



Chapter no. 4: Other financial institutions

Content

- Financial institution - definition
- Short revision of banks
- Other types of financial institutions
 - Insurance companies
 - Non-banking institutions (providing loans)
 - Investment companies
- Conclusion, comments, discussion

Financial institution

- financial institution (FI) is a company engaged in the business of dealing with monetary transactions, such as deposits, loans, investments and currency exchange
- Types:
 - Banks (commercial)
 - Investment companies
 - Insurance companies
 - Mutual funds
 - Etc.

Short revision of banks

- Functions of banks:
 - Loans provision
 - Deposits accepting
 - Help and assistance with investments
 - (Information provision)
- Commercial banks x Central or national banks
- Nominal and real interest rate
- Simple interest and compound interest
- Monetary policy

Insurance companies

- = pool risk by collecting premiums from a large group of people who want to protect themselves against a particular loss
- Life insurance products vs. Non-life insurance products
- Principles of insurance:
 - Principle of good faith
 - Principle of indemnity
 - Principle of subrogation

Investment companies

- An investment company is a corporation or a trust through which individuals invest in diversified, professionally managed portfolios of securities by pooling their funds with those of other investors
- Indirect finance – why?
- Broker
 - Trading on customer's account
- Dealer
 - Trades for its own account

Non-banking institutions

- In some cases such institutions might be (when it comes to their main goal) very similar to banks
- Characteristic features:
 - Less organised
 - More expensive
 - More risky (from the point of the institutions)
 - For clients failing to show their creditworthiness to banks
 - Usually faster
 - Unpleasant ratio of those who fail to pay off their liabilities

Stock Exchange market

- = A stock exchange is a place or organization by which stock traders (people and companies) can trade stocks
- Strongly regulated market
- Various types of involved institutions:
 - Companies
 - Pension funds
 - Investment companies
 - Insurance companies
 - Mutual funds

Important (additional terms)

- Bankruptcy
- Externalities
- Mortgage
- Junk bonds
- IPO
- Flotation
- Subrogation
- Creditworthiness
- Direct x Indirect finance



**MASARYK
UNIVERSITY**
Czech Republic

Thank you for your attention

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