TSPSC GROUP I (Prelims and Mains Examination)

Mains Examination - PAPER IV INDIAN ECONOMY AND DEVELOPMENT

BANKING KNOWLEDGE AND FINANCIAL KNOWLEDGE

(INDIAN ECONOMY useful for TSPSC Group II , III, IV Exams)

(Useful for RBI/NABARD/SBI/RRB/IBPS …..Bank PO/Clerks Examinations)

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Note: Please read Newspapers for latest news/data on the above topics

BANKING OMBUDSMAN (i.e., like 'LOKPAL ' for Banks)
INTEGRATED OMBUDSMAN SCHEME,2021 launched on 12.11.2021

STUDY MATERIAL
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Developmental Stages:
In May, 1992, the Finance Minister in his meeting with Chief Executives of Banks, mooted the idea of an 'OMBUDSMAN' for effective and efficient grievance redressal mechanism for banks. RBI which attaches great importance to improve quality of customer services in Indian Banks has formulated a scheme of banking ombudsman by making some innovations to similar schemes in operation in countries such as United Kingdom, Australia and New Zealand so as to suit the specific characteristics of the banking system operating in India.
The scheme of Ombudsman which has come into operation from June 14, 1995 is a landmark event in the history of Indian banking industry in protecting the interest of the customers and in redressing their grievances.
In the beginning the scheme was applicable only for non-credit operation, covering all scheduled commercial banks and all the 13 scheduled primary co-operative banks except RRBs.
In order to increase its effectiveness, the revised Banking Ombudsman Scheme with fully staffed and funded by the Reserve Bank was started . Under the revised Banking Ombudsman Scheme, the complainants will be able to file their complaints in any form, including online. The bank customers would also be able to appeal to the Reserve Bank against the awards given by the Banking Ombudsmen.

2002:
The Scheme was revised in 2002 mainly to cover Regional Rural Banks and to permit review of the Banking Ombudsmen's awards against banks by the Reserve Bank. The Reserve Bank has appointed 15 Banking Ombudsmen who are located mostly in State Capitals under the Scheme.

2006:
The revised Banking Ombudsman Scheme was announced in 2006 by Reserve Bank of India with enlarged scope to include customer complaints on certain new areas, such as, credit card complaints, deficiencies in providing the promised services even by banks' sales agents, levying service charges without prior notice to the customer and non- adherence to the fair practices code as adopted by individual banks. It is applicable to all commercial banks, regional rural banks and scheduled primary cooperative banks having business in India and the revised scheme came into effect from January 1, 2006.
The new scheme provides a forum to bank customers to seek redressal of their most common complaints against banks, including those relating to credit cards, service charges, promises given by the sales agents of banks, but not kept by banks, as also, delays in delivery of bank services. Now, the bank customers are able to complain about non-payment or any inordinate delay in payments or collection of cheques towards bills or remittances by banks, as also non-acceptance of small denomination notes and coins or charging of commission for acceptance of small denomination notes and coins by banks.

Amendment in 2007:
The Reserve Bank of India has amended the Banking Ombudsman Scheme, 2006 to enable the customers to appeal against the Banking Ombudsman's decision. Before the scheme

was amended, the bank customers could appeal only against the awards given by the Banking Ombudsman.
The appellate authority for the Banking Ombudsman Scheme now is the Deputy Governor of Reserve Bank of India.

Amendment in 2009:
The Reserve Bank of India has widened the scope of its Banking Ombudsman Scheme 2006, to include deficiencies arising out of internet banking. Under the amended scheme, a customer would also be able to lodge a complaint against the bank for its non-adherence to the provisions of the fair practices code for lenders or the Code of Bank's Commitment to Customers issued by the Banking Codes and Standards Board of India (BCSBI).

As per the amended Scheme, the Banking Ombudsman can award compensation not exceeding Rupees one lakh to the complainant in the case of complaints arising out of credit card operations, taking into account the loss of the complainant's time, expenses incurred by him as also, harassment and mental anguish suffered. Further, non-observance of the Reserve Bank's guidelines on engagement of recovery agents by banks has also been brought specifically under the purview of the Scheme.

Any customer who has a grievance against a bank can complain to the Banking Ombudsman in whose jurisdiction the branch of the bank complained against is located. Some banks have centralised certain transactions, like housing loans, credit cards, etc. If there are complaints regarding such transactions, complaints would have to be made to the Banking Ombudsman in the State in which the bank customer receives the bill.

In addition, the Reserve Bank has simplified the format for lodging complaint to the Banking Ombudsman. Though the complainant need not lodge his complaint in a specific format, the Scheme now provides for an easy-to-fill format for lodging complaints, in case complainants prefer to use it.

The amended Scheme however, does not include certain banking transactions, such as, failure to honour bank guarantee or letter of credit, etc. Complaints on these areas of banking services are insignificant in number.
1. How many Banking Ombudsmen have been appointed and where are they located?
Ans:There are about fifteen Banking Ombudsmen have been appointed with their offices located mostly in state capitals in India.

(The jurisdictions of the Banking Ombudsman at Kanpur, New Delhi, Chandigarh, Chennai and Trivendrum were rationalised to include/exclude certain areas taking into account the geographical proximity of those areas to the Office of the Banking Ombudsman).

2. What is the procedure for filing the complaint before the Banking Ombudsman?
Ans:
There is a form along with details of the scheme in .However, it is not necessary to use this format. An individual can file a complaint with the Banking Ombudsman simply by writing on a plain paper..

3. Which type of banks are covered under the Banking Ombudsman Scheme, 2006?
Ans: All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered under the Banking Ombudsman Scheme, 2006.

4.Who appoints Banking Ombudsman? What he will do ?
Ans: The Banking Ombudsman Scheme is introduced under Section 35 A of the Banking Regulation Act, 1949 by RBI with effect from 1995.

The Banking Ombudsman is appointed by the Reserve Bank of India. He is a senior official. He has authority to redress customer complaints against deficiency in certain banking services.

5. Who can file a complaint?
Ans: A person 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 a representation, or the bank rejects the complaint, or if the complainant is not satisfied with the reply given by the bank.

6. What is the Banking Ombudsman Scheme?
Ans: The Banking Ombudsman Scheme enables an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks.

7. When will a person's complaint not be considered by the Ombudsman ?
Ans: A person's complaint will not be considered if:
a. The person has not approached his bank for redressal of his grievance first.
b. the person has not made the complaint within one year from the date one has received the reply of the bank or if no reply is received if it is more than one year and one month from the date of representation to the bank.
c. The subject matter of the complaint is pending for disposal / has already been dealt with at any other forum like court of law, consumer court etc.
d. Frivolous or vexatious.
e. The institution complained against is not covered under the scheme.
f. The subject matter of the complaint is not within the ambit of the Banking Ombudsman.
g. If the complaint is for the same subject matter that was settled through the office of the Banking Ombudsman in any previous proceedings.
8. Is there any cost involved in filing complaints with Banking Ombudsman?

No cost is involved in filing complaints with Banking Ombudsman. The Banking Ombudsman does not charge any fee for filing and resolving customers' complaints.

9. Is there any limit on the amount of compensation as specified in an award?
Ans: Maximum compensation is Rs.10 lakhs.

10. For mental agony and harassment Can compensation be claimed?
Ans: The Banking Ombudsman may award compensation not exceeding Rs 1 lakh to the complainant only in the case of complaints relating to credit card operations for mental agony and harassment.

11. What happens after a complaint is received by the Banking Ombudsman?
Ans:The Banking Ombudsman tries to promote, through conciliation or mediation, a settlement of the complaint by agreement between the complaint and the bank named in the complaint. If the terms of settlement (offered by the bank) are acceptable to a person in full and final settlement of a person's complaint, the Banking Ombudsman will pass an order as per the terms of settlement which becomes binding on the bank and the complainant.
12.Is there any further recourse available if an individual person rejects the Banking Ombudsman's decision? Who is the appellate authority?
Appellate Authority is vested with a Deputy Governor of the RBI. If a person is not satisfied with the decision passed by the Banking Ombudsman, that person can approach the appellate authority against the Banking Ombudsmen's decision.. The person can also explore any other recourse and/or remedies available to him/her as per the law. The bank also has the option to file an appeal before the appellate authority under the scheme.

13. How does the appellate authority deal with the appeal?
Ans: The appellate authority may do the following things. The Appellate Authority may
a) dismiss the appeal; or
b)allow the appeal and set aside the award; or
c) send the matter to the Banking Ombudsman for fresh disposal in accordance with such directions as the appellate authority may consider necessary or proper; or
d) modify the award and pass such directions as may be necessary to give effect to the modified award; or

e) pass any other order as it may deem fit.
14. Is there any time limit for filing an appeal?
Within 30 days from the date of receipt of an award, appeal can be made. If a person is aggrieved by the decision, that person 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.

15) When Banking Ombudsman Scheme came into operation in India for the first time?
Ans : June 14, 1995

16) What is BCSBI ?
Ans : Banking Codes and Standards Board of India

INTEGRATED OMBUDSMAN SCHEME ,2021

The Reserve Bank - Integrated Ombudsman Scheme, 2021 (the Scheme) was launched on 12.11.2021.

The Scheme integrated the existing three Ombudsman schemes of RBI :-
(i) Banking Ombudsman Scheme, 2006;
(ii) Ombudsman Scheme for Non-Banking Financial Companies, 2018; and
(iii) Ombudsman Scheme for Digital Transactions, 2019.

The Scheme, framed by the Reserve Bank in exercise of the powers conferred on it under Section 35A of the Banking Regulation Act, 1949 (10 of 1949), Section 45L of the Reserve Bank of India Act, 1934 (2 of 1934), and Section 18 of the Payment and Settlement Systems Act, 2007 (51 of 2007), will provide cost-free redress of customer complaints involving deficiency in services rendered by entities regulated by RBI, if not resolved to the satisfaction of the customers or not replied within a period of 30 days by the regulated entity.

In addition to integrating the three existing schemes, the Scheme also includes under its ambit Non-Scheduled Primary Co-operative Banks with a deposit size of ₹50 crore and above. The Scheme adopts ‘One Nation One Ombudsman’ approach by making the RBI Ombudsman mechanism jurisdiction neutral.

Question: Which of the following are the salient features of the Scheme?

1)It will no longer be necessary for a complainant to identify under which scheme he/she should file complaint with the Ombudsman.
2)The Scheme defines ‘deficiency in service’ as the ground for filing a complaint, with a specified list of exclusions. Therefore, the complaints would no longer be rejected simply on account of “not covered under the grounds listed in the scheme”.
3)The Scheme has done away with the jurisdiction of each ombudsman office.
4)A Centralised Receipt and Processing Centre has been set up at RBI, Chandigarh for receipt and initial processing of physical and email complaints in any language.
5)The responsibility of representing the Regulated Entity and furnishing information in respect of complaints filed by customers against the Regulated Entity would be that of the Principal Nodal Officer in the rank of a General Manager in a Public Sector Bank or equivalent.
6)The Regulated Entity will not have the right to appeal in cases where an Award is issued by the ombudsman against it for not furnishing satisfactory and timely information/documents.
Ans : All the above

Question: Who is the Appellate Authority now, under Integrated Ombudsman Scheme,2021 ?
Ans: The Executive Director-in charge of Consumer Education and Protection Department of RBI would be the Appellate Authority under the Scheme.

BASEL NORMS (or) BASEL RULES
[CAPITAL ADEQUACY RATIO (CAR) & CAPITAL TO RISK WEIGHTED ASSETS RATIO (CRAR)]

STUDY MATERIAL
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Capital Funds in Banks :

Equity contribution of owners of a Bank is called as Capital Funds. The basic approach of capital adequacy framework is that a bank should have sufficient share capital to provide a stable resource to absorb any losses arising from the risks in its business. Capital in Banks is divided into different tiers (levels) according to the characteristics / qualities of each qualifying instrument(ex: share certificates).

What is Basel ?

Ans : Basel is a city, in Switzerland. The Basel Committee is a committee of bank supervisors consisting of members from each of the G-10 countries. The Committee is a forum for discussion on the handling of specific supervisory problems. It coordinates the sharing of supervisory responsibilities among national authorities in respect of banks' foreign establishments with the aim of ensuring effective supervision of banks' activities worldwide.

Basel Committee on Banking Supervision (BCBS) and its back background :
The Basel Committee on Banking Supervision(BCBS) was formed in response to the messy liquidation of a Cologne-based bank (Herstatt Bank) in 1974. On 26 June 1974, a number of banks had released Deutsche Mark (German Mark, i.e., currency of Germany prior to 1990) to the Bank Herstatt in exchange for dollar payments deliverable in New York. On account of differences in the time zones, there was a lag in the dollar payment to the counter-party banks, and during this gap, and before the dollar payments could be effected in New York, the Bank Herstatt was liquidated by German regulators.

The above incident in 1974 prompted the G-10 (Group of Ten) nations to form, the Basel Committee on Banking Supervision, under the auspices of the Bank of International Settlements (BIS) located in Basel, Switzerland.

The Basel Committee, established by the central-bank Governors of the Group of Ten countries meets regularly four times in a year.

Which countries are Members in Basel Committee?

The Committee's members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

Who is Chairman of Basel Committee on Banking Supervision ?
Mr. Stefan Ingves, Governor of Sveriges Riksbank.

Where its Secretariat is located ? :
Bank for International Settlements (BIS) in Basel, Switzerland.

Basel Capital Accord:

In 1988, the Committee (BCBS), decided to introduce a capital measurement system commonly referred to as the Basel Capital Accord. The Basel Capital Accord is an agreement concluded among country representatives in 1988 to develop standardised risk-based capital requirements for banks across countries. This system provided for the implementation of a credit risk measurement framework with a minimum capital standard of 8% by end-1992. It is prescribing minimum capital adequacy requirements in banks for maintaining the soundness and stability of the International Banking System and to diminish existing source of competitive inequality among international banks.

Since 1988, this framework has been progressively introduced not only in member countries but also virtually in all other countries with internationally active banks.
In June 1999, the Committee issued a proposal for a revised Capital Adequacy Framework.

'Basel I norms' :
A set of international banking regulations put forth by the Basel Committee on Bank Supervision, which set out the minimum capital requirements of financial institutions with the goal of minimizing credit risk is called as 'Basel I' norms. Banks that operate internationally are required to maintain a minimum amount (8%) of capital based on a percent of risk-weighted assets by the end of 1992.

Every bank must maintain capital (Tier 1 and Tier 2) equal to at least 8% of its risk-weighted assets. For example, if a bank has risk-weighted assets of Rs.100 Crores, it is required to maintain capital of at least Rs.8 Crores.

When these Basel I norms are implemented in India ?

These norms were accepted by Central Banks in various countries including Reserve Bank of India. They have been implemented by RBI w.e.f. 1.4.1992.

BASEL II Norms (Published in 2004) :

The Basel Capital Accord is replaced with a new capital adequacy framework (BASEL II), published in June 2004. BASEL II is based on three mutually reinforcing pillars that allow banks and supervisors to evaluate properly the various risks that banks face.

What is the objective of CAR (Capital Adequacy Ratio) ?

The fundamental objective behind the norms is to strengthen the soundness and stability of the banking system.

CRAR:

Capital to Risk Weighted Assets Ratio (CRAR) is arrived at by dividing the capital of the bank with aggregated risk weighted assets for credit risk, market risk and operational risk. The higher the CRAR of a bank, the better capitalized it is.

What is the need for such rules ?
Second accord by the name Basel Accord II was established in 1999 with a final directive in 2003 for implementation by 2006 as Basel II Norms. Unfortunately, India could not fully implement this . But, India was geared up under the guidance from the Reserve Bank of India to implement Basel II Norms from 1 April, 2009.

Basel II Norms have been introduced to overcome the drawbacks of Basel I Accord. For Indian Banks, it is the need of the hour to buckle-up and practice banking business at par with global standards and make the banking system in India more reliable, transparent and safe. These Norms are necessary since India is witnessing increased capital flows from foreign countries and there is increasing cross-border economic & financial transactions.

The Basel Committee has defined Capital in two tiers: Tier I and Tier II Capital for supervisory purposes.

Tier I capital is also known as 'core capital' and it provides most permanent and readily available support to a bank against unexpected losses.

Tier I capital in the case of Indian banks would mean paid up capital, statutory reserves and other disclosed free surplus arising out of sale proceeds of assets will also be reckoned for this purpose. Equity investment in subsidiaries, intangible assets and losses in the current period and those brought forward from previous periods will be deducted from Tier I capital.

Tier II Capital contains elements that are less permanent in nature or are less readily available.

Tier II Capital consists of

(i) Undisclosed reserves and cumulative perpetual preference shares

(ii) Revaluation reserves

(iii) General provisions and loss reserves

(iv) Hybrid debt capital instruments

(v) Subordinated debt

All banks in India have adopted the standardised approaches under the Basel II framework in 2009, however, the pace of migration to the advanced approaches has naturally been very slow. Reserve Bank has set an indicative time schedule for implementation of the Advanced Approaches. But the banks' response has been less than encouraging so far.

Migration to the Advanced Approaches is important for larger banks because it involves adoption of more sophisticated risk management systems.

What are the special features of 'BASEL II' norms?

Basel II Norms are considered as the **reformed & refined** form of 'Basel I Accord'. The Basel II Norms primarily stress on 3 factors, viz. Capital Adequacy, Supervisory Review and Market discipline. The Basel Committee calls these factors as the Three Pillars to manage risks.

Pillar I: Capital Adequacy Requirements (CAR or CRAR):

Under the Basel II Norms, banks should maintain a minimum capital adequacy requirement of 8% of risk assets. But Reserve Bank of India has mandated maintaining of 9% minimum capital adequacy requirement. This requirement is popularly called as Capital Adequacy Ratio (CAR) or Capital to Risk Weighted Assets Ratio (CRAR).

Pillar II: Supervisory Review:

Banks mainly encounter with three types of risks, viz. Credit risk, Operational risk & Market risk.
Basel II Norms under this Pillar wants to ensure that not only banks have adequate capital to support all the risks, but also to encourage them to develop and use better risk management techniques in monitoring and managing their risks.

Pillar III: Market Discipline:

Market discipline imposes the banks to conduct their banking business in a safe, sound and effective manner. Mandatory disclosure requirements on capital, risk exposure (semi-annually or more frequently, if appropriate) are required to be made so that market participants can assess a bank's capital adequacy. Qualitative disclosures such as risk management objectives and policies, definitions etc. may also be published.

Basel III norms are to be implemented from 1.1.2013:

The Basel Committee on Banking Supervision (BCBS) issued a comprehensive reform package entitled "Basel III: A global regulatory framework for more resilient banks and banking systems" .
"Basel III" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector.
These steps aim to:
i)improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
ii) improve risk management and governance
iii) strengthen banks' transparency and disclosures.

The reform package relating to capital regulation, together with the enhancements to Basel II framework and amendments to market risk framework issued by BCBS in July 2009, will amend certain provisions of the existing Basel II framework, in addition to introducing some new concepts and requirements. These guidelines would become effective from January 1, 2013 in a phased manner.

The Basel III capital ratios will be fully implemented by March 31, 2018, as per the notification given by RBI in May, 2012. The capital requirements for the implementation of Basel III guidelines may be lower during the initial periods and higher during the later years. While undertaking the capital planning exercise, banks should keep this in view.

Conclusion:
Banks in India may need at least $30 billion (around Rs. 1.6 trillion today) as capital over the next six years to comply with the Basel norms as per experts in the field. The Basel Norms III will come into effect in a phased manner starting 1 January 2013 and have to be implemented fully by 31 March 2018.

The banks' regulator in India (i.e., RBI) has been more stringent. For Indian banks, common equity should be at least 5.5% of the asset base, whereas the international norm suggests 4.5%.

Under Basel II, Indian banks need to maintain tier I capital of 6%, which rises to 7% under Basel III. Under Basel III, several instruments, including some that have the characteristics of debt, cannot be included for arriving at tier I capital.

Recently, Central Government in budget for the year 2012-13 said that it will provide Rs. 15,888 crore to recapitalize banks it owns to maintain capital adequacy at 8% under Basel II norms.

MODEL IBPS QUESTIONS:

1) Where is Basel City?
   a) Switzerland b) England c) France d) Canada e) USA Ans : (a)
2) When Basel III Norms will be implemented?
   a) 2013 b) 2014 c) 2015 d) 2016 e) None of these Ans : (a)
3) Basel Capital Accord is also known as Basel I Norms, were decided by BCBS in which year?
   a) 1988 b) 1989 c) 1990 d) 1992 e) 1993 Ans: (a)
4) Basel II Norms were published in which year ?
   a) 2001 b) 2004 c) 2005 d) 2008 d) None of these Ans : (b)
5) Which types of risk normally banks face, as per the Basel II Norms under Pillar II, supervisory review mechanism?
   a) Credit Risk b) Operational Risk c) Market Risk
   d) All the above e) None of these Ans : (d)
6) Government of India announced to sanction how much to recapitalize the banks, during 2012-13, to implement Basel II norms in public sector banks? (Rupees in Crores)
   a) Rs. 15,000 b) 15888 c) 10000 d) 12,000 e) 20,000 Ans: (b)

CAPITAL MARKET

STUDY MATERIAL
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Capital market is a market for long-term debt and equity shares. In this market, the capital funds comprising of both equity and debt are issued and traded. This also includes private placement sources of debt and equity as well as organized markets like stock exchanges.

Capital Market is one of the most important segments of the Indian financial system. This market is available to the companies for meeting their requirements of the long-term funds.

Capital market consists of a number of individuals and institutions (including the Government) that canalise the supply and demand for long term capital and claims on it.

Capital market is that part of financial market in which trade is done by brokers and it includes share/stock market and bond market. The buyers are general public, middle investors , companies and brokers who are interested to invest their money for getting profit in the form of interest or dividend and profit from bargaining .

Significance, Role or Functions of Capital Market:
Capital market plays a significant role in the national economy. A developed, dynamic and vibrant capital market can immensely contribute for speedy economic growth and development.

Capital market helps for the following purposes:-
1)Mobilization of Savings
2)Capital Formation
3)Provision of Investment Avenue
4)Speed up Economic Growth and Development
5)Proper Regulation of Funds
6)Service Provision
7)Continuous Availability of Funds

Capital market can be divided into primary and secondary markets.

Primary market (It is also called as 'new issue' market):-
Primary market deals with 'new securities', that is, securities which were not previously available and are offered to the investing public for the first time. It is the market for raising fresh capital in the form of shares and debentures. It provides the issuing company with additional funds for starting a new enterprise or for either expansion or diversification of an existing one, and thus its contribution to company financing is direct. The new offerings by the companies are made either as an initial public offering (IPO) or rights issue.

Secondary Market:-
Secondary Market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Majority of the

trading is done in the secondary market. Secondary market comprises of equity markets and the debt markets.

It provides an efficient platform for trading of securities for the general investor. For the management of the company, Secondary equity markets serve as a monitoring and control conduit—by facilitating value-enhancing control activities, enabling implementation of incentive-based management contracts, and aggregating information (via price discovery) that guides management decisions

What is the difference between Primary Market and Secondary Market ?
Ans: In the primary market, securities are offered to public for subscription for the purpose of raising capital or fund. Secondary market is an equity trading avenue in which already existing/pre- issued securities are traded amongst investors. Secondary market could be either auction or dealer market. While stock exchange is the part of an auction market, Over-the-Counter (OTC) is a part of the dealer market.

Stock Exchanges in India:
There are 19 stock exchanges in India. In terms of legal structure, the stock exchanges in India could be segregated into two broad groups – 16 stock exchanges which were set up as companies, either limited by guarantees or by shares, and 3 stock exchanges which were set up as association of persons and later converted into companies, viz. BSE, ASE and Madhya Pradesh Stock Exchange.

Apart from National Stock Exchange (NSE), all stock exchanges whether established as corporate bodies or Association of Persons, were earlier non-profit making organizations. As per the demutualisation scheme mandated by SEBI, all stock exchanges other than Coimbatore stock exchange have completed their corporatisation and demutualisation process. Accordingly, out of 19 stock exchanges 18 are corporatised and demutualised and are functioning as for-profit companies, limited by shares.

Securities Exchange Board of India:
SEBI is the regulatory authority established under the SEBI Act 1992, in order to protect the interests of the investors in securities as well as promote the development of the capital market. It involves regulating the business in stock exchanges; supervising the working of stock brokers, share transfer agents, merchant bankers, underwriters, etc., as well as prohibiting unfair trade practices in the securities market.
SEBI Chairman : Shri U.K.Sinha SEBI Head Office: Mumbai

What are the products dealt in the secondary markets?
Ans: Following are the main financial products/instruments dealt in the secondary market:

1)Equity: The ownership interest in a company of holders of its common and preferred stock. The various kinds of equity shares are as follows:-

Equity Shares:
An equity share, commonly referred to as ordinary share also represents the form of fractional ownership in which a shareholder, as a fractional owner, undertakes the maximum entrepreneurial risk associated with a business venture. The holders of such shares are members of the company and have voting rights in Annual General Body Meeting and Extraordinary General Body Meeting.

i) Rights Issue / Rights Shares: The issue of new securities to existing shareholders at a ratio to those already held.

ii)Bonus Shares: Shares issued by the companies to their shareholders free of cost by capitalization of accumulated reserves from the profits earned in the earlier years.

iii)Preferred Stock / Preference shares: Owners of these kinds of shares are entitled to a fixed dividend or dividend calculated at a fixed rate to be paid regularly before dividend can be paid in respect of equity share. They also enjoy priority over the equity shareholders in payment of surplus. But in the event of liquidation, their claims rank below the claims of the company's creditors, bondholders / debenture holders.

iv)Cumulative Preference Shares: A type of preference shares on which dividend accumulates if remains unpaid. All arrears of preference dividend have to be paid out before paying dividend on equity shares.

v)Cumulative Convertible Preference Shares: A type of preference shares where the dividend payable on the same accumulates, if not paid. After a specified date, these shares will be converted into equity capital of the company.

vi)Participating Preference Share: The right of certain preference shareholders to participate in profits after a specified fixed dividend contracted for is paid. Participation right is linked with the quantum of dividend paid on the equity shares over and above a particular specified level.

vii)Security Receipts: Security receipt means a receipt or other security, issued by a securitisation company or reconstruction company to any qualified institutional buyer pursuant to a scheme, evidencing the purchase or acquisition by the holder thereof, of an undivided right, title or interest in the financial asset involved in securitisation.

viii) Government securities (G-Secs): These are sovereign (credit risk-free) coupon bearing instruments which are issued by the Reserve Bank of India on behalf of Government of India, in lieu of the Central Government's market borrowing programme. These securities have a fixed coupon that is paid on specific dates on half-yearly basis. These securities are available in wide range of maturity dates, from short dated (less than one year) to long dated (up to twenty years).

2) Debentures: Bonds issued by a company bearing a fixed rate of interest usually payable half yearly on specific dates and principal amount repayable on particular date on redemption of the debentures. Debentures are normally secured / charged against the asset of the company in favour of debenture holder.

3)Bond: A negotiable certificate evidencing indebtedness. It is normally unsecured. A debt security is generally issued by a company, municipality or government agency. A bond investor lends money to the issuer and in exchange, the issuer promises to repay the loan amount on a specified maturity date. The issuer usually pays the bond holder periodic interest payments over the life of the loan. The various types of Bonds are as follows:-

i) Zero Coupon Bond: Bond issued at a discount and repaid at a face value. No periodic interest is paid. The difference between the issue price and redemption price represents the return to the holder. The buyer of these bonds receives only one payment, at the maturity of the bond.

ii) Convertible Bond: A bond giving the investor the option to convert the bond into equity at a fixed conversion price.

4) Commercial Paper: A short term promise to repay a fixed amount that is placed on the market either directly or through a specialized intermediary. It is usually issued by companies with a high credit standing in the form of a promissory note redeemable at par to the holder on maturity and therefore, doesn't require any guarantee. Commercial paper is a money market instrument issued normally for tenure of 90 days.

5) Treasury Bills: Short-term (up to 91 days) bearer discount security issued by the Government as a means of financing its cash requirements.

Who is a broker in the share market?
Ans: A broker is a member of a recognized stock exchange, who is permitted to do trades on the screen-based trading system of different stock exchanges. He is enrolled as a member with the concerned exchange and is registered with SEBI.

Who is a sub broker?
Ans: A sub broker is a person who is registered with SEBI as such and is affiliated to a member of a recognized stock exchange.

What is Bull Market?
Ans: There are two classic market types used to characterize the general direction of the market. Bull markets are when the market is generally rising, typically the result of a strong economy. A bull market is typified by generally rising stock prices, high economic growth, and strong investor confidence in the economy.

Who is called as Bull in the Share Market?
Ans: A market participant who believes prices will move higher is called a "bull". A news item is considered bullish if it is expected to result in higher prices.An advancing trend in stock prices that usually occurs for a time period of months or years. Bull markets are generally characterized by high trading volume.

Who is called as Bear in the Share market ?
Ans: A market participant who believes prices will fall further is called as "bear".

What is a Bear Market?
Bear markets are the opposite. A bear market is typified by falling stock prices, bad economic news, and low investor confidence in the economy.
The opposite of a bull market is a bear market when prices are falling in a financial market for a prolonged period of time. A bear market tends to be accompanied by widespread pessimism. A bear market is slang for when stock prices have decreased for an extended period of time. If an investor is "bearish" they are referred to as a bear because they believe a particular company, industry, sector, or market in general is going to go down.

What is Sensex – 30 ?
Ans: It is sensensitive index of Bombay Stock Exchange, comprising of 30 companies shares market value.

What is Nifty ?
Ans : It is the sensitive index of National Stock Exchange, comprising of 50 companies shares market value.

QUESTIONS ON CHEQUES AND DIFFERENT TYPES OF CROSSING OF CHEQUES

STUDY MATERIAL
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General introduction:

A cheque is a document or instrument i.e., a piece of paper that orders a payment of money from a bank account. The person writing the cheque is called as 'drawer'. The 'drawer' writes the various details including the money/amount, date and a payee on the cheque and signs it, order the bank to pay that person or company, the amount of money stated in the cheque. The bank is known as 'drawee'

Cheque is a type of bill of exchange and was developed as a way to make payments without the necessity of carrying the large amounts of cash, gold or silver. Paper money or currency notes are evolved from promissory notes.

Technically speaking, cheque is a negotiable instrument, instructing a financial institution (like bank) to pay a specific amount of a specific currency from a specific transactional account held in the drawer's name. Cheques are also called as order instruments.

In 1717,the Bank of England pioneered the first use of a pre-printed form. These forms were printed on "cheque paper" to prevent fraud, and customers had to attend in person and obtain a numbered form from the cashier. Once written, the cheque was brought back to the bank for settlement.

The six main items on a cheque are:

- **Drawer**, the person or entity who makes the cheque
- **Payee**, the recipient of the money
- **Drawee**, the bank or other financial institution where the cheque can be presented for payment
- **Amount**, the currency amount
- **Date of issue**
- **Signature of the drawer**
- MICR Code (Magnetically Ink Character Recognition Code) (It is machine reading routine and account information)

1)What is a Cheque ?

Ans: Cheque is an important negotiable instrument which can be transferred by mere hand delivery. Cheque is used to make safe and convenient payment. It is less risky and the danger of loss is minimised.

2) What is the definition of a Cheque?

Ans : "Cheque is an instrument in writing containing an unconditional order, addressed to a banker, sign by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument."

3) What are the different Kinds of cheques or different types of Cheques ?

Ans : There are seven types of cheques.

i) **Bearer Cheque**
When the words "or bearer" appearing on the face of the cheque are not cancelled, the cheque is called a bearer cheque. The bearer cheque is payable to the person specified therein or to any other else who presents it to the bank for payment. However, such cheques are risky, this is because if such cheques are lost, the finder of the cheque can collect payment from the bank.

Ii) **Order Cheque**
When the word "bearer" appearing on the face of a cheque is cancelled and when in its place the word "or order" is written on the face of the cheque, the cheque is called an order cheque. Such a cheque is payable to the person specified therein as the payee, or to any one else to whom it is endorsed (transferred).

iii) **Uncrossed / Open Cheque**
When a cheque is not crossed, it is known as an "Open Cheque" or an "Uncrossed Cheque". The payment of such a cheque can be obtained at the counter of the bank. An open cheque may be a bearer cheque or an order one.

iv)**Crossed Cheque**
Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like "& CO." or "Account Payee" or "Not Negotiable". A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee's account.

v)**Anti-Dated Cheque**

If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as "anti-dated cheque". Such a cheque is valid upto six months from the date of the cheque.

vi)**Post-Dated Cheque**
If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. A post dated cheque cannot be honoured earlier than the date on the cheque.

vii) **Stale Cheque**
If a cheque is presented for payment after six months from the date of the cheque it is called stale cheque. A stale cheque is not honoured by the bank. Recently, RBI reduced the period from six months to **<u>three months, for</u>** this purpose.

4) What is Crossing of Cheque ?
Ans:
A cheque is a negotiable instrument. During the process of circulation, a cheque may be lost, stolen or the signature of payee may be done by some other person for endorsing it. Under these circumstances the cheque may go into wrong hands.
Crossing is a popular device for protecting the drawer and payee of a cheque. Both bearer and order cheques can be crossed. Crossing prevents fraud and wrong payments. Crossing of a cheque means "Drawing Two Parallel Lines" across the face of the cheque. Thus, crossing is necessary in order to have safety. Crossed cheques must de presented through the bank only because they are not paid at the counter.

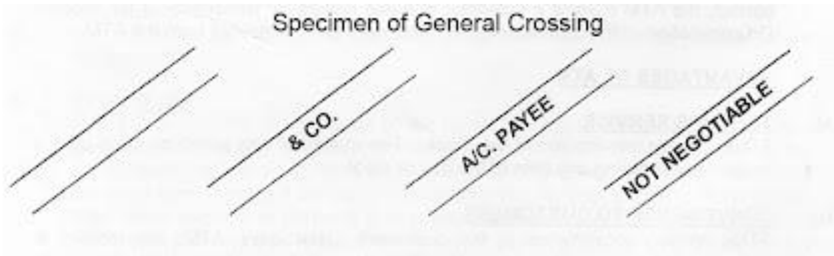
5) What are the different types of Crossing of cheques?
Ans : Broadly, two types of crossing of cheques are there.
i.e., (i)General Crossing of Cheques
(ii) Special or Restrictive Crossing of cheques

1. General Crossing :-

Generally, cheques are crossed when there are two transverse parallel lines, marked across its face **or** the cheque bears an abbreviation "& Co. "between the two parallel lines **or** the cheque bears the words "Not Negotiable" between the two parallel lines **or** the cheque bears the words "A/c. Payee" between the two parallel lines.

A crossed cheque can be made bearer cheque by cancelling the crossing and writing that the crossing is cancelled and affixing the full signature of drawer.

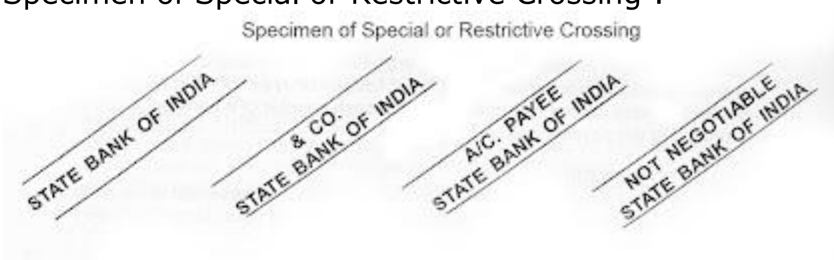
<u>Specimen of General Crossing</u> :



2. Special or Restrictive Crossing :-

When a particular bank's name is written in between the two parallel lines the cheque is said to be specially crossed.

Specimen of Special or Restrictive Crossing :



In addition to the word bank, the words "A/c. Payee Only", "Not Negotiable" may also be written. The payment of such cheque is not made unless the bank named in crossing is presenting the cheque. The effect of special crossing is that the bank makes payment only to the banker whose name is written in the crossing. Specially crossed cheques are more safe than a generally crossed cheques.

4. What is Cheque Truncation?

Truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point with the presenting bank en-route to the drawee bank branch. In its place an electronic image of the cheque is transmitted to the drawee branch by the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc. Cheque truncation thus obviates the need to move the physical instruments across branches, other than in exceptional circumstances for clearing purposes. This effectively eliminates the associated cost of movement of the physical cheques, reduces the time required for their collection and brings elegance to the entire activity of cheque processing.

5. Why Cheque Truncation in India?

As explained above, Cheque Truncation speeds up the process of collection of cheques resulting in better service to customers, reduces the scope for clearing-related frauds or loss of instruments in transit, lowers the cost of collection of cheques, and removes reconciliation-related and logistics-related problems, thus benefitting the system as a whole. With the other major products being offered in the form of RTGS and NEFT, the Reserve Bank has created the capability to enable inter-bank and customer payments online and in near-real time. However, as cheques are still the prominent mode of payments in the country and Reserve Bank of India has decided to focus on improving the efficiency of the cheque clearing cycle, offering Cheque Truncation System (CTS) as an alternative. As highlighted earlier, CTS is a more secure system vis-a-vis the exchange of physical documents.

In addition to operational efficiency, CTS offers several benefits to banks and customers, including human resource rationalisation, cost effectiveness, business process re-engineering, better service, adoption of latest technology, etc. CTS, thus, has emerged as an important efficiency enhancement initiative undertaken by Reserve Bank in the Payments Systems area.

6) What are the alternatives to cheques for payment purpose?

Ans : In addition to cash there are number of other payment systems that have emerged to compete against cheques;

1. Debit card payments
2. Credit card payments
3. Direct debit (initiated by payee)
4. Direct credit (initiated by payer), ACH in US, giro in Europe
5. Wire transfer (local and international)
6. Electronic bill payments using Internet banking
7. Online payment services (for example PayPal and WorldPay or rupay)
8. RTGS
9. NEFT

7) If a cheque is lost or stolen, whether its payment can be stopped ?

Ans : Yes. A lost or stolen cheque can be stopped from payment, by informing the Manager of the bank concerned in writing,

8) What is crossing ?

Ans: It means drawing two parallel lines across the face of a cheque, the effect of which is to make it necessary to pay it into a banking account. There are several types of general and special crossing which can be used to place restrictions on the negotiability of a cheque.

Development of Cheque system in India :

The Cheque was introduced in India by the Bank of Hindustan, the first joint stock bank established in 1770. In 1881, the Negotiable Instruments Act (NI Act) was enacted in India, formalising the usage and characteristics of instruments like the cheque the bill of exchange and promissory note. The Negotiable Instruments Act, 1881 provided a legal framework for non-cash paper payment instruments in India. In 1938, the Calcutta Clearing Banks' Association, which was the largest bankers' association at that time, adopted clearing house.

