



Chapter 1 – The Financial Services Sector

4 Questions

Purpose &
Structure of
Financial
Services
Industry

Financial
Markets



Core Functions of Financial Services Industry

Investment Chain

Investors and borrowers are brought together, bringing finance to business and opportunities for savers to manage their finances over their lifetime

Risk Management

Allows for risks to be managed effectively and efficiently through the use of insurance and increasingly sophisticated derivatives

Payment Systems

Provide the practical mechanisms for money to be managed, transmitted and received quickly and reliably. E.g. SWIFT

Main Institutions and Organisations

Industry Structure

- Wholesale and Institutional sector – Professional Sector
- Retail Sector

Major Difference

- There is a lot more protection afforded to retail clients
- This is often reflected in higher charges for the various financial services and products on offer to them.

Professional Financial Sector

- International banking
- Equity markets
- Bond markets
- Foreign exchange
- Derivatives
- Fund management
- Insurance
- Investment banking

Retail Sector

- Retail banking
- Insurance
- Pensions
- Investment services
- Financial planning and financial advice



Industry Participants - Banks

Retail Banks

- Deposit taking
- Lending
- Payment services
- Money transmission

Savings Institutions

- Specialised deposit companies
- Savings products
- Mortgage lending
- Typically mutual organisations
- Many have demutualised

Investment Banks

- Corporate finance and advisory work
- Banking, for governments, institutions and companies
- Treasury management
- Investment management
- Securities trading

Custodian Banks

- Holding assets in safekeeping
- Arranging settlement of purchases and sales of securities
- Collecting income from assets
- Providing information on underlying companies
- Managing cash transactions
- Performing foreign exchange transactions



Pension Funds

Receive contributions from or on behalf of employees and then provide an income on retirement

Long-term investors in shares, bonds and cash. Some also invest in physical assets like property

Wealth Managers

Stockbrokers

- Members of a stock exchange
- Buy and Sell shares
- Execution only services
- Institutional brokers

Fund Managers

- Also known as investment managers, portfolio managers or asset managers
- Segmented between Institutional, Retail and Private Client (DIMs)
- Over US\$90 trillion FUM

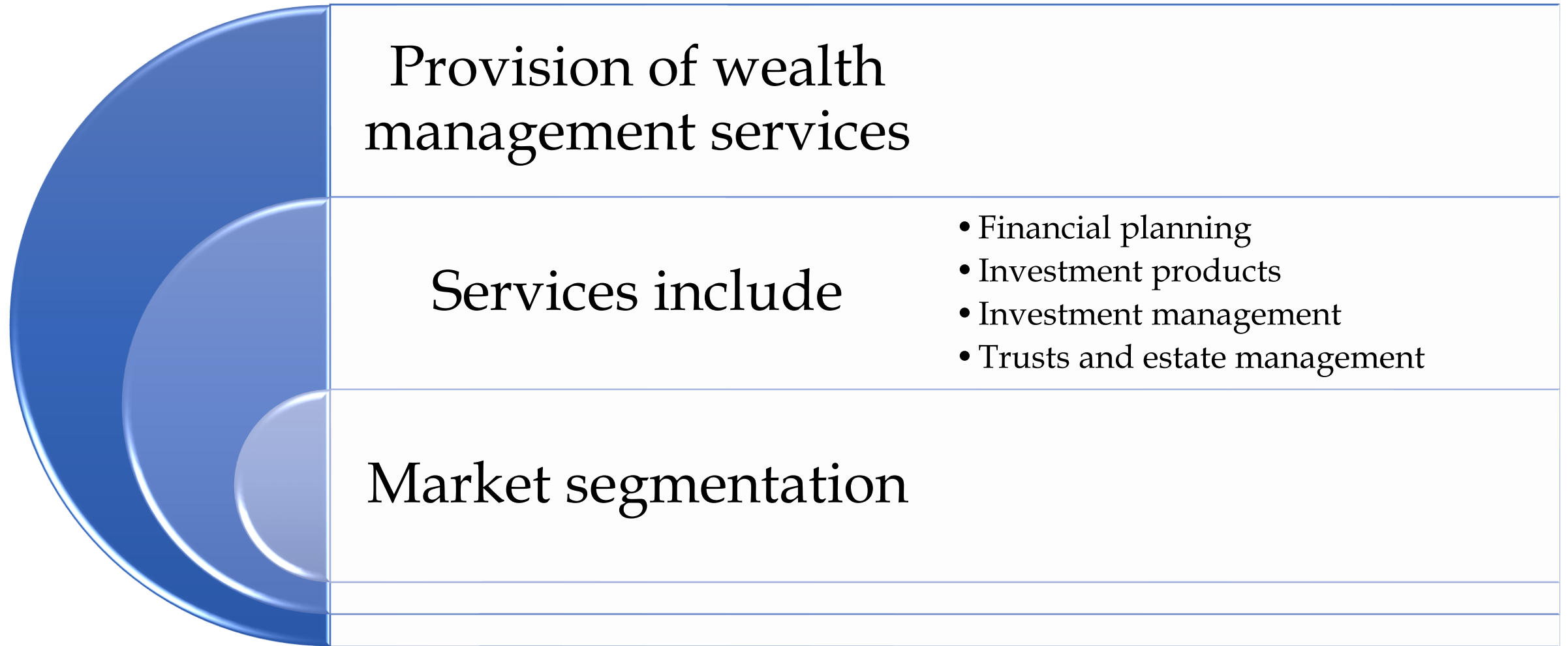
Private Banks

- Tailored services to HNWIs
- Wider range of investment vehicles
- Integrated banking plus extra services
- Range of estate and tax planning services

