10

CHAPTER

Specialized Bank Services

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climbing the ladder

From Associate Team Leader to Product Manager

Ike had spent the majority of his career in banking working with nondeposit products. He had joined his current employer, a regional bank, after earning a number of insurance licenses. As an associate team leader for insurance products at a regional bank, Ike's responsibilities included investment sales, business development, and customer service. To develop new business, he followed up on leads from bank branches. He sold investment products and services to banking customers. Sometimes he would cross-sell banking services to customers by recommending products that would be of interest to them but went beyond their original focus. He advised customers regarding investment choices. He trained personnel at the branches by teaching them about products, coaching them on their sales efforts, and providing support when they had questions.

Next Ike worked as a product development specialist. He was part of a team that developed product-specific strategy and pricing policies. For product maintenance or product distribution that would be outsourced, he worked on vendor agreements and information sharing plans. When existing products were modified, he helped plan and coordinate the changes, including communicating the changes to bank personnel. Contributing to the writing and revising of product-specific marketing was another of his duties. He developed procedures to make sure that all product changes were reflected in product literature.

Ike took the knowledge he obtained developing products and applied it to his next position as a request for proposal (RFP) writer. When businesses had a need for banking services, they would formalize those needs by writing an RFP that outlined the required products and services. As an RFP writer for the bank, Ike prepared detailed responses to a perspective client's RFP. His response described the products his bank offered, the costs associated with those products, and the benefits of working with his bank. Ike helped the bank increase its business by writing accurate and intriguing RFPs. In some instances, like when a city was looking for a bank to provide CDs each month, successful completion of the RFP process allowed Ike's bank to participate in the monthly bidding process that occurred for the CDs.

Leveraging his in-depth product and marketplace knowledge helped Ike obtain his current position as a product manger. He performed competitor and market research, developed new products, and created marketing and sales plans for new products.

Upper Rungs to Consider

Ike was thriving in his current position. Each day he came to work with many new ideas. He enjoyed keeping current on the banking industry, anticipating what his competitors would do, and proactively developing products to grow his bank's business. Although he wanted to stay on this career path, he hoped to earn a promotion to a new product director. In that role, he would provide direction to the entire department and manage other product managers.

Preparing for the Climb

Banks sell a variety of financial services. Why is product development important? Why is it necessary to conduct research about industry changes and competitive products?

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10.1 International Banking

goals

+ Identify financial entities involved in international banking.
+ Describe international services offered by banks.

terms

+ sovereign wealth fund
+ edge corporations
+ correspondent bank
+ currency risk
+ country risk
+ money laundering
+ letter of credit
+ foreign exchange rate

Banking Scene

Amelia Lopez owns a small business. The market for the firm's major product is growing rapidly in South America, and she wants to investigate the advantages and disadvantages of selling her product there. What issues should Amelia consider? Where can she get sound advice about this possible venture?

Structure of International Services

You don't need a textbook to tell you that the world of finance is increasingly an international one. The changing economy in the 1970s introduced waves of new imports to American life, and the computer and telecommunications revolution of the 1980s and 1990s eliminated national boundaries in many ways. Companies looking for new markets sought to sell to developing nations, and expanding economies in the Pacific Rim altered the balance of economic power. Changes in geopolitics, such as the end of the Soviet Union and the emergence of the People's Republic of China, realigned trading partnerships. New trade agreements and economic alliances such as the North American Free Trade Agreement and the European Union shifted the way the world does business, as did the growth of multinational corporations with branches in many countries. Middle Eastern countries flush with cash from oil revenues and newly industrialized countries generating revenues from manufacturing contributed to an increase in global cash flow.

Behind all this trade is money, and international banking is a huge and growing segment of the banking industry. According to the Bureau of Economic Analysis, in 2007 foreign acquisition of U.S. financial assets by businesses in other countries was about $2.1 billion. Likewise, U.S. acquisition of foreign financial assets was about $1.3 billion. With more and more U.S. companies operating abroad and involved in international trade, banks are expanding their services to provide the expertise that is needed. International banking can be a complicated business, with traders needing to understand the differences among currencies, governments, languages, laws, customs, and even computer systems that affect funds transfers. It is a vital business for the future of banking, because in the global economy, more business will have an international component. Banks that can help provide smooth, efficient, and trouble-free flow of funds and credit around the world may find a profitable and growing business.

International Lending Relatively few banks specialize in international lending. Only about 750 of more than 14,000 U.S. commercial banks have international lending departments, with a smaller number having foreign branches or subsidiary corporations abroad. Although the number of these banks is small, both the scope and the size of their international business are expanding rapidly, and more banks are likely to expand into this area.

World Bank The *World Bank* is a partner in strengthening economies and expanding markets to improve the quality of life for people everywhere, especially the poorest. Unlike aid programs, the World Bank doesn't make grants but lends money to developing countries and expects the loans to be repaid. A member of the World Bank Group, the International Finance Corporation (IFC) promotes sustainable private sector investment in developing countries to reduce poverty and improve people's lives. The functions of the IFC include the following:

- Financing private sector projects located in the developing world.
- Helping private companies in the developing world mobilize financing in international financial markets.
- Providing advice and technical assistance to businesses and governments.

Single Euro Payments Area (SEPA) The *European Payments Council (EPC)* was formed in 2002 to streamline and coordinate payments for the European banking industry. The EPC developed the Single Euro Payments Area (SEPA), which provides an area for standardized euro payments either within a country's borders or across countries' borders. Common legal rights apply to these transactions. Although SEPA currently includes the 27 EU member states, as well as Iceland, Liechtenstein, Norway, and Switzerland, other nations are expected to become involved with the payment system. According to the EPC website, in January 2008, more than 4,300 banks in 31 countries began using the SEPA Credit Transfer Scheme (SCT). Allowing a standardized, predictable, no-cost transfer of funds between businesses participating in SCT is a benefit of SCT. The banks using SCT represent 95 percent of the payment volume in Europe. The European Payments Council is developing other initiatives to streamline euro payments.

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Other Services Lending is not the only international service. The number of banks that are helping companies conduct business overseas is growing. Other international services offered range from foreign exchange to collection of payments from overseas customers. Banks with

interesting *facts*

According to the FDIC, as of June 2008, U.S. banks held $1.6 trillion in total assets in their foreign offices.

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Automation to streamline processes is a critical component of staying competitive in the banking industry. Bottomline Technologies provides a modular platform for automating payments, including international payments. Access www.cengage.com/school/pfinance/banking and click on the link for Chapter 10. Go to the International Payments page of Bottomline Technologies' website. Review the functionalities offered. Why is straight through processing important? How is it helpful to have multicurrency and multilingual capabilities?

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knowledge of international business offer help in a complex world with which a firm may have little experience. It makes good business sense for companies to buy expertise they may not possess.

