ASSIGNMENT No. 02

Fundamental of Money and banking (1414) associate degree of commerce

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Q. 1 What is a bank? Explain the functions of commercial banks in detail. (20)

If you're looking to open a business bank account, a personal account, or looking for a loan or investment opportunities, it's important to be aware of the different types of banks you can do business with.

The banking industry is full of opportunities, but it can be a complicated place. Many different types of banks and other financial institutions function differently, offer different services, and provide different benefits. That's why it's important to research before getting started.

In this article, we will discuss the different types of banks, and their key features, and give some insight into which type of bank is suitable for you.

1. Retail Banks

Retail banks, also referred to as consumer banking or personal banking, are the types of banks that offer services that cater to individuals. These banks can facilitate the majority of the services that individuals would require from a financial institution, including regular transactions, personal loans, and specific brokerage services.

Despite being widely used by the general public, retail banks also provide business bank accounts and are sometimes used by small businesses.

Small businesses may opt for retail banks instead of commercial banks due to eligibility issues such as a lack of required credit history or revenue. Additionally, they may prefer the convenience of retail banks which come with more locations and longer hours than commercial banks.

2. Commercial Banks

Commercial banks are designed for businesses and for commercial purposes, typically offering essential banking services to small and medium-sized businesses.

Compared to retail banks, commercial banks carry a few more fees and expenses to use, but they also offer more financial services and products.

These banks play an essential role in a local economy as they provide capital and liquidity in the market by taking deposited funds and lending them out in the form of credit which ultimately helps boost the economy.

3. Investment Banks

Investment banks are a bit different from the other two on the list. Their main function is to manage the trade of stocks, securities, and bonds between companies and their investors. Investment banks also specialize in complex services such as underwriting, corporate finance advice, and managing investment portfolios to raise capital for businesses and, in some cases, the federal government. Additionally, they play major roles in the mergers and acquisitions of companies, working to reorganize acquired firms. Typically, the type of customers with investment banking is high-profile companies and individuals.

4. Credit Unions

Credit unions are types of financial cooperatives that offer typical banking services but operate as non-profit institutions and are owned by their members. They have been a consistent alternative to traditional banking for many. As of 2023, the membership of credit unions has increased to 138 million, according to the Credit Union National Association.

In their functionality, they are very similar to retail and commercial banks, and their services are targeted at individual consumers, startups, and small businesses. The difference is credit unions mainly serve people affiliated with certain groups, such as people living in a certain region, those living in low-income communities, active members of the military or military veterans, and so on.

They charge much lower fees than other banks and aim to provide more affordable services to members.

5. Private Banks

Private banks are designed to be, from their name, private. Regular individuals may not be familiar with or come across many private banks because they cater specifically to high-net-worth individuals, like CEOs of larger corporations or someone with minimum liquid assets of USD 1 million. However, the minimum amount of cash required to open accounts varies from bank to bank. The financial products and services provided by private banks, such as account maintenance, carry fees. These fees can be avoided by meeting a certain account minimum balance, which shifts from bank to bank.

6. Savings and Loan Associations

Savings and Loan Associations (S&Ls), also known as Thrift Banks, are mutually owned financial institutions that offer mortgages, refinance loans, and alternative home loans using deposited savings.

Although S&Ls are not banks in the traditional sense as they focus on home financing, they also provide limited lending services to businesses, savings accounts and different types of deposit accounts. S&Ls are required to have at least 65% of their loans to consumers on housing-related terms, which is why their services to businesses are slightly less than those of individuals.

7. Challenger Banks

Challenger banks, also referred to as Online banks or Digital banks, are banks that challenge the traditional methods of banking. They offer most of the services that traditional banks do, but primarily through digital channels. Many challenger banks don't set up physical branches, while a few still maintain a limited number of physical locations. From 2016-2019, the search for Challenger banks online increased by 32%, while the search for traditional banks decreased by 22% during the same period. An increasing number of users have started considering this option mostly due to the challenges that they may face with traditional banks.

Because they challenge the traditional ways of banking, there have been doubts about their security and legitimacy. But many online banks have authorized banking licenses in the countries where they operate so they are regulated by respective local authorities. These banks have been a growing trend that focuses on improving their services through innovation, technology, and convenience.

