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### Conventional Banking System

A bank is a financial institution which accepts money from the public, as well as loans money to the public and businesses. The concept of a conventional bank emerged from Italy. Conventional banks can be found all over the world and the main principle of their work is to give money to clients—sometimes in the form of credit cards (The Banking Association of South Africa).

The conventional banking system operates under human-made rules and regulations. Additionally, there is less risk within the conventional banking system. Speaking about the provision of fixed interest rates, it is predetermined within the conventional banking system. Also, a fixed amount of interest is charged from customers. In case a default occurs, penalties will be charged from customers. If a conventional bank gives a loan to a certain business within the field of agriculture, interest will be charged as well.

Typically, an entrepreneur who operates via the conventional banking system will increase the cost of goods and services as soon as inflation occurs. In general, the conventional banking system is aimed at maximizing profit. The typical way in which a conventional bank makes money is by giving loans on compounding interest.

Here are the main principles of the conventional banking system:

- debtor-creditor relationship

- human-made principles
- interest

In other words, conventional banks are focused on lending. The ability to repay is emphasized within the system. Money is used as a commodity in the conventional banking system, which is why it can be sold at a price higher than face value or it can be rented out. In case an organization got a loan from a conventional bank and it suffered losses, it would still have to pay interest to the bank.

The structure of a conventional bank is as follows:

1. Shareholders give capital.
2. The bank receives customer investments and deposits.
3. Customers request loans.
4. The bank borrows interbank funds.
5. The bank lends these funds at an interest rate.
6. Customer pays interest+principal.

Taking everything into consideration, the two main functions of a conventional bank is to collect deposits and to give loans. When a bank introduces a product, such aspects as the price and interest become important. It is not required to purchase an asset within the conventional banking system in order for the transaction to be completed. Apart from that, the list of prohibited activities is based on the framework of each particular bank. What this means is that giving a specific sum of money as a loan may be prohibited in one bank but allowed in another one.

Works Cited

“Conventional Banking.” *The Banking Association of South Africa*.

<https://www.banking.org.za/consumer-information/conventional-banking>