

PRINCIPLES & PRACTICES Of Banking

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LEARNING SESSIONS

Promissory Note

Promissory note is an instrument in writing signed by maker containing unconditional undertaking to pay a certain sum to bearer

Bill of Exchange

Bill of exchange is an instrument in writing signed by the maker containing and unconditional order directing certain person to pay certain sum to bearer

Cheque Truncation System

Cheque is a bill of exchange drawn on specified banker to be paid only on demand

Maker

Maker of the bill of exchange or cheque is called drawer and the person there by directed by to pay is drawee. The person named in the instrument to whom to whose order the money is by the instrument directed to be paid is called payee

Holder u/s 8

Holder under Section 8 - holder of Negotiable Instrument means person entitled in his own name to possession and to receive or recover the amount

Holder in due course

Holder in due course section 9 means a person who for consideration becomes processor of Negotiable Instrument before the amount mentioned in it became payable

Payment if due course

Payment in due course section 10 - if the payment is made in accordance with the Apparent tenor of the instrument in good faith and without negligence to the person and possession of the instrument under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount mentioned there in

Negotiable Instrument

Negotiable instrument section 13 negotiable instrument means promissory note bill of exchange or check payable to order or bearer

Difference in Amount in words & Figures

Difference in amount in words and figures section 18 when there is difference between words and figures the amount in words is to be treated as the amount ordered by the drawer to pay

Inchoate Instrument

Inchoate instrument section 20 means incomplete instrument

Grace Period

Grace period section 22 three days of grace for calculating maturity date of usance instrument

Capacity

Capacity section 36 every person capable of contracting mind himself and be bound by making are accepting drawing etc of Negotiable Instruments

Liability of drawer

Liability of drawer Section 30 drawer of cheque is bound to compensate holder provided due notice is given to the drawer

Liability of drawee

Liability of drawee section 31 drawee of the cheque must pay cheque when required to do so and in default must compensate to the drawer

Holder's Right

holder's right to duplicate the lost bill negotiable instrument where a bill of exchange has been lost before it is overdue the person who was the holder of it may apply to the drawer to give

him another bill of same tenor giving security to the drawer if required to indemnity against all persons whatever in case the bill At least to have been lost shall be found again if we drawer on request as aforesaid refuses to give such duplicate bill he may be compelled to do so

Negotiation by delivery

Negotiation by delivery section 47 negotiable instrument payable to bearer is negotiable by its delivery

Section 85

Dropped by one branch on another section 85 when a check payable to order is endorsed by or on behalf of payee, drawee is discharged by payment in due course

Protection in case of bank draft

Protection in case of bank drafts protection to paying banker in case of bank drafts

Protection in case of order cheque

Protection in case of order cheque section 85(1) paying bank is protected by payment in due course of an order cheque which is properly and erased by the payee or his agent

Protection in case of beare cheque

Protection in case of bearer cheque section 85(2) protection to paying banker in case of a bearer cheque

Noting

Noting section 99 when negotiable instrument has been dishonoured by non acceptance or non payment, holder may cause such dishonour to be noted by the notary public up on the

instrument or upon attached paper and search must be made within reasonable time mentioning date of dishonour reason for dishonour and notary charges

Protest

Protest section 100 when negotiable instrument has been dishonoured by non acceptance or non payment the holder may within reasonable time causes search dishonour to be noted by the notary public which is then called protest

Reasonable time

Reasonable time section 105 in determining reasonable time for presenting for acceptance payment giving notice of dishonour or noting regard shall be had to the nature of instrument and in calculating time public holiday shall be excluded

Presumption

Presumption section 118 prism shall be made of:

Considering every negotiable instrument is made for consideration

Every negotiable instrument bearing date was made or drawn on such date

Every accepted bill of exchange was accepted within reasonable time after its date and before its maturity

Transfer was made before maturity

endorsements were made in order in which they appear

Holder is a holder in due course

General Crossing

General crossing section 123 bearer cheque bears across its face edition of words and company between two parallel transverse lines with or without the words not negotiable this edition is crossing and the check is said to be crossed

Special Crossing

Special crossing where cheque bears across its face addition of name of banker without without words not negotiable this edition is crossing and check is said to be crossed specially

Payment of crossed cheque

Payment of cheque crossed specially Section 126 when cheque is crossed specially banker on whom it is drawn shall not pay it otherwise than to a Banker

Protection for collecting Banker

Protection available for collecting banker section 131 banker who is in good faith without negligence received payment for customer of crossed cheque not angka any liability to the true owner of the cheque in case the title to check proves defective

Dishonour of cheque

Dishonour of cheque Section 138 where any cheque drawn by a person maintaining account in bank call payment to another person out of data count search person shall be presumed to have committed the offence and shall be punishable with imprisonment which we extend to 2 years or with fine which the extent to twice the amount of cheque

Presumption

Presumption in favour of holder Section 139 it shall be presumed that holder of cheque received it for discharge of debt or liability

Defence in provision

Defence in provision section 140 it shall not be defence in the offence that drawer had no reason to believe when he issued the check that it may be dishonoured

Offence by companies

Offence by companies section 141 if person committing offence under section 138 is company every person who at the time when the offence was committed was in charge are

responsible for conduct of business as well as the company shall be Deemed to be guilty of offence and shall be punished accordingly

Cognizance of offences

Cognizance of offences section 142 no court shall take cognizance under section 138 except on written complaint made by payee holder in due course search component is to be made within one month of the date on which the cause of action arose and no Court inferior to that of metropolitan magistrate of Judicial Magistrate of first class shall try the offence

Other Provisions

Other provisions section 143 to section 147 Court can try the case similarly and can import fine upto 5000 and imprisonment up to 1 year someone can be issued to an accused at a place where he ordinary sides or carry on business for personal work Court can also take evidence on affidavit bank cheque return memo will be the prima facie evidence of returns of cheque offence punishable under the act will be compoundable

Strategic Alliance

- A strategic alliance is a formal and 'mutually agreed to' commercial collaboration between companies
- The partners pool, exchange, or integrate specific business resources for mutual gain, yet they remain separate businesses
- It is a synergistic arrangement whereby two or more organisations agree to cooperate in the operation of a business activity, where each involved company brings different strengths and capabilities to the arrangement
- Alliances can be either equity or non-equity based and typically start with one cooperative agreement that evolves into a portfolio of arrangements built overtime
- Three mid-sized public sector banks have entered into a 'strategic alliance' in October 2006 are Indian Bank, Corporation Bank and Oriental Bank of Commerce

Alliance

Alliance is a mutually agreement to commercial collaboration between two to more organizations where they agree to co-operate in the operation of a business activity. They remain independent entities however.

Acquisition

Acquisition or takeover of a company refers to the acquiring of a controlling stake in the ownership of a company by another entity. This is done by buying the share capital of another company.

Consolidation

Consolidation is the combination of two existing companies into a new company where old companies lose their existence and a new one is created either with a different name or same name.,

Presidency Banks

In 1921, the three presidency banks - the Bank of Bengal, the Bank of Bombay and the Bank of Madras were amalgamated into one Bank which is now called the: State Bank of India

Merger/Amalgation

Merger/amalgamation means combination of two or more companies into a single company, where one company survives with its name or a combined new name, and other loses its existence.

Merger/Amalgation

Merger - Combining of two or more companies into a single company where one survives with its name and the others lose their corporate existence

Mergers in banking Sector

Mergers and Amalgamations in the banking sector have become inevitable.

Indian Banks are small in size, balance sheet and assets base. In the wake of globalisation, deregulation and liberalisation, to compete with foreign banks with global exposure and financial muscle power, Mergers and Amalgamation will increase the market share, geographic radar and capacity to invest in technological Upgradation.

RBI - Reserve Bank of India

The Reserve Bank of India, which is the Central bank of India, in the year 1955, acquired a controlling interest in the Imperial Bank of India, and the Imperial Bank of India was christened on 30 April 1955 as the State Bank of India, and this transformation from the Imperial Bank of India to the State Bank of India was given legal recognition in terms of an Act of the Parliament of India, which came into force from 1 July 1955.

Stock Exchange

1. A stock exchange is duly approved by the regulators to provide sale and purchase of securities on behalf of investors.
2. The stock exchanges provide clearing house facilities for netting of payments and securities delivery.
3. Clearing houses guarantee all payments and deliveries.
4. Securities include equities, debt and derivatives

Co-operative Bank functions

1. Co-operative banks are allowed to raise deposits and give advances from/to public.
2. Urban co-operative banks are controlled by State government and RBI.
3. Other co-operative banks are controlled by State Government and NABARD.

Debt Market

1. SEBI is the capital market regulator.
2. Merchant bankers aka Investment bankers are licensed by SEBI and they issue stocks, raise fund and manage them.
3. FII are authorized by SEBI to invest in Indian equity and debt market through stock exchanges.
4. Depositories held securities in demat form (not physical).

Banks in India

1. Banks in India can be broadly classified under two heads, commercial banks and cooperative banks.
2. While commercial banks (nationalised banks, State Bank group, private sector banks, foreign banks and regional rural banks) account for an overwhelming share of the banking business, co-operative banks also play an important role.
3. Initially set up to supplant indigenous sources of rural credit, particularly money lenders, today Co-operative Banks mostly serve the needs of agriculture and allied activities, rural-based industries and to a lesser extent, trade and industry in urban centers.
4. Co-operative banks have a three tier structure u2014
5. primary (agriculture or urban) credit societies,
6. district central co-operative banks and
7. at the apex level, state co-operative banks.

Brief about Banking

- Banks need not produce original books in a court of law
- Banks are exempted from producing the original books in the court of law under the Bankers Book Evidence Act

- The certified copies produced in the court of law will be considered as original documents and they will be accepted for the purpose of documentary evidence in the court of law under the Evidence Act
- This law has been enacted to facilitate the banks to perform their functions smoothly, so that day to day transactions can be done without any obstacles
- If the original books are to be submitted to the court, banks will not be able to discharge its functions and the customer service will be adversely affected

Rules for employees in Banking

- The employees of public sector banks holding the designation of Chief Manager and below to exclude from the purview of Central Vigilance Commission
- This makes the CVC moving away from micro management to off-site surveillance through periodical vigilance audits
- It will also reduce the fear psychosis and lending operations specially will improve

Objectives of RBI

- RBI's main objectives are to maintain financial solvency and liquidity in the banking system, stability in the exchange rate and internal value of the Rupee, to regulate the volume and flow of bank credit in tune with the national priorities and to develop financial institutions on sound lines
- RBI performs multifarious functions to achieve the above said objectives
- Its main functions include Notes Issuance, Government's Banker, Bankers' Bank, Banks' Supervision, Development of the Financial System, Exchange Control, and Monetary Control
- RBI's main tools of Monetary Control are Cash Reserve Ratio, Statutory Liquidity Ratio, Open Market Operations, Bank Rate and Selective Credit Control
- RBI uses these tools singly or in combination to control and rectify specific monetary situations in the economy or banking system from time to time
- These measures affect the volume and cost of bank credit, besides maintaining the stability of the financial system

Cash Flows

A statement of cash flows reports net cash provided or used in each of the four categories of classifying cash transactions. It also reports the net effect of these flows on cash and cash equivalents during the fiscal year in a manner that reconciles beginning and ending cash and cash equivalents for the year. The statement of cash flows has four distinct sections:

- Cash involving operating activities
- Cash involving investing activities
- Cash involving financing activities
- Supplemental information.

Non-Cash Investing, Capital and Financing Activities

Report information about investing, capital and financing activities that affect assets and liabilities but do not result in cash receipts or cash payments in the period. Present this information with the statement of cash flows in the section titled non-cash transactions. Include line items in the non-cash transaction section of the statement of cash flows for:

- Net change in fair value of investments
- Donation of capital assets
- Borrowing under a capital lease purchase
- The acquisition of assets by assuming directly-related liabilities
- Exchanging non-cash assets or liabilities for other non-cash assets or liabilities

When transactions are part cash and part non-cash, report only the cash portion within the statement of cash flows. Report the non-cash portion in the non-cash transaction section supplemental to the statement of cash flows.

Clean Note Policy by RBI

As per Clean Note Policy, RBI has stated that writing on the watermark window of bank notes is punishable under Section 35A of the Banking Regulation Act 1949. It also ordered to stop stapling fresh, reissuable or non-issuable note packets.

Indian Financial System

Indian Financial System :-

1. NBFC are allowed to raise money from the public and lend monies through various instruments for ex leasing, hire purchase and bill discounting.
2. Primary dealers deal in government securities, primary as well as secondary markets.
3. FI are financial institutions which provide long term funds for industry and agriculture.
4. CRR is a percentage of demand and time liabilities of a bank which is deposits held by the bank.
5. SLR is a percentage of demand and time liabilities of a bank which is held in prescribed government securities by the bank.
6. Bonds and debentures are examples of corporate securities and can be used to raise debts.
7. Debts, equities and derivatives are examples of securities.
8. Mutual fund pools money from investors and invests in stocks, debt and other securities.

Job Rotation in Banking

Job rotation is must in the Bank.

The staff members are expected to attain working knowledge all the functional aspects of the Bank. As a measure of internal control and preventive vigilance measure, rotation of duties is recommended.

Why Gold Card Scheme was Withdrawn?

RBI has drawn up gold card scheme for the exporters of good track record.

In order to encourage the exporters who contribute inflow of foreign exchange through exports.

Regulatory Authorities

The three regulatory authorities are:

- RBI - for banks
- SEBI - for capital markets and
- IRDAI - for insurance sectors

Code of Standards

The Banker's Fair Practice Code sets standards for fair banking practices when dealing with individual customers. It provides valuable guidance to customers for their day-to-day operations. The IBA (Indian Bankers Association) introduced this code of standards in June 2004.

Multi State Co-operative Societies Act

The Multi State Co-Operative Societies Act, 2002

An Act to consolidate and amend the law relating to co-operative societies, with objects not confined to one State and serving the interests of members in more than one State, to facilitate the voluntary formation and democratic functioning of co-operatives as people's institutions based on self-help and mutual aid and to enable them to promote their economic and social betterment and to provide functional autonomy and for matters connected therewith or incidental thereto.

Roles of RBI

The preamble of the Reserve Bank of India describes its main functions as: to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country **to its advantage**

Main Functions of RBI:

- Monetary Authority
- Issuer of Currency
- Banker and Debt Manager to Government

- Banker's bank and supervisor
- Regulator of the Banking System
- Manager of Foreign Exchange
- Regulator and Supervisor of the Payment and Settlement Systems

CAMEL Rating System

The CAMELS rating system is an international bank-rating system where bank supervisory authorities rate institutions according to the following six factors:

- (C)apital adequacy
- (A)ssets
- (M)anagement Capability
- (E)arnings
- (L)iquidity (also called asset liability management)
- (S)ensitivity (sensitivity to market risk, especially interest rate risk)

Bank supervisory authorities assign each bank a score on a scale of 1 (best) to 5 (worst) for each factor. If a bank has an average score less than 2 it is considered to be a high-quality institution, while banks with scores greater than three are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

Ratings are not released to the public but only to the top management to prevent a possible bank run on an institution which receives a CAMELS rating downgrade. Institutions with deteriorating situations and declining CAMELS ratings are subject to ever increasing supervisory scrutiny.

Depository Receipt

A depository receipt (DR) is a form of negotiable (transferable) financial instrument that is traded on a local stock exchange of a country but represents a security, usually in the form of equity that is issued by a foreign publicly listed company.

Bancassurance

Bancassurance is an arrangement in which a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's client base. This partnership arrangement can be profitable for both companies.

FII

FII are not allowed to issue Participatory notes to Indian national or overseas corporate bodies (because majority are owned/controlled by NRIs).

International Banking

International banking refers to dealing in cross border transaction.

Participatory notes

Participatory Notes are like contract notes. They are issued by FII to entities that want to invest in the Indian stock market but do not want to register themselves with the SEBI.

Retail Banking

Retail banking refers to dealing of commercial banks with individual customers, both assets and liabilities sides. Products offered are: SB, RD, CA, TDR, STDR, No Frill A/C, Home loan, auto loan, personal loan, education loan, crop loan, credit card, debit cards, lockers, bancassurance etc.

Registration of Nomination

The legend u2018nomination registeredu2019 will be affixed / written on the face of the pass book / term deposit.

This is done in order to help legal heirs to settle the funds in the customeru2019s account easily in case of the death of the depositor without any delay.

Universal Banking

Universal banking offers all types of financial products like mutual fund, capital market related products including share broking, commodity broking, etc, sale of gold/bullion,

government/corporate bonds, merchant banking, general banking, insurance (both life and non-life), etc under one roof.