Q. 2 What are the different types of bank accounts offered by commercial banks to their clients? (20)

In Pakistan, a variety of bank accounts are available to meet the diverse financial needs of individuals, businesses, and institutions. Below is a brief explanation of the different types of bank accounts commonly offered in the country:

Current Accounts

Current accounts are designed for individuals and businesses that require frequent and flexible access to their funds. These accounts typically do not offer interest but provide unlimited transactions, making them ideal for daily business operations and personal use where high liquidity is needed.

Savings Accounts

Savings accounts are intended for individuals who wish to save money while earning interest. These accounts offer a modest interest rate and are suitable for those looking to grow their savings over time while still having access to their funds.

Fixed Deposit Accounts

Fixed deposit accounts, or term deposits, allow individuals to deposit a lump sum of money for a specific period, ranging from a few months to several years. These accounts offer higher interest rates compared to savings accounts, but the funds are locked in for the agreed term.

Profit and Loss Sharing (PLS) Accounts

PLS accounts are offered by Islamic banks and provide returns based on the bank's profits rather than fixed interest. These accounts are Shariah-compliant and are preferred by individuals who wish to save money according to Islamic principles.

Islamic Current Accounts

Islamic current accounts function similarly to conventional current accounts but adhere to Islamic banking principles. These accounts do not pay interest and are used by individuals and businesses that prefer Shariah-compliant financial services.

Foreign Currency Accounts

Foreign currency accounts allow customers to hold and transact in foreign currencies like US dollars, euros, or British pounds. These accounts are useful for individuals and businesses involved in international trade or those who receive payments in foreign currencies.

Business Accounts

Business accounts are tailored for small, medium, and large enterprises. These accounts offer specialized services such as payroll management, trade finance, and business loans, helping businesses manage their financial operations effectively.

Joint Accounts

Joint accounts are shared by two or more individuals, such as spouses or business partners. All account holders have equal access to the account, and it is commonly used for managing shared expenses or business transactions.

Basic Banking Accounts

Basic banking accounts are simplified accounts with minimal requirements, designed to promote financial inclusion. These accounts have low or no minimum balance requirements and offer basic banking services, making them accessible to low-income individuals.

Pension Accounts

Pension accounts are designed for retirees to receive and manage their pension payments. These accounts typically offer easy access to funds and may include additional benefits like discounts on banking services.

Student Accounts

Student accounts are specifically designed for students, offering features like no minimum balance requirements, low fees, and incentives such as free debit cards or discounts on educational products. These accounts help students manage their finances while pursuing their education.

Senior Citizen Accounts

Senior citizen accounts cater to individuals aged 60 and above, offering higher interest rates on savings, lower fees, and special benefits like free checkbooks or priority banking services. These accounts are designed to meet the specific needs of older adults.

Asaan Accounts

Asaan accounts are simplified, low-cost accounts aimed at promoting financial inclusion for individuals who may not have the documentation required for a regular bank account. These accounts offer basic banking services with lower fees and easy account opening procedures.

Roshan Digital Accounts

Roshan Digital Accounts (RDA) are designed for non-resident Pakistanis (NRPs), allowing them to manage their finances and make investments in Pakistan remotely. RDAs are available in both conventional and Islamic formats and support investments in stock markets, real estate, and government securities.

Salary Accounts

Salary accounts are typically opened by employers for their employees to receive their monthly salaries. These accounts often come with benefits like no minimum balance requirements, free debit cards, and discounts on loans, making it easy for employees to access and manage their funds.

Escrow Accounts

Escrow accounts are specialized accounts used to hold funds during a transaction between two parties. The funds are released only when certain conditions are met, ensuring a secure transaction process. These accounts are commonly used in real estate and business transactions.

Non-Resident Pakistani (NRP) Accounts

NRP accounts are tailored for Pakistanis living abroad, allowing them to maintain savings, invest, and transfer funds to Pakistan. These accounts can be held in local or foreign currencies, offering flexibility and convenience for overseas Pakistanis.

Agricultural Accounts

Agricultural accounts are designed for farmers and agribusinesses, providing services such as agricultural loans, crop insurance, and subsidies. These accounts support the agricultural sector, which is vital to Pakistan's economy, by offering financial products that meet the unique needs of the farming community.

Trust Accounts

Trust accounts are opened by individuals or entities acting as trustees to manage funds on behalf of beneficiaries. These accounts are used for managing estates, charities, or other fiduciary responsibilities, ensuring that funds are handled according to the terms of the trust.

