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**1. Financial institution**

In financial economics, a financial institution an institution that provides financial services for its clients or members. Probably the most important financial service provided by financial institutions is acting as financial intermediaries.

First thing that people think of when hearing words financial institutions are banks. But banks are not even near to be the only financial institutions. Financial institutions are the firms that provide financial services and advices to its clients. The financial institutions are generally regulated by the financial laws of government authority. The variety of financial institutions reveals the complex requirements of both borrowers and lenders. Banks, building societies, investment trusts and pension funds are just a few of the organisations whose job it is to channel funds to those that require them.

These institutions operate in the short-term (money) market and the long-term (capital) market.

In the money market, the main activity centres around funds, which are lent for periods from as short as overnight up to about one year. The capital market focuses on money borrowed and lent for periods of five years or more.

**2. Types of financial institutions**

Various types of Financial Institutions are as follows:

* Commercial banks
* Credit unions
* Stock brokerage firms
* Asset management firms
* Insurance companies
* Finance companies
* Building Societies
* Retailers
* Investment funds and mutual funds

The various financial institutions generally act as the intermediaries between the capital market and debt market. But the service provided by financial institution depends on its type. The financial institutions are also responsible to transfer funds from investors to the companies. Typically, these are the key entities that control the flow of money in the economy.

The services provided by the various types of financial institutions may vary from one institution to another. For example, the services offered by the commercial banks are - insurance services, mortgages, loans and credit cards. The services provided by the brokerage firms, on the other hand, are different and they are - insurance, securities, mortgages, loans, credit cards, money market and check writing. The insurance companies offer - insurance services, securities, buying or selling service of the real estates, mortgages, loans, credit cards and check writing.

**3.** **Functions of financial institutions**

The main functions of financial institutions are:

1. To help businesses manage risks e.g. by providing insurance in the case of insurance companies.
2. To provide corporate finance as is the case with banks, or investment trusts, which enable lots of investors to own shares in a range of companies.

Another function of financial institutions is the transformation of assets, which are acquired through markets, into a wider and more preferable form, which becomes their liability – this function is performed mainly by financial intermediaries, which is undeniably the most important category of financial institutions. Also financial institutions are involved in exchanging of assets on behalf of their customers. Other than that, exchanging of assets for their own personal accounts is also part of their job. Furthermore, financial institutions create financial assets for their customers and sell those assets to other market participants for a definite emolument. In addition to all these functions, financial institutions are also involved in providing investment advice to market participants and managing the portfolios of market participants.

**4.** **Information of some types of FI**

The *credit union* is co-operative financial institution, which is usually controlled by the members of the union. The major difference between the credit unions and banks is that the credit unions are owned by the members having accounts in it. The credit unions are generally non-profit organizations. The credit union can also be termed as profit enterprise dedicated to earn profit for its members. The profits earned by the union are received by the members in the forms of dividends. The dividends are paid on savings that are taxed as ordinary income. Depending on the financial structure of the country, the functionality of credit unions may vary in different countries. The operations of the credit unions of UK, credit unions of Canada and U.S credit unions are different from each other.

The *stock brokerage firms* are the other types of financial institutions that help both the corporations and individuals to invest in the stock market. There are primarily two types of stock brokerage firms, based on their mode of operation - the online stock brokerage firms and the off line stock brokerage firms. The off line stock brokerage firms are the traditional stock brokerage firms. The online stock brokerage firms are those, who offer their services through the Internet.

Another type of financial institution is the *asset management firms*. The prime functionality of these firms is to manage various securities and assets to meet the financial goals of the investors. The firms also offer fund management advice and decisions to the corporations and individuals.

*Investment funds*. These work like regulary companies. You buy their shares over stock market and as they invest and achieve returns, you get them in the form of capital gains and/or dividends. In case company goes does you loose it all. Also you can’t get all your money of the investment fund if you don’t find a buyer and this is the main difference between investment funds and mutual funds.

*Mutual funds* are also companies, but you don’t buy their shares, you buy their points. You always know how much each point is worth and as the fund makes some returns, the value of your point goes up. The best part of mutual funds is, that you can get money out anytime you want. You don’t have to seek the buyer for your points, you just have to ask them to pay you out. In this view mutual funds are much better than investment funds, but because of the need for liquidity they cannot take on all investments making their returns a little smaller then returns of investments funds.

**5. Regulations of financial institutions**

Financial institutions in most countries operate in a heavily regulated environment as they are critical parts of countries' economies. Regulation structures differ in each country, but typically involve prudential regulation as well as consumer protection and market stability. Some countries have one consolidated agency that regulates all financial institutions while other have separate agencies for different types of institutions such as banks, insurance companies and brokers.

Countries that have separate agencies include the United States, where the key governing bodies are the Federal Financial Institutions Examination Council (FDIC), Office of the Comptroller of the Currency - National Banks, Federal Deposit Insurance Corporation (FDIC) State "non-member" banks, National Credit Union Administration (NCUA) - Credit Unions, Federal Reserve (Fed) - "member" Banks, Office of Thrift Supervision - National Savings & Loan Association, State governments each often regulate and charter financial institutions.

Countries that have one consolidated financial regulator include United Kingdom with the Financial Services Authority, Norway with the Financial Supervisory Authority of Norway, Hong Kong with Hong Kong Monetary Authority and Russia with Central Bank of Russia.

**The list of literature**

1. http://en.wikipedia.org/wiki/Financial\_institution
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3. http://www.investorwords.com/