Variable Recurring Deposits

Variable recurring deposit:

1. User have the flexibility in choosing the amount of deposit as well as the payment of installments. That is, installments can be payable in multiples times
2. In variable RD, user have the flexibility of choosing the period of deposit. The minimum and maximum period of deposits may vary from bank to bank. Most banks offer 6 months to 5 years as minimum and maximum periods respectively.

Wholesale Banking

Wholesale banking aka corporate banking or commercial banking refers to doing banking business with industrial and business entities u2013 mostly corporate and trading houses, including multinationals, domestic business houses and prime public sector companies.

Products offered are: LC, BG, Collection of bills and documents, forex desk, tax collection, RTGS, term lending, etc.

Constitution of RBI

1. **RBI was constituted under the RBI Act 1934.**
2. **RBI started functioning with effect from 1 Apr 1935.**
3. **RBI is a state owned institution under the RBI (Transfer of Public Ownership) Act 1948.**
4. **RBI has 4 Deputy Governors and 15 Directors nominated by Union government.**
5. **All coins and Re 1 note is issued by Government of India but put into circulation by RBI.**
6. **RBI can prescribe SLR from 0 to 40 percent of banku2019s DTL.**

7. RBI manages the exchange rate between the Indian Rupee and foreign currencies by selling and buying foreign exchange to/from Authorised Dealers (RBIu2019s specified branches and other dealers).

CRR & Bank Rate

1. Saving and current accounts are demand liabilities.
2. Reducing CRR Increases loanable funds with banks.
3. Increasing SLR reduces loanable funds with banks.
4. Bank rate is the rate at which RBI is prepared to buy or rediscount bills of exchange or other eligible commercial paper from banks.

Banking Rule

1. No bank held shares in a company as pledge or mortgagee in excess of the limit of 30% of the paid-up capital of that company or 30% of the banku2019s Paid-up capital and reserves, whichever is less.
2. Open market operations refer to sale or purchase of government securities by RBI in the open market.
3. Selective credit control is another tool which RBI uses for monetary control. It prevents holding of essential commodities and resultant rise in their prices. Presently buffer stocks of sugar, unreleased stocks of sugar with sugar mills representing free sale sugar and levy sugar are covered by SCC.

Macroeconomic Policies

Important macroeconomic policies:

1. Monetary and credit policies - issued by RBI bi-monthly(As per latest RBI changes)
2. Fiscal policy - issued by Ministry of Finance

3. EXIM policy - Ministry of Commerce

Duty of B.M.

Periodical verification of staff accounts must be made by the branch manager

To check whether any staff member is having assets disproportionate to the known income. And also to know whether staff members are using their accounts for any business / speculative business purpose.

Section 45ZA of BR Act

Section 45ZA in BANKING REGULATION ACT,1949 - 45ZA

Nomination for payment of depositors' money.

:-

1. Where a deposit is held by a banking company to the credit of one or more persons, the depositor or, as the case may be, all the depositors together, may nominate, in the prescribed manner, one person to whom in the event of the death of the sole depositor or the death of all the depositors, the amount of deposit may be returned by the banking company.
2. Notwithstanding anything contained in any other law for the time being in force or in any disposition, whether testamentary or otherwise, in respect of such deposit, where a nomination made in the prescribed manner purports to confer on any person the right to receive the amount of deposit from the banking company, the nominee shall, on the death of the sole depositor or, as the case may be, on the death of all the depositors, become entitled to all the rights of the sole depositor or, as the case may be, of the depositors, in relation to such deposit to the exclusion of all other persons, unless the nomination is varied or cancelled in the prescribed manner.
3. Where the nominee is a minor, it shall be lawful for the depositor making the nomination to appoint in the prescribed manner any person to receive the amount of deposit in the event of his death during the minority of the nominee.
4. Payment by a banking company in accordance with the provisions of this section shall constitute a full discharge to the banking company of its liability in

respect of the deposit: Provided that nothing contained in this sub-section shall affect the right or claim which any person may have against the person to whom any payment is made under this section

Banker's Fair Practice Codes

- The Banker's Fair Practice Code sets standards for fair banking practices when dealing with individual customers.
- It provides valuable guidance to customers for their day-to-day operations.
- The IBA (Indian Bankers Association) introduced this code of standards in June 2004.

Recovery

- In the matter of recovery of dues, banks / NBFCs may ensure that they, as also their agents, adhere to the extant instructions on Fair Practice Code for lenders as also IBAu2019s Code for Collection of dues and repossession of security
- In case banks / NBFCs have their own code for collection of dues it should, at the minimum, incorporate all the terms of IBA's Code
- In particular, in regard to appointment of third party agencies for debt collection, it is essential that such agents refrain from action that could damage the integrity and reputation of the bank / NBFC and that they observe strict customer confidentiality

Letter by Recovery Agents

All letters issued by recovery agents must contain the name and address of a responsible senior officer of the card issuing bank whom the customer can contact at his location.

Limitations in Recovery

Banks / NBFCs / their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the credit card holdersu2019 family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

Mithra Committee Recommendations

Banks are advised to introduce Best Practices Code.

As per the Mithra Committee Recommendations u2013 With a objective to document the procedures compared with national / international best practices especially those in all fraud areas as a step towards preventing the frauds.

What is CIBIL score?

CIBIL is a composite credit bureau which contains the credit history of both commercial and consumer borrowers.

CIBIL provides credit history of borrowers to its members in the form of credit information reports (CIRs) to assist them in their loan appraisal process.

CAMEL Rating System

CAMELS Rating system has been introduced for Banks.

A working group chaired by Sri S. Padmanabhan suggested that the banks be placed in two categories u2013 (a) those that need to be examined on an annual cycle, and (2) those that may be examined on a wider time scale say within two years from the date of last examination u2013 depending on six parameters viz., Capital Adequacy, Asset Quality, Management, Earnings Performance, Liquidity, Systems & Controls.

Members of BCSBI

Member banks of BCSBI would put in place the following grievance redressal mechanism in their banks:

- 7. Have a Help desk / Helpline at the branch**
- 8. Have a Code Compliance Officer at each Controlling office above the level of the branch**
- 9. Display at each branch name and contact number of Code Compliance Officer**
- 10. Display Name and address of the Banking Ombudsman.**

BCSBI

The Banking Codes and Standards Board of India (BCSBI)

- 11. The Banking Codes and Standards Board of India (BCSBI) was set up on 18th February 2006 as a collaborative effort of RBI and Banks, on the lines of a similar setup in UK to oversee the Banking Code, a voluntary Code, evolved by the British Bankers Association (BBA), which is adopted by all banks in UK.**
12. The proposal for setting up the BCSBI was based on the recommendation made by the Committee on Procedures and Performance Audit on Public Services (Tarapore Committee).
13. It provides valuable protection for customers on a day-to-day basis as also in the times of financial difficulty.
14. The code applies to savings deposits and current accounts, card products and services, loans and overdrafts and payment services including foreign exchange.

Forward Exchange Contract

- A forward exchange contract is a firm contract between the bank and its customers for the purchase/sale of a specified quantity of a stated foreign currency at a predetermined rate
- On the due date when the contract is executed, the transaction will be at the contracted rate of exchange instead of the rate then prevailing, thus it is method of protecting oneself against exchange rate fluctuations

Letter of Credit

A Letter of Credit is an undertaking given by the buyer's bank on behalf of the buyer to the seller, stipulating that if specified documents are presented within a stipulated date, the bank establishing the credit will pay the amount of the bill drawn in terms of such Letter of Credit,

FRA

An FRA is a financial contract between 2 parties to exchange interest payments for a notional principal amount on the settlement date for a specified period from start date to maturity date,

IRS

An IRS is a financial contract between two parties exchanging or swapping a stream of interest payments for a notional principal amount on multiple occasions during a specified period. Such contracts involve exchange of fixed to floating or floating to floating rate of interest,

Bank Guarantee

Bank Guarantee is a contract of Guarantee means a contract to perform the promise or discharge the liability of a third person in case of his default. Bank Guarantee is a contingent liability, Factoring is a service that is connected with the financing and collection of account receivables in domestic and international trade. There are 3 persons in case of a Bank Guarantee - the guarantor/surety, Principal debtor, and the creditor/beneficiary. There are 4 persons in case of a Letter of Credit u2013 buyer, opening bank/branch, seller, and negotiating bank/branch.

Forfaiting

Forfaiting is a means of finance (credit) an exporter of goods avails from an intermediary called the forfaiter against the export receivables but without the obligation to repay the credit. It is used in international trade,

Why FRA & IRS

FRA (Forward Rate Agreement) and IRS (Interest Rate Swap) are such instruments that can provide effective hedge against interest rate risks,

Off Balance sheet items

The items in the books of a bank which are not mentioned in the balance sheet, is known as off-balance sheet items. These are not assets or liabilities but may get converted into assets/liabilities upon happening of certain events. That is why off balance sheet items are aka contingent liabilities.

Mutual Fund

17. Mutual fund is a mechanism for pooling resources from the public by issuing units to them and investing the funds in securities.
18. Mutual fund set up in the form of a trust and is registered with SEBI.
19. Unit holders refer to investor in mutual fund.

Balanced plan (Mutual fund) invest both in equities and fixed income securities (debt instruments) in 40-60%.

NAV

20. NAV denotes performance of a particular scheme of a mutual fund.
21. NAV per unit is the market value of securities of a scheme, less the expenses incurred on the scheme divided by the total number of units of the scheme on any particular date.

Growth Scheme

Growth scheme aka equity oriented scheme (Mutual fund) invest in equities (higher risks).

Gilt Fund

Gilt fund invest in government securities.

Income Scheme

Income scheme/debt oriented scheme (Mutual fund) invest in fixed income securities such as bonds, government securities, corporate debentures and money market instruments.

Insurance Regulator

Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous apex statutory body which regulates and develops the insurance industry in India. It was constituted by a Parliament of India act called Insurance Regulatory and Development Authority Act, 1999 and duly passed by the Government of India

Money Market

Money market or liquid fund invest in (safer short-term instruments) treasury bills, certificates of deposit, commercial paper and interbank call money, government securities, etc.

Repurchase Price/ Redemption Price

Repurchase or redemption price is the price or NAV at which an open-ended scheme purchases or redeems its units from the unit holders.

Open Ended Scheme

The scheme that is available for subscription and repurchase on a continuous basis is known as open ended scheme/plan.

Closed Ended Scheme

The scheme that is available for subscription only during a specified period at the time of launch of the scheme is a close ended scheme. It has a maturity period 3-10 years.

Prime Lending Rate

RBI advised banks to introduce Single PLR.

In order to be transparent and easy understandable to the customers on the basis of interest rates changed by the banks which is not possible in case of multiple PLR

Types of Money

- The money market primarily facilitates lending and borrowing of funds between banks and entities like Primary Dealers (PDs)
- Banks and PDs borrow and lend overnight or for the short period to meet their short term mismatches in fund positions
- This borrowing and lending is on unsecured basis
- 'Call Money' is the borrowing or lending of funds for 1 day
- Where money is borrowed or lent for period between 2 days and 14 days it is known as 'Notice Money'
- And 'Term Money' refers to borrowing/lending of funds for period exceeding 14 days

Digital Payments

- The Reserve Bank has taken many initiatives towards introducing and upgrading safe and efficient modes of payment systems in the country to meet the requirements of the public at large
- Since paper based payments occupy an important place in the country, Reserve Bank had introduced Magnetic Ink Character Recognition (MICR) technology for speeding up and bringing in efficiency in processing of cheques
- A separate High Value Clearing was introduced for clearing cheques of value Rupees one lakh and above
- This clearing was available at select large centres in the country (since discontinued)

Certificate of Deposit

A certificate of deposit is a negotiable money market instrument which is issued in dematerialised form or as a Usance Promissory Note, for funds deposited at a bank or other eligible financial institution for a specified time period.

The minimum maturity period of CD is 8 days with effect from 29 Apr 2005.

ATMS POS

ATMs / Point of Sale (POS) Terminals / Online Transactions

32. As on Feb, 2014, there are over 1,50,008 ATMs (76836 onsite and 73172 off site) in India. Savings Bank customers can withdraw cash from any bank terminal up to 5 times in a month without being charged for the same (refer RBI circulars for latest changes).
33. Reserve Bank has mandated re-crediting of failed transactions within 7 working day and mandated compensation for delays beyond the stipulated period.
34. As on Feb, 2014, there are over 10 lakh POS terminals in the country, which enable customers to make payments for purchases of goods and services by means of credit/debit cards.
35. To facilitate customer convenience the Bank has also permitted cash withdrawal using debit cards issued by the banks at PoS terminals.
36. Further, to reduce the risks arising out of the use of credit/debit cards over internet/IVR (technically referred to as card not present (CNP) transactions), Reserve Bank mandated that all CNP transactions should be additionally authenticated based on information not available on the card and an online alert should be sent to the cardholders for such transactions.

Maintainence of Funds

Banks should maintain a Square position in all foreign currency accounts

- Forex is a commodity, the price of which is highly fluctuating
- Over bought or oversold positions will always place the bank at high risk position
- Holding this commodity at the minimum level (squaring up) is to mitigate the exchange rate fluctuation risk

Commercial Paper

Commercial paper is an unsecured money market instrument issued in the form of a promissory note. It enables highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors.

Duplicate Branch Keys

Duplicate set of branch keys were kept at another branch.

In case of emergencies like non-availability of original keys due to any reasons, to withdraw the duplicate keys and continue the operations of the bank without any difficulty.

Electronic payments

Electronic Payments

The continued increase in the volume of cheques added pressure on the existing set-up, thus necessitating following cost-effective alternative systems.

40. Electronic Clearing Service (ECS) Credit
41. Regional ECS (RECS)
42. Electronic Clearing Service (ECS) Debit
43. National Electronic Funds Transfer (NEFT) System
44. Real Time Gross Settlement (RTGS) System
45. Clearing Corporation of India Limited (CCIL)

Plastic Currency

Indian Government is planning to issue plastic currency notes.

In order to keep a long life with cost effective in the long run as the paper currency is not carefully handled resulting into heavy expenditure on printing.

Reforms in Indian Money market

Major reforms in the Indian money market - Indian Government appointed a committee under the chairmanship of Sukhamoy Chakravarty in 1984 to review the Indian monetary system. Later, Narayanan Vaghul working group and Narasimham Committee was also set up. As per the recommendations of these study groups and with the financial sector reforms initiated in the early 1990s, the government has adopted following major reforms in the Indian money market.

46. Deregulation of the Interest Rate
47. Money Market Mutual Fund (MMMFs)

48. Liquidity Adjustment Facility (LAF)
49. Electronic Transactions
50. Establishment of the CCIL
51. Development of New Market Instruments : The government has consistently tried to introduce new short-term investment instruments. Examples: Treasury Bills of various duration, Commercial papers, Certificates of Deposits, MMMFs, etc. have been introduced in the Indian Money Market.

Forging transactions

Only specified Branches are authorised to handle foreign transactions

- Dealing in foreign exchange is risk prone business
- Consolidation has to take place on an ongoing basis and without delay
- The authorised Branches require license from Reserve Bank of India
- All the Branches do not have Forex transactions, hence wherever business potential is available the bank has authorised the Branches

Prepaid Instruments

Prepaid instruments are payment instruments that facilitate purchase of goods and services against the value stored on these instruments.

56. The value stored on such instruments represents the value paid for by the holders by cash, by debit to a bank account, or by credit card.
57. The pre-paid payment instruments can be issued in the form of smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers, etc.
58. The use of prepaid payment instruments for cross border transactions has not been permitted, except for the payment instruments approved under Foreign Exchange Management Act,1999 (FEMA).

Cheque Truncation System

Recent developments in paper-based instruments include launch of Speed Clearing (for local clearance of outstation cheques drawn on core-banking enabled branches of banks), introduction of cheque truncation system (to restrict physical movement of cheques and enable use of images for payment processing), framing CTS-2010 Standards (for enhancing the security features on cheque forms) and the like.

Guidelines on Mobile Banking

Reserve Bank brought out a set of operating guidelines on mobile banking for banks in October 2008, according to which only banks which are licensed and supervised in India and have a physical presence in India are permitted to offer mobile banking after obtaining necessary permission from Reserve Bank.

Renaming Credit Policy

RBI renamed Credit Policy as Annual Policy statement.

Because due to the shift of the RBI focus from money measures to economic development with long term policies. This is issued in a year with a review and modifications at half-year.

Remittances by Residents

Remittances are liberalised for residents

- Remittances by residents means selling of Foreign exchange to residents
- The Reserve Bank is holding more than adequate forex reserves
- The US Dollar is the main component of forex reserves, the rate for which is falling
- RBI has introduced various remittance facilities for residents including Resident Foreign Currency A/c to mitigate and spread the risk

Transparency in published accounts

RBI introduced prudential norms for income recognition, asset classification & provisioning.