High-Net-Worth Individual (HNI) Accounts

HNI accounts are tailored for affluent clients who require personalized banking services. These accounts offer exclusive benefits such as priority banking, wealth management, investment advisory services, and access to premium financial products.

Q. 3 Explain in detail the concept of the five Cs of credit and the process of obtaining the bank loan. (20)

The Five Cs of Credit

Understanding the fundamentals of credit is vital for both lenders and borrowers. One model commonly used to evaluate the creditworthiness of prospective borrowers is the "Five Cs of Credit." These five Cs—Character, Capacity, Capital, Collateral, and Conditions—provide a framework for assessing the risk associated with lending. Let's delve into each of these components in detail.

Character

Character refers to the borrower's reputation and integrity. It reflects their willingness to repay debts as agreed upon. Lenders often review the borrower's credit history, which includes payment records, outstanding debts, and any occurrences of bankruptcy or delinquency. A strong credit history, typically marked by timely payments and responsible credit use, indicates a trustworthy character. Lenders may also conduct background checks to further analyze a borrower's reliability. Borrowers with a solid character are more likely to secure favorable loan terms because they present less risk to creditors.

Capacity

Capacity assesses a borrower's ability to repay the loan based on their income and financial situation. This involves looking at the borrower's current earnings, job stability, and any other sources of income. Lenders employ ratios, such as the debt-to-income ratio, to evaluate how much of the borrower's income is already allocated to existing debts. A lower ratio indicates greater capacity to manage additional debt. Additionally, lenders often consider employment history, as longer tenures typically suggest stability. A borrower with a proven ability to generate income is perceived as a lower risk, making them more eligible for credit.

Capital

Capital refers to the borrower's net worth or financial investment in the venture related to the loan. Lenders assess the borrower's assets, including savings, investments, and property, to determine how much of their own money is at stake. A borrower with significant capital demonstrates a vested interest in ensuring that any loan will be repaid. This is particularly pertinent for business loans, where a substantial equity contribution can reduce the financial risk for lenders. The more capital a borrower invests, the stronger their case for obtaining credit, as it indicates their commitment to the enterprise.

Collateral

Collateral provides security to lenders in the event of default. It refers to an asset pledged by the borrower that can be seized by the lender if the borrower fails to repay the loan. Common forms of collateral include property, vehicles, or other significant assets. The value of the collateral is essential; it should ideally cover the amount of the loan. Lenders prefer borrowers who can secure their loans with collateral because it mitigates the risk of monetary loss. In essence, collateral acts as a safety net, making it easier for borrowers to gain access to credit even if they don't have a robust credit history.

Conditions

Conditions pertain to the overall economic environment and the specific terms of the loan. Lenders consider external factors that could affect the borrower's ability to repay the loan, such as the state of the economy, industry trends, regulatory changes, and competitive landscape. The purpose of analyzing conditions is to identify how these external factors might impact the borrower's business or personal finances. Specific loan conditions, such as interest rates, the term of repayment, and any contractual stipulations, are also taken into account. A favorable economic environment coupled with reasonable loan conditions increases the likelihood of successful repayment.

The Interconnectedness of the Five Cs

The Five Cs of Credit are not standalone evaluations; they are interconnected and collectively inform lenders about a borrower's creditworthiness. For instance, a borrower with a high character but low capacity may still present a risk. Conversely, a borrower with substantial capacity but poor character may not be reliable. Thus, lenders must consider all five factors to arrive at a well-rounded assessment of risk. This holistic approach helps ensure that lending decisions are based on comprehensive data, enhancing the overall effectiveness of credit evaluations.

Practical Applications of the Five Cs

In practice, credit analysts will often use the Five Cs as a checklist when reviewing loan applications. Each C is scored or assessed based on various criteria, and these scores can assist lenders in decision-making processes. For example, in commercial lending, detailed financial statements may be required to evaluate capital and cash flow, while personal loans may emphasize character through credit reports and references. Such practical applications bring the theoretical aspects of the Five Cs into efficient operational frameworks for banks and financial institutions.

Variations in Importance Across Loan Types

Different types of loans may emphasize certain Cs more than others. For a personal loan, character may take precedence due to the lack of collateral. However, for a mortgage, collateral likely becomes the primary concern since the property itself serves as security for the loan. Entrepreneurs seeking business loans might find that a combination of capital and capacity is vital, as lenders want to comprehend both the owner's stake in the business and the business's ability to generate revenue.