Foreign Banks

Many types of foreign-based banks, branches, agencies, subsidiaries, and holding corporations share features with U.S.-based banks doing international business, and they are supervised accordingly. Foreign bank branches and agencies may be chartered either by federal or state governments. They may offer a full range of banking services, but most of their business involves short- and long-term commercial loans. Although foreign branches can accept deposits of any size from foreigners, they can accept deposits only greater than $100,000 from U.S. citizens and residents (in order not to harm domestic banks), and deposits made after 1991 are not insured by the FDIC.

Since 1991, the responsibility for supervising the branches and agencies of foreign banks operating within the United States has belonged primarily to the Federal Reserve. It annually examines the banks' policies of **r**isk management, **o**perations, **c**ompliance, and **a**sset quality (ROCA). If an examination reveals problems with a foreign bank, the Fed has a range of actions it can take. Usually, a letter of commitment from the bank to the Fed explaining how a problem will be corrected is required. Occasionally, further legal action occurs, and in extreme cases, the activities of a foreign bank in the United States will be terminated.

U.S-Based International Banking

The *Office of the Comptroller of the Currency* (OCC) charters and supervises U.S. national banks that do international business. The OCC has the power to remove bank officers and directors, negotiate agreements to change banking practices, issue orders to stop certain practices, and levy financial penalties for unsound practices. The Federal Deposit Insurance Corporation, whose director is the Comptroller, reviews the safety of international banking operations.

Sovereign Wealth Funds

When the government of a country has excess cash to manage, the government may create a **sovereign wealth fund**. These funds are segregated from the country's official currency reserves. Sovereign wealth funds can be used to generate profit for a country by making investments. In September 2007, the IMF estimated that sovereign wealth funds controlled about $3 trillion globally. The IMF estimated that by 2012, $12 trillion could be managed by sovereign wealth funds.

Other Types of International Operations

Edge corporations or *agreement corporations* are financial corporations that are federally chartered and allowed to engage only in international banking or other financial transactions related to international business. Edge corporations must verify that every transaction is related to international business.

Correspondent banks act as points of contact for other banks that do not have a branch, agency, subsidiary, or corporation in the host country. Correspondent banking is unique as highly competitive banks competing for the same businesses share services with one another for a fee. These banks are subject to the banking regulations of the host country. The Federal Reserve, as well as other international banking organizations, works to communicate and standardize international banking policies to ensure a more stable flow of funds.

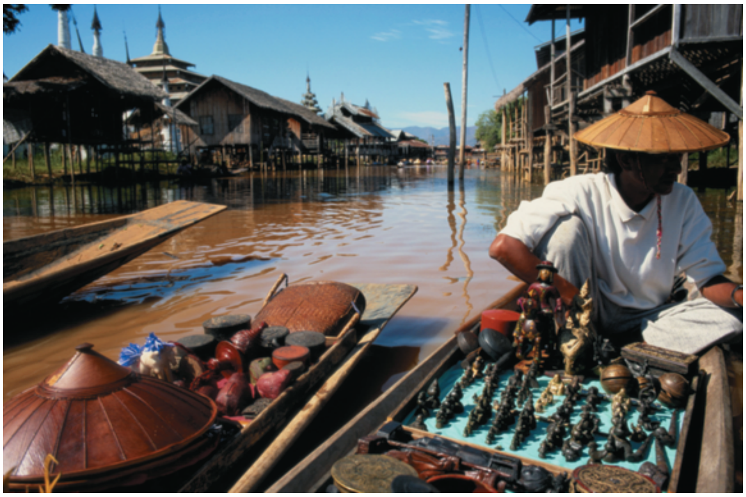
Special Considerations

Think of the potential hazards of doing business globally. Different economic conditions, different currencies, different political systems, and different cultural practices add uncertainty. For bankers involved in underwriting such business, these other elements of risk must be considered.

- **Financial Risk** Financial risk may not seem all that different compared to domestic banking, and the evaluation of credit risk is similar. However, acquiring reliable information about a creditor's financial position may be considerably more difficult. The format, quality, and relative detail of financial statements around the world vary considerably. Many of these statements are unaudited, and in some cases, they are unreliable. Although international banks do share information, there are sometimes political barriers to the free flow of accurate information, especially when the potential borrower is a government itself. The task of assessing risk is considerably harder.

- **Currency Risk** The risk posed by variations in exchange rates between countries is called **currency risk.** In every transaction, the lender or borrower is at some degree of risk because of currency risk, as relative values fluctuate with economic and political conditions. The value of currencies compared to each other at the outset of the term may not be at all the same later in the term. Although many lenders minimize their risk by dealing only in U.S. dollars, some countries must convert those dollars into local currency to use them. If the exchange rate changes, more local currency may be required to repay the loan than was expected at the outset. Banks need to be able to assess this risk as accurately as possible, which is not always an easy task.

- **Country Risk** The term for the entire range of political, legal, social, and economic conditions that may put international business at risk is **country risk**. International bankers spend a lot of time trying to assess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country risk. Analysts consider the likelihood of political or social changes or unrest, the economic condition and prospects of the country, whether a government might seize private assets or renounce foreign debts, and whether the government is able to ensure the stability of its currency. These analyses produce varied classifications of risk for international business. A bank's activities in a foreign country in light of the country's risk classification are part of the Fed's regulatory examination of a bank.

The political and cultural environment is not the same in other parts of the world as it is in the United States. Bankers must be vigilant not only to protect their own interests, but also to avoid being unwitting allies of people who have illegal or harmful intent. The Bank Secrecy Act of 1970, updated again in 2000, intended to create a "paper trail" for currency so that people could not deposit, invest, or exchange money in such a way as to conceal its illegal source, called **money laundering**. The Foreign Corrupt Practices Act of 1977 requires banks to follow strict accounting procedures in their international dealings and prohibits offering or accepting bribes. Commerce Department regulations prohibit exporters and banks from complying with boycotts that discriminate against U.S. citizens or companies on the basis of race, color, religion, sex, or national origin, and require reporting of them.

The financing of illegal activities came into sharp focus after the terrorist attacks of September 2001. Among its many provisions, the USA Patriot Act of 2001 attempted to make money laundering more difficult. The law prohibits establishing correspondent relations with foreign "shell" banks, banks that had no physical presence in their host country. It also requires due diligence on the part of banks to know the identity and source of transactions as well as to report suspicious transactions. Some privacy advocates whose fierce objections had led to the withdrawal of expanded "Know Your Customer" provisions in 1999, worried that the Patriot Act gave banks and government too much power. Even so, the law passed quickly and went into effect October 26, 2001, with most of its provisions in place by summer 2002.

✔ checkpoint

What is an edge corporation? Name three types of risk for international banking.

International Services

Banks offering international services help their customers negotiate, finance, ship, transfer, and collect their international accounts. Specialists in international finance and the export-import business help clients make their way through the sea of documents that are part of doing business across national boundaries.