Wealth Managers

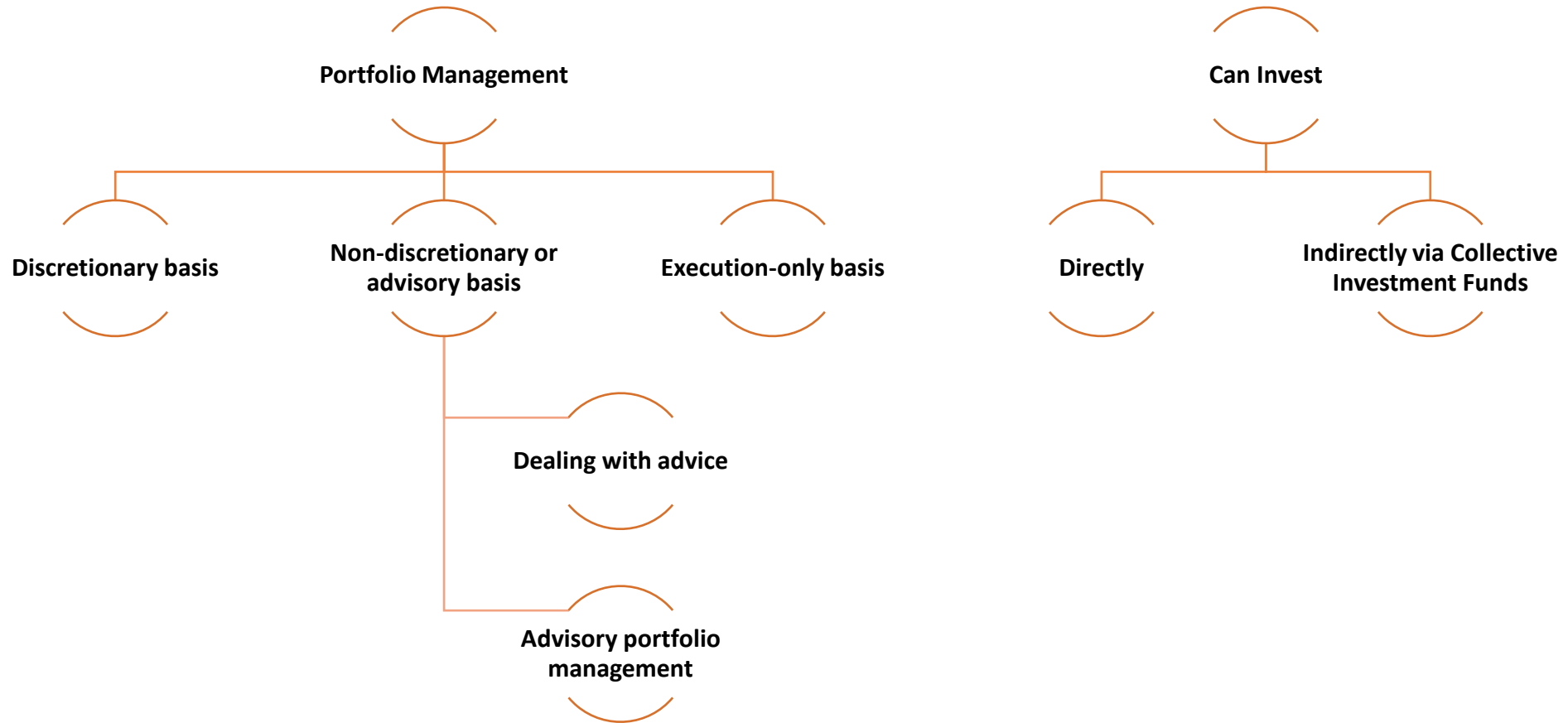
- The term financial adviser is now more often referred to as wealth adviser or manager.
- Does not run assets but advises on financial planning to meet a need or a goal





Wealth Management

Mass affluent over US\$100,000
High net worth individuals over US\$1 million
Very high net worth individuals over US\$5 million
Ultra high net worth individuals over US\$30 million



Financial Advisers & Platforms

Can also be called wealth managers

- Undertake the choice of funds for their client as well.
- Need appropriate licence and inform the client.

A wide choice of funds is now available because of the proliferation of platforms

Platforms are online services used by financial advisers, also called intermediaries to view and administer their clients' financial assets and wider financial planning requirements.

- Enable advisers to take a holistic view of the various assets that a client has in a variety of accounts.
- Advisers also benefit from using these accounts to simplify and bring some level of automation to their back office using internet technology.
- Also offer a range of tools which allow advisers to see and analyse a client's overall portfolio
- Can also including discretionary managed portfolios for clients with sufficient assets.
- Generally arrange custody for clients' assets.