Implications for Consumers

For consumers, understanding the Five Cs of Credit provides valuable insight into how financial institutions evaluate creditworthiness. Borrowers can take proactive measures to enhance their profiles by improving credit scores, ensuring stable income, increasing savings and investments, managing outstanding debts responsibly, and presenting potential collateral. This understanding can lead to better-informed decisions when applying for loans and the potential for more favorable terms.

The Role of Technology in the Five Cs

With advancements in technology, lenders are starting to leverage data analytics, artificial intelligence, and machine learning algorithms to refine the assessment of the Five Cs. These technologies can analyze vast amounts of data quickly, providing lenders with more accurate risk assessments. This change may lead to more personalized lending experiences, where the unique financial situations of borrowers are considered, ultimately impacting the factors of character, capacity, capital, collateral, and conditions.

Challenges with the Five Cs Framework

While the Five Cs of Credit provide a solid framework, there are inherent challenges and limitations. Relying solely on historical data may overlook future financial changes or shifts in market conditions. Additionally, biases in evaluating character can also arise, leading to unfair treatments of certain individuals or groups. Therefore, while the Five Cs are useful, they should be supplemented with a broader understanding of potential risks and current economic factors.

The Importance for Lenders

For lenders, understanding the Five Cs of Credit is essential for making informed lending decisions. A thorough evaluation of a borrower's character, capacity, capital, collateral, and the broader economic conditions ensures that risk is managed effectively. This careful assessment prevents lenders from overextending credit and helps maintain healthy loan portfolios. Consequently, this contributes to the financial institution's overall stability and longevity.

Impact on Borrowers' Financial Health

Evaluating the Five Cs assists in promoting responsible borrowing among consumers. By recognizing the importance of each C, individuals can make smarter financial decisions, such as avoiding unnecessary debt and fostering sustainable financial practices. This awareness encourages better financial health, which ultimately benefits both borrowers and lenders alike.

The Future of Credit Assessment

The framework of the Five Cs of Credit will likely continue to evolve. As the financial landscape changes and as consumers' needs and behaviors adapt, credit assessment tools and methodologies will also transform. The focus may shift more towards holistic financial wellness, integrating behavioral finance concepts alongside traditional metrics of creditworthiness.

Conclusion

In conclusion, the Five Cs of Credit stand as a cornerstone in understanding credit assessment. Each element—Character, Capacity, Capital, Collateral, and Conditions—plays a pivotal role in evaluating the ability of borrowers to meet their obligations. For both borrowers and lenders, comprehending and applying these principles can lead to stronger financial decisions, enhanced credit risk management, and a healthier lending environment. As the financial landscape continues to evolve, these foundational principles will remain crucial in guiding equitable lending practices.

Q. 4 Briefly discuss the role and functions of the State Bank of Pakistan. (20)

State Bank of Pakistan is the Central Bank of the country. While its constitution, as originally laid down in the State Bank of Pakistan Order 1948, remained basically unchanged until 1st January 1974 when the Bank was nationalised, the scope of its functions was considerably enlarged. The State Bank of Pakistan Act 1956, with subsequent amendments, forms the basis of its operations today.

Under the State Bank of Pakistan Order 1948, the Bank was charged with the duty to "regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in Pakistan and generally to operate the currency and credit system of the country to its advantage". The scope of the Bank's operations was considerably widened in the State Bank of Pakistan Act 1956, which required the Bank to "regulate the monetary and credit system of Pakistan and to foster its growth in the best national interest with a view to securing monetary stability and fuller utilisation of the country's productive resources". Under financial sector reforms, the State Bank of Pakistan was granted autonomy in February 1994. On 21st January, 1997, this autonomy was further strengthened by issuing three Amendment Ordinances (which were approved by the Parliament in May, 1997) namely, State Bank of Pakistan Act, 1956, Banking Companies Ordinance, 1962 and Banks Nationalisation Act, 1974. The changes in the State Bank Act gave full and exclusive authority to the State Bank to regulate the banking sector, to conduct an independent monetary policy and to set limit on government borrowings from the State Bank of Pakistan. The amendments in Banks Nationalisation Act abolished the Pakistan Banking Council (an institution established to look after the affairs of NCBs) and institutionalised the process of appointment of the Chief Executives and Boards of the nationalised commercial banks (NCBs) and development finance institutions (DFIs), with the Sate Bank having a role in their appointment and removal. The amendments also increased the autonomy and accountability of the Chief Executives and the Boards of Directors of banks and DFIs.

