Module 2:

Bank Accounts and Deposits

Table of Contents

Module 2: Bank Accounts and Deposits

Importance 3
Learning Objectives 3
Definition of a Bank: 3
Responsibilities of the customer: 6
Types of Banks 7
Investment Banks 7
Retail Banks 7
Commercial Banks 7
Specialized Banks 8
Islamic Banks: 8
Main Islamic Banking Terminologies: 9
Type of Accounts: 10
What is a Power of Attorney? 12
General Power of attorney 12
Special Power of attorney 12
A- Liability Side: 14
Joint Account 18
Dormant Account 20
Frozen Account 21
Conditional Bequest 21
B. Asset side 21
Overdrawn Account 21
SWIFT 30
Incoming & Outgoing transfers: 31
Foreign Exchange “FOREX”: 33
Summary 37

Train for Employment

Module 2: Bank Accounts and Deposits

Importance

The Banking operations are developing throughout the time on a very rapid manner. Such development has been reflected on many if not all banking activities for the purpose of better quality of customer service, better bank's profitability, & more controls. As methodologies keep on changing world wide we need to coop with all development and master the means and ways of modern banking operations.

Learning Objectives

Upon the completion of this module, you will be able to:

- Describe the importance of bank deposits
- List the type of bank accounts
- Explain the process of bank transfers

Definition of a Bank:

- A financial institution that accepts deposits and channels the money into lending activities.
- A business establishment in which money is kept for saving or commercial purposes or is invested, supplied for loans, or exchanged.
- A commercial institution licensed as a receiver of deposits. Banks are mainly concerned with making and receiving payments as well as supplying short-term loans to individuals & corporate.
- According to britannica.com , a bank is: an institution that deals in money and its substitutes and provides other financial services. Banks accept deposits and make loans and derive a profit from the difference in the interest rates paid and charged, respectively.
- Banks are critical to our economy. The primary function of banks is to put their account holders‘ money to use by lending it out to others who can then use it to buy personal needs, businesses, ... etc

A bank acts as a middleman between suppliers of funds and users of funds, substituting its own credit judgment for that of the ultimate suppliers of funds, collecting those funds from three sources: checking accounts, savings, and time deposits; short-term borrowings from other banks; and equity capital. A bank earns money by reinvesting these funds in longer-term assets.

A bank generates a profit from the differential between what level of interest it pays for deposits and other sources of funds, and what level of interest it charges in its lending activities.

This difference is referred to as the *spread* between the cost of funds and the loan interest rate. Historically, profitability from lending activities has been cyclic and dependent on the needs and strengths of loan customers. In recent history, investors have demanded a more stable revenue stream and banks have therefore placed more emphasis on transaction fees, primarily loan fees but also including service charges on array of deposit activities (International Banking, Foreign Exchange, Insurance, Investments, Wire Transfers, etc.).

Circulation of funds

- When you deposit your money in the bank, your money goes into a big pool of money along with everyone else's, and your account is credited with the amount of your deposit. When you write checks or make withdrawals, that amount is deducted from your account balance. Interest you earn on your balance is also added to your account.
- Banks create money in the economy by making loans. The amount of money that banks can lend is directly affected by the reserve requirement set by the Central Bank.

Examples for services which typically offered by banks:

- Accepting deposits from customers and issuing **Checking** and **Saving Accounts** to individuals and corporate.
- Extending loans to individuals and corporate.
- Cashing checks.
- Facilitating money transactions such as wire transfers and cashier's checks.
- Issuing credit cards, prepaid cards and debit cards.
- Storing valuables.
- Issuing L/G's & opening L/C's
- Checks collection.
- Electronic Services (E-banking, Phone Banking, Internet Banking ……….)

What is the bank account?

A **bank account** is a monetary account recording the balance of money for a customer. Bank accounts may have a positive or credit balance where the bank holds money on behalf of the customer; or a negative or debit balance where the customer owes the bank money. **Some accounts are defined by their function rather than nature of the balance they hold**. Bank accounts designed to process large numbers of transactions may offer credit and debit facilities. These transactional accounts are called by different names in different countries: in the U.S. and Canada, they are checking accounts, in the UK current accounts.

Duties of the banker:

1. To perform all transactions that the customer requires in timely & professional way. The banker should act fairly & reasonably when dealing with customer.
2. Secrecy: Is a very important duty in banker's relationship with customer. A bank must not disclose any details of customer transactions even after the customer no longer maintains any accounts with the bank.

   There are certain conditions where the bank can disclose information as:
   - When disclosure is by law or legal case or tax authority.
   - When disclosure is made with customer consent.

   Guidelines to maintain confidentiality:

   A. Not to discuss confidential matters in lifts, corridors…etc
   B. Not to leave confidential documents lying unattended on your desk, particularly overnight or at lunchtime
   C. Preliminary draft documents not being retained should be placed in paper shredders.

3. Another duty a banker owes a customer is to provide when requested bankers opinions, in terms of investing his money, better utilization of bank's different products facilities, credit lines…etc.
4. Banker should be dressed appropriately to convey a sense of professionalism.
5. Banker shouldn't be rude or argue with the customer
6. Each employee shall assure that bank assets are used only for proper bank purposes and are protected from loss or damage. For example, buildings, equipment and supplies are covered as are money, computer software, data held on computers and the goodwill of the bank.

