balance sheet =	**Balance sheet**

Objective of Asset liability Management

Managing the balance sheet properly .

Balanced growth of assets & liabilities.

Control of risk in a coherent manner.

Stability and consistency in revenue and profitability.

Benefits of Asset liability Management

- It helps in Identifying and measuring and treating risks.
- Effective ALM protects and enhances the profit and net worth of Bank.
- It increases the net **interest income** the banking institution.
- It helps in finalizing the **short-term and long-term planning** for a bank.

Limitations of Asset liability Management

No general Framework: Lack of general framework that can apply to all organizations.

Complexity: It demands specialized knowledge and skills. It can pose challenges for smaller institutions with limited resources .

Unstable market behavior: Anticipating market behaviors poses a major challenge for ALM due to the inherent difficulty in predicting market movements.

Operational Issues : ALM implementation introduces operational risks, such as data integrity issues, model implementation challenges, and potential errors in executing strategic decisions. to all organizations.

Asset Liability Management System (ALMS)

- The Asset Liability Management system is an integrated computerized review of our assets and liabilities with the to inform decisions designed to achieve a sound and sustainable fund.
- A formalized system for management of market risks through measuring, monitoring and managing liquidity, exchange rate and interest rate risks of a F

Components of ALMS

ALM Information System

- Management Information System
- Information availability, accuracy, adequacy and expediency ·

ALM Organization

- Structure and responsibilities
- Level of top management involvement ·

ALM Process

- Risk limits and Risk identification
- Risk measurement and Risk management
- Risk policies and tolerance levels.

Approaches to ALM

- **<u>Regulatory Approach</u>** – It is called the regulatory approach because there is regulatory expectation for the measurement and management of risk on an institution's balance sheet and income statement.
- This approach usually includes conducting an analysis on a static (no growth) balance sheet, which does not consider any future changes in the institution's growth, strategy, pricing, or business plan.
- As a result, this approach includes **no future risk/return analysis because it only considers what the institution is currently doing**, not how it plans to make money down the road.

Approaches to ALM?

- **Management Approach –** A management approach is much easier to assess the risk/return trade-off in proposed strategies and make decisions that benefit the institution both in the short term and the long term.
- But it also considers **dynamic modeling of the balance sheet**, which means that future growth plans and strategies are analyzed as well, giving management a realistic look at the outlook of the institution today *and* tomorrow. This more impactful approach informs decisions related to both risk and strategy and enables boards and management to make good decisions in different rate environments.

Common Risk of Bank

Credit risk: The probability of loss due to the bank customer failing to fulfill its obligations partially or completely.

Country Risk: In international credit transactions, the possibility of failure to fulfill the obligation partially or completely on time due to the economic, social and political structure of the country.

Interest Rate Risk: refers to risks associated with changes to interest rates, and how changing interest rates affect future cash flows.

Common Risk of Banks

Liquidity risk: The risk of failing to fulfill its payment obligations on time because it does not have sufficient cash.

Commodity risk: The probability of loss that the Bank may suffer due to movements in commodity prices

Stock position risk: The probability of loss due to movements in stock prices depending on the stock position in the trading accounts of the Bank.

Common Risk of Banks

Currency risk: The probability of loss that banks may suffer as a result of changes in exchange rates.

Operational risk: The possibility of damages that may arise from due to errors in the bank management, errors and failures in technology systems .

Market risk: The risk that market conditions will change, affecting the liquidity of the bank and the value of its trading and accrual portfolios and its investments, resulting in a loss for the bank.

Thanks

Week 11 & 12

Chapter 5: Risk Management of Commercial Banks

Chapter Objective

At the end of this chapter students will be able to ..

- Understand various types risks of Banks.
- Demonstrate the steps of Risk Management taken by banks.
- Describe the risk mitigated through ALM
- Learn about the board and management oversight functions in risk management.
- Understand internal audit functions in risk management.

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Market risk: The risk that market conditions will change, affecting the liquidity of the bank and the value of its trading and accrual portfolios and its investments, resulting in a loss for the bank.