In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and

provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts.

Scale of finance on KCC

Scale of finance is not uniform throughout the country.

Scale of finance is decided by Dist. Technical Committee. Taking into account, the cropping conditions, cost of inputs & labour which are not uniform through out the country.

Why Universal Banking?

Universal Banking concept is introduced.

In order provides banking opportunities to all the players in the markets to provide all customer needs at a roof with improved efficiency and low cost.

What is Market Risk?

- Market risk is the possibility for an investor to experience losses due to factors that affect the overall performance of the financial markets in which he is involved.
- Market risk, also called systematic risk, cannot be eliminated through diversification, though it can be hedged against.
- Sources of market risk include recessions, political turmoil, changes in interest rates, natural disasters and terrorist attacks.
- The most common types of market risks include interest rate risk, equity risk, currency risk and commodity risk.
- Interest rate risk covers the volatility that happens with changing interest rates due to fundamental factors, such as Libor and other central bank announcements related to changes in monetary policies.

Tier 2 in capital?

- Tier 2 represents the capital that is not as much reliable as the Tier 1 capital because of the lack of corroborated ownership as in the case of Tier 1 capital.
- Tier 2 or Supplementary capital consists of Undisclosed reserves, Cumulative non redeemable preference share capital, General provisions and loss reserves written back as

surplus if the actual loss or diminution is found to be in excess of the provision or loss reserves created earlier, Revaluation reserves, Hybrid capital instruments and Subordinated debt with minimum maturity of 5 years.

- There are also restrictions such as subordinated debts could not exceed 50% of the core capital, general provisions and loss reserves could not exceed 1.25% of the total risk weighted assets.
- u2018Risk weighted assetsu2019 is the value of the assets adjusted for the risk of the asset failing to liquidate as valued. Risk WeightsUnder Basel I, risk weights were classified into 5 Categories namely, 0%, 0% to 50%, 20, 50%, 100%.

Bank rate in India

- There is no limit/range on the Bank Rate
- Bank rate in India is determined by Reserve Bank of India (RBI)
- It is the rate at which RBI gives loan to commercial banks without keeping any collateral
- The RBI also provides short term loans to its clients (keeping collateral) which is called the repo rate
- RBI revises this rate periodically
- However, there is no predetermined schedule
- This is typically done on a quarterly basis to control inflation and to stabilize the countryu2019s exchange rates
- A fluctuation in bank rates triggers a ripple-effect as it impacts every sphere of a countryu2019s economy
- For instance, the prices in stock markets tend to react to interest rate changes
- A change in bank rates affects customers as it influences prime interest rates for personal loan

Asset Liability Management (ALM)

Asset Liability Management in Banks Introduced.

In order to measure / monitor and manage the market risks to improve the profitability and liquidity.

WHY ALM?

Asset Liability Management

The increasing liberalisation, deregulation and internationalization of banking operations has increased the risk exposure of the banks due to the possibility of significant mismatch between assets and liability which has adverse implications for liquidity and solvency of the banking sector.

BASEL II

Basel II has 3 pillars:

82. minimum capital requirements
83. supervisory review process
84. market discipline.

Party Paid Shares

Banks do not advance against partly paid shares.

Partly paid shares will carry risk of payment of call in arrears which is share holders responsibility. If he fails to pay, the share may be forfeited by the Company. If the shares are transferred in the name of the bank, the bank has to pay the arrears when the company went into liquidation.

Change of Capital Adequacy Norms

Basel Committee is proposing to replace the existing Capital adequacy Norms.

In order to strengthen the financial soundness and stability of the banking system by considering proper change on the capital for credit risk / market risk / operational risk.

Why Retail Banking?

Banks are laying special emphasis on retail banking.

In order to retain the existing customers and provide value added services to increase the profitability. This will also spread the risk of business thereby losses can be minimized.

Credit Risk

Credit risk is the possibility of losses associated with the reduction in the credit quality of borrowers or counterparties.

Credit risk forms u2013 direct lending, Bank Guarantee, Letter of Credit, treasury operations, securities trading businesses, cross border exposure, etc.

Capital Requirements

Capital Requirements:

85. The capital base of the bank consists of the following 3 types of capital requirements:
Tier 1, Tier 2 and Tier 3.
86. The total of Tier 2 (supplementary) elements will be limited to a maximum of 100% of the total of Tier 1 capital.
87. Subordinated term debt will be limited to a maximum of 50% of Tier 1 capital.
88. Tier 3 capital will be limited to 250% of a banku2019s Tier 1 capital that is required to support market risk.
89. Shareholderu2019s equity and retained earning consists of Tier 1 capital while supplementary refers to Tier 2 capital.
90. The sum of total of Tier 2 and Tier 3 capital should not exceed the total of Tier 1 capital.

Crystallisation of Exports

Crystallisation of export / import bills is done if they are not paid within a stipulated period. To avoid loss on account of exchange risk, due to rate fluctuations in the market.

Market Risk

Market risk arises from adverse changes in market variables.

Market risk forms u2013 liquidity risk, interest rate risk, foreign exchange rate (forex) risk, commodity price risk, equity price risk, etc.

CRAR

Minimum CRAR - In India, banks are required to maintain a minimum capital to risk weighted asset ratio (CRAR) of 9%.

Operational Risks

Operational risk (aka legal risk, administrative risk, settlement or payment risk) arises from human or technical errors.

Risk Management

Risk Management in the Banks.

In the present environment of thinner margins and high competition, banks are instructed to identify the business risks and initiate suitable measures for mitigation to nullify the adverse effect on balance sheet.

Floating Interest Rate

RBI has introduced Floating Interest System in Deposits.

In India, the deposits are issued at fixed rates whereas the advances are with floating rate resulting in an interest rate risk. In order to mitigate interest rate risk, RBI has introduced floating rate deposits.

Risk Management

Risk Management has assumed great significance in banking scenario

- Risk can be defined as potential loss from a banking transaction(in the form of a loan, or investment in securities or any other kind of transaction undertaken by the bank for itself or for customers), which a bank can suffer due to variety of reasons
- The basic objective of risk management is to stake holders value by maximizing the profit and optimizing the capital funds for ensuring long term solvency of the banking organization
- As a part of payment system reforms, RBI had initiated several measures to reduce risks especially settlement and systemic risk

Supervisory Review Process

The supervisory review process is based on four key principles:

- Principle 1: Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.
- Principle 2: Supervisors should review and evaluate banks' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the result of this process.
- Principle 3: Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.
- Principle 4: Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular

BASEL I

Under the Basel I accord, only the credit risk element was considered and the minimum capital requirement of capital funds was fixed at 8% of the total risk weighted assets.

Participatory notes

- Participatory notes are like contract notes. These are issued by FIIs to entities that want to invest in the Indian stock market but do not want to register themselves with the SEBI.
- The SEBI rule, however, says that P-Notes can be issued only to regulated entities (in any country).
- FIIs are not allowed to issue P-Notes to Indian nationals, persons of Indian origin or overseas corporate bodies (which are majority owned or controlled by NRIs).
- This is done to ensure that the P-Note route is not used for money laundering purposes.
- FIIs are required to report to the SEBI on a monthly basis if they issue, renew, cancel, or redeem P-Notes. The SEBI also seeks some quarterly reports about investing in P-Notes.

Eligibility Norms for Public issue

- SEBI has laid down eligibility norms for entities accessing the primary market through public issues
- Any company making a public issue or a listed company making a rights issue of a value of more than Rs. 50 lakh is required to file a draft offer document with SEBI for its observations
- The validity period of SEBI's observation letter is only three months, i.e. the company has to open its issue within a period of three months
- There is no requirement of filing any offer document/notice to SEBI in the case of preferential allotment and Qualified Institutions 2019 placement (QIP)
- In QIP, the merchant banker handling the issue has to file a copy of the placement document with SEBI post-allotment, for record purposes
- There are no eligibility norms for a listed company that is making a rights issue as it is an offer made to the existing shareholders who are expected to know their company

Preference Shares

- Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends that are paid out to shareholders before common stock dividends are issued
- If the company enters bankruptcy, the shareholders with preferred stock are entitled to be paid from company assets first
- Most preference shares have a fixed dividend, while common stocks generally do not
- Preferred stock shareholders also typically do not hold any voting rights, but common shareholders usually do

Brokers

A broker is registered with SEBI and is a member of a recognized Stock Exchange and is permitted to do trading of different Stock Exchanges

Bond

A bond is a negotiable certificate usually unsecured. In coupon bonds, interest are paid bi-annually, in zero-coupon bonds, interest is paid at the maturity.

Private Placement

A private placement is an issue of shares or of convertible security by a company to a select group of persons under section 81 of the Companies Act 1956.

Public Issue by Company

Any company making a public issue or a listed company making a RI of a value of more than Rs 50 lacs is required to file a draft offer document with SEBI for its observations. This observation period is only 3 months.

Merchant Banker

A merchant banker possessing a valid SEBI registration in accordance with the SEBI (Merchant Bankers) Regulations, 1992 is eligible to act as a BRLM (Book running Lead Manager).

QIB Qualified Institutional Buyer

A QIB (Qualified Institutional Buyer) means those investors who have expertise and financial muscle to evaluate and invest in capital market. Examples: mutual fund, scheduled commercial banks, FII registered with SEBI, insurance companies registered with IRDA, PF with a minimum corpus of Rs 25 crore etc.

Above mentioned entities are not required to be registered with SEBI as QIB.

Anchor Investor

Anchor Investor(in IPO)

- SEBI introduced the concept of anchor investors in 2009 to improve the price discovery during Initial Public Offers (IPOs)

- An anchor investor in a public issue refers to a qualified institutional buyer making an application for a value of Rs 10 crore or more through the book-building process
- An anchor investor can attract investors to public offers before they hit the market to boost their confidence
- A company can only hold 30% of QIB allotment and provide it to anchor investors
- The minimum application size for each anchor investor should be Rs 10 crore
- No merchant banker, promoter or their relatives can apply for shares under the anchor investor category
- In a book built issue allocation to Retail Individual Investors (RIIs), Non Institutional Investors (NIIs) and Qualified Institutional Buyers (QIBs) is in the ratio of 35:15: 50 respectively
- QIB's are prohibited by SEBI guidelines to withdraw their bids after the close of the IPOs
- Retail and non-institutional bidders are permitted to withdraw their bids until the day of allotment

Book built issue

Book-built issue

122. In book-built issue, price cannot be determined until the bidding process is completed.
123. In a book-built issue allocation, RII: NII: QIP::35: 15: 50 (or may be 60:10:30). RII u2013 Retail Individual Investors. NII u2013 Non-Institutional Investors. QIP u2013 Qualified Institutional Placement.

Quarterly Results by banks

Banks are now publishing their quarterly results.

As per the directions of the SEBI, all the corporates who are doing business with share holders money must publish the balance sheets quarterly within the succeeding month period.

Capital market

Capital market is a market for long term debt and equity shares (both are issued and traded).

Corporatization

Corporatization is the process of converting the organizational structure of the Stock Exchange from a non-corporate to a corporate structure.

Commercial Paper

Commercial papers are borrowing of a company from the market. These money market instruments are issued for 90 days.

Demutualization

Demutualization refers to the transition process of a Stock Exchange from a mutually owned association to a shareholders-owned company.

Debentures

Debentures are bonds issued by a company. It has fixed rate of interest usually payable half-yearly, on specific dates and the principal amount repayable on a particular date on redemption of debenture. It is an unsecured debt.

DIP

DIP stands for Disclosure and Investor Protection guidelines.

Financial Institutional Buyers

FII can invest up to 49% in Stock Exchange in India.

Fresh Public offer

FPO refers to issue of fresh securities by an already listed company or an offer for sale to the public through an offer document.

Government Securities

Government securities are coupon bearing instruments which are issued by RBI on behalf of Government of India. Government securities have maturity dates ranging from less than 1 year to a max of 30 year.

IPO

IPO refers to issue of fresh securities by an unlisted company or an offer for sale of its existing securities or both for the first time to the public

Demat Account

In India, shares and securities are held electronically in a dematerialized (or Demat) account, instead of the investor taking physical possession of certificates.

- A Dematerialized account is opened by the investor while registering with an investment broker.
- A depository (in simple terms) is an institution holding a pool of pre-verified shares held in electronic mode that offers efficient settlement of transactions.
- A Depository Participant (DP) is an intermediary between the investor and the depository.
- The depository system reduces risks involved in holding physical certificates, e.g., loss, theft, mutilation, forgery, etc.
- It ensures transfer settlements and reduces delay in registration of shares.
- It ensures faster communication to investors.
- It helps avoid bad delivery problems due to signature differences, etc.
- It ensures faster payment on sale of shares.
- No stamp duty is paid on transfer of shares.
- It provides more acceptability and liquidity of securities.

Share Holding

No single investor can hold shares in an Indian Stock Exchange beyond a limit of 5%.

Offer Document

Offer Document :

134. Offer document means prospectus in case of public issue.
135. Offer document means an offer for sale and letter of offer in case of a RI.
136. Offer documents are filed with Registrar of Companies and Stock Exchanges.
137. A draft offer document means the offer document in a draft stage.
138. The draft offer documents are filed with SEBI.
139. The period of filing draft offer document is at least 21 days prior to that of offer document.

Right Issue

Rights Issue is when a listed company issues fresh securities to its existing shareholders as on a recorded date.

Red Herring Prospectus

RHP - Red Herring Prospectus

140. RHP is a prospectus which does not have details of either price of number of shares being offered or the amount of issue. But the number of shares and the upper and lower price bands are disclosed.
141. In case of FPO, the RHP can be filed with Registrar of Companies without the price band. The price band is notified one day prior to the opening of the issue by way of an **advertisement.**

Retail Individual Investor

Retail individual investor means an investor who applies or bids for securities of or for a value not more than Rs 1,00,000.

Eligibility Norms: Primary Market

SEBI has laid down eligibility norms for entities accessing the primary market through public issues.

- Any company making a public issue or a listed company making a rights issue of a value of more than Rs. 50 lakh is required to file a draft offer document with SEBI for its observations.
- The validity period of SEBI's observation letter is only three months, i.e. the company has to open its issue within a period of three months.
- There is no requirement of filing any offer document/notice to SEBI in the case of preferential allotment and Qualified Institutionsu2019 placement (QIP).
- In QIP, the merchant banker handling the issue has to file a copy of the placement document with SEBI post-allotment, for record purposes.
- There are no eligibility norms for a listed company that is making a rights issue as it is an offer made to the existing shareholders who are expected to know their company.

Types of Capital Market

There are two types of capital market are: primary and secondary

- In the primary market, securities (shares, bonds, debentures) are offered to the public for subscription, for raising capital or fund
- In the secondary market, securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange
- Secondary market comprises equity markets and debt markets

Treasury Bills

Treasury bills are securities issued by RBI on behalf of Government of India for 91 days.

Money Market in detail

Money Market refers to the market for short-term requirement and deployment of funds. Money market instruments are those instruments, which have a maturity period of less than one year. The most active part of the money market is the market for overnight call and term money between banks and institutions and repo transactions. Call Money / Repo are very short-term Money Market products. The below mentioned instruments are normally termed as money market instruments:

150. Certificate of Deposit (CD)
151. Commercial Paper (C.P)
152. Inter Bank Participation Certificates
153. Inter Bank term Money
154. Treasury Bills
155. Bill Rediscounting
156. Call/ Notice/ Term Money

Money Market in detail Part 2

157. By providing the appropriate instruments and partners for liquidity trading, the money market allows the refinancing of short and medium-term positions and facilitates the mitigation of your business's liquidity risk.
158. The banking system and the money market represent the exclusive setting monetary policy operates in.
159. A developed, active and efficient interbank market enhances the efficiency of central bank's monetary policy, transmitting its impulses into the economy best.
160. Development of the money market smoothes the progress of financial intermediation and boosts lending to economy, hence improving the country's economic and social welfare.
161. Therefore, the development of the money market is in all stakeholders' interests: the banking system itself, the Central Bank and the economy on the whole.

G-secs

162. G-Secs are issued through auctions conducted by RBI on behalf of Government for raising a Public loan or as notified in the official Gazette.
163. They consist of Government Promissory Notes, Bearer Bonds, Stocks or Bond held in Bond Ledger Account.
164. They may be in the form of Treasury Bills or Dated Government Securities.