Until the 1st of April 2012, cheques in India were valid for a period of six months from the date of their issue, before the Reserve Bank of India issued a notification reducing their validity to three months from the date of issue.

NEGOTIABLE INSTRUMENTS ACT, 1881:

Section 6 of the Negotiable Instruments Act, 1881 defines what is 'Cheque'. A 'Cheque' is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form.

Explanation:

1) A cheque is a bill of exchange drawn on a banker payable on demand.
   - It is an order written by the drawer, to a banker to pay on demand, a specified sum of money to the person or persons named as payee on the cheque.
2) Cheques have been exempted from stamp duty
3) The drawer completes/fills the cheque by inserting the name of the payee, the amount he or she is to be paid, and then dating and signing it
4) The cheque may be made payable to thepayee or order or to the payee or bearer.
5) Cheque may be open or crossed
6) If the cheque is open cheque, it can be cashed at the branch of the bank on which it has been drawn.
7) If the cheque is crossed cheque, it must be paid into a banking account.
8) In the case of a bearer cheque, no endorsement is required, but endorsement of an order cheque is required unless it is paid directly in to the payee's own account.
9) In a crossed cheque, two parallel lines across the face of the cheque indicate that it must be paid into a bank account and not cashed over the counter (in case of general crossing)
10) A special crossing may be used in order to further restrict the negotiability of the cheque, for example adding the name of the payee's bank.
11) An open cheque is an uncrossed cheque that can be cashed at the bank of origin.
12) An order cheque is one made payable to a named recipient 'or order' enabling the payee to either deposit it in an account or endorse it to a third party i.e., transfer the rights to the chque by signing it on the reverse.
13) By endorsing an order cheque, the payee can renounce his interest in it and use it to pay a debt of his own to another person.

14) Restrictions can be placed on the negotiability of cheque by means of special crossings.

Other types of Cheques:-

In addition to regular cheques, a number of variations (variety of cheques) are developed to address specific needs or to address issues.

1) Cashier's cheques and bank drafts or Banker's cheque:

Cashier's cheque is a term used in USA. Banker's drafts are used in UK.

Both Cashier's cheques and banker's drafts are also known as 'bank cheque, treasurer's cheque or banker's cheque. These are cheques issued against the funds of a Bank rather an individual account holder..

This provides a guarantee, save for a failure of the bank, that it will be honoured. Cashier's cheques are perceived to be as good as cash

2) Travellers cheque

A traveller's cheque is designed to allow the person signing it to make an unconditional payment to someone else as a result of paying the account holder for that privilege.

Traveller's cheques can usually be replaced if lost or stolen, and people often used to use them on vacation instead of cash as many businesses used to accept traveller's cheques as currency.

3) What is Bank Draft ?

Ans : Bank Draft is also a bill of exchange. It a signed order by one party (the drawer) addressed to another (the 'drawee') directing the' drawee' to pay at sight or at a definable time in the future a specified sum of money to the order of a third person (the payee). A bank draft is the basic financial instrument.

Section 85-A of Negotiable Instruments Act, 1881 deals with Bank Drafts.
Explanation:

- A draft is Bill of Exchange and is a Negotiable Instrument [despite the drawer (the issuing bank) and the drawee (the paying bank) being one legal entity, which is characteristic of Promisory Note].
- Once a draft is delivered to the payee or his Agent, the purchaser is not entitled to stopping payment
- The draft issuing bank can pay back to the purchaser (applicant) only with the consent of the payee

- The purchaser is a trustor, who entrusts the money to the bank for a specific purpose viz., remitting and paying at the other end, as per the terms of entrustment (application)
- As regards crossed drafts, Section 123 to 131 of the Negotiable Instruments Act, 1881 apply mutatis mutandis to drafts vide Section 131-A of Negotiable Instruments Act, 1881

COINS & CURRENCY NOTES

STUDY MATERIAL
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Paper Money in India has traces its origins to the late eighteenth century with the issues of currency notes by private banks as well as by semi-government banks.

Brief introduction:
During the British period, the Paper Currency Act of 1861 conferred upon Government of India the monopoly of 'Note Issue' and thereby bringing an end to the banknotes issued by private and Presidency Banks. Government of India continued to issue currency notes till the Reserve Bank of India (RBI) was established on 1st April, 1935. After this, one of the functions of RBI is to issue coins and notes as per RBI Act, 1934.
Currently RBI is issuing banknotes in denominations of Rs. 2, 5, 10, 20, 50, 100, 500, and 1,000(Asper Sec.24 of RBI Act).

Currency notes with George VI portrait:
Five Rupee banknote bearing the portrait of George VI issued by RBI in January 1938. Later in June, 1938, Rs. 10 notes, Rs. 100 notes, Rs. 1000 notes and Rs. 10,000 notes were issued by RBI.
The currency notes with the photo of George VI series continued till 1947 and thereafter these currency notes continued till 1950 as a frozen series .

Currency notes with Ashoka Pillar Water mark:
After independence, RBI issued banknotes with the Ashoka Pillar watermark.
Banknotes of Rs.10 denomination in Ashoka Pillar watermark Series were issued between 1967 and 1992. The banknotes (of Rs.10, Rs.20, Rs.50, Rs.100/-) which were issued during this period contained the symbols representing science and technology, progress, orientation to Indian Art forms.

Currency notes with Mahatma Gandhi :
In 1966, banknotes in the Mahatma Gandhi Series were introduced and they are issued in a phased manner in the denominations of Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000 .

Banknotes in Mahatma Gandhi (MG) series from 2005, in the denomination of Rs.10, Rs.20, Rs.50, Rs.100 Rs.500, and Rs.1000 with additional / new security features are presently being issued by RBI.

One Rupee Currency Notes:
All the currency notes carry the signature of Governor, Reserve Bank of India except One Rupee Note. . On One Rupee Note, you will find the signature of Secretary, Ministry of Finance, Government of India. These currency notes are legal tender issued by the RBI.

The job of distribution of one rupee notes and coins and small coins all over the country is undertaken by the Reserve Bank as agent of the Government.

Minimum Reserve System:

The Reserve Bank has a separate Issue Department which is entrusted with the issue of currency notes. Since 1957, the Reserve Bank of India is required to maintain gold and foreign exchange reserves of Rs. 200 crores, of which at least Rs. 115 crores should be in gold (As per Sec.33 of RBI Act, 1934). It issues the notes against the security of gold bullion, foreign securities, rupee coins, exchange bills and promissory notes and government of India bonds. **This system is known as the 'Minimum Reserve System'.**

The RBI has powers not only to issue and withdraw but also to exchange these currency notes for other denominations. Recently, RBI has withdrawn Twenty Five paise coin from circulation.

When the higher denomination bank notes of Rs.1000/- and Rs.10,000/- were demonized ?

Primarily to curb unaccounted money, for the first time Rs. 1000 and Rs.10000 banknotes, were demonetized in January, 1946.

When Rs.1000/-, Rs.5000/- and Rs.10000/- bank notes were reintroduced?

The higher denomination banknotes in Rs.1000, Rs.5000 and Rs.10000 were reintroduced in the year 1954

Again in which year bank notes of Rs.1000/- Rs.5000/- and Rs.10000/- were demonetized?

The above banknotes (i.e., Rs.1000, Rs.5000 and Rs.10000) were again demonetized in January 1978.

Upto which maximum denomination, RBI can issue bank notes?

Ans : Upto Rs.10,000/- bank note

Coins circulation in India:

Presently 50 paise, one rupee, two rupees and five rupee coins are issued by RBI. Coins up to 50 paise are called 'small coins' and coins of Rupee one and above are called 'Rupee Coins'. (The coins in the denomination of 1 paise, 2 paise, 3 paise, 5 paise, 10 paise, 20 paise, 25 paise were in circulation earlier , but now these coins are not being issued by RBI).

Upto which denomination Coins can be issued ?

Ans: As per the Coinage Age, 1906, coins can be issued up to the denomination of Rs.1000.

What is the meaning of legal tender?

Every banknote issued by Reserve Bank of India (Rs.2, Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000) shall be legal tender at any place in India in payment or on account for the amount expressed therein, and shall be guaranteed by the Central Government, subject to provisions of sub-section (2) Section 26 of RBI Act, 1934.

Similarly, the One Rupee notes issued under the Currency Ordinance, 1940 are also legal tender and included in the expression Rupee coin for all the purposes of the Reserve Bank of India Act, 1934.

The coins issued under the authority of Section 6 of The Coinage Act, 1906, shall be legal tender in payment or on account i.e. provided that a coin has not been defaced and has not lost weight so as to be less than such weight as may be prescribed . [These details are mentioned in Section 13 of The Coinage Act, 1906].

What is the meaning of "I promise to pay" clause which is printed on all the currency notes?

As per Section 26 of Reserve Bank of India Act, 1934, the Reserve Bank is liable to pay the value printed on the banknote. This is payable on demand by RBI, because RBI is the issuer. The Bank's obligation to pay the value of banknote does not arise out of a contract but out of statutory (i.e., as per Act) provisions.

The promissory clause printed on the banknotes i.e., "I promise to pay the bearer the sum of One Hundred Rupees " is a statement which means that the banknote is a legal tender for Rs.100/- amount. The obligation on the part of the Reserve Bank is to exchange a banknote for coins or notes of an equivalent amount.

What is the role of Government of India in finalisation of banknotes designs?

In terms of Section 25 of RBI Act, 1934 the design of banknotes is required to be approved by the Central Government on the recommendations of the Central Board of the Reserve Bank of India. The responsibility for coinage vests with the Government of India on the basis of the Coinage Act, 1906 as amended from time to time. The Government of India also attends to the designing and minting of coins in various denominations.

On the Indian currency notes, the value is printed in how many languages ?

15 Indian languages + English language (Total in 16 languages)

What is the procedure to be followed, when the banknotes and coins return from circulation?

Banknotes and coins returned from circulation are deposited at the Issue offices of the Reserve Bank. The Reserve Bank subjects these to processing, authenticates banknotes for their genuineness, segregates them into notes fit for reissue and those which are not, for cancellation. The banknotes which are fit for reissue are sent back in circulation and those which are unfit for reissue are destroyed by way of shredding after completion of examination process. Similarly, coins received back from circulation are either reissued or are sent to the Mints for melting.

What are soiled banknotes?

Ans: A "soiled note" means a note which has become dirty due to usage and also includes a two piece note pasted together wherein both the pieces presented belong to the same note, and form the entire note.

What are mutilated banknotes?

Ans : A "Mutilated banknote" is a banknote, of which a portion is missing or which is composed of more than two pieces.

What are imperfect banknotes?

Ans: An " Imperfect banknote" means any banknote, which is wholly or partially, obliterated, shrunk, washed, altered or indecipherable but does not include a mutilated banknote.

When one rupee note was issued in Independent India ?

After independence, the first one rupee note issued in 1949. The new banknotes were issued with the symbol of Lion Capital of Ashoka Pillar at Sarnath in the watermark window.

When Hindi language was used on currency notes?

From the year 1951, the name of the issuer, the denomination and the guarantee clause were printed in Hindi on the new banknotes

In which year "Satyameva Jayate" is printed on the currency notes, under the national emblem?

In the year 1980, the legend "Satyameva Jayate", i.e., truth alone shall prevail was incorporated under the national emblem for the first time.

Why in October, 1987, Rs.500 bank notes were introduced ?

Ans : To contain the volume of banknotes in circulation, Rs.500, banknote was introduced in October 1987 with the portrait of Mahatma Gandhi and the Ashoka Pillar watermark.

What are the special arrangements made by RBI, to check the counterfeit notes in higher denomination currency notes ?

The following are the special features for the higher denomination currency notes :

i)Security Thread
ii)Latent Image
iii)Micro letterings
iv)Identification mark
v)Fluorescence
vi)Intaglio Printing
vii) See through register
viii)Water Mark and electrotype watermark
ix) Optically Variable Ink (OVI)
x) Year of Printing of the currency note

What is Clean Note Policy?

Reserve Bank of India has been continuously making efforts to make good quality banknotes available to the members of public. To help RBI and banking system, the members of public are requested to ensure the following:-

i)Not to staple the banknotes
ii)Not to write / put rubber stamp or any other mark on the banknotes
iii) Store the banknotes safely to prevent any damage

CORE BANKING SOLUTION (CBS)

STUDY MATERIAL
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Introduction:
Basically, 'core banking' activities are related to depositing of money and lending of money. Core Banking Solution is a new jargon frequently used in banking circles. Core Banking and Run the Bank are synonymous for most part. A core banking system is the software used to support a bank's most common transactions.

Core Banking is the meeting point of the largest banking services segment namely Retail and Commercial Banking, cutting edge Information Technology and the ever advancing Communication Technology. It is the heart of a modern financial service organization and is all about providing the banking customers with the right products at the right time through the right channels 24 hours a day, 7 days a week through a multi location, multi branch network.
The Core Banking solution is an integrated solution that automates all aspects of core banking operations across entities, languages and currencies. A part of the universal banking suite, the core banking solution helps financial institutions introduce new products with ease and efficiently manage changes in existing ones.

Nowadays, most banks use core banking applications to support their operations where CORE stands for "centralized online real-time environment". This basically means that all the bank's branches access applications from centralized data centres. This means that the deposits made are reflected immediately on the bank's servers and the customer can withdraw the deposited money from any of the bank's branches throughout the world.

Core banking system was developed using the concept of a Customer Information File, the inquiry screen is one of the most useful and comprehensive tools in the system. It gives every user the ability to access all the information available on a particular customer from a single screen display on the computer monitor.

Banks use the Information Technology to achieve the
-ability to handle larger volumes of business with the desired level of efficiency
-maximizing the profitability of operations
-exercise a strict vigil on costs
- for toning up book keeping efficiency at branches by computerizing the back office operations.

Core Banking Solution (CBS) helps banks with:-
→Entire range of banking products including savings, checking, overdraft and deposit accounts
→Entire range of lending products
→Complement of transactional services including remittance, foreign exchange, cards and trade finance
→Accessibility through multiple channels, including mobile banking and web
→Full integration of front-, middle-, and back-office processes
→Accurate, timely and actionable information about customer relations
→Single view between bank and customer
→"Anytime anywhere" banking
→Cash management Services

How shall CBS help Customers?
All CBS branches are inter-connected with each other. Therefore, Customers of CBS branches can avail various banking facilities from any other CBS branch located any where in the world. These services are:
→To make enquiries about the balance; debit or credit entries in the account.
→To obtain cash payment out of his account by tendering a cheque.
→To deposit a cheque for credit into his account.
→To deposit cash into the account.
→To deposit cheques / cash into account of some other person who has account in a CBS branch.
→To get statement of account.
→To transfer funds from his account to some other account – his own or of third party, provided both accounts are in CBS branches.
→To obtain Demand Drafts or Banker's Cheques from any branch on CBS – amount shall be online debited to his account.
→Customers can continue to use ATMs and other Delivery Channels, which are also interfaced with CBS platform.
→Similarly, facilities like Bill Payment, etc. shall also continue to be available.

All these aim to provide convenient, efficient, and high quality banking experience to the customers, comparable to world class standards.

Some of the standard software tools that many banks are using these days are:-

- Intellect Suite-OrbiOne, BankWare, BankNow from POLARIS
- Flexcube from iFlex Solutions
- Finacle from Infosys
- QUARTZ, Bancs, e-Portfolio from TATA Consultancy Services
- SAP for Banking
- Flexcube, Microbanker, Finware from Oracle
- FinnOne

Technology used for CBS:

- Java
- RPG/400, DB2/400,CL/400
- VB Script
- Microsoft Windows 2000 & 2003 Server
- Microsoft VSS
- Mercury Quality Centre
- Bugzilla
- SOAP UI
- QTP

What are steps involved in implementing the CBS in Banks?
Ans: The first step toward centralization was building a strong, country-wide network and integrating all individual LANs on a common platform.
The construction of the data centre and disaster recovery site are major IT infrastructure projects which will contribute to the successful implementation of Core Banking Solution.
The data related to customers and their transactions is distributed across all the branches which needed to be migrated to the centralized database. In addition to this, there will be specialized branches having their own set of requirements due to the specialized nature of their businesses which needed to be connected with countrywide network of computers.

CBS has a General Ledger component that forms the interface between CBS and the GL. Every transaction posted in CBS must send information to the GL, and this is done via the GL component. Transaction details are posted to the GL component for the following types of entries:

- Principal Balance movements
- Interest, Fee and Tax Accruals - month end
- Interest, Fees, Tax Raisings - as they happen
- Statistics, such as the number of accounts, fee waiver and risk weighted value

To enable reconciliation between CBS and the GL it was proposed that Oracle values are compared with an independent account based 'reconciliation' extract from CBS.

What are the Business Components(or) modules in Core Banking Solution?
Ans : CBS is set up for the following:-
i) Retail customer banking modules
ii) Trade finance / forex module
iii) Govt. business modules
iv) Corporate finance and services branch modules
v) enhanced MIS module
vi) Modules for business intelligence
vii) Module to integrate with existing ATMs, tele-banking, debit card, kiosks and other delivery channels
viii) Module to have any branch banking, internet banking and call centre
ix) Module to interface with existing corporate systems like treasury IBR, centralized accounting system, HRMS, ALM, credit appraisal and management credit monitoring and NPA management etc.
x) Module to interface with systems like NDS, SFMS, RTGS, CFMS etc.

It is understood that the core banking solution implemented at SBI and its associate banks execute an average of 42 million transactions per day with a peak of 1,900 transactions per second through a massive network of about 17,700 branches and over 20,000 ATMs servicing nearly 243 million customers. Core banking Systems (CBS) have facilitated building up customer- centric, service oriented architecture of banking services at front end and also created the capacity to efficiently handle large volumes of transactions, data and book-keeping requirements. CBS is positioned as an integrated solution to the basic banking operations pertaining to deposits, withdrawals, credit delivery, and attendant backend jobs, mainly in the retail and small business segments. It has enabled the introduction of efficient and convenient delivery channels like ATMs, Net banking, tele banking etc. So, when the banking industry has reached, so to say, a critical mass as far as using CBS is concerned, what's next? Do we need to go 'beyond core banking' and if so, what should be the areas and technologies that the banks need to focus on?
It is said that India lives in its villages. Then, isn't it strange that only 5% of them have proper banking services and that there's only 1 branch per 15,000 persons. It is also a fact that although banking in India is fairly well developed in certain areas, it is fairly under-penetrated and grossly under-served in other areas.

Banking Industry related questions for IBPS Common Written Examination:
1) Federal Reserve is a financial organisation of which of the following country?
a) USA
b) Britain
c) Germany

d) Greece
e) Japan Ans : (a)

2) Whose signature is found on a 50 Rupee Currency Note in India ?
a) President of India
b) Governor, RBI
c) Finance Minister
d) Home Minister
e) Secretary, Ministry of Finance Ans: (b)

3) Which of the following centres is the largest mobiliser of bank deposits in our country?
a) Delhi
b) Kolkata
c) Chennai
d) Ahmedabad
e) Mumbai Ans : (e)

4) Initial repayment holiday given to a borrower for repayment of loan is called as ____
a) Subvention
b) Moratorium
c) Reschedulement
d) Amortization
e) EMI Ans : (b)

5) Which of the following terms is not related to banking ?
a) Repayment
b) Loan
c) NPA
d) Fasting
d) Deposit Ans : (d)

6) Which of the following is not considered one among the loans under Retail Banking ?
a) Car Loan
b) Housing Loan
c) Personal Loan
d) Education Loan
e) Infrastructure Loan Ans : (e)

7) What is meant by financial inclusion ?
a) Making available banking services at an affordable cost
b) Opening SB account with Rs.500/- deposit
c) Opening any type of account without introduction
d) Distributing money through rural branches
e) Distributing wages through bank accounts Ans: (a)

8) Which of the following is a Private Sector Bank in India?
a) Corporation Bank
b) Kotak Mahindra Bank
c) IDBI Bank
d) Syndicate Bank
e) Oriental Bank of Commerce Ans: (b)

RBI Act, 1934 - Cash Reserve Ratio(CRR)
CRR : 4.5 % (LATEST NEWS AS ON 5.7.2022)

STUDY MATERIAL
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Cash Reserve Ratio (CRR) is the portion of deposits banks must keep with the RBI.

Recently, RBI has decided to reduce the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks (SCBs) by 25 basis points from 4.25 per cent to 4.00 per cent of their Net Demand and Time Liabilities (NDTL) with effect from the fortnight beginning February 09, 2013.

The Local Area Banks (LABs) shall also maintain CRR at 3.00 per cent of its net demand and time liabilities upto February 08, 2013 and 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

For the first time in nine months, the Reserve Bank of India on 29.1.2013 cut the indicative policy rate (repo) by 25 percentage points, from 8 per cent to 7.75 per cent, and the Cash Reserve Ratio (CRR) by 25 percentage points, from 4.25 per cent 4 per cent.

The step is likely to benefit retail borrowers, as lending rates are likely to come down. After meeting RBI Governor D. Subbarao, bankers said they would pass on the benefit to borrowers. Previously, RBI reduced the CRR from a peak of 6 per cent to 4.25 till mid-December 2012. In its third quarter review, Dr. Subbarao said: "While the series of recent policy initiatives by the government has boosted market sentiment, it will take some time to reverse the investment slowdown and reinvigorate growth."

This CRR cut provides space, albeit limited, for monetary policy to give greater emphasis to growth risks. The central bank (Reserve Bank of India) cut the Cash Reserve Ratio (CRR), by 25 basis points from 4.25 per cent to 4 per cent, will pump in a liquidity of Rs.18,000 crore into the financial system of India from February 9, 2013

The policy rate cut together with the CRR cut is expected to give more elbow room for banks to lend money at lower rates. This is likely to benefit retail borrowers immediately more than industrial sectors, where growth is subdued.

What is the main purpose of maintenance of Cash Reserve Ratio?

Ans: The basic purpose of maintenance of Cash reserve Ratio is to protect of interest of depositors in banks.

Cash Reserve Ratio is also used as a monetary and credit control measure by RBI. Whenever the cash reserve ratio is increased, the loanable funds in the hands of the bank goes down and the credit creation capacity of the bank stands reduced to the extent.

Similarly, whenever CRR is increased, the loanable funds in the hands of the bank goes up and the credit creation capacity of the bank stands increased to the extent.

Every bank is required to maintain Cash Reserve Ratio (CRR) on an average basis over a period of 14 days with reference to Net Demand and Time Liabilities (NDTL) figure as on the reporting Friday of the second preceding fortnight.

As per Section 42 (1) of the Reserve Bank of India Act, 1934 the Reserve Bank having regard to the needs of securing the monetary stability in the country, prescribes the CRR for Scheduled Commercial Banks (SCBs) without any floor or ceiling rate.

In terms of Section 42(1-A) of RBI Act, 1934, the SCBs are required to maintain, in addition to the balances prescribed under Section 42(1) of the Act, an additional average daily balance, the amount of which shall not be less than the rate specified by the Reserve Bank in the notification published in the Gazette of India from time to time. Such additional balance will be calculated with reference to the excess of the total of DTL of the bank as shown in the Returns referred to in Section 42(2) of the Act, 1934 over the total of its DTL at the close of the business on the date specified in the notification. At present no incremental CRR is required to be maintained by the banks.

The Reserve Bank of India (Amendment) Bill, 2006 has been enacted and has come into force with its gazette notification. Consequent upon amendment to sub-Section 42(1), the Reserve Bank of India, having regard to the needs of securing the monetary stability in the country, can prescribe Cash Reserve Ratio (CRR) for scheduled banks without any floor rate or ceiling rate. (Before the enactment of this amendment, in terms of Section 42(1) of the RBI Act, the Reserve Bank could prescribe for scheduled banks between 3 % and 20% of the total of their demand and time liabilities).

Non-Scheduled banks are required to maintain CRR as per Section 18 of the Banking Regulation Act, 1949. They are required to maintain CRR @ 3% of the NDTL by keeping cash balance with themselves , and/or with RBI.

Demand Liabilities of a Scheduled Commercial Bank:-

Demand Liabilities of a bank are liabilities which are payable on demand. These include current deposits, demand liabilities portion of savings bank deposits, margins held against letters of credit/guarantees, balances in overdue fixed deposits, cash certificates and cumulative/recurring deposits, outstanding Telegraphic Transfers (TTs), Mail Transfers (MTs), Demand Drafts (DDs), unclaimed deposits, credit balances in the Cash Credit account and deposits held as security for advances which are payable on demand. Money at Call and Short Notice from outside the Banking System should be shown against liability to others.

Time Liabilities of a Scheduled Commercial Bank:-

Time Liabilities of a bank are those which are payable otherwise than on demand. These include fixed deposits, cash certificates, cumulative and recurring deposits, time liabilities portion of savings bank deposits, staff security deposits, margin held against letters of credit, if not payable on demand, deposits held as securities for advances which are not payable on demand and Gold deposits.

Other Demand and Time Liabilities (ODTL) of a Scheduled Commercial Bank:-

ODTL include interest accrued on deposits, bills payable, unpaid dividends, suspense account balances representing amounts due to other banks or public, net credit balances in branch adjustment account, any amounts due to the banking system which are not in the nature of deposits or borrowing. Such liabilities may arise due to items like (i) collection of bills on behalf of other banks, (ii) interest due to other banks and so on.

Liabilities not to be included for DTL/NDTL computation:

The under-noted liabilities will not form part of liabilities for the purpose of CRR :-

1) Paid up capital, reserves, any credit balance in the Profit & Loss Account of the bank, 2)Amount of any loan taken from the RBI and the amount of refinance taken from Exim Bank, NHB, NABARD, SIDBI;

3) Net income tax provision;

4) Amount received from Deposit Insurance and Credit Guarantee Corporation (DICGC) towards claims and held by banks pending adjustments thereof;

5) Amount received from Export Credit Guarantee Corporation (ECGC) by invoking the guarantee;

6) Amount received from insurance company on ad-hoc settlement of claims pending judgment of the Court;

7) Amount received from the Court Receiver;

8) The liabilities arising on account of utilization of limits under Bankers Acceptance Facility (BAF);

9) District Rural Development Agency (DRDA) subsidy of Rs.10, 000/- kept in Subsidy Reserve Fund account in the name of Self Help Groups;

10) Subsidy released by NABARD under Investment Subsidy Scheme for Construction/Renovation/Expansion of Rural Godowns;

11) Net unrealized gain/loss arising from derivatives transaction under trading portfolio;

12) Income flows received in advance such as annual fees and other charges which are not refundable.

13) Bill rediscounted by a bank with eligible financial institutions as approved by RBI

Procedure for Computation of CRR:-

In order to improve cash management by banks, as a measure of simplification, a lag of one fortnight in the maintenance of stipulated CRR by banks has been introduced with effect from the fortnight beginning November 06, 1999.

Maintenance of CRR on Daily Basis:-

With a view to providing flexibility to banks in choosing an optimum strategy of holding reserves depending upon their intra fortnight cash flows, all SCBs are required to maintain minimum CRR balances up to 70 per cent of the average daily required reserves for a reporting fortnight on all days of the fortnight with effect from the fortnight beginning December 28, 2002.

No Interest Payment on Eligible Cash Balances maintained by SCBs with RBI under CRR:

In view of the amendment carried out to RBI Act 1934, omitting sub-section (1B) of Section 42, the Reserve Bank does not pay any interest on the CRR balances maintained by SCBs with effect from the fortnight beginning March 31, 2007.

Fortnightly Return in Form A (CRR):-

Under Section 42 (2) of the RBI Act, 1934, all Scheduled Commercial Banks (SCBs) are required to submit to Reserve Bank a provisional Return in Form 'A' within 7 days from the expiry of the relevant fortnight which is used for preparing press communiqué.

Penalties for not complying the rules relating to Cash Reserve Ratio :-

Penal interest will be charged as under in cases of default in maintenance of CRR by SCBs :

(i) In case of default in maintenance of CRR requirement on a daily basis which is presently 70 per cent of the total CRR requirement, penal interest will be recovered for that day at the rate of three per cent per annum above the Bank Rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day and if the shortfall continues on the next succeeding day(s), penal interest will be recovered at the rate of five per cent per annum above the Bank Rate.

(ii) In cases of default in maintenance of CRR on average basis during a fortnight, penal interest will be recovered as envisaged in sub-section (3) of Section 42 of Reserve Bank of India Act, 1934.

Scheduled Commercial Banks (SCBs) are required to furnish the particulars such as date, amount, percentage, reason for default in maintenance of requisite CRR and also action taken to avoid recurrence of such default.

Questions for IBPS/SBI PO exam:

1) Scheduled Commercial Banks are required to maintain atleast ____% of the required CRR on a daily basis.

Ans : 70%

2) CRR is maintained on _________

Ans: Net Demand & Time Liabilities (NDTL)

3) Which does not form a part of NDTL ?

Ans : Capital

4) Sec.42 of RBI Act requires, CRR to be maintained by _____

Ans : Scheduled Banks

5) Non-Scheduled Banks are required to maintain CRR as per _____

Ans : Sec.18 of Banking Regulation Act, 1949

6) As per Section 42 of RBI Act, Scheduled Banks should maintain cash reserve by___

Ans : Keeping current account balance with RBI

7) Earlier RBI could vary the cash reserve upto a maximum of ____% of the NDTL.

Ans : 20% (But, now no floor rate or ceiling rate).

8) While calculating NDTL, for the purpose of CRR, the which should be excluded ?

Ans: Sampoorna Grameena Yojana subsidy reserve fund + refinance received from Small Industries Development of Bank of India

9) The present CRR rate of 4.5%, reduced to _____ for commercial banks

Ans : 4.5% (As on 5.7.2022)

10) Regional Rural Banks are required to maintain CRR @ _____% of NDTL

Ans: Same as other scheduled banks

11) The return in respect of CRR must be sent by the head office of the bank to RBI within ____ days of the date to which the return relates.

Ans: 7 days

12) Banks are exempted from maintaining CRR on which type of deposits?

Ans : Deposits from banks upto one year

13) Sometime back, Reserve Bank of India also cut the Cash Reserve Ratio (CRR), the portion of the deposits that the banks are required to maintain with the RBI, by 25 basis points from 4.25 per cent to 4 per cent, pumping in a liquidity of _______ into the system

Ans: Rs.18,000 crore

14) The policy rate cut together with the CRR cut is expected to give more elbow room for banks to lend money at_______.

Ans: lower rates

15) This cut in CRR is likely to benefit ________ immediately more than industrial sectors, where growth is subdued.

Ans: retail borrowers

CURRENT ACCOUNT IN A BANK

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Current bank account is opened by businessmen who have a number of regular transactions with the bank, both deposits and withdrawals. Deposits in this account are known as Demand Deposit. A current account is a running account which is meant for the convenience of the customers who are relieved from maintaining large cash balances with them for their day to day business (or other) transactions.
Current deposit account is the most remunerative of deposit accounts for the bank as the bank has not to pay any interest. Additionally bank recovers service/incidental charges depending on the volume of transactions in the account.
A current account can be introduced only by an existing current account holder of the bank to open new current account in the bank for a new customer . A letter of thanks must invariably be dispatched particularly when the introducer did not come to the bank to introduce the current account. In case the introducer calls at the branch the fact of his coming to the branch personally should be recorded on the account opening form itself.

While opening current account a declaration is required to be obtained from the account holder that he is not enjoying any credit facilities with other bank/branch.
Current account can be opened in co-operative bank and commercial bank. In current account, amount can be deposited and withdrawn at any time without giving any notice. It is also suitable for making payments to creditors by using cheques. Cheques received from customers can be deposited in this account for collection.

The customers are allowed to withdraw the amount with cheques and they generally do not get any interest. In India, a co-operative bank may allow interest upto 1%.

A Current account holder gets one important advantage of overdraft facility.

I) What are the main features of current account ?
Ans: The following are the main features:-
1)The main objective of current account in the bank is to enable the businessmen to conduct their business transactions smoothly.
2)There is no restriction on the number and amount of deposits. There is also no restriction on the withdrawals.
3)Generally bank does not pay any interest on current account. Nowadays, some banks do pay interest on current accounts.
4)Current account is of continuing nature and as such there is no fixed period.

II)What are the advantages of current account ?
Ans: The following are the advantages:-
1)Current account enables businessmen to conduct his business transactions smoothly.
2)The businessmen can withdraw any amount at any time from their current accounts.
3)There are also no restrictions on withdrawals.
4)The businessmen can make direct payment to their creditors with the help of cheques.
5)The bank collects money on behalf of its customers and credits the same to their accounts.
6) Current account enables the account holder to obtain overdraft facility.
7)The creditors of the account holder can get credit-worthiness information of the account holder through interbank connection.

8)Current account facilitates the industrial progress of the country. Without the help of this account, businessmen would have difficulties in running their business.

III)Who are eligible to open current account ?
Ans : The following can open current account in Bank:-
1) A person in his/ her own name two or more than 2 people in their joint names with E or S, J or S, F or S and anyone or survivor or survivors (Single or jointly)
2) Companies / partnership firms
3)Sole proprietorship, partnership firms etc.
4)Clubs
5) Associations
6)Religious, educational, charitable and other institutions on production of necessary documents, copies of rules, bye laws duly attested by authorized people.
7)Current account of minors operated by natural / legal guardian can be opened after getting permission from higher authorities. No overdraft will be allowed in such accounts.

IV)Which the documents are required for opening Current Account in a bank?
Ans: For Basic Common Documentation the following are required:
i)Proof of Identity: PAN Card, Voter Id Card, Passport, Driving License
ii)Proof of Address: Latest Telephone Bill or Electricity Bill

V)For a Public or Private Limited Company, which documents are to be submitted for opening Current Account in a bank?
Ans:
1)Certificate of Incorporation and Commencement of Business
2)Memorandum and Articles of Association
3)Board resolution authorising the opening and operation of the account
4) PAN or GIR No. or completed Form 60
5)List of Directors with residential addresses

VI)For a Partnership Firm which documents are to be submitted for opening Current Account in a bank ?
Ans:
1)Partnership Deed and Registration Certificate
2)Shop and Establishment Certificate
3)Letter from partners approving the persons concerned to open and operate the account

VII)For a Proprietorship Concern which documents are to be submitted for opening Current Account in a bank?
Ans:
1)Certificate from State Govt or Statutory Body or Trade License or Sales Tax Certificate or Shop
2)Establishment Certificate
3) Letter of proprietorship, duly signed by the proprietor in his or her individual capacity (with a rubber stamp)
4) In case of Hindu Undivided Family,
A letter of HUF duly signed by Karta and all Co-Parceners
5) PAN or GIR No. or completed Form 60
6) Names of Karta and Co-parceners with residential addresses
7) Latest passport-size photographs of all the authorized signatories

VIII)For a Trust or a club which documents are to be submitted for opening Current Account in a bank?

Ans:
1) Copy of the trust deed
2) Copy of the registration certificate
3)Copy of the resolution by the trustees authorising the members concerned to open and operate the account
4)List of Trustees with residential addresses
5) Photographs of the members operating the account Associations or Clubs
6)Bye-laws of the association or club
7) Certificate of Registration
8) Copy of the resolution by the Board authorising the members concerned to open and operate the account
9) Photographs of the members operating the account

IX)How much minimum amount to be maintained in current account and what are the other general charges? **(Note: Charges to be correct with latest news)**
Ans:
1) Minimum amount to be maintained: Quarterly Average balance of Rs.5,000/-.
2)Service charges of Rs.340/- for non maintenance of prescribed quarterly average balance (inclusive of service tax).
3)Quarter means January to March, April to June, July to September and October to December in a calendar year.
4) Other Requirements/Details
Cheque book charges Rs.3 per cheque / Rs.2 per cheque for MICR (The charges are inclusive of service tax)
Please note: The above conditions vary from bank to bank and the type of current account .

Operations in account:-
1)A current account may be operated upon any number of times during a working day.
2) Practice of obtaining balance confirmations from the current account holder has been discontinued because no useful purpose is served and lot of time and manpower is wasted. Moreover, balance confirmation is required from the debtors side and not from the creditors side. But in case of overdraft, confirmation is required.
3) No interest is payable on current deposits except in following cases:
i) Current account of Regional Rural Banks (interest was earlier payable at half percent below the borrowing rate fixed by the Reserve Bank of India). From 1.10.1995 payment of interest was discontinued for this purpose.
ii) Current Accounts in the name of deceased depositors (interest payable from the date of death till the payment to legal heirs at the rate applicable to savings bank i.e.,4%)
4) Statement of accounts are issued to constituents monthly or more frequently at their request. Duplicate statements are issued on demand against payment of a minimum charge per page. This is credited to commission account under sub-head 'incidental charges.'
5) Third party cheques are accepted from the depositor for collection.
6) Operating instructions like 'either or survivor' or 'any one of us' or 'anyone of the survivors' are applicable only for operation of the account.
7) For the closure of the account 'all joint account holders' should join in instructing the bank to do so.

Account by other Banks:
Banks are permitted to open a current account at any local branch of other bank for managing clearing house, or having currency chest.

Service Charge:
Normally, per annum ledger folio charge of Rs.40/- per folio (one side of a ledger page containing approx 40 entries) will be collected.
(Note: Some banks are offering concessions in charges.)
Dormant/Inoperative Accounts:
1)A current account is treated as 'dormant', if no transaction is made by the depositor for a continuous period of 6 months.
2)A current account is treated as 'inoperative' if no transaction is made by the depositor for a continuous period of 12 months.
3) No operations are made in inoperative accounts and balances are transferred to Current Account titled as 'Inoperative Deposit Account.'

Third Party Cheques:
While collecting third party cheques (and cheque favouring other banks) commission will be charged.

Some banks are offering the following extra facilities:
1) Waiver of Demat account opening charges
2) Name printed cheque books are supplied free of cost upto 100 leaves
3) Folio Charges @ 50% concession
4) International debit card without charges to al employees and owners
5) Online Tax payment facility
6) Customised Multi City cheques issued at MICR centres at 50% concession
7) Issue of Demand drafts @50% concession
8) Outstation cheque collection charges @25% concession
9) Transfer of funds through RTGS @25% concession
10) Utility Bills payment facility
11) Personal Insurance coverage

Questions for SBI/IBPS Examinations:
1) A current account can be opened with a minimum amount of Rs._____
Ans: 10,000/- (in most of the Indian cities) (Note: The amount is changing now a days)

2) Current account of an illiterate person cannot be opened by the bank because___
Ans: The balance of account can be withdrawn by a cheque and cheque book cannot be issued to an illiterate person

3) For opening a current account the first entry of the account must be by____
Ans: cash only

4) If a customer has forgotten to bring the cheque book of his current account and wants to withdraw cash from his account, will bank permit him?
Ans: Yes, by providing him a miscellaneous cheque leaf

5) A current deposit account is treated as 'dormant', if there are no operations in the account for a continuous period of _______
Ans : six months

6) A current deposit account is treated as 'inoperative' if there are no operations in the account for a continuous period of _____
Ans : twelve months

7) A current account holder is relieved from maintaining ____________ and can use the account for his transactions.
Ans: large cash balances

8) A current account holder can operate the account __________ of times per day without any restriction.
Ans: any number

9) Normally no interest is paid on current account balances. Why?
Ans: Current Deposit balances are demand deposits, withdrawable by demand. Banks cannot invest these funds profitably in their advances.