Risk Management

While the risk of investment can never be completely eliminated, they can be managed Risk Management is the process of identifying and evaluating the trade-off between risk and expected return, and choosing the appropriate course of action.

- The process of risk management requires that:
- (i) You identify the risk
- (ii) You evaluate the risk
- (iii) You manage the risk

Steps of Risk Management

1. Identifying Risk: An investor need to be quite sure of exactly what risk he is taking. What risks are associated with each investment options.

2. Evaluating Risk: Measure the level and impact of the risk and match the risk with attitude of the banks towards the risk

3. Managing Risk: An Investor can manage risk exposure in four ways:

- (i) Risk Retention (ii) Risk Avoidance (iii) Risk Reduction (iv) Risk Transfer

Steps of Risk Management

- **Risk Retention:** An investor can carry on many risks, once identified. The larger and more diversified his investments, the more likely it is to be able to sustain losses in some investments.
- **Risk Avoidance:** Some investors prefer to keep away from risky investments. They prefer investing all their funds in risk - free securities.
- **Risk Reduction:** Investors can reduce risk through diversification. They can invest in companies in different industries or company of different sizes or product lines.
- **Risk Transfer:** Where a risk can be turned into someone else's problem or opportunity by "selling" or transferring it to a willing buyer.

Risk Mitigated through ALM

Interest Rate Risk	Risks associated with changes to interest rates, and how changing interest rates affect future cash flows
	Deposits (assets) and loans (liabilities) are both are impacted by interest rates.
Liquidity Risk	When the financial institution is unable to meet its obligations due to a shortage of liquidity.
	To mitigate the liquidity risk, organizations may implement ALM procedures to increase liquidity to fulfill cash-flow obligations resulting from their liabilities.

Risk Mitigated through ALM

Other Types of Risk	Aside from interest and liquidity risks, other types of risks are also mitigated through ALM such as currency risk and capital market risk, which are risks associated with changing equity prices.
	Such risks are often mitigated through futures, options, or derivatives.

Risk Management in ALM

- Regulators assess risks and risk management activities in four broad categories.

Board Oversight

Understanding Risks

- Bank directors should demonstrate that they clearly understand the risks inherent in the institution's ongoing activities.
- Directors should also question senior management about risks and risk management costs.

Providing Appropriate Guidance.

- The board must sets risk management policies and guidelines so that the senior management, and other bank personnel clearly understand the bank's risk limits and risk management strategies.

Board Oversight

Monitoring Exposures

- Once the risks inherent in the institution's activities are recognized and guidance is provided to staff, directors should require that senior management report risk exposures on a timely basis.

Making Personnel Decisions and Delegating.

- Bank boards recruit key managers who possess the expertise necessary to effectively administer risk management activities.
- Bank directors also allocate time and funding to train and develop individuals and then delegate daily risk oversight to these capable managers.

Senior Management Functions

Implementing ALM Policies. The primary responsibility of senior management when carrying out ALM activities is to ensure that policy and risk guidance established by the board is appropriately implemented.

Developing Risk Monitoring and Reporting Tools: Many banks use various tools to oversee ALM risks depending on the complexity of their balance sheet. Liquidity risk is typically identified, measured, and monitored through **spreadsheets.**

Senior Management Functions

***Reporting Risk Exposures to the Board**:* senior management is bound to report the board and the bord should evaluate the report based on institution's compliance with established risk limits.

***Attracting and Developing Personnel**:* Senior management must maintain adequate depth and expertise to attract and develop the proper personnel to understand the balance sheet's complexity and properly develop an ALM oversight program capable of ensuring that risks stay within the boundaries set by board policies


Board of Directors
• Understand Risks
• Provide Appropriate Guidance
• Monitor Exposures
• Make Personnel Decisions/Delegate
Senior Management
• Implement ALM Policies
• Develop Risk Monitoring/Reporting Tools
• Report Risk Exposures to the Board
• Attract and Develop Personnel

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Internal Control and Audit

- Internal audit is part of the ongoing monitoring of the bank's system of internal controls and of its internal capital assessment procedure.
- Internal audit provides an independent assessment of the adequacy of, the bank’s established policies and procedures. As such, the internal audit function assists senior management and the board of directors in the efficient and effective discharge of their responsibilities

Scope of Internal Control and Audit

a) the examination and evaluation of the adequacy and effectiveness of the internal control systems.

b) the review of the application and effectiveness of risk management procedures and risk assessment methodologies;

c) the review of the management and financial information systems,

d) the review of the accuracy and reliability of the accounting records and financial reports;

e) the review of the means of safeguarding assets.

