

# Financial institutions and their role within the uk economy essay



These organisations can be seen on the most high streets. Their purpose is to supply a financial service to both the public and business organisations. Banks are public limited companies with their shares quoted on the stock exchange. Their aim is to make profit which will be distributed to their shareholders.

Banks play a very important role in our lives. Banks help us in buying houses and the nice, expensive cars we drive, without banks it would be very difficult to buy and live in expensive houses. Banks provide financial services to people and businesses. For example if we think about starting up a business, we will need banks financial support if we haven't got the full amount of money. They provide services for the convenient and safe flow of money in the economy.

Their role in the economy today is to provide customers with full range of products and services which include: current accounts, deposit accounts, standing orders and direct debits, overdrafts, insurance, loans, mortgages, debits and credits cards and much more. We use these banks facilities in our daily lives, for example to withdraw money when needed or to deposit money to save money in the bank. Banks bring together people who want to save money and people who want to borrow money. Recent News about HSBCHSBC has become the first major UK bank to offer mortgages that comply with Islamic law.

Under Islamic law, the receipt and payment of interest is forbidden. As a result some of Britain's two million Muslims have chosen not to take out conventional mortgages or open bank accounts. This can leave them having

to pay in cash for large purchases, such as houses. Lease back Under the HSBC scheme, the bank buys the property and leases it back to the customer over an agreed term. The customer makes monthly payments made up of rent and contributions towards the purchase price. HSBC owns the property until customers have made their final payment.

Crucially, at no stage is the customer paying interest - the paying of 'rent' is seen as a fair payment for use of the property rather than a charge for borrowing money. In addition, HSBC is launching an Islamic law-compliant current account, which has no overdraft or credit card facility. Money paid into the current account will be administered in accordance with Islamic law and not used for generating interest. The current account and mortgage products are to be introduced in selected HSBC branches from 14 July. Huge market Previously only relatively small institutions such as the National Bank of Kuwait and the West Bromwich Building Society have offered tailored Islamic financial products for UK customers.

This recent decision taken by HSBC for the Muslim community settled in UK, have made Muslim around the UK very happy and pleased with this particular high street banks. If banks disappeared overnight, our economy will suffer, it will be like a nightmare, because people will no long have somewhere to safely store money, and there will be fewer organisations to offer credit facilities, overdrafts, loans and mortgages. People will be less likely to spend money or they will not have enough money to spend. For example people in our economy are suffering from credit crunch, because there is a reduction in the availability of loans and credits. People are having problems because they now have less to spend and there is a rise in interest <https://assignbuster.com/financial-institutions-and-their-role-within-the-uk-economy-essay/>

rates, so for instance if they borrow money, they will have to pay a lot more back. Just imagine if there were no banks our economy will collapse, new businesses will be less likely to survive and start up, and people will have difficulties in buying homes and cars.

This also could cause loss of employment opportunities and a reduction in amount of products and services available for people to buy. Therefore we cannot survive without banks, we rely on banks to provide us with financial support, banks also support business, so that they can survive in the economy by providing them with loans and help them grow and succeed. Banks enable us to store money safely and we also earn interest on our saved amount of money which is beneficial in a lot of ways. Because of banks we have a safe future, we are able to get a credit from bank to buy houses, car and use overdraft facilities, which can again help us a lot in our daily lives, and we can take money out of the bank in an emergency without worrying about having money in our bank accounts. Building societies

Fact sheet on the role of the financial institutions Building societies The first building societies were formed about 200 years ago when some people got together to co-operate with each other in building their own houses.

Members regularly contributed to the society and built the houses together.

Each completed house was allocated by lottery to a member. They carried on until each member had his own house. The society, the house-building co-operative, was then dissolved. After a while building societies began to borrow money from investors to build houses more quickly and this was the start of permanent building societies, now simply called building societies.

Then about 100 years ago, most UK building societies stopped building

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houses and concentrated on providing capital for building houses, on providing mortgages. The Stock Exchange is one of the major financial institutions in the UK.

It is one of many such institutions around the world that are part of what are called capital markets. Capital markets play a vital part in helping businesses to raise funds for research and development, expansion and for starting up. What does the Stock Exchange do? There are two primary roles for the Stock Exchange - the first is to help new firms sell shares to raise capital (finance to get a business up and running) which is referred to as the Primary Market, and the second is to act as an intermediary to bring together those who wish to sell shares with those who wish to buy - the Secondary Market. The Stock Exchange - How do Firms Raise Finance? The London Stock Exchange (LSE) tends to deal with firms that are relatively large in size. A sole trader for example is likely to have little or nothing to do with the LSE so this example is based on a firm that is relatively large in size.

The Stock Exchange - The Role of the Stock Exchange. The Stock Exchange acts on two levels - one as a primary market and the other as a secondary market. As a primary market, the Stock Exchange will liaise with investment banks and businesses that are looking to raise capital by selling shares. This process involves the business being 'listed' on the Stock Exchange or 'floating'. In this case, the business will effectively get its capital through the initial sale of its shares. Much of the Stock Exchange's work, however, is as a secondary market. People buying shares may wish to do so for a variety of reasons - to secure dividends or to see the price of the shares rise, for example.

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If people wish to sell shares then it would be very inconvenient for the business itself to take the shares back and then sell them on to someone else. Such a process would be extremely disruptive and not help planning. The Stock Exchange, therefore, acts as a market that puts those wanting to sell shares in touch with those seeking to buy - effectively the Stock Exchange is a market for second hand shares! To facilitate this process the market has Two main ' players'. The modern Stock Exchange operates through computer based trading.

Both stockbrokers and market makers need access to high quality information and ICT facilities make this much easier. The Impact of Stock Exchange on UK