Trade Financing

There are numerous forms of trade financing for international business. Some may take the form of simple domestic loans to be used for capital in an import or other international venture. Some may be direct loans to foreign governments through government-run banks or industries. Funds may go to foreign banks in the form of deposits or other loans as a means of making an indirect loan to a foreign business. Sometimes a direct loan may be made to a foreign business or individual. Loans for complex syndications of businesses may be very complicated but are not uncommon. In all cases, banks must review international financial statements, the borrowers themselves, and any other parties involved, such as parent companies, banks, and government institutions. Bank management must estimate if it can safely extend credit based on its own financial position; the financial condition of the borrowers and other parties; the bank's own marketing objectives; and the financial risk, currency risk, and country risk involved.

Letters of Credit The most common type of trade financing involves a letter of credit. A **letter of credit** is an instrument given by a bank on behalf of a buyer (applicant) to pay the bank of the seller (beneficiary) a given sum in a given time provided that documents required by the letter are

flat world...

Export-Import Bank of India

In some foreign countries, governments run banks rather than merely supervise them. Such is the case of the Export-Import (Ex-Im) Bank of India. Founded in 1982, Ex-Im Bank was created by an act of the Indian Parliament, and the government of India wholly owns it. Its purpose is to finance, facilitate, and promote India's foreign trade. EXIM Bank has nine offices in India and overseas offices in Singapore, Durban, London, Dubai, Dakar, and Washington, DC. It has expanded services to include financing at competitive rates to buyers of Indian goods in foreign countries.

Think Critically Of what potential benefit is the Indian government's involvement in export-import banking? Why might a foreign buyer benefit by financing through a bank of the seller's home country?

presented to the issuing bank. The required documents usually consist of an invoice, transportation documents (listing the cargo), insurance, and other verification that the goods have been delivered. Until those documents have been accepted by the issuing bank, the letter of credit is of no value. When the documents are accepted, the bank debits the buyer's (applicant's) account, wires the specified amount to the correspondent bank of the seller (beneficiary), and the buyer can collect the shipment. In this way, both buyer and seller have some guarantee of the performance of the other, and the bank's funds are secured by the documentation for the goods. A *standby letter of credit* assures the seller of the buyer's creditworthiness by guaranteeing the bank to pay the seller in the event of nonperformance by the buyer. Standby letters of credit are charged an origination fee, which varies based on the size of the letter and the security pledged. Typically the fees range from one to three percent of the size of the letter of credit.

Drafts and Wires Similar to a check, a draft is an order signed by one party (the *drawer*, or drafter) that is addressed to another party (the *drawee*) directing the drawee to pay someone (the *payee*) the amount indicated on the draft at sight or some specified time. Banks dealing in international banking can provide drafts in the specified currencies of many nations if necessary, so that the draft can be negotiated within that country. Banks can also provide international wire transfer. Messaging is not necessarily limited to ledger entries of funds but may also include letters of credit or any other communication or documentation necessary for international business.

International Collections Banks perform international collections services based on their relationships with correspondent banks and their knowledge of international commerce.


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Foreign Currency Exchange Foreign currency exchanges are essential for international transactions. For example, before a U.S. importer can purchase commodities from Japan, it must first obtain Japanese yen to pay for them. Banks can provide this service. Banks may exchange currency through foreign exchange markets or may have correspondent relationships with banks in other countries for the trading of currency. A **foreign exchange rate** is the value of one currency in terms of another. Current foreign exchange quotations must be used to calculate the exchange. For example, the table on the next page shows the exchange rates for select countries as of May 1, 2004.

To calculate what \$1,000 U.S. dollars would be worth in euros, use the exchange rate from the table for U.S.\$ to euros: \$1,000 × 1.157 = \$1,157.

To calculate what 1,157 euros would be worth in U.S. dollars, use the exchange rate for euros to U.S.\$: \$1,157 × 0.8642 = \$1,000 (rounded).

Factors affecting exchange rates for the currency of a given country are interest rates, rate of inflation, trade balance (if a country's

Currency	U.S. $	Yen	Euro	Can $	U.K. £	Aust $	SFranc	DMark
Last Trade	*N/A*	*May 1*	*May 1*	*May 1*	*May 1*	*May 1*	*May 1*	*May 1*
U.S. $	1	0.00910332	1.1861	0.735835	1.76839	0.7303	0.761267	0.604383
Yen	109.85	1	130.293	80.8315	194.259	80.2235	83.6252	66.0068
Euro	0.843099	0.007675	1	0.620381	1.49093	0.615715	0.641823	0.511292
Can $	1.359	0.0123714	1.61191	1	2.40325	0.992477	1.03456	0.823665
U.K. £	0.565483	0.00514777	0.670719	0.416103	1	0.412972	0.430483	0.342029
Aust $	1.3693	0.0124652	1.62412	1.00757	2.42146	1	1.0424	0.827569
SFranc	1.3136	0.0119581	1.55806	0.966593	2.32297	0.959322	1	0.796475
DMark	1.65440	0.0151517	1.95583	1.21414	2.92373	1.20833	1.25553	1

exports exceed its imports), and economic forecasts for that country. The demand for a given currency will be strong if the country is experiencing relatively high interest rates, low inflation, a positive trade balance, and a strong economic forecast.

Trade Consulting

Using their expertise, banks can help companies assess both their prospects and risks in international commerce and help companies with the paperwork associated with international transactions. The international banking consultant may also work with and/or recommend other agencies that can be of help to a business wanting to branch into international markets.

U.S. Export-Import (Ex-Im) Bank Some banks work with the U.S. Export-Import (Ex-Im) Bank to help raise capital for companies that have the potential to produce goods or services for export but need funds to do so. Ex-Im offers a number of financing programs, as well as credit insurance programs, that cover the risks of nonpayment by foreign buyers. Ex-Im does not compete with commercial banks, but assumes higher risks than commercial banks can normally accept. Its goal is to increase U.S. exports.

Overseas Private Investment Corporation (OPIC) Overseas Private Investment Corporation's (OPIC's) goal is to assist U.S. companies in building their business in developing nations. OPIC's programs are beneficial for both the developing nations and U.S. exports. OPIC will provide loans, loan guarantees, and political risk insurance to qualifying companies. OPIC will provide this assistance for ventures seen as too risky for commercial banks. In spite of the assumed risks, OPIC has made money every year since it was created in 1971.

✓ checkpoint

What is a letter of credit?

assessment 10.1

Think Critically

1. What factors do you think contribute to the increasing globalization of economies?

2. Name two organizations that specialize in helping U.S. firms engage in foreign trade.

3. Give two specific instances of events that might be part of country risk.

4. Why might banks dealing in international services be in a good position to offer trade consulting?

Make Academic Connections

5. **Social Studies** Although English is the language of business around the globe, it helps traders immensely to know the language of their business partners. Find out the top five languages in the world, as ranked by number of speakers. List them and the number of speakers for each below.

6. **Banking Math** In January 2002, eurodollars, or euros, became the currency of member nations of the European Union, a group of Western European nations banding together for economic purposes. Using the Internet, find the current value of a euro as compared to the U.S. dollar and convert the cost of U.S. goods valued at $40,000 to euros.

7. **Political Science** Locate information on countries with fluctuating currency exchange rates and analyze the causes for inflation.