Functions Under Auditing

a) The bank's compliance with policies and risk controls (both quantifiable and non-quantifiable);

b) The reliability (including integrity, accuracy and comprehensiveness) and timeliness of financial and management information;

c) The continuity and reliability of the electronic information systems; and

d) The functioning of the staff departments.

Policies, Procedures and Risk Limits

One of the most effective tools the board and senior management can provide to their staff is a sound policy directive for the bank's various activities and risk exposures.

The policy should state the bank's objectives for ALM and provide a well-articulated strategy for managing the risks associated with balance-sheet accounts.

Through sound policies, the board communicates to frontline and senior personnel its expectations with respect to risk tolerance, desirable and undesirable activities, internal control and audit, and risk measurement.

Policies, Procedures and Risk Limits

- Another critical element of any ALM policy is appropriate aggregate risk limits for interest rate and liquidity risk exposures.
- The policy should also clearly delineate the types of activities that an institution may conduct. This might include the types of financial instruments or activities that are permissible for either the banking book or risk mitigation (that is, hedging) activities.
- The policy should provide clear lines of authority, responsibility, and accountability regarding risk management activities.

Thanks

Week 13 & 14

Chapter 6: Liquidity Management

Chapter Objectives

- Understand the basic concepts and importance of liquidity management in banking.
- Learn about the objectives and goals of liquidity management, including maintaining sufficient liquidity to meet obligations and optimizing the use of funds.
- Identify the different types of liquidity, including funding liquidity and market liquidity.
- Explore the principles and theories of liquidity management practiced by modern commercial banks.

What is Liquidity of a Bank?

Liquidity for a bank means the ability to meet its financial obligations as they come due.

It can come from direct cash holdings in currency or on account at the Federal Reserve or other central bank.

More frequently, it comes from acquiring securities that can be sold quickly with minimal loss.

Need for Liquidity of a Bank?

To meet the obligations of the customer on a timely basis under both normal and stressed conditions.

To perform day to day operation.

To take the opportunity short term profitable investment.

To avoid operational and financial risks.

To maintain high reputation in the marketplace .

Types of Liquidity in the Banking system

Funding liquidity: this relates to the ability of banks to pay their debts when they are due.

Central bank liquidity: this relates to funding provided to market participants.

Market liquidity: this relates to the ability of investors to trade assets in the market (for example, an asset is liquid if it can be easily sold in large amounts with only small changes in its price).

How Can a Bank Achieve Liquidity

Shorten asset maturities

- Give out loan for short period of time.

Improve the average liquidity of assets

- Invest more on securities as they more liquid than loans and other assets.

Lengthen liability maturities

- The longer duration of a deposit, the less it is expected that it will mature while a bank is still in a cash crunch.

Issue more equity

- Raised capital in the form of equity than liability

Reduce contingent commitments

- Cutting back the amount of lines of credit and other contingent commitments to pay out cash in the future.

Liquidity Management

- This is both an art and a science of managing liquid asset in order to meet up the up coming obligations.

<u>Major Current Assets</u>

1. Investment in Securities in short term securities.
2. Cash Reserve
3. Short term loan

<u>Bank Current Liabilities</u>

1. Banks borrowing from Other banks.
2. Saving deposit.
3. Current deposit

Principles of Liquidity Management

A. Banks must develop a structure for liquidity management

- 1. Each banks should have an agreed strategy for day-to-day liquidity management. This strategy should be communicated throughout the organization.
- 2. A Bank Governing board should approve the strategy and significant policies related to liquidity management. The governing board should also ensure that senior management of the bank takes the steps necessary to monitor and control liquidity risk

Principles of Liquidity Management

3. Each Bank should have a management structure in place to effectively execute the liquidity strategy. This structure should include the on-going involvement of members of senior management.