Responsibilities of the customer:

1. To maintain regular accounts with sufficient funds to cover his financial obligations otherwise the client will be considered as a "**Bad Credit**".
2. Not to miss-use his bank accounts.
3. Not to proceed with any illegal transactions.

Why does banking work?

Banking is all about trust. We trust that the bank will have our money for us when we go to get it. We trust that it will honor the checks we write to pay our bills. The thing that's hard to grasp is the fact that while people are putting money into the bank every day, the bank is lending that same money and more to other people every day. Banks consistently extend more credit than they have cash. That's a little scary; but if you go to the bank and demand your money, you'll get it.

However, if everyone goes to the bank at the same time and demands their money (a run on the bank), there might be problem.

Even though the Central Bank requires that banks keep a certain percentage of their money in reserve, if everyone came to withdraw their money at the same time, there wouldn't be enough. In the event of a bank failure, your money is protected within the Central Banks Controls & Supervision.

The key to the success of banking, however, still lies in the confidence that consumers have in the bank's ability to grow and protect their money. Because banks rely so heavily on consumer trust, and trust depends on the perception of integrity, the banking industry is highly regulated by the government.

How do banks make money?

Banks are just like other businesses. Their product just happens to be **money**. Other businesses sell services; banks sell money -- in the form of loans, **certificates of deposit (CDs)** and other financial products. They make money on the interest they charge on loans because that interest is higher than the interest they pay on depositors' accounts.

The interest rate a bank charges its borrowers depends on both the number of people who want to borrow and the amount of money the bank has available to lend. As we mentioned in the previous section, the amount available to lend also depends upon the reserve requirement the Central bank has set. At the same time, it may also be affected by the **funds rate**, which is the interest rate that banks charge each other for short-term loans to meet their reserve requirements.

Types of Banks

Investment Banks

A financial institution that deals primarily with raising capital, corporate mergers and acquisitions, and securities trades.

Moreover they are considered as a financial intermediary that performs a variety of services. This includes underwriting, acting as an intermediary between an issuer of securities and the investing public, facilitating mergers and other corporate reorganizations, and also acting as a broker for institutional clients. The role of the investment bank begins with pre-underwriting counseling and continues after the distribution of securities in the form of advice.

Retail Banks

Retail banking is typical mass-market banking where individual customers use local branches of larger commercial banks. Services offered include: savings and checking accounts, mortgages, personal loans, debit cards, credit cards, and so forth.

Commercial Banks

It is a financial institution that provides services such as a accepting deposits and giving business loans. State bank or **National Bank** owned by stockholders, which accepts demand deposits, makes loans, and performs other banking services for the public. The term commercial bank is synonymous with **Full Service Bank** because many commercial banks supply foreign exchange, trade financing, and international banking.

It is a bank that makes loans to businesses, consumers, and non-business institutions. Early commercial banks were limited to accepting deposits of money or valuables for safekeeping. By the 17th century most of the essentials of modern banking, including **Foreign Exchange**, the payment of **Interest**, and the granting of loans, were in place. Because a commercial bank is required to hold only a fraction of its deposits as cash reserves, it can use some of the money deposited by its customers to extend loans.

Specialized Banks

- **Industrial:** Banks which grant loans to finance industrial projects.

  Example: Industrial Development and Workers Bank of Egypt

- **Real Estate:** Banks which grant loans against real estates mortgage.

Example for Real Estate: Buildings, Lands, Apartments, Malls, Industrial Parks, Gas Stations, Convenience Stores and Office Towers.

  Example: Egyptian Arab Land Bank - Housing & Development Bank

- **Agricultural:** Banks which grant loans to finance agricultural projects

  Example: Principle Bank for Development & Agricultural Credit.

Islamic Banks:

It is a banking system that is based on the principles of Islamic law (also known as Sharia, or Shariah) and guided by Islamic economics. Two basic principles behind Islamic banking are the **sharing of profit and loss** and, significantly, the **prohibition of the collection and payment of interest.** Islamic law prohibits the collection of interest, commonly called *riba*, although revenue-sharing arrangements are generally permitted. With increased trade between western nations and Islamic nations in the Middle East, Citibank, Deutsche Bank, and other western banks have been opening Islamic banking units since 1996. Because modern Islamic banking is relatively new, rules for financial accounting, bank governance, and lending standards are continually evolving as business practices become more refined. The Institute of Islamic Banking and Insurance, a London organization, says Islamic banks are structured to retain a clearly differentiated status between shareholders' capital and clients' deposits to ensure correct profit sharing according to Islamic law. Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of Shariah. Amongst the common Islamic concepts used in Islamic banking are profit sharing (**Mudaraba**), safekeeping (**Wadiah**), joint venture (**Musharakah**), cost plus (**Murabahah**), and leasing (**Ijarah**).

Here's an example of how the Islamic banking system uses methods of profit/loss sharing to facilitate financial transactions: for some types of loans, the borrower only needs to pay back the amount owed to the lender, but the borrower can choose to pay the lender a small amount of money to serve as a gratuity.
Since this system of banking is grounded in Islamic principles, all the undertakings of the banks follow Islamic morals. Therefore, it could be said that financial transactions within Islamic banking are a culturally-distinct form of ethical investing (for example, investments involving alcohol, gambling, pork, etc. are prohibited).