DEBIT Card

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1. What is the use of a Debit Card?

Ans: A Debit Card provides access to ATMs for
- cash withdrawals,
- balance enquiries and
- mini statement,
- on-line electronic payment for purchases from your savings / current (individual) accounts.

You can also transfer funds through ATM to your own / other bank accounts and also transfer / receive funds to / from any MasterCard or Maestro card holder (Debit or Credit card) of other selected banks.

2. How many type of Debit cards, are normally issued by a bank?

Ans:

The following types of Debit cards are being issued by Banks:
i. PIN based Debit Card (Maestro card)
ii. Signature based Classic Debit card (Master card)
iii. Signature based Gold Debit card with photo (Master card)
iv. Platinum Debit Card
v. ATM Card

3. What is PIN (Personal Identification Number)?

Ans: PIN is a unique 4 digit number that allows you to access your bank account through Debit Card at ATMs.
For safety, your PIN should always be kept completely confidential and your card too should remain in your possession and not to be handed over to anyone else. Neither write PIN on the Back of the Debit card nor Keep Debit Card along with PIN.

4. How can a person get a Debit Card?

Ans: Debit card can be obtained from any CBS branch of any Bank (irrespective of your account maintaining branch) by filling a Debit Card application form. In case of Non-Personalized card (without name) the card would be issued instantly. In case of Personalized card (with name) the card would be issued in 7-8 working days. You can also get a Debit Card through any bank 's 24 Hour Call Centre by making a call at (Toll free telephone number) in which case the deactivated card would be delivered at your address directly within 7-10 working days. However you can send the duly filled application from along with proof of identity to HO for activation of the card.

6. When a Debit Card is received but the PIN is not legible, what is to be done?

Ans: You should contact the card issuing branch and request for a duplicate PIN. You can collect the Duplicate PIN from the branch after 7 working days.

7. Where a Debit card can be used?
Ans : Debit Card can be used throughout the world on all the ATMs having Maestro/Cirrus logo.

8. How does the Debit Card work?
Ans: Insert your Debit card in ATM and follow the instructions displayed on the screen. On POS you need to swipe the card and sign the Bill after verifying the amount.

9. What is the validity of Debit Card?
Ans : PIN based Maestro Debit card has no expiry date. However Signature based Debit Card is valid for 7 years from the date of issue.

10. Are there any transaction limits for the Debit Card?
Ans: For PIN Based Maestro Debit card and Signature Based classic Debit card the daily cash withdrawal limit at ATM and shopping limit at merchant establishments are Rs. 25,000 each. However per transaction limit at ATM is Rs. 15,000 only.
For Signature Based Gold Debit Card, the daily cash withdrawal limit at ATM and shopping limit at merchant establishments are Rs. 40,000 and Rs. 60,000/- respectively. However per transaction limit at ATM is Rs. 15,000 only.
Note: The money limits change from bank to bank

11. If Debit card is lost or misplaced what should be done?
Ans : You should immediately contact our below given no. of call centre to get the card hotlisted / blocked.
In case you do not get the Call Centre number, contact helpdesk number of ATM Switch

12. Is there any Fee for the issuance of Debit card?
Ans: Debit Card is issued free of cost. However a nominal fee of Rs. 100 per Year will be levied after one year of Card issuance every year.

13. Is there any charge levied for use of the card for Cash withdrawal?
Ans: No charge is levied for use of the card for cash withdrawal at bank ATMs while Rs. 20/- is levied at other bank sharing ATMs under MITR, NFS, SBI Group, EBL and the ATMs with Maestro/Cirrus Logo upto 31st March 2009 afterwards it is free of charge. Balance Enquiry is free at all banks' ATMs.

14. Can a fresh Debit card issued in lieu of lost/damaged card and what is the amount to be charged?
Ans: Yes. Rs. 100/- for lost card while free of charge for replacement of damaged card.

15. If lost card is subsequently found/traced and restored to cardholder, can it be reactivated?
Ans: Card once hot listed / blocked cannot be re-activated. You can make a request for a fresh card.

16. What is Mini Statement?
Ans : It is a statement of account showing last 10 transactions made in the account through any bank ATM.

17. How should I maintain the secrecy of PIN?

Ans: If at any time you feel that the PIN has been inadvertently or otherwise divulged to any one you should change the same through any PNB ATM immediately.

18. How often can I change the PIN?
Ans: PIN can be changed any number of times.

19. How many accounts maximum can be linked to my Debit card?
Ans: Maximum of 3 accounts held in the same name and same capacity can be linked to a Debit card.

20. Does Bank bear any liability for unauthorized use of the Card?
Ans: No. The responsibility is solely vested with the cardholder.

21. What is CVV (Card Verification Value) Number ?
Ans: On the back of Debit card (for special types of Classic & Gold cards) there are 7 digits, out of which the last 3 digits are the card CVV number. This CVV number can be used only for ecommerce transaction. It is for the security of the card.
Please note that this CVV number is an important value in the card as any person can misuse the card over the internet if he is aware of this value besides other information (like card no., name and Expiry date) without having actual possession of the card. You should remember the CVV number mentioned on the reverse of the Debit card and hide this number by blackening it out to avoid its misuse.

22. What is Add-On card facility?
Ans: Any card holder can get 2 more Debit cards in the name of his / her spouse and dependent parents and children not below 18 years old. Debit card will be linked to the cardholder's main account.

23. If the Debit card doesn't work successfully on ATMs, what is to be done? What could be the reasons?
Ans: Debit Card does not work successfully on ATMs due to any of the following reasons;
You may be using the card before the expiry of 24 working hours of receipt of the card from the branch, the time required for activation of the card.

In case you have received the card through the call centre, you have not sent the required documents (application form and proof of identity) to Head Office of the Bank.

You may not have swiped the card properly. Try 2 to 3 times.

The quality of the magnetic stripe of your card has been damaged / deteriorated due to which it is not accepted by any ATM where the card reader may be weak. In such a case you may try at another nearby ATM and if still does not work, get it replaced by a new one from the concerned bank branch free of cost.

Your account may be inoperative or frozen at branch level due to some reason. Please contact your branch to know the account status.

You may be using wrong PIN.

You might have selected the wrong account type i.e. savings instead of current or vice-versa.

Connectivity from the ATM to your branch has failed. In such case please try after some time or use another ATM nearby.

24. If the Debit card works successfully on a home bank's ATMs but not on other Bank's ATMs, what is to be done? What could be the reasons?
Ans: The problem may be due to connectivity failure at other bank ATM to the concerned bank . Please try after some time when connectivity is restored. Alternately you may try another ATM nearby.

25. When Debit card works successfully on ATMs but not working at POS terminals, what is to be done ? What are the reasons?
Ans: Debit card does not work successfully on POS terminals due to any of the following reasons;

-Connectivity failure at that particular time.

-Weak card reader of POS.

-Magnetic stripe of the card deteriorated / damaged.

It may be a Maestro Card (PIN based).
You may use the card after some time when the connectivity is restored or get the card replaced with a signature based card (non-Pin based) from PNB free of cost.

26. When the debit card doesn't work on few ATMs of a bank.What is to be done?
Ans: The quality of the magnetic stripe of your card has been damaged / deteriorated due to which it is not accepted by few ATMs where the card reader may also be weak. Try at some other nearby ATM. In such case you may get the card replaced by a new one from a bank's branch free of cost and lodge a complaint in the branch for replacement of card reader of ATM

<u>**DEMAND DRAFT**</u>

STUDY MATERIAL
PREPARED BY
PRATURI POTAYYA SARMA, MA,LLB,PGDIRPM

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A demand draft or "DD" is an instrument most of the banks in India use for effecting transfer of money. Demand Draft is a cheque that contains an order of one branch of a bank (***Drawer branch***) directing another branch of the same bank (***Drawee branch***) to pay on demand a certain sum of money to a specified beneficiary (***Payee***) .

A bank draft is a negotiable instrument (as per court judgements).

a) It is payable on demand
b) It is an Order Instrument: The bank cannot make its demand draft payable to bearer. It is always order. A bearer demand draft is equivalent to the currency note and cannot, therefore, be issued as bearer, if issued, it will be a violation of Sec.31 of Reserve Bank of India Act, 1934.
c) It is given for value received i.e., a bank draft is issued for consideration received in advance.
d) It is for a specified sum i.e., the amount must be specified and same in words and figures. In words, it should be expressed in juxtaposed (placed near each other) written as under:
Example: Rupees/Three/Thousand/Two/Hundred/Fifty/Six and paise /Twelve/only

e) It should be dated i.e., a draft should always bear a date to determine its validity period (3 months from the date of issue of draft). A draft of the next date after close of the business should not generally be issued.
f) It is for a Specified Payee. It should reflect the name in whose favour the draft is issued and who has to receive the money. Payee can negotiate it by endorsement and delivery.

Who are the parties to the draft?
1) Purchaser of draft (applicant): The purchaser of the draft does not remain a party to the instrument, once it is sent to the 'payee'.
It is not necessary that the purchaser of the draft must be a 'customer' of the bank.
2) **Issuing or 'drawer' branch** is the branch that issues the draft
3**) Paying or 'drawee' branch** is the branch on which the draft is issued / drawn

Draft can be drawn on :
1) Bank's own branches
2) Branches of any other bank where agency agreement exists
3) Payee of the draft

What is the procedure to obtain a Demand Draft?
To buy a "DD" from a Bank, you are required to fill an application (application-cum-voucher) form which requires the following information:-

1)Type of instrument needed
2)Name of the recipient
3)Name of the sender
4)Amount to be transferred

5)Place where the transferred money is to be paid
6)Mode in which money is to be paid i.e. in cash or through a Bank Account
7) Mode in which you will pay money to the Bank i.e. in cash or by debit to your account

In the absence of a printed application form, a letter may also be accepted by the bank. The purchaser must sign application form.
2) After the cash is deposited or transfer voucher is passed by the concerned department, draft is issued duly signed by the Branch Manager/Accountant or any other official whose signatures are circulated for this purpose and delivered to the applicant/ recipient against his signature (acknowledgement).

To get Demand Demand, any charges to be paid to the Bank ?

Yes. The bank levies charges for the DD, in the form of a commission. Hence the customer has to pay an amount equal to DD amount + Commission + Service Tax .

What are the advantages of a Demand Draft?

A Demand Draft is a much safer and certain method of payment than cheques, since in the case of cheques, an individual is the drawer and hence the cheque can be dishonoured by the drawee bank due to insufficiency of funds in the drawer's account. But in the case of a DD, the drawer is a bank, payment is certain and it cannot be dishonoured.

LEGAL STATUS OF A BANK DRAFT :

The Bank Draft is not described as a Negotiable Instrument in Section 13 of the Negotiable Instrument Act, 1881. But demand draft is treated at par with a cheque or bill of exchange so far as negotiability and legal rights of the parties are concerned. Bank Draft assumes the legal status of a "Negotiable Instrument" due to the following reasons:
1) It resembles a Bill of Exchange as defined in Section 5 of Negotiable Instrument Act, as it fulfills all the essential requisites of a bill. Court, in their various decisions have held that the Bank Drafts have all the attributes of a Bill of Exchange.
2) Two Sections of Negotiable Instruments Act – Section 85A and 131 A specifically treat bank draft at par with cheque or bill of exchange and provide same statutory protection while paying and collecting Bank Drafts.

Revalidation of Drafts:

A Demand Draft once issued is valid for payment for a period of three months,w.e.f.1.4.2012 (as per RBI Order No. DBOD AML BC No.47/14.01.001/2011-12 Dt.4.11.2011). If the draft is not presented for payment during the validity period, it needs to be revalidated before presenting for payment. Rules pertaining to revalidation are as under:
i) After 3 months of the date of issue, the draft would be eligible for revalidation only once. The revalidation will be for a period of 3 months from the date of revalidation.
ii) If the draft is not presented for revalidation within one year(as per old rules) from the date of issue, such a draft when presented for payment/revalidation will be cancelled and a fresh draft will be issued on payment of appropriate service charges for the purpose. This fresh draft will be handed over or cash paid there against or dealt with in any other manner, as requested by the applicant.

Stop Payment of the Bank Draft:

Negotiable Instrument Act recognizes a Bank Draft equal to a cheque for some purpose. But it also differs from a cheque so far as 'Stop Payment' instructions are concerned. Payment of a Bank Draft cannot be stopped by the purchaser like a drawer of a cheque because:-
i) The purchaser of the Bank Draft is not deemed to be a party once the draft is sent or handed over to the payee

ii) By issuing a Bank Draft , bank makes a commitment in favour of the Payee to pay the specified sum of money
iii) Bank issues a draft having received the value (money) for the same. Bank Draft is equivalent to the promissory note of the Bank. Non-Payment of the same harms the goodwill and prestige of the bank among its customers and public who accept their draft as a valid mode of remittance of funds.
iv) In Malik Barket Ali Vs. Imperial Bank of India (1945 AIR Lahore 213) it was held by a court that a purchaser of a demand draft had no authority to countermand payment of the draft if it had been delivered to the payee. Bank has no obligation to comply with 'Stop Payment' order of the purchaser . Any dispute between the parties should be settled between themselves.

Loss of Demand Draft:
If the purchaser can satisfy the bank that the demand draft has been lost or stolen or snatched away without having been endorsed by the payee, the drawee branch return the drat with remarks " INSTRUMENT REPORTED LOST ENDORSEMENT REQUIRES VERIFICATION**". A bank cannot dishonor its own demand draft.**

Cancellation of Demand Draft:
If the purchaser has a demand draft still with him, at this stage he can return the Demand Draft to the Bank (issuing Branch) and can get the amount of demand draft refunded. In such cases, the following formalities should be observed at the issuing Branch:-
1) The original demand draft should be returned
2) On the Demand Draft, there should be endorsement/no special crossing by a bank
3) Letter for cancelling the demand draft should be only from the purchaser and no other person.
4) Purchaser's signature should be verified from the draft application form.

Procedure to be followed by Bank Officials in case of cancellation of Demand Draft:
The amount of the draft may be refunded to him (the purchaser) by cancellation against his receipt on the reverse of the original draft (on a revenue stamp). If the amount is more than Rs.20/- and paid in cash , signature should be obtained under the words 'Received Payment by Cancellation'.

Demand Draft should be marked 'CANCELLED' across the body and the signature of the official should be punched/torn or destroyed in the prescribed manner . The words 'Draft cancelled and amount refunded to the applicant' should be noted on the original application/voucher and also in the remarks columns against the concerned draft in the Draft issued Register.

When the original draft is lost and the purchaser desires the amount to be refunded to him a duplicate draft should be issued first (by observing all formalities connected therewith) and thereafter payment is to be made to him. Payee's claim to that has been otherwise, satisfied or not, will be particularly verified.

ISSUE OF DUPLICATE DRAFT :
The demand draft is an order of issuing branch addressed to paying branch. If the original demand draft is lost , the issuing branch has to issue another demand draft. The second demand draft in place of the original is called as DUPLICATE DEMAND DRAFT.

Unsigned Demand Draft:
If unsigned demand draft is presented for payment, the drawee branch should consider the following points:
1) Name of the payee and endorsee, if any

2) Amount of the draft
3) Whether the relative draft advice has already been received or not.

In case the payee is having good relations are credit – worthiness for the amount involved or payee is the other Bank. When the draft is issued in payment of realization of any bill, the bank may honour the draft by making payment thereof. Drafts issues in favour of Government Authorities can also be paid.
After payment, the issuing branch should be advised and requested for confirmation.

Points to be noted by us, while taking a Demand Draft from a Bank:
→Check the particulars like name of the beneficiary, amount, place where payable etc. filled in the DD, match these with what you had filled in the application form.
→Spellings of the beneficiary's name should be exactly the same.
→Get the DD "crossed" for security.
→Your PAN number will be necessary while taking DD for huge amounts of money.
→Note down the MICR code on the Demand Draft for your record in future
→Charges for issuing drafts differ from Bank to Bank. So if your requirements are large, do shop around for best bargain.

Probable Questions (for written examinations / personal interviews in Banks):-
1) According to which Section of the Banking Regulation Act, 1949, RBI exercises the power to increase or decrease the validity period of a Demand Draft?
Ans : Section 35A

2) Whether a Demand Draft can be crossed or not ?
Ans : Yes it can be crossed for security reasons

3) The Bank Draft is not described as a Negotiable Instruction in which Section of the Negotiable Instrument Act, 1881?
Ans: Section 13

4) Bank Draft resembles a Bill of Exchange as defined in which section of Negotiable Instrument Act, 1881 ?
Ans : Section 5

5) Section 85A and Section 131 A of Negotiable Instruments Act, 1881 specifically treats bank draft at par with cheque or bill of exchange and provide which type of protection ?
Ans : Statutory protection while paying and collecting Bank Drafts

6) When original Demand Draft is lost, whether a duplicate demand draft can be obtained ?
Ans : Yes . Duplicate Demand Draft can be obtained from a Bank in

7) Now Demand Drafts are valid for how many months?
Ans: Three months w.e.f. 1.4.2012

DEMAT ACCOUNT

STUDY MATERIAL
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Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of similar nature of any incorporated company or body corporate including underlying shares of ADRs and GDRs. Units of mutual funds, rights under collective investment schemes and venture capital funds, commercial paper, certificate of deposit, securitised debt, money market instruments and unlisted securities are the securities available for dematerialisation. An investor's portfolio of paper securities is subject to problems such as mutilation of share certificates, loss of certificates , forged certificates, bad delivery etc. These problems can be taken care of through the medium of 'Deposiroty' by providing paperless electronic or dematerialized security transactions. An investor having securities in physical form must get them dematerialised, if he intends to sell them.

Some banks give the option of opening a 'Demat account' in any branch, while others restrict themselves to a selected set of branches. Banks are in an advantageous position because they have number of branches. Some private banks also provide online access to the Demat account. So, you can check on your holdings, transactions and status of requests through the net banking facility. In fact, a broker who acts as a Depository Participant (DP) may not be able to provide the services like a bank.

Example: -
1) State Bank of India(SBI) is a Depository Participant (DP). For this purpose, State Bank of India registered with both National Securities Depositories Limited (NSDL) and Central Depository Services Limited (CDSL) and is operating its DP activity through more than 1000 branches.
2) Andhra Bank is offering the power of the value-added, service-oriented Demat account-AB Demat. Andhra Bank is Depository participant of Central Depository Services Ltd (CDSL). DP ID No: 13040800 and National Securities Depository Services Ltd (NSDL)- DP ID No. IN303204.

1) What is demat ?
Demat is an abbreviation of dematerialization. Dematerialisation is the process by which physical certificates of paper certificates of an investor are converted to an equivalent number of securities in electronic form and credited into the Beneficial Owner's (BO's) account with his Depository Participant(DP).

2) What is depository? What is its role ?
A depository is an organisation which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form at the request of the investors through a registered Depository Participant. It also provides services related to transactions in securities.
Depository is like a bank, where securities are held in electronic form, (scips are collected and receipts are given) and record of the account is given to the investor.

3) Who are called as Depository Participants (DPs) and what is their role?
Depository Participants are company shareholders' representatives (like brokers on Stock Exchanges) and provide a link between the depository(like National Securities Depository

Limited) and the client. The transactions for demat stock, with a depository are carried out by opening an account with and through the Depository Participant(DP).

4) How to convert physical holding into electronic holding i.e. how to dematerialise securities?
Ans: In order to dematerialise physical securities one has to fill in a DRF (Demat Request Form) which is available with the DP and submit the same along with physical certificates that are to be dematerialised. Separate DRF has to be filled for each (International Securities Identification Number) ISIN.
Simply, DP opens the account and provides the investor with a unique account number, which is also known as Beneficiary Owner Identification Number (BO ID).

The complete process of dematerialisation is given below:-
i)Surrender certificates to the DP for dematerialisation.
ii)DP intimates to the Depository regarding the request through the system.
iii) DP submits the certificates to the registrar of the Issuer Company.
iv)Registrar confirms the dematerialisation request from depository.
v) After dematerialising the certificates, Registrar updates accounts and informs depository regarding completion of dematerialisation.
vi) Depository, updates its accounts and informs the DP.
vii) DP updates the demat account of the investor.

5) What is ISIN?
Ans: ISIN (International Securities Identification Number) is a unique 12 digit alpha-numeric identification number allotted for a security (E.g.- INE383C01018).

6) What is rematerialisation ?
If a person wishes to get back his securities from electronic form or demat form to the physical form he has to fill in the RRF (Remat Request Form) and request his DP for rematerialisation of the balances in his securities account. The process of converting securities from electronic form to physical form is called as rematerialisation.

The process of rematerialisation is given below:
i) Make a request for rematerialisation.
ii) Depository participant intimates depository regarding the request through the system.
iii) Depository confirms rematerialisation request to the registrar.
iv) Registrar updates accounts and prints certificates.
v) Depository updates accounts and downloads details to depository participant.
vi) Registrar dispatches certificates to investor.

6) What are the benefits of availing depository services?
Ans: The benefits are given below:-
i) It is safe and convenient way to hold securities;
ii) Immediate transfer of securities;
iii) No stamp duty to be paid on transfer of securities;
iv) Elimination of risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc.
v) Reduction in paperwork involved in transfer of securities;
vi) Reduction in transaction cost;
vii)One share also can be traded and there is no odd lot problem in selling
viii) Nomination facility is available
ix) Change in address recorded with DP gets registered with all companies in which investor holds securities electronically and thereby eliminating the need to correspond with each of them separately;

x) Transmission of securities is done by DP, eliminating correspondence with companies;
xi) Automatic credit into demat account of shares, arising out of bonus/split/consolidation/merger etc.
xii) Holding investments in equity and debt instruments in a single account.

7) How can one open demat account?
Ans: An individual person can open his Demat account. It is a two-step process:
First of all, an investor has to approach a DP and fill up an account opening form. The account opening form must be supported by copies of any one of the approved documents mentioned by Securities Exchange Board of India (SEBI).
I)Proof of residence (POR):-
a) Ration Card (with Photo) and with Date Of Birth (DOB)
b) Driving License(with Photo) and with DOB
c) Passport copy
d)Electricity bill
e)Telephone bill
II) Proof of identity (POI): –
a) Passport copy
b)Driving Licence (with photo) and with DOB
c)Voters ID Card
d)Ration Card (with Photo) and with DOB
III) PAN card

An investor in share market has to furnish his/her Bank account details. Whenever any cash or non cash corporate benefits such as rights or bonus or dividend is announced for a particular scrip, depositories provide to the concerned issuer, the details of the investors, their electronic holdings as on record / book closure date for reckoning the entitlement of corporate benefit.

Normally, the bank account number is mentioned on the dividend and warrant to avoid any fraudulent misuse. The bank account details will be those which are mentioned in account opening form or modified details that had been intimated subsequently by the investor to the DP.

8) What are the charges an investor has to pay for opening and maintenance of a demat account?
Ans: There are four major charges usually levied on a Demat account: Account opening fee, annual maintenance fee, custodian fee and transaction fee. All these charges vary from DP to DP.
i)Annual maintenance fee: This is also known as folio maintenance charges, and is generally levied in advance.
ii)Custodian fee: This fee is charged monthly and depends on the number of securities (international securities identification numbers – ISIN) held in the account.
DPs will not charge custody fee for ISIN on which the companies have paid one-time custody charges to the depository.
iii)Transaction fee: The transaction fee is charged for crediting/debiting securities to and from the account on a monthly basis. It is collected only for sale transactions.

9)What are the facilities offered by DP account?
Ans: Following facilities are offered:
i)Dematerialisation i.e., converting physical certificates to electronic form.
ii)Rematerialisation i.e., conversion of securities in demat form into physical certificates.
iii)Facilitating repurchase / redemption of units of mutual funds.

iv)Electronic settlement of trades.
v)Pledging/hypothecation of dematerialised securities.
vi)Electronic credit of securities allotted in public issues, rights issue.
vii)Automatic receipt of non-cash corporate benefits such as bonus, in electronic form.
viii)Freezing of demat accounts, so that the debits from the account are not permitted.
ix)Nomination facility.
x)Services related to change of address.
xi)Transmission of securities.
xii)Other facilities viz. holding debt instruments in the same account, availing stock lending/borrowing facility, etc.

Trading / Settlement:-
The procedure for buying and selling dematerialised securities is similar to the procedure for buying and selling physical securities in the share market. The difference lies in the process of delivery (in case of sale) and receipt (in case of purchase) of securities.

In case of purchase:-
i) The broker will receive the securities in his account on the payout day.
ii) The broker will give instruction to its DP to debit his account and credit Beneficiary owner's (BO's) account (or) demat account.
iii)BO will give 'Receipt Instruction' to DP for receiving credit by filling appropriate form. However Beneficiary Owner can give standing instruction for credit to his account that will obviate the need of giving Receipt Instruction every time.

In case of sale:-
BO will give delivery instruction through Delivery Instruction Slip (DIS) to DP to debit his account and credit the broker's account.

Delivery Instruction Slip (DIS)
To give the delivery one has to fill a form called Delivery Instruction Slip (DIS). DIS can be compared to cheque book of a bank account.

10) What is the difference between depositing money in bank and depository for securities?
Ans:
In the case of depositing money in a Bank :-
1)Bank holds funds in an account
2)Bank transfers funds between accounts on the instruction of the account holder
3)Bank facilitates transfer without having to handle money
4)Bank facilitates safekeeping of money

In the case of Depository for securities :-
1)Depository holds securities in an account
2)Depository transfers securities between accounts on the instruction of the BO account holder (demat account holder)
3)Depository facilitates transfer of ownership without having to handle securities
4)Depository facilitates safekeeping of securities

Questions for IBPS/SBI Examinations:
1)Demat account is necessary for which purpose?
Ans : To do share market business

2) What is demat?

Ans: Conversion of share certificates from physical form to electronic form

3) Where Demat accounts can be opened?
Ans : In Banks also, demat account can be opened

DICGC celebrated 'Golden Jubilee Year'
(Now Insurance amount is Rs.5,00,000/- w.e.f.4.2.2020 onwards)

STUDY MATERIAL
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Deposit Insurance plays a key role in maintenance of financial stability by sustaining public confidence in the banking system in India through protection of depositors, especially small and less sophisticated depositors, against loss of deposit to a significant extent.

Experiences in USA :
Experiences from "bank runs" during the Great Depression led to the introduction of deposit insurance in the USA. The United States of America was the first country to establish an official deposit insurance scheme, the Federal Deposit Insurance Corporation, during a Great Depression banking crisis in 1933.

Brief History before setting up of DICGC in India :

Banking crises and bank failures in the 19th as well as the early 20th Century (1913-14) had forced the need for depositor protection in India. After the setting up of the Reserve Bank of India in 1935, bank depositor protection topic became urgent when the Travancore National and Quilon Bank, the largest bank in the Travancore region, Kerala failed in 1938.

As a result, interim measures relating to banking legislation and reform were instituted in the early 1940s. The banking crisis in Bengal between 1946 and 1948, once again revived the issue of deposit insurance. It was, however, felt that the measures be held in abeyance till the Banking Companies Act, 1949 came into force and comprehensive arrangements were made for the supervision and inspection of banks by the Reserve Bank. Failure of Laxmi Bank and Palai Central Bank in 1960 catalyzed the introduction of deposit insurance in India.
Deposit Insurance and Credit Guarantee Corporation (DICGC), was established Provisions of Deposit Insurance Act (enacted in 1961) by Reserve Bank of India. It operates the deposit insurance system and it is a wholly owned subsidiary of RBI.

DICGC is the second oldest deposit insurance system in the world. It was established in January 1962 initially only as a deposit insurance institution. However, in 1978 the Corporation was also entrusted with the responsibility of credit guarantee and was rechristened as the Deposit Insurance and Credit Guarantee Corporation (DICGC).

Main events:
→ August 21, 1961 : Deposit Insurance Corporation (DIC) Bill was introduced in the Parliament.
→ December 7, 1961: After passing the bill by the Parliament, it got the assent of the President of India
→ January 1, 1962 : Deposit Insurance Act, 1961 came into force.
→ 1968: Deposit Insurance Corporation (Amendment) Act, 1968 was passed.
→July 1960 : Government of India, in consultation with the Reserve Bank of India, introduced a Credit Guarantee Scheme
→January14, 1971: The Reserve Bank of India also promoted a public limited company i.e., Credit Guarantee Corporation of India Ltd. (CGCI).

→July 15, 1978:DIC & CGCI were merged and the present Deposit Insurance and Credit Guarantee Corporation (DICGC) came into existence.
→ April 1, 1981: DICGC extended its guarantee support to credit granted to small scale industries also.
→April 1, 1989: Guarantee cover was extended to the entire priority sector advances, as per the definition of the Reserve Bank of India.
→April 1, 1995: All housing loans have been excluded from the purview of guarantee cover by the Corporation.

Registration of new banks as "insured banks" as per DICGC Act, 1961 :

(i) All new commercial banks (as per Section 11 of the DICGC Act, 1961) are required to be registered with the DICGC soon after they are granted licence by the Reserve Bank under Section 22 of the Banking Regulation Act, 1949.

(ii)All the Regional Rural Banks (as per Section 11A of the DICGC Act, 1961) are required to be registered with the DICGC within 30 days from the date of their establishment

(iii) A new co-operative bank is required to be registered with the DICGC soon after it is granted a licence by the Reserve Bank.

(iv) If a primary co-operative credit society's owned funds reach the level of Rs. 1 lakh, it has to apply to the Reserve Bank for a licence to carry on banking business as a primary cooperative bank and is to be registered with the DICGC within 3 months from the date of its application for licence.

(v) A co-operative bank which has come into existence after the commencement of the Deposit Insurance Corporation (Amendment) Act, 1968, as a result of the division of any other co-operative society carrying on business as a co-operative bank, or the amalgamation of two or more cooperative societies carrying on banking business at the commencement of the Banking Laws (Application to Co-operative Societies) Act, 1965 or at any time thereafter is to be registered with DICGC within three months of its making an application for licence.

(1) What was the objective of extending guarantee cover to the credit ?
Ans: It was to encourage commercial banks to extend credit to small borrowers belonging to weaker sections of society. The main thrust of the Credit Guarantee Schemes, introduced by the Credit Guarantee Corporation of India Ltd., was aimed at encouraging the commercial banks to cater to the credit needs of the hitherto neglected sectors, particularly the weaker sections of the society engaged in non-industrial activities, by providing guarantee cover to the loans and advances granted by the credit institutions to small and needy borrowers covered under the priority sector.

(2) **Deposits of which banks are insured by DICGC** ?
Ans: 1) Deposits of all Commercial Banks including branches of foreign banks functioning in India.
2) Deposits of Regional Rural Banks
3) Deposits of Local Area Banks
4) Deposits of all Co-operative Banks located in all States, Central and Primary Co-Operative banks, including Urban Co-Operative banks which are functioning in States/Union Territories which are established as per Local Co-Operative Societies Act.

(3) Deposits of which co-opeative societies are not insured by DICGC ?
Ans: Primary Co-Operative societies if the owned funds are less than one lakh rupees.

(4) **What is deposit as per Sec. 2 (g) of Deposit Insurance & Credit Guarantee Act?**
Ans: "Deposit" means the aggregate of the unpaid balances due to a depositor (other than a foreign Government, the Central Government, a State Government, a corresponding new bank, Regional Rural Bank or a banking company or a co-operative bank) in respect of all his accounts, by whatever name called, with a corresponding new bank or with a Regional Rural Bank or with a banking company or a co-operative bank and includes, credit balances in any cash credit account

(5) **DICGC insurance coverage is provided for which type of deposits** ?
Ans: DICGC insures all bank deposits, such as
a) savings bank account deposits,
b) current account deposits
c) fixed deposits,
d) recurring deposits , etc.
(6)**Which type of deposits are not in the scope of insured deposits for DICGC**?
Ans: The following are not in the scope of insured deposits for DICGC:
(i) Deposits of foreign Governments;
(ii) Deposits of Central/State Governments;
(iii) Inter-bank deposits;
(iv) Deposits of the State Land Development Banks with the State co-operative banks;
(v) Any amount due on account of deposits received outside India;
(vi) Any amount which has been specifically exempted by the Corporation with the previous approval of the Reserve Bank.

(7) **What is the monetary ceiling for protection of each bank depositor** ?
Ans: In the event of liquidation, reconstruction or amalgamation of an insured bank, every depositor of that bank is entitled to repayment of the deposits held by him in the same right and same capacity in all branches of that bank upto an aggregate monetary ceiling of Rs.5,00,000/- (Rupees Five lakhs only).

(8) How the Deposit Protection Scheme is implemented ?
Ans: There are two methods of protecting depositors' interest when an insured bank fails:
(i) by transferring business of the failed bank to another sound bank (merger or amalgamation)
(ii) by paying insurance proceeds to depositors (insurance pay-out method) by DICGC.

(9)**At what rate Insurance Premium is to be paid to DICGC** ?
Ans: The consideration for extension of insurance cover to banks is payment of an insurance premium. The premium for insurance of deposits is collected at half yearly intervals at the rate of 10 paise per annum per hundred rupees assessable deposit with effect from the year 2005-06.

(10) **Who should bear the insurance premium paid to the DICGC** ?
Ans: The premium paid by the insured banks to the Corporation is required to be absorbed by the banks themselves so that the benefit of deposit insurance protection is made available to the depositors free of cost.

(11) When insurance Premium is to be paid to DICGC ?
Ans: An insured bank is required to remit premium not later than the last day of May and November each year.

(12)Who has power to cancel registration with DICGC ?
Ans: Under Section 15A of the DICGC Act, D*CGC* has the power to cancel the registration of an insured bank if it fails to pay the premium for three consecutive half-year periods.

(13) What is the maximum deposit amount insured by the DICGC?
Ans: Presently, deposits of each depositor in a bank is insured up to a maximum of Rs. 5,00,000 (Rupees Five lakhs only) for both principal and interest amount held by him "in the same right and same capacity" as on the date of liquidation/cancellation of bank's licence or the date on which the scheme of amalgamation/merger/reconstruction comes into force.

(14) What is the ceiling on “Insured deposits” kept by one person in different branches of a bank?
Ans: The deposits kept by one person in different branches of a bank are aggregated for the purpose of insurance cover and presently a maximum amount up to Rupees one lakh.

(15) What is a single ownership account?
Ans: A single (or individual) ownership account is an account owned by one person. Such accounts include those in the owner's name; those established for the benefit of the owner by agents, nominees, guardians, custodians, or conservators; and those established by a business that is a sole proprietorship.

(16) Are deposits in different banks separately insured?
Ans: Yes, if you have deposits with more than one bank, deposit insurance coverage limit is applied separately to the deposits in each bank.

(17) Who pays the cost of deposit insurance?
Ans: Deposit insurance premium is borne entirely by the insured bank.

(18) When DICGC is liable to pay, if a bank goes into liquidation?
Ans:The DICGC is liable to pay to each depositor through the liquidator, the amount of his deposit up to Rupees one lakh within two months from the date of receipt of claim list from the liquidator.

(19) Does the DICGC directly deal with the depositors of failed banks?
Ans: No. In the event of a bank's liquidation, the liquidator prepares depositor wise claim list and sends it to the DICGC. After scrutiny the DICGC pays the money to the liquidator who is liable to pay to the depositors. In case of amalgamation/merger of banks, the amount due to each depositor is paid to the transferee bank.

(20) Can any insured bank withdraw from the DICGC coverage?
Ans: No. The Deposit Insurance Scheme is compulsory and no bank can withdraw from it.

(21) Can the DICGC withdraw deposit insurance cover from any bank?
Ans: The Corporation may cancel the registration of an insured bank if it fails to pay the premium for three consecutive half-year periods. In the event of the DICGC withdrawing its cover from any bank for default in the payment of premium, it will be notified to be public through newspapers.

(22) Whether insurance cover is provided by DICGC if an investment in the form of

Deposits, made by the general public in India in various Non-Banking Financial Institutions (NBFCs) or such similar institutions?
Ans: No.

(23) **In DICGC how many banks are insured** ?
Ans: 2199

(24) In which colour DICGC logo is printed ?
Ans: Green colour

ABOUT DICGC :
The authorized capital of the Corporation is 50 crore, which is fully issued and subscribed by the Reserve Bank of India (RBI). The management of the Corporation vests with its Board of Directors, of which a Deputy Governor of the RBI is the Chairman. As per the DICGC Act, the Board shall consist of, besides the Chairman, (i) one Officer (normally in the rank of Executive Director) of the RBI, (ii) one Officer from the Central Government, (iii) five Directors nominated by the Central Government in consultation with the RBI, three of whom are persons having special knowledge of commercial banking, insurance, commerce, industry or finance and two of whom shall be persons having special knowledge of, or experience in co-operative banking or co-operative movement and none of the directors should be an employee of the Central Government, or the RBI or the Corporation or a director or an employee of a banking company or a co-operative bank, or otherwise actively connected with a banking company or a co-operative bank, and (iv) four Directors, nominated by the Central Government in consultation with the RBI, having special knowledge or practical experience in respect of accountancy, agriculture and rural economy, banking, co-operation, economics, finance, law or small scale industry or any other matter which may be considered to be useful to the Corporation.
The Head Office of the Corporation is at Mumbai.

DERIVATIVE TRADING

STUDY MATERIAL
PREPARED BY
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Question: What is 'derivative'?

Ans : A derivative is an 'instrument' and the term 'Derivative' indicates that it has no independent value, i.e. its value is entirely 'derived' from the value of the underlying asset.

The underlying asset can be securities, commodities, bullion, currency, live stock or anything else. In other words, Derivative means a forward, future, option or any other hybrid contract of pre determined fixed duration, linked for the purpose of contract fulfilment to the value of a specified real or financial asset or to an index of securities.

Derivatives involve the trading of rights or obligations based on the underlying product, but do not transfer property, directly.

Derivatives have been a recent development in the Indian financial markets. But there have been derivatives in the commodities market. There is Cotton and Oilseed futures in Mumbai, Soya futures in Bhopal, Pepper futures in Cochin, Coffee futures in Bangalore etc. The players in these markets are restricted to big farmers and industries, who need these items as an input to protect themselves from the vagaries of agriculture sector.

There are other types of derivatives based on weather data, such as the amount of rain or the number of sunny days in a particular region.

When derivatives business started?

Ans: Globally too, the first derivatives started with the commodities, way back in 1894. Financial derivatives are a relatively late development, coming into existence only in the 1970's. The first exchange where derivatives were traded is the Chicago Board of Trade (CBOT).

In India, the first derivatives were introduced by National Stock Exchange (NSE) in June 2000. The first derivatives were index futures. The index used was Nifty.