Insurance and Brokerage

10.2

goals

- Explain the effects of the Gramm-Leach-Bliley Act of 1999
- List typical insurance and brokerage products available from financial institutions

terms

- stock
- bond
- mutual fund
- annuity

Banking Scene

As a small business owner, Amelia Lopez is considering offering a health insurance plan for her employees, but she is undecided as to which type is the best. She is surprised to learn that her bank now offers insurance policies. What types of plans are available to her? What are some of the choices she must make in addition to the type of plan to offer?

A New Era

Banks are offering more products and services than ever before. The competitive nature of today's banking business, along with the mergers and acquisitions many banks have undertaken, have placed them in a position to diversify even further. As a result of ongoing changes in financial services industries and new legislation, banks may now offer financial services that they once were prohibited from selling. This "one stop shopping" approach can offer customers a way to combine their financial planning into a single package, with products and expertise available from a single source. In addition, the door swings two ways: insurance companies can acquire banks just as banks can enter the insurance business. The new rules do more than open the door to unsupervised market chaos in the financial services industry. One sure result of the new era is that competition for consumers' financial business, whether in banking, insurance, or securities, will become even more keen.

The Old World: Glass-Steagall Act

The Glass-Steagall Act of 1933 was a response to the Great Depression. Bank failures and investment losses nearly destroyed the banking system and the national economy. Among other provisions, the law prohibited banks from owning brokerage firms and selling stock and from affiliating or sharing offices with businesses that did. The intention of the law was to create a "firewall" between speculative businesses and banking institutions. Enacted during our nation's darkest economic period, it was part of a set of legislative actions that stabilized the banking system.

The Glass-Steagall Act kept banks from competing with other financial service providers. As the economy modernized, banks and other financial

> **"communicate"**
>
> *Interview officers at three local banks. Find out what products the bank has added to its services as the result of the passage of the Gramm-Leach-Bliley Act. What are the most popular and least popular new services? Compile your answers from the banks and write a report that summarizes the information you obtained.*

institutions suffered and occasionally were at risk because they couldn't compete. Gradually, laws such as the Bank Holding Company Acts of 1956 and 1970 allowed some side roads into other financial businesses, but they still prohibited direct affiliation and limited the regions in which banks could do business. Even as banks became deregulated in the 1980s, the prohibition of direct securities trading and insurance underwriting remained.

The New World: Gramm-Leach-Bliley Act (GLBA)

The Gramm-Leach-Bliley Act of 1999 was the most dramatic change in banking regulation since the Great Depression. After years of involving themselves in insurance and securities businesses only tangentially, banks were at last free to pursue those businesses directly. The law also required financial services companies to have and provide to customers a written privacy policy. Furthermore, the law allowed the sharing of consumers' financial information among affiliated firms so long as the consumer was notified. The responsibility to prohibit sharing of information with third parties, called an "opt-out," rests with the consumer. Some proponents of the law oppose the privacy-policy portion of it. They feel that requiring companies to seek permission of every consumer to share information creates an unnecessary burden of compliance. They also believe that free sharing of information among affiliates allows for quicker, more efficient, and less costly service to customers with less duplication of effort. Some privacy advocates strongly oppose this view, feeling that the law was structured to make it easier for companies to trade in private data with little restriction, and note that many of the uses of data in affiliated companies fall outside the third-party opt-out provisions.


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In June 2008, HR 6312 was passed to remove the requirement that debt buyers provide an annual privacy notice to consumers. *Debt buyers* are companies that buy delinquent accounts from other companies. Debt buyers were concerned about the administrative costs of not only the initial mailing of the notices but also about the subsequent phone calls made by consumers who were confused by the notices.

Limits and Regulation

The Gramm-Leach-Bliley Act effectively supersedes state law, although it acknowledges the interest of states in "reasonable" regulation of the financial service industries. State commissions on banking, insurance, and securities still have jurisdiction on some practices, but may not discriminate in licensing against affiliated firms. Other controls come from agencies directly involved in the businesses themselves, such as the Securities and Exchange Commission and the Federal Trade Commission.

checkpoint

Why did the Glass-Steagall Act limit the participation of banks in a wide range of financial businesses? What was the major result of the Gramm-Leach-Bliley Act?

Insurance Products

The GLBA essentially repealed the Glass-Steagall Act, sweeping away legal barriers that had separated the securities, insurance, and banking industries. Modernizing the financial services industry, the law allows for a new corporate structure, called the financial holding company (FHC), and allows banks, securities firms, and insurance companies to diversify and/or merge their businesses if they so choose. The stated purpose of the GLBA is to promote competition. Banks, therefore, can offer a complete range of insurance products for individuals and businesses.

The Workings of Insurance

The primary goal of insurance is to allocate the risks of loss from the individual to a great number of people, or to protect holders against financial disaster. Each individual pays a *premium* into a pool from which losses are paid. Whether the particular individual suffers the loss or not, the premium is not returnable. Thus, when a home is destroyed by fire, the loss is spread to the people contributing to the pool. In general, insurance companies are the safekeepers of the premiums. The government and the courts use a heavy hand in ensuring these companies are regulated and fair to the consumer.

Personal Insurance Products

Operating as full-service financial institutions, banks offer a full spectrum of insurance products.

- **Auto Insurance** Auto insurance protects the owner from the risk of injury to people and damage to vehicles or other property in the event of an accident. It can also protect the owner against loss or damage through theft, vandalism, or natural disasters.
- **Credit Insurance** This insurance, sometimes called *credit life,* is designed to repay the balance of a loan in the event the borrower dies before the insured loan is repaid.

- **Disability Insurance** Disability insurance pays benefits when the holder is unable to earn a living because of illness or injury. Most disability policies pay a benefit that replaces part of the disabled holder's earned income.

- **Life Insurance** Various types are available, as shown in the following table.

TYPES OF LIFE INSURANCE POLICIES		
Policy Type	***Characteristics***	***Suitable For***
Decreasing Term	Level premium, decreasing coverage, no cash value	Financial obligations that reduce with time, such as mortgages or other amortized loans
Annual Renewable Term	Increasing premium, level coverage, no cash value	Financial obligations that remain constant for a short or intermediate period, such as income during a minor's dependency
Whole Life	Level premium, level coverage, cash value that typically increases based on insurance company's general asset account portfolio performance	Long-term obligations, such as surviving spouse lifetime income needs, estate liquidity, death taxes, funding retirement needs
Universal Life	Level or adjustable premium, level or adjustable coverage, cash value that increases based on the performance of certain assets held in the company's general account	Long-term obligations, such as estate growth, estate liquidity, death taxes, funding retirement needs, and so forth
Variable Life and Variable Universal Life	Level or adjustable premium, level coverage (can be increased by positive investment performance), cash values that are directed to a choice of investment accounts (bond, stock, money market, and so forth) by the policy owner	Long-term obligations, such as estate growth, estate liquidity, and death taxes, and so forth for the more active investor
Single-Premium Whole Life	Entire premium is paid at purchase, level coverage, cash values	Asset accumulation vehicle for long-term obligations, such as surviving spouse lifetime income needs, estate liquidity, death taxes, funding retirement needs

- **Health Insurance** The need for a comprehensive, high-quality health care program, equitably accessible to all residents of the United States, has been the topic of national debate for years, but no national policy has been legislated. Various health policies include the following.