4. Banks must have adequate information systems for measuring, monitoring, controlling and reporting liquidity risks.

Principles of Liquidity Management

B. Banks must measure and monitor net funding requirements

1. Each bank should establish a process for the ongoing measurement and monitoring of net funding requirements.

2. Banks should analyze liquidity utilizing a variety of scenarios.

C. Banks should Manage market access

Each banks should periodically review its efforts to establish and maintain relationships with liquidity holders, to maintain the diversification of liabilities, and aim to ensure its capacity to sell assets

Principles of Liquidity Management

D. Banks should have contingency plans

A bank should have contingency plans in place that address the strategy for handling liquidity crises and which include procedures for making up cash flow shortfalls in emergency situations.

E. Banks should manage their foreign currency Liabilities

Each bank should have measurement, monitoring and control system for its liquidity positions in the major currencies in which it is active.

Liquidity Management Theory

1. Commercial Loan Theory

- The commercial loan theory states that a commercial bank should forward only short-term self-liquidating productive loans to business organizations.
- Loans meant to finance the production, and evolution of goods through the successive phases of production, storage, transportation, and distribution are considered as self-liquidating loans.
- This theory also states that whenever commercial banks make short term self-liquidating productive loans, the central bank should lend to the banks on the security of such short-term loans.

Liquidity Management Theory

Advantages

- First, they acquire liquidity so they automatically liquidate themselves.
- Second, as they mature in the short run and are for productive ambitions, there is no risk of their running to bad debts.
- Third, such loans are high on productivity and earn income for the banks.

Disadvantages

First, if a bank declines to grant loan until the old loan is repaid, the disheartened borrower will have to minimize production which will ultimately affect business activity

Liquidity Management Theory

2. Shiftable Theory

- This theory was proposed by H.G. Moulton who insisted that if the commercial banks **continue a substantial amount of assets that can be moved to other banks for cash without any loss of material**. In case of requirement, there is no need to depend on maturities.
- This is specifically used for short term market investments, like treasury bills and bills of exchange.
- But in general circumstances when all banks require liquidity, the shiftability theory need all banks to acquire such assets which can be shifted on to the central bank which is the lender of the last resort.

Liquidity Management Theory

- **Advantage**

The shiftability theory has positive elements of truth. Now banks obtain sound assets which can be shifted on to other banks. Shares and debentures of large enterprises are welcomed as liquid assets accompanied by treasury bills and bills of exchange.

- **Disadvantage**

Firstly, only shiftability of assets does not provide liquidity to the banking system. It completely relies on the economic conditions.

Liquidity Management Theory

- **Secondly,** the shares and debentures cannot be shifted to others by the banks. In such a situation, there are no buyers and all who possess them want to sell them.,
- **Third,** a single bank may have shiftable assets in sufficient quantities but if it tries to sell them when there is a run on the bank, it may adversely affect the entire banking system. Fourth, if all the banks simultaneously start shifting their assets it would have disastrous effects on both the lenders and the borrowers.

Liquidity Management Theory

Anticipated Income Theory

- This theory states that irrespective of the nature and feature of a borrower's business, the bank plans the liquidation of the term-loan from the expected income of the borrower. A term-loan is for a period exceeding one year and extending to a period less than five years.
- It is admitted against collateral. The bank puts limitations on the financial activities of the borrower while lending this loan.

Liquidity Management Theory

- While lending a loan, the bank considers security along with the anticipated earnings of the borrower. So a loan by the bank gets repaid by the future earnings of the borrower in installments, rather giving a lump sum at the maturity of the loan.