Main Islamic Banking Terminologies:

Ijara:

A type of leasing agreement whereby the bank buys an asset such as a car or factory equipment and then leases it to a customer at a fixed price for a set duration. The lessee benefit from the immediate use of the asset – which can be used to generate income – while the bank retains ownership of the item and takes it back at the end of the lease.

Mudaraba:

A profit – and loss- sharing agreement between a bank and an entrepreneur in which, the bank provides the funds and the entrepreneur provides the skills and management. Any profits made are shared between the two "partners" according to an agreed ratio. The arrangement continues until the borrower pays off the loan.

Murabaha:

A" rent-to-own" contract in which the bank purchases a product such as a car or computer equipment on behalf of the individual and resells it to them with an agreed upon profit margin. This allows the individual to make a major purchase on installments without having to take out a loan or pay interest. Simply, they are making a purchase from the bank, which owns the item until it is fully paid off. As late fees are prohibited, the bank relies on the integrity of the borrower.

Musharaka:

A joint venture between a bank and its depositors to provide venture capital to a project. All partners share in the risk and rewards. While the profit ratio between parties can be distributed according to any agreement, losses must be distributed in proportion to the initial investments.

Riba:

A return on money for lending money in which, the borrower bears all the risk. Riba is strictly forbidden in Islam.

Sukuk:

A financial certificate often referred to as an Islamic bond. The main difference between Sukuk and traditional bonds is that the issuer must have assets that cover their full value. This in essence makes the buyer of the Sukuk a partial owner of these assets, which are leased to the buyer to yield the return.

Takaful:

A form of insurance based on the principals of shared responsibility, cooperation and, common interest that provides mutual protection of assets and property in the event of a loss by one of its members. Takaful members function as insurers as well as the insured.

Type of Accounts:

Accounts could be segregated according to:

a) Legal Form
b) Allocation within Balance sheet (Liabilities – Assets)

General Notes:

1. **All accounts – current and saving- under the liability side could be one of the following:**
    - Joint Accounts
    - Dormant Accounts
    - Minor accounts
    - Frozen accounts
    - Deceased accounts
    - Conditional Bequest accounts

2. **Basic Bank forms:**
    - Account opening form
    - Signature cards
    - KYC form (know your client)

3. Customer's ID is to be national ID,for Egyptians and Copy of passport for resident foreigners All copies of required documents are to be signed "**Original Seen** "by the concerned officer.
4. All clients' signatures are to be" **Attested By "**the concerned account officer.
5. Client has to be informed by the bank officer with all **bank commission and tariff**
6. Customer has to sign two signature card.
7. All clients' files have to be kept in **fire proof cabinet under dual control**.
8. **KYC** form is to be updated every 3 years.
9. In case of any irregularities related to opening of the account branch manager / deputy approval should be fulfilled

Signatures scanning:

- Upon opening an account, 2 signature cards should be obtained per client. Every card should bear client signature with signature status (One or two signatures required).
- Account officer has to scan the signature to activate the account (not in all banks).
- One signature card has to be delivered to cash area against cash head's signature
- In case of closing the account, signature cards have to be withdrawn from cash area in addition to deleted from core banking system. All signature cards have to be kept on client file and kept under dual control.

Signatures amendments:

In case of signature amendments for individual account, the following steps should take place:

- Signature amendment has to be against written instruction from the client.
- Instruction should be stamped by time stamp machine upon received.
- If the client is not available, client can sign and verify his signature through a first class bank or through Egyptian embassy to be authenticated from Ministry of Foreign Affairs.
- After amendments, account officer has to ensure deletion of old signature and scanning of the new signature card.
- In case of current account, client has to confirm cashing checks signed with his old signature.
- Written balance confirmation is to be obtained from the client upon receiving the signature amendment request.

Account Closure based on customer's request :

1- A written request is to be received from the customer to close the account.

2- Client is to withdraw all available funds prior account closure.

3- Client has to deliver his ATM, credit card, check book... etc. to the bank.

4- Ensure the client does not maintain any time deposits, certificates of deposits, loans… etc.

Closing client's account upon bank discretion:

Account could be closed with a written approval from the branch manager or his deputy for the following reason:

- Checks withdrawn on clients accounts with insufficient funds. **Client with Bad Credit.**
- Legal action.
- Client's signs signature different than his specimen more than once.
- Many stop payments placed on checks without accepted clarification.
- Involvement of accounts in any transaction related to money laundry restriction.

What is a Power of Attorney?

Power of attorney is a legal document that authorizes another person called an agent to act on behalf of the person who created the power of attorney known as the Principal

There are two main types of Power of Attorney:

General Power of attorney

A general power of attorney gives broad authorizations to the agent. The agent may be able to make financial decisions, legal choices, or business decisions.

Special Power of attorney

A special power of attorney narrows what choices the agent can make. For example, you could create a special power of attorney which only allows your spouse to make withdraw money from your saving account only. Or you could create another POA to grant the ability to use certain assets.