Corporate Bonds

165. Corporate bonds are debt securities issued by private and public corporations.

166. Companies issue corporate bonds to raise money for a variety of purposes, such as building a new plant, purchasing equipment, or growing the business. When one buys a corporate bond, one lends money to the issuer, the company that issued the bond.
167. In exchange, the company promises to return the money, also known as principal, on a specified maturity date. Until that date, the company usually pays you a stated rate of interest, generally semiannually.
168. While a corporate bond gives an IOU from the company, it does not have an ownership interest in the issuing company, unlike when one purchases the company's equity stock.

LIBOR or ICE LIBOR

169. LIBOR or ICE LIBOR (previously BBA LIBOR) is a benchmark rate that some of the world's leading banks charge each other for short-term loans.
170. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world.
171. LIBOR is administered by the ICE Benchmark Administration (IBA), and is based on five currencies: U.S. dollar (USD), Euro (EUR), pound sterling (GBP), Japanese yen (JPY) and Swiss franc (CHF).
172. It serves seven different maturities: overnight, one week, and 1, 2, 3, 6 and 12 months. There are a total of 35 different LIBOR rates each business day. The most commonly quoted rate is the three-month U.S. dollar rate.

Mumbai interbank offer rate

173. The Mumbai Interbank Offered Rate (MIBOR) is calculated everyday by the National Stock Exchange of India (NSEIL) as a weighted average of lending rates of a group of banks, on funds lent to first-class borrowers.
174. It is the interest rate at which banks can borrow funds, in marketable size, from other banks in the Indian interbank market.

175. The MIBOR was launched on June 15, 1998 by the Committee for the Development of the Debt Market, as an overnight rate.
176. The NSEIL launched the 14-day MIBOR on November 10, 1998, and the one month and three month MIBORs on December 1, 1998.
177. Since the launch, MIBOR rates have been used as benchmark rates for the majority of money market deals made in India.

Money Market Continues

- The money market is where financial instruments with high liquidity and very short maturities are traded.
- It is used by participants as a means for borrowing and lending in the short term, with maturities that usually range from overnight to just under a year.
- Call Money, Notice Money and Term Money markets are sub-markets of the Indian Money Market.
- Among the most common money market instruments are negotiable certificates of deposit (CDs), bankers acceptances, Treasury bills, commercial paper and repurchase agreements (repos).

IRS

An interest rate swap (IRS) is a liquid financial derivative instrument in which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another.

An interest rate future is a financial derivative (a futures contract) with an interest-bearing instrument as the underlying asset. It is a particular type of interest rate derivative.

Features of government securities

Features of Government Securities

182. Issued at face value.
183. No default risk as the securities carry sovereign guarantee.
184. Ample liquidity as the investor can sell the security in the secondary market.
185. Interest payment on a half yearly basis on face value.

186. No tax deducted at source.

FEMA

Foreign Exchange Management Act (FEMA), 1999 is applicable-To the whole of India. Any Branch, office and agency, which is situated outside India, but is owned or controlled by a person resident in India.

FCNR

FCNR deposits are accepted for a period of one year to three years.

In order to avoid having exposure in foreign exchange for very long periods that may pose an exchange risks. In case, if it is a shorter period effective redeployment is not possible.

Forex transactions

Forex transactions involving large amounts are not put through on Saturdays.

International markets are closed on Saturday. Hence, the Bank cannot cover the transactions. If the transactions are not covered, the banks position vulnerable due to exchange fluctuations.

FERA

FEMA replaced FERA.

It an attempt to liberlize the forex environment and facilitate growth and free flow of foreign exchange in tune with the liberalization process followed by the government.

Fixed income money market

Fixed Income Money Market and Derivatives Association of India (FIMMDA) is an association of Scheduled Commercial Banks, Public Financial Institutions, Primary Dealers and Insurance Companies. FIMMDA is a voluntary market body for the bond, money and derivatives markets.

Government Securities

Government Securities are mostly interest bearing dated securities issued by RBI on behalf of the Government of India. GOI uses these funds to meet its expenditure commitments. These securities are generally fixed maturity and fixed coupon securities carrying semi-annual coupon. Since the date of maturity is specified in the securities, these are known as dated Government Securities.

Liquidity management

Money markets play a key role in banks' liquidity management and the transmission of monetary policy. In normal times, money markets are among the most liquid in the financial sector.

OCBs

OCBs are no longer provided NRI Status

- The Reserve Bank is holding more than adequate forex reserves
- The US Dollar is the main component of forex reserves, the rate for which is falling
- FCNR & NRE Deposits are part of Forex reserves. OCBs bring in huge deposits and shoot up the forex reserves
- To mitigate the risk of high reserves the RBI has withdrawn the NRI status for OCBs

FIRPS

RBI discontinued FIRPS system.

In view of rapid improvement in technology leading to electronic credits and on-line transfer of funds, it was observed by RBI that the FIRPS system is no longer useful.

Banker Customer Relationship

1. A firm consisting of not more than 10 partners or a company incorporated under Indian Companies Act 1956 can be a bank.

2. The relationship between customer and bank, when the customer deposits money with the bank, is a lender and a borrower and thus a creditor and a debtor.
3. The relationship between customer and bank, when the bank lends money to the customer, is a borrower and lender and thus a debtor and a creditor.
4. The relationship between customer and bank, when a customer deposits certain valuables, bonds, securities etc, with the bank for safe custody, is bailor-bailee and thus customer and trustee.
5. The relationship between customer and bank, when a bank performs the services of remittance, collection of cheques, bills, etc on behalf of the customers, is principal and agent.
6. The relationship between customer and bank, when a bank provides safe deposit lockers to the customer, who hires them on a lease basis, is lessee-lessor.
7. The relationship between customer and bank, when one party promises to save the other from loss caused to the other by the conduct of promisor, is indemnifier and indemnified (or indemnity holder).
8. Merchant bankers are financial intermediaries because they transfer capital from investor or bond subscriber (owner of capital) to government or corporate (user).
9. Lease financing means leasing out the capital purchase of assets to another company against monthly rents for asset's consumption or use.

Bankers Special Relationship

1. A mandate (an unstamped agreement) is an authority given by the account holder in favour of a third person to do certain acts on his behalf.
2. Institutions cannot issue mandate, instead they issue a power of attorney.
3. Power of Attorney is a legal document (as it is a stamped document and is executed in the presence of a notary public/magistrate of a court/authorized government official) executed by one person called donor (principal) in favor of another person called donee agent to act on behalf of the former, as per the authority given in the document.
4. Donee means the person who issues Power of Attorney and donor means the person to whom

Power of Attorney is given.

5. General/universal power of attorney is issued for acting in more than one transaction while special/limited Power of Attorney is issued for only one transaction.
6. Garnishee order is an order of the court obtained by a judgement creditor attaching the funds belonging to a judgement debtor (customer) in the hands of his debtors, including a bank, who is called a garnishee, advising not to release the money until directed by the court to do so.
7. Cheques presented after service of the garnishee order should be returned with the 'refer to drawer' remark.
8. Preliminary proceedings of a court are called garnishee order nisi.
9. Subsequent proceedings of a court are called garnishee absolute.
10. When a bank has a prior right to set-off, the bank is not bound by the garnishee order.
11. When a lien is marked on fixed deposit receipts, it cannot be attached by a garnishee order.
12. Any excess over the lien is attachable by the garnishee order.
13. Orders received from the court for recovery of certain debts are called garnishee order.
14. Orders received from the revenue authorities (income tax/sale tax authority) are called attachment order.
15. Credits received after garnishee orders are not attachable because debts due or accruing at the time of receipt of order are only attachable.
16. In Joint Accounts with Either or Survivor clause, Garnishee Order if in a single name, cannot be attached.
17. In Joint Accounts with Former or Survivor clause, Garnishee Order if in a single name, can be attached.
18. The personal accounts of a partner can be attached with garnishee order for the firm's debt.
19. The trust's account cannot be attached garnishee order.
20. When a customer has more than 1 account and one is in credit and other is in debit, then the garnishee order can be attached only if the net result is in credit.
21. A lien is a right of the banker to retain possession of the goods and securities owned by the debtor until the debt due from the latter is paid.
22. The banker's lien is an implied (understood) pledge (promise/guarantee).
23. In case of lien, the bank can sell the goods and securities in case the debt is not paid under section 171 of the Indian Contract Act 1872.
24. Lien cannot apply in safe deposit locker.
25. Set-off means adjusting debit balance in one account with an account having credit balance of

the same customer.

26. A deceased credit account and a customer debit account cannot be combined.

Banking Ombudsman & COPRA

1. The Banking Ombudsman Scheme is introduced under Section 35 A of the Banking Regulation Act, 1949 by RBI with effect from 1995.
2. The Banking Ombudsman Scheme enables an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks.
3. The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services.
4. All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered under the Scheme.
5. The Banking Ombudsman can receive and consider any complaint relating to the following deficiency in banking services (including internet banking):
 - non-payment or inordinate delay in the payment or collection of cheques, drafts, bills etc.;
 - non-acceptance, without sufficient cause, of small denomination notes tendered for any purpose, and for charging of commission in respect thereof;
 - non-acceptance, without sufficient cause, of coins tendered and for charging of commission in respect thereof;
 - non-payment or delay in payment of inward remittances ;
 - failure to issue or delay in issue of drafts, pay orders or bankers' cheques;
 - non-adherence to prescribed working hours ;
 - failure to provide or delay in providing a banking facility (other than loans and advances) promised in writing by a bank or its direct selling agents;
 - delays, non-credit of proceeds to parties accounts, non-payment of deposit or non-observance of the Reserve Bank directives, if any, applicable to rate of interest on deposits in any savings, current or other account maintained with a bank ;
 - complaints from Non-Resident Indians having accounts in India in relation to their remittances from abroad, deposits and other bank-related matters;
 - refusal to open deposit accounts without any valid reason for refusal;
 - levying of charges without adequate prior notice to the customer;
 - non-adherence by the bank or its subsidiaries to the instructions of Reserve Bank on ATM/Debit

card operations or credit card operations;

-non-disbursement or delay in disbursement of pension (to the extent the grievance can be attributed to the action on the part of the bank concerned, but not with regard to its employees);

-refusal to accept or delay in accepting payment towards taxes, as required by Reserve Bank/Government;

-refusal to issue or delay in issuing, or failure to service or delay in servicing or redemption of Government securities;

-forced closure of deposit accounts without due notice or without sufficient reason;

-refusal to close or delay in closing the accounts;

-non-adherence to the fair practices code as adopted by the bank or non-adherence to the provisions of the Code of Bank s Commitments to Customers issued by Banking Codes and Standards Board of India and as adopted by the bank ;

-non-observance of Reserve Bank guidelines on engagement of recovery agents by banks; and any other matter relating to the violation of the directives issued by the Reserve Bank in relation to banking or other services.

6. A customer can also lodge a complaint on the following grounds of deficiency in service with respect to loans and advances non-observance of Reserve Bank Directives on interest rates; delays in sanction, disbursement or non-observance of prescribed time schedule for disposal of loan applications;

non-acceptance of application for loans without furnishing valid reasons to the applicant; and

non-adherence to the provisions of the fair practices code for lenders as adopted by the bank or Code of Bank's Commitment to Customers, as the case may be;

non-observance of any other direction or instruction of the Reserve Bank as may be specified by the Reserve Bank for this purpose from time to time.

The Banking Ombudsman may also deal with such other matter as may be specified by the Reserve Bank from time to time.

7. One can file a complaint before the Banking Ombudsman if the reply is not received from the bank within a period of one month after the bank concerned has received one s representation, or the bank rejects the complaint, or if the complainant is not satisfied with the reply given by the bank.

8. One can file a complaint with the Banking Ombudsman simply by writing on a plain paper.

One can also file it online (at ?click here to go to Banking Ombudsman scheme? or by sending an email to the Banking Ombudsman.

9. The Banking Ombudsman may reject a complaint at any stage if it appears to him that a complaint made to him is:

-not on the grounds of complaint referred to above compensation sought from the Banking Ombudsman is beyond Rs 10 lakh .

-requires consideration of elaborate documentary and oral evidence and the proceedings before the Banking Ombudsman are not appropriate for adjudication of such complaint without any sufficient cause that it is not pursued by the complainant with reasonable diligence in the opinion of the Banking Ombudsman there is no loss or damage or inconvenience caused to the complainant.

10. If one is aggrieved by the decision, one may, within 30 days of the date of receipt of the award, appeal against the award before the appellate authority. The appellate authority may, if he/ she is satisfied that the applicant had sufficient cause for not making an application for appeal within time, also allow a further period not exceeding 30 days.

11. Consumer Protection Act, 1986

a. It extends to the whole of India except the State of Jammu and Kashmir.

b. It shall come into force on such date as the Central Government may, by notification, appoint and different dates may be appointed for different States and for different provisions of this Act.

c. Save as otherwise expressly provided by the Central Government by notification, this Act shall apply to all goods and services.

12. complaint means any allegation in writing made by a complainant that?

a. an unfair trade practice or a restrictive trade practice has been adopted by any trader or service provider.

b. the goods bought by him or agreed to be bought by him; suffer from one or more defects.

c. the services hired or availed of or agreed to be hired or availed of by him suffer from deficiency in any respect.

d. a trader or service provider, as the case may be, has charged for the goods or for the service mentioned in the complaint a price in excess of the official/valid price.

e. goods which will be hazardous to life and safety when used or being offered for sale to the public.

f. services which are hazardous or likely to be hazardous to life and safety of the public when used, are being offered by the service provider which such person could have known with due diligence to be injurious to life and safety.

Payment & collection cheques

1. In Sans recourse endorsement, liability of the endorser is excluded.
2. In facultative endorsement, the notice of dishonour is waived.
3. The 3 negotiable instruments are promissory notes, bills of exchange and cheque.
4. A paying banker is protected under NI Act in the following cases:
 - a. Forged endorsement in an
 - i. order cheque under section 85 (1)
 - ii. bearer cheque under section 85 (2)
 - iii. draft under section 85 (A)
 - b. Material alteration in a cheque under section 89
 - c. Payment of a crossed cheque under section 128.

Various types of customers

1. Indian Majority Act 1875 defines the age of majority to be 18 years.
2. Section 26 of the NI Act provides that a minor may draw, endorse, deliver and negotiate a negotiable instrument and as such, a minor can draw a cheque. The minor's age should be above 13 years and should be literate. No overdraft is allowed in these accounts.
3. Two minors cannot open a joint account.
4. In an HUF, the members of a family are called coparceners and the eldest male child is called Karta (Manager), the Karta operates the account.
5. All the adult members have to sign account opening form while opening HUF account.
6. Registration of a partnership is optional (except in states of Gujarat and Maharashtra where it is compulsory).
7. When there is an addition into the partnership, the old account can be continued if the balance is in credit, else old account should be closed and a new one should be opened. This process avoids Clayton's Rule.
8. Death of a partner dissolves the partnership firm.
9. A public limited company ? minimum 7 members, maximum unlimited members. Minimum paid up capital of Rs 5 Lakh.
10. A private limited company ? minimum 2 members, maximum 50 members. For banking business maximum number is 20. Minimum paid up capital of Rs 1 Lakh.

11. A government company ? minimum 51% of the shares are held by the government.
12. Internal rules of a company are mentioned in articles.

Ancillary Services

Each bank has two main activities as the sourcing or borrowing of funds (as deposits and capital from the market) and the deploying or lending the funds as Loans and Investments): these form the traditional and core activities of all the banks.

Apart from these basic activities, the banks provide a variety of other services or products. The most popular ones are listed below.

- 1) Funds transfer service: Useful for sending and receiving money from all over the world. The products that cover these services are Demand Drafts, Bankers Checks/Pay orders, EFT(Electronic Funds Transfer),etc.
- 2) Forex service: You can buy the foreign exchange for any purpose of expenditures like travel, buying merchandise,etc..and sell the same to the bank when you earn or receive from abroad . Of course, these forex transactions are subject to the rules and regulations prevailing in a country and they are provided by only those bank branches which are approved by the Banking Authority or Regulator for this purpose.
- 3) Custodial Service: You can keep your valuables like jewels, documents, etc.. under this service which is commonly known as Locker facility(Safe Deposit Vaults in banking parlance. The bank will collect a nominal fee for the service.
- 4) Gold sale: You can buy pure gold for self consumption or for trading by the jewelry businesses. Here also, only a few selected branches of banks or banks are allowed to provide this. The products usually range from a coin to a 100 gm biscuit or bar.
- 5) Investment service: Invest your money in the mutual funds run by the banks. The service comes as Portfolio service(the decision to maximize the returns on your money is left with the banker or portfolio manager) and as Stand-alone product where the decision to get maximum returns is borne by you. Both have the plus and minus but these products are offered to suit the convenience of the investors. Portfolio means a basket of investments and securities in a combined form. Debt securities will yield interest income and equity investment will yield dividend income. Portfolio management means management of a combination of securities to get the most efficient portfolio.
- 6) Insurance sale: A range of insurance products covering the risk of life, health, assets like

vehicle, credit and debit cards, travel etc. are offered by almost all the banks by themselves or in collaboration with the leading insurer companies, which again may be local or multinational entities.