Liquidity Management Theory

- **Advantages**

It satisfies the three major objectives of liquidity, safety and profitability. Liquidity is settled to the bank when the borrower saves and repays the loan regularly after certain period of time in installments. It fulfills the safety principle as the bank permits a relying on good security as well as the ability of the borrower to repay the loan.

The bank can use its excess reserves in lending term-loan and is convinced of a regular income. Lastly, the term-loan is highly profitable for the business community which collects funds for medium-terms.

Liquidity Management Theory

Disadvantages

- The theory of anticipated income is not free from demerits. This theory is a method to examine a borrower's creditworthiness. It gives the bank conditions for examining the potential of a borrower to favorably repay a loan on time.
- It also fails to meet emergency cash requirements.

Thanks

Week 15, 16 & 17

Chapter 7: Islamic Bank and its products

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Chapter Objective

- Familiarize with major Islamic banking contracts such as Mudarabah (profit-sharing), Musharakah (joint venture) etc.
- Learn how these contracts are structured and implemented in various financial transactions.
- Explore the range of products and services offered by Islamic banks, including savings and current accounts,
- Understand how these products cater to the financial needs of customers while adhering to Islamic law.
- Identify the main differences between Islamic and conventional banking systems.

Defining an Islamic Bank

•A type of commercial bank that follows sharia guidelines in all its banking activities.

•The goal of Islamic bank is not only to avoid interest-based transactions but also to avoid unethical and un-social practices

Goals of Islamic Bank

- To eliminate **Riba** from all sectors of economy.
- To mobilize savings for productive purposes
- To earn reasonable profit through **Halal transaction**
- To create more employment opportunities by increasing economic activities
- To ensure equitable distribution of resources

The Distinct Features of Islamic Banking System

- 1. **Validity of contract**: Before executing any Islamic banking transaction, the counter parties have to satisfy whether the transaction is halal (valid) in the eyes of Islamic Shariah.
- 2. **Risk sharing**: Islamic jurists have drawn the principle no profit can be earned from an asset or a capital unless ownership risks have been taken by the earner of that profit.

The Distinct Features of Islamic Banking System

- **3. No Riba/interst**: Islamic banks cannot involve in riba/interest related transactions. They cannot lend money to earn additional amount on it.
- **4. Economic purpose/activity**: Every Islamic banking transaction has certain economic purpose/activity. Further, Islamic banking transactions are backed by tangible asset or real service.
- **5. Fairness**: Transactions based on dubious terms and conditions cannot become part of Islamic banking. All the terms and conditions embedded in the transactions are properly disclosed in the contract/agreement.

Is Islamic banking meant only for Muslims?

- The teachings of Islam are not confined to Muslims, rather these equally address the non-Muslims.
- The values like justice, mutual help, fee consent and honesty are universal.
- The basic principles of Islamic banking prohibits fraud, misrepresentation and misstatement of facts and negation of injustice or exploitation in any transactions which equally brings welfare for everyone.
- The principles Islamic banking lead the economic system to achieve the common good and economic prosperity.
- On this premise, Islamic banking becomes a viable option for everyone irrespective of their religion.

Common Islamic Modes of Finance in IB

- **Participatory modes of Finance**

a) Mudarabah

b) Musharakah

- **Non Participatory modes of Finance**

a) Murabaha

b) Salam

Mudarabah Financing

- Mudaraba is a form of partnership in profit whereby one party provides capital (rab-al-maal) and another, management skill or labour (mudarib).
- An Islamic finance technique in which a bank (rab al maal) and a borrower or investment manager (mudareb) establish a profit-sharing partnership to undertake a business or investment activity.

Types of Mudarabah

- **1. Ristricted Mudarabah**: where mubarib (Investment manger) is not free to invest.
- **2. Unrestricted mudarabah**: where mubarib (Investment manger) is free to invest

Mechanism of A Mudaraba Transaction

- 1. The customer and the Islamic bank initiate a Mudaraba Enterprise. As per the Mudaraba contract, the Islamic bank (as Rab-al-Maal) contributes 100% capital, whereas the customer (as the Mudarib) contributes the management or skills.
- 2. As per the agreement they decide to share the Net Profit in the ratio of 40:60, whereas the loss, if any, shall be borne only by the Islamic bank, the rab-al-maal.
- 3. In addition, if there are any direct expenses of Mudaraba, then the same shall be charged to the Mudaraba Enterprise and not to any of the parties.