Notes: General Power of Attorney

- Account officer has to ensure that all data stated in the official general Power of Attorney is valid and client signature is verified and authenticated from public notary.
- Copy of ID should be obtained from the holder of the POA
- Before effecting any transaction a copy of the POA should be obtained with declaration from the holder that client is alive and the Power of Attorney is valid till date of transaction.
- If the POA is issued abroad, verification from embassy and authentication from Ministry of Foreign Affair is requested.

1. **Internal Power of Attorney:**

- Client has to sign the Power of Attorney using bank forms in front of the account officer.
- Two signature cards should be obtained from the person given the Power of Attorney as well as the customer.
- Signature is to be scanned with clear declaration that client has a Power of Attorney on the account.
- No amendments are accepted on the internal Power of Attorney’s text without prior approval from the legal department.

Cancellation of Internal POA:

- **Cancellation of Internal POA** is accepted either from the account holder or from the delegate. In this case, letter has to be issued to account holder asking for balance confirmation within 15 days.
- In case of not responding, this will be considered as a balance confirmation. This letter is to be sent by registered mail.

Opening under formation company account:

Documents required:

- All basic forms
- Copy of contract
- Official person in charge to open the account and complete registration procedures delegated from the shareholders وكيل المؤسسين
- Copy from general power of attorney from all shareholders.
- ID's copies of shareholders
- Account officer has to set blocking on amount deposited in the account.
- Request for certificate issuance should be signed by the official person stating the following (name of authority/ percentage of shares/ shareholders/ currency of payment).
- After registration, amount on hold is to be released upon receipt of original commercial register.
- Release of blocked amount differs according to the company type.
- Account officer has to ensure that all documents signed by the official person are cancelled.
- All basic forms required for opening an account should be obtained.
- In case of incompletion of registration or formation of the company, all shares should be disbursed to all shareholders, or the official person وكيل المؤسسين in charge against proper documents proofs cancellation of all certificates issued by the bank.
- Hold amount could be released immediately after proper registration.

A- Liability Side:

1- Current Account

It is a deposit account which is offering various flexible payment methods; allowing the customers to distribute money directly to others.

Features:

- It can be opened for individuals and corporate.
- A current account offers check books; offer the facility to arrange standing orders, direct debits and payment via a debit cards.
- Current accounts may also allow borrowing via an overdraft facility .
- It could be also either **INTEREST BEARING** (**IB**) or **NON – INTEREST BEARING** (**NIB**)

2- Saving Account

Savings account require minimum amount of fund in order to be opened and maintained. These amounts vary from bank to another.
Most of the banks can open saving accounts for customers who have 18 years old. While current account must be opened for customers who have 21 years old.

All savings accounts holders can enjoy various type of banking products such as ; Debit cards and Credit cards.
Saving accounts do not permit an overdrawn balance.

Features:

- Interest is calculated based on minimum balance during the whole month (Calendar days).
- Savings accounts do not offer check writing privileges.
- All savings accounts offer itemized lists of all financial transactions. Clients can ask for a mini statement in which the last transactions are showed
- Savings accounts are opened for individuals **ONLY**.
- Saving accounts do not permit an overdrawn balance.
- Saving accounts offer processing standing orders, direct debits & issuing debit cards or ATM cards.
- Interest Calculation:

$$\frac{\textbf{Amount (min. balance during the month) x no. of days x interest rate \%}}{\textbf{365}}$$

Comparison between: Current Accounts & Saving Accounts

	Current Account	Saving Account
1.	The main purpose is to pay & settle transactions to others.	The main purpose is to save, not for financial payments
2.	Used for commercial purposes	Not used for commercial purposes
3.	Can be opened for individuals or corporate	Only for individuals & not for commercials business associations
4.	No interest is paid on account balance (exception cases)	Interest is paid on the minimum balance during the month
5.	The account holder can get overdraft	Not applicable
6.	Allow issuance of check book	No check books are allowed
7.	Other facilities like standing orders, check for collections transfers in/out	Other facilities like standing orders, Check for collections transfers in/out
8.	Monthly, quarterly , semi-annually or annually statement with list of all transactions	Monthly, quarterly, semi-annually or annually statement with list of all transactions
9.	Interest frequency: Monthly, quarterly, semi-annually or annually.	Interest frequency: Monthly, quarterly, semi-annually or annually.
10.	Minimum 21 years old	Could be used for minors over 18 years old.

Time Deposit:

A time deposit is an agreement between the bank and his client to fix a certain amount for a period of time and an interest rate. Deposits can be issued in local and foreign currencies.

The dealing room provides the bank branches with interest rates to be applied on foreign currencies. These rates differ according to prevailing interest rates.

Breaking a time deposit in Egyptian Pounds before maturity date allows the bank to charge his clients a penalty in interest amount due at minus 2% from the rate of actual period of the deposit.

Deposits' tenor can vary from week, two weeks, month, 2 months, 3 months, 6 months, year….etc. For a week time deposit, amount deposited should not be less than L.E. 100000 to gain interest or any amount set by the bank.

Customer can borrow up to 90% of time deposit value but with higher interest rate (2% over); which is the common practice.

