

Document title:	Financial Intermediary: What It Means, How It Works, Examples
Capture URL:	https://www.investopedia.com/terms/f/financialintermediary.asp
Page loaded at (UTC):	Thu, 23 May 2024 21:23:58 GMT
Capture timestamp (UTC):	Thu, 23 May 2024 21:24:00 GMT
Capture tool:	2.58.2
Collection server IP:	52.5.8.50
Browser engine:	Mozilla/5.0 (Windows NT 10.0; Win64; x64) AppleWebKit/537.36 (KHTML, like Gecko) Chrome/121.0.6167.85 Safari/537.36
Operating system:	linux x64 (Node v20.5.1)
PDF length:	6
Capture ID:	9pDhtMSpGn2C8HckXraxgY
User:	automation@page-vaul

PDF REFERENCE #: 8npMgfzYdBprwLJHz3XoE2



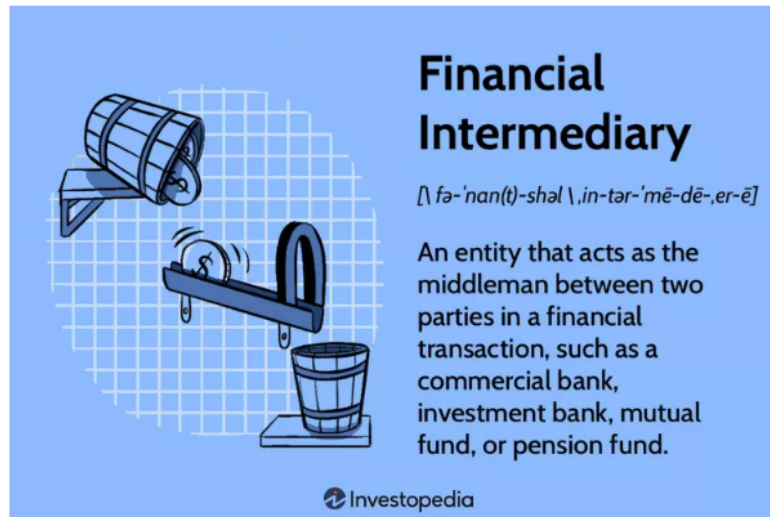
Find answers. Solve problems. Get inspired.

Learn More

Advertisement

CORPORATE FINANCE > CORPORATE FINANCE BASICS

Financial Intermediary: What It Means, How It Works, Examples

By JAMES CHEN Updated September 23, 2020Reviewed by MARGARET JAMESFact checked by AMANDA BELLUCCO-CHATHAM

Investopedia / Jessica Olah

What Is a Financial Intermediary?

A financial intermediary is an entity that acts as the [middleman](#) between two parties in a financial transaction, such as a [commercial bank](#), investment bank, mutual fund, or pension fund. Financial intermediaries offer a number of benefits to the average consumer, including safety, liquidity, and [economies of scale](#) involved in banking and asset management. Although in certain areas, such as investing, advances in technology threaten to eliminate the financial intermediary, disintermediation is much less of a threat in other areas of finance, including banking and insurance.

KEY TAKEAWAYS

- Financial intermediaries serve as middlemen for financial transactions, generally between banks or funds.
- These intermediaries help create efficient markets and lower the cost of doing business.
- Intermediaries can provide leasing or factoring services, but do not

Advertisement

We help people...

Find answers.
Solve problems.
Get inspired.

Trending Videos



- Financial intermediaries serve as middlemen for financial transactions, generally between banks or funds.
- These intermediaries help create efficient markets and lower the cost of doing business.
- Intermediaries can provide leasing or factoring services, but do not accept deposits from the public.
- Financial intermediaries offer the benefit of pooling risk, reducing cost, and providing economies of scale, among others.

How a Financial Intermediary Works

A [non-bank financial intermediary](#) does not accept deposits from the general public. The intermediary may provide factoring, [leasing](#), insurance plans, or other financial services. Many intermediaries take part in securities exchanges and utilize long-term plans for managing and growing their funds. The overall economic stability of a country may be shown through the activities of financial intermediaries and the growth of the financial services industry.