  Traditional This type of policy allows holders to visit any doctor or hospital they want and receive coverage for any treatment covered under the policy. Premiums for traditional insurance tend to be higher than those for other plans.

  HMO A health maintenance organization (HMO) is a health-care system that organizes doctors and hospitals in a network. An HMO's two basic features are that members must choose a primary care network physician who performs basic health checkups and approves visits to other specialized physicians, and members pay a set per-person fee that gives them access to the HMO's services.

  PPO A preferred provider organization (PPO) is a collection of physicians and hospitals that agree to provide health care at reduced cost to PPO members. PPOs limit health care costs without the restrictions of an HMO.

- **Homeowner's Insurance** Homeowner's insurance is designed to protect against a wide range of potential disasters, such as fire, vandalism, and theft of property, as well as against lawsuits if someone is injured while on the owner's property.
- **Mortgage Disability Insurance** Generally, if an illness or accidental injury renders an insured borrower disabled, mortgage disability insurance pays monthly home loan payments up to a specific amount.
- **Title Insurance** This policy type compensates the owner of real estate if his or her clear ownership of property is challenged.

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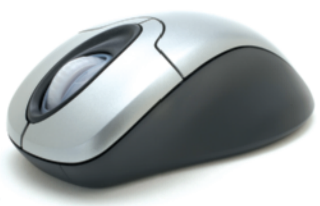
Business Insurance

Whether for-profit or nonprofit, businesses need certain types of insurance, such as liability insurance, which is highly recommended for property and automobiles. Workers' compensation is state-required insurance for any business with employees. The following briefly describes several types of business insurance.

- **Commercial Liability** Commercial liability insurance pays part or all of the damages for liability that the law applies to a business as well as the cost of defending the firm when a claim is made against it. Unprotected liability could cause financial hardship or bankruptcy.

- **Disability—Short-Term** Regular employees working 30 hours or more a week who become disabled are provided with a level of income protection for a short period of time, such as 90 days. Coverage is generally for a percentage of normal income, often as much as 90 percent.
- **Disability—Long-Term** This insurance is available to regular employees meeting short-term requirements but who have been disabled beyond the time limits of short-term disability benefits. Coverage is for a percentage of income less than that normally covered by short-term disability, often 60 to 70 percent.
- **Health Insurance** Many firms allow employees to participate in group health insurance plans covering basic health care, sometimes including vision and dental care. The employer determines the plan's coverage and the portion of the cost, if any, that employees must pay for it.
- **Officers' Liability Insurance** This insurance protects the company from losses due to the company's directors' and officers' alleged or actual breach of duty, neglect, error, misstatement, misleading statement, omission, or act.

tech talk



First Internet Bank of Indiana

Based in Indianapolis, Indiana, First Internet Bank of Indiana (or First IB) is the first state-chartered Internet bank with accounts insured by the FDIC. It is the first "extended value online bank" to deliver a full range of real-time Internet banking products with personalized interactive services as well as offering competitive rates. "Real-time" means that transactions are reflected in the customer's accounts immediately. First IB's business model enables customers to facilitate Internet banking in a real-time environment and to empower users to better manage their own finances.

First Internet Bank was one of the earliest banks to allow customers to conduct bank-related business from their web-enabled cell phones. First IB customers can now check their account balances, transfer funds from one First IB account to another, view their last ten transactions, set up new electronic bill payments, change due dates, and alter amounts or cancel planned payments for the first time from their mobile phone or hand-held computer.

Think Critically How does the success of this bank reflect on changes in our society? Why might some people be hesitant to use a bank without an advertised address for a walk-in lobby? Would you use this bank? Why or why not?

- **Property Insurance** Like individual policies, business insurance protects the policyholder against risk. Policies can be customized to meet the special risks the specific firm faces.

- **Workers' Compensation** This insurance pays for medical care and physical rehabilitation of workers injured in the performance of their job, and it helps to replace lost wages while they are unable to work.

✔ checkpoint

What is an HMO?

Brokerage Services

Brokerage refers to bringing together parties interested in making a transaction, such as buying and selling shares of stock. A broker charges a fee to execute such a transaction. Banks now offer full investment services. To enhance the liquidity offered by brokers, the Securities and Exchange Commission strictly regulates them to ensure accurate disclosure of information, to prevent fraud, and to restrict trades based on insider information. A topic of interest recently, insider information refers to facts known by people inside an organization or to parties to a transaction but not known by the general public.

Stocks

Stock is the capital raised by a corporation through the issuance of shares entitling holders to an ownership interest, or equity, in the corporation. Stocks represent the largest single category of assets in the capital market, which is the financial market where stocks, bonds, and other types of securities are sold. *Common stock* entitles owners to regular dividends (payments of money) when they are declared. It also provides a voice, through voting rights, in how the corporation operates. *Preferred stock* owners usually receive a limited but set dividend amount and have no voting right, but their claim to the corporation's earnings and assets upon liquidation takes precedence over claims of common stock owners.

Bonds

A **bond** is a debt instrument issued for a period of more than one year with the purpose of raising capital through borrowing. The federal government, states, cities, corporations, and many other types of institutions sell bonds.

Generally, a bond is a promise to repay the principal along with interest on a specified maturity date. As a buyer, you do not gain any ownership rights to the bond's issuer as you would with a stock. However, as a bond holder, your claim to the issuer's income is greater than that of a shareholder in the case of financial distress. Bonds are often divided into different categories based on tax status, credit quality, maturity, secured/unsecured, and issuer type. U.S. Treasury bonds are generally considered the safest unsecured bonds, because the possibility of the Treasury defaulting on payments is almost zero.

Mutual Funds

Mutual funds are investment companies that pool money from many savers who have small amounts to invest. With this money, the mutual fund purchases stocks, bonds, government securities, and short-term money market investments. These funds provide risk-sharing benefits by offering a diversified portfolio. *Diversification* refers to the distribution of assets in a portfolio among different types of securities and maturity dates instead of putting "all your eggs in one basket." Investing in mutual funds enables you to reduce your costs. You can buy into all shares in the funds with one transaction cost rather than incurring a cost on each instrument if you bought it separately.

Annuities

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An **annuity** is a series of payments, often to a retired person, of a set amount from a capital investment. The annuity is paid at a specified frequency and for a set number of years or until the annuitant's death. Payments begin only when the annuitant reaches a certain age. All annuities are tax-deferred, meaning that the earnings from investments in these accounts grow without being taxed until withdrawal. However, withdrawal before the specified age results in penalties and taxation.