7) Card services: Primarily intended for safety and convenience purpose but now, has become a payment mode and a symbol of economic status. The card products usually are called as Debit card, Credit card.

8) eBanking: also known as Netbanking or Internet banking is the latest and most convenient facility of the banks. You can get id and password to operate your account online: for transfer of funds to another account in the same bank or another bank. You can keep the surplus funds in fixed deposit by using this facility. The best use of this facility is for shopping online.

Cash Management

1. Cash management is a broad term that refers to the collection, concentration, and disbursement of cash.
2. It encompasses a company's level of liquidity, its management of cash balance, and its short-term investment strategies
3. The objective of a cash management system is to improve revenue, maximize profits, minimize costs and establish efficient management systems to assist and accelerate growth.
4. In India, the cash management business primarily involves collections and payments services.
5. Products Offered by Banks Under Collections (Paper and Electronic)
 - a. Local cheque collections
 - b. High value (0 Day clearing)
 - c. Magnetic ink character recognition (MICR)
 - d. Outstation cheque collections
 - e. Cheques drawn on branch locations
 - f. Cheques drawn on correspondent bank locations
 - g. Cheques drawn on coordinator locations
 - i. House cheque collections
 - j. Outside network cheque collections
 - k. Cash collections
 - l. ECS-Debit
 - m. Post dated cheque collection

- n. Invoice collections
 - o. Capital market collections
6. Products Offered by Banks Under Payments (Paper and Electronic)

- a. Demand drafts/banker's cheques
- b. Customer cheques
- c. Locally payable
- d. Payable at par
- e. RTGS/NEFT/ECS
- f. Cash disbursement
- g. Payments within bank
- h. Capital market payments

7. In a dynamic economy, markets need to play a key role in guiding the development of infrastructure, including mechanisms like payments systems.
8. This means that innovation and competition will be central to the future development of the payments system - as they are in other areas of the economy.
9. Efficient cash management is a must to support an institution's growth, and therefore, adopting the best cash management practices is necessary.

Principles of Lending

1. Stocks procured through L/C are taken under hypothecation.
2. An increase in the ratio of current assets to total assets results in a decline in the profitability of the firm (because investment in current assets is less profitable than those in fixed assets).
3. Term loans are loans which are repayable after one year and up to 10 years. Short term loan = 1-3 years, medium term loans = 3-7 years, long term loans = 7-10.
4. Difference between term loan and working capital is that term loans are repayable in quarterly or half yearly installments whereas working capital is generally availed in cash credit hypothecation accounts with frequent drawings and is payable on demand.
5. For an assessment of the working capital needs of a borrower who requires fund based limits in excess of Rs 10 crore, the cash budget system (instead of cash flow statement) should be used.
6. Cash flow system deals with both cash and non-cash funds, while the cash budget system deals with cash transactions only.

7. The ceiling for banks in providing advances/loans to borrowers is 15% of the capital funds in case of a single borrower and 40% in case of group borrowers.
8. Working capital means the sum total of inventory, receivables and other current assets held by a business entity.
9. Working capital is computed by the banks through the concept of operating cycle, i.e., the time taken by a business entity to get the money released from the raw materials, semi-finished goods, receivables, etc.

Priority Sector Lending

1. RBI has advised the banks to raise the shares of priority sector lending to 40 % of the aggregate bank advances.
2. Out of this 40 %, 18 % is for agricultural sector (no targets for foreign banks), 10 % is for weaker sections (no targets for foreign banks), and 1 % of previous year's total advances are given under DRI (Differential Rate of Interest Scheme) (no targets for foreign banks).
3. Above mentioned limit is for domestic commercial banks. For foreign banks, 32 % of ANBC (Adjusted Net Bank Credit) is for priority sector advances.
4. Export credit is not a part of priority sector for domestic commercial banks. However foreign banks are given target of 12 % of ANBC.
5. Description of Micro, Small and Medium Sectors:
Investment in plant and machinery Investment in Equipment Type of Enterprise
(Manufacturing Sector) - (Services Sector)
Up to 25 lacs - up to 10 lacs Tiny
25 lacs to 5 crore - 10 lacs to 2 crore Small
5 crore to 10 crore - 2 crore to 5 crore Medium
6. Micro credit includes provision of very small amounts up to Rs 50,000 per borrower.
7. The government has decided that the farmers should receive short term credit at 7 % with an upper limit of 3 lakh on the principal amount. On this amount, the government provides interest subvention of 2 % p.a. to the banks.
8. This 2 % subvention will be available to banks on condition that they make short term credit available at the ground level with ROI of 7 % p.a.

Agriculture Finance

1. Loans repayable up to 18 months are short term loans.
2. Medium/long term loans are for more than 36 months.
3. All farmers who require loan for their cultivation expenses are eligible to get loan under KCC scheme.
4. KCC is valid for a period of 3 years subject to an annual review. Any number of withdrawals and repayments are permitted under this scheme.

MSME in advances

1. A credit guarantee scheme was started to provide collateral-free loans to micro and small entrepreneurs.
2. The exemption limit for relief from payment of Central Excise duty was raised to Rs 1 crore.
3. The MSMED Act (Micro, Small and Medium Enterprise Development Act) 2006 came into effect from 2 Oct 2006.
4. Credit to MSMEs is part of the priority sector lending policy of the banks. Refer to Lesson 18 (1-3). Any shortfall in the 10 % limit of MSMEs of the 32 % prescribed limit of priority sector for foreign banks has to be deposited in the SEDF (Small Enterprise Development Fund) set up by SIDBI.
5. The principal financial institution for promotion, financing and development of the MSME sector is the SIDBI.
6. If the buyer of the goods fails to make the payment to the supplier within a period of 45 days, the buyer shall be liable to pay compound interest to the supplier on the amount with monthly interest at 3 times of the bank rate.

Govt Sponsored Schemes

1. The Swarnajayanti Gram Swarojgar Yojna (SGSY) came into effect from 1 April 1999 in the rural areas of the country.
2. SGSY scheme is funded by the centre and state in the ration of 75:25 and will be implemented by commercial banks.
3. DRDA (District Rural Development Agencies) provides fund to those self help group who are in existence for 6 months and have demonstrated the potential of a viable group. This fund is aka revolving fund.
4. In case of group loan, the group is entitled to a subsidy of 50 % of the project cost, subject to

per capita subsidy of Rs 10,000 or Rs 1.25 lacs whichever is less.

5. Loan applications under the SGSY scheme should be disposed of within the prescribed limit of 15 days and at any rate, not later than one month.
6. Swarojgaris are covered under the group insurance scheme. The maximum age of Swarojgaris at the time of sanction has to be kept at 60 years of age.
7. Insurance coverage would be for 5 years or till the loan is repaid.
8. For individual loans up to Rs 50,000 and group loans up to Rs 5 lacs, the assets created out of the bank loan would be hypothecated to the bank as a primary security.
9. In case of immovable assets (like minor irrigation, dug well, etc), the security created is mortgage. Where mortgage is also not possible, 3rd party guarantee may be obtained.
10. For all loans (individual or group), in addition to the hypothecation/mortgage/3rd party guarantee, suitable margin money/other collateral security in the form of an insurance policy; marketable security/deeds of other property, etc, may be obtained at the discretion of the bank.
11. Project cost includes bank loan plus government security.
12. Subsidy under SGSY scheme will be 30 % subject to a maximum of Rs 7,500.
13. In respect of SC/STs, Subsidy under SGSY scheme will be 50 % subject to a maximum of Rs 10,000 (per capita) or Rs 1.25 lacs whichever is less.
14. Banks should not charge interest on the subsidy portion of the loan amount.
15. All SGSY loans are medium term loans with minimum repayment period 5 years (maximum 9 years).
16. The SJSRY (Swarna Jayanti Shahari Rozgar Yojna) came into effect from 1 April 1997 in all urban towns in India.
17. The SJSRY scheme is funded by the centre and state in the ration of 75:25.
18. Both urban employed and urban unemployed (no age limit) youth whose annual family income is below the poverty line and have got education up to 9th standard come under SJSRY scheme.
19. Project cost up to Rs 50,000 is provided under the SJSRY scheme in case of an individual. Higher project costs would also be covered in the scheme provided the share of each person in the project cost is Rs 50,000 or less.
20. In SJSRY scheme, Subsidy would be provided at the rate of 15 % of the project cost, subject to a ceiling of Rs 7,500 per head.
21. Margin money is 5 % of the project cost in SJSRY scheme.
22. In SJSRY scheme, repayment schedule ranges from 3 to 7 years, after initial moratorium

period of 6 to 18 months (at bank's discretion).

23. DWCUA (Development of Women and Children in Urban Areas) group shall consists of at least 10 urban poor women and the subsidy amount would be 50 % of the project cost of Rs.1,25,000, whichever is less.

24. If in DWCUA, the project cost exceeds Rs 2, 50, 000, the project cost less subsidy (Rs.1,25,000) and margin money (@ 5 % of the project cost) would be the component of the bank.

25. The beneficiaries under the SJSRY scheme are identified on the basis of a monthly per capita income and not by the annual family income (which is the case in SGSY scheme, refer to Point no 18).

26. The % of women beneficiaries under the SJSRY scheme shall not be less than 30 %.

27. The loans granted under the SJSRY scheme come under priority sector advances and hence loan applications for amount up to Rs 25, 000 should be disposed of within a fortnight and for credit limits above Rs 25, 000 within 8-9 weeks.

28. In SJSRY scheme, a loan amount of Rs 50, 000 and group loans up to Rs 3 lacs don't require a collateral/guarantee. Besides margin, the borrower would hypothecate/mortgage/pledge to the bank the assets created out of the bank loan.

29. The PMRY scheme is for unemployed youth between the age of 18-35 years (10 years relaxation in case of women/PH/SC/ST), who are at least 8th standard pass.

30. PMRY scheme covers those unemployed educated youths whose annual family income is below 1 lac per annum and the beneficiary should be a permanent resident of the district for 3 years.

31. In case of SHG, PMRY scheme gives subsidy per beneficiary Rs 12,500 subject to a maximum ceiling of Rs 1.25 lacs.

32. In PMRY scheme, bank's margin money varies from 5 to 12.5 % of the project cost so that the total of subsidy and margin money is equal to 20 % of the project cost.

33. The project cost in PMRY scheme is restricted to Rs 2 lacs for business sector and Rs 5 lacs for industry sector.

34. Margin money in PMRY scheme is 5 to 16.25 % (except in north-eastern states, HP, J&K, Uttaranchal, where it varies from 5 to 12.5 %) of the project cost so as to make the total of subsidy and margin money equal to 20 % of the project cost.

35. In PMRY scheme, subsidy eligible is 15 % of the project cost, subject to a maximum of Rs 12,500 per borrower in states other than north-eastern states, HP, J & K, Uttaranchal.

36. In PMRY scheme, the borrower has to hypothecate/mortgage/pledge to the bank assets. The borrowers will not have to give a collateral security under the industry sector projects with the cost up to Rs 2 lacs (for business sectors) and up to Rs 1 lac for service sectors.
37. The exemption from collateral is limited to Rs 1 lac per person in case of a partnership in PMRY scheme.
38. PMRY loans have repayment period from 3 to 7 years after an initial moratorium.
39. In joint ventures/partnerships, the total project cost should not exceed Rs 10 lacs.
40. In SHG, there may be 5-20 educated unemployed youths and there is no upper ceiling on loan.
41. The exemption from collateral security is Rs 5 lac per borrower in industry sector whereas the exemption is Rs 1 lac per member in services and industry sector.
42. SLRS (Scheme of Liberation and Rehabilitation of Scavengers) was launched on 22 Mar 1992 and the project cost is limited to Rs 50,000 (the banks would give 32,500, subsidy would be 10,000, and 7,500 would be margin money from Scheduled Caste Development Corporations aka SCDC) per head. Margin money is up to 15 % of the project cost and rate of interest 4 %.
43. Under the SLRS scheme, the subsidy would be 50 % of the project cost with a ceiling of Rs.10,000.
44. Loans up to Rs 6,500 are treated as loans under DRI scheme and rate of interest is 4 %. If the loan sanctioned/disbursed is more than Rs 6,500 such loans will attract a rate of interest according to the RBI directive.
45. In SLRS scheme, the security for the loan will only be the hypothecation of the assets. The repayment period is 3-7 years.
46. Loan amount up to Rs 25,000 under SLRS scheme should be disposed of within a fortnight and for amount exceeding Rs 25,000 within 8-9 weeks.

Self Help Groups

1. Registration of SHG is compulsory if the number of members is more than 20 (normally an SHG has 5-20 unemployed educated members).
2. The SHG should meet weekly or fortnightly and devise a code of conduct (Group Management Norms) to bind itself.
3. The SHG builds a group corpus fund by voluntary saving from members.

Credit Cards

Credit card is the one of the delivery channels of the banking services. It is a small plastic card issued to users as a system of payment.

It allows its holder to buy goods and services based on the holder's promise to pay for these goods and services.

The issuer of the card creates a revolving account and grants a line of credit to the consumer from which the user can borrow money for payment to a merchant or as a cash advance to the user.

Benefits to Credit Card Holders

- (a) They can purchase goods and services at a large number of merchant outlets up to the inbuilt ceiling credit limit amount without using cash or cheque. This is generally useful in emergencies.
- (b) Card holder has a period of interest free credit, depending upon the issuing bank and the card scheme, i.e. the normal card and gold cards, as offered by various banks. The period of interest free credit ranges from 15 days to 51 days.
- (c) Cash up to a ceiling, within the credit limit is obtainable from the banks' branches or ATMs (Automated Teller Machines).

Disadvantages to Credit Card Holders

- (a) Often results in over spending.
- (b) Frauds, due to a loss of card in the intervening periods.
- (c) Since signatures are already on the cards, forged signatures could cause a loss to the card holders. Such kind of a forged signature loss is avoided with the use of photo credit cards.

Parties involved in Credit Card

Cardholder: The holder of the card used to make a purchase; the consumer.

Card-issuing bank: The financial institution or other organization that issued the credit card to the cardholder. This bank bills the consumer for repayment and bears the risk that the card is used fraudulently. American Express and Discover were previously the only card-issuing banks for their respective brands, but as of 2007, this is no longer the case. Cards issued by banks to cardholders in a different country are known as offshore credit cards.

Merchant: The individual or business accepting credit card payments for products or services sold to the cardholder.

Acquiring bank: The financial institution accepting payment for the products or services on behalf of the merchant.

Independent sales organization: Resellers (to merchants) of the services of the acquiring bank.

Merchant account: This could refer to the acquiring bank or the independent sales organization, but in general is the organization that the merchant deals with.

Credit Card association: An association of card-issuing banks such as Discover, Visa, MasterCard, American Express, etc. that set transaction terms for merchants, card-issuing banks, and acquiring banks.

Transaction network: The system that implements the mechanics of the electronic transactions. May be operated by an independent company, and one company may operate multiple networks.

Affinity partner: Some institutions lend their names to an issuer to attract customers that have a strong relationship with that institution, and get paid a fee or a percentage of the balance for each card issued using their name. Examples of typical affinity partners are sports teams, universities, charities, professional organizations, and major retailers.

Home Loans

Home loans are available to resident Indians and NRIs for the purchase or construction of house or flats, repairs and renovation of house.

The Procedure and Practices for Home Loans

Target Group: Normally, the target group is the salaried class, professionals, self-employed and businessmen. Banks fix the age criteria for availing the loan.

Purpose: The purpose of the loan is for the purchase or construction of house or flats, repairs and renovation of house, and in some banks, for purchase of house sites also.

Quantum of loan: The quantum of eligible loan is fixed based on the gross monthly income/net monthly income. For this, banks ask for a salary certificate for the salaried class or the Income tax return for others. Bank also ask for the statement of bank account for a prescribed period.

Age: Banks fix the lower and upper age for availing the loan taking in to consideration the remaining period of service, in the case of salaried class and the income earning capacity during the period of loan for others.

Repayment: Most of the banks are giving long repayment period, say 20-25 years. The repayment will be based on equated monthly instalments (EMI). In case of loan for purchase of a ready built house, it should be ensured that the remaining life of the building should be longer than the repayment period allowed, plus a cushion period, says ten years. Normally banks allow a holiday period for repayment. The holiday period for construction will be more than it is, for the purchase of ready built house.

Security: Generally, the property purchased or constructed out of the bank loan is taken by way of mortgage. Sometimes, when the income of the spouse is taken for arriving at the quantum of

loan, his/ her guarantee is also taken as personal security.