Mechanism Of a Mudaraba Transaction

- At the expiry of Mudaraba the Mudarbaha assets are disposed off either by selling them in the market or purchased by the Mudarib on their market value.

Musharakha Financing

- Musharakah means a relationship established under a contract by the mutual consent of the parties for sharing of profits and losses in the joint business.
- Under Islamic banking, it is an agreement under which the Islamic bank provides funds which are mixed with the funds of the business enterprise and others.
- All providers of capital are entitled to participate in management but not necessarily required to do so.
- The profit is distributed among the partners in pre-agreed ratios, while the loss is borne by each partner strictly in proportion to respective capital contributions.

Mechanism of Musharakha Financing

- 1. The customer and the Islamic bank are partners in a Musharaka Enterprise or project. Both the parties contribute money capital in a ratio, say, 20:80.
- 2. As per the agreement they decide to share the Net Profit in the ratio, say 40:60. If the Musharaka Enterprise realises any profit, then it would be shared between both the parties in the agreed profit sharing ratio i.e 40:60. The loss, if any, shall be shared only in the capital contribution ratio, which is 20:80.
- 3. In case of Diminishing Musharaka, one of the partners, say the customer, would buy the share of the Islamic bank over a period of time and at a certain period in future would become the complete owner of the Enterprise.

Rules for Musharakha?

1. The profit sharing ratio for each partner must be determined in proportion to the actual profit accrued to the business and not in proportion to the capital invested by him.
2. It is not allowed to fix a lump sum amount for anyone of the partners or any rate of profit tied up with his investment. Therefore if 'A' & 'B' enter into a partnership and it is agreed between them that 'A' shall be given Rs.10,000/- per month as his share in the profit and the rest will go to 'B', the partnership is invalid.
3. If both partners agree that each will get percentage of profit based on his capital percentage, whether both work or not, it is allowed.

Rules for Musharakha?

- 5. If a partner has put an express condition in the agreement that he will not work for the Musharakah and will remain a sleeping partner throughout the term of Musharakah, then his share of profit cannot be more than the ratio of his investment.
- 6. It is allowed that if a partner is not working, his share of profit can be established at a rate lower than his capital share.
- 7. If both are working partners, the share of profit can differ from the ratio of investment. For example, Mr. A and Mr. B both have invested Rs.1000/- each. However, Mr. A gets one third of the total profit and B will get two third, this is allowed.

What is Murabaha?

- Murabaha is one of the most common modes used by Islamic Banks. It refers to a sale where the seller discloses the cost of the commodity and amount of profit charged.
- Therefore, Murabaha is not a loan given on interest rather it is a sale of a commodity at profit.

Mechanism of a Murabaha Finance Transaction

- 1. A customer needs certain goods and promises the Islamic bank to purchase the goods if the Islamic bank buys these goods from the supplier and takes the possession.
- 2. The Islamic bank purchases the goods on the spot payment basis from the supplier and takes the possession (either constructive or physical).
- 3. The Islamic bank sells the goods to the customer after adding its profit markup, generally on deferred payment basis for an agreed period.
- 4. The customer makes the deferred payment to the Islamic bank after or during the agreed period.

Valid rules of a basic Murabaha transaction

- 1. The subject matter of sale must exist at the time of the sale.
- 2. The subject matter should be in the ownership, either actual or constructive, of the seller at the time of sale.
- 3. The sale must be instant and absolute. Thus a sale attributed to a future date or a sale contingent on a future event is void.
- 5. The subject matter of sale should not be a thing used for an un-Islamic purpose.
- 6. The sale must be unconditional.