Option trading was started in June 2001, for index as well as stocks. In November 2001, futures on stocks were allowed. Currently, there are 30 stocks on which derivative trading is allowed. There is a transfer of risk here for a financial cost, i.e. the premium.

Similarity between insurance policy and derivative instrument:-

In this sense, a derivative instrument can be compared to insurance, as there is a transfer of risk at a financial cost.
Insurance is nothing but transfer of risk. An insurance company sells you risk cover and buys your risk and you sell your risk and buy a risk cover. The risk involved in life insurance is the death of the policyholder. The insurance companies bet on your surviving and hence agree to sell a risk cover for some premium.

Similarly, derivatives also work well on the concept of mutual insurance. In mutual insurance, two people having opposite risks can enter into a contract and reduce their risk. The most classic example is that of an importer and exporter. An importer buys goods from country A and has to pay in dollars in 3 months. An exporter sells goods to country A and has to receive payment in dollars in 3 months. In case of an importer, the risk is of exchange rate moving up. In case of an exporter, the risk is of exchange rate moving down. They can cover each others risk by entering into a forward rate after 3 months.
Derivatives are meant essentially to facilitate temporarily (usually for a few months) hedging of price risk of inventory holding or a financial/commercial transaction over a certain period.

In practice, every derivative "contract" has a fixed expiration date, mostly in the range of 3 to 12 months from the date of commencement of the contract.

In the market’s idiom, they are "risk management tools". The use of forward/futures contracts as hedging techniques is a well-established practice in commercial and industrial operations. Their application to financial transactions is relatively new, having emerged only about 25 years ago.

Derivatives are generally used as an ‘instrument’ to hedge risk, but can also be used for speculative purposes.

What kind of people will use derivatives?

Ans: Derivatives will find use for the following set of people:

1) Speculators: People who buy or sell in the market to make profits. For example, if you will the stock price of Reliance is expected to go upto Rs.400 in 1 month, one can buy a 1 month future of Reliance at Rs 350 and make profits

2) Hedgers: People who buy or sell to minimize their losses. For example, an importer has to pay US $ to buy goods and rupee is expected to fall to Rs 50 /$ from Rs 48/$, then the importer can minimize his losses by buying a currency future at Rs 49/$

3) Arbitrageurs: People who buy or sell to make money on price differentials in different markets. For example, a futures price is simply the current price plus the interest cost. If there is any change in the interest, it presents an arbitrage opportunity.

Basically, every investor assumes one or more of the above roles and derivatives are a very good option for him.

Types of derivatives: -

Forward contracts, Futures contracts, Options and Swaps are the most common types of derivatives.

I) Forward Contract- A forward contract is an agreement between two parties to buy or sell an agreed amount of a commodity or financial instrument at an agreed price, for delivery on an agreed future date. Forward Contract is not transferable or exchange tradable, its terms are not standardized and no margin is exchanged.

The buyer of the forward contract is said to be **'long on the contract'** and the seller is said to be **'short on the contract'**.

II) Future Contract:- It is a standardized exchange tradable forward contract executed at an exchange. Futures Contract means a legally binding agreement to buy or sell the underlying security on a future date. Future contracts are the organized/standardized contracts in terms of quantity, quality (in case of commodities), delivery time and place for settlement on any date in future. The contract expires on a pre-specified date which is called the expiry date of the contract. On expiry, futures can be settled by delivery of the underlying asset or cash. Cash settlement enables the settlement of obligations arising out of the future/option contract in cash.

III) Option contract:- Options Contract is a type of Derivatives Contract which gives the buyer/holder of the contract the right (but not the obligation) to buy/sell the underlying asset at a predetermined price within or at end of a specified period. The buyer / holder of the option purchases the right from the seller/writer for a consideration which is called the premium. The seller/writer of an option is obligated to settle the option as per the terms of the contract when the buyer/holder exercises his right. The underlying asset could include securities, an index of prices of securities etc. The buyer pays the seller an amount called the premium in exchange for this right. This premium is the price of the option.

Under Securities Contracts (Regulations) Act,1956 options on securities has been defined as "option in securities" meaning a contract for the purchase or sale of a right to buy or sell, or a right to buy and sell, securities in future, and includes a teji, a mandi, a teji mandi, a galli, a put, a call or a put and call in securities.

An Option to buy is called Call option and option to sell is called Put option. Further, if an option that is exercisable on or before the expiry date is called **American option** and one that is exercisable only on expiry date, is called **European option**. The price at which the option is to be exercised is called Strike price or Exercise price.

Therefore, in the case of American options the buyer has the right to exercise the option at anytime on or before the expiry date. This request for exercise is submitted to the Exchange, which randomly assigns the exercise request to the sellers of the options, who are obligated to settle the terms of the contract within a specified time frame.

Option contracts can be also be settled by delivery of the underlying asset or cash. However, unlike futures cash settlement in option contract entails paying/receiving the difference between the strike price/exercise price and the price of the underlying asset either at the time of expiry of the contract or at the time of exercise / assignment of the option contract

IV) Swaps:- It is an agreement to exchange future cash flow at pre-specified Intervals. Typically one cash flow is based on a variable price and other on affixed one. It is agreement to exchange one currency or index return for another, the exchange of fixed interest payments for a floating rate payments or the exchange of an equity index return for a floating interest rate.

What the terminologies used in a Futures contract?

Ans: The terminologies used in a futures contract are:

i) Spot Price: The current market price of the scrip/index

ii)Future Price: The price at which the futures contract trades in the futures

market

iii) Tenure: The period for which the future is traded

iv) Expiry date: The date on which the futures contract will be settled

v) Basis **:** The difference between the spot price and the future price

What are the basic terminologies used in options?

Ans: These are universal terminologies and mean the same everywhere.

a)Option holder : The buyer of the option who gets the right

b) Option writer : The seller of the option who carries the obligation

c)Premium: The consideration paid by the buyer for the right

d) Exercise price: The price at which the option holder has the right to buy or sell. It is also called as the strike price.

e) Call option: The option that gives the holder a right to buy

f)Put option : The option that gives the holder a right to sell

g) Tenure: The period for which the option is issued

h) Expiration date: The date on which the option is to be settled

i)American option: These are options that can be exercised at any point till the expiration date

j) European option: These are options that can be exercised only on the expiration date

k) Covered option: An option that an option writer sells when he has the underlying shares with him.

l) Naked option: An option that an option writer sells when he does not have the underlying shares with him

m) In the money: An option is in the money if the option holder is making a profit if the option was exercised immediately

n) Out of money: An option is in the money if the option holder is making a loss if the option was exercised immediately

What are Currency Futures?

Ans: Currency futures are contracts to buy or sell a specific underlying currency at a specific time in the future, for a specific price. Currency futures are exchange-traded contracts and they are standardized in terms of delivery date, amount and contract terms. Currency future contracts allow investors to hedge against foreign exchange risk. Since these contracts are marked-to-market daily, investors can--by closing out their position-exit from their obligation to buy or sell the currency prior to the contract's delivery date.

What is edge fund ?

Ans: A large pool of private money and assets managed aggressively and often riskily on any futures exchange, mostly for short-term gain.

1. Swaps can be regarded as portfolios of ________.

(a) Future Contracts

(b) Option Contracts

(c) Call Options

(d) Forward Contracts Ans: (d)

2. Forward contracts are ________ contracts.

(a) Multilateral

(b) Tri-lateral

(c) Future

(d) Bilateral Ans : (d)

3. Nifty consists of securities having _____ market capitalization stocks

(a) large (b) small

(c) medium

(d) large and small Ans : (a)

4. Nifty is a ________ index

(a) well diversified

(b) poorly diversified

(c) balanced

(d) volatile Ans : (a)

5. You have bought a stock on the exchange. To eliminate the risk arisin g out of the stock price, you should _____.

(a) buy index futures

(b) buy stock futures

(c) sell the stock futures

(d) none of the above   Ans : (c)

6. Which of the following is the duty of the trading member?

(a) Employing large numbers of research analysts

(b) Executing his own orders prior to client orders

(c) Bringing risk factors to the knowledge of client

(d) None of the above   Ans : (c)

7. To be eligible for trading a broker must be _________.

(a) SEBI registered

(b) highly capitalised

(c) a member of the Association of Trading members

(d) None of the above   Ans : (a)

Inter Bank e-Transfer of Money (using NEFT,RTGS,IFSC)

STUDY MATERIAL
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1)What is Inter Bank e-Transfer of Money ? What are the facilities available ?

Ans: Inter Bank Transfer of money is a special service that allows to transfer funds electronically to accounts in other banks in India. It is being done through the following two methods:

i) NEFT - The abbreviation "NEFT" stands for National Electronic Funds Transfer. NEFT is an electronic payment system that uses a secure mode of transferring funds from one bank branch to another bank branch. Under this facility, Funds (i.e.,money) are transferred to the credit account with the other participating Bank using RBI's NEFT service. RBI acts as the service provider and transfers the credit to the other bank's account.

ii) RTGS – The abbreviation "RTGS" stands for Real Time Gross Settlement. The RTGS system is the fastest possible interbank money transfer facility available through secure banking channels in India.It can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting).The RTGS system facilitates e-transfer of funds from accounts in one bank to another bank on a "real time" and on "gross settlement" basis. 'Real Time' means the processing of instructions at the time, they are received, rather than at some later time. 'Gross Settlement' also means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable.

2)What is the Minimum and maximum amount for RTGS/NEFT transactions?

Ans: The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is ` 2 lakh. There is no upper ceiling for RTGS transactions.

For transfer of money/funds using NEFT, there is not upper limit or lower limit.

3)When NEFT was launched ?

Ans: NEFT was launched in October 2005. .

4)NEFT uses which technology ?

Ans: NEFT uses the Public Key Infrastructure (PKI) technology to ensure end-to-end security and rides on the INdian FInancial NETwork (INFINET) to connect the bank branches for electronic transfer of funds.

5)NEFT facility is for whom ? Who can <u>transfer/send</u> funds using NEFT?

Ans: National Electronic Funds Transfer (NEFT) is a nation-wide system. The following are allowed to transfer money electronically using NEFT:

(i) Individuals,

(ii) firms maintaining accounts with a bank branch

(iii)corporates maintaining accounts with a bank branch

6) Is it possible for individuals, firms or corporate who do not have a bank account to send money through an NEFT – enabled branch?

Ans : Yes. Even such individuals, firms or corporates who do not have a bank account (who are called as 'walk-in' customers) can also deposit cash at the NEFT-enabled branch with instructions to transfer funds using NEFT.

A separate Transaction Code (No. 50) has been allotted in the NEFT system to facilitate 'walk-in' customers to deposit cash and transfer funds to a beneficiary. But such customers have to furnish their full details like complete address, telephone number, etc.

7)Who can <u>receive</u> funds through the NEFT system?

Ans: Individuals, firms or corporate who are maintaining accounts with a bank branch can receive funds through the NEFT system. It is, therefore, necessary for the beneficiary to have an account with the NEFT enabled destination bank branch in the country.

8)Whether the system is centre specific or has any geographical restriction?

Ans: There is no restriction of centres or of any geographical area within the country. The NEFT system takes advantage of the centralised accounting system in banks. The branches participating in NEFT can, however, be located anywhere across the length and breadth of the country.

9)What are the operating hours of NEFT?

Ans: Normally, NEFT facility is operated in a Bank branch in hourly batches on working days only i.e., there are eleven settlements from 9 am to 7 pm on week days and five settlements from 9 am to 1 pm on Saturdays

10)What are the details to be provided by the individual person or Remitter to make an RTGS & NEFT payment through a bank?

Ans: The individual person (i.e., Remitter) has to provide the following particulars for transfer of funds through RTGS & NEFT:-

i)Amount to be remitted
ii) Account no. to be credited
iii)Name of the beneficiary bank
iv) Name of the beneficiary customer
v) Sender to receiver information, if any
vi) IFSC code of the receiving branch
vii) Mobile (Cell Phone) number of the remitter.

(It may please noted that the amount will be credited to the account basing on the account number only. Hence, the remitter should be cautious on the bank account number while transferring the amounts in electronic mode)

11)What are the steps involved in operating the NEFT system ?

Ans: There are five steps in operating the NEFT System. First we have to get The printed application form for NEFT transfer of funds. The form will be available at the originating bank branch.

First Step : An individual / firm / corporate intending to originate transfer of funds through NEFT has to fill an application form providing details of the beneficiary (like, name of the beneficiary, name of the bank branch where the beneficiary has an account, IFSC of the beneficiary bank branch, account type and account number).

The remitter authorizes his/her bank branch to debit his account and remit the specified amount to the beneficiary. Customers enjoying net banking facility offered by their bankers can initiate the funds transfer request online. Some banks offer the NEFT facility even through the ATMs.

In case of 'Walk-in' customers, they have to give their contact details (complete address and telephone number, etc.) to the branch. This will help the branch to refund the money to the customer in case credit could not be afforded to the beneficiary's bank account or the transaction is rejected / returned for any reason.

Second Step : The originating bank branch prepares a message and sends the message to its pooling centre. It is called as the NEFT Service Centre.

Third Step : The pooling centre forwards the message to the NEFT Clearing Centre to be included for the next available batch.

Fourth Step : The Clearing Centre sorts the funds transfer transactions 'destination bank-wise' and prepares accounting entries to receive funds from (debit) the originating banks and give the funds to (credit) the destination banks. Thereafter, bank-wise remittance messages are forwarded to the destination banks through their pooling centre (NEFT Service Centre).

Fifth Step : The destination banks receive the inward remittance messages from the Clearing Centre and pass on the credit to the beneficiary accounts.

12)What are the operating hours of NEFT on a working day in bank branch?

Ans: Generally, NEFT facility is operated in a bank branch in hourly batches - there are eleven settlements from 9 am to 7 pm on week days and five settlements from 9 am to 1 pm on Saturdays.

13)What is IFSC?

Ans: Indian Financial System Code or IFSC is an alpha-numeric code that uniquely identifies a bank-branch participating in the NEFT system. This is a 11 digit code with the first 4 alpha characters representing the bank, and the last 6 numeric characters representing the branch. The 5th character is 0 (zero). IFSC is used by the NEFT system to route the messages to the destination banks / branches.

14)How to know the IFSC of a bank-branch ?

Ans: Bank-wise list of IFSCs is available with all the bank-branches participating in NEFT. All the banks are printing the IFSC of the branch on cheques issued by bank branches to their customers. For net banking customers many banks have enabled online search / pop-up of the IFSC of the destination bank branch.

15)Whether NEFT can be used to transfer funds from / to NRE and NRO accounts?

Ans: Yes. NEFT can be used to transfer funds from or to NRE and NRO accounts in India. However, this is subject to the adherence of the provisions of the Foreign Exchange Management Act, 2000 (FEMA).

16)Whether inward foreign remittances can be received through NEFT?

Ans: It is not allowed. The NEFT system can be used only for remitting Indian Rupees between the participating bank branches in India.

17)Whether remittances to abroad can be sent using NEFT?

Ans: It is not allowed. However, a facility is available to send outward remittances to Nepal under the Indo-Nepal Remittance Facility Scheme.

18)How RTGS is different from National Electronics Funds Transfer System (NEFT)?

Ans:

	NEFT	**RTGS**
1)	NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches	**It is also electronic fund transfer system**
2)	In DNS, the settlement takes place with all transactions received till the particular cut-off time	-
3)	These transactions are netted (payable and receivables) in NEFT.	In RTGS the transactions are settled individually
4)	Any transaction initiated after a designated settlement time would have to wait till the next designated settlement time.	In the RTGS, transactions are processed continuously throughout the RTGS business hours.

19)How much time it takes for effecting funds transfer from one account to another under RTGS?

Ans. Under normal circumstances the beneficiary branches are expected to receive the funds in real time as soon as funds are transferred by the remitting bank. The beneficiary bank has to credit the beneficiary's account within two hours of receiving the funds transfer message.

20)Upto what time, RTGS service window is available for transfer of money/funds on working days?

Ans. It is available from 9.00 hours to 16.30 hours on week days and from 9.00 hours to 13.30 hours on Saturdays for settlement at the RBI end. However, the timings that the banks follow may vary depending on the customer timings of the bank branches.

21)As on 23.2.2011, how many bank branches are providing RTGS service in India ?

There are more than 74,000 RTGS enabled bank branches.

As per latest Data :

22)What is National Electronic Funds Transfer (NEFT) system?

Ans: National Electronic Funds Transfer (NEFT) is a nation-wide centralised payment system owned and operated by the Reserve Bank of India (RBI).

23). What are the operating hours of NEFT?

Ans: The NEFT system is available round the clock throughout the year on all days, i.e., on 24x7x365 basis. NEFT presently operates in batches on half-hourly intervals throughout the day. In case of non-availability of NEFT for any reason, appropriate message will be broadcasted by RBI to all system participants.

24 . What are the essential details required for remitting funds through NEFT system?

Ans: The essential elements of beneficiary's identification are:

Beneficiary's Name
Beneficiary's Branch Name
Beneficiary's Bank Name
Beneficiary's Account Type
Beneficiary's Account No.
Beneficiary's Branch IFSC

FIXED DEPOSITS IN BANKS

STUDY MATERIAL
PREPARED BY
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Fixed Deposit in a bank is an investment where the interest rate is guaranteed not to change for the nominated term. The account which is opened for a particular fixed period (time) by depositing particular amount (money) is known as Fixed (or) Term Deposit Account.
All Banks in India (including SBI, PNB, BoB, BoI, Canara Bank, ICICI Bank, Yes Bank etc.) offer fixed deposits schemes with a wide range of tenures or periods from 7 days to 10 years. These are also popularly known as FD accounts. However, in some other countries these are known as "Term Deposits". The term "fixed" in Fixed Deposits (FD) denotes the period of maturity or tenor. Therefore, the depositors are supposed to continue such Fixed Deposits for the length of time for which the depositor decides to keep the money with the bank. However, in case of need, the depositor can ask for closing (or breaking) the fixed deposit prematurely by paying a penalty (usually of 1%, but some banks either charge less or no penalty). (Some banks introduced variable interest fixed deposits. The rate of interest on such deposits keeps on varying with the prevalent market rates i.e. it will go up if market interest rates increase and it will come down if the market rates fall.)

The main features of fixed deposit account are as follows:-
1)The main purpose of fixed deposit account is to enable the individuals to earn a higher rate of interest on their surplus funds (extra money).
2)The amount can be deposited only once. For further such deposits, separate accounts need to be opened.
3)The period of fixed deposits range between 7 days and 10 years.
4)A high interest rate is paid on fixed deposits. The rate of interest may vary as per amount, period and from bank to bank.
5) Withdrawals are not allowed. However, in case of emergency, banks allow to close the fixed account prior to maturity date. In such cases, the bank deducts 1% (deduction percentage many vary) from the interest payable as on that date.
6)The depositor is given a fixed deposit receipt, which depositor has to produce at the time of maturity. The deposit can be renewed for a further period.
7) The fixed deposit amount can be from Rs.1000/- to Rs.10 Crores

The advantages of fixed deposit account are as follows:-
1)Fixed deposit encourages savings habit for a longer period of time..
2)Fixed deposit account enables the depositor to earn a high interest rate than savings bank account
3)The depositor can get loan facility from the bank.
4)On maturity the amount can be used to make purchases of assets.
5)The bank can get the funds for a longer period of time.
6)The bank can lend such funds for short term loans to businessmen.
7)Fixed deposits indirectly boost economic development of the country.
8)The bank can also invest such funds in profitable areas.
9)A guaranteed interest rate for the entire term of your investment (based on your initial deposit)
10) A wide range of investment periods (from 7 days to 120 months) in many banks
11)A choice of when interest payments are paid out (on maturity, monthly, quarterly, bi-annually or annually)

12) Additional interest on balances less than Rs. 1,00,000 for 12 months and longer (for 60 years or older people) (in some banks)
13) Pledge your FD receipt to secure an overdraft or loan up to 80% of your balance

Who can apply for a fixed deposit account?
Ans:
Below are the individuals and groups eligible for a Regular Fixed Deposit:
i)Residents
ii)Hindu undivided families
iii)Sole proprietorship firms
iv)Partnership firms
v)Limited companies
vi)Trust accounts

PAN is mandatory to book Fixed Deposits if the total Fixed Deposit holding per customer id per branch exceeds Rs.50,000/-

The following documents are required when applying for a Fixed Deposit:-
I) For an Individual, Hindu Undivided Family, Sole Proprietorship Concern
a) A valid passport or a valid driving license, or any document for identification purpose
b) An introduction by any other bank or an introduction by a Savings Account holder for the last six months
c) A photograph
II)For Trusts
a)Copy of the Trust Deed
b)Copy of the registration certificate
c)Copy of the Resolution of The Trustees
d)Authorising the members concerned to open and operate the account
e)Photographs of the members operating the account

III) For Associations / Clubs
a)Bye-laws of the Association
b)Copy of the Resolution by the board authorising the members concerned to open and operate the account
c)Photographs of the members operating the account

IV) For Partnership Firm
a)Partnership Deed
b)Letter from partners approving the persons concerned to open and operate the account
c)Photographs of the persons operating the account
The minimum deposit amount is Rs. 1,000/- Deposits can be made in multiples of Rs. 100/-.
What is Term Deposit?
Ans: “Term deposit” means a deposit received by the bank for a fixed period and which is withdrawable only after the expiry of the said fixed period and shall also include deposits such as Recurring/Cumulative/Annuity/Reinvestment deposits, Cash Certificates, and so on;

What is Notice Deposit?
Ans: “Notice deposit” means term deposit for specific period but withdrawable on giving at least one complete banking day’s notice;

Issue of term deposit receipt
A bank should issue term deposit receipt indicating therein full details, such as, date of issue, period of deposit, due date, applicable rate of interest, etc.

The rate of interest for Fixed Deposits differs from bank to bank unlike earlier when the same were regulated by RBI and all banks used to have the same interest rate structure. The present trends indicate that private sector and foreign banks offer higher rate of interest.

The earlier trend that private sector and foreign banks offer higher rate of interest . However, now a days small banks are forced to offer higher rate of interest to attract more deposits. Usually a bank FD is paid in lump sum on the date of maturity. However, most of the banks have also facility to pay/ credit interest in saving account at the end of every quarter. If one desires to get interest paid every month, then the interest paid will be at a marginal discounted rate. In the changed computerized environment, now the Interest payable on Fixed Deposit can also be easily transferred on due dates to Savings Bank or Current Account of the customer.

Interest rates for senior citizens:
For resident senior citizens, additional interest rate on term deposits will be 0.50% (w.e.f 7.12.12) over the card rates for deposits for a period upto 10 years in the name of the depositor . In some banks, for Special Deposits exceeding Rs.25 lakhs, the card rate alone will apply, without the benefit of additional interest rate.

A) Tax Exemption : For FY 2012-13, interest earned upto Rs 10,000 in saving bank accounts has been exempted from Income Tax.

(B) Deduction of TDS : No TDS is deducted by banks on interest earned in Saving Bank accounts and Recurring Deposit accounts. You should remember no interest income from fixed deposits or recurring deposits is exempted from income tax. Usually, TDS is deductible on interest earned on Fixed Deposits / Term deposits. However, in certain conditions, no TDS is deducted even on the interest earned on fixed deposits, e.g. (a) if the total interest earned on such deposit in a financial year is upto Rs.10,000/-. Remember, that even if no TDS is deducted on your fixed deposit interest earned, you still have to include this income in your tax return and pay tax.

Remember, now a days as and when a bank pays an interest on the fixed deposits, it checks whether the account is exempted from TDS. If it is not exempted, then TDS is deducted. You should also remember that TDS is deducted even on interest accrued (but not yet paid) at the end of the financial year i.e. 31st March every year.

Rules framed by RBI (in 2012):
No bank should discriminate in the matter of interest paid on deposits, between one deposit and another, accepted on the same date and for the same maturity, whether such deposits are accepted at the same office or at different offices of the bank, except in respect of fixed deposit schemes specifically for resident Indian senior citizens offering higher and fixed rates of interest as compared to normal deposits of any size, and single term deposits of Rupees fifteen lakh and above on which varying rates of interest may be permitted on the basis of size of deposits.
The permission to offer varying rates of interest is subject to the following conditions:
(i) The permission to offer varying rates of interest for deposits of the same maturity applies to single term deposits of Rupees fifteen lakh and above. Banks should, therefore, offer the same rate of interest or different rates of interest for deposits of Rupees fifteen lakh and above. For deposits below Rupees fifteen lakh of the same maturity the same rate will apply. In this regard, it is clarified that it will not be in order for banks to offer higher/differential rate of interest, as compared to other deposits of similar tenure, on deposit schemes framed by them on the basis of the Bank Term Deposit Scheme, 2006, announced by Government of

India vide their notification No. 203/2006 dated July 28, 2006. It will also not be in order for banks to offer higher/ differential rate of interest on deposits received under the Capital Gains Accounts Scheme, 1988.
(ii) Banks should disclose in advance the schedule of interest rates payable on deposits including deposits on which differential interest will be paid. Interest rates paid by the bank should be as per the schedule and should not be subject to negotiation between the depositor and the bank.

1) Can an individual open a Term deposit account through Internet banking?

Ans:Yes, if you have Internet banking user name and password, and at least one transaction account mapped to the username.

2)What is the minimum tenure for an online fixed deposits?

Ans:As a general rule the minimum tenure for a term deposit is 7 days and the maximum is 10 years. However, both TDR and STDR are bound by the following minimum and maximum tenures. Minimum tenure is 7 days for TDR and 180 days for STDR and Maximum tenure is 3650 days for TDR and STDR (Special Term Deposit Receipt).

3)What are the interest rates for a term deposit?
Ans:The interest rates vary from time to time.

4)What is the minimum amount for a term deposit?
Ans: You can open a term deposit with a nominal amount of Rs.1000/- , however minimum & maximum amount limit may vary for different product codes.

The modalities of auto renewal are as under:
i)The auto renewal of the fixed deposit shall be carried out by the system on maturity, where customer has not given any instruction to the contrary.
ii)The auto renewal facility will be applicable for all types of Fixed Deposit Schemes
iii)The auto renewal will be for the same tenor as that of the existing FDR.
iv) The auto renewal period will be modified at the instance of the customer subject to the minimum or maximum period of the scheme. However, the customer would have the option of changing the tenor of the auto renewed FDR, within 14 days of maturity of the FDR.
v)The FD shall continue to be auto renewed till such time instructions to the contrary are received.
vi)At the time of granting loan against the fixed deposit, the depositor consent shall be obtained for renewal of the fixed deposit and for continuation of loan facility.
vii)At the time of payment of FD, the customer shall have to surrender the original FDR, wherever issued.
viii)The interest rate payable shall be the card rate applicable on the date of auto renewal of FDR, depending upon the tenor.
ix) The auto renewal of FD would be net of TDS(Tax Deduction at Source), if any.

Recently, State Bank of India (SBI) has requested the Reserve Bank of India (RBI) to reduce the minimum tenure for fixed deposits to three days from seven days. However, it is unlikely the banking regulator will grant the wish of the country's largest bank.
The unfixed deposit scheme of SBI, launched last year, became a huge success. The bank allows depositors to withdraw their funds after seven days, as the minimum period for fixed deposits.

Questions for IBPS/SBI Examinations:

1)What is the minimum maturity period of a fixed deposit ?
Ans : Normally 7 days
2) What is the maximum maturity period of a fixed deposit ?
Ans : 10 years
3) A term deposit receipt is non-transferable and _________
Ans: not negotiable instrument
4) A duplicate Term deposit receipt may be issued to the depositor _______
Ans: against letter of indemnity
5) Interest on Term Deposits is compounded at the intervals of _______
Ans : 3 months

WHAT ARE THE FUNCTIONS OF A COMMERCIAL BANK ?

STUDY MATERIAL
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Introduction:
From ancient times in India, traditional banking activities are undertaken in India from ancient times normally as a family business in villages and towns. But the era of Joint Stock Banks had started in the beginning of 19th century only.

Commercial banks form a significant part of the India's Financial Institution System. Commercial Banks are institutions seeking profits and for this purpose they accept deposits from general public and advance money to individuals like household, entrepreneurs, businessmen etc. with the prime objective of earning profit in the form of interest, commission etc.

The operations of all these commercial banks are regulated by the Reserve Bank of India, which is the central bank and supreme financial authority in India. The main source of income of a commercial bank is the difference between these two rates which they charge to borrowers and which they pay to depositors. Examples of commercial banks in private sector are ICICI Bank,Axis Bank, and HDFC Bank etc. Bank of Baroda, Andhra Bank, etc. are the examples for commercial banks in Public Sector.

BACKGROUND:
"In respect of banking it seems we are behind the times. We are like some old fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbersome compartments" is the observation of Lord Curzon during British period.

With this kind of background, banking in India originated in the last decades of the 18th century and the beginning of 19th century. Bank of Hindustan was started in 1770. The General Bank of India, was started in 1786. Bank of Calcutta was started in June, 1806, which was renamed as Bank of Bengal i.e, in the Presidency of Bengal. Later, Bank of Bombay was started in the Presidency of Bombay and Bank of Madras was started in the Presidency of Madras under the charters from the British East India Company. For many years, these three Presidency Banks acted as quasi-central banks for the British ruled India.

Imperial Bank of India was started on 27.1.1921 mainly by Europeans with the amalgamation of these three Presidency Banks. State Bank of India Act was passed by Parliament of India in 1955. Accordingly, Imperial Bank of India was taken over by State Bank of India. In this way, State Bank of India is the oldest bank in India.

In 1839, some of the merchants in Kolkata established the Union Bank. This bank failed in 1848 because of economic crisis. The Allahabad Bank was established in 1865 and still it is functioning . Allahabad Bank is the oldest Joint Stock bank in India.

What is Joint Stock Bank?
Joint Stock Bank is a company that issues stock (i.e., Shares and Debentures) and requires shareholders to be held liable for the company's debt.

Entirely Indian Joint Stock Bank:

The first entirely Indian joint stock bank was the Oudh Commercial Bank, established in 1881 in Faizabad with limited liability. It worked upto 1958 and later failed. Punjab National Bank was established in Lahore in 1895, which has survived to the present day and is now one of the largest nationalised banks in India. Now, its head office in New Delhi.

Which company can be called as Banking Company ?
According to the Indian Banking Company Act 1949 (or) Banking Regulation Act, 1949, "A banking company means any company which transacts the business of banking .

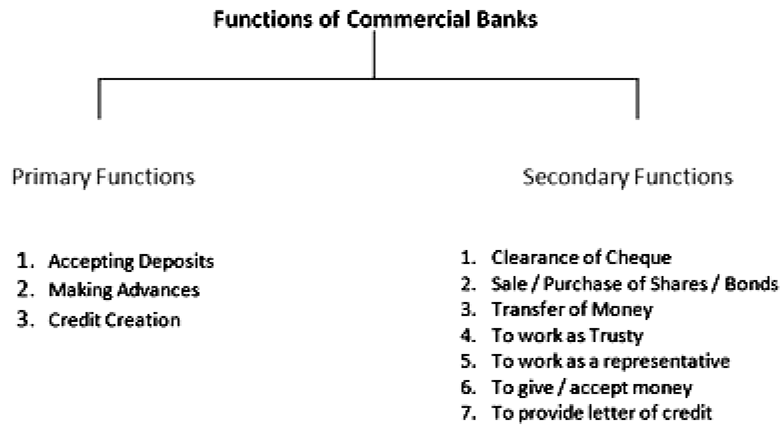
What is Banking ?
As per Sec. 5 (b) of Banking Regulation Act, 1949, "Banking" means accepting for the purpose of lending of investment of deposits of money from the public, repayable on demand or other wise and withdrawable by cheque, draft or otherwise."

Nature of Commercial Banks:
Commercial bank is an organisation which normally performs certain financial transactions. A commercial bank performs the twin task of accepting deposits from members of public and make advances to needy and worthy people of the society. When banks accept deposits, its liabilities increase and it becomes a debtor, but when it makes advances its assets increases and it becomes a creditor. Banking transactions are socially and legally approved. Commercial Bank is responsible in maintaining the deposits of its account holders.

General definition of Commercial Bank:
According to Prof. Sayers, "A bank is an institution whose debts are widely accepted in settlement of other people's debts to each other." In this definition Sayers has emphasized the transactions from debts which are raised by a financial institution.

What is Banking Business ?
Banking Business is defined in Section 6 (1) of Banking Regulation Act, 1949. As per this Banking business means a "banking company may be engaged in accepting deposits, borrowing money, lending money, dealing in bills, collection of bills, buying/selling of foreign exchange, lockers, issuing letters of credit, travellers' cheques, mortgages, insurance business, acting as trustee etc. or any other business which may be notified in the Official Gazette.."

Functions of Commercial Bank:
From the above definition, it is understood that Commercial bank is a financial institution and it performs diverse types of functions. It satisfies the financial needs of the sectors such as agriculture, industry, trade, communication, etc. That means they play very significant role in a process of economic social needs. The functions performed by banks are changing according to change in time and recently they are becoming customer centric and widening their functions. Generally the functions of commercial banks are divided into two categories viz. primary functions and the secondary functions. The following chart simplifies the functions of banks.



Primary Functions of Commercial Banks :
Commercial Banks perform various primary functions. Some of them are given below:
1) **Accepting Deposits** : Commercial bank accepts various types of deposits from public especially from its clients. It includes Saving Bank account deposits, Current Account deposits, Recurring Deposits, fixed deposits, etc. These deposits are payable after a certain time period. Being a short term credit dealer, the commercial banks accept these deposits.

2) **Making Advances** : The commercial banks provide loans and advances of various forms. It includes an overdraft facility, cash credit, bill discounting, etc. They also give demand and term loans to all types of clients against proper security.

a)**Overdraft facility**:It is a permission to a current A/c holder for withdrawal of more money than the money what he has deposited in the bank in his account.

b) **Cash credit** : It is a facility to withdraw a certain amount of money on a given security.

→**Lending Money**: a second major function is to give loans and advances and thereby earn interest on it. This function is the main source of income for the bank.

→ **Loans & advances**: A kind of secured and unsecured loans against some kind of security.

→**Discounting of Bill of Exchange**: In case a person wants money immediately, he/she can present the Bill of Exchange to the respective commercial bank and can get it discounted.

3) **Credit creation** : It is most significant function of the commercial banks. While sanctioning a loan to a customer, a bank does not provide cash to the borrower. Instead, the bank opens a deposit account from where the borrower can withdraw money whenever he needs money. In other words while sanctioning a loan a bank automatically creates deposits. This is known as a credit creation from commercial bank.

Secondary Functions of Commercial Banks :
Along with the primary functions each commercial bank has to perform several secondary functions too. It includes many agency functions or general utility functions. The secondary functions of commercial banks can be broadly divided into agency functions and utility functions.

I) Agency Functions : Bank pays on behalf of its customers as an agent and gets paid fee for agency functions. Some of the agency functions of a commercial bank are:-

i)To collect and clear cheque, dividends and interest warrant
ii)To make payment of rent, insurance premium, Payment of taxes, bills etc.
iii)To deal in foreign exchange transactions.
iv)To purchase and sell securities i.e., shares and debentures
v)To act as trustee, attorney, correspondent and executor, executor of properties
vi) To accept tax proceeds and tax returns.

II) General Utility Functions : The general utility functions of the commercial banks include :
i)To provide safety locker facility to customers.
ii)To provide money transfer facility.
iii)To issue traveller's cheque.
iv)To act as referees.
v)To accept various bills for payment e.g phone bills, gas bills, water bills, etc.
vi)To provide merchant banking facility.
vii)To provide various cards such as credit cards, debit cards, Smart cards, etc.

Questions:
1) Bank of Hindustan was started in which year ?
Ans: 1770
2) General Bank of India was started in which year ?
Ans : 1786
3) When Bank of Calcutta was started ?
Ans : in June, 1806
4) When Imperial Bank of India was started ?
Ans : 27.1.2921
5) For the formation of Imperial Bank of India, which of the following banks were amalgamated in 1921?
a) Presidency Bank of Bengal
b) Presidency Bank of Madras
c) Presidency Bank of Bombay
d) All the above
e) None of these Ans : (d)
6) Which is the first, entirely Indian Joint Stock Bank ?
Ans : The Oudh Commercial Bank (established in 1881 in Faizabad)
7) Banking Regulation Act was passed in which year?
Ans : 1949
8) Which of the following are the primary functions of a commercial bank ?
a) Accepting Deposits,
b) Making Advances
c) Credit Creation
d) All the above
e) None of these Ans : (d)
9) Which of the following types of activities are undertaken by a commercial bank, as 'Agency functions' on behalf of its customers and gets paid fee for performing such agency functions?

a) Collection of cheques and clearing the cheques, dividends and interest warrants

b) Making payment of rents, insurance premium, payment of taxes, bills etc

c) Dealing in foreign exchange transactions

d) providing merchant bank facilities

e) All the above Ans : (e)

10) A facility for the customer in a commercial bank to withdraw a certain amount of money on a given security from the Bank is called as ?

Ans : Cash Credit

11) A permission to a current account holder in the commercial bank, for withdrawal of money more than the amount, what he/she has deposited in his/her current account is called as ?

Ans : Overdraft

12) What is the main source of income for a commercial bank ?

Ans : Lending money on interest

Functions of Reserve Bank of India

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The Reserve Bank of India was started on April 1, 1935. The RBI Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank. RBI is called as Central Bank for the country.
Central Bank Functions (i.e.RBI) are mentioned under Chapter III of the RBI Act, 1934 i.e., from Sec. 20 to 45.
The business which the RBI may transact is mentioned in Section 17 of the RBI Act.
In Section 18 of RBI Act, says that RBI has power to purchase, sell or discount any bill of exchange or promissory note. It also speaks of giving loans to co-operative banks etc.

The Business, RBI may not engage is mentioned in Section 19 of the RBI Act.Sec.19 says that "the bank may not engage in trade or otherwise have a direct interest in any commercial, industrial etc., subject to certain exceptions mentioned in the RBI Act.

For our convenience and easy understanding, the functions of Reserve Bank of India are broadly classified into three categories:
A) Traditional functions
B) Promotional functions
C) Supervisory functions

A) Traditional functions
1.Banker to the bankers
2.Lender of the last resort
3. Regulates / Controls Banks (BFCs) & Non-Banking Finance Companies (NBFCs) in the country
4.Monopoly of currency notes issue (as per Sec.22 of RBI Act) & (Sec.24 of RBI Act) and coins issue
5. Monitors money supply and credit supply in the country
6.Banker to the Government(both the central and state) (As per Sec.20 of RBI Act)
7.Agent and advisor to the Government
8. Provides ways and means advances to Government
9. Collects and Publishes the Economic / statistical data
10.Custodian of the Foreign Exchange Reserves
11.Acts as the clearing house of the country
12.Maintaining the external value of domestic currency
13.Controller of Forex and credit
14.Ensures the internal value of the currency
15.Fight against economic crisis/problems like 'inflation'/'food inflation' and ensures stability of Indian economy.
16. Follows qualitative credit controls and quantitative credit controls
17. Conducts Open Market Operations for buying and selling government securities etc.