Margin: Banks stipulate that a certain percentage of the project cost, say fifteen per cent, is to be borne by the borrower from his own sources. When the loan is for repairs/renovation, banks stipulate a higher margin.

Rate of Interest: When compared to the rate of interest for other loans, the rate of interest for home loan is cheaper. Most of the banks offer a rate of interest below the 'Bench Mark Prime Lending Rate' (BPLR). Banks also offer a floating rate and a fixed rate option to the borrower.

Documents Required

At the time of applying for the loan, the banks ask for some necessary documents namely;

- (a) Agreement of Sale/Sale deed
- (b) No Encumbrance certificate NIL EC (for 13 years)
- (c) Parent document for 30 years
- (d) Approved building plan
- (e) Patta (NOC from Housing Board, etc., wherever applicable)
- (f) Valuation report from the Bank's approved engineer
- (g) Bank statement for last 12 months

Personal Loans

Procedure and Practices for Salary Loans

Target group: Permanent employees with a minimum service/experience of say three years, with a Govt./quasi Govt./boards/endowments/reputed companies/corporate industrial establishments, etc. The stipulation of minimum period of service may vary from bank to bank.

Purpose: For meeting of marriage/educational and medical expenses, to celebrate family functions and for other household expenses.

Eligible Amount: The eligible amount of a loan is calculated based on so many times of the gross/net salary. While arriving at the quantum of loan, the minimum take home pay say, forty per cent of the gross salary, will be stipulated after the proposed EMI.

Security: Sometimes banks insist on the guarantee of another person, if there is no collateral security, or in case, the account is with the branch, a letter giving an undertaking from the borrower to debit his account for the EMI. When the employer of the borrower sponsors the loan, he is asked for an undertaking, to the bank to recover the EMI from the salary and remit into the bank.

Documents: Proof of employment and salary certificate are normally obtained. After sanction of the loan, banks take the necessary loan documents such as; DPN, salary loan agreement, etc., from the borrower and a guarantee agreement from the guarantor, if any.

The rate of interest on this loan will be higher than other loans as there is no collateral security.

Some banks are taking post-dated cheques for the future EMI.

Banks allow 36-60 months as repayment period.

Normally banks levy a certain percentage of the loan amount; say one per cent, as a processing fee.

Consumer Loans

Target group: Salaried class, pensioners, professionals, self-employed business persons and other individuals who have regular income.

Purpose: For purchase of consumer durables and white goods like TV, VCR, VCP, air conditioners, refrigerators, personal computers and accessories, etc.

Eligible amount: While arriving at the quantum of loan, the cost of the article to be purchased and the margin brought by the borrower are taken into account. The minimum take home pay, say forty per cent of the gross salary, shall also be ensured after the proposed EMI.

Security: Hypothecation of the article purchased out of the bank loan.

Margin: Normally a margin of 10-20 per cent is stipulated.

Repayment: Banks allow a thirty six to sixty months repayment period.

Documents: The documents to be obtained are: salary certificate for three months for self and spouse (if spouse income is also taken into account for arriving at the eligibility) IT returns/Form 16 for two to three years in case of professionals, businessmen, Self-employed persons.

Quotations of the articles selected from a reputed dealer. Statement of account/passbook, showing one year's transactions. Some banks are taking post-dated cheques for the future EMI.

After sanction of the loan, banks take necessary loan documents such as DPN, hypothecation agreement, etc., from the borrower and a guarantee agreement from the guarantor if any.

Normally banks levy a certain percentage of the loan amount, say one per cent, as a processing fee.

Documentation

1. There are 3 types of documents taken by a bank for a loan ? DPN, agreement, and form.
2. DPN (Demand Promissory Note) is a document which a bank takes when there is no fixed period for the repayment of loan.
3. In DPN, the borrower makes a promise to the banker to repay the loan amount on demand with agreed rate of interest.
4. DPN must be stamped as per Indian Stamps Act.
5. An agreement includes the amount of loan, rate of interest, rate of penal interest, % of margin, period of repayment, rights of the bankers in case of default of loan, details of security/securities charged, etc.
6. The agreement must be stamped.
7. Forms are neither promised nor agreement. They are obtained to specify the intention of the borrower. For ex, when a loan is granted against the security of a FD standing in joint names, one of them gives an authorization to the other to raise a loan on the deposit. Such an authorization is taken in a form.
8. For correct documentation, the steps followed are ? selection of correct set of documents, stamping, filling, execution, and legal formalities.
9. The cancellation of adhesive stamp is done as per Section 12 of the Indian Stamp Act.
10. In case of advances to limited companies against its assets, the required forms are to be presented to the Registrar of Companies with the 30 days from the date of execution.
11. In case of creation of registered mortgages, the mortgage deed is presented for registration before the Registrar of Assurances within 4 months from the date of execution of the deed.
12. The documents submitted to the bank don't have perpetual life, the provision of Limitation Act apply to them. The Limitation Act prescribes the period of limitation for different types of documents.
13. The limitation period for a DPN is 3 years from the date of execution. It means if the loan is not repaid within 3 years, the bank has to get fresh documents for extending the period.
14. If the borrower or his duly authorized agent makes any part payment towards the loan before the expiry of period of limitation, then the period of limitation is extended by one more period from the date of such part payment.
15. Securitisation is the process of acquisition of large NPA loan or portfolio of loans such as housing, by Securitisation or Reconstruction Co from a bank or financial institution on mutually agreed terms and conditions.

Modes of Charging Securities

1. Assignment is transfer of a right, property or a debt. The transferor is called assignor and the transferee is called assignee.
2. A borrower may assign the book debt, money due from government department and LIC as security for an advance.
3. Under the provision of the Insurance Act, an LIC is assignable by an endorsement on the back of the policy or by a separate deed of assignment, but notice of such assignment must be given to the insurer by the assignee or assignor.
4. Under section 171 of the Indian Contract Act, lien is the right of the banker to retain (and sell if need arises) possession of goods and securities owned by the debtor until the debt due from the latter is paid.
5. Lien is an implied (understood) pledge.
6. Set-off means adjusting the debit balance in one account of the debtor with the credit balance in another account of the same debtor. It is also applicable in case of partnership accounts.
7. Lien and set-off both cannot be exercised at a time.
8. Hypothecation is a charge created on movable property without delivery of possession of the property.
9. Hypothecation differs from pledge because goods remain in the possession of the borrower in hypothecation.
10. Hypothecation transforms into pledge when the possession of the goods is transferred to the creditor.
11. Hypothecation differs from mortgage because mortgage relates to immovable property but hypothecation relates to movables. Also, in hypothecation, there is only obligation to repay money and no transfer of interest but in mortgage, there is transfer of interest in the property to the creditor.
12. Pledge means bailment of goods for purpose of providing security for payment of debt or performance of a promise (as per section 172 of the Contract Act 1872).
13. In pledge, there is actual or constructive (no physical) delivery of goods to the Pawnee (who takes the goods as security).
14. 6 types of mortgage are ?
 - a. Simple mortgage ? mortgage is by deposit of title deeds, mortgagee has a right to proceed against the property mortgaged and also personally against the mortgagor

- b. Mortgage by conditional sale ? possession of mortgaged properties is given
 - c. Usufructuary mortgage - possession of mortgaged properties is given
 - d. English mortgage - possession of mortgaged properties is not given
 - e. Mortgage by deposit of title deeds ? it is not required to be created by way of a deed and doesn't require registration
 - f. Anomalous mortgage
15. Mortgage is to be created by way of deed and requires to be registered under the Registration Act.
16. Limitation period for filing a suit for sale of mortgage property is 12 years from the date mortgage debt becomes due.
17. Limitation period for filing a suit for foreclosure of mortgage property is 30 years from the date mortgage debt becomes due.
18. Bankers generally prefer simple mortgage and mortgage by deposit of title deeds.

Liner Definition:

- 19. Pledge: When lender possess movable security.
- 20. Hypothecation: When lender has a charge against movable security, which is not in lender's possession.
- 21. Mortgage: when lender has a charge against immovable property, not in its possession.
- 22. Lien: not necessarily the security is in your possession, but we have frozen it for any debit/withdrawal transaction.

Types of Collateral

- 1. Security is of two types ? primary and collateral.
- 2. Primary security is one that is regarded as the main cover for an advance, generally assets against which advance are made. Ex stocks for cash credits, machinery for term loans.
- 3. Collateral security is security other than primary security.
- 4. Mortgage of immovable property is either primary or collateral.
- 5. When doing mortgage, encumbrance certificate is taken for generally 13 years to check no encumbrance exists on the property.
- 6. The nature of charge created on lands and buildings is mortgage.
- 7. The nature of charge created on goods may be pledge or hypothecation.
- 8. In the case of key cash credit, the nature of charge created is pledge because in this case, the

possession of goods is transferred to the banker.

9. In the case of open cash credit, the nature of charge created is hypothecation because in this case, the possession of goods is not transferred to the banker.

10. In both the key cash credit and open cash credit (means in either case of pledge or hypothecation), the title in the goods is not transferred to the bank.

11. The valuation of the stocks is done on the basis of cost price or market price whichever is less.

12. Documents of title to goods means a document used in the ordinary course of business as a proof of possession or control of goods authorising or purporting (claiming) to authorise either by endorsement or delivery (as per section 2(4) of Sales of Goods Act).

13. Goods represented by the documents are transferrable by endorsement and/or delivery of the documents. It looks like negotiable instruments but actually they are quasi-negotiable instruments.

14. Examples of documents of title are bill of lading, dock warrant, warehouse-keepers certificate, railway receipts, delivery orders, etc.

15. LICs are taken either as primary or collateral security.

16. Nomination under the LIC is automatically cancelled in the event of the assignment of the policy.

17. The nature of charge created while making advances against shares is a pledge.

18. Banks provide either demand loan or an over draft against the security of shares.

19. Shares should be in demat form and should be quoted in a recognised stock exchange.

20. Advances are granted against fully paid shares only.

21. No loan can be granted against the security of a private limited company.

22. No banking company can hold shares in any company of an amount exceeding 30 % the paid up share capital of that company or 30 % of its own paid up share capital and reserves whichever is less (BR Act 1949, section 19 (2)).

23. If the securities (of shares, debentures and PSU bonds) are in physical form, loans against to individuals should not exceed the limit of Rs 10 lac per borrower.

24. If the securities (of shares, debentures and PSU bonds) are in demat form, loans against to individuals should not exceed the limit of Rs 20 lac per borrower.

25. ESOP (Employees Stock Option Plan) is a scheme under which banks provide loan to employees for purchasing shares of their own companies.

26. Under ESOP, an employee can purchase to the extent of 90 % of the purchase price of shares

or Rs 20 lac, whichever is less.

27. In case of advances against shares, a uniform margin of 50 % shall be applicable on all advances/financing of IPOs/issue of guarantees. And within this margin of 50 %, a minimum cash margin of 25 % shall be maintained in respect of guarantees issued by banks for capital market operations.

28. Banks also give loans under book debts.

29. Book debts mean account receivables (total of debit balance in the purchaser's account).

30. Book debts can be financed by: factoring (lesson 7), forfeiting (outright i.e. complete purchase of book debts, and overdraft and cc against hypothecation of book debts.

31. Age of the book debts should be 3-6 months old, but not later.

32. Margin of 50 % is maintained in book debts.

33. Banks may provide advances against the security of time deposits such as FD or RD.

34. The nature of facility granted against the security of term deposits may either be a loan or an overdraft.

35. The nature of charge created while granting loan against time deposits is a pledge.

36. Normally loans up to 90 % of the deposit amount/accrued value of the deposit is provided.

37. The ROI charged on the loan would be 1 or 2 % above the interest rate offered on the deposits.

38. Loans given to a sole proprietor against deposit in the name of the proprietor concern should NOT be treated as 3rd party loan.

39. Loans given to a partner against deposit in the name of the firm should be treated as 3rd party loan and interest should be charged at the commercial rate.

40. If a company seeks loan against its deposit, a board resolution authorising the company to raise the loan should be obtained. The charge of pledge need not be registered with the ROC.

41. A deposit held under 'Capital Gain Scheme' is not eligible for loan.

42. The nature of charge created under the security of gold ornaments is a pledge.

43. No loan can be given against the security of pure gold.

44. Around 30 % margin is kept on the market value of the ornaments.

45. The nature of charge created under 'Supply Bills' is assignment

NPA

The prudent guidelines were first issued by RBI in the year 1991 implemented wef 01.04.1992 on recommendations of Narasimham committee covering, income recognition, asset classification and provisioning.

1. Prudential norms prescribed by RBI include norms relating to Accounting, Exposure, and Capital Adequacy.
2. Prudential accounting norms are income recognition, asset classification and provisioning.

Classification as NPA

Term Loan - If Interest and/ or installment of principal remain overdue for a period of more than 90 days

CC/Overdraft - if the account remains 'out of order or the limit is not renewed/reviewed within 180 days from the due date of renewal. Out of order means an account where

- (i) the balance is continuously more than the sanctioned limit or drawing power OR
- (ii) where as on the date of Balance Sheet, there is no credit in the account continuously for 90 days or credit is less than interest debited OR
- (iii) where stock statement not received for 3months or more.

Bills - If the bill remains overdue for a period of more than 90 days from due date of payment

Agricultural accounts ? (i) if loan has been granted for short duration crop: interest and/or installment of principal remains overdue for two crop seasons beyond the due date.

(ii) if loan has been granted for long duration crop: interest and/or installment of principal remains overdue for one crop season beyond due date.

Decision about crop duration to be taken by SLBC.

Loan against FD, - Advances against term deposits, NSCs eligible for surrender, IVPs, NSC, KVP, LIP KVPs and life policies not treated as NPAs provided sufficient margin is available.

Advances against gold ornaments, govt securities and all other securities are not covered by this exemption.

Loan guaranteed - Loan guaranteed by Central Govt not treated as NPA for asset by Government classification and provisioning till the Government repudiates its guarantee when invoked. Treated as NPA for income recognition.

Consortium advances - Asset classification of accounts under consortium should be based on the record of recovery of the individual member banks.

Asset Classification

1. Asset Classification to be borrower-wise and not facility-wise
2. Assets classified into Standard, Sub standard, Doubtful, Loss. Except standard all others are NPAs.
3. When an account becomes NPA it is called Sub standard asset.
4. An account remains sub standard up to 12 months from the date of becoming NPA
5. Doubtful Assets : An asset is to be classified as doubtful, if it has remained NPA or sub standard for a period exceeding 12 months.
6. Loss Assets : A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.
7. When an account is classified as Doubtful or Loss without waiting for 12 months: If in an account which was secured in the beginning, the realizable value of tangible security falls below 10% of the outstanding, it should be classified loss asset without waiting for 12 months
8. If the realizable value of security is 10% or above but below 50% of the outstanding, it should be classified as doubtful irrespective of the period for which it has remained, NPA.

Provisioning Norms

1. Provisioning is made on all types of assets i.e. Standard, Sub standard, Doubtful and loss assets.
2. Standard Assets :
 - a. Direct advance to agriculture or Micro and Small Enterprise (Not medium) : 0.25% of outstanding;
 - b. Commercial Real Estate: 1% of outstanding;
 - c. Housing Loans with teaser interest rates: 2% of outstanding; All others: 0.4% of outstanding
 - d. The provisions on Standard Assets is shown as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions Others' in Schedule 5 of the balance sheet.
3. Sub Standard Assets:
 - a. Secured sub standard: 15% of outstanding balance without considering securities available.
 - b. Unsecured sub standard: if the loan was unsecured from the beginning: 25% of outstanding

balance.

c. If unsecured sub standard for infrastructure: 25% of outstanding balance.

d. Unsecured exposure means exposure where the realisable value of the security, as assessed by the bank/approved valuers/Reserve Bank's inspecting officers, is not more than 10 percent, ab-initio, of the outstanding exposure.

4. Doubtful Assets:

1. Unsecured portion: 100%

2. Secured portion: 25% to 100% depending on the period for which account is doubtful

Age of Doubtful Asset /br>Provision as % of secured portion

Doubtful up to 1 year D1 25% of RVS (Realisable value of security)

Doubtful for more than 1 year to 3 years D2 40% of RVS

Doubtful for more than 3 years; D3 100% of RVS

5. Loss Assets: 100% of the outstanding amount.

6. If loan is guaranteed by ECGC, CGFT or CGFLHS, provision not on guaranteed portion

7. Provision on advance against FD, NSC, LIP, KVP as per their asset classification.

8. Overall provisions: Provisioning coverage ratio, including floating provisions, should not be less than 70 per cent.

9. Provisioning coverage ratio is the ratio of provisioning to gross NPAs.

10. Provision on Standard account to be kept as part of Other Liabilities in Schedule-5 of bank's balance sheet.

11. Provision on Standard accounts to be done on Global balance and for NPA accounts on Gross Balance

12. For Doubtful accounts, provision to be done separately for secured portion and unsecured portion of total balance in the account.