Like a Central Bank in any developing country, State Bank of Pakistan performs both the traditional and developmental functions to achieve macro-economic goals. The traditional functions, which are generally performed by central banks almost all over the world, may be classified into two groups: (a) the primary functions including issue of notes, regulation and supervision of the financial system, bankers' bank, lender of the last resort, banker to Government, and conduct of monetary policy, and

(b) the secondary functions including the agency functions like management of public debt, management of foreign exchange, etc., and other functions like advising the government on policy matters and maintaining close relationships with international financial institutions. The non-traditional or promotional functions, performed by the State Bank include development of financial framework, institutionalisation of savings and investment, provision of training facilities to bankers, and provision of credit to priority sectors. The State Bank also has been playing an active part in the process of islamization of the banking system. The main functions and responsibilities of the State Bank can be broadly categorised as under.

Regulation Of Liquidity

Being the Central Bank of the country, State Bank of Pakistan has been entrusted with the responsibility to formulate and conduct monetary and credit policy in a manner consistent with the Government's targets for growth and inflation and the recommendations of the Monetary and Fiscal Policies Co-ordination Board with respect to macro-economic policy objectives. The basic objective underlying its functions is two-fold i.e. the maintenance of monetary stability, thereby leading towards the stability in the domestic prices, as well as the promotion of economic growth.

To regulate the volume and the direction of flow of credit to different uses and sectors, the Bank makes use of both direct and indirect instruments of monetary management. Until recently, the monetary and credit scenario was characterised by acute segmentation of credit markets with all the attendant distortions. Pakistan embarked upon a program of financial sector reforms in the late 1980s. A number of fundamental changes have since been made in the conduct of monetary management which essentially marked a departure from administrative controls and quantitative restrictions to market-based monetary management. A reserve money management programme has been developed. In terms of the programme, the intermediate target of M2 would be achieved by observing the desired path of reserve money - the operating target. While use in now being made of such indirect instruments of control as cash reserve ratio and liquidity ratio, the program's reliance is mainly on open market operations.

Regulation And Supervision

One of the fundamental responsibilities of the State Bank is regulation and supervision of the financial system to ensure its soundness and stability as well as to protect the interests of depositors. The rapid advancement in information technology, together with growing complexities of modern banking operations, has made the supervisory role more difficult and challenging. The institutional complexity is increasing, technical sophistication is improving and technical base of banking activities is expanding. All this requires the State Bank for endeavoring hard to keep pace with the fast-changing financial landscape of the country. Accordingly, the out dated inspection techniques have been replaced with the new ones to have better inspection and supervision of the financial institutions. The banking activities are now being monitored through a system of 'off-site' surveillance and 'on-site' inspection and supervision. Off-site surveillance is conducted by the State Bank through regular checking of various returns regularly received from the different banks. On other hand, on-site inspection is undertaken by the State Bank in the premises of the concerned banks when required.

To deepen and broaden financial markets as also to diversify the sources of credit, a number of non-bank financial institutions (NBFIs) were allowed to increase substantially. The State Bank has also been charged with the responsibilities of regulating and supervising of such institutions. To regulate and supervise the activities of these institutions, a new Department namely, NBFIs Regulation and Supervision Department was set up. Moreover, in order to safeguard the interest of ultimate users of the financial services, and to ensure the viability of institutions providing these services, the State Bank has issued a comprehensive set of Prudential Regulations (for commercial banks) and Rules of Business (for NBFIs).

The "Prudential Regulations" for banks, besides providing for credit and risk exposure limits, prescribe guide lines relating to classification of short-term and long-term loan facilities, set criteria for management, prohibit criminal use of banking channels for the purpose of money laundering and other unlawful activities, lay down rules for the payment of dividends, direct banks to refrain from window dressing and prohibit them to extend fresh laon to defaulters of old loans. The existing format of balance sheet and profit-and-loss account has been changed to conform to international standards, ensuring adequate transparency of operations. Revised capital requirements, envisaging minimum paid up capital of Rs.500 million have been enforced. Effective December,1997, every bank was required to maintain capital and unencumbered general reserves equivalent to 8 per cent of its risk weighted assets.