B) Promotional functions
1.Promotion of banking habit and expansion of banking systems.
2.Provides refinance for export promotion
3.Expansion of the facilities for the provision of the agricultural credit through NABARD
4.Extension of the facilities for the small scale industries

5.Helping the Co-operative sectors.
6.Prescribe the minimum statutory requirement.
7.Innovating the new banking business transactions.

<u>C) Supervisory functions</u>
1.Granting licence to Banks.
2.Inspects and makes enquiry or determine position in respect of matters under various sections of RBI and Banking regulations
3.Implements Deposit insurance scheme
4.Periodical review of the work of the commercial banks
5.Giving directives to commercial banks
6.Control the non-banking finance corporation (NBFCs)
7.Ensuring the health of financial system through on-site and off-site verification.

These are all the functions which are protective to the Indian Economy, that's why RBI is considered as the head of all banks.

<u>EXPLANATION IN DETAIL</u>:

Bankers' Bank and Lender of the Last Resort
The Reserve Bank of India acts as the bankers' bank. According to the provisions of the Banking Companies Act of 1949, every scheduled bank was required to maintain with the Reserve Bank a cash balance equivalent to 5% of its demand liabilities and 2 per cent of its time liabilities in India. By an amendment of 1962, the distinction between demand and time liabilities was abolished and banks have been asked to keep cash reserves equal to 3 per cent of their aggregate deposit liabilities. However, the minimum cash reserve requirements are changed by the Reserve Bank of India from time to time.

The scheduled banks can borrow from the Reserve Bank of India on the basis of eligible securities or get financial accommodation in times of need or stringency by rediscounting bills of exchange. Since commercial banks can always expect the Reserve Bank of India to come to their help in times of banking crisis the Reserve Bank becomes not only the banker's bank but also the lender of the last resort.

The RBI being an apex monitory institution has obligatory powers to guide, help and direct other commercial banks in the country. The RBI can control the volumes of banks reserves and allow other banks to create credit in that proportion. Every commercial bank has to maintain a part of their reserves with its parent's viz. the RBI. Similarly in need or in urgency these banks approach the RBI for fund. Thus it is called as the lender of the last resort.

Bank of Issue (i.e., Issues Coins & Notes)
Under Section 22 of the Reserve Bank of India Act, the Bank has the sole right to issue bank notes of all denominations except One Rupee Notes. It also issues coins.

Monitors money supply and credit supply in the country

The Reserve Bank of India is the controller of credit i.e. it has the power to influence the volume of credit created by banks in India. It can do so through changing the Bank Rate or through open market operations. According to the Banking Regulation Act of 1949, the Reserve Bank of India can ask any particular bank or the whole banking system not to lend to particular groups or persons on the basis of certain types of securities. Since 1956, 'selective controls of credit' are increasingly being used by the Reserve Bank.

The Reserve Bank of India is armed with many more powers to control the Indian money market. Every bank has to get a licence from the Reserve Bank of India to do banking business within India, the licence can be cancelled by the Reserve Bank, if certain stipulated conditions are not fulfilled. Every bank will have to get the permission of the Reserve Bank before it can open a new branch. Each scheduled bank must send a weekly return to the Reserve Bank showing, in detail, its assets and liabilities. This power of the Bank to call for information is also intended to give it effective control of the credit system. The Reserve Bank has also the power to inspect the accounts of any commercial bank.

As supreme banking authority in the country, the Reserve Bank of India, therefore, has the following powers:
(a) It holds the cash reserves (CRR) of all the scheduled banks (Sec.42 of RBI Act,1934)
(b) It controls the credit operations of banks through 'quantitative' and 'qualitative credit controls'.
(c) It controls the banking system through the system of licensing, inspection and calling for information.
(d) It acts as the lender of the last resort by providing rediscount facilities to scheduled banks.

(e) As per Sec. 49 of RBI Act, 1934, RBI publishes Bank Rate from time to time.

Banker to Government & Advisor to Government:
The second important function of the Reserve Bank of India is to act as Government banker, agent and adviser. The Reserve Bank is agent of Central Government and of all State Governments in India excepting that of Jammu and Kashmir. The Reserve Bank has the obligation to transact Government business, viz., to keep the cash balances as deposits free of interest, to receive and to make payments on behalf of the Government and to carry out their exchange remittances and other banking operations. The Reserve Bank of India helps the Government - both the Union and the States to float new loans and to manage public debt.

Provides ways and means advances to Government:
.
The Bank makes ways and means advances to the Governments for 90 days. It makes loans and advances to the States and local authorities. It provides overdraft facility to the government when it faces financial crunch.
It acts as advisor to the Government on all monetary and banking matters.

The RBI being the apex monitory body has to work as an agent of the central and state governments. It performs various banking function such as to accept deposits, taxes and make payments on behalf of the government. It works as a representative of the government even at the international level. It maintains government accounts, provides financial advice to the government. It manages government public debts and maintains foreign exchange reserves on behalf of the government.

Collects and publishes Economical and Statistical Data:

RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. In order to perform this function, RBI collects, collates and publishes data regularly. Users can avail this data in the weekly statements, the RBI monthly bulletin, annual report on currency and finance, and other periodic publications.

Custodian of Foreign Reserves

Section 40 of RBI Act speaks of transactions in foreign exchange. The Reserve Bank of India has the responsibility to maintain the official rate of exchange. According to the Reserve Bank of India Act of 1934, the Bank was required to buy and sell at fixed rates any amount of sterling in lots of not less than Rs. 10,000. India became a member of the International Monetary Fund in 1946. The Reserve Bank has the responsibility of maintaining fixed exchange rates with all other member countries of the I.M.F.

Besides maintaining the rate of exchange of the rupee, the Reserve Bank has to act as the custodian of India's reserve of international currencies. The vast sterling balances were acquired and managed by the Bank. Further, the RBI has the responsibility of administering the exchange controls of the country.

Exchange Rate Management: It is one of the essential functions of the RBI. In order to maintain stability in the external value of rupee, it has to prepare domestic policies in that direction. Also it needs to prepare and implement the foreign exchange rate policy which will help in attaining the exchange rate stability. In order to maintain the exchange rate stability, it has to bring demand and supply of the foreign currency (U.S Dollar) close to each other. For this purpose, it may follow Nominal Effective Exchange Rate (NEER) / Real Effective Exchange Rate (REER) methods.

Supervisory functions

In addition to its traditional central banking functions, the Reserve bank has certain non-monetary functions of the nature of supervision of banks and promotion of sound banking in India. The Reserve Bank Act, 1934, and the Banking Regulation Act, 1949 have given the RBI wide powers of supervision and control over commercial and co-operative banks, relating to licensing and establishments, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction, and liquidation. The RBI is authorised to carry out periodical inspections of the banks and to call for returns and necessary information from them.

With the nationalisation of 14 major Indian scheduled banks in July 1969 and six more banks nationalisation in 1980 by Government of India, RBI has to take up new responsibilities for directing the growth of banking and credit policies towards more rapid development of the economy and realisation of certain desired social objectives. The supervisory functions of the RBI have helped a great deal in improving the standard of banking in India to develop on sound lines and to improve the methods of their operation.

Promotional functions

With economic growth assuming a new urgency since Independence, the range of the Reserve Bank's functions has steadily widened. The Bank now performs a varietyof developmental and promotional functions, which, at one time, were regarded as outside the normal scope of central banking. The Reserve Bank was asked to promote banking habit, extend banking facilities to rural and semi-urban areas, and establish and promote new specialised financing agencies. Accordingly, the Reserve Bank has helped in the setting up of the IFCI and the SFC; it set up the Deposit Insurance Corporation in 1962, the Unit Trust of India in 1964, the Industrial Development Bank of India also in 1964, the Agricultural Refinance Corporation of India in 1963 and the Industrial Reconstruction Corporation of India in 1972. These institutions were set up directly or indirectly by the Reserve Bank to promote saving habit and to mobilise savings, and to provide industrial finance as well as agricultural finance. As far back as 1935, the Reserve Bank of India set up the Agricultural Credit Department to provide agricultural credit. But only since 1951 the Bank's role in this field has become extremely important. The Bank has developed the co-operative credit movement to encourage saving, to eliminate money lenders from the villages and to route its short term credit to agriculture. The RBI has set up the Agricultural Refinance and Development Corporation to provide long-term finance to farmers, and this organisation merged with NABARD. NABARD was established in 1982.

Advances against Gold Ornaments

(Loans up to Credit limit of Rs.3.00 lacs for meeting cost of seasonal operations of crops (Crop Loans) will be eligible for rate of interest of 7% p.a. to maximum period of one year.)

(Please note: Gold rates in market are changing every day)

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With gold gaining 36 per cent in value in 2011, and gold becoming costly, the gold loan business in India is estimated to have topped Rs 75,000 crore during the year. As per a survey report, the organised gold loans market (i.e., in Banks and Non-Banking Finance Companies) in India was estimated at between Rs 35,000 crore and Rs 40,000 crore by 2010-end with an annual compounded growth of approximately 40 per cent. Gold loans are being given by the banks and Non-Banking Finance Companies (NBFCs).

In India, taking loans/advances against gold or silver ornaments is an age-old practice. It is very popular in villages as well as in cities. Normally in the bank, the borrower who intends to take an advance/loan against gold ornaments should be either introduced to the bank by a person known to the bank or should be requested to produce a satisfactory identification document.

General Procedure followed in Banks while granting gold loans:
Banks give gold loans as demand loans or overdrafts by way of pledge of gold ornaments for genuine requirements of individuals. The normal interest rate is 12.75% per annum (i.e., 2.5% above the Base Rate). Gold ornaments or jewellery made of 22 carats or 18 carat and Gold Coins issued by Banks will be pledged to avail gold loan facility in Banks. Against Gold biscuits, gold loans will not be given . All individuals who are 21 years and above, can avail this gold loan facility.

The banker makes full inquiry from the prospective borrower about his profession, monthly income, purpose of loan etc. This process is also called as Know Your Customer (KYC). The banker ascertains information about the ownership of the borrower, because the owner only can legally pledge the gold or silver ornaments.
The bank will take extra care if the ornaments are marked with the symbol of a temple or any particular community.
The bank cannot grant loan against the solid gold as it is equivalent to trading and tantamount to hoarding / speculative activities.
Advances may be granted to cultivators or agriculturists against the pledge of silver ornaments also for farming and consumption purposes.
Loans sanctioned to wives of bank employees will be treated as loan to general public.
Ornaments containing large proportion of extraneous matter or ornaments made of paras etc., with gold coating will not be accepted as security of Gold loan.
Since, the Gold Control Act had already been abolished, the banks are allowed to finance goldsmiths subject to normal safeguard and genuine purposes.
Loans granted to agriculturists are having DICGC coverage against security of Gold/Silver ornaments for agriculture purposes. Each bank branch will follow the rules relating to retention limit of the gold ornaments fixed by its controlling authorities.

How to test the purity of Gold Ornaments ?
For testing the gold ornaments, the bank may employ the services of local goldsmith whose fees will be paid by debit to interest account.

The gold ornaments received for pledge purpose will be rubbed on the black touch stone and one or two drops of nitric acid will be put on the touch stone and also on the ornaments. In case, the ornament is made of impure gold, nitric acid immediately reacts and the colour of the metal changes.
A large number of gold ornaments in India consists of wax, lac etc. In such cases, it is difficult to ascertain the net weight of such ornaments. Such gold ornaments should be attached to a string and then tied to the bar of a weighing scale. (Here Archimedes principle is applied). Thereafter, these ornaments will be allowed to immerse completely in a small bucket of water and weighed.
Normally, gold ornaments studded with stones will not be accepted as security as it is difficult to ascertain the net weight of gold as well as the value of precious stones.

How much will be given as gold loan? (What is the methodology?)
a) For 22 Carat Gold purity with BIS Hall Mark of 0.916 KDM:
Rs.2150/- per gram (Net weight) or 75% of the market value of gold for 22 carat gold purity with BIS Hall mark of 0.916 KDM, whichever is lower.
b) For 22 carat Gold purity without BIS Hall Mark :
Rs.1850/- per gram (Net weight) or 75% of the market value of Gold for 22 carat gold purity without BIS Hall mark , whichever is lower
c) For 18 carat gold purity :
Rs.1000/- per gram (Net weight) or 75% of the
market value of Gold for 18 carat gold purity whichever is lower.
(Please note: The above calculations are only for example purpose. Valuation of gold or silver ornaments differs from bank to bank or company to company)

Rate of Interest in banks ?
Interest on demand loan against gold ornaments should ordinarily be charged at the rates advised by the head office of the bank from time to time and based on the purpose of taking such loan against gold ornaments. For agriculture purpose, the interest rate is less.

Valuation of Silver ornaments:
Valuation of silver ornaments will be on the basis of 0.99 purity and it will be in terms of one kilogram weight.

Repayment programme/method :
The Branch Manager will decide a suitable repayment programme. If the loan is availed for the purpose of house building, marriage of dependents, educational expenses and expensive medical treatment, the repayment programme is stipulated upto maximum 100 monthly instalments. If the purpose is other than those mentioned above, the repayment programme will be stipulated upto maximum 36 months.

Defaults in gold loan accounts or repayments :
When interest on an account remains unpaid for 3 quarters (i.e., 9 months) and value of ornaments is not enough to cover the outstanding loan amount, a call of notice will be served to the borrowers.
In case, the borrower fails in repayment even after the notice, a final notice will be sent to the borrower. If 12 months interest remains unpaid and value of ornaments is not enough to cover the outstanding amount, a communication will be sent to about the irregularity and its repayment within the stipulated time, failing which , the gold ornaments against the account will be sold by public action.
In case the notice served on the borrower, returned undelivered, it will be preserved with the loan documents and necessary entries will be in the bank papers/ bank ledgers.

In case the loan account is not regularized by the borrower within the stipulated period, the gold ornaments will be put on auction with the prior consent of the controlling authority in the bank.
Suitable publicity in the local newspaper about the auction will be given with a view to fetch suitable price of the gold ornaments held with the bank.
The gold ornaments will be sold to the highest bidder in the auction against cash payment and receipt of the gold ornaments. It will be ensured that the auction fetches suitable amount acceptable to the bank.

Delivery of gold ornaments:
Delivery of the pledged gold ornaments will be made only the person who had taken loan. Delivery of the pledged ornaments to a third party may be made on repayment of loan amount in a very exceptional circumstances provided the third party is suitably identified.
Part delivery of ornaments may be given against part payment of loan amount. However, bank officials will be taking care that the remaining gold ornaments are sufficient in weight to take care of the remaining outstanding amount in the loan account.
Where a borrower pays the amount of loan and interest thereon, gold ornaments will be delivered against his / her acknowledgement on the gold loan ledger itself stating the details of gold ornaments, full particulars and with a statement that the items are received back intact.

In case of Deceased Borrowers, to whom gold ornaments are to be given?
Ans: Where a borrower has died, interest on the loan shall continue to the charged as usual. However, the delivery of such Gold Ornaments will be subject to the rules applicable in that particular case. If legal heirs of the deceased person request for early liquidation of the loan, it may be permitted to do so with the condition that the delivery of the ornaments shall be on production of proper legal representative certificate only.

General information about the gold loans sanctioned by NBFCs:
Unlike banks, gold loan giving non-banking finance companies were enjoying a free run with tax regulations, raising the spectre of serious systemic risks. Hence Reserve Bank of India closely monitoring the gold loan business of Non-Banking Finance Companies. NBFCs from Kerala are doing brisk business by granting gold loans instantly.

What are the rules to be followed by NBFCs while sanctioning gold loans to the borrowers?
Ans: The following rules are to be followed:-
1)Adequate steps are to be taken to ensure that the KYC guidelines stipulated by RBI are complied with and to ensure that adequate due diligence is carried out on the customer before extending any loan,
2)Proper assaying procedure is to be followed for the jewellery received by NBFCs.
3)Internal systems are to be formulated to satisfy ownership of the gold jewellery,
4)The policy shall also cover putting in place adequate systems for storing the jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. As a policy, loans against the collateral of gold should not be extended by branches that do not have appropriate facility for storage of the jewellery,
5)The jewellery accepted as collateral should be appropriately insured,
6)The policy approved by Board of Directors of NBFC with regard to auction of jewellery in case of non-repayment shall be transparent and adequate prior notice to the borrower should be given before the auction date. It should also lay down the auction procedure that would be followed. There should be no conflict of interest and the auction process must ensure that there is arm’s length relationship in all transactions during the auction including with group companies and related entities,

7)The auction should be announced to the public by issue of advertisements in at least 2 newspapers, one in vernacular language and another in national daily newspaper.
8)As a policy, the NBFCs themselves shall not participate in the auctions held,
9)Gold pledged will be auctioned only through auctioneers approved by the Board of Directors of NBFC.
10)The policy shall also cover systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval.

How Gold Loans(from NBFCs) are different from other loans like Personal Loan or Credit Card?
Ans: Gold loan is sanctioned by accepting the gold ornaments of the customer as pledge. Personal loan is sanctioned on the basis of source of income and repayment capacity of an applicant. It is true that Gold loans, like personal loans or credit card borrowings, are often used for short term household requirements. However, in terms of the cost and ease of availing the loan, and the convenience when repaying, gold loans are a better bargain. Personal loans and credit card borrowings are unsecured loans and therefore may carry a higher rate of interest. Moreover, personal loans require considerable effort in documentation formalities and they commit you to an inflexible EMI schedule for repayment. Gold loans, on the other hand, are cheaper and can be availed of in minutes. You can also stretch the repayment to your convenience; the only requirement is that you have to service the interest periodically. Credit card borrowings may be easier to avail gold loans but the interest rates are prohibitive and it can lure people into a debt-trap.

What are the documents required for taking loan against gold ornaments in NBFCs?
Ans: The required papers are one document of identity proof (such as ration card, driving licence, PAN Card, Voter ID card, passport etc.) and one document of residential proof.

What are the things that people should keep in mind while taking a gold loan from NBFCs?
Ans: The most important things from the customer's perspective are transparency, security and choice of loan product to suit individual requirements. Transparency would help the customer see for himself what he gets in return for what he pays. There should be no hidden costs and no nasty surprises. Security is about how well the gold is physically secured, and also about the internal systems and procedures at the company which ensure that there is no scope for any mala fide actions after the jewellery has been pledged. The choice of loan products should cover the range from high LTV (loan to value) to low LTV, with appropriate variations in interest rates.
Objective Questions for IBPS/SBI Examns:
1) Gold ornaments can be pledged by_______
a) the owner only b) third party
c) small children d) only foreigners
e) None of these Ans: (a)
2) Banks do not provide loan against solid gold / gold biscuits because____
a) its price is not stable b) It may be smuggled
c) it is a trading commodity
d) it carries foreign marks e) None of these Ans : (c)

Government Securities (G-Sec)

STUDY MATERIAL
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The Indian 'capital market' is broadly divided into the 'gilt-edged market' and the 'industrial securities market'. Industrial securities market is commonly called as stock market.

The 'gilt-edged market' refers to the market for Government and semi-government securities, backed by the RBI. Government securities are tradeable debt instruments issued by the Government for meeting its financial requirements.

The term 'gilt-edged' means 'of the best quality'. This is because the Government securities do not suffer from risk of default and are highly liquid (as they can be easily sold in the market at their current price). The open market operations of the RBI are also conducted in such securities.

Bonds that are issued by the British government are generally considered low risk. The name originates from the original British government certificates that had gilded edges.

India's government securities are also called gilts because of the country's history as a British colony.

The issuance process for G-sec has undergone significant changes in the 1990s, with the introduction of the auction mechanism, and the broad basing of participation in the auctions through creation of the system of primary dealers and the introduction of non-competitive bids.

RBI announces the auction of government securities through a press notification, and invites bids. The sealed bids (bids received electronically as well as physically) are opened at an appointed time, and the allotment is based on the cut-off price decided by the RBI. Successful bidders are those that bid at a higher price, exhausting the accepted amount at the cut-off price.

Government securities (G-Secs): These are sovereign (credit risk-free) coupon bearing instruments which are issued by the Reserve Bank of India on behalf of Government of India, in lieu of the Central Government's market borrowing programme. These securities have a fixed coupon that is paid on specific dates on half-yearly basis. These securities are available in wide range of maturity dates, from short dated (less than one year) to long dated (up to twenty years).

The design of treasury auctions (G-Sec auctions) is an important issue in government borrowing. The objectives of auction design are:
i) Enabling higher auction volumes that satisfy the target borrowing requirement, without recourse to underwriting and/or devolvement;
ii) Broadening participation to ensure that bids are not concentrated or skewed; and

iii) Ensuring efficiency through achieving the optimal (lowest possible) cost of borrowing for the government.

There are two choices in treasury auctions, which are widely known and used, viz.,
(a) Discriminatory Price Auctions (French Auction) and
(b) Uniform Price Auctions (Dutch Auction)

French Auction System : This is primarily a Yield based auction. After receiving bids at various levels of yield expectations, a particular yield level is decided as the coupon rate.

Dutch Auction Price : This is identical to the French auction system as defined above. The only difference being that the concept of premium does not exist.
1) What is Government Security ?
Ans : As per Sec. 2 (f) of Government Securities Act, 2006 (No.38 of 2006) published on 30^{th} August, 2006, "Government security" means a security created and issued by the Government for the purpose of raising a public loan or for any other purpose as may be notified by the Government in the Official Gazette and having one of the forms mentioned in section 3 of the Government Security Act.

2) What are the different types of Government Securities ?
Ans: The following are the different forms of government securities:-
i)a Government Promissory Note (GPN) payable to or to the order of a certain person;
ii) a bearer bond payable to a bearer;
iii) a stock;
iv) a bond held in a Bond Ledger Account (BLA).

3) What is GSL account?
Ans : Subsidiary General Ledger account is simply called as GSL.

4) Who can open and maintain GSL account ?
Ans: A subsidiary general ledger (GSL) account including a constituents' subsidiary general ledger account (CSGL) and a bond ledger (BLA) account may be opened and maintained by the Bank subject to such conditions and restrictions as may be specified and in such form and on payment of such fee as may be prescribed.

5) What is CSGL account? Who are known as Gilt Account Holders (GAHs) ?
Ans: CSGL, i.e. Constituents' Subsidiary General Ledger account, means an SGL account opened and maintained with RBI by an agent on behalf of the constituents of such agent, i.e. a second SGL account opened by an agent with the RBI to hold the securities on behalf of their constituents. The constituents are known as the Gilt Account Holders (GAHs).

6) What is STRIPS?
Ans: STRIPS is the acronym for 'Separate Trading of Registered Interest and Principal of Securities'. These are basically "zero-coupon" securities where the investor receives a payment at maturity only.

7) What is the benefit of stripping Government securities?
Ans: STRIPS allow investors to hold and trade the individual interest and principal components of eligible Government securities as separate securities of varying tenure. They are popular with investors who want to receive a known payment on a specific future date and want to hold securities of desired maturity.

8) How are the Government Securities issued?
Ans: Government securities are issued through auctions conducted by the RBI. Auctions are conducted on the electronic platform called the NDS – Auction platform.

9) Who are the members in the NDS electronic auction platform ?
Ans: Commercial banks, scheduled urban co-operative banks, Primary Dealers , insurance companies and provident funds, who maintain funds account (current account) and securities accounts (SGL account) with RBI, are members of this electronic platform

10) What are the different types of auctions used for issue of securities?
Ans: An auction of government securities may either be yield based or price based.

11) How and in what form can Government Securities be held?
Ans: They can be held in two forms viz., 1) Physical Form (2) Demant Form.
Demant form has two sub-categories viz., SGL account and Gilt account

12) How does the trading in Government securities take place?
Ans: The Government securities can be bought / sold in the secondary market either (i) Over the Counter (OTC) or (ii) through the Negotiated Dealing System (NDS) or (iii) the Negotiated Dealing System-Order Matching (NDS-OM)

13) Who are the major players in the Government Securities market?
Ans: Major players in the Government securities market include commercial banks and primary dealers besides institutional investors like insurance companies

14) What are the risks involved in holding Government securities?
Ans : Normally there is no risk at all for government securities. Theoretically speaking, the following are the risks: viz., 1) Market risk 2)Reinvestment risk 3)Liquidity risk

15) What are the techniques for mitigating such risks?
Ans : Holding securities till maturity could be a strategy through which one could avoid market risk.

16) What is the **Coupon rate** of the Security**?**
The Coupon rate is simply the interest rate that every debenture/Bond carries on its face value and is fixed at the time of issuance.. The coupon can be payable monthly, quarterly, half-yearly, or annually or cumulative on redemption

17) What is Inflation Linked Bond?
These are bonds for which the coupon payment in a particular period is linked to the inflation rate at that time - the base coupon rate is fixed with the inflation rate (consumer price index-CPI) being added to it to arrive at the total coupon rate.

18) What is the motto behind issuing the Inflation Linked Bonds?
The idea behind these bonds is to make them attractive to investors by removing the uncertainty of future inflation rates, thereby maintaining the real value of their invested capital.

19) What is Floating Rate Bond (FRB) ?
FRBs come with a coupon floater, which is usually a margin over and above a benchmark rate. Normally FRBs (floaters) also bear a floor and cap on interest rates. Interest so determined is intimated in advance before such coupon payment which is normally, Semi-Annual.

20) What is **Zero Coupon Bond** ?
These are bonds for which there is no coupon payment. They are issued at a discount to face value with the discount providing the implicit interest payment. In effect, zero coupon bonds are for long duration.

What are the features of Zero Coupon Bonds ?
a) No Coupon Payment
b) They are issued at a discount to face value
c) It is like a long duration T-Bill
d) All the above Ans : (d)

What are the characteristics of Floating Rate Bonds ?
a) They come with a coupon floater
b) They bear a floor and cap on interest rate
c) Interest is intimated in advance before such coupon payment
d) All the above Ans : (d)

Which of the following are the new types of instruments issued by RBI ?
a) Inflation Linked Bonds
b) Floating Rate Bonds
c) Zero Coupon Bonds
d) All the above Ans: (d)

In the Inflation Linked Bonds, the base coupon rate is fixed with which of the following index to arrive at the total coupon rate ?
a) Consumer Price Index
b) Whole Price Index
c) Index of Industrial Production
d) Sensex Ans : (a)

How many types of auctions are conducted for Government Securities ?
a) French Auction System & Dutch Auction Price System
b) First Come First Serve method
c) First Come Last Go method
d) None of these Ans : (a)

What is the coupon rate of a government security ? Give other details ?
a) It is simply interest, which is carried on its face value
b) Interest rate is fixed at the time of issuance
c) The coupon rate can be payable monthly, quarterly etc.
d) All the above Ans : (d)

How to become a Successful Bank Officer

STUDY MATERIAL
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What is banking?

Banking, conventionally, is defined as the acceptance of deposits of money from the public for the purpose of lending or investment. These deposits are repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise. Deposits are accepted from individuals as well as from firms. In sum, the nature of banking business can be summarised in two words, *i.e.,* 'financial intermediation', which needs to be carried out efficiently (both operational and allocational) for stimulating the real sectors of the economy. Another essential characteristic of Banks is that they are highly leveraged and, hence, special and need to be regulated for protecting the interest of depositors.

As banks are institutions with legal backing and as there is a banking regulator to oversee their financial solvency and soundness, it enables the banks to earn the trust and confidence of the public. You are also aware that banking in India, as elsewhere, takes diverse forms *viz*., banks formed under special statutes, companies registered under the Companies Act, 1956 or foreign companies and co-operative societies registered under the Co-operative Societies Act. Banks are classified based on their ownership pattern such as public sector banks, private sector banks and foreign banks. Some specialized institutions such as ICICI have morphed to banks. Yet other institutions such as EXIM bank, SIDBI and NABARD specialize in trade, small industries and agriculture, respectively.

Apart from basic banking business, banks also undertake other services such as safe custody of valuables, granting and issuance of letters of credit to facilitate international trade, buying and selling in foreign exchange and collections of bills, among others. Banks also act as agent of the Government and other entities to undertake agency business. Extending loans and advances to the needy sectors of the economy on a priority basis is a very crucial function of the banking sector. Keeping in view needs of the Indian economy, banks are mandated to extend 40 per cent of their Net Bank Credit to the priority sectors of the economy. The priority sectors of the economy include, *inter alia*, agriculture, weaker sections, small scale industries, education and micro finance. These norms ensure adequate flow of funds to the most important and needy sectors of the economy.

But as you are also aware, over the years, banking has transformed. It is no longer the "3-6-3" banking. Banking sector has become more liberalized, more competitive, more stable, more customer oriented, more technologically advanced and also more profitable. The prudential norms were implemented, interest rates were deregulated, asset quality improved, entry barriers were liberated, new products were introduced, capital was infused and risk management was improved. There was also a decline in the concentration of the banking business in a few banks. Financial industry is moving towards expanded activities driven by customer needs, financial innovations, technological change, consolidation, convergence, global competition and financial inclusion. Many challenges lie ahead such as stiff competition, stringent regulatory norms, shareholders demanding higher returns, and also challenges of globalization and financial inclusion. Thus, as prospective successful bankers of future, each one of you should have a fairly good understanding of these opportunities and challenges to accomplish your job in an efficient way.

Importance of Banking :

In the older days when banking was not prevalent, people were forced to borrow money from money lenders at very high interest rates. Even today, in the rural unbanked areas of the country, people are dependent on money lenders for credit. Moreover, when people had to save, they used to hoard money in their houses despite the risk of robbery. The existence of a bank, with its legal sanctity, was a solution to both these issues. Banks extended loans and advances at affordable interest rates for productive as well as consumption purposes and started accepting deposits from the public. The provision of loans at affordable interest rates helped people smoothen their income and expenditure fluctuations on the one hand and start remunerative economic activity on the other. Apart from the safety provided by banks to the money deposited by the public, the interest offered by banks on deposits of the public acted as an additional incentive for depositing money with the banking sector. This inculcated saving habits among the public. The savings of the people become a productive part of the economy. This is one of the important reasons why the Reserve Bank encourages or nudges banks to expand the banking network to all unbanked villages in the country.

While from a social point of view, distribution of credit at affordable interest rates is the most important argument for the existence of banks, from an economic point of view, it is the channelisation of savings into investments. Higher savings and investments are important in stimulating economic growth. Banks are important conduits for monetary policy transmission and play an important role in the payment and settlement systems.

The recent technological advancements in the banking sector through ATMs, debit cards, credit cards and electronic transactions further made the transfer of money across the financial system easy and convenient for the public. The electronic cards and point-of-sale terminals facilitated day to day financial needs of customers without the need for carrying paper money. The internet banking facility offered by banks also help customers to manage their personal financial transactions without visiting their bank branch. Along with the technological advancements, the opening of specialised accounts designed for non-resident Indians further facilitated transfer of money from abroad, *i.e.,* remittances.

. Thus, in sum, banking affects all of us. Our lives are dependent on the banking sector in one way or another, directly or indirectly. It is the life-blood of the economy, a contamination of the same can affect any sector or region of the economy. Thus, as employees of the banking system, each one of you is taking up a big responsibility, not only towards the institution for which you are working but also towards the entire society.

What are the 'Ten Commandments' for a successful banking career?

1. Thou shalt manage the people with empathy (You shall manage the people with empathy)

Banking is essentially an art of managing people, be it customers or staff. In a competitive environment, customers have to be treated as kings. Thus, delivering financial services to the satisfaction of customer, and prompt redressal of complaints of customers, if any, are very important. The complaints of customers should be heard with passion and remedial action should be taken promptly. The bankers should also take pro-active actions to increase customer awareness with regard to charges applicable to the financial services and the available redressal mechanisms.

Managing staff by providing them with a comfortable work environment is also germane to ensure the quality of banking services.

2. Thou shalt strive to become a knowledge worker (You shall strive to become knowledge worker)

A knowledge worker is one who apart from knowing how to do a work and what he is doing also knows why is he doing what he is doing. We are transiting from an agrarian society, through an industrial society to a knowledge society. In the knowledge society, it is the knowledge institutions and knowledge workers who would thrive. Just because you have completed your studies and got into a job, you should not stop learning. Your career in the banking sector should be a learning experience. Now, while accomplishing your desk work in the bank, definitely you will go through a learning process. But that is not enough. You should develop and maintain reading habit to update your knowledge base. Because knowledge is the power of an employee and once you lose it, you are nowhere. Thus, there has to be a conscious effort from your side to keep your learning curve alive and be better than the rest. And do not restrict your knowledge base to developments in the banking sector only; rather all of you should develop a fairly good understanding of the economy over a period of time. Then only you can become a sensitive banker, *i.e.,* a banker who is sensitive to the needs of a growing economy.

3. Thou shalt be accountable for all your work (You shall be accountable for all your work)

This is the most important quality which a banker should have. There should be accountability towards the society because you are working in a public institution and dealing with public money. And whatever you do in the bank as part of accomplishing your responsibilities are subject to scrutiny. Many of the financial frauds have taken place with the help of bank employees in the past. Thus, if the employees of a bank are sincere and committed to their institution and to the society as a whole, chances of financial frauds can be minimized. Further, try to know more about your customers and their occupations. This will also help in reducing financial frauds as well as financing of terrorism using bank funds. Thus, a vigilant and accountable bank employee is an asset to the banking sector. So, try to become an asset rather than a liability.

4. Thou shalt do hard work (You shall do hard work)

All of you should remember always that hard work is the '*mantra'* of success. Nothing can substitute your hard work. And those who do hard work during the initial years of their career, will be the ultimate winners in the system. Thus, try to have a positive attitude towards work and try to have a good understanding about the challenges ahead. Prepare yourself for meeting those challenges and meeting the expectations of your institution. At the end of the day you will be rewarded in one way or another. So, do not hesitate to take more responsibilities in the initial part of your career. Be pro-active and do more work; this will improve your understanding of the subject.

5. Thou shalt develop the right attitude (You shall develop the right attitude)

At times, the attitude of the bank staff also keeps rural illiterate customers away from the banking system. So, as new entrants to the banking industry, try to build up friendly customer relationships. Do not discriminate customers based on their caste, sex, education and also by financial background. Try to extend fair services to all customers of the bank irrespective of their background. You all should take extra efforts to bring financially illiterate customers to the bank. This is because a good bank should not confine it's operations to metropolitan areas, it should be willing and innovative enough to expand its services to under banked rural and semi-urban areas. Thus, as employees of the banking sector you have an important role to play in furthering financial inclusion, dealing with underprivileged sections of society and ensuring adequate flow of credit to activities associated with such people.

6. Thou shalt attempt to become a pioneer (You shall attempt to become a pioneer)

Globalization opens up lot of opportunities for the banking sector from across the globe. However, to take advantage of these opportunities, banks have to prepare themselves. Banks will have to work in a multi-cultural and multi-linguistic environment to compete with the globally active banks. A group of efficient, young and well educated employees is a *sine qua non* for achieving this competitiveness. So, as employees of the banking sector, try to improve your communication skills, try to learn about the developments in the global banking sector and try to learn about the emerging opportunities. Be innovative in taking advantage of the emerging opportunities. Because, a pioneer has always an advantage over followers. So, try to be pioneers rather than followers in your career.

7. Thou shalt develop a professional approach (You shall develop a professional approach)

Do your job with your brain, not your heart. You can be passionate about the needs and grievances of customers, but do not compromise on your logic. During the course of your careers, you might, at times, be faced with various pressures which seek to influence your decisions. Develop the ability to objectively evaluate situations, regardless of external pressures, and take the right decision - always. Do not allow your personal problems and relationships to influence your decision making process. Be objective and be efficient. One cannot become a true professional in any area unless he/ she remains committed to the core principles of the profession even under the most adverse circumstances.

8. Though shalt be analytical (You shall be analytical)

Banking business, essentially, involves managing risk. This job of managing risk cannot be done efficiently without having sharp analytical capability. As employees of the banking sector you have an important role to play in shaping the financial soundness of the banking sector. While doing the banking business, try to analyse the financial background and economic activity of the customer thoroughly. This will help in limiting the growth of non-performing loans, efficient utilization of capital and higher profitability. Financial soundness is an important aspect of a good bank, especially because banking business involves public money. Further, failure of one banking institution may also trigger contagion effect across the banking sector as financial institutions are highly inter-linked.

9. Thou shalt be information literate (You shall be information literate)

Technological advancements have transformed class banking into mass banking. With cost effective technologies banks were able to change the face of banking. ATMs, debit cards, credit cards, internet banking and phone banking have enabled customers to do banking without visiting the bank branch. Further, the Business correspondent model and mobile banking also depend on the latest technology to expand the banking network. The electronic transactions through NEFT, ECS and RTGS have increased the speed of fund transfer considerably. A good banker should continuously innovate and update themselves with the latest technological advancements to make banking further easier and convenient to customers. Thus, try to develop a good understanding of the latest technological developments. A bank can implement latest technology safely only with a strong in-house technical expertise. In this mileu, you must “be information literate”, i.e. third generation literate. It is not enough to be a first generation literate, i.e. you know how to read and write, or to be second generation literate, i.e. to be computer literate, but to achieve information literacy. When transiting to a knowledge society and to be a successful banker, it is critical to be information literate.

10. Thou shalt avoid complacency during good times and not lose hope during bad times (You shall avoid complacency during good times and not lose hope during bad times)

This is a very important commandment of a good banker because complacency hampers progress and may lead to sharp downfall and loss. Complacency can affect anybody but is all the more relevant to the financial sector. We cannot afford to be complacent even for a moment. You are particularly advised to avoid complacency during good times as otherwise downturn may come any time. It is always advisable to conserve your energies during good times to be used during bad times. You should not only be satisfied with your victories but also try to achieve something better than whatever you have already achieved. Lastly, life is not easy; it is difficult, whether of an individual or an institution. Bad times sometimes will come, and sometimes, all bad things may come together. In such times, do not become desperate. Wait and Hope. Do not lose hope, but lie low and pray to God because good times will return soon. This is my last commandment not only for banking but for any career.

Concluding Thoughts

All of you are growing up in an age of unprecedented opportunity. But with opportunity comes responsibility. To do things well and be responsible, one needs to cultivate a deep understanding of oneself - not only the strengths and weaknesses but also how one learns, how one works with others, what his or her values are and where he or she can make the greatest contribution. You can achieve excellence only if you understand, work on and operate from your areas of strength. As you pick up the traits of modern trade like leadership skills, the ability to multi-task and manage competing imperatives, please do not let go of the age-old and time-tested qualities of a desire to learn, a strong sense of professional ethics, an enquiring mind, a strategic view, the qualities of humility and empathy, a willingness to embrace practical experience and an eagerness to adapt to evolving experiences.