To open a deposit:

DR: Customer account (current or saving)

CR: Time deposit account

To close a deposit:

DR: Time deposit account

CR: Customer account (current or saving)

To break a deposit:

DR: Time deposit account

DR: Accrued interest

CR: customer account

Certificates of Deposit (CD's):

This is a certificate issued by a bank that indicates a specified sum of money has been deposited. A CD has a maturity date and a specified interest rate and can be issued by specific denomination according to the product criteria such as 1000, 5000, 10,000, 25,000, 100,000, 500,000 & 1,000,000. The duration vary from 2 or 3 years up to ten years.

The CD’s restrict holders from withdrawing funds on demand. Although it is still possible to withdraw the money, this action will often incur a penalty as most of them permit withdrawal after minimum 6 months (This is to be applied as per CBE approval).

The CD interest can be calculated monthly, quarterly, semi annually, yearly or at the maturity date.

Common practice: Customer can borrow up to 90% of CD value but with higher interest rate. (2% over the credit granted interest).

Joint Account

An account that could be held under more than one name Joint account could be (A & B) – (A &/or B)

Originally, each holder owes an equal share in the joint account. Otherwise, all parties should write an agreement stating the required classification and sign. The customer service officer should ensure that all parties are fully aware of the withdrawal process, as they may require withdrawing **jointly or separately** from the joint account. It could also be restricted to a certain amount for each partner. Two sets of signature cards must be signed by each partner.

In case of receiving a written notification from any one of the joint account holders of the existence of disputes, the customer service officer must block the joint account with equal amount to the share of joint account holder to suspend withdrawals till receiving notification of resolving disputes.

In case of amendment of the joint account holders by adding or removing one or more partners, this requires attendance of all account holders to sign on the amendment form.

Deceased accounts Deceased Account is a normal bank account, such as a savings or current account, owned by a deceased person.

When a bank receives notice that a customer has died, Bank will freeze customer's account(s) and waiting for direction from the authorized court regarding payment to inheritors, CSO should immediately take necessarily action to change title of account in the name of (Inheritors of).

The following should be applied immediately:

- Received notice of customer death should be kept in client's file
- All clients' accounts should be blocked
- Both client's signature cards and file should be kept under dual control
- Client signature card should be marked (deceased account) and withdrawn from cash area and deleted from the system
- Client's statement of account or any other correspondence should not be sent to client address after receipt of death evidence
- From date of receipt of death evidence, all bank tariff should not be applied
- Legal department should be notified for handling the account
- If client's accounts maintains certificate of deposit or time deposit, the bank has to keep them till maturity , unless otherwise the inheritors requested to break them, at this point all inheritors should sign indemnity to break said CD or TD according to the redemption schedule
- Once the CD or TD matured, it should be credited to client's account and not to be renewed even if the inheritors requested
- If the inheritors showed on banks counter to receive their shares, the account should be closed after running the interest and pay all shares
- For all interest bearing accounts, bank should open non-bearing interest account to transfer the balances to it until distribution of all funds
- In case the account is overdrawn, the branch has to cover the overdrawn balances with all related commission and interest due

- In case of check withdrawn on an estate account and the check was dated before the death date, the beneficiary has the right to cash it

In case of joint accounts:

- In case of death of one of the account holders in a joint account, any transaction on the account should be stopped until clarification
- The bank has to differentiate between shares of the accounts holder according to the original agreement between the client and the bank. If not stated it is 50% of account balance
- Bank officer should ensure that the other party share is not included in the distribution, also the other account party can act normally on his share with no restriction

Minor accounts

- Minor Account is a type of savings account that is setup by an adult (guardian) to be used by a minor.
- This type of banking account does not provide all of the privileges that a normal account would, but does allow the minor to make withdrawals and deposits.
- The adult remain accountable for any improper uses of the account.
- Normal maintenance fees are usually waived in most of the banks until the minor reaches the legal age.
- The bank officer should ensure that the word "Minor" is stated in the application form, signature cards signed by the person who opened the minor account.

Documents required for opening minor saving accounts:

- Basic documents to be signed by the guardian (father, mother…etc) in addition to birth certificate
- Majority should be written on client's specimen signature cards
- When minor reaches age 21, the following steps should take place by CSO:
    1. CSO should block all type of accounts and cancel all signature applied on the account and withdraw all specimen signatures from cash area
    2. CSO should send a letter to the client regarding majority date to show on branch counter as soon as possible
    3. All power of attorney on the account should be cancelled unless the minor states otherwise. Minor may open an account for himself from age 18 years old after declaring that funds in his accounts are from his own resources. It is forbidden to open current account for minors and no overdraft facility, no check book can be granted until he reaches 21 years old.

Natural Guardian الولي الطبيعي

- Natural Guardian is the parent of the minor " Father" who is recognized by law as the guardian.

Legal /Appointed Guardian الوصي الشرعي

- Legal /Appointed Guardian is the opposite of the natural guardian. The legal / Appointed guardian is assigned by the court to look after a child and make decision on the child's behalf.

This role is especially crucial in making decisions that minors do not have legal right to decide on such as medical / financial decisions

Dormant Account

- When there is no financial activities for a long period of time other than posting of interest. Account can be classified as dormant. Many banks have some accounts that have been left dormant for years due to different reasons.
- Most of the banks can classify accounts as Dormant or inactive after one year/ two years according to each bank policy.