13. In case of standard and sub standard assets, provision is on outstanding balance without bifurcating the balance into secured or unsecured.

14. Floating provisions can be deducted from Gross NPAs or treated as part of Tier II capital but not both.

Upgradation Loan Accounts

1. if arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account may be classified as 'standard' accounts immediately.

2. Restructured accounts: After one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during 12 months period from the date of starting payment after moratorium period.

Financial Inclusion

Financial inclusion or inclusive financing is the delivery of financial products, at affordable costs to sections of disadvantaged and low-income segments of society. It is in contrast to financial exclusion, where those services are not available or affordable.

As per United Nations, the goals of financial inclusion is, to ensure access to a full range of financial services, at a reasonable cost, to ensure continuity and certainty of investment.

India: RBI set up the Rangarajan Committee in 2004 to look into financial inclusion.

Financial inclusion first featured in 2005 when Mangalam became the first village in India where all households were provided banking facilities.

RBI initiatives

1. Opening of no-frills accounts (replaced by basic saving bank accounts)
2. Relaxation KYC norms for small deposit accounts.
3. Allowing engaging business correspondents (BCs)
4. Effective use of information and communications technology (ICT), to provide doorstep banking services
5. Implementation of electronic benefit transfer (EBT) by leveraging ICT-based banking
6. Issue of general credit cards for amount up to Rs.25000
7. Simplified branch authorization for tier III to tier VI centres (population of less than 50,000) under general permission

FI Index

On June 25, 2013, CRISIL, launched an index (Inclusix) to measure the status of financial inclusion in India. Inclusix is a one-of-its-kind tool to measure the extent of inclusion in India, in each of the 632 districts. It is a relative index on a scale of 0 to 100, and combines 3 critical parameters of basic banking services : branch penetration, deposit penetration, and credit penetration, into one metric.

Roadmap for FI

Under RBI's earlier roadmap (of Sep 2010) 74,414 unbanked villages were allocated to banks for opening of banking outlets. Banks opened banking outlets in 74,199 (99.7%) villages by March 2012.

New roadmap: To take financial inclusion to the next stage of providing universal coverage and facilitating Electronic Benefit Transfer, banks have been advised) to draw up FIP for 2013-16 and disaggregate the FIPs to the controlling office and branch level. RBI advised State Level Bankers' Committees (SLBCs) to prepare a roadmap covering all unbanked villages of population less than 2000 and notionally allot these villages to banks for providing banking services, in a time-bound manner to provide with at least one banking outlet. The lead banks are to constitute a Sub-Committee of the District Consultative Committees (DCCs) to draw up a roadmap for provision of banking services in every village having a population below 2000 (2001 census) for providing banking services, in a time bound manner.

Direct Benefit Transfer

DBT is being rolled out in a phased manner (43 districts taken up in the first phase from January 1, 2013 and extended to 78 more districts from July 1, 2013). Eventually, all districts in the country would be covered under the DBT scheme.

To facilitate DBT for delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries, banks were advised by RBI (May 10, 2013) to:

1. open accounts for all eligible individuals in camp mode with the support of local government authorities,
2. seed the existing -accounts or the new accounts opened with Aadhaar numbers and ? put in place an effective mechanism to monitor and review the progress in the implementation of DBT.

SLBC Convenor Banks and Lead Banks should institute a monitoring and review mechanism to periodically assess and evaluate the progress made in the implementation.

The SLBC Convenor banks shall submit a monthly statement of district wise progress made in implementing DBT from the month ended April 30, 2013 by the 10th of the succeeding month to respective RBI Regional Office.

PradhanMantri Jan Dhan Yojna

Prime Minister Narendra Modi on August 28 launched his government's mega scheme 'Pradhan Mantri Jan Dhan Yojana', an ambitious scheme for comprehensive financial inclusion. According to Prime Minister, in a country where 40 per cent of the population does not have access to banking services, this programme would mark the beginning of the end of financial untouchability and rid the country of poverty. The scheme has been started with a target to provide 'universal access to banking facilities'. On the inaugural day, a record 1.5 crore bank accounts were opened across the country, the largest such exercise on a single day possibly anywhere in the world. Currently, around 41% of the population is unbanked, of which 33% are in urban areas and 46% in rural. Salient points of Prime Minister's ambitious Jan Dhan Yojana are given below:

1. About 15 million accident insurance policies done on a single day and same number of bank accounts opened.
2. Programme held at around 77,000 locations.
3. Target to cover 7.5 crore households with at least one account will be achieved by Jan 26, 2015.
4. Coverage of all households with at least one basic banking account.
5. Account holders will be provided zero-balance bank account with RuPay debit card, in addition to inbuilt accidental insurance cover of Rs 1 lakh.
6. Additional Rs.30,000 free life assurance cover for those opening bank accounts before Jan 26, 2015.
7. Holders can avail overdraft of Rs 5,000 subject to satisfactory operations of the account for six months.
8. Universal access to banking facilities for all households through a bank branch or a fixed point business correspondent called BankMitra.
9. Financial literacy to be imparted up to village level.
10. Under the Jan Dhan Yojana, all benefits from the Centre/states/local bodies are proposed to be transferred to the accounts of beneficiaries.
11. Platform has been built by the National Payment Corporation of India that connects all banks and all telephone networks in the country. With the introduction of new technology introduced by National Payments Corporation of India (NPCI), a person can transfer funds, check balance through a normal phone.
12. Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.

13. The second phase of rollout will involve providing micro-insurance to people and schemes like 'Swavalamban'.
14. Households being targeted instead of only being villages targeted earlier.
15. For the entire exercise, the existing banking network will be strengthened - it will rope in an additional 50,000 business correspondents and set up about 7,000 branches and 20,000 new automated teller machines, in the first phase.
16. PMJDY also aimed at eliminating corruption as it would facilitate routing of subsidies directly into the accounts of intended beneficiaries.
17. Presently, one account is being opened for one adult of each household and by 2018, the mandate is to make it two per household, with the compulsory inclusion of the lady of the house.
18. The government would institute a credit guarantee fund post-August 2015.

Financial Literacy

The financial literacy or financial education stands for ability to know and effectively use financial resources to enhance the well-being and economic security of oneself, one's family, and one's business.

It primarily relates to personal finance that enables individuals to take effective action to improve their overall wellbeing and avoid distress in financial matters.

Benefits: Financial literacy promotes financial inclusion and ultimately financial stability. In India, its need is even greater, due to low levels of literacy and the large section of the population, remaining out of the formal financial set-up.

ATM

Automated Teller Machines (ATMs)

Automated Teller Machines (ATMs) are primarily used for performing some of the banking functions such as the withdrawal of cash or the deposit of cash/cheque, etc., by using an ATM card.

The committee headed by Dr. C. Rangarajan recommended the setting up of ATMs in India.

Convenience of ATMs

To the Customers:

- (a) 24 x 7 access availability
- (b) Less time for transactions (less queue)

- (c) Privacy in transactions
- (d) Any branch/anywhere banking enabled
- (e) Acceptability of card across multiple bank ATMs, even foreign tourists can access Maestro/VISA / ATMs

To the Bank:

- (a) Cost of setting up ATMs is lower than setting up a branch
- (b) Migration of the routine transactions to the ATMs frees the bank staff for more productive work
- (c) ATMs serve as the crucial touch point for cross-selling of the bank's products
- (d) Enables the bank to display products on the screen and serves as a media for publicity for the bank
- (e) Less hassle in handling cash.

The following components of the ATM provide the customer interface:

- (a) Video Display Monitor
- (b) Keyboard/Keypad
- (c) Touch Screen
- (d) Slots: There are slots in the ATM for various purposes as detailed below:
 - (i) Card Reader
 - (ii) Cash Dispenser
 - (iii) Envelope Dispenser
 - (iv) Deposit Slot

HWAK

HWAK (The Intelligent Auto-teller and Netware Management System)

Intelligent auto-teller systems are a special breed of auto-teller machines capable of thinking for themselves, that means they are fast, impose less demands on your banking systems and serve the customers more like a personal banker than less sophisticated auto teller systems.

HWAK provides unsurpassed service even without benefit of a reliable communication network.

Benefits of HWAK are:

- (a) Customer satisfaction.
- (b) High availability
- (c) Online and offline auto-recovery
- (d) Anytime full banking service
- (e) Low cost, shorter queues and less number of tellers with ease of use

- (f) Quick and early implementation
- (g) Enhanced security and audit control
- (h) Network management
- (i) Predictable cost of ownership
- (j) Comprehensive 'One Stop' autobanking.

White Label ATM

White Label ATM (WLA)

Traditionally, Automated Teller Machines (ATMs) have respective bank's logo. So just by looking, this is SBI's ATM, this is ICICI's ATM and so on.

But White label ATM doesn't have such Bank logo, hence called White label ATMs.

RBI has given license / permission to non-bank entities to open such ATMs.

Any non-bank entity with a minimum net worth of Rs.100 crore, can apply for white label ATMs. (not just NBFC, any non-bank entity can apply.)

Late 80s: first ATM in India; 2012: RBI issues guideline for White label; 2013: RBI gives license/permission.

Tata Communications Payment Solutions Limited =the first company to get RBI's permission to open White label ATMs.

They started their chain under brandname 'Indicash'.

Other White label= Muthoot Finance, Srei Infra., Vakrangee Software, Prizm Payments, AGS.

More than 15 companies given such permission.

National Payment Corporation of India

National Payments Corporation of India (NPCI)

National Payments Corporation of India (NPCI) was incorporated in December 2008 and the Certificate of Commencement of Business was issued in April 2009.

It has been incorporated as a Section 25 company under Companies Act and is aimed to operate for the benefit of all the member banks and their customers.

Presently, there are ten core promoter banks (State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union bank of India, Bank of India, ICICI Bank, HDFC Bank, Citibank and HSBC).

Rupay Cards

RuPay

The Indian market offers huge potential for cards penetration despite the challenges. RuPay Cards will address the needs of Indian consumers, merchants and banks. The benefits of RuPay debit card are the flexibility of the product platform, high levels of acceptance and the strength of the RuPay brand-all of which will contribute to an increased product experience.

Lower cost and affordability :

Since the transaction processing will happen domestically, it would lead to lower cost of clearing and settlement for each transaction. This will make the transaction cost affordable and will drive usage of cards in the industry.

Customized product offering :

RuPay, being a domestic scheme is committed towards development of customized product and service offerings for Indian consumers.

Protection of information related to Indian consumers :

Transaction and customer data related to RuPay card transactions will reside in India.

Provide electronic product options to untapped/unexplored consumer segment :

There are under-penetrated/untapped consumers segments in rural areas that do not have access to banking and financial services. Right pricing of RuPay products would make the RuPay cards more economically feasible for banks to offer to their customers. In addition, relevant product variants would ensure that banks can target the hitherto untapped consumer segments.

Inter-operability between payment channels and products :

RuPay card is uniquely positioned to offer complete inter-operability between various payments channels and products. NPCI currently offers varied solutions across platforms including ATMs, mobile technology, cheques etc and is extremely well placed in nurturing RuPay cards across these platforms.

Credit Cards

Credit Card

It allows the cardholder to pay for goods and services based on the holder's promise to pay for them.

The issuer of the card creates a revolving account and grants a line of credit to the cardholder, from which the user can borrow money for payment to a merchant or as a cash advance.

The size of most credit cards is 3 3/8 x 2 1/8 in (85.60 x 53.98 mm).

It allows the consumers a continuing balance of debt, subject to interest being charged.

Charge Card

Charge Card

Transactions are accumulated over a period of time, generally a month and the total amount charged, i.e. debited to the account.

The credit card holder is given about 25 to 50 days' time to credit his account in case there are insufficient funds in his account at the time of debit.

Since the transactions are accumulated, it is only charged, i.e. not debited to the account immediately, such cards are called charge cards.

Debit Card

Debit Card

A debit card (also known as a bank card or check card) is a plastic payment card that provides the cardholder electronic access to their bank account(s).

Payments using a debit card are immediately transferred from the cardholder's designated bank account

Electronic Purse

Electronic Purse

Type of smart card which, with an embedded microchip, provides multiple options, such as debit card or credit card type payments.

Smart Card

Smart card

A smart card is a payment card embedded with a computer chip, essentially functioning like a mini-computer on a card. The memory and the computing power of the chip on the card could transform payments in many ways. The chip, a true technological breakthrough, holds at least 80 times more data than the magnetic stripe on existing credit cards.

Unlike the magnetic stripe, the chip can process data as well as store it, and because each

program on the chip runs on independent software, several different programs can operate on the same card at the same time.

An added bonus: the smart card is a more secure method of payment that protects the cardholder's account information from fraudulent use.

Electronic Cheque

Electronic Cheque

The smart card can be used during electronic fund transfer at the point-of-sales (EFTPOS). At a retailer's checkout, the card is placed in the reader, where it automatically goes through authentication sequences.

Electronic Cash

Funds can be loaded into a card for use as cash. This electronic cash can then be used for making purchases

Electronic Token

Electronic Token

The principle here is that a prepaid area is set aside to store electronic units of time or electronic tickets, etc., for a specific service or item. Magnetic strip cards are often used with public telephones, parking meters and vending machines.

Anytime Banking

Anytime Banking

ATMs have eliminated the time limitations of customer service, and offer a host of banking services, including deposits, withdrawals, requisitions, instructions and transfers. HSBC Ltd., for instance, has taken the concept of remote banking further by providing a service called Hexagon, which allows the customer to access his accounts from a PC that is installed at his office or at his home - that is desktop banking - for the customer.

Anywhere Banking

Anywhere Banking

With the introduction of ATMs and tele-banking, financial details can be accessed from remote locations and basic transactions can be effected even outside the bank.

Corporate banking

Corporate Banking

At present, by utilising remote banking facility, corporate customers will be able to get the following services:

- (a) Getting their current balance or getting their statement of accounts for any pre-defined period
- (b) Ordering cheque books
- (c) Ordering intra-bank and inter-bank fund transfers
- (d) Instructing stop payments of cheques
- (e) International remittances
- (f) Opening letter of credits.

Cheque Truncation System

Cheque Truncation

Process of stopping the flow of the physical cheque issued by a drawer to the drawee branch. The physical instrument will be truncated at some point en-route to the drawee branch and an electronic image of the cheque would be sent to the drawee branch along with the relevant information like the MICR fields, date of presentation, presenting banks etc.

Mobile Banking

Mobile Banking

Undertaking banking transactions using mobile phones by bank customers that involve credit/debit to their accounts.

Only banks which are licensed and supervised in India and have a physical presence in India will be permitted to offer mobile banking services.

Only banks who have implemented core banking solutions would be permitted to provide mobile banking services.

The services shall be restricted only to customers of banks and/or holders of debit/credit cards issued as per the extant Reserve Bank of India guidelines.

Only Indian Rupee based domestic services shall be provided. Use of mobile banking services for cross border inward and outward transfers is strictly prohibited.

Need of computerization

Need for Computerisation

The four major objectives of computerisation in banking are to improve:

- (a) customer service
- (b) housekeeping
- (c) decision-making
- (d) productivity and profitability.

Stand-alone Computer System

The stand-alone computer system is used by only one person at a time.

Stand-alone systems are best suited for the decision-making process, which involves processing and analysis of data.

Today's stand-alone systems are also capable of handling multimedia, high-quality graphics, fax messages, etc.

Multi-user Systems

The multi-user systems are computers on which several people can work at the same time.

Mini computers, Main Frame Computers, Micro-computers and the more powerful Super Computers all fall under this category.

Multi user Computer Networking

Multi-user Computer Networking

In such a system computers are based on the centralised processing concept.

All information is kept and processed at the main central machines and various terminals are attached to the main computer.

The main computer can store a huge amount of information and possesses high-processing speeds enabling a large number of users to be connected to the main central computer.

Each user has his/her own terminal.

Most of the banking systems are developed using the centralized computing concept.

The advantages of using a centralised data processing system :

- (a) availability of corporate level information at one location is possible
- (b) cost of acquiring hardware, software and other infrastructure is more profitable than acquiring the same for individual departments
- (c) due to the high volume of data processing the computing resources can be fully utilised
- (d) technical manpower can also be efficiently managed at a central level
- (e) costly resources like leased telephone lines, satellite links, etc., can be shared among the various departments

Computerisation at the branch level can be used to:

- (a) Provide better and speedy customer service
- (b) Improve housekeeping services
- (c) Analyse the branch-level data for decision making
- (d) Generation of various reports.