✓ checkpoint

What is an diversified portfolio?

assessment 10.2

Think Critically

1. How did the Glass-Steagall Act restrict banking services?

2. Why are banks now able to provide one-stop shopping to customers?

3. Explain how insurance works.

4. What is the difference between an HMO and a PPO?

5. What are the advantages of investing in mutual funds?

Make Academic Connections

6. **Consumer Affairs** Consumers can use the Internet to do comparison pricing. Identify four different brokerage firms that offer Internet purchases. What percentage of the sale is the company's brokerage fee?

7. **Social Studies** The GLBA has brought dramatic changes to the banking industry. Some people contend that these changes make sharing private data among companies too easy. How did the public communicate this concern to government officials? What has the government done to prevent banks from sharing nonpublic personal information? Has this action been totally successful?

10.3 Cash Management

goals

- Explain why banks are in a good position to offer cash management services
- List several cash management services banks perform for businesses

terms

- outsourcing
- factoring

Banking Scene

Amelia Lopez recently attended a seminar on outsourcing. Since her business recently began to sell its products in South America, the firm is growing, and its needs have changed. She thinks that outsourcing her accounting services might be a wise thing to do. How could this help Amelia manage her growing business? What advantages and disadvantages should she consider?

SYSTEMS IN PLACE FOR CASH MANAGEMENT

Every business, no matter how large or small, needs to disburse and collect cash to complete business transactions. Banks are in a good position to provide cash management services to businesses for several reasons.

- **Experience** Banks have decades of experience in managing cash.
- **Business Knowledge** In conducting their own operations, banks have experienced the same opportunities and challenges that all businesses face, and they understand the nature and implementation of practices and policies that apply to efficient cash management for all businesses.
- **Technology** Banks have experience in applying technology to their cash management practices. Banks can afford to invest in the applicable technology and develop expertise in its use that most individual firms cannot. Banks allow other companies to tap into these efficiencies through the bank's cash management services.
- **Industry Expertise** Through their dealings with specific companies over the years, individual banks have developed expert knowledge of the practices of various industries. They can offer this expertise to other companies with similar needs.

Businesses recognize that constant changes in the financial industry and the regulatory world have increased their need to proactively manage cash, but with constant change, they find they no longer have the knowledge and experience to do so. It is not unusual for organizations that have had effective cash management systems to seek ways to improve them.

✓ checkpoint

Why is a bank in a good position to offer cash management services?

CASH MANAGEMENT

Firms' focus on the "bottom line" has caused them to evaluate all activities they perform and to identify those that do not add value to the product or service they offer. For many reasons, one company can make a product or provide a service less expensively than other firms can.

Outsourcing refers to the practice of having an outside party supply a product or service that the firm had been producing or performing itself. For example, the firm can hire a business that specializes in human resources rather than hiring individuals knowledgeable in this field. Savings would include inside employees' salary packages, including paid vacation and sick days, benefits such as health insurance, and various payroll taxes. The firm can devote the savings obtained to the activities that differentiate it. For example, a greeting card company might hire a new artist. Outsourcing may be practical for firms with seasonal/fluctuating needs that make keeping some full-time employees impractical. The Sutter Consortium reports that firms outsource for the following reasons.

29% Difficulty hiring skilled professionals
20% Lack of in-house skills
14% Budget
12% Business changes
12% CIO/senior management mandate
7% Reorganization
2% Downsizing

Frequently outsourced accounting services include the following.

- **Payroll** All functions related to paying wages to employees. These include calculating deductions, paying employees, filing payroll taxes, and all related recordkeeping.
- **Accounts Payable** Short-term debt from purchases on credit that must be paid to suppliers of goods or services typically within 60 days or less. These are paid for the client at the appropriate time and the client's creditor account records are kept up to date.
- **Accounts Receivable** Money due for services performed or merchandise sold on credit. Money is collected and records maintained.

Many businesses outsource cash management services to banks. Many banks outsource services as well. For example, Fidelity National Information

interesting facts

Sara Lee, a well-known manufacturer and marketer of high-quality, brand-name products, has taken the practice of outsourcing to the extreme. The company now contracts with outside suppliers, bakeries, and distributors to develop, prepare, and deliver its food products.

Services provides information processing management and professional consulting to many financial institutions, from community banks to megabanks and mortgage lenders to consumer finance companies.

Bank collection services enable banks to collect funds and integrate information easily and cost effectively. Various products accomplish this.

- **Deposit Services** Service that allows customers to make deposits in various ways. The bank maintains and manages deposit accounts to minimize balances in noninterest-bearing accounts and maximize balances in interest-bearing accounts.
- **Lockbox Service** Service that allows accounts receivable payments to be sent directly to the bank, accelerating the conversion of receivables into usable cash.
- **Zero-balance Accounts (ZBAs)** Accounts that start each business day at a zero balance and are related to a central account. Throughout the day, transactions are debited or credited as payments are made or received. At the end of the day they are reconciled with the central account and are returned once again to a zero balance. This type of program ensures that funds do not stand idle in multiple accounts and eliminates the need for the customer to monitor accounts and initiate account transfers.
- **Automated Clearing House (ACH) Network** This is a highly reliable and efficient nationwide batch-oriented electronic funds transfer system. It is governed by rules that provide for the interbank clearing of electronic payments for participating depository financial institutions. The American Clearing House Association, Federal Reserve, Electronic Payments Network, and Visa act as central clearing facilities through which financial institutions transmit or receive ACH entries. The bank's use of this network helps it provide cash collections and transfer services efficiently.

Information Services

Electronic Data Interchange (EDI) is generically defined as the computer-to-computer exchange of business information through standard interfaces. Today, more than 50,000 U.S. companies are estimated to have implemented EDI. Banks can advise companies concerning this interchange and provide the services to the firms.

Capital Services

Businesses must often commit large sums of money (capital) to projects that will continue well into the future. Capital expenses usually involve the purchase of things that last more than a year. Examples of firms' capital purchases are large printing presses, equipment to implement environmental regulations, expansion into a new territory, and a fleet of new trucks. Many firms aren't able to perform the complex analyses necessary for making the decisions, so they turn to their bankers for help.

Banking Math *Connection*

A small business was able to make a large sale only by accepting a note of $8,075 plus a $925 service fee to be paid in 12 months rather than immediate payment. Shortly afterward, the business unexpectedly had to replace an expensive machine four years ahead of schedule. The business was short of cash and arranged for a local bank to purchase the debt for a factoring fee of 3 percent. How much will the business receive from the bank?

Solution

First calculate the factoring fee. The formula for calculating this is

$$\text{(Principal + Service charge)} \times \text{Factoring fee percent} = \text{Factoring fee}$$
$$(\$8{,}075 + \$925) \times 0.03 = \$270$$

Then subtract the fee from the total amount owed.

$$\text{Amount owed} - \text{Factoring fee} = \text{Amount received from bank}$$
$$\$9{,}000 - \$270 = \$8{,}730$$

Capital Investments Capital investments differ from investments in stocks and bonds in one significant way. Stocks and bonds can be sold on an organized market for cash. A capital investment requires a much longer time to convert to cash, during which time the firm might incur additional expenses, such as building or equipment maintenance. Making capital investment decisions requires the use of numerous analytical tools and techniques for evaluating if the investment will result in the desired profits. Banks have the expertise to use these techniques in advising their clients. Establishing capital budgets is also part of the service.