To reactivate the account, the client should sign a request for activation and update his/her information. This request must be approved by the designated Manager **The following procedures should take place:**

- Customer service unit to receive system generated report of inactive accounts on monthly basis
- Customer service to determine the new dormant accounts added to the report during the last month
- Customer service officer to review accounts with nil or below minimum balance for possible account closure
- Standard letter to be sent to clients requesting them to contact the branch, copy of letters of notification to be added to client's file
- CSO will remove all new dormant file from the active, to a separate fire proof cabinet under dual control
- Signature cards to be deleted from the system and CSO to ensure removing signature cards from cash area

In case of activation of a dormant account:

- CSO has to ensure that the client himself is the one to activate the account against proper ID
- Transactions to be verified by the branch manager / deputy
- Signature cards to be delivered back to cash area and once more scanned on the system

Frozen Account

- An account to which no withdrawals or purchases can be done since account is blocked totally or partially.
- This usually occurs when the account holder fails to pay a amount of debt to someone .
- Any creditor that has a judgment against customer could make the account of that client freeze
- If you receive a notice from your bank stating that your account has been frozen, look for the lawyer and his phone number that is listed on the notice. If you didn't receive a notice after your account was frozen, call your bank and ask for the lawyer's name and phone number so you can settle the account.

Conditional Bequest

- An account owned by a donor until death and then owned by donee
- Parents can open this type of accounts to underage children who lost their father or mother or who did not have an income source.

B. Asset side

Overdrawn Account

- An agreement between the bank and client that allowing bank's customer to withdraw funds within the granted line of credit. While customer has to pay, interest and charges for using such limit.
- Interest is calculated based on the utilized amount only.
- Overdraft is approved only for a fixed period (usually one year) after which it must be renegotiated or renewed.

Loan Account

- Amount granted to the customer for a certain time to be repaid with additional interest.
- Loan account could be granted against a time deposit, credit balances, shares and bonds, goods…etc. In case of deposit cover, interest rate is calculated at 2% over the deposit rate.
- Debit interest is calculated on a daily basis on the client debit balance.

Safe Deposit Boxes

Clients may put their precious jeweler and documents in rented safe boxes. Banks hold different sizes (large – medium- small) and clients pay an annual rental fee according to safe box size. Every visit to open the safe box should be recorded in the concerned register (date and time).

Clients may sign an internal power of attorney to a delegate someone to use the safe box.

The bank is responsible for keeping the master key under dual control. Each key holder should sign in the register whenever the key is used. Each safe box could be opened by using both keys together: master key and client key. A spare key is kept under dual control to be used upon the client request in case of lost or stolen.

Cash Area

Cash area is a very important department generally located in the bank entrance. This area is divided into the following:

1. Vault: Strong room where cash is kept
2. Head cash located behind tellers
3. Tellers dealing with customers for deposit and withdrawal of cash.

Staff working in this area should be very honest and capable to deal with different types of customers.

Daily procedures:

- At the beginning of the day, tellers receive cash from the head cashier
- Every transaction should be posted in the computer system to be reflected on customer's accounts.
- At the end of the day, all transactions should be reconciled with head cashier
- After bundling cash, it is kept into the vault.

Each bank has its own regulations regarding cash kept into the central vault and cash kept into its branches.

The head cashier is responsible to handle large amounts of cash – whether deposit or withdrawal- exceeding the tellers limits.

Shipment of cash:

In case of surpassing maximum cash, it should be shipped to Central Bank or any correspondent bank requesting cash through a cash courier.
In case of cash shortage to meet customer's need, a check should be issued drawn on Head Office account held with the Central Bank of Egypt or any other correspondent who has cash surplus. A swift message should be issued for foreign currencies after agreeing on value date and exchange rate

Stop & Recap:

- Different Types of Accounts
- Saving Account
- Current & Joint Accounts
- Overdrawn Accounts
- Loan Accounts
- Time Deposit
- Certificate of Deposits (CD's)
- Conditional Bequest
- Dormant Account
- Frozen Account
- Safe Deposit Boxes
- Cash Area

Payment Methods:

- **Physical Cash**
- **Checks -** Paper based promise to pay.
- **Plastic Cards -** Electronic instruction requiring a plastic card or a personal number.
- **Wire Transfers –** Incoming & outgoing through swift (Society for Worldwide Interbank Financial Telecommunications)

Checks

Checks are negotiable instruments instructing a financial institution to pay a specific amount of a specific currency from a specific demand account held in the maker/depositor's name with that institution. Both the maker and payee may be natural persons or legal entities. Checks that were bought from libraries are no longer regarded as checks.

Checks generally contain:

1. Place of issue
2. Date of issue
3. Check number
4. Account number
5. Bank name
6. Payee (beneficiary)
7. Amount must be written in both letters and figures
8. Signature of the drawer
9. Currency

Statement for nonpayment of a check

1. Irregular signature
2. Account closed
3. Insufficient funds
4. Stop payment
5. Crossed check and post dated
6. Governmental check and post dated
7. Refer to drawer
8. Missing value of check in letters or figures

These reasons should be added to "without any responsibility on the bank part and signed by 2 of the authorized signatures.

