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Banking Law

Part 1

The banking sector in Saudi Arabia is divided into two different banking systems – investment and commercial banks. Although both banks are involved in the region's lending market, their differences span from their primary function to other distinct services they offer. A Commercial bank provides financial assistance to individuals as well as groups of customers. On the flip side, an investment bank provides services and operations in sundry areas accompanying retail business like insurance trading, real estate and lending (EDUCBA, 2014). Subsequently, a commercial bank has a higher customer base than an investment bank. This is because an investment bank provides its services to the Saudi government, investors, and corporations. A commercial bank is a financial institution to all Saudi Arabian citizens within the nation; thus, it has a broad customer base. The main purpose of a commercial bank is lending money, facilitate deposits, and carry out all individual and corporate commercial transactions (EDUCBA, 2014). Also, the provision of loans to the public fulfills the demand for credit in the market. Besides, money mobilization in Saudi Arabian economy is connected to its commercial bank.

On the other hand, investment bank principally deals with equity and bond testing, hence linked to stocks' performance in Saudi Arabia. Lastly, commercial banks earn their profits from the difference between rates of lending and deposit. Correspondingly, Saudi investment bank earns proceeds from fees charged on its target client base's various services.

The Saudi commercial bank provides three primary services. These are mortgage loans, deposit and lending loans. On the other hand, an investment bank's primary services are buying as well as selling of stocks together with bonds (EDUCBA, 2014). Likewise, the secondary

services given by a commercial bank include card facilities, overdrafts, promissory notes, locker facilities, among others. An investment bank's secondary services include asset management, advisory services, brokerage services, and raising money.

Part 2

Relative to Saudi Bank, the commercial bank offers a larger number of products compared to investment banks. In essence, a commercial bank is more open to spreading its risk since there is a substantial spread of products. The bank can apply its credit risk. The above proposition implies that a vast number of products infers greater earnings from provided services, which comes in commissions and fees. In that regard, the Saudi commercial bank does not depend on its deposits to affect loan commitments. Therefore, Saudi commercial bank has a more significant loan to deposit ratio as it willingly assumes on more credit risk since it has alternative means of building funds.

On the other hand, things are entirely different in an investment bank that offers limited products. An investment bank caps the products it provides to below ten. The latter slim product portfolio is based on the motive that investment banks exhibit an inherent tendency to focus on specialization. Nonetheless, since investment bank specializes in investment, its risk spread is high and its venture and portfolio are risk-taking. Hence, a commercial bank is better positioned to generate an enormous economic scope than an investment bank because it has a deep-rooted lending business (Drucker & Puri, 2005).

Subsequently, there is a significant difference between the credit risk taken by an investment together with commercial bank. In particular, lending habits of an investment bank as well as commercial bank have considerable variance due to the change of funding source. Lastly, a commercial bank has a positive correlation between its income and credit risk-taking

comportment, whereas an investment bank does not. This is because a commercial bank can increase its funds by collecting more deposits and lending them out to customers to accumulate interest-earning (Kashyap et al., 2002). However, although an investment bank is motivated by profit, it offers finance and investment to alternative units.

References

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