STUDY MATERIAL
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Q1. What is RTGS System?

Ans. The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time.'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable.

Q2. How RTGS is different from National Electronics Funds Transfer System (NEFT)?

Ans. NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. In DNS, the settlement takes place with all transactions received till the particular cut-off time. These transactions are netted (payable and receivables) in NEFT whereas in RTGS the transactions are settled individually. For example, currently, NEFT operates in hourly batches - there are eleven settlements from 9 am to 7 pm on week days and five settlements from 9 am to 1 pm on Saturdays. Any transaction initiated after a designated settlement time would have to wait till the next designated settlement time Contrary to this, in the RTGS transactions are processed continuously throughout the RTGS business hours.

Q. 3. What is an Automated Teller Machine (ATM)?

Ans. Automated Teller Machine is a computerized machine that provides the customers of banks the facility of accessing their account for dispensing cash and to carry out other financial & non-financial transactions without the need to actually visit their bank branch.

Q.4. What type of cards can be used at an ATM?

Ans. The ATM debit cards, credit cards and prepaid cards (that permit cash withdrawal) issued by banks can be used at ATMs for various transactions.

Q. 5. What are the services/facilities available at ATMs?

Ans. In addition to cash dispensing ATMs may have many services/facilities enabled by the bank owning the ATM such as:

- Account information

- Cash Deposit
- Regular bills payment
- Purchase of Re-load Vouchers for Mobiles
- Mini/Short Statement
- Loan account enquiry etc.

Q.6. How can one transact at an ATM?

Ans. For transacting at an ATM, the customer inserts /swipes his/her Card in the ATM and entershis/herPersonal Identification Number(PIN) issued by his/her bank.

Q.7. What is Personal Identification Number (PIN)?

Ans. PIN is the numeric password which is separately mailed / handed over to the customer by the bank while issuing the card. Most banks require the customers to change the PIN on the first use.

Q8. What is Electronic Clearing Service (ECS)?

Ans : ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc. Essentially, ECS facilitates bulk transfer of monies from one bank account to many bank accounts or vice versa.

Q.9. What are the variants of ECS? In what way are they different from each other?

Ans : Primarily, there are two variants of ECS - ECS Credit and ECS Debit.

ECS Credit is used by an institution for affording credit to a large number of beneficiaries (for instance, employees, investors etc.) having accounts with bank branches at various locations within the jurisdiction of a ECS Centre by raising a single debit to the bank account of the user institution. ECS Credit enables payment of amounts towards distribution of dividend, interest, salary, pension, etc., of the user institution.

ECS Debit is used by an institution for raising debits to a large number of accounts (for instance, consumers of utility services, borrowers, investors in mutual funds etc.) maintained with bank branches at various locations within the jurisdiction of a ECS Centre for single credit to the bank account of the user institution. ECS Debit is useful for payment of telephone / electricity / water bills, cess / tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc., that are periodic or repetitive in nature and payable to the user institution by large number of customers etc.

Q.10 What is a Non-Banking Financial Company (NBFC)?

ANS - A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 and is engaged in the business of loans and advances, acquisition of shares/stock/bonds/debentures/securities issued by Government or local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, sale/purchase/construction of immovable property. A non-banking institution which is a company and which has its principal business of receiving deposits under any scheme or arrangement or any other manner, or lending in any manner is also a non-banking financial company (Residuary non-banking company).

Q 11. NBFCs are doing functions similar to banks. What is difference between banks & NBFCs ?

ANS . NBFCs are doing functions akin to that of banks; however there are a few differences:

(i) an NBFC cannot accept demand deposits;

(ii) an NBFC is not a part of the payment and settlement system and as such an NBFC cannot issue cheques drawn on itself; and

(iii) deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors unlike in case of banks.

Q.12 What is Guilt Fund ?

Gilt funds, as they are conveniently called, are mutual fund schemes floated by asset management companies with exclusive investments in government securities. The schemes are also referred to as mutual funds dedicated exclusively to investments in government securities. Government securities mean and include central government dated securities, state government securities and treasury bills. The gilt funds provide to the investors the safety of investments made in government securities and better returns than direct investments in these securities through investing in a variety of government securities yielding varying rate of returns gilt funds, however, do run the risk.. The first gilt fund in India was set up in December 1998.

Q13. What is a Government Security?

A Government security is a tradable instrument issued by the Central Government or the State Governments. It acknowledges the Government's debt obligation. Such securities are short term (usually called treasury bills, with original maturities of less than one year) or long term (usually called Government bonds or dated securities with original maturity of one year or more). In India, the Central Government issues both, treasury bills and bonds or dated securities while the State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs). Government securities carry practically no risk of default and, hence, are called risk-free gilt-edged instruments. Government of India also issues savings instruments (Savings Bonds, National Saving Certificates (NSCs), etc.) or special securities (oil bonds, Food Corporation of India bonds, fertiliser bonds, power bonds, etc.). They are, usually not fully tradable and are, therefore, not eligible to be SLR securities.

a. Treasury Bills (T-bills)

Treasury bills or T-bills, which are money market instruments, are short term debt instruments issued by the Government of India and are presently issued in three tenors, namely, 91 day, 182 day and 364 day. Treasury bills are zero coupon securities and pay no interest. They are issued at a discount and redeemed at the face value at maturity. For example, a 91 day Treasury bill of Rs.100/- (face value) may be issued at say Rs. 98.20, that is, at a discount of say, Rs.1.80 and would be redeemed at the face value of Rs.100/-. The return to the investors is the difference between the maturity value or the face value (that is Rs.100) and the issue price (for calculation of yield on Treasury Bills please see answer to question no. 26). The Reserve Bank of India conducts auctions usually every Wednesday to issue T-bills. Payments for the T-bills purchased are made on the following Friday. The 91 day T-bills are auctioned on every Wednesday. The Treasury bills of 182 days and 364 days tenure are auctioned on alternate Wednesdays. T-bills of of 364 days tenure are auctioned on the Wednesday preceding the reporting Friday while 182 T-bills are auctioned on the Wednesday prior to a non-reporting Fridays. The Reserve Bank releases an annual calendar of T-bill issuances for a financial year in the last week of March of the previous financial year. The Reserve Bank of India announces the issue details of T-bills through a press release every week.

b. Cash Management Bills (CMBs)

Government of India, in consultation with the Reserve Bank of India, has decided to issue a new short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government. The CMBs have the generic character of T-bills but are issued for maturities less than 91 days. Like T-bills, they are also issued at a discount and redeemed at face value at maturity. The tenure, notified amount and date of issue of the CMBs depends upon the temporary cash requirement of the Government. The announcement of their auction is made by Reserve Bank of India through a Press Release which will be issued one day prior to the date of auction. The settlement of the auction is on T+1 basis. The non-competitive bidding scheme (referred to in paragraph number 4.3 and 4.4 under question No. 4) has not been extended to the CMBs. However, these instruments are tradable and qualify for ready forward facility. Investment in CMBs is also reckoned as an eligible investment in Government securities by banks for SLR purpose under Section 24 of the Banking Regulation Act, 1949. First set of CMBs were issued on May 12, 2010.

c. Dated Government Securities

Dated Government securities are long term securities and carry a fixed or floating coupon (interest rate) which is paid on the face value, payable at fixed time periods (usually half-yearly). The tenor of dated securities can be up to 30 years.

The nomenclature of a typical dated fixed coupon Government security contains the following features - coupon, name of the issuer, maturity and face value. For example, 7.49% GS 2017 would mean:

Coupon : 7.49% paid on face value
Name of Issuer : Government of India
Date of Issue : April 16, 2007
Maturity : April 16, 2017
Coupon Payment Dates : Half-yearly (October 16 and April 16) every year
Minimum Amount of issue/ sale : Rs.10,000

In case there are two securities with the same coupon and are maturing in the same year, then one of the securities will have the month attached as suffix in the nomenclature. For example, 6.05% GS 2019 FEB, would mean that Government security having coupon 6.05 % that mature in February 2019 along with the other security with the same coupon, namely,, 6.05% 2019 which is maturing in June 2019.

Q.14. What are the Open Market Operations (OMOs)?

OMOs are the market operations conducted by the Reserve Bank of India by way of sale/ purchase of Government securities to/ from the market with an objective to adjust the rupee liquidity conditions in the market on a durable basis. When the RBI feels there is excess liquidity in the market, it resorts to sale of securities thereby sucking out the rupee liquidity. Similarly, when the liquidity conditions are tight, the RBI will buy securities from the market, thereby releasing liquidity into the market.

Q.15 Negotiated Dealing System

The Negotiated Dealing System (NDS) for electronic dealing and reporting of transactions in government securities was introduced in February 2002. It facilitates the members to submit electronically, bids or applications for primary issuance of Government Securities when auctions are conducted. NDS also provides an interface to the Securities Settlement System (SSS) of the Public Debt Office, RBI, Mumbai thereby facilitating settlement of transactions in Government Securities (both outright and repos) conducted in the secondary market. Membership to the NDS is restricted to members holding SGL and/or Current Account with the RBI, Mumbai.

Q.16. What is Money Market?

While the Government securities market generally caters to the investors with a long term investment horizon, the money market provides investment avenues of short term tenor. Money market transactions are generally used for funding the transactions in other markets including Government securities market and meeting short term liquidity mismatches. By definition, money market is for a maximum tenor of up to one year. Within the one year, depending upon the tenors, money market is classified into:

i. Overnight market - The tenor of transactions is one working day.
ii. Notice money market – The tenor of the transactions is from 2 days to 14 days.
Iii. Term money market – The tenor of the transactions is from 15 days to one year.

Q.17 Call money market

Call money market is a market for uncollateralized lending and borrowing of funds. This market is predominantly overnight and is open for participation only to scheduled commercial banks and the primary dealers

Q.18 What is Repo market

Repo or ready forward contact is an instrument for borrowing funds by selling securities with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed.

Q.19 What is Reverse Repo?

The reverse of the repo transaction is called 'reverse repo' which is lending of funds against buying of securities with an agreement to resell the said securities on a mutually agreed future date at an agreed price which includes interest for the funds lent.

Q.20 Commercial Paper (CP)

Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. Corporates, primary dealers (PDs) and the all-India financial institutions (FIs) that have been permitted to raise short-term resources under the umbrella limit fixed by the Reserve Bank of India are eligible to issue CP. CP can be issued for maturities between a minimum of 7 days and a maximum up to one year from the date of issue.

Q.21 Certificate of Deposit (CD)

Certificate of Deposit (CD) is a negotiable money market instrument and 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. Banks can issue CDs for maturities from 7 days to one a year whereas eligible FIs can issue for maturities 1 year to 3 years.

Q.22 What is Coupon

The rate of interest paid on a debt security as calculated on the basis of the security's face value

Q.23 What is Discount

When the price of a security is below the par value, it is said to be trading at discount. The value of the discount is the difference between the FV and the Price. For example, if a security is trading at Rs.99, the discount is Rs.1.

Q.24 What is Duration(Macaulay Duration)

Duration of a bond is the number of years taken to recover the initial investment of a bond. It is calculated as the weighted average number of years to receive the cash flow wherein the present value of respective cash flows are multiplied with the time to that respective cash flows. The total of such values is divided by the price of the security to arrive at the duration.

Q.25 Face Value

Face value is the amount that is to be paid to an investor at the maturity date of the security. Debt securities can be issued at varying face values, however in India they typically have a face value of Rs.100. The face value is also known as the repayment amount. This amount is also referred as redemption value, principal value (or simply principal), maturity value or par value

Q.26 Floating-Rate Bond

Bonds whose coupon rate is re-set at predefined intervals and is based on a pre-specified market based interest rate.

Q.27 Gilt/ Government Securities

Government securities are also known as gilts or gilt edged securities. “Government security” means a security created and issued by the Government for the purpose of raising a public loan or for any other purpose as may be notified by the Government in the Official Gazette and having one of the forms mentioned in The Government Securities Act, 2006.

Q.28 Market Lot

Market lot refers to the standard value of the trades that happen in the market. The standard market lot size in the Government securities market is Rs. 5 crore in face value terms.

Q.29 Maturity Date

The date when the principal (face value) is paid back. The final coupon and the face value of a debt security is repaid to the investor on the maturity date. The time to maturity can vary from short term (1 year) to long term (30 years).

Q.30 Odd Lot

Transactions of any value other than the standard market lot size of Rs. 5 crore are referred to as odd lot. Generally the value is less than the Rs. 5 crore with a minimum of Rs.10,000/-. Odd lot transactions are generally done by the retail and small participants in the market.

Q.31 Par

Par value is nothing but the face value of the security which is Rs. 100 for Government securities. When the price of a security is equal to face value, the security is said to be trading at par.

Q.32 Premium

When the price of a security is above the par value, the security is said to be trading at premium. The value of the premium is the difference between the price and the face value. For example, if a security is trading at Rs.102, the premium is Rs.2.

Q.33Price

The price quoted is for per Rs. 100 of face value. The price of any financial instrument is equal to the present value of all the future cash flows. The price one pays for a debt security is based on a number of factors. Newly-issued debt securities usually sell at, or close to, their face value. In the secondary market, where already-issued debt securities are bought and sold between investors, the price one pays for a bond is based on a host of variables, including market interest rates, accrued interest, supply and demand, credit quality, maturity date, state of issuance, market events and the size of the transaction.

Q.34 Primary Dealers

In order to accomplish the objective of meeting the government borrowing needs as cheaply and efficiently as possible, a group of highly qualified financial firms/ banks are appointed to play the role of specialist intermediaries in the government security market between the issuer on the one hand and the market on the other. Such entities are generally called Primary dealers or market makers. In return of a set of obligations, such as making continuous bids and offer price in the marketable government securities or submitting reasonable bids in the auctions, these firms receive a set of privileges in the primary/ secondary market.

Q.35 Real Time Gross Settlement (RTGS) system

RTGS system is a funds transfer mechanism for transfer of money from one bank to another on a “real time” and on “gross” basis. This is the fastest possible money transfer system through the banking channel. Settlement in “real time” means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed. “Gross settlement” means the transaction is settled on one to one basis without bunching with any other transaction. Considering that money transfer takes place in the books of the Reserve Bank of India, the payment is taken as final and irrevocable.

Q.36 Repo Rate

Repo rate is the return earned on a repo transaction expressed as an annual interest rate.

Q.37 Repo/Reverse Repo

Repo means an instrument for borrowing funds by selling securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the fund borrowed.

Reverse Repo means an instrument for lending funds by purchasing securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to resell the said securities on a mutually agreed future date at an agreed price which includes interest for the fund lent.

Q.38 Residual Maturity

The remaining period until maturity date of a security is its residual maturity. For example, a security issued for an original term to maturity of 10 years, after 2 years, will have a residual maturity of 8 years.

Q.39 Secondary Market

The market in which outstanding securities are traded. This market is different from the primary or initial market when securities are sold for the first time. Secondary market refers to the buying and selling that goes on after the initial public sale of the security.

Q.40 Treasury Bills

Debt obligations of the government that have maturities of one year or less is normally called Treasury Bills or T-Bills. Treasury Bills are short-term obligations of the Treasury/Government. They are instruments issued at a discount to the face value and form an integral part of the money market.

Q.41 Underwriting

The arrangement by which investment bankers undertake to acquire any unsubscribed portion of a primary issuance of a security.

Q.42 Yield

The annual percentage rate of return earned on a security. Yield is a function of a security's purchase price and coupon interest rate. Yield fluctuates according to numerous factors including global markets and the economy.

Q.43 Yield to Maturity (YTM)

Yield to maturity is the total return one would except to receive if the security is being held until maturity. Yield to maturity is essentially the discount rate at which the present value of future payments (investment income and return of principal) equals the price of the security.

Q.44. Which are the sectors where FDI is not allowed in India, both under the Automatic Route as well as under the Government Route?

Ans. FDI is prohibited under the Government Route as well as the Automatic Route in the following sectors:

i) Retail Trading (except single brand product retailing)

ii) Atomic Energy

iii) Lottery Business

iv) Gambling and Betting

v) Business of Chit Fund

vi) Nidhi Company

vii) Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations) (cf. Notification No. FEMA 94/2003-RB dated June 18, 2003).

viii) Housing and Real Estate business (except development of townships, construction of residential/commercial premises, roads or bridges to the extent specified in Notification No. FEMA 136/2005-RB dated July 19, 2005).

ix) Trading in Transferable Development Rights (TDRs).

x) Manufacture of cigars , cheroots, cigarillos and cigarettes , of tobacco or of tobacco substitutes.

Q.45 What are the regulations pertaining to issue of ADRs/ GDRs by Indian companies?

Ans.

- Indian companies can raise foreign currency resources abroad through the issue of ADRs/ GDRs, in accordance with the Scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 and guidelines issued by the Government of India thereunder from time to time.

- A company can issue ADRs / GDRs, if it is eligible to issue shares to persons resident outside India under the FDI Scheme. However, an Indian listed company, which is not eligible to raise funds from the Indian Capital Market including a company which has been restrained from accessing the securities market by the Securities and Exchange Board of India (SEBI) will not be eligible to issue ADRs/GDRs.

Q.46. What are the regulations regarding Portfolio Investments by SEBI registered Foreign Institutional Investors (FIIs)?

Ans.

- Investment by SEBI registered FIIs is regulated under SEBI (FII) Regulations, 1995 and Regulation 5(2) of FEMA Notification No.20 dated May 3, 2000, as amended from time to time. FIIs include Asset Management Companies, Pension Funds, Mutual Funds, Investment Trusts as Nominee Companies, Incorporated / Institutional Portfolio Managers or their Power of Attorney holders, University Funds, Endowment Foundations, Charitable Trusts and Charitable Societies.

- SEBI acts as the nodal point in the registration of FIIs. The Reserve Bank of India has granted general permission to SEBI Registered FIIs to invest in India under the Portfolio Investment Scheme (PIS).

- Investment by SEBI registered FIIs and its sub accounts cannot exceed 10per cent of the paid up capital of the Indian company. However, in case of foreign corporates or High Networth Individuals (HNIs) registered as sub accounts of an FII, their investment shall be restricted to 5 per cent of the paid up capital of the Indian company. All FIIs and their sub-accounts taken together cannot acquire more than 24 per cent of the paid up capital of an Indian Company. An Indian company can raise the 24 per cent ceiling to the sectoral cap / statutory ceiling, as applicable, by passing a resolution by its Board of Directors followed by passing a Special Resolution to that effect by their General Body. The Indian company has to intimate the raising of the FII limit to the Reserve Bank to enable the Bank to notify the same on its website for larger public dissemination.

Q.47 What are the different types of accounts which can be maintained by an NRI / PIO in India?

If a person is NRI or PIO, s/he can, without the permission from the Reserve Bank, open, hold and maintain the different types of accounts given below with an Authorised Dealer in India, i.e., a bank authorised to deal in foreign exchange**. NRO Savings accounts can also be maintained with the Post Offices in India**. However, individuals/ entities of Bangladesh and Pakistan require the prior approval of the Reserve Bank.

Three types of accounts which can be maintained by an NRI / PIO in India

i). Non-Resident (Ordinary) Rupee Account (NRO Account)

NRO accounts may be opened / maintained in the form of current, savings, recurring or fixed deposit accounts.

- Savings Account - Normally maintained for crediting legitimate dues /earnings / income such as dividends, interest etc.The interest rates on NRO Savings deposits shall be at the rate applicable to domestic savings deposits. Currently the interest rate is 3.5 per cent.
- Term Deposits - Banks are free to determine the interest rates.
- Account should be denominated in Indian Rupees.

ii). Non-Resident (External) Rupee Account (NRE Account)

- NRE account may be in the form of savings, current, recurring or fixed deposit accounts. Such accounts can be opened only by the non-resident himself and not through the holder of the power of attorney.
- NRE accounts cannot be held jointly with residents
- Account will be maintained in Indian Rupees.

iii). Foreign Currency Non Resident (Bank) Account – FCNR (B) Account

- FCNR (B) accounts are only in the form of term deposits of 1 to 5 years
- All debits / credits permissible in respect of NRE accounts are permissible in FCNR (B) accounts also.
- Account can be in Pound Sterling, US Dollar, Japanese Yen, Euro, Canadian Dollar and Australian Dollar

Q.48 Can an individual resident borrow money from his close relatives outside India?

- Yes, an individual resident can borrow sum not exceeding USD 250,000 or its equivalent from his close relatives[3] staying outside India, subject to the conditions that:
- i) the minimum maturity period of the loan is one year;
  ii) the loan is free of interest; and
  iii) the amount of loan is received by inward remittance in free foreign exchange through normal banking channels or by debit to the NRE/FCNR account of the NRI.

Q.49 Who is NRI ?

A Non Resident Indian (NRI) is a person resident outside India, who is a citizen of India or is a person of Indian origin.

Q.50 Who is NRO

A Person of Indian Origin (PIO) for this purpose is defined in Regulation 2 of FEMA Notification ibid as a citizen of any country other than Bangladesh or Pakistan, if (a) he at any time held Indian passport; or (b) he or either of his parents or any of his grandparents was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955); or (c) the person is a spouse of an Indian citizen or a person referred to in sub-clause (a) or (b).

Q.No. 51 Close relative' means relative as defined in Section 6 of the Companies Act, 1956.

Q.No. 52A Person of Indian Origin' means an individual (not being a citizen of Pakistan or Bangladesh or Sir Lanka or Afghanistan or China or Iran or Nepal or Bhutan) who (i) at any time, held an Indian Passport or (ii) who or either of whose father or mother or whose grandfather or grandmother was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955).

Q.53. What is the Asian Clearing Union (ACU)?

A. The Asian Clearing Union (ACU) was established with its head quarters at Tehran, Iran, on December 9, 1974 at the initiative of the United Nations Economic and Social Commission for Asia and Pacific (ESCAP), for promoting regional co-operation. The main objectives of a clearing union are to facilitate payments among member countries for eligible transactions on a multilateral basis, thereby economizing on the use of foreign exchange reserves and transfer costs, as well as promoting trade among the participating countries.

Q54. Who are the members of the ACU?

A. The Central Banks and the Monetary Authorities of Iran, India, Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka, Myanmar and Maldives are currently the members of the ACU.

Q.55 . What does the priority sector comprise ?

Ans : Broadly, the priority sector comprises the following :

1. Agriculture

2. Small scale industries (including setting up of industrial estates)

3. Small road and water transport operators (owning upto 10 vehicles).

4. Small business (Original cost of equipment used for business not to exceed Rs 20 lakh)

5. Retail trade (advances to private retail traders upto Rs.10 lakh)

6. Professional and self-employed persons (borrowing limit not exceeding Rs.10 lakh of which not more than Rs.2 lakh for working capital; in the case of qualified medical practitioners setting up practice in rural areas, the limits are Rs 15 lakh and Rs 3 lakh respectively and purchase of one motor vehicle within these limits can be included under priority sector)

7. State sponsored organisations for Scheduled Castes/Scheduled Tribes

8. Education (educational loans granted to individuals by banks)

9. Housing [both direct and indirect – loans upto Rs.5 lakhs (direct loans upto Rs 10 lakh in urban/ metropolitan areas), Loans upto Rs 1 lakh and Rs 2 lakh for repairing of houses in rural/ semi-urban and urban areas respectively].

10. Consumption loans (under the consumption credit scheme for weaker sections)

11. Micro-credit provided by banks either directly or through any intermediaty; Loans to self help groups(SHGs) / Non Governmental Organisations (NGOs) for onlending to SHGs

12. Loans to the software industry (having credit limit not exceeding Rs 1 crore from the banking system)

13. Loans to specified industries in the food and agro-processing sector having investment in plant and machinery up to Rs 5 crore.

14. Investment by banks in venture capital (venture capital funds/ companies registered with SEBI)

Q.56. What is the definition of 'Small Scale Industries' (SSI) ?

Small scale industrial units are those engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed Rs. 1 crore. These would, *inter alia*, include units engaged in mining or quarrying, servicing and repairing of machinery. In the case of ancillary units, the investment in plant and machinery (original cost) should also not exceed Rs. 1 crore to be classified under small-scale industry.

The investment limit of Rs.1 crore for classification as SSI has been enhanced to Rs.5 crore in respect of certain specified items under hosiery and hand tools by the Government of India

Q.57. What is the definition of 'Tiny Enterprises' ?

The status of 'Tiny Enterprises' is given to all small scale units whose investment in plant & machinery is upto Rs. 25 lakhs, irrespective of the location of the unit.

Q.58. What are 'Small Scale Service & Business Enterprises' (SSSBE's) ?

Industry related service and business enterprises with investment upto Rs. 10 lakhs in fixed assets, excluding land and building will be given benefits of small scale sector. For computation of value of fixed assets, the original price paid by the original owner will be considered irrespective of the price paid by subsequent owners.

Q.59. What are the weaker sections within the priority sector ?

The weaker sections under priority sector include the following:

1. Small and marginal farmers with land holding of 5 acres and less and landless labourers, tenant farmers and share croppers.
2. Artisans, village and cottage industries where individual credit limits do not exceed Rs. 50,000/-
3. Beneficiaries of Swarnjayanti Gram Swarojgar Yojana (SGSY)
4. Scheduled Castes and Scheduled Tribes
5. Beneficiaries of Differential Rate of Interest (DRI) scheme
6. Beneficiaries under Swarna Jayanti Shahari Rojgar Yojana (SJSRY)
7. Beneficiaries under the Scheme for Liberation and Rehabilitation of Scavangers (SLRS).
8. Self Help Groups (SHGs)

Q.60. What is the rate of interest for loans under priority sector ?

As per the current interest rate policy, in the case of loans upto Rs 2 lakh, the interest rate should not exceed the prime lending rate (PLR) of the bank, while in the case of loans above Rs 2 lakh, banks are free to determine the interest rate

Q.61 What is the Banking Ombudsman Scheme?

The Banking Ombudsman Scheme enables an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks. The Banking Ombudsman Scheme is introduced under Section 35 A of the Banking Regulation Act, 1949 by RBI with effect from 1995.

Q.62. Who is a Banking Ombudsman?

The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services.

Q.63. How many Banking Ombudsmen have been appointed and where are they located?

As on date, fifteen Banking Ombudsmen have been appointed with their offices located mostly in state capitals. The addresses and contact details of the Banking Ombudsman offices have been provided in the annex.

Q.64. Which are the banks covered under the Banking Ombudsman Scheme, 2006?

All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered under the Scheme.

Q 65 What does the DICGC insure?

In the event of a bank failure, DICGC protects bank deposits that are payable in India.
The DICGC insures all deposits such as savings, fixed, current, recurring, etc. except the following types of deposits.

(i) Deposits of foreign Governments;
(ii) Deposits of Central/State Governments;
(iii)Inter-bank deposits;
(iv) Deposits of the State Land Development Banks with the State co-operative bank;
(v) Any amount due on account of any deposit received outside India
(vi) Any amount, which has been specifically exempted by the corporation with the previous approval of Reserve Bank of India.

Q 66 What is the maximum deposit amount insured by the DICGC?

Each depositor in a bank is insured upto a maximum of Rs.1,00,000 (Rupees One Lakh) for both principal and interest amount held by him in the same capacity and same right as on the date of liquidation/cancellation of bank's licence or the date on which the scheme of amalgamation/merger/reconstruction comes into force.

Q.67. What is KYC?

KYC is an acronym for "Know your Customer", a term used for customer identification process. It involves making reasonable efforts to determine true identity and beneficial ownership of accounts, source of funds, the nature of customer's business, reasonableness of operations in the account in relation to the customer's business, etc which in turn helps the banks to manage their risks prudently. The objective of the KYC guidelines is to prevent banks being used, intentionally or unintentionally by criminal elements for money laundering.

KYC has two components - Identity and Address. While identity remains the same, the address may change and hence the banks are required to periodically update their records.

Q.68. Is there any legal backing for verifying identity of clients?

Yes. Reserve Bank of India has issued guidelines to banks under Section 35A of the Banking Regulation Act, 1949 and Rule 7 of Prevention of Money-Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005. Any contravention thereof or non-compliance shall attract penalties under Banking Regulation Act.

KNOW YOUR CUSTOMER (KYC)

STUDY MATERIAL
PREPARED BY
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1. What is KYC?

KYC is an acronym for "Know your Customer", a term used for customer identification process.

2) KYC involves which of the following ?

Ans: It involves making reasonable efforts to determine true identity and beneficial ownership of accounts, source of funds, the nature of customer's business, reasonableness of operations in the account in relation to the customer's business, etc which in turn helps the banks to manage their risks prudently.

3) In KYC what are the objectives?

Ans":The objective of the KYC guidelines is to prevent banks being used, intentionally or unintentionally by criminal elements for money laundering.

4) Broadly KYC has how many copmponents?

Ans: KYC has two components - Identity and Address. While identity remains the same, the address may change and hence the banks are required to periodically update their records.

5) Is there any legal backing for verifying identity of clients?

Yes. Reserve Bank of India has issued guidelines to banks under Section 35A of the Banking Regulation Act, 1949 and Rule 7 of Prevention of Money-Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005. Any contravention thereof or non-compliance shall attract penalties under Banking Regulation Act.

6). If a person wants to keep a fixed deposit in a bank. Is KYC - applicable to him?

Yes. KYC is applicable to customers of the bank.

7) For the purpose of KYC who are included in the term of 'Customers of the bank'?

Ans: For the purpose of KYC following are the ‘Customers of the bank.

- a person or entity that maintains an account and/or has a business relationship with the bank;
- one on whose behalf the account is maintained (i.e. the beneficial owner);
- beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors etc. as permitted under the law, and
- any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank, say, a wire transfer or issue of a high value demand draft as a single transaction.

8. Is there any procedure specified for Customer Identification?

Customer identification means identifying the customer and verifying his/her identity by using reliable, independent source documents, data or information. Banks have been advised to lay down Customer Identification Procedure to be carried out at different stages i.e. while establishing a banking relationship; carrying out a financial transaction or when the bank has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data.

9. Once KYC requirements are complied with while opening the account, whether the bank can again ask for KYC compliance from the individual again and again?

Yes. To ensure that the latest details about the customer are available, banks have been advised to periodically update the customer identification data based upon the risk category of the customers.

Banks create a customer profile based on details about the customer like social/financial status, nature of business activity, information about his clients’ business and their location, the purpose and reason for opening the account, the expected origin of the funds to be used within the relationship and details of occupation/employment, sources of wealth or income, expected monthly remittance, expected monthly withdrawals etc. When the transactions in the account are observed not consistent with the profile, bank may ask for any additional details / documents as required. This is just to confirm that the account is not being used for any Money Laundering/Terrorist/Criminal activities.

10. Mr. X had submitted his driving licence as a proof of identity and address but still the bank asked for telephone / electricity bill.

There are two aspects of Customer Identification. One is establishing identity and the other is establishing present residential address.

For establishing identity, the bank requires any authentic document carrying photo of the customer such as driving licence/ passport/ pan card/ voters' card etc. Though these documents carry the residential address of the customer, it may not be the present address. Therefore, in order to establish the present address of the customer, in addition to passport/ driving licence / voters' card / pan card, the bank may ask for utility bills such as Telephone / Electricity bill etc.

The detailed list of the documents that the bank can ask is given below.

Who can open bank accounts:

1) Individuals

Accounts of Individuals:

a)Legal name and any other names used	i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving licence (v) Identity card (subject to the bank's satisfaction) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank
b)for Correct permanent address	Documents required: i) Telephone bill (ii) Bank account statement

	(iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the bank) (any one document which provides customer information to the satisfaction of the bank will suffice)

Accounts of Companies:-

i)Accounts of Companies	Documents required: i)) Registration certificate, if registered (ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses (v) Telephone bill in the name of firm / partners
ii)Principal place of business iii)Mailing address of the company iv)Telephone / Fax Number	

Accounts of Partnership Firms:-

i)Accounts of Companies	Documents required: i) Certificate of registration, if registered (ii) Power of Attorney granted to transact

	business on its behalf (iii) Any officially valid document to identify the trustees, settlors, beneficiaries and those holding Power of Attorney, founders / managers / directors and their addresses (iv) Resolution of the managing body of the foundation / association (v) Telephone bill
ii)Principal place of business iii)Mailing address of the company iv)Telephone / Fax Number	

Accounts of Trusts & Foundations

Names of trustees, settlers, beneficiaries and signatories	(i) Certificate of registration, if registered (ii) Power of Attorney granted to transact business on its behalf (iii) Any officially valid document to identify the trustees, settlors, beneficiaries and those holding Power of Attorney, founders / managers / directors and their addresses (iv) Resolution of the managing body of the foundation / association (v) Telephone bill
Names and addresses of the founder, the managers / directors and the beneficiaries	

Accounts of Proprietorship Concerns

Proof of the name, address and activity of the concern	Documents required: Registration certificate (in the case of a registered concern) * Certificate / licence issued by the Municipal authorities under Shop & Establishment Act,

	* Sales and income tax returns * CST / VAT certificate * Certificate / registration document issued by Sales Tax / Service Tax / Professional Tax authorities * Registration / licensing document issued in the name of the proprietary concern by the Central Government or State Government Authority / Department. * IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT as an identity document for opening of bank account. * Licence issued by the Registering authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, etc. Any two of the above documents would suffice. These documents should be in the name of the proprietary concern.

7. Can a person's wife who is not having any address proof in her name, open an account with the bank?

Yes. In such cases where the utility bills required for address verification are not in the name of the person who wants to open an account (close relatives, e.g. wife, son, daughter and daughter and parents etc. who live with their husband, father/mother and son, as the case may be) , an identity document and a utility bill of the relative with whom the prospective customer is living along with a declaration from the relative that the said person (prospective customer) wanting to open an account is a relative and is staying with him/her is acceptable. As supplementary evidence bank may ask for a letter received through post for further confirmation.

8. Mr. X is a daily wage earner without any document to satisfy the bank about identity and address. Can he open a bank account?

A customer belonging to low income group who is not able to produce documents to satisfy the bank about his identity and address, can open bank account with an introduction from another account holder who has been subjected to full KYC procedure provided that the balance in all his accounts taken together is not expected to exceed Rupees Fifty Thousand (Rs. 50,000/-) and the total credit in all the accounts taken together is not expected to exceed Rupees One Lakh (Rs.

1,00,000/-) in a year. The introducer's account with the bank should be at least six months old and should show satisfactory transactions. Photograph of the customer who proposes to open the account and also his address needs to be certified by the introducer,

or

any other evidence as to the identity and address of the customer to the satisfaction of the bank.

If at any point of time, the balance in all his/her accounts with the bank (taken together) exceeds Rupees Fifty Thousand (Rs. 50,000/-) or total credit in the account exceeds Rupees One Lakh (Rs. 1,00,000/-) in a year, no further transactions will be permitted until the full KYC procedure is completed.

In order not to inconvenience the customer, the bank will notify the customer when the balance reaches Rupees Forty Thousand (Rs. 40,000/-) or the total credit in a year reaches Rupees Eighty thousand (Rs. 80,000/-) that appropriate documents for conducting the KYC must be submitted otherwise operations in the account will be stopped.

9. Whether a certificate from his employer is sufficient as identity as well as address proof for opening an account?

Banks rely on such certification only from corporate and other entities of repute provided that they are aware of the competent authority designated by the concerned employer to issue such certificate. In addition, banks also require at least one of the valid documents indicated above viz. Passport, Driving Licence, PAN Card, Voter's Identity Card etc. or utility bills for KYC purposes for opening bank account of salaried employees of corporate and other entities.

10. Whether the information given by a person to the bank under KYC is treated as confidential?

Yes. The information collected from the customer for the purpose of opening of account is treated as confidential and details thereof are not divulged for cross selling or any other similar purposes.

11. Whether KYC is applicable for Credit Cards/Debit Cards/Smart Cards?

Yes. Application of full KYC procedure is necessary before issuing Credit Cards/Debit Cards/Smart Cards and also in respect of add-on/ supplementary cards.

12. If a person refuses to give information on KYC asked for by the bank, what action the bank can take against him?

Where the bank is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, the bank can consider closing the account or terminating the banking/business relationship after issuing due notice to the customer explaining the reasons for taking such a decision.

How many types of NRI accounts are there ?

Note: 1. FCNR(A) : Foreign Currency Non-Resident (Accounts).
2. FCNR(B) : Foreign Currency Non-Resident (Banks).
3. NR(E) RA : Non-Resident(External) Rupee Accounts.
4. NR(NR)RD : Non-Resident(Non-Repatriable) Rupee Deposits
5. NRO Non-Resident Ordinary Rupee Account

Study material on Money Matters

A) Some Basics about money :

History of Coins / currency:

I. Coins

II. Currency:

What is the Indian currency called?
What are the present denominations of banknotes in India?
Can banknotes and coins be issued only in these denominations?
Demonetization of higher denomination banknotes.
What are the present available denominations of coins in India?
What is legal tender?
What is the meaning of "I promise to pay" clause.
Why is One Rupee liability of the Government of India?

B) Currency Management.

What is the role of the Reserve Bank of India in currency management?
What is the role of Government of India?
Who decides on the volume and value of banknotes to be printed and on what basis?
Who decides on the quantity of coins to be minted?
How does the Reserve Bank estimate the demand for banknotes?
How does the Reserve Bank reach the currency to people?
What is a currency chest?
What is a small coin depot?
What happens when the banknotes and coins return from circulation?
From where can the general public obtain banknotes and coins?

C) Current Issues

Is there a way to reduce dependence on cash?
Steps taken to increase the supply of banknotes and coins.
Why are Re.1, Rs.2, Rs.5 banknotes not being printed?

D) Soiled and Mutilated Banknotes

What are soiled, mutilated and imperfect banknotes?
Can soiled and mutilated banknotes be exchanged for value?
Where are soiled/mutilated banknotes accepted for exchange?
How much value would one get in exchange of soiled banknotes?
How much value would one get in exchange of mutilated banknotes?
How much value would one get in exchange of imperfect banknotes?
What types of banknotes are not eligible for payment under the Note Refund Rules?
What if a banknote is found to be non-payable?

E) Banknotes since Independence.

Are there any special features in the banknotes of Mahatma Gandhi series(MG)- 1996?
Why was the change brought about?
What is a "star series" banknote?

F) Counterfeits / Forgeries

How does one differentiate between a genuine banknote and forged / counterfeit banknote.
What are the legal provisions relating to printing and circulation of forged banknotes?

G) Clean Note Policy:

Your Guide to Money Matters

Money as a means of payment, consists of coins, paper money and withdrawable bank deposits. Today, credit cards and electronic cash form an important component of the payment system. For a common person though, money simply means currency and coins. This is so because in India, the payment system, especially for retail transactions still revolves mainly around currency and coins. Here is an attempt to answer some of the Frequently Asked Questions on Indian Currency.