Financing Once capital investment projects are decided, banks can provide advice to their clients regarding the best ways to finance while keeping the company's debt-to-equity ratios at the desired level.

Factoring A capital service provided by banks, **factoring** is the practice of buying debt at a discount. A firm that needs cash can sell a debt. The purchasing bank provides this service for a fee, often a percentage of the amount owed. In making its decision to provide this service, the bank evaluates the ability of the firm's customer to pay the debt. The customer pays the amount owed to the bank. Factoring dramatically improves a company's cash flow so it may meet current financial obligations.

✓ checkpoint

Explain how a zero-balance account works.

assessment 10.3

Think Critically

1. Many firms now outsource activities that they once performed themselves. What are the advantages of this?

2. Name three accounting services commonly outsourced.

3. What puts banks in a position to offer cash management services?

4. What is the EDI service that banks offer?

Make Academic Connections

5. **Technology** Many banking functions are offered over the Internet. Choose one of the services discussed in this lesson and research its availability over the Internet. Prepare a written, oral, or computer presentation that discusses how this service is purchased on the Internet, describes the way the service is performed, and includes the fees involved.

6. **Communication** Contact several local businesses and find out whether they outsource any of the accounting services discussed in this lesson. Determine the reason(s) they do or do not outsource. Compile your results as a class.

Trusts

10.4

goals

- Explain what trust services are.
- Identify important types of trust services banks provide.

terms

- trust
- donor
- beneficiary
- corpus
- IRA
- 401(k) plan
- variable annuity
- estate
- will
- probate
- executor
- living trust

Banking Scene

Now that Amelia Lopez's business is successful, she thinks it's time to start planning for her family's financial future. Her two daughters plan to go to college. She also wants to make sure that she and her husband will be comfortable during retirement. Amelia realizes that she will need to plan carefully to minimize the tax consequences on her estate when she dies. What are some of the options she should consider? Could IRAs meet her needs? What should Amelia know about estate planning?

What Are Trust Services?

The concept of trusts dates back some seven hundred years to Medieval England. At its simplest, a **trust** is an arrangement by which one party holds property on behalf of another party for certain defined purposes. Banks are well versed in providing trust services to their clients. Banks typically have trust departments whose members understand all types of trusts and their advantages and disadvantages and have experience in setting up and administering trusts to meet their clients' needs. Banks advise clients on the various types of trusts, which are discussed in the next section. Terminology related to trusts is somewhat specialized, and you should understand the following terms.

- **Donor** or *settlor* is the person who creates a trust.
- **Beneficiary** is the person for whose benefit the property is held.
- **Corpus** or *res* refers to the property that is held. Sometimes a distinction is made as to the *principal*, which is the property that is held in trust, and the *income* that the principal produces.

checkpoint

What is a trust?

interesting *facts*

A family can save tax-free for its children's education through Coverdell Education Savings Accounts (CESAs), once called *Education IRAs*. Contributions to CESA can be made on behalf of a child under age 18 for education expenses. As of 2008, the annual contribution per beneficiary is $2,000 if your modified adjusted gross income is below the established amount.

Trust Service Products

In addition to assisting a client in planning how to provide for financial needs during that person's employment years, banks offer advice regarding the client's retirement requirements and for passing assets upon death.

Retirement Planning

Various products are available to help individuals plan and save for their retirement. An **IRA** (individual retirement account) is a great way to save for retirement. There are two kinds of IRAs—traditional and Roth. Funds are invested in a traditional IRA on a before-tax basis, which allows the earnings on the investment to compound on a tax-deferred basis. This means that the money invested in a traditional IRA isn't taxed until it is withdrawn after age 59½. There are penalties for early withdrawal. You must begin withdrawals from a traditional IRA beginning at age 70½.

Beginning January 1, 1998, the Roth IRA became available. This investment is made with after-tax dollars. As long as the assets have remained inside the account for five years, all earnings and principal can be withdrawn totally tax-free after age 59½. Unlike the traditional IRA, funds do not have to be withdrawn at age 70½. The Economic Growth and Tax Relief Reconciliation Act of 2001 made changes to the amounts that an individual can invest in either a traditional or a Roth IRA. In 2008, individuals can invest up to $5,000 a year and, if over age 50, $6,000 a year.

Another retirement plan, the **401(k) plan**, allows employees to make tax-deferred contributions to a trust and direct their funds to be invested among a variety of choices, getting their money back at departure or retirement. Many companies match the employee investment, usually at between 25 and 75 cents per dollar, to a defined maximum (such as 6 percent of pay).

Many people find annuities to be a good complement to other tax-deferred retirement investments such as IRAs and 401(k)s. A **variable annuity** combines the opportunity for tax-deferral with a choice of portfolios and the flexibility to vary annual contributions according to the investors' needs or market conditions.

Estate Planning

Estate planning is the process by which an individual or family arranges the transfer of assets in anticipation of death. An **estate** is the total property, real (real estate) and personal (all other possessions, such as automobiles, jewelry, and bank accounts) that an individual owns. The cornerstone of any estate plan is a **will**, a document by which the individual gives instructions as to what is to happen upon his or her death in regard to property and remains. An estate plan seeks to preserve the maximum amount of wealth possible for the intended beneficiaries and to provide flexibility for the individual prior to death. Federal and state tax laws are major considerations in estate planning.

Probate is a court proceeding that settles an estate's final debts and formally passes legal title to property from the decedent to his or her heirs. It is initiated in the county of the decedent's legal residence at death. Wills must undergo formal probate administration, which can last two years or more, depending on the size and complexity of the estate. Court permission is needed to buy and sell assets, and beneficiaries usually must wait until the probate is concluded to receive the bulk of their inheritance. There are measures that may be taken to avoid assets being tied up in probate, such as naming beneficiaries for retirement accounts and placing assets in a living trust.

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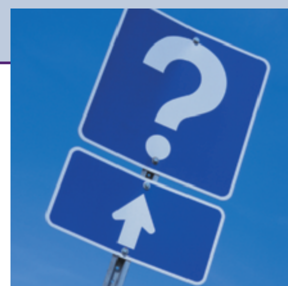
Estate Settlement

Estate settlement generally involves the following.

- **Identifying and valuing the estate assets.** An **executor** or *fiduciary* (the person named in the will to administer the estate) must identify all assets in the estate, including securities, business interests, and retirement plans, and determine their value. The executor arranges for professional appraisals of such items as real estate, artwork, and jewelry. If there is no will, the court will appoint an executor.
- **Paying creditors, estate expenses, and taxes.** The executor must ensure that the estate has sufficient cash to pay legitimate creditors and related estate expenses, including taxes. In fulfilling this role, the executor may have to decide to sell securities or other assets.
- **Preparing and filing the necessary tax documents with Federal and/or state authorities.** Recordkeeping must be exemplary to ensure that all documents are present, accurate, and complete. The executor must file all documents with the appropriate courts and other agencies in accordance with specific requirements and deadlines.