Financial intermediaries move funds from parties with excess capital to parties needing funds. The process creates efficient markets and lowers the cost of conducting business. For example, a financial advisor connects with clients through purchasing insurance, stocks, [bonds](#), real estate, and other assets.

Banks connect borrowers and lenders by providing capital from other [financial institutions](#) and from the Federal Reserve. Insurance companies collect premiums for policies and provide policy benefits. A pension fund collects funds on behalf of members and distributes payments to pensioners.

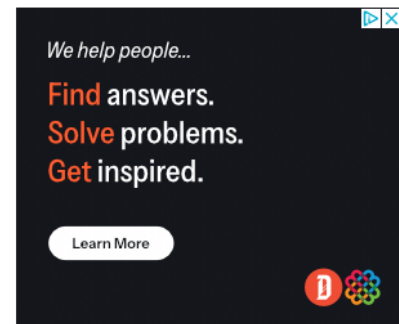
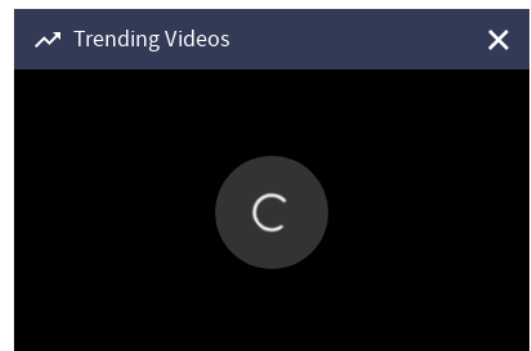
Types of Financial Intermediaries

[Mutual funds](#) provide active management of capital pooled by shareholders. The fund manager connects with shareholders through purchasing stock in companies he anticipates may outperform the market. By doing so, the manager provides shareholders with assets, companies with capital, and the market with liquidity.

Benefits of Financial Intermediaries

Through a financial intermediary, savers can pool their funds, enabling them to make large investments, which in turn benefits the entity in which they are investing. At the same time, financial intermediaries pool risk by spreading

Advertisement



Benefits of Financial Intermediaries

Through a financial intermediary, savers can pool their funds, enabling them to make large investments, which in turn benefits the entity in which they are investing. At the same time, financial intermediaries pool risk by spreading funds across a diverse range of investments and loans. Loans benefit households and countries by enabling them to spend more money than they have at the current time.

Financial intermediaries also provide the benefit of reducing costs on several fronts. For instance, they have access to economies of scale to expertly evaluate the credit profile of potential borrowers and keep records and profiles cost-effectively. Last, they reduce the costs of the many financial transactions an individual investor would otherwise have to make if the financial intermediary did not exist.

Example of a Financial Intermediary

In July 2016, the European Commission took on two new financial instruments for European Structural and Investment (ESI) fund investments. The goal was to create easier access to funding for startups and urban development project promoters. ^[1] Loans, [equity](#), guarantees, and other financial instruments attract greater public and private funding sources that may be reinvested over many cycles as compared to receiving [grants](#).

One of the instruments, a co-investment facility, was to provide funding for startups to develop their business models and attract additional financial support through a collective investment plan managed by one main financial intermediary. The European Commission projected the total public and private resource investment at approximately €15 million (approximately \$17.75 million) per small- and medium-sized enterprise. ^[1]

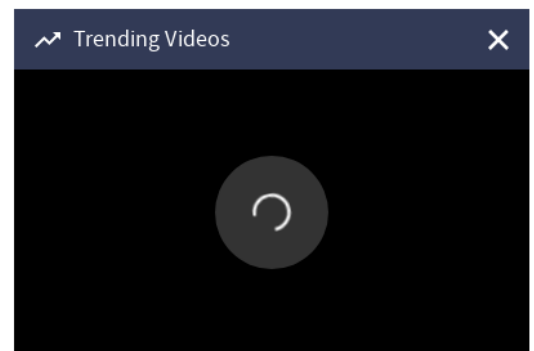
Board the crypto train from the right platform

SPONSORED

Ahead of the market moving Bitcoin Halving, [make sure you're on the right platform](#) — reliable, easy to use, and trusted by millions. [Join 30M users on eToro and trade 70+ leading cryptoassets](#) with fixed, transparent fees of 1%.

