Why do we have Banks?

Banks provide the following:

Safety	Enables you to deposit your money in a safe place.
Spending control	To have your money in a place where you are to an extent restricted in the spending i.e. having it in a savings account.
Interest	Allows you to earn interest on you money.
Services-	Provide services that are useful such as loans, sale and purchase of foreign currencies, ATM cards, credit cards, telephone banking, safety deposit boxes; overseas payments etc.

What happens to your money in the Banks?

The Banks accept your money and (you) the depositor make the decision whether your money goes into a savings, time or chequing account.

They then use your money to make loans and other investments – i.e. they lend most of the money collected including yours to people who need to borrow, and they invest some in securities and bonds issued by Governments or private companies.

The interest received from loans granted and interest from investments, as well as income from services offered, are used to pay interest on your money. and also pays for the running of the bank.

Repayment of deposits

Generally, banks are expected to pay you your money when you request it. However, if your money is in a fixed deposit **[**i.e. you promised the bank to leave your money there for a specified period**]** and you request it before the end of the specified period you may have to pay a penalty for the bank to “break” the fixed deposit and maybe wait a few days before you get your money.

To ensure that the banks have enough money to pay their depositors at any time or within a specified time period, the law that governs the operations of the banks requires that all banks hold liquid assets equal to 25% of their demand liabilities which would include your chequing account and your savings account, and 20% of their time liabilities which would include your fixed deposits.

In addition, the banks must place some money with the central bank which is the Bank of Guyana. The money placed with the Bank of Guyana is part of the liquid assets the banks are required to have. Each bank is required to have the equivalent of 12% of all its liabilities with the Bank of Guyana in an account called the reserve requirement account.

“Liquid assets” means that the assets could be quickly converted to cash, if not already in a cash form.

The Financial Institutions Act of 1995 and the Bank of Guyana Act 1998 are the major laws governing the operations of banks.

Confidence in Banks

A bank can only function if it has the **confidence** of its customers.

Your money is placed in the banks because you are confident that it would be available upon request even though you know that the banks have invested the money.