A) Some Basics

History of Coins / currency:

I. Coins

The first documented coinage seems to have started with 'Punch Marked' coins issued between the 7th-6th Century BC and 1st Century AD. The coinage can be classified into the following periods:

a. Ancient
b. Medival
c. Mughal
d. Late pre-colonial
e. British India
f. Republic India
g. Others.

India won its independence on August 15, 1947. During the period of transition India retained the monetary system and the currency and coinage of the earlier period. India brought out its distinctive coins on 15th August, 1950.

Coins in India are presently being issued in denominations of 25 paise, 50 paise, one rupee, two rupees and five rupees. Coins upto 50 paise are called 'small coins' and coins of Rupee one and above are called 'Rupee Coins'. Coins can be issued up to the denomination of Rs.1000 as per the Coinage Act, 1906.

II. Currency:

Financial Instruments and 'Hundies' in India have a venerable history.

Paper Money, in the modern sense, traces its origins to the late eighteenth century with the issues of private banks as well as those of semi-government banks. **The Paper Currency Act of 1861 conferred upon Government of India the monopoly of Note Issue bringing to end banknote issues of Private and Presidency Banks**. Government of India continued to issue currency notes till the Reserve Bank of India (RBI) was established on 1st April, 1935. Reserve Bank issued banknotes in January 1938 when the first Five Rupee banknote was issued bearing the portrait of George VI. This was followed by Rs. 10 in February, Rs. 100 in March and Rs. 1,000 and Rs. 10,000 in June 1938. The George VI series continued till 1947 and thereafter as a frozen series till 1950 when post independence banknotes were issued, with the Ashoka Pillar watermark.

Banknotes in the Mahatma Gandhi Series were introduced in 1996 and were issued in a phased manner in the denominations of Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000. (At present Rs.1000/- is not a valid note)

Banknotes in Mahatma Gandhi series 2005, in the denomination of Rs.10, Rs.20, Rs.50, Rs.100 Rs.500, and Rs.1000 with additional / new security features are issued. (At present Rs.1000/- is not a valid note)

What is the Indian currency called?

The Indian currency is called the Indian Rupee (INR) and the coins are called paise. One Rupee consists of 100 paise.

What are the present denominations of banknotes in India?

At present, banknotes in India are issued in the denomination of Rs.10, Rs.20, Rs.50, Rs.100, Rs.500,Rs.2000. These notes are called banknotes as they are issued by the Reserve Bank of India (Reserve Bank). The printing of notes in the denominations of Re.1, Rs. 2 and Rs.5 has been discontinued as these denominations have been coinised. However, such banknotes issued earlier can still be found in circulation and these banknotes continue to be legal tender.

Can banknotes and coins be issued only in these denominations?

Not necessarily. The Reserve Bank can also issue banknotes in the denominations of five thousand rupees and ten thousand rupees, or any other denomination that the Central Government may specify. There cannot, though, be banknotes in denominations higher than ten thousand rupees in terms of the current provisions of the Reserve Bank of India of Act, 1934. Coins can be issued up to the denomination of Rs.1000.

Demonetization of higher denomination banknotes.

Rs. 1000 and Rs.10000 banknotes, which were then in circulation were demonetized in January 1946, primarily to curb unaccounted money. The higher denomination banknotes in Rs.1000, Rs.5000 and Rs.10000 were reintroduced in the year 1954, and these banknotes (Rs.1000, Rs.5000 and Rs.10000) were again demonetized in January 1978.

What are the present available denominations of coins in circulation in India?

Presently, 50 paise, one rupee, two rupees and five rupee coins are being issued. Coins up to 50 paise are called 'small coins' and coins of Rupee one and above are called 'Rupee Coins'. Though the coins in the denomination of 1 paise, 2 paise, 3 paise, 5 paise, 10 paise and 20 paise may still be in circulation, due to lack of demand these coins are not being issued. Recently 25 paise coin is withdrawn from circulation.

What is legal tender?

The coins issued under the authority of Section 6 of The Coinage Act, 1906, shall be legal tender in payment or on account i.e. provided that a coin has not been defaced and has not lost weight so as to be less than such weight as may be prescribed in its
case: - (a) coin of any denomination not lower than one rupee shall be legal tender for any sum, (b) half rupee coin shall be legal tender for any sum not exceeding ten rupees, (c) any other coin shall be legal tender for any sum not exceeding one rupee [Section 13 of The Coinage Act, 1906].

Similarly, the One Rupee notes issued under the Currency Ordinance, 1940 are also legal tender and included in the expression Rupee coin for all the purposes of the Reserve Bank of India Act, 1934.

Every banknote issued by Reserve Bank of India (Rs.2, Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000) shall be legal tender at any place in India in payment or on account for the amount expressed therein, and shall be guaranteed by the Central Government, subject to provisions of sub-section (2) Section 26 of RBI Act, 1934.

What is the meaning of "I promise to pay" clause?

As per Section 26 of Reserve Bank of India Act, 1934, the Bank is liable to pay the value of banknote. This is payable on demand by RBI, being the issuer. The Bank's obligation to pay the value of banknote does not arise out of a contract but out of statutory provisions.

The promissory clause printed on the banknotes i.e., "I promise to pay the bearer an amount of X" is a statement which means that the banknote is a legal tender for X amount. The obligation on the part of the Bank is to exchange a banknote for coins of an equivalent amount.

Why is One Rupee liability of the Government of India?

The Government of India derives authority to issue Rupee coins from the Coinage Act. As such the rupee coins issued by Government constitute the liabilities of the Government.

B) Currency Management.

What is the role of the Reserve Bank of India in currency management?

The Reserve Bank derives its role in currency management from the Reserve Bank of India Act, 1934.The Reserve Bank manages currency in India. The Government, on the advice of the Reserve Bank, decides on various denominations of banknotes to be issued. The Reserve Bank also co-ordinates with the Government in the designing of banknotes, including the security features. The Reserve Bank estimates the quantity of banknotes that are likely to be needed denomination-wise and accordingly, places indent with the various printing presses. Banknotes received from banks and currency chests are examined and those fit for circulation are reissued and the others (soiled and mutilated) are destroyed so as to maintain the quality of banknotes in circulation.

What is the role of Government of India?

In terms of Section 25 of RBI Act, 1934 the design of banknotes is required to be approved by the Central Government on the recommendations of the Central Board of the Reserve Bank of India. The responsibility for coinage vests with the Government of India on the basis of the Coinage Act, 1906 as amended from time to time. The Government of India also attends to the designing and minting of coins in various denominations.

Who decides on the volume and value of banknotes to be printed and on what basis?

The Reserve Bank decides the volume and value of banknotes to be printed each year. The quantum of banknotes that needs to be printed, broadly depends on the requirement for meeting the demand for banknotes due to inflation, GDP growth, replacement of soiled banknotes and reserve stock requirements.

Who decides on the quantity of coins to be minted?

The Government of India decides the quantity of coins to be minted on the basis of indents received from the Reserve Bank.

How does the Reserve Bank estimate the demand for banknotes?

The Reserve Bank estimates the demand for banknotes on the basis of the growth rate of the economy, the replacement demand and reserve stock requirements by using statistical models/techniques.

How does the Reserve Bank reach the currency to people?

The Reserve Bank presently manages the currency operations through its 18 Issue offices located at Ahmedabad, Bangalore, Belapur, Bhopal, Bhubaneswar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Jammu, Kanpur, Kolkata, Mumbai, Nagpur, New Delhi, Patna, Thiruvananthapuram, one sub-office at Lucknow, a currency chest at Kochi and a wide net work of currency chests. These offices receive fresh banknotes from the banknote printing presses. The Issue Offices of RBI send fresh banknote remittances to the designated branches of commercial banks.

The Reserve Bank offices located at Hyderabad, Kolkata, Mumbai and New Delhi (Mint linked Offices) initially receive the coins from the mints. These offices then send them to the other offices of the Reserve Bank. The banknotes and rupee coins are stocked at the currency chests and small coins at the small coin depots. The bank branches receive the banknotes and coins from the Currency Chests and Small Coin Depots for further distribution among the public.

What is a currency chest?

To facilitate the distribution of banknotes and rupee coins, the Reserve Bank has authorised select branches of scheduled banks to establish Currency Chests. These are actually storehouses where banknotes and rupee coins are stocked on behalf of the Reserve Bank. As on June 30, 2006, there were 4428 Currency Chests and 4102 Small Coin Depots. The currency chest branches are expected to distribute banknotes and rupee coins to other bank branches in their area of operation.

What is a small coin depot?

Some bank branches are also authorised to establish Small Coin Depots to stock small coins. The Small Coin Depots also distribute small coins to other bank branches in their area of operation.

What happens when the banknotes and coins return from circulation?

Banknotes and coins returned from circulation are deposited at the Issue offices of the Reserve Bank. The Reserve Bank subjects these to processing, authenticates banknotes for their genuineness, segregates them into notes fit for reissue and those which are not, for cancellation. The banknotes which are fit for reissue are sent back in circulation and those which are unfit for reissue are destroyed by way of shredding after completion of examination process. Similarly, coins received back from circulation are either reissued or are sent to the Mints for melting.

From where can the general public obtain banknotes and coins?

Banknotes and coins can be obtained in exchange at any of the offices of the Reserve Bank and at all the designated branches of banks.

C) Current Issues

Is there a way to reduce dependence on cash?

Cash continues to be the predominant payment means of transactions in India. A compositional shift is underway in the form of a gradual replacement of lower denomination banknotes by higher denomination banknotes, particularly Rs.100 and Rs.500. Instruments such as cheques, credit and debit cards, electronic funds transfer are at present supplementing the use of banknotes and as the use of these gains popularity, the growth rate of the demand for currency is expected to slow down.

Steps taken to increase the supply of banknotes and coins.

Several steps have been taken to augment the supply of banknotes and coins. Some of these are:

- The existing banknote printing presses and the mints owned by the Government have been modernised.
- Bharatiya Reserve Bank Note Mudran (P) Ltd., was set up as a fully owned subsidiary of the Reserve Bank of India on February 03, 1995. Under its aegis two banknote printing presses with the state-of-the-art technology, one each at Mysore (Karnataka) and Salboni (West Bengal), commenced production from June 01, 1996 and December 11, 1996, respectively.
- To bridge the demand-supply gap, the Government had, as a one-time measure, imported banknotes, in the year 1997-98.
- Government of India had also imported rupee coins during 2000-2003 to supplement the supply of coins from the four mints. The overall position of both banknote and coin supply is comfortable now.
- The Regional Offices of RBI launched aggressive campaigns for providing exchange facility to the members of public.

Why are Re.1, Rs.2, Rs.5 banknotes not being printed?

Volume-wise, the share of such small denomination banknotes in the total banknotes in circulation was very high but in terms of value they constituted a very small percentage. The average life of these banknotes was found to be less than a year. The cost of printing and servicing these banknotes was, thus, not commensurate with their life, and printing of these banknotes was, therefore, discontinued. These denominations were coinised. However, Rs.5 was re-introduced in 2001 to supplement the gap between the demand and supply of coins in this denomination. The printing of Rs.5 banknotes has been discontinued from the year 2005.

D) Soiled and Mutilated Banknotes

What are soiled, mutilated and imperfect banknotes?

(i) Soiled banknotes are banknotes, which have become dirty and limp due to excessive use. A single numbered banknote cut into two pieces but on which the number is intact is now treated as soiled banknote. A double numbered banknote cut into two pieces but on which both the numbers are intact is now treated as soiled banknote.

(ii) Mutilated banknote is a banknote, of which a portion is missing or which is composed of more than two pieces.

(iii) Imperfect banknote means any banknote, which is wholly or partially, obliterated, shrunk, washed, altered or indecipherable but does not include a mutilated banknote.

Can soiled and mutilated banknotes be exchanged for value?

Yes. Such banknotes can be exchanged for value.

Where are soiled/mutilated banknotes accepted for exchange?

All banks are authorized to accept soiled banknotes for full value. They are expected to extend the facility of exchange of soiled notes even to non-customers. All currency chest branches of commercial banks are authorised to adjudicate mutilated banknotes and pay value for these, in terms of the Reserve Bank of India (Note Refund) Rules, 2009

How much value would one get in exchange of soiled banknotes?

Soiled banknotes are exchanged for full value.

How much value would one get in exchange of mutilated banknotes?

A mutilated banknote can be exchanged for full value if,

(i) For denominations of Re. 1, Rs. 2, Rs. 5, Rs. 10 and Rs. 20, the area of the single largest undivided piece of the note presented is more than 50 percent of the area of respective denomination, rounded off to the next complete square centimeter.

(ii) For denominations of Rs. 50, Rs.100, Rs. 500 and Rs.2000, the area of the single largest undivided piece of the note presented is more than 65 percent of the area of respective denomination, rounded off to the next complete square centimetre.

Banknotes in denominations of Re. 1, Rs. 2, Rs. 5, Rs. 10 and Rs. 20, cannot be exchanged for half value.

A mutilated banknote in denominations of Rs.50, Rs.100, Rs.500 or Rs.2000, can be exchanged for half value if,

The undivided area of the single largest piece of the note presented is equal to or more than 40 percent and less than or equal to 65 percent of the area of respective denomination, rounded off to the next complete square centimetre.

How much value would one get in exchange of imperfect banknotes?

The value of an imperfect note may be paid for full value / half value under rules as specified for mutilated notes if,

(i) the matter, which is printed on the note has not become totally illegible, and

(ii) it can be satisfied that it is a genuine note.

What types of banknotes are not eligible for payment under the Note Refund Rules?

The following banknotes are not payable under the Reserve Bank of India (Note Refund) Rules 2009.

A banknote for which:

- the area of single largest undivided piece of note presented is less than or equal to 50% of area of the note for denominations of Re. 1, Rs. 2, Rs. 5, Rs. 10 and Rs. 20.
- the area of the single largest undivided piece of the note is less than 40 percent for denominations of Rs.50, Rs. 100, Rs. 500 and Rs. 2000.

A banknote which:

- cannot be identified with certainty as a genuine note for which the Bank is liable under the Act,
- has been made imperfect or mutilated, thereby causing the note to appear to be of a higher denomination, or has been deliberately cut, torn, defaced, altered or dealt with in any other manner, not necessarily by the claimants, enabling the use of the same for making of a false claim under these rules or otherwise to defraud the Bank or the public,
- carries any extrinsic words or visible representations intended to convey or capable of conveying any message of a political or religious character or furthering the interest of any person or entity,

has been imported into India by the claimant from any place outside India in contravention of the provision of any law.

What if a banknote is found to be non-payable?

Non-payable banknotes are retained by the receiving banks and sent to the Reserve Bank where they are destroyed.

E) Banknotes since Independence.

i. **Ashoka Pillar Banknotes:**

The first banknote issued by independent India was the one rupee note issued in 1949. While retaining the same designs the new banknotes were issued with the symbol of Lion Capital of Ashoka Pillar at Sarnath in the watermark window in place of the portrait of King George.

The name of the issuer, the denomination and the guarantee clause were printed in Hindi on the new banknotes from the year 1951. The banknotes in the denomination of Rs.1000, Rs.5000 and Rs.10000 were issued in the year 1954. Banknotes in Ashoka Pillar watermark Series, in Rs.10 denomination were issued between 1967 and 1992, Rs.20 denomination in 1972 and 1975, Rs.50 in 1975 and 1981, and Rs.100 between 1967-1979. These banknotes are still found in circulation. The banknotes issued during the above period, contained the symbols representing science and technology, progress, orientation to Indian Art forms. In the year 1980, the legend "Satyameva Jayate", i.e., truth alone shall prevail was incorporated under the national emblem for the first time.

To contain the volume of banknotes in circulation, Rs.500, banknote was introduced in October 1987 with the portrait of Mahatma Gandhi and the Ashoka Pillar watermark.

ii. **Mahtma Gandhi (MG) Series 1996**

The banknotes in MG Series – 1996 are available in the denomination of Rs.5, (introduced in November 2001) Rs.10 (13-06-1996), Rs.20 (24-08-2001), Rs.50 (14-03-1997), Rs.100 (04-06-1996), Rs.500 (20-10.1997) and Rs.1000 (November 2000). All the banknotes of this series bear the portrait of Mahatma Gandhi on the obverse (front) side, in place of symbol of Lion Capital of Ashoka Pillar, which has also been retained and shifted on the same side. This means that these banknotes contain Mahatma Gandhi watermark as well as Mahatma Gandhi's portrait.

Are there any special features in the banknotes of Mahatma Gandhi series- 1996?

The Mahatma Gandhi series-1996 banknotes contained several special features vis-à-vis the banknotes issued earlier. These are

i. **Security thread:** Rs.10, Rs.20 and Rs.50 notes contain fully embedded security thread. Rs.100, Rs.500 and Rs.1000 banknotes contain windowed security thread. This thread is partially exposed and partially embedded. When held against light, this thread can be seen as one continuous line. Other than on Rs.1000 banknotes, this thread contains the words 'Bharat' in the Devanagari script and 'RBI' appearing alternately. The security thread of the Rs.1000 banknote contains the inscription 'Bharat' in the Devanagari script, '1000' and 'RBI'.

ii. **Latent Image:** The vertical band next to the (right side) Mahatma Gandhi’s portrait, contains a latent image, showing the denominational value 20, 50, 100, 500 or 1000 as the case may be. The value can be seen only when the banknote is held horizontally and light allowed to fall on it at 45° ; otherwise this feature appears only as a vertical band.

iii. **Micro letterings:** This feature appears between the vertical band and Mahatma Gandhi portrait. It contains the word ‘RBI’ in Rs.10. Notes of Rs.20 and above also contain the denominational value of the banknotes. This feature can be seen better under a magnifying glass.

iv. **Identification mark:** A special intaglio feature (raised printing) has been introduced on the left of the watermark window, on the obverse (front) on all banknotes except Rs.10/- banknote. This feature is in different shapes for various denominations (Rs.20-Vertical Rectangle, Rs.50-Square, Rs.100-Triangle, Rs.500-Circle, Rs.1000-Diamond) and helps the visually impaired to identify the denomination

Rs.20 Rs.50 Rs.100 Rs.500 Rs.1000

v. **Intaglio Printing:** The portrait of Mahatma Gandhi, Reserve Bank seal, Guarantee and promise clause, Ashoka Pillar Emblem and RBI Governor's signature are printed in intaglio i.e. in raised prints in Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000 banknotes.

vi. **Fluorescence:** The number panels of the banknotes are printed in fluorescent ink. The banknotes also have optical fibres. Both can be seen when the banknotes are exposed to ultra-violet lamp.

vii. **Optically Variable Ink:** The numeral 500 & 1000 on the Rs.500 [revised colour scheme of mild yellow, mauve and brown] and Rs.1000 banknotes are printed in Optically Variable Ink viz., a colour-shifting ink. The colour of these numerals appears green when the banknotes are held flat but would change to blue when the banknotes are held at an angle.

viii. **Watermark:** The banknotes contain the Mahatma Gandhi watermark with a light and shade effect and multi-directional lines in the watermark window.

iii) MG series – 2005 banknotes

MG series 2005 banknotes are issued in the denomination of Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000 contain some additional / new security features. The Rs.50 and Rs.100 banknotes were issued in August 2005, followed by Rs.500 and Rs.1000 denominations in October 2005 and Rs.10 and Rs.20 in April 2006 and August 2006, respectively.

The additional / new security features in MG Series 2005 banknotes.

i. **Security Thread:** The machine-readable security thread in Rs.10, Rs.20 and Rs.50 denomination banknotes is windowed on front side and fully embedded on reverse side. The thread fluoresces in yellow on both sides under ultraviolet light. The thread appears as a continuous line from behind when held up against light.
ii. Rs.100, Rs.500 and Rs.1000 denomination banknotes have machine-readable windowed security thread with colour shift from green to blue when viewed from different angles. It fluoresces in yellow on the reverse and the text will fluoresce on the obverse under ultraviolet light.
iii. **Intaglio Printing:** The portrait of Mahatma Gandhi, Reserve Bank seal, Guarantee and promise clause, Ashoka Pillar emblem, Governor's signature and the identification mark for the visually impaired persons are printed in improved intaglio.
iv. **See through register:** Half the numeral of each denomination (10, 20, 50, 100, 500 and 1000) is printed on the obverse (front) and half on the reverse. The accurate back to back registration makes the numeral appear as one when viewed against light.

v. **Water Mark and electrotype watermark:** The portrait of Mahatma Gandhi, the multi-directional lines and an electrotype mark showing the denominational numeral 10, 20, 50, 100, 500 and 1000 appear in this section respectively in each denomination banknote and these can be viewed better when the banknote is held against light.
vi. **Optically Variable Ink (OVI):** The font size of the numeral 500 and 1000 in Rs.500 and Rs.1000 denomination banknotes is reduced, as compared to MG series banknotes issued in these denominations earlier in the year 2000. The colour of the numeral appears green when the banknote is held flat but would change to blue when the banknote is held at an angle.

vii. Dual coloured optical fibres, seen under UV lamp.
viii. **Year of Printing:** Year of printing appears on the reverse of the banknote

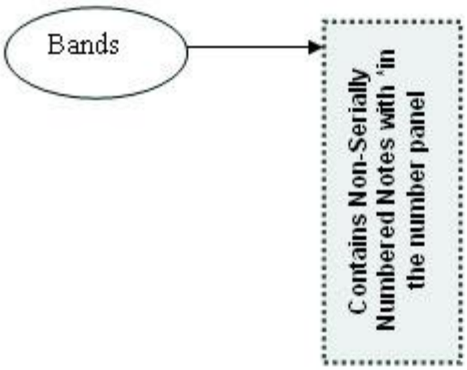
All these banknotes issued by the Bank are legal tender.

Why was the change brought about?
Central banks, the world over change the design of their banknotes and introduce new security features primarily to make counterfeiting difficult and to stay ahead of counterfeiters. India also follows the same policy.

What is a "star series" banknote?

Fresh banknotes issued by Reserve Bank of India till August 2006 were serially numbered. Each banknote bears a distinctive serial number along with a prefix. The prefix consists of numeral and letter/s. The banknotes are issued in packets containing 100 pieces.

The Bank has adopted the "STAR series" numbering system for replacement of defectively printed banknotes, at the printing presses. To begin with, this will be for banknotes of Rs.10, Rs.20 and Rs.50 denomination. The Star series banknotes are exactly like the existing Mahatma Gandhi Series banknotes, but have an additional character viz., a *(star) in the number panel in the space between the prefix and the number. The packets containing these banknotes will not, therefore, have sequential serial numbers, but contain 100 banknotes, as usual. To facilitate easy identification, the bands on such packets clearly indicate the presence of these banknotes in the packet.



F) Counterfeits / Forgeries

How does one differentiate between a genuine banknote and forged / counterfeit banknote?
The banknote on which the above explained features i.e., the features of genuine banknotes are not available / absent can be suspected to be a counterfeit banknotes and examined minutely.
What are the legal provisions relating to printing and circulation of forged banknotes?
Counterfeiting banknotes / using as genuine, forged or counterfeit banknotes / possession of forged or counterfeit banknote / making or possessing instruments or materials for forging or counterfeiting banknotes making or using documents resembling banknotes are offences under Sections 489A to 489E of the Indian Penal Code and are punishable in the Courts of Law by fine or imprisonment ranging from seven years to life imprisonment or both, depending on the offence.
G) Clean Note Policy:
Reserve Bank of India has been continuously making efforts to make good quality banknotes available to the members of public. To help RBI and banking system, the members of public are requested to ensure the following:
Not to staple the banknotes

- Not to write / put rubber stamp or any other mark on the banknotes

LENDING RATES OF BANKS

(Prime Lending Rate, Bench Mark Prime Lending Rate, Base Rate, MCLR)

MCLR(Overnight) : 6.70% - 7.30% (As on 5.7.2022)
Base Rate : 7.25% - 8.80% (As on 5.7.2022)
Savings Bank Deposit Rate : 2.70% - 3.00 % (As on 5.7.2022)
Term Deposit Rate (Less than one Year) : 5.00% - 5.75 % (As on 5.7.2022)

STUDY MATERIAL
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Brief History:

Reserve Bank of India began prescribing the minimum rate of interest on advances granted by Scheduled Commercial Banks with effect from October 1, 1960.

From March 2, 1968, in place of minimum lending rate, the maximum lending rate to be charged by banks was introduced, which was rescinded with effect from January 21, 1970, when the prescription of minimum lending rate was reintroduced.

In October, 1988 the ceiling stipulated on interest rates was removed by RBI. In place of ceiling on interest rates, PLR policy was suggested. As per this method, PLR was determined by every bank for itself based on its own perception and policies. PLR policy applied to the loans accounts having limits of Rs.2 Lakhs and above.

One of the objectives of financial sector reforms (as per Narasimham Committee Report) during 1990s has been to ensure that the financial repression inherent in administered interest rates is removed.

In October, 1997 Prime Term Lending Rates (PTLR) was introduced and according to which banks were given the freedom to announce separate PTLR for term loans of 3 years and above while PLR remained applicable to the loans taken for working capital and short-term purposes.

The next major change in this field was the introduction of the Tenor Linked Lending Rate (TPLRs) on April 1999. According to this system, banks could operate different PLRs for different maturities, provided the transparency and uniformity of treatment that were envisaged under the PLR system continued to be maintained.

In the Annual Policy Statement of April 2003, the Reserve Bank advised banks to announce a Benchmark PLR (BPLR) with the approval of their boards. Each bank has its own BPLR or BMPLR.

What is Prime Lending Rate ?

"Prime Lending Rate is the lending rate that a bank charges its most creditworthy customers or prime corporate (near zero risk) customers so that the earnings from such lending will cover all costs and leave a margin adequate enough to service the capital".

The lowest rate of interest on bank loans at a given time and place, offered to preferred borrowers is called as prime interest rate or prime lending rate.

The Prime Interest Rate is the interest rate charged by banks to their most creditworthy customers (usually the most prominent and stable business customers). The rate is almost always the same amongst major banks. Adjustments to the prime rate are made by banks at the same time; although, the prime rate does not adjust on any regular basis. The Prime Rate is usually adjusted at the same time and in correlation to the adjustments of the Reserve Bank of India Base Rate. Some banks use the name "Reference Rate" or "Base Lending Rate" to refer to their Prime Lending Rate.

In India ceiling stipulation of interest rate was removed from October, 1988. Instead of having ceiling interest rate, prime lending rate of interest was suggested, which is determined by every bank individually based on its own perception and funds policies, for the commercial borrowing, in respect of working capital and term loan accounts involving certain financial limits , with certain exceptions.

Interest rate is no more area-specific, scheme-specific or category-specific. Instead, it is now linked to quantum of loan amount. From October, 1996 onwards, RBI advised banks to announce the maximum spread over the PLR for all advances except consumer loans.

How Prime Lending Rate (PLR) was calculated ?

Prime Lending Rate is calculated in the banks based on the following factors:

i) Supply and demand position of funds in the banking system and within the bank

ii) Present and anticipated cost of funds i.e., both the deposits (of all types namely current, savings, domestic, NRE, certificate of deposits) and borrowings and attendant costs for servicing the deposits such as operational cost including staff cost

iii) Present level of spread available as also the required level of spread

iv) cost of management of the asset/liability mismatch

v) Need to retain existing customers and attract new customers

vi) To remain fiercely competitive

vii) Level of non-performing advances in a bank and resultant provisioning and write-off requirement for non-performing advances

Benchmark Prime Lending Rate (BPLR):

"The benchmark Prime Lending Rate is just like the London Interbank Offer Rate (LIBOR). Each bank will have its own Benchmark Prime Lending Rate depending on the various financial parameters. Ultimately it will benefit the borrowers."

Benchmark PLR is based on a bank's actual cost of funds, operating expenses, cost of capital, default premium (or) Non-Performing Asset(NPA) and term premium and profit margin etc.

The benchmark PLR was introduced in 2003 in place of tenor-linked PLR. Later RBI decided to discontinue the tenor-linked PLR .

Reserve Bank of India had floated the idea of benchmark PLR considering the rate cut war among banks irrespective of their financial health.

Banks having a lower cost of funds were able to offer a lower PLR compared to other banks.

Keeping in view the international practice and to provide operational flexibility to commercial banks in deciding their lending rates, banks can offer loans at below BPLR to exporters or other creditworthy borrowers, including public enterprises, on the basis of a transparent and objective policy approved by their respective Boards. Banks continued to declare the maximum spread of interest rates over BPLR.

What are the reasons for shifting from BPLR to Base Rate System:

The BPLR system,which was introduced in 2003, fell short of its original objective of bringing transparency to lending rates as banks could lend below BPLR.

Sub-BPLR lending was about 65.8 per cent in December 2009. From the viewpoint of policy makers, it was difficult to assess the transmission of policy rates of the Reserve Bank to lending rates of banks in the absence of transparency.

The calculations of the BPLR by various banks were not transparent. Banks normally used to take into consideration the factors like cost of funds, administrative costs and a margin over it. However, such parameters were neither disclosed by bank nor were same for all the banks.

Hence, as per the Annual Policy Statement of 2009-10, the Reserve Bank announced the constitution of the Working Group on Benchmark Prime Lending Rate (BPLR) and Shri Shri Deepak Mohanty was appointed as Chairman to review the BPLR system and suggest changes to make credit pricing more transparent.

The Working Group under the Chairmanship Deepak Mohanti was assigned the following terms of reference (i) to review the concept of BPLR and the manner of its computation; (ii) to examine the extent of sub-BPLR lending and the reasons thereof; (iii) to examine the wide divergence in BPLRs of major banks; (iv) to suggest an appropriate loan pricing system for banks based on international best practices; (v) to review the administered lending rates for small loans up to Rs 2 lakh and for exporters; (vi) to suggest suitable benchmarks for floating rate loans in the retail segment; and (vii) consider any other issue relating to lending rates of banks.

To solve the above problems, the system of 'base rate' was introduced by RBI from July 01, 2010 as per the recommendations of Shri Deepak Mohanty, Chairman, the Working Group on Benchmark Prime Lending Rate.

The Base Rate includes all those elements of the lending rates that are common across all categories of borrowers. Banks are free to use any methodology for computation of base rate, provided it is consistent, and is made available for supervisory review. Banks determine their actual lending rates on loans and advances with reference to the base rate and by including such other customer and product specific charges, as considered appropriate.

What is Base Rate ? Give details.

The Base Rate is the minimum interest rate of a Bank below which it cannot lend, except for DRI advances, loans to bank's own employees and loan to banks' depositors against their own deposits. (i.e. cases allowed by RBI)

When was the Base Rate made applicable for Banks in India ?

RBI had made it mandatory for all banks to introduce Base Rate w.e.f. 1st July, 2010.

How Base Rate is calculated?

The Base Rate calculations include all those cost elements which can be clearly identified and are common across borrowers. The constituents of the Base Rate includes (i) the card interest rate on retail deposit (deposits below Rs. 15 lakh) with one year maturity (adjusted for CASA deposits); (ii) adjustment for the negative carry in respect of CRR and SLR; (iii) unallocatable overhead cost for banks which would comprise a minimum set of overhead cost elements; and (iv) average return on net investments.

Why Banks are still continuing with BPLR, though Base Rate has been made applicable ?

RBI has introduced Base Rate as a reference benchmark PLR for all floating rate loan products w.e.f. 1st July, 2010. However, RBI has also allowed to continue until maturity, according the same interest rate methodology at which they were approved. Existing borrowers will have the option of approaching the bank to switch over to the Base Rate system before the expiry of their loans.

<u>MCLR(w.e.f.1.4.2016)</u> : -

All rupee loans sanctioned and credit limits renewed w.e.f. April 1, 2016 will be priced with reference to the **Marginal Cost of Funds based Lending Rate (MCLR)** which will be the internal benchmark for such purposes.

ii. The MCLR will comprise of:

a. Marginal cost of funds;
b. Negative carry on account of CRR;
c. Operating costs;
d. Tenor premium.

iii. Marginal Cost of funds

The marginal cost of funds will comprise of Marginal cost of borrowings and return on networth.

MODEL QUESTIONS for IBPS Common Written Examination:

1) Which of the following rate is not decided by RBI ?

a) Bank Rate
b) SLR
c) CRR
d) Repo Rate
e) BPLR Ans : (e)

2) Base Rate is introduced from which date ?

a) 1994
b) 1997
c) July 1, 2010
d) 1992
e) 1997 Ans: (c)

3)In August, 1991 which committee/commission is appointed for financial sector reforms?

a) Narasimham Committee
b) Sri Krishna Commission
c) Tendulkar Committee
d) Nanavathi Commission
e) None of these Ans : (a)

4) Which of the following rate is introduced based on the Shri Deepak Mohanty Committee recommendations ?

a) Base Rate
b) PLR
c) CAR
d) CRAR
e) Bank Rate Ans: (a)

5) Present Base Rate is between____________

a) Between 8% and 9% p.a.
b) Between 9% and 9.5% p.a.
c) Between 7% and 8% p.a.
d)Between 10% and 10.5% p.a.
e) None of these Ans : (d)

6) Present BPLR or BMPLR as announced by Andhra Bank is ___________

a) Between 15% and 15.5% p.a.
b) Between 12 % and 13% p.a.
c) Between 13 % and 14% p.a.
d) 14.75% p.a.
e) None of these Ans : (d)

MERCHANT BANKING

STUDY MATERIAL
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According to Section (2) of SEBI Rules "merchant banker" is a person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management (Ex: Shares etc.)

What is Merchant banking ?
Merchant bankers are financial intermediaries .The main strength of merchant bankers is not only provision of finance but also to provide the whole range of inputs of innovative financial services, managerial and legal advice for diversifying / modernizing or running an industrial unit.

Merchant Banking is a combination of Banking and consultancy services. It provides consultancy, to its clients, for financial, marketing, managerial and legal matters. Consultancy means to provide advice, guidance and service for a fee. It helps a businessman to start a business. It helps to raise (collect) finance. It helps to expand and modernise the business. It helps in restructuring of a business. It helps to revive sick business units. It also helps companies to register, buy and sell shares at the stock exchange.
In short, merchant banking provides a wide range of services from starting upto running a business. It acts as Financial Engineer for a business. Merchant banker arranges funds from outside the country also.

What is the difference between merchant banker and commercial bank ?
Merchant banking division of a bank serves as an advisory board to its constituents. Main difference between commercial banks and a merchant banker is that commercial bankers are financiers but merchant bankers are financial engineers / architects / consultants.
A banker has funds with him which he mobilizes through deposits and borrowing or in other ways and then deploys or lends these funds. A merchant banker does not have any fund in his own kitty but he has expertise and access to various sources of funds as per needs of the client.

Which bank started Merchant Banking in India ?
Grindleys Bank is the first bank in India to open a Merchant Banking division in 1967. Later, State Bank of India is the first Indian bank to enter this field.

Merchant Banking Business in India has been developed on the European pattern. It has yet to achieve the highest level of participation on Stock Exhanges as in the United States.

What are the services rendered by Merchant Bankers ?
Ans : The following are the services by a Merchant Banker:-
1) Performance Services
2) Project Financing
3) Management of Public Issue
4) Investment advice
5) Portfolio Management
6) Stock Exchange Operations

7) International Service to establish a joint venture abroad, raising of funds abroad, co-ordination with foreign institutions.
8) Money Market activities
9) Other Services like Leasing Services etc.
10) OTC market operations
11) Mergers and amalgamations
12) Rehabilitation of sick units

Detailed explanation:
Raising Finance for Clients : Merchant Banking helps its clients to raise finance through issue of shares, debentures, bank loans, etc. It helps its clients to raise finance from the domestic and international market. This finance is used for starting a new business or project or for modernization or expansion of the business.

Broker in Stock Exchange : Merchant bankers act as brokers in the stock exchange. They buy and sell shares on behalf of their clients. They conduct research on equity shares. They also advise their clients about which shares to buy, when to buy, how much to buy and when to sell. Large brokers, Mutual Funds, Venture capital companies and Investment Banks offer merchant banking services.

Project Management : Merchant bankers help their clients in many ways. For e.g. advising about location of a project, preparing a project report, conducting feasibility studies, making a plan for financing the project, finding out sources of finance, advising about concessions and incentives from the government.

Advice on Expansion and Modernization : Merchant bankers give advice for expansion and modernization of the business units. They give expert advice on mergers and amalgamations, acquisition and takeovers, diversification of business, foreign collaborations and joint-ventures, technology upgradation, etc.

Managing Public Issue of Companies : Merchant bank gives advice and manage the public issue of companies. They provide the following services:
i)Advise on the timing of the public issue.
ii)Acting as manager to the issue, and helping in accepting applications and allotment of securities.
ii)Help in appointing underwriters and brokers to the issue.
iv)Listing of shares on the stock exchange, etc.

Handling Government Consent for Industrial Projects : A businessman has to get government permission for starting of the project. Similarly, a company requires permission for expansion or modernization activities. For this, many formalities have to be completed. Merchant banks do all this work for their clients.

Special Assistance to Small Companies and Entreprenuers : Merchant banks advise small companies about business opportunities, government policies, incentives and concessions available. It also helps them to take advantage of these opportunities, concessions, etc.

Services to Public Sector Units : Merchant banks offer many services to public sector units and public utilities. They help in raising long-term capital, marketing of securities, foreign collaborations and arranging long-term finance from lending institutions.

Revival of Sick Industrial Units : Merchant banks help to revive (cure) sick industrial units. It negotiates with different agencies like banks, term lending institutions, and BIFR (Board for Industrial and Financial Reconstruction). It also plans and executes the full revival package.

Portfolio Management : A merchant bank manages the portfolios (investments) of its clients. This makes investments safe, liquid and profitable for the client. It offers expert guidance to its clients for taking investment decisions.

Corporate Restructuring : It includes mergers or acquisitions of existing business units, sale of existing unit or disinvestment. This requires proper negotiations, preparation of documents and completion of legal formalities. Merchant bankers offer all these services to their clients.

Money Market Operations : Merchant bankers deal with and underwrite short-term money market instruments, such as:
i)Government Bonds.
ii)Certificate of deposit issued by banks and financila institutions.
iii)Commercial paper issued by large corporate firms.
iv)Treasury bills issued by the Government (In India it is done by RBI).

Leasing Services : Merchant bankers also help in leasing services. Lease is a contract between the lessor and lessee, whereby the lessor allows the use of his specific asset such as equipment by the lessee for a certain period. The lessor charges a fee called rentals.

Management of Interest and Dividend : Merchant bankers help their clients in the management of interest on debentures / loans, and dividend on shares. They also advise their client about the timing (interim / yearly) and rate of dividend.