Ethics in Action



Banks have the ethical responsibility to inform customers in a clear manner on subjects such as the customers' rights and obligations as well as any and all benefits and risks of the products and services provided to them.

Think Critically

1. What are some things you believe a banker should tell a prospective customer about the risks related to retirement planning?
2. What are some things customers should do to be sure they are making informed decisions?

- **Distributing assets to beneficiaries.** The executor must make timely decisions concerning the distribution of estate assets in a prudent and efficient manner.

Testamentary Trusts

Testamentary trusts are established by a will and take effect at the donor's death. They receive the assets of the estate to hold and manage for the benefit of the heirs.

Charitable Remainder Trusts

A *charitable remainder trust (CRT)* is an irrevocable trust designed to convert the highly appreciated assets of a *trustor*—the person who sets up the trust—into a lifetime income stream without generating estate and capital gains taxes. CRTs have become very popular in recent years because they not only represent a valuable tax-advantaged investment, but also enable the trustor to provide a gift to one or more charities. A CRT can potentially

- Eliminate immediate capital gains taxes on the sale of appreciated assets.
- Reduce estate taxes that heirs might have to pay upon the trustor's death by as much as 55 percent.
- Reduce current income taxes with an income tax deduction.
- Increase the trustor's spendable income.
- Create a charitable gift.
- Avoid probate and maximize the assets the trustor's family will receive.

Living Trusts

In simple terms, a **living trust** is a legal document that provides an expedient way to transfer property at a person's death. Generally, living trusts are established during an individual's lifetime and can be modified or changed while that person is still alive. For this reason, a living trust is set up on a "revocable" basis. The *revocable trust provision* means that while the person lives, he or she still owns all of the property that has been transferred into the trust and can sell it, spend it, or give it away. The trust does not transfer to the beneficiary until the trustor dies. Living trusts speed up the process by which property moves to designated beneficiaries upon the trustor's death. One of the advantages of a living trust is that it avoids probate, although it may not offer the tax benefits related to CRTs.

✓ checkpoint

What are the responsibilities of an estate executor?

assessment 10.4

Think Critically

1. Why would a person want to set up a trust?

2. Why would a person want to avoid having his or her estate go through probate?

3. What information would you need to know if you were interested in setting up a living trust?

4. Why might people avoid deciding how to dispose of their assets at their death?

Make Academic Connections

5. **Communication** Talk to adult family members or friends about the type of retirement plan(s) that they have. Discuss at least four different retirement plans. Prepare a one-page report. Mention any concerns that your friends and family members have about the plans.

6. **Problem Solving** Use the Internet to find information on the topic of estate tax repeal. List the advantages and disadvantages of this legislation.

chapter 10 assessment

Chapter Summary

10.1 International Banking

A. International banking institutions include branches of foreign banks operating within the U.S., edge corporations, U.S. banks offering international services, and correspondent banks.

B. International services help customers negotiate, finance, ship, transfer, and collect their international accounts.

10.2 Insurance and Brokerage

A. The Gramm-Leach-Bliley Act allowed banks to enter a new era in which they are able to provide financial services not previously allowed.

B. Banks offer personal and business insurance, and brokerage services.

10.3 Cash Management

A. Banks possess the expertise to provide cash management services to clients.

B. Banks assist their clients in managing their cash by providing accounting, information, credit card, and capital services.

10.4 Trusts

A. Trusts are financial planning vehicles that arrange for the transfer of property from one entity to another under specific circumstances.

B. Retirement planning, estate planning and settlement, and trust establishment and supervision are services offered by banks.

Vocabulary Builder

Choose the term that best fits the definition. Write the letter of the answer in the space provided. Some terms may not be used.

a. 401(k) plans
b. annuity
c. beneficiary
d. bond
e. corpus
f. correspondent banks
g. country risk
h. currency risk
i. donor
j. edge corporations
k. estate
l. executor
m. factoring
n. foreign exchange rate
o. IRA
p. letter of credit
q. living trust
r. money laundering
s. mutual fund
t. probate
u. outsourcing
v. sovereign wealth fund
w. stock
x. trust
y. variable annuity
z. will

___ 1. Political, legal, social, and economic conditions that affect international businesses

___ 2. Practice of depositing, investing, or exchanging money in such a way as to conceal its illegal source

___ 3. Arrangement by which one party holds property on behalf of another party

___ 4. Court proceeding that settles estates

___ 5. Refers to the property held in a trust

___ 6. The value of one currency in terms of another

___ 7. Federally chartered institutions allowed to engage only in international banking

___ 8. Person who creates a trust

___ 9. Degree of risk posed by variations in exchange rates between countries

___ 10. Excess cash of a country used to invest for a profit

___ 11. Investment companies that pool money from investors with small amounts of money to invest

___ 12. A series of fixed payments from a capital investment

Review Concepts

13. List four ways that banks seek to meet their clients' international banking needs.

14. Describe the functions of the World Bank and the International Finance Corporation.

15. How does a letter of credit work?

16. What are the differences between a stock and a bond?

17. How did the Gramm-Leach-Bliley Act change banking institutions?

18. Why might firms seek to outsource products or services that they may have been previously producing or performing within their own organizations?

19. List reasons why businesses seek expert help when making capital investment decisions.

20. Give three examples of retirement planning services.

21. What is the probate process?

22. List four advantages that a charitable remainder trust provides.

Apply What You Learned

23. How does the USA Patriot Act of 2001 attempt to stop the financing of terrorist activities?

24. How does the term "one stop shopping" apply to banks?

25. Why are sovereign wealth funds significant?

26. Name four types of trust services.

27. Describe factors that impact foreign exchange rates.

Make Academic Connections

28. **SOCIAL STUDIES** Laws often result from what is happening in a society. Write a two-page report on how the Glass-Steagall Act and the Gramm-Leach-Bliley Act impacted banking. Discuss how each act was a reaction to current events of the time. Did GLBA contribute to the 2008 financial crisis?

29. **POLITICAL SCIENCE** How did the Enron crisis affect current and former employees' retirement planning? Research on the Internet to find out how the pensions of people other than Enron employees were affected.

30. **CURRENT EVENTS** Discuss the economic environment in the twenty-first century in terms of what makes it important for banks to advise their customers in the international arena.

31. **COMMUNICATION** Interview an executive of a local bank on the subject of a particular insurance product. Get detailed information about how the product protects the consumer. Present your findings to the class in an oral report. Jot down ideas for interview questions here.

32. **BANKING MATH** Find the current value of a Japanese yen (¥) as compared to a Chinese yuan. What is the cost of goods valued at 70,000 ¥ in yuan?

33. **RESEARCH** Using the Internet, find out more about the World Bank and the International Finance Corporation. List additional functions of both institutions.