A check can always be endorsed. However, the drawer can prevent the check from being endorsed. This can be done by explicitly instructing non-endorsement on the face of the check by using one of the following expressions:

1- Checks payable to the first beneficiary OR
2- Not to the order of OR
3- Not to be endorsed

A check is always payable on the date it is presented for payment and at sight. If a check is presented for payment before the date of drawing appearing on the check, it is still payable at sight. There are two exceptions to the above rule:

1- Checks drawn by the Government
2- Crossed checks

These two types of checks are payable on the date appearing on the checks as the date of drawing. If any of these types are presented for payment before the date appearing on the check, they should be returned without cashing. The bank statement's for nonpayment of check must indicate that it may not be cashed because it is a check drawn by Government or it is a crossed check and both are post- dated.

The new rules regulating checks require the drawer's signature to be legible or can easily identify the person who signed it in terms of the person's name and family name.

Draft Check

Draft cheque is known as a cheque issued and written by the bank and drawn from its own funds.
It is then signed by the authorized persons of the bank and made payable to a third party (Beneficiary).
A customer who requests a draft cheque has to pay the full value of the cheque plus commission for the service.
Draft cheque is fully secured and guaranteed by the bank to the beneficiary because the amount of the cheque has been debited from the customer's account upon issuing this cheque.

An individual could use a draft check instead of a personal check to guarantee that his or her funds for payment are available. A draft's check is secured because the amount of the check must first be deposited by the individual into the issuing bank own account. The person or entity to whom the check is made out is then guaranteed to receive the money when cashing the check.

Draft's checks differ from certified checks in that the funds owing on a draft's check are taken from the issuer's account, while the funds owing on a certified check are taken from the remitter's account.

Accounting entries:

- To issue:

DR: customer a/c OR cash (check amount + commission)

CR: cover draft checks

CR Commission

- To settle (when presented):

DR: cover draft checks

CR: beneficiary

(Correspondent bank, cash, or customer a/c)

Certified Check

A type of check where the issuing bank guarantees the recipient of the check that there is enough cash available in the holder's account to be transferred when the check is used and also that the account holder's signature on the check is genuine.

Certified checks are typically used in situations where the recipient is unsure about the creditworthiness of the account holder and doesn't want to the check to bounce.

After verifying the client balance, the bank certifies the check by stamping it with authorized signatures.

Since certified checks become the issuing bank's liability, banks will typically set the amount of money listed on the certified check aside from the holder's account so that there will always be an amount of money for the check. There are some downsides to using certified checks. For example, banks will usually charge a fee for certifying checks

Accounting entries:

- To issue:

DR: customer a/c (check amount + commission)

CR: cover certified checks

CR Commission

- To settle (when presented):

DR: cover certified checks

CR: beneficiary

(Correspondent bank or cash)

Crossed Check

Any check that is crossed with two parallel lines, either across the whole check or through the top left hand corner of the check. This symbol means that the check can only be deposited directly into a bank account and cannot be immediately cashed..

These checks allow payment on the date appearing as that of drawing.

A general crossed check is one with 2 parallel lines and the space in between is left blank or the word bank is inserted. A special crossed check is one with the name of a particular bank written between the parallel lines.

A general crossed check can be transformed to a special crossed check, but a special crossed check cannot be transformed to a general one.

A bank upon which a general crossed check is drawn can only pay the value of such check to one of its customers or to another bank.

A bank upon which a special crossed check is drawn can only pay the value of such check to the bank whose name appears between the parallel lines.

Collection of Checks

Collection of checks may include the following:

1- Accepting checks from bank customers and requesting the bank to proceed for collection. This will be followed by crediting the checks values to beneficiaries after deduction of collection fees.
2- Receiving checks drawn on the bank customer account. This action pertains: a- Verifying availability of balance
   b- Verifying client’s signature

   This will be followed by deducting the checks amounts from the client’s available balance.

Checks in Egyptian pounds are collected through / outside CBE clearing house. CSO will receive checks submitted for collection and issue deposit slip identifying check number, amount, and client name & account number.

CSO will sort received checks according to the clearing house area .All checks received for collection should be endorsed by the bank stamp.
CBE has divided Egypt into 2 zones:
D+ 1 Zone
Checks will be cleared at next day following presentation at CBE. This group includes branches in greater Cairo clearing

D+2 Zone
Checks will be cleared three days following presentation at CBE. This group includes branches outside Greater Cairo

Stop Payment

Customer can ask his bank to place a stop payment on a check he has already issued and delivered to a beneficiary due to many reasons: stolen, lost, conflicts between issuer and beneficiary.

Upon presentation, the bank will do the following:

1- If the client's balance permits to deduct the check amount, the bank will block the value in the name of both issuer and beneficiary till notification that any problem has been resolved.

2- If the client's balance is not enough, the bank will return the check as refer to drawer due to stop payment placed upon the client's request.

SWIFT

Society for Worldwide Interbank Financial Telecommunication (SWIFT)

Nonprofit, cooperative organization that facilitates the exchange of payment messages between Financial Institutions around the world. SWIFT was organized in 1973 by a group of European bankers who wanted a more efficient method than telegraph wire (telex) or mail to send payment instructions to correspondent banks.

Recent changes in SWIFT rules gave multinational corporations and Broker-Dealer securities firms' direct access (but nonvoting membership) to confirmations of foreign exchange and money market securities trades, and derivative securities transactions. In 2005, the SWIFT network boasted 7,600 member institutions operating in 200 countries.