The "Rules of Business" for NBFIs became effective since the day NBFIs came under State Bank's jurisdiction. As from January, 1997, modarbas and leasing companies, which are also specialized type of NBFIs, are being regulated/supervised by the Securities and Exchange Commission (SECP), rather than the State Bank of Pakistan.

Exchange Rate Management And Balance Of Payments

One of the major responsibilities of the State Bank is the maintenance of external value of the currency. In this regard, the Bank is required, among other measures taken by it, to regulate foreign exchange reserves of the country in line with the stipulations of the Foreign Exchange Act 1947. As an agent to the Government, the Bank has been authorised to purchase and sale gold, silver or approved foreign exchange and transactions of Special Drawing Rights with the International Monetary Fund under sub-sections 13(a) and 13(f) of Section 17 of the State Bank of Pakistan Act, 1956.

The Bank is responsible to keep the exchange rate of the rupee at an appropriate level and prevent it from wide fluctuations in order to maintain competitiveness of our exports and maintain stability in the foreign exchange market. To achieve the objective, various exchange policies have been adopted from time to time keeping in view the prevailing circumstances. Pak-rupee remained linked to Pound Sterling till September, 1971 and subsequently to U.S. Dollar. However, it was decided to adopt the managed floating exchange rate system w.e.f. January 8, 1982 under which the value of the rupee was determined on daily basis, with reference to a basket of currencies of Pakistan's major trading partners and competitors. Adjustments were made in its value as and when the circumstances so warranted. During the course of time, an important development took place when Pakistan accepted obligations of Article-VIII, Section 2, 3 and 4 of the IMF Articles of Agreement, thereby making the Pak-rupee convertible for current international transactions with effect from July 1, 1994.

After nuclear detonation by Pakistan in 1998, a two-tier exchange rate system was introduced w.e.f. 22nd July 1998, with a view to reduce the pressure on official reserves and prevent the economy to some extent from adverse implications of sanctions imposed on Pakistan. However, effective 19th May 1999, the exchange rate has been unified, with the introduction of market-based floating exchange rate system, under which the exchange rate is determined by the demand and supply positions in the foreign exchange market. The surrender requirement of foreign exchange receipts on account of exports and services, previously required to be made to State Bank through authorized dealers, has now been done away with and the commercial banks and other authorised dealers have been made free to hold and undertake transaction in foreign currencies.

As the custodian of country's external reserves, the State Bank is also responsible for the management of the foreign exchange reserves. The task is being performed by an Investment Committee which, after taking into consideration the overall level of reserves, maturities and payment obligations, takes decision to make investment of surplus funds in such a manner that ensures liquidity of funds as well as maximises the earnings. These reserves are also being used for intervention in the foreign exchange market. For this purpose, a Foreign Exchange Dealing Room has been set up at the Central Directorate of State Bank of Pakistan and services of a 'Forex Expert' have been acquired.

Developmental Role Of State Bank

The responsibility of a Central Bank in a developing country goes well beyond the regulatory duties of managing the monetary policy in order to achieve the macro-economic goals. This role covers not only the development of important components of monetary and capital markets but also to assist the process of economic growth and promote the fuller utilisation of a country's resources.

Ever since its establishment, the State Bank of Pakistan, besides discharging its traditional functions of regulating money and credit, has played an active developmental role to promote the realisation of macro-economic goals. The explicit recognition of the promotional role of the Central Bank evidently stems from a desire to re-orientate all policies towards the goal of rapid economic growth. Accordingly, the orthodox central banking functions have been combined by the State Bank with a well-recognised developmental role.

The scope of Bank's operations has been widened considerably by including the economic growth objective in its statute under the State Bank of Pakistan Act 1956. The Bank's participation in the development process has been in the form of rehabilitation of banking system in Pakistan, development of new financial institutions and debt instruments in order to promote financial intermediation, establishment of Development Financial Institutions (DFIs), directing the use of credit according to selected development priorities, providing subsidised credit, and development of the capital market.

Q. 5 Write a note on the following: (20)

i. Islamic banking

Islamic banking operates based on the principles of Sharia law, which prohibits the payment or receipt of interest (Riba) and emphasizes ethical investments. Unlike conventional banking, which generates profit through interest, Islamic banks earn their revenue from profit-sharing arrangements, leasing activities, and trading. The fundamental concept of Islamic banking is to promote risk-sharing and financial transactions that are morally sound and beneficial to society. Consequently, financial products and services in Islamic banking are structured to align with Sharia principles, ensuring that all activities are compliant with Islamic ethical standards.