Cryptoasset investing is highly volatile and unregulated in some EU countries. No consumer protection. Tax on profits may apply.

ARTICLE SOURCES ▼



Related Terms

Nonbank Financial Institutions: What They Are and How They Work

Nonbank financial companies (NBFCs) are entities that provide bank-like financial services but don't hold a banking license and are unregulated. [more](#)

What Are Transaction Costs? Definition, How They Work, and Example

Transaction costs are the expenses associated with using a good or service. These can range from the fee paid to trade a security to the commission paid to a realtor. [more](#)

Equity Meaning: How It Works and How to Calculate It

Equity typically refers to shareholders' equity, which represents the residual value to shareholders after debts and liabilities have been settled. [more](#)

What are Financial Securities? Examples, Types, Regulation, and Importance

A security is a fungible, negotiable financial instrument that represents some type of financial value, usually in the form of a stock, bond, or option. [more](#)

How Do Commercial Banks Work, and Why Do They Matter?

A commercial bank is a financial institution that accepts deposits, offers checking and savings account services, and makes loans. [more](#)

Green Bond: Types, How to Buy, and FAQs

Green bonds help companies and governments finance environmentally friendly projects. [more](#)

[TRADE NOW](#)[PRACTICE TRADING](#)

Partner Links

[Sign up for our daily newsletters](#)[Listen to the Investopedia Express podcast on Spotify](#)[Get daily insights on what's moving the markets and why it matters..](#)[Learn to trade stocks by investing \\$100,000 in virtual dollars...](#)

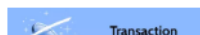
Related Articles



Nonbank Financial Institutions
(Also known as NBFCs)
Financial institutions that offer various banking services but do not have a banking license

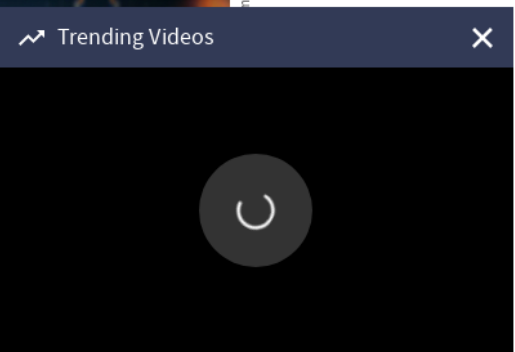
CORPORATE FINANCE BASICS

Nonbank Financial Institutions: What They Are and How They Work



Transaction

TRADING PLATFORMS & TOOLS





Nonbank Financial Institutions: What They Are and How They Work



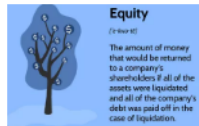
TRADING PLATFORMS & TOOLS

What Are Transaction Costs? Definition, How They Work, and Example



FINANCIAL COMPANIES

How Investment Banks Make Money



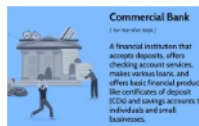
CORPORATE FINANCE BASICS

Equity Meaning: How It Works and How to Calculate It



INVESTING BASICS

What are Financial Securities? Examples, Types, Regulation, and Importance



BANKING

How Do Commercial Banks Work, and Why Do They Matter?

THE
Investopedia Express
Podcast

from Investopedia's
Editor in Chief,
Caleb Silver.

The news you need to know to start your week
[SUBSCRIBE & LISTEN >](#)

Advertisement

f X Instagram in

PRIVACY FEEDBACK
Powered by TRUSTe

A B C D E F G H I J K L M N O P Q

About Us

Editorial Policy

Privacy Policy

Your Privacy

Terms of Service

Dictionary

Trending Videos

Investopedia is part of the [Dotdash Meredith](#) publishing family.