Payments between SWIFT members take place on domestic funds clearing systems.

Benefits:

- More Efficient
- Reduce Transaction Costs
- Reduce Transaction Errors
- Provide More Security
- Faster & Simply More Reliable

SWIFT Messages Type

Group # 1	Transfer & Checks	100-199	MT
Group # 2	Transfer of Financial Institutions	200-299	MT
Group # 3	Bank Deposit & Foreign Exchange	300-399	MT
Group # 4	Collections	400-499	MT
Group # 5	Financial Instruments	500-599	MT
Group # 6	Metals & Commodities Trading	600-699	MT
Group # 7	L/C'S , L/G's & Shipping Documents	700-799	MT
Group # 8	Traveler Checks	800-899	MT
Group # 9	Statements , Advices & Free Formats	900-999	MT

Incoming & Outgoing transfers:

It is the movement of funds from & to banks in all currencies.

Incoming:

Amount credited to customer account by order another party whether in the same bank or through correspondent bank.

Outgoing:

Amount transferred – as per the client request – to another account, either in the same bank/ branch or to another bank.

What is a value date?

It is the official date when money is transferred, that is, becomes good funds to the depositor. The value date differs from the entry date when items are received from the depositor, since the items must then be forwarded to the paying bank or otherwise collected.

The term is used mainly with reference to foreign accounts, either maintained in a domestic bank or maintained by a domestic bank in foreign banks.

Moreover, Value date is the date when the entry to an account is considered effective.

For Example:

Value Date / Currency	Cash Transactions	Non-Cash transactions
EGP	**Next working day**	Same day
USD	**2 working days**	Same day
Euro	3 working days	Same day

Foreign Exchange “FOREX”:

Currency-literally foreign money-used in settlement of international trade between countries.

Trading in foreign exchange is the means by which values are established for commodities and manufactured goods imported or exported between countries.

Creditors and borrowers settle the resulting international trade obligations, such as bank drafts, bills of exchange, bankers' acceptances, and letters of credit, by exchanging different currencies at agreed upon rates.

The result of all this international trade is that financial institutions accumulate surpluses of different currencies from loan repayments by foreign borrowers, and also from import-export trade financing on behalf of bank customers.

The interbank foreign exchange market is an over-the-counter market, a network of commercial banks, central banks, brokers, and customers who communicate with each other by telex and telephone throughout the world's major financial centers.

Top 6 Most Traded Currencies:

Rank	*Currency*	*ISO 4217 Code*	*Symbol*
1	*United States **Dollars***	*USD*	**$**
2	*Euro zone **Euro***	*EUR*	**€**
3	*Japanese **Yen***	*JPY*	**¥**
4	*Great British **Pound***	*GBP*	**£**
5 – 6	***Swiss franc***	*CHF*	**-**
5 - 6	***Australian Dollar***	*AUD*	**$**

Different Terminologies for “RATE” used in Banks:

1. Buying rate
2. Selling rate
3. Staff rate
4. Special rate

Base Currency versus Quoted (or Variable) Currency:

1 USD = 7.70 EGP

The USD is the base currency **The EGP is the quoted currency**

Correspondent Relationship

It could be represented in a bank that holds deposits for other banks and performs services, such as check clearing. The deposit balance is a form of payment for services.

Many community banks clear checks drawn on out-of-town banks through Reserve Accounts at a larger bank.

Correspondent banks also buy participations in loans exceeding the **Legal Lending Limit** of a smaller bank, called the **Respondent** and give these banks access to financial markets, such as the foreign exchange market or financial futures market, that are ordinarily beyond the reach of smaller financial institutions.

Benefits:

Correspondent banking, essentially, enables respondent banks to participate in exchange without having to bear the cost of building the infrastructure themselves.

- Liquidity management by investing surplus of money (Money Market deals)
- Purchasing & selling of all foreign currencies (foreign exchange deals)
- Attending training courses in all bank's functions
- Enable banks to perform the banking activities and services efficiently such as:
    - Collections of checks
    - Issuance of letters of credit / guarantee
    - Issuance of funds transfers

Examples of services provided by correspondent banks:

- Payments
- Collections Services
- Trade Services
- Trade and Cash Management Outsourcing Services
- Currency Risk Management/ FX
- Corporate and Investment Banking Services
- Investment Management and Custody Services
- Account information & inquiry services.

How do banks choose their correspondent?

- Analyzing balance sheet and financial statement
- Study the bank rating & solid existence
- International banks with wide network worldwide
- Comparisons between different bank's terms and conditions

Correspondent account statement can be obtained through:

Mail

These types of statements are used for non-active correspondent a/c's. Usually they are issued monthly or quarterly.

SWIFT

Used for active a/c's as they can issue daily statements of a/c's

Internet

Very effective method as it enables the bank to access its statement of a/c any time of the day to resolve any arising discrepancies on the spot.

Importance of correspondent account statement:

- Determination of a/c movement.
- Determination of a/c balance at end of period.
- These statements show the following:
    1. Opening balance
    2. Closing balance
    3. Total transactions: (debit & credit)

Summary

In this module, you learned how to:

- Describe the importance of bank deposits
- List the types of bank accounts
- Explain the process of bank transfers