**Lesson one**

**Introduction to Financial Institution**

Financial Institutions are referred to as a company that deals in all types of finance-related businesses. They are different from banks and play a very important part in broadening the financial services in the country. They provide a very attractive rate of returns to the customers in comparison to any government-centric banks. It deals in loans and advances and also specializes in some specified sectors like hire purchases and leasing etc.

**Explanation**

The financial institution deals with finance-related services. These are gaining popularity day by day nowadays. The attractive rate of returns on the customer’s investment is very demanding. It also provides specialized services like hire purchase and leasing, etc. The simple and organized procedure of the institutions is becoming very complementary. It provides a broad range of business opportunities. There are different types of financial institutions. The goal of all the institutions is different and they provide different services and have different levels of risk associated with it. All the financial institutions have unique features and it works in a specialized way. The financial institution is gaining immense popularity in broadening the finance-related services in the country.

**Role of Financial Institutions**

* The financial institution provides varied kinds of financial services to the customers.
* The financial institution provides an attractive rate of return to the customers.
* Promotes the direct investment by the customers and making them understand the risk associated with that as well.
* It helps in forming the liquidity of the stock in case of an emergency in the financial markets.

**Features**

* It provides a high rate of return to the customers who have invested in the financial institution.
* It reduces the cost of financial services provided.
* It is considered very important for the development of financial services in the country.
* It also advises the customers on how to deal with the equity and the other securities bought and sold in the market.
* It helps to improvise decision making because it follows a systematic approach to calculate all the risks and rewards.

**Part Two**

**How does it work?**

Financial institutions work like banks in some ways. They give loans and advances to the customers and also set a platform for the customers to do some investments. The customers get exciting offers and returns from them and therefore these institutions are gaining popularity. It also provide consultancy services to the clients on their investments related to the financial markets where the huge amount of risk is involved. Moreover, the customers who are handing over their hard-earned monies to such institutions should check for the history and origin of this financial institution.

**Types of Financial Institutions**

* Investment Banks
* Commercial Banks
* Internet Banks
* [Retail Banking](https://www.educba.com/retail-banking/)
* Insurance companies
* Mortgage companies.

**Functions**

* The financial institutions provide loans and advances to the customers.
* The rate of return is very high in case of investment made in this type of institution.
* It also gives a high rated consultancy to the customers for their beneficial investments.
* It also serve as a depository for their customers.
* It can also make an effort to minimize the monitoring cost of the company.
* All the finance related work is done by the financial institution or on behalf of the customers.

Part Three

**Financial Institutions vs Banks**

* The functions of payments of various services are done by the bank but the financial institutions will not be able to do so.
* It cannot accept the demand deposit whereas the banks can accept the demand deposit by the customers.
* Banks provide the guarantee of repayment of the deposit whereas the financial institutions may fail to do so.

**Advantages and Disadvantages**

Below are the advantages and disadvantages:

**Advantages**

* The financial institutions help in the upliftment of the economies of our country.
* It has been proved to be more successful in terms of return earned by the customers since the rate of return is higher compared to any other place.
* It is also a smart way to invest money and keep the money rotated in the finance market.
* It provides financial services to the customers.
* The repayment facility is also very well managed in the financial institutions.
* It also provide underwriting facilities.

**Disadvantages**

* The process is very complex for some customers because they try to indulge in various businesses and end up making confusion for themselves.
* In case of default done by the management of the financial institutions, the customers will have to face major worse circumstances. The money which they have invested may not be recovered. Sometimes the principal amount is not assured to be recovered because the government in case of default announces a certain sum of money which will be repaid and most of the time the amount of government declare to be repaid is very less in comparison to the principal amount of the investment made.

**Conclusion**

The financial institutions provide the best way to invest the money and to earn good returns from that investment. It try to help our nation in building up economies. They provide a very unique and advanced way to keep the money safe. The customers should also understand that the institutions also carry some risk factors associated with their services. The customers should very carefully understand the policies of the institutions and should check the Non-performing Asset of the company before investing their money in the financial institutions. The default in the case is a panic situation because the repayment can be very tough in that situation.