Branch Automation

Total Branch Automation

This is a real time online banking.

Whenever a transaction is entered through a terminal, the transaction is recorded, verified and authenticated and all corresponding updates are reflected instantly.

Various outputs such as ledger extracts, passbooks, vouchers, statements of accounts of customers, etc., are generated online.

It is possible to provide the 'single window' transactions concept. That means a customer can approach any counter for completing all his or her transactions.

Off-site ATMs are also linked to the branch system to enable the customer to bank anytime/anywhere.

Software and hardware requirements depend upon the size of the branch.

Computerization at RO

Computerisation at Regional/Circle/Zonal Office

RO/ZO acts in between branches and the head office.

The most common tasks performed by the regional office/zonal office are:

- (a) branch profile

- (b) inter-branch reconciliation
- (c) credit monitoring
- (d) personnel data management, etc.

Computerization at HO

Computerisation at Head Office Level

The head office of a bank is responsible for bank level planning, and control functions, policy decisions. The head office activities are divided into different functional areas like:

- (a) operations
- (b) planning
- (c) personnel
- (d) international business
- (e) services, etc.

The computerisation at various functional areas may include application areas:

- (a) personnel management and administrative support
- (b) funds management
- (c) investment portfolio management
- (d) branch profiles
- (e) credit information system, etc.

Local area Network

Local Area Network (LAN)

The computer network that links computers and peripherals within a localised area say, within a building is known as LAN.

Generally, LAN will not extend beyond 150 metres. However, it can be up to a maximum spread of 1 km and the number of devices supported may also vary from 2 to as many as 1000.

In LANs, each independent system is known as a node and when such nodes are interconnected, it is known as a LAN.

Usually, there will be one central node (Server) providing and controlling all the services of the network.

The client nodes route their requests to the server and obtain the necessary services.

Topology Layout

Topology (Layout)

The way in which the devices are interconnected is known as topology

Bus Topology

All devices on the network are connected to a single continuous cable.

Transmission from any station travels the length of the bus in both directions and is received by all other stations.

The main advantage of bus topology is that it is quite easy to set up.

Further, if one station on the LAN fails, it will not affect the rest of the network

Data transmission is possible in one direction only

The breakdown of any one station on the ring can disable the entire LAN.

Star Topology

In a star topology, the central node is often the master.

Each of the other nodes is joined to the master by separate links.

It cannot handle large traffic as every transaction has to pass through the central node.

However, if one node fails, it will not affect the network.

Protocols

Protocols

The protocols are the rules for communication between similar modules of processes, usually in different nodes.

Protocols define message formats and the rules for message exchange.

It controls priority and sequence of transmission, errors in transmission, and the process of beginning and concluding conversion.

The network protocols depend on the adapters. Some of the commonly used types of adapters are Ethernet and Token-Ring

A multiplexer is used to receive signals from several communication lines and pass on to one communication line and vice versa.

Network opening System

Network Operating System:

The function of the networking software is to set up some computers as hosts, or servers, and some computers as clients to those hosts.

The servers manage the printer sharing, file sharing and communications link sharing to their clients.

The advantages of using LANs in banks are that:

- (a) The expensive resources such as computer hardware and software can be shared by several users. This brings down the overall cost of computerisation.
- (b) The information stored on the host computer is available to all users of the system. Therefore, there is no necessity of duplication of databases.
- (c) Since all the terminals are intelligent terminals, the processing load is shared between the various machines and there is no overloading on any single machine.

There are also a few shortcomings of a LAN, such as:

- (a) Complicated software has to be installed for data management.
- (b) Security risks are higher, since each user access the host computer independently.
- (c) Maintenance cost of such a system is high, since it has to be done frequently.

Wide Area Network

Wide Area Network (WAN)

Wide Area Networks (WAN) are defined as a large-scale computer network spread over a span of sizeable geographic area, normally utilising the telecommunication network.

In the banking sector, the WANs are generally used to interconnect branches with the regional offices, and regional/zonal offices to head office, etc.

UPS

UNINTERRUPTED POWER SYSTEM (UPS)

Uninterrupted power system provides clean and reliable AC power to the computer systems protecting them from power blackouts, brownouts, swells, sags, surges, and interface.

In case of a power failure, the UPS attached with the file server automatically takes over the power supply to the file server or to the main computer to eliminate the chance of data loss.

Core Banking

CORE BANKING

In core banking, there is a central database for the bank and transactions are done centrally, online. It offers integrated products and services to customers round the clock.

Business Components

- (a) To have retail customer banking modules
- (b) Deposits, loans, bills, remittances, locker, clearing, etc.
- (c) Trade finance/forex modules
- (d) Government business modules
- (e) To have corporate finance and service branch modules
- (f) To have enhanced MIS modules
- (g) To have modules for business intelligence
- (h) To integrate with the existing ATMs, tele-banking, debit card, kiosks and other delivery

Channels

- (i) To have any branch banking, Internet banking and call centre
- (j) To interface with existing corporate systems like treasury, IBR, centralised accounting system, HRMS, ALM, credit appraisal and management, credit monitoring and NPA management, etc.
- (k) To interface with systems like NDS, SFMS, RTGS, CFMS, etc.

Benefits

- (a) Enables the establishment of a reliable centralised data repository for the bank
- (b) Facilitates data warehousing and data mining technologies for business intelligence
- (c) Easy implementation of integrated customer centric services like online ATMs, telebanking, internet banking, any branch banking, kiosk banking, cash management services, etc.
- (d) Enables centralised management information, decision support and executive information systems
- (e) Efficient and effective MIS, ALM, risk management, etc., using the central data pool
- (f) Enables centralised management and control with centralised data
- (g) Standardisation of the branch automation software using a single version. Quick adoption of software changes as changes are done only at the central site
- (h) Facilitates business process re-engineering (BPR) to streamline the existing processes
- (i) Relieves branches of jobs like data backup, MIS generation, etc.
- (j) Requires infrastructure at the central location, backup location and at branches
- (k) Servers are not mandatory at branch locations
- (l) Attracts higher investment in the beginning

- (m) Cost of implementation for further branches and delivery channels relatively cheaper
- (n) Core infrastructure can be used for future expansions
- (o) No extra cost for implementation of SFMS, RTGS, CFMS, etc.

Data Communication

Data communication consists of various data communication components. It has three basic components.

1. Transmission Devices and Interface Equipment

Modem conversion between the digital and analog forms is carried out by an interface device called Modem

2. Transmission Medium

Terrestrial Cables

- a. Twisted-wire Pair - A twisted pair consists of two insulated copper wires
- b. Coaxial Cable - The Coaxial cable consist of an inner copper conductor held in position by circular spacers.
- c. Optical Fibre - Optical fibre has been a technological breakthrough in communications. It supports data rate of 2 giga bits/sec. Fibre Optics provide high quality transmission of signals at very high speeds. Not affected by electromagnetic interference. The transfer of data is through very thin glass or plastic fibres with a beam of light. The light source is the laser beam driven by a high speed high current driver.

3. Microwave System microwave signals may be passed on to the satellite.

4. Transmission Processors

Message Switcher is used to store and forward data to large number of terminals over a single communication channel.

Multiplexer send more than one signal simultaneously over a single communication channel.

Front End Processors used to intercept and handle communication activities for the host computer. A device located at the site of the CPU or the host computer. It relieves the computer of the communication tasks leaving it free for processing application programs.

Modes of transmission

Modes Of Transmission

Simplex ? transmitting data in only one direction (commercial radio)

Half-Duplex ? transmission is both directions, but in only one direction at a time. WALKY TALKY

Full Duplex ? Simultaneous two-way transmission. MOBILE

Major Networks

INET

NICNET

INDONET

Emerging trends in Comm. Network

Emerging Trends in Communication Networks For Banking

RBI's VSAT Network

Internet ? The connection to the host computer of the ISP is established through the interface protocol software, using following two protocols :

Serial Line Protocol (SLIP)

Point to Point Protocol (PPP)

Automated clearing system

Automated Clearing Systems

CHIPS - Clearing House Inter-bank Payment System

CHAPS ? Clearing House Automated Payment System

CHATS ? Clearing House Automated Transfer System.

Two-Level Funds Transfer System

Fed Wire

Bank Wire

Point of Sale Systems

NEFT

National Electronic Funds Transfer (NEFT) System

1. Amount - There is no minimum or maximum amount to be remitted.

2. Batches: The settlement of transactions is in batches.
3. Normally, the beneficiary should get credit within 2 hours from the time of completion of batch i.e. on B+2 basis on the same day.
4. Processing Charges/Service Charges: Upto Rs 10,000: Maximum Rs 2.5; Upto Rs 1 lac: Maximum Rs 5; More than 1 lac to Rs 2 lac: Rs 15; More than Rs 2 lac: Max Rs 25. (Service tax extra). Update yourselves with latest charges.
5. Difference between IFS Code and MICR: Indian Financial System Code (IFSC) is an alphanumeric code designed to uniquely identify the bank-branches in India. This is 11 digit code with first 4 characters representing the banks code, the next character reserved as control character (Presently 0 appears in the fifth position) and remaining 6 characters to identify the branch. The MICR code has 9 digits to identify the bank-branch. IFSC code is printed on cheques leaves issued to their customers.

RTGS

Real-Time Gross Settlement (RTGS) System

PI ? Participant Interface.

1. The message is passed on by PI to IFTP (Inter ? Bank Fund Transfer Processor) which acts as a broker.
2. RTGS system is a funds transfer mechanism where transfer of money takes place from one bank to another on a real time and on gross basis.
3. This is the fastest possible money transfer system through the banking channel.
4. RTGS helps in preventing Systemic and Settlement Risks.
5. Minimum/maximum amount for RTGS transactions : Minimum amount : Rs 2 lakh; Max : No limit.

Data Warehouse

Data Warehouse: Data from heterogeneous sources is stored to generate critical information for decision support systems. The main characteristics of the data stored in a Data Warehouse are:

- It is Subject-Oriented
- It is integrated, and there are no inconsistencies
- The data in a Data Warehouse is non-volatile
- It is time variant

--Data Warehouse can be established even across multiple computer platforms as long as the transaction details are made available to the data warehouse in standardized formats.

Data Mining

Data Mining is a technique to reveal the strategic information hidden in Data Warehouse(s). It helps in exposing the patterns that are critical to business and provide an advantage through insight and knowledge of:

1. Sound predictions of customer behavior
2. Highly targeted market focus
3. Maximized operational effectiveness
4. Optimal return on Investment.

Establishment of Data Warehouse : Vasudevan Committee

Data Mining techniques can be applied in Predicting future trends based on information available

Credit Risk Analysis

Analyzing demographic information about customers

Banks can use a corporate website for

- a. Dissemination of information
- b. Financial Advice
- c. To highlight non-banking activities
- d. A node for commerce
- e. Selling financial products
- f. Gateway to the internet
- g. Account Services

Risks Broadly Leads to

The Risks broadly lead to

Incorrect decision-making leading to setback to business

Interruption in activities due to loss of data, hardware, software, Peopleware.

Violation of Privacy

Direct Financial loss due to computer frauds.

Objective of Computer auditing

The objective of Computer Auditing is:

Assets safeguarding

Preserving data integrity

Achieving system efficiency

Risk prone components in computerised systems

Errors and omissions in data and software

Unauthorised disclosure of confidential information

Computer abuse and mis-utilisation of banks assets

Effective Control Mechanism in computerised environment

Preventive

Detective

Corrective

Scope of system audit

Scope of System Audit is

Review of operations to establish compliance

Review of the adequacy of procedures and controls

Integrity review focused at fraud detection/prevention of IT system

Audit Trail is a chronological record of all events occurring in a system.

Legal framework for Electronic transactions

Legal Framework for Electronic Transactions

--Consequent upon the recognition given to the electronic records, electronic documents and electronic signatures, incidental amendments have also been made in the following acts:

--The Indian Penal Code, 1860

--The Indian Evidence Act, 1872

--The Bankers' Books Evidence Act, 1891

--The Reserve Bank Of India Act 1934

Product Hierarchy

Core Product – The most fundamental level is the core benefit. It is the fundamental benefit or service the customer is really buying. Marketers see themselves as benefit providers. E.g. A hotel guest is buying rest and sleep.

Generic/Basic Product – At the second level the, marketer has to turn the core benefit into basic product. In this the hotel room includes a bed, bathroom, towel desk, dresser and closet.

Expected Product – At the third level the marketer prepares an expected product a set of attributes and conditions that buyers normally expect and agree to when they purchase this product. Now the hotel guests will expect a clean bed, fresh towel, relative quietness.

Augmented Product – At this level the marketer prepares an augmented product that meets the customer's desires beyond their expectations. A hotel can augment its product by providing a remote control television set, fresh flowers, fine dining and room service. Product augmentation leads the marketer to look at the buyers total consumption system: the way a purchaser of a product performs the total task of whatever it is that he or she is trying to accomplish when using the product, In this way the marketer will be able to recognize many opportunities for augmenting its offer in a competitively effective way

Potential Product – At the fifth level the potential product encompasses all the augmentations and transformations that the product might ultimately undergo in the future. Whereas augmented product describes what is included in the product today the potential product points to its possible evolution. Here companies search for aggressively new ways to satisfy surprise and delight the customers. E.g. the hotel guest finds a candy on the pillow or a bowl of fruits or a video recorder with optional tapes.

Market

A market refers to the places where goods and services are sold and purchased. It consists of all the potential customers sharing a particular requirement or need or goods to engage in exchange. Market implies a situation where buyers and sellers of a commodity interact and coming together of buyers and sellers of the same or similar commodities. A market is not essentially a geographical area as buyers and sellers may be located at different places

Marketing

Marketing is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines

measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services.â€•

Different kinds of market

Markets can be grouped in different categories such as geographical, volume of transactions, nature of products. Based on geographical area it may be a local market, regional markets, national markets, global markets. On the basis of volume of transactions the market could be retail market and wholesale market. As regards the products, the market may be capital market, share market, commodities market etc.

Focus of marketing

Initially the focus of marketing was on demand for products. But with the passage of time it has shifted to the consumer and consumer requirements, which may be his existing needs or the needs to be created to create demand for new products and services. In other words the marketing strategy is driven by the customer and the market requirement.

Scope of marketing

Scope of marketing :In the present day situation, the scope of marketing extends to goods and services, events, persons, places, properties, organization, information, ideas. Marketing is a management function because a firm makes use of various tools and techniques in an organized way to identify the current and future needs of target customers and based on that information, creates goods and services. Marketing is also a philosophy because it is an approach to achieve corporate objectives by creating value for the customer.

Marketing management

Marketing management : Marketing management stands for managing all activities from identification of business opportunity to the customer satisfaction, leading to earning the projected revenues. According to American Management Association, marketing management is the process of planning and executing the concept, pricing, promotion and distribution of goods

and services and ideas with a view to create value (revenues) that satisfy the customer as well as the organization objectives.

Functions in marketing management

Functions in marketing management :Marketing management takes care of 4 important aspects i.e. analysis, planning, implementation and control & monitoring.

1. Analysis is done for understanding the customer, --competition, .:trends, strengths and weaknesses of the organization with a view to come out with appropriate marketing strategy.
2. Planning that include goals and target in measurable terms
3. Implementation of the strategic plans involving staffing requirement, task-allocation, responsibility fixing, budgeting etc.
4. Control and monitoring: This involves review of implementation on a continuous basis

Marketing Services

Marketing of Services : Banks and financial institutions do not produce goods. Instead they create products in the form of financial services and services connected with finance. The need for marketing of services is equally essential since there is lot of competition in this segment due to increasing dependence of economic activity on the banking services and increase presence of banks and financial institutions. In India, in particular, due to entry of new private banks, the competition has increased substantially leading to lot of product and product delivery innovations.

Features of services :

A service can be defined as an activity or a series of activity intangible nature that does not result in ownership of anything tangible. The important features of the service include:

? It is an activity or a series of activities and not goods and commodities. It is essentially intangible.

? The creation of services takes place by interaction between the service provider and the customer

Characteristics of the service

Characteristics of the service :A service has four important characteristics i.e. intangible, inseparable, heterogeneous and perishable. These characteristics do not apply to all services equally.

Intangibility: This means a service has no physical form. For instance remittance facility provided by the bank to the customer or attending to some class addressed by a learned speaker.

inseparable : The presence of the service provider and the customer is almost essential. The production or rendering of service is complete only after interaction between them.

Heterogeneous: The service as an output, normally cannot be standardized. From customer's point of view, it is difficult to judge the quality of service before actual purchase.

Perishable : The service can not be stored, it has to be rendered. If is not rendered, it is lost for ever