Salam

- Salam means a contract in which advance payment is made for goods to be delivered at a future date.
- The seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract. For Islamic banks, this product is ideal for agriculture financing,

Mechanism of Salam

- 1. A customer wants financing and approaches the Islamic Bank.
- 2. The customer (as seller) enters into a Salam sale contract with the Islamic Bank (as purchaser).
- 3. The Islamic bank pays the full purchase price in advance to the customer for the specified commodity to be delivered in future.
- 4. On the delivery date which is predefined, the customer delivers the commodity to the Islamic Bank

Basic rules for Salam

- 1. It is necessary for the validity of Salam that the buyer pays the price in full to the seller at the time of affecting the sale.
- 2. Only those goods can be sold through a Salam contract in which the quantity and quality can be exactly specified.
- 3. The exact date and place of delivery must be specified in the contract.
- 4. Salam cannot be affected in respect of things, which must be delivered at spot.

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Some Common Deposited Products in IB In BD

1. Al-Wadiah Current Account
2. Mudarabah Savings Account
3. Term Mudarabah Account

Al-Wadiah Current Account

It is almost similar to current account of conventional banks. The owner of the fund does not enjoy any profit nor bear any loss. But the bank obtains the permission from the depositor so that he bank has the option use the fund as and when necessary for the interest of the bank.

Features of Al-wadiah C/A in Bangladesh

- This account requires minimum tk.500 to open.
- This account is operated under Al Wadiah principle.
- According to this principle permission is taken in the account form from the depositor that bank can use the funds of the bank, other depositors and Al-wadiah accounts. of trade & commerce.

Continue….

- Without any condition any amount can be deposited in is account.
- A cheque book is provided for the account.
- Any amount can be withdrawn at any banking hour using this cheque book.
- No profit is provided or received for the depositors of this account. But at a due rate the depositors must bear govt. taxes and other charges.

Mudarabah Savings Account

- Mechanism is almost similar to the savings account of the conventional banks.
- The basic difference in this case is that the profit from the investment will be shared by the bank and the owner of the fund while the loss from the investment will be borne by the owner of the fund unless the loss is incurred due to the negligence or overacting of the bank.

Features of MSA in Bangladesh

- This account is operated under profit sharing principle. Here bank is Mudarib and depositors are Sahib al-mal.
- Cheque books are provided for this account.
- From this account money can be withdrawn four times a month. And in each time one forth of the deposit or 15000 tk, whichever is lower can be withdrawn.
- For any amount greater than this a seven days notice is required. The deposit is accounted for profit when money is withdrawn with notice. If money is withdrawn in a month without placing notice no profit is provided for that month.

Features of MSA in Bangladesh

- For this account an interim profit is provided in the month of June and December in each year.
- After preparing the final account at the end of each year the final profit is provided to the depositors.

Term Mudarabah Account

- The terms and condition Mudarabah is same as general Mudarabah excepting one that under this arrangement the owner of the fund agrees keep the deposit remain with the Islamic bank for a particular time period months/6 months/ one year/two years/three years)

Features of TMA in Bangladesh

- With a minimum of tk1000 or greater which is a multiple of tk100 this account can be opened at any time of the year.
- There are terms of 6 months,12 months,24 months and 36 months under which deposits are received.
- No profit is provided if money is withdrawn before completion of 6 months.
- When money is withdrawn before the completion of the term but after 6 months profit is measured by deducting the proportionate profit of 6 months from the profit of the amount deposited for the related term.

Features of TMA in Bangladesh

- For the deposits of 24 months and 36 months an interim profit is provided after each year.

Differences Between Islamic and Conventional Bank

Islamic Bank	Conventional Bank
The functions and operating modes of Islamic banks are based on Islamic Shariah	The functions and operating modes of conventional banks are based on manmade principles
IB promotes risk sharing between provider of capital and the entrepreneur	The investor is assured of a predetermined rate of interest

Differences Between Islamic and Conventional Bank

Maximizing profit should not be objective of an IB	It aims at maximizing profit without any restriction
Investment following Buy mode/investment mode/ lease mode	Extending credit on the basis of interest
Collection of deposit on the basis of profit sharing	Collection of deposit on the basis of interest

THANKS TO ALL