Islamic banking utilizes various financial instruments, such as Murabaha (cost-plus financing), Mudarabah (profit-sharing), and Ijarah (leasing), to facilitate economic activities. Murabaha, for example, involves the purchase of an asset by the bank, which is then sold to the customer at a profit margin agreed upon upfront. This approach allows customers to acquire goods without incurring interest. Mudarabah facilitates partnership models where one party provides capital while the other manages the investment, sharing profits according to a predetermined ratio. By relying on these principles, Islamic banks aim to contribute to socio-economic development while maintaining financial stability.

ii. Mobile banking

Mobile banking is a subset of e-banking that specifically focuses on services delivered through mobile devices, such as smartphones and tablets. This platform has gained popularity in recent years, primarily due to the widespread use of mobile technology and connectivity. Mobile banking provides customers with the flexibility to manage their accounts, execute transactions, and access financial information on-the-go. Users can make payments, check balances, and even receive alerts regarding account activity, all through mobile applications tailored for their specific bank.

The convenience of mobile banking has empowered users to engage with their finances in real-time. With a few taps, customers can perform transactions without being tied to a desktop setup, making banking activities much more spontaneous and user-friendly. Mobile banking applications often incorporate biometric security features such as fingerprint and facial recognition, enhancing security while simplifying user authentication. However, the dependence on electronic channels raises concerns about access for unbanked populations, as well as potential risks associated with inadequate security measures and unauthorized access.

iii. Internet banking

Internet banking, also known as online banking, refers to the digital platform through which customers can conduct financial transactions and manage their bank accounts using the internet. It allows users to perform a plethora of banking activities from the comfort of their homes or on the go via computers and mobile devices. This includes checking account balances, transferring funds, paying bills, and applying for financial products without the need to visit a physical bank branch. The convenience and 24/7 availability of internet banking have transformed the way people manage their finances, providing more flexibility than traditional banking services.

One of the significant advantages of internet banking is the time and cost efficiency it offers to both banks and customers. Customers can save on travel time and costs involved in visiting branches. Furthermore, banks reduce operational costs related to maintaining physical locations. Internet banking platforms often come equipped with additional features such as budgeting tools, transaction alerts, and personalized financial recommendations, helping customers make informed decisions. These tools enhance user experience, offering a more tailored approach to banking and financial management.

However, while internet banking provides numerous benefits, it also comes with risks, including cybersecurity threats and potential technical issues. Users must remain vigilant against phishing attacks, fraud, and data breaches that target online banking services. Banks invest heavily in security measures—such as encryption, multi-factor authentication, and robust customer support—to protect user information and ensure secure transactions. Continuous online awareness and education about potential threats serve as important components in safeguarding customers' financial well-being in the digital age.

iv. ZTBL

Zarai Taraqiati Bank Limited (ZTBL) is a development financial institution in Pakistan that primarily focuses on the agricultural sector. Established in 1952, ZTBL plays a crucial role in providing financial services and credit facilities specifically designed to support the growth and development of agriculture in the country. The bank aims to enhance farm productivity and profitability by offering tailored financial products to farmers, agribusinesses, and other stakeholders in the agricultural value chain. By making financing accessible to rural communities, ZTBL helps to boost agricultural output and contribute to food security.

ZTBL offers a diverse range of financial products and services, including crop loans, livestock financing, and microfinance initiatives. These products are designed to address the unique financial needs of farmers and agricultural enterprises, facilitating investments in modern farming techniques, equipment, and technology. Moreover, ZTBL provides advisory services and training to educate farmers about best practices, fostering sustainable farming methods and improving long-term agricultural productivity. Through these initiatives, ZTBL not only helps individual farmers but also stimulates rural economic development and enhances the overall agricultural landscape in Pakistan.

Despite its significant contributions, ZTBL faces several challenges, including issues related to loan recovery, competition from private banks, and the need for digital transformation. To remain relevant and effective, the bank must continue to innovate and adopt more streamlined processes, enhance digital banking services, and improve customer engagement. Furthermore, ZTBL is tasked with ensuring that its financial products remain affordable and accessible, which is vital for encouraging smallholder farmers to adopt financing solutions. By addressing these challenges, ZTBL can sustain its mission to support agricultural development and enhance livelihoods in rural communities across Pakistan.