Securities market and portfolio managers have been statutorily brought under the control of Securities Exchange Board of India (SEBI). Accordingly in India, the merchant banker has to comply with the following rules frame by SEBI:
i) No person/merchant banker can carry on activity related to portfolio management without obtaining a certificate of registration from SEBI
ii) SEBI would inspect books of accounts kept by portfolio managers
iii) Merchant bankers are required to submit due diligence certificate from SEBI
iv) Each Public Issue (of shares / debentures) should be managed by atleast one merchant banker who functions as a lead manager to the issue

The Code of Conduct, a merchant banker has to follow:-

1. A merchant banker shall make all efforts to protect the interests of investors.

2. A merchant banker shall maintain high standards of integrity, dignity and fairness in the conduct of its business.

3. A merchant banker shall fulfil its obligations in a prompt, ethical, and professional manner.

4. A merchant banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment.

5. A merchant banker shall endeavour to ensure that : -

(*a*) inquiries from investors are adequately dealt with;

(*b*) grievances of investors are redressed in a timely and appropriate manner;

(*c*) where a complaint is not remedied promptly, the investor is advised of any further steps which may be available to the investor under the regulatory system.

6. A merchant banker shall ensure that adequate disclosures are made to the investors in a timely manner in accordance with the applicable regulations and guidelines so as to enable them to make a balanced and informed decision.

7. A merchant banker shall endeavour to ensure that the investors are provided with true and adequate information without making any misleading or exaggerated claims or any misrepresentation and are made aware of the attendant risks before taking any investment decision.

8. A merchant banker shall endeavour to ensure that copies of the prospectus, offer document, letter of offer or any other related literature is made available to the investors at the time of issue or the offer.

9. A merchant banker shall not discriminate amongst its clients, save and except on ethical and commercial considerations.

10. A merchant banker shall not be a party to or instrument for:-

(*a*) creation of false market;

(*b*) price rigging or manipulation; or

(*c*) passing of unpublished price sensitive information in respect of securities which are listed and proposed to be listed in any stock exchange to any person or intermediary in the securities market.

Who is called as 'Investment banker'?

Ans: An Investment Banker is a financial conglomerate which conducts a full range of investment related activities from advising clients on securities issues, acquisitions and disposal of businesses, arranging and underwriting new securities, distributing the securities etc.

What is an Investment Company ?

Ans: It may be a corporation, trust or partnership that invests pooled unit holder/shareholder money in securities appropriate to the organization's objective. Mutual funds, close–ended funds and unit investment trusts are the three types of investment companies

What is OTC (Over the Counter) ?

Ans : It is a financial transaction that is not made on an organised exchange (like Bombay Stock Exchange). Generally the parties must negotiate all the details of each transaction or agree to use simplifying market conventions.

What is Portfolio?

Ans : It is a collection of securities owned by an individual or an institution (such as a mutual fund) that may include stocks, bonds and money market securities.

What is Portfolio investment ?

Ans : It is an investment which goes into the financial sector in the form of treasury bonds and notes, stocks, money market placements, and bank deposits. Portfolio investment involves neither control of operations nor ownership of physical assets.

Who is called as Portfolio manager ?

Ans : Any person who in pursuant to a contract or agreement with a client ,advises or directs or undertakes on behalf of the client (whether as discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the funds of the client as the case may be.

Who is called as Underwriter ?

Ans : A person who does underwriting. A financial organization that handles sales of new securities which a company wishes to sell in order to raise money. Typically the underwriters will guarantee subscription to securities say, an issue of equity from the company at a stated price, and are under an obligation to purchase securities upto the amount they have underwritten, if the public does not subscribe for the issue.

What is Underwriting ?

Ans :It is an agreement with or without conditions to subscribe to the securities of a body corporate when the existing shareholders of such body corporate or the public do not subscribe to the securities offered to them.

MICR Code on Cheque & Demand Draft (DD)

STUDY MATERIAL
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In banking parlance MICR stands for Magnetic Ink Character Recognition. This code is printed on banks cheques and demand drafts (DD) etc. MICR (Magnetic Ink Character Recognition) code contains 9 digits, appearing at the bottom of the cheque. MICR code appears after the cheque number. MICR technology is very popular worldwide and in this sytem, the instruments such as cheques, draft, pay order, gift cheques, traveler cheques etc., can be read directly without the need for transcribing the data on punched cards or paper tapers. On insertion of the instrument i.e., cheque in the machine, the printed information is magnetized and read by the machine.

Brief history:
Introduction of Magnetic Ink Character Recognition (MICR) technology in India, during the mid-eighties is the single-most important development responsible for making the cheque clearing popular and efficient – volume-wise, speed-wise and convenience-wise. At the banks' end too, cheques in MICR format have facilitated post-processing ease in operations, affording credit to customer accounts and reducing reconciliation issues, thus improving customer service. Standardisation of cheque forms (leaves) in terms of size, MICR band, quality of paper, etc., is one of the key factors that enabled mechanisation of cheque processing.

MICR (magnetic ink character recognition) is a technology used to verify the legitimacy or originality of paper documents, especially checks. Special ink, which is sensitive to magnetic fields, is used in the printing of certain characters on the original documents. Information can be encoded in the magnetic characters.

The use of MICR can enhance security and minimize the losses caused by some types of crime. If a document has been forged - for example,if a counterfeit cheque is produced using a color photocopying machine, the magnetic-ink line will either not respond to magnetic fields, or will produce an incorrect code when scanned using a device designed to recover the information in the magnetic characters. Even a legitimate cheque can be rejected if the MICR reader indicates that the owner of the account has a history of writing bad cheques.

Retailers commonly use MICR readers to minimize their exposure to cheque fraud. Corporations and government agencies also use the technology to speed up the sorting of documents.
Simply saying in the MICR code, there will be nine digits i.e. City Code + Bank Code +Branch Code. Each Bank Branch has a unique MICR code. One wonders what these code are and how to make it easy to remember our branch code. If you are able to understand the code, it becomes easy to remember your Bank Branch MICR code.

Normaly there are four sets of numbers in the bottom of cheque leaf. This bottom portion of cheque is called as white band. In CTS-2010 method, white band is now called as MICR band.

1) Cheque Number **:-**
The first set of numbers on the bottom portion of the cheque represent the cheque number. It is a six digit number.

2) MICR Code:-

MICR number helps a bank to recognize the bank and branch that issued the cheque. You might be thinking that this can be done just by looking at the cheque, but banks have to process hundreds of cheques daily. Going through each and every cheque is a cumbersome process. Instead, the cheques are sorted through a cheque reading machine which uses this number to identify the bank and branch a cheque belongs to. This makes the cheque processing very fast.
The MICR number is a nine digit number, which consists of the following three parts:-
a) City Code: The first three digits represent the city code. The first three digits of the PIN (Postal Index Number) code of that city are used for this purpose.
For e.g., a bank in Hyderabad will have first three digits of MICR code as 500 (since PIN code for Hyderabad starts with 500)
b) Bank Code: The next three digits represent the bank code. Every bank has a unique code assigned to it.
Ex: ICICI bank's code is 229, for HDFC it is 240, for SBI it is 002 and so on.
c) Bank Branch Code: The last three digits in the MICR code represent the branch code.
Hence, it is easy for any one can to find the name of the bank and branch to which that cheque belongs to by looking at its MICR number, and vice versa.

3) Bank account Number:-
Generally, the third set of six digit numbers represents your account number (It consists of a few digits of your account number).

4) Transaction ID:-
The last two digits tells whether a cheque is a local cheque or payable at par cheque. The code numbers 29, 30 and 31 represents payable at par cheque, while 09, 10 and 11 represents local cheque.
Payable at par cheque is a cheque that can be cashed at any branch of the issuing bank, while local cheque can be cashed only at the issuing branch. So, if you deposit a cheque in your bank, with code 10 written at the bottom of the cheque, it'll take a few days for the money to come in your account.
But now-a-days, most of the branches are CBS (Core Banking Solution) enabled, so the cheques are generally payable at par.

Example: MICR Code No. 560015005
560 – Represents City Name [Bangalore]
015 – Represents Bank Name [Canara Bank]
005 – Represents Bank Branch Code [Avenue Road Branch]

Font Style:- There are two major MICR fonts in use: E-13B and CMC-7. E-13B has a 14 character set, while CMC-7 has a 15 character set i.e., 10 numeric characters, plus control characters.

Why MICR numbers are written in a different font style?
Ans: These numbers are written in a different font style with a special ink that contains magnetic material (i.e.,Iron) so that it can be recognized by Magnetic Ink Character Reader. The process was demonstrated to the American Bankers Association in July 1956, and it was almost universally employed in the U.S. by 1963.The major MICR fonts used around the world are E-13B and CMC-7. Almost all US, Canadian, and UK cheques now include MICR characters at the bottom of the paper in the E-13B font. Some European countries, including France and Italy, used the CMC-7 font developed by Bull in 1957.

ANSI X9.27 Print and Test Specifications for Magnetic Ink Character Recognition (MICR) specifies the measurements, shapes and tolerances of 14 characters defined in MICR font in detail (including 10 digits, Transit symbol, Amount symbol, On-Us symbol and Dash symbol).

⑆1234567890⑆ ⑈1234567890⑈ ⑇1234567890⑇ ⑉1234567890⑉

The MICR E-13B font is the standard in the United States, Canada, United Kingdom, Australia and other countries. (The "13" in the font's name refers to the 0.013 inch grid used to design it.) Besides decimal digits, it also contains the following symbols:
⑆ (transit: used to delimit a bank branch routing transit number),
⑇ (amount: used to delimit a transaction amount),
⑈ (on-us: used to delimit a customer account number), and
⑉ (dash: used to delimit parts of numbers, e. g., routing numbers or account numbers).

How does MICR help speed up the processing of cheques?

Unlike the manual clearing of cheques where there is a possibility of many human errors and subsequent delay in clearing, the MICR code on the cheque printed with a unique magnetic ink usually iron oxide has magnetic material present in it and thus makes it machine-readable and almost error proof!

Under this method the reading machine or a cheque sorting machine reads through a cheque when inserted and identifies the branch the cheque belongs to and activates the automation clearing process.

The MICR code is so clear and fine that the machine could read it even if the MICR code isn't visible due to other marks or stamps on it.

What should not be done to get good result from MICR cheques while feeding to the reading machine ?

a)MICR cheques should not be folded

b) Nothing is to be written and no rubber stamp is to be fixed on the code bands

c) Pins and stables should not be put on MICR band

d) Gum is to be avoided for MICR cheques

Ans : All the above

CTS – 2010 New Cheques

1) What is CTS?

Ans: Cheque Truncation System

2) What is Cheque Truncation System (CTS) ?

Ans: Cheque Truncation System is the process whereby images of cheques are scanned and electronically sent to the concerned branches, for inward and outward clearing, instead of physical movement of the relative instrument. In the process, the paying branch will receive the images for inward clearing and, if found to be in order, will pay and send facsimile of cheque back to the clearing centre and vice versa. At present, the Cheque Truncation System (CTS) project was implemented on pilot basis in National Capital Region, New Delhi, in which all member banks are participating.

3) What are the mandatory features of CTS-2010 Standard cheque?

Ans:The following are the compulsory features for all bank cheques :-

i) Quality of Paper (at Manufacturing stage). Paper should be image friendly and have protection against alterations by having chemical sensitivity to acids, alkalis etc.

ii) Water Mark on the cheque (at manufacturing stage) with words "CTS-INDIA" which can be seen when held against any light source.

iii) Void Panotograph on the cheque (at printing stage): Pantograph with hidden/ embedded "COPY" or "VOID" features shall be included in the cheques. This feature should not be visible on the scanned image.

iv) Bank's logo is to be printed with invisible ink (i.e., Ultra-Violet ink) to establish genuineness of a cheque.

v) Field placements of a cheque

vi) Mandating colours and background

vii)Clutter free background

viii) Prohibiting alterations / corrections on cheques

ix)Printing of account field

x) Use of Ultra Violet feature on cheque images

4) What are the desirable features of CTS-2010 standard cheque?

Ans: The following are the desirable features:-

(i) supplementary watermark containing issuing bank's own logo

(ii) embedded fluorescent fibres

(iii) fugitive ink

(iv) secondaryfluorescent ink

(v) micro-lettering

(vi) toner fusing

(vii) cheque-sum

(viii) patterns

(ix) floral designs

(x) bleeding ink

(xi) structural magnetics

(xii) security thread

(xiii) hot stamped holograms on multi-city cheques and demand drafts

(xiv) auto-detection tools

(xv) use of ultra violet band on sensitive and key areas of interest on a cheque such as Legal Amount Recognition (Amount in Words), Courtesy Amount Recognition (Amount in Figures), Signature, Beneficiary Name,

(xvi) pre-encoding of amount field on the MICR band for demand drafts / pay orders

(above a self-decided cut-off) before issue to customers,

(xvii) use of check-sum on the face

of demand drafts / pay orders (other than the MICR band), etc.

Objective type Questions for IBPS/SBI Exams:

1) MICR code on cheque consists of how many digits?

a) 9 b) 4

c) 5 d) 2 Ans : (a)

2) How many digits are allotted for cheque number on the MICR band or White Band ?

(a) 9 (b) 6

(c) 4 (e) Ans : (b)

3) Which type of font is used for MICR cheques to print numbers on MICR band?

a) Verdana b) Roman

c) E-13B d) Calibria Ans : (c)

4) CTS stands for

a) Cheque Truncation System

b) Cash Transaction System

c) Cash Trasfer System

d) Cash Taking System Ans : (a)

Micro Finance

STUDY MATERIAL
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Introduction:
Inclusive growth always received special emphasis in the Indian Policy making. Government of India and the Reserve Bank of India have taken several initiatives to expand access to financial system to the poor.

Despite the policy efforts, the gap remains in the availability of financial services in rural areas. The dependence of the rural poor on money lenders continues, especially for meeting emergent requirements. Such dependence is more pronounced in the case of marginal farmers, agricultural labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes, whose capacity to save is too small.
It is argued that micro finance can facilitate the achievement of the Millennium Development Goals (MDGs) of UNO as well as national policies that target poverty reduction, empowerment of women, assisting vulnerable groups, and improving standards of living.
MFIs have the potential to fill the critical gap left by formal financial institutions in providing financial services to low income groups in India.

<u>Different types of MFIs in India:</u>
Micro Finance Institutions (MFIs) are playing an important role of financial intermediaries in microfinance sector. The MFIs operate under various legal forms viz. :-
(1) NGO MFIs – Registered under Societies Registration Act, 1860 and / or Indian Trust Act, 1880
(2) Co-operative MFIs – Registered under State Co-operative Societies Act or Mutually Aided Co-operative Societies Act (MACS) or Multi – State Co-operative Societies Act, 2002
(3) NBFC – MFIs incorporated under Section 25 of Companies Act, 1956 (not for profit)
(4) NBFC – MFIs incorporated under Companies Act, 1956 and registered with RBI

All MFIs have been availing bulk loans from SIDBI and other banks for on-lending to groups and other small borrowers to promote micro finance activities in India. Total exposure of banks and financial institutions to MFIs in India as on 31.3.2010 was to the tune of Rs.13,955.74 Crores.

1) Who received Nobel Peace Prize for micro credit in 2006 from Bangladesh ?
Ans: The Norwegian Nobel Committee awarded the Nobel Peace Prize for 2006, to Muhammad Yunus and Grameen Bank of Bangladesh jointly for their efforts to create economic and social development from below.

2)What is Micro Finance ?
Ans: "Micro Finance is often defined as financial services for poor and low-income clients offered by different types of service providers. In practice, the term micro finance is often used more narrowly to refer to <u>loans and other services</u> from providers that identify themselves as "microfinance institutions (MFIs)."

3)What are the methods developed over the last 30 years by Micro Finance Institutions (MFIs) to deliver very small loans to unsalaried borrowers, taking little or no collateral ?
Ans: These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly.

4)Micro Finance typically refers to which type of financial services ?
Ans: These financial services include credit, savings, insurance, money transfers, and other financial products provided by different service providers, targeted at poor and low-income people.

5)What is micro credit ?
Ans: Micro credit refers to very small loans for unsalaried borrowers with little or no collateral, provided by legally registered institutions.

6)Who are micro finance clients ?
Ans: Typical micro finance clients are poor and low-income people that do not have access to other formal financial institutions. Micro finance clients are often self-employed, household-based entrepreneurs. Their diverse 'micro-enterprises" include small retail shops, street vending, artisanal manufacture, and service provision. In rural areas, micro-entrepreneurs often have a small income generating activities such as food processing and trade and majority are farmers.

7)What kind of institutions deliver micro finance ?
Ans: Most of the Micro Finance Institutions are not-for-profit organizations like NGOs (non – governmental organizations) , credit unions and other financial co-operatives, and state owned banks and postal savings banks.

8) How does micro finance help the poor ?
Ans: A harsh aspect of poverty is that income is often irregular and undependable. Access to credit helps the poor to smooth cash flows and avoid periods where access to food, clothing, shelter or education is lost. Credit can make it easier to manage shocks like sickness of a wage earner, theft or natural disasters. The poor use credit to build assets such as buying a piece of land, which gives them future security. Women participants in micro credit programme often experience the importance of self-empowerment.

9)For whom Micro Finance is not an appropriate tool?
Ans: Some conservative thinkers felt that Micro Finance is particularly inappropriate for the destitute, who may need grants or other public resources to improve their economic situation. Grants are more efficient way to transfer resources to the destitute. Basic requirements like food, shelter and employment are often urgently needed than financial services and should appropriately funded by the government and donor subsidies.

10)Why Micro Finance Institutions charge high interest rates to poor people?
Ans: The main reason is cost / expenses involved viz.,
(1) the administrative cost of making tiny loans is much higher in percentage terms than the cost of making a large loan. It takes a lot of time to process number of loan application forms.
(2) Credit decisions for borrowers who have neither collateral nor a salary cannot be based on automated scoring. These decisions require substantial intervention of a loan officer in judging the risk of each loan.
(3) MFIs operate in areas which are remote or have a low population density, making lending more expensive.
Though micro credit interest rates are legitimately high, inefficient operations can make them higher than necessary.

11)What is MIX ?
Ans : Microfinance Information eXchange. The MIX market is the primary source for MFIs. The MIX also publishes MIX Micofinance World.

12)What is the definition of MFI, according to Micro Finance Institutions (Development and Regulations) Bill, 2011 ?
Ans: It defines that microfinance services as one or more of the following financial services involving small amounts to individuals or groups:-
(i) providing micro credit
(ii) collection of thrift
(iii) remittance of funds
(iv) providing pension or insurance services
(v) any other services as may be specified.

The above points can be elaborately explained in the following manner (in view of MFI (D&R) Bill 2011:
a) Micro Finance Services includes financial assistance to an eligible client for an amount, not exceeding Rs.50,000/- in aggregate per individual, for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individuals);
b) An amount not exceeding Rs.1,50,000/- in aggregate per individual for housing purposes or such other amounts, for any of the purposes as may be prescribed;
c) Life insurance or general insurance services or pension services to an eligible client, which have been approved by the authority regulating such services ; or
d) any other services

13) As per The Microfinance Institutions (Development and Regulation) Bill, 2011, who is considered as sole regulator of microfinance sector covering all forms of MFIs , in addition to NBFC – MFIs ?
Ans : Reserve Bank of India

14)Which definition is given by the Task Force on Supportive Policy and Regulatory Framework for Micro-Finance set up by National Bank for Agriculture and Rural Develop - ment (NABARD) in 1999 ?
Ans: One of the first few definitions of microfinance in India is the "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards."

15)Which year was declared as International Year of Micro Credit by UNO ?
Ans : 2005

16)How Micro finance helps according to former UN Secretary General Kofi Annan ,?
Ans : " Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care and empowering people to make the choices that best serve their needs"

17)What are the three critical roles played by Micro Finance in development of the poor ?
Ans : (1) It enables the very poor households to meet their most basic needs and protect/hedge against risks
(2) Concomitantly it is associated with improvements in households' economic welfare
(3) By supporting women's economic participation, it helps to empower women and promote general equity

18)What are the developments in the second half of 2010-2011 in Micro Finance Sector ?
Ans: There is a sudden down turn in the prospects of the sector in the second half of 2010-2011 owing to reported excesses of some MFI institutions and the consequent legislative

response by Andhra Pradesh State Government. On the back of these developments, the MFI segment has taken a severe beating with rising delinquency ratios and downgrades by rating agencies. Lenders have turned wary leading to drying up of funding channels seriously impinging on the business. The recovery rates had fallen from 99% to 10%, leading to huge NPAs which is causing significant stress on the functioning of MFIs.

19)What are the recommendations of Shri Y.H. Malegam Committee appointed by Reserve Bank of India to study the issues concerning MFI sector ?
Ans : (1) Creation of separate category of NBFCs operating in the micro finance sector to be designated as NBFC-MFIs
(2) Imposition of a margin cap and interest cap on individual loans
(3) Requirement of transparency in interest rates
(4) Lending by not more than two MFIs to individual borrowers
(5) Creation of one or more credit information bureaus
(6) Establishment of a proper system of grievance redressal procedure by MFIs
(7) Creation of one or more "social capital funds"
(8) Continuation of categorization of bank loans to MFIs, complying with the regulation laid down for NBFC-MFIs, under the priority sector etc.

20)What are the key features of the notification released by RBI in December, 2011 about creating a separate category of Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI): -
Ans : 1) It sets a minimum Net Owned Fund requirement of Rs.5 Crore. (Those NBFC-MFIs located in the North Eastern Region should have a minimum NOF of Rs.2 cores for the purposes of registration.).
2) NBFC-MFIs shall maintain an aggregate margin cap of not more than 12%
3) Interest rate on individual loans will not exceed 26% per annum and calculated on a reducing balance basis. Processing charges shall not be more than 1% of gross loan amount. Processing charges need not be included in the margin cap or the interest cap.
4) NBFC-MFIs shall recover only the actual cost of insurance for group, or live stock, life, health for borrower and spouse. Administrative charges, if recovered, shall be as per Insurance Regulatory & Development Authority (IRDA) guidelines.
5) NBFC-MFIs can lend to individual borrowers who are not member of a Joint Liability Group (JLG)/Self Help Group(SHG) or to borrowers that are members of JLG/SHG. However, a borrower cannot be a member of more than one SHG/JLG and not more than two NBFC-MFIs should lend to the same borrower.
6) There shall be only three components in the pricing of the loan viz., the interest charge, the processing charge and the insurance premium (which includes the administrative charges).

21)Which aspects are emphasized by RBI, under the heading "Fair Practices in Lending" with respect of NBFC-MFIs ?
Ans : The following three are mentioned:-
(1) Transparency in Interest Rates
(2) Multiple-lending, Over-borrowing and Ghost- borrower
(3) Non- Coercive Methods of Recovery. Recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if the borrower fails to appear at central designated place on 2 or more successive occasions.

22)What are the latest instructions for NBFC-MFIs released by RBI on 4.8.2012 ?
Ans : 1) RBI has done away with the 26% cap on lending rates due to the dynamic nature of cost of funds but it said that margins will be capped.

2) A person could be member of only one group either a self-help group (SHG) or a joint liability group (JLG). A SHG or a JLG can borrow from a maximum of two micro-lenders.
3) NBFC – MFIs in the north-eastern region will have to maintain net-owned funds of Rs.1 crore by March 31, 2013 and Rs.2 Crores by March 31, 2014.
4) NBFC-MFIs are required to ensure that the aggregate amount of loans given for income generation is not less than 75% of the total loans extended.
5) Income generation activities should constitute atleast 70% of the total loans of the MFI so that the remaining 30% can be allocated for other purposes such as house repairs, education, medical and other emergencies.

23) Which Committee was appointed by RBI to study MFIs ?
Ans : Shri Y.H.Malegam Committee

Non-Performing Assets (NPA) in Banks

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"I am happy that banks have taken up the challenge to reduce NPAs. This momentum now has to be kept up and timely action in this direction would ensure sound financial health of the banking sector". Union Finance Minister expressed his happiness as the banks were "very proactively" responding to the problems so that NPAs are avoided. He said recent decisions on restructuring of loans in the textile sector and discoms of the power sector are good examples of NPA management. "I urge you to deploy various tools at your command for containing and rolling back NPAs in accordance with the guidelines of the Reserve Bank of India," he added. There has been reduction in gross NPAs from the level of 3.18 per cent in December 2011 to 3.10 per cent in March 2012. About Rs 1.30 lakh crore loan of different banks to power distribution companies (discoms) and Rs 35,000 crore to the textiles sector are under stress and process is underway to restructure these loans so that these segments could get fresh loans."

The above extract is from the speech delivered by Union Finance Minister on 12.6.2012 in his address to the CEOs of Public Sector Banks (PSBs) and Financial Institutions (FIs). From the above speech, we get some important words like NPA, 'restructuring of loans', 'gross NPA', etc.

Please Note**:** This part of the then Union Finance Minister speech is selected in view of the new pattern of questions being asked in IBPS/SBI/Civil Services Examinations.

What is NPA ?

An advance where interest and/or instalment of principal remain 'overdue' for a period of more than 90 days in respect of Term Loan/OD/CC/BP/BD/other accounts – investments, export finance, SSI/SME/agricultural, housing loan, educational loan, lease, hire purchase etc., ….." is called as Non- Performing Asset.

In simple words, "an asset becomes Non-Performing Asset when it ceases to generate income for the bank, from the last 90 days".
[Earlier, an 'asset' was considered as Non-Performing Asset based on the concept of 'Past Due'. Accordingly, a Non-Performing Asset is a credit in respect of which interest and/or instalment of principal has remained 'past due' for a specific period of time. With effect from 31.3.202001, the 'past due' concept has been dispensed with and the period is reckoned from the due date of payment.]

In different contexts, NPA is defined in the following manner:-
1)"A non-performing asset is an asset, including a leased asset and it becomes non-performing asset when it ceases to generate income for the bank."
2) "A non-performing asset is a credit facility in respect of which, the interest and/or instalment of principal has remained 'past due' for a specified time."

In Accounts Books, NPAs are originally called as 'bad' and 'doubtful' debts. NPAs are also called as Non-Performing Loans or Stressed Assets.

History of categorization of NPAs in Indian Banking Industry:
In India, the definition of NPAs has changed over a period of time.

First Stage (1985-1986):
Reserve Bank of India introduced a critical analysis for a comprehensive and uniform credit and monitoring by way of the Health Code System, in banks, which provided information regarding health of individual advances in 1985 – 1986. It was considered that such information would be immense use to banks' management for control purpose. Reserve Bank of India advised all commercial banks on 7th November, 1987 to introduce the health classification indicating the quality of individual advances in the following eight categories with Health Code assigned to each borrower account:
1) Satisfactory account
2) Irregular account
3) Sick – Viable account
4) Sick – Non-Viable / Sticky account
5) Advances – Recalled account
6) Suit – File – Accounts
7) Decreed Debts
8) Bad and Doubtful Accounts

1) Satisfactory account(i.e., advance) is an account in which all terms and conditions are complied with and safety of advances are not in doubt.
2) Irregular account (i.e.,advance) is an account where safety of advances is not suspected, though there may be occasional irregularities
3) Sick-Viable account(i.e., advance) is an advance to units which are sick but viable under nursing or if, revival programmes are undertaken.
4) Sick – Non-Viable / Sticky advances are advances where irregularities continue to persist and there are no immediate prospects of regularization.
5) Advances – Recalled are advances where the recalled repayment is highly doubtful and nursing is not considered worthwhile, includes accounts where decision has been taken to recall the advances.
6) Suit – File – Accounts are accounts where legal action or recovery proceedings have been initiated
7) Decreed debts are accounts for which decrees have been obtained
8) Bad and Doubt Accounts are accounts in which the recoverability is in doubtful due to shortfall in the value of the securities and inability/unwillingness of the borrower to repay the bank's dues partly or wholly.

According to the Narasimham Committee Report (1991), those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest remains due for a period of four quarters (180 days) should be considered as NPAs.

Second Stage : (1991) :

The Narasimham Committee (1991) felt that the classification of assets according to the health codes was not in accordance with international standards. It believed that a policy of income recognition should be objective and based on the record of recovery rather than on subjective considerations. In addition, before the Indian banks complied with the capital adequacy norms, their assets had to be revalued on a more realistic basis of their realisable value.

Thus, the Narasimham Committee (1991) believed a system of income recognition and provisioning is fundamental to preserve the strength and stability of the banking system. The international practice is that an asset is treated as non-performing when interest is due for at least two quarters. In respect of such non-performing assets, interest is not recognised on accrual basis but is booked as income only when it is actually received.

The committee suggested that a similar practice be followed by banks in financial institutions in India and recommended that interest on NPAs be booked as income on accrual basis.

Third Stage (from 1995 onwards) :

From March 1995 onwards the period of 180 days was reduced, and the assets for which the interest has remained unpaid for 90 days were considered as NPAs.

The NPA would be defined as advance, as on the balance sheet date in the following circumstances:

1. In respect of overdraft and cash credits, accounts remain out of order for a period of more than 180 days;

2. In respect of bills purchased and discounted, the bill remains overdue4 and unpaid for a period of more than 180 days;

3. In respect of other accounts, any account to be received remains past due for a period of more than 180 days;

Besides providing a detailed definition of NPA, the Narasimham Committee (1991) also suggested that for the purpose of provisioning, banks and financial institutions should classify their assets by compressing the health codes into four broad groups;

(i) Standard (ii) Sub-standard, (iii) Doubtful and (iv) Loss.

In 1993, Assets were classified in four ways. Accordingly, banks were directed to classify their assets into the following broad groups:-

1) Standard Assets
2) Sub-Standard Assets
3) Doubtful Assets
4) Loss Assets

But for these also, the grace period is changed w.e.f. 31.3.2005.

What is 'Standard Asset'?
A 'Standard Asset' is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA. It is also called as 'Performing Asset'. In simple words, it is an account (loan or investment) and

classified as performing asset, if it does not disclose any problems and carry more than normal risk attached to the business. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPAs in the real sense. So no special provisions are required for Standard Assets.

What is Sub-Standard Asset ?
From 31.3.2005 onwards, A 'Sub-Standard Asset' is clarified as an asset which remains NPA for a period less than or equal to 12 months

What is Doubt Asset ?
From 31.3.2005 onwards, a 'doubtful asset' is defined as an asset which has remained as NPA for more than 12 months. A loan classified as doubtful asset has all the weakness inherent as that classified as sub-standard asset and additionally it has full weakness to make collection or liquidation.

What is 'Loss Asset' ?
A 'loss asset' is an asset where the loss has been identified by the bank or internal or external auditors or by the co-operative department or by the RBI inspection team.
It means that all those assets which cannot be recovered are called as Loss Assets.

Loss assets are accounts where loss has been identified but amounts have not been written off. According to international norms, commercial banks need to keep aside a portion of their income as a provision against bad loans. The amount of the provision depends on the type of NPAs and the time duration.

With effect from March 31, 2004, a Non-Performance Asset shall be a loan or an advance as shown below, against each category (i.e., after reducing the grace period from 180 days to 90 days) :-
1) For Term Loans: Interest and/or instalment of principal remain overdue for a period of more than **90 days**
2) For Overdraft/Cash Credit (OD/CC): The account remains 'out of order' for a period of more than **90 days**
3) For the Bills purchased and discounted: The bill remains overdue for a period of more than **90 days**
4) For direct Agricultural advances : Identification is done on the basis of agricultural activities/seasons/crops grown
5) For non-agricultural advances: Identification is done like agricultural advances
6) Other accounts: Any amount to be received remains overdue for a period of more than **90 days.**

In case of direct agricultural advances, how to calculate the overdue period?
Ans: The method is given below:
1) For <u>Short duration agricultural crop</u>: if the instalment of principal or interest thereon remains over due for two crop seasons, it becomes NPA.
2) For <u>Long duration agricultural crop</u>: if the instalment of principal or interest thereon remains over due for one crop season, it becomes NPA

What are the reasons for NPA in banks ?

NPAs arise due to a number of factors or causes like:-
1)**Speculation** : Investing in high risk assets to earn high income.

2)**Default** : Willful default by the borrowers.
3)**Fraudulent practices** : Fraudulent Practices like advancing loans to ineligible persons, advances without security or references, etc.
4)**Diversion of funds** : Most of the funds are diverted for unnecessary expansion and diversion of business.
5)**Internal reasons** : Many internal reasons like inefficient management, inappropriate technology, labour problems, marketing failure, etc. resulting in poor performance of the companies.
6)**External reasons** : External reasons like a recession in the economy, infrastructural problems, price rise, delay in release of sanctioned limits by banks, delays in settlements of payments by government, natural calamities, etc.

The banking sector has been facing the serious problems of the rising NPAs. In fact Public Sector Banks are facing more problems than the private sector banks and foreign banks. The NPAs of the PSBs are growing due to external as well as internal factors.

One of the main causes of NPAs in the banking sector is the 'directed loans system' under which commercial banks are required to supply 40% of their credit to priority sectors.
Most significant sources of NPAs are directed loans supplied to the 'micro sector' are problematic of recoveries especially when some of its units become sick or weak.

Poverty elevation programmes meant for BPL people have failed on various grounds in meeting their objectives. The huge amount of loans granted under these schemes were totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience of these sections. Loans given by banks are their assets and as the repayments of several of the loans were poor, the quality of these assets was steadily deteriorating.

What is Gross NPA ?
Gross NPA is an advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of accounts.

What is Net NPA ?
Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

The gross NPAs level in Banks, is reduced to which % by March, 2012?
Ans: The gross NPA is reduced from 3.18 per cent in December 2011 to 3.10 per cent in March 2012.

PRIORITY SECTOR LENDING (PSL)
(Data is subject to change as per latest Orders from RBI)

STUDY MATERIAL
PREPARED BY
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Introduction:
Banks perform the important function of financial intermediation in the economic system of the country. A large segment of population of India continue to be deprived of access to credit from the formal financial system. This segment of population mainly consisted of farmers (especially small and marginal farmers), artisans, weavers, and weaker sections of society.
Agriculture is an important sector considering the livelihood it generates for almost two-third of India's population. It is also critical for ensuring food security and poverty alleviation. This sector does not have recourse to other sources of finance such as equity, Commercial Papers etc. The inherent weakness in the co-operative structure restricts its ability to cater to the needs of the agriculture sector.

At present, Services sector is contributing around 67% of Indian economy. But this Services Sector is receiving only 23.6% (Rs.10.17 trillion) bank credit.

In USA :
One will be surprised to know that even the most developed nation in the world viz. USA has enacted a law called 'Community Reinvestment Act, (CRA) under which banks are required to invest/utilize a certain amount of their deposits in poor areas.

Brief History about Priority Sector Lending (PSL):
Indian banking is a unique example of harmonious blend of commercial banking with social banking. Bank credit has an immense role in the development of the Indian economy. Besides, economic growth, it should also lead to removal of poverty and equitable distribution of income.
→Several Committees have looked into the aspect of rural credit and priority sector credit in India. The Indian Central Banking Enquiry Committee (1931) was one such committee constituted in pre-independent India.
→All India Rural Credit Survey carried out in 1954 indicated that formal credit institutions provided less than 9% of the rural credit needs in India. Money lenders, traders and rich landlords accounted for more than 75% of rural credit.
→At a meeting of the National Credit Council held in July 1968, it was emphasized that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries.
→During 1960s, came the concept of <u>Social Control</u>, which was to ensure an equitable distribution credit keeping in view the relative priorities of our developmental needs.
→The description of the priority sectors was later formalised in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971. On the basis of this report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sector.
→Although initially there was no specific target fixed in respect of priority sector lending, in November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33 1/3 per cent by March 1979.

→On the basis of the recommendations of the Working Group of implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks (Chairman: Dr.K.S.Krishaswamy) all commercial banks were advised to achieve the target of priority sector lending at 40% of aggregate bank advances by 1985.
Sub-targets were also specified for lending to agriculture and weaker sections within the priority sector.
→Several committees including the Committee on Financial Sector Reforms (Narasimham Committee during 1990s) have looked into the aspect of priority sector.
→Internal Working Group of the RBI, Chairman: Shri C.S.Murthy, recommended some changes in priority sector lending in September, 2005.
→An expert committee was appointed by Reserve Bank of India in August, 2011, under the Chairmanship of Shri M.V.Nair (the then CMD, Union Bank of India and former Chairman, Indian Banks Association) with members drawn from across banking, agriculture, Micro, Small and Medium Enterprises (MSME) and other sectors. This Committee submitted its report to RBI in the last of week of February, 2012. RBI came out with revised guidelines on Priority Sector on July 20, 2012.

Statistical Data:
The banks advances to the priority sector which stood at 14% of their total advances in June 1969 had increased to 46% at the end of December 1988, though this percentage is marginally falling since then.
In March 1997, scheduled commercial banks', advances to priority sector stood at Rs. 93,807 crore constituting 35 per cent of total credit of commercial banks.
The Indian Rural Credit Delivery System comprises about 33,000 branches of commercial banks and RRBs and over 92,000 outlets of credit co-operatives at the base level.
Broadly, the categories of bank advances included under priority sector are: (a) Agriculture (b) SSI (c) Small road and water transport operators, retail traders, small business operators, professionals and self employed persons, SHGs & NGOs, (self help groups and Non-Government organizations) state sponsored SC\ST organizations, education, housing and consumption loans for weaker sections. In case of foreign banks operating in India, their advances to Export Sector are treated as priority sector advances. This criterion is not applicable to public sector banks.

1) What is Priority Sector?
Ans: Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

2. What are the different categories under priority sector lending as defined by Reserve Bank of India?
Ans: Priority Sector includes the following categories:
(a) Agriculture
(b) Micro and Small Enterprises
(c) Educational loans for individuals. It includes loans for vocational courses.
(d) Housing
(e) Export Credit
(f) Others viz., Loans to individuals for setting up off-grid solar and other off-grid renewable energy solutions for households.

3. What are the Targets and Sub-targets for banks under priority sector for Indian commercial banks and foreign banks with 20 and above branches?

Ans: 40% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of off-balance sheet exposure, whichever is higher. Out of 40% of ANBC, the sub-target for agriculture is 18% and the sub-target for weaker sections is 12%.

4. What are the Targets under priority sector for foreign banks with less than 20 branches ?
Ans: 32% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of off-balance sheet exposure, whichever is higher. (Please check up for latest news)

5. What is the limit of Micro Credit under Priority Sector Lending ?
Ans : Provision of credit and other financial services and products, not exceeding Rs.50,000 per borrower or the maximum permissible limit on unsecured advances whichever is lower is the limit of Micro Credit under Priority Sector Lending.

6. Which type of Education Loans are under Priority Sector Lending ?
Ans: Education Loans include loans and advances granted to only individuals for educational purposes upto Rs.10 Lakhs for studies in India and Rs.20 Lakhs for studies abroad, and do not include those granted to educational institutions.

7. What constitutes 'Direct Finance' for Agricultural Purposes?
Ans: Direct finance to agriculture shall include short, medium, and long term loans given for agriculture and allied activities like dairy, fishery, piggery, poultry, bee-keeping, etc. These loans are given directly to the farmers without limit for taking up agriculture or allied activities. Loans for the following are called as 'Direct Finance' by banks:-
(i) Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers] engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture.
(ii) Loans to small and marginal farmers for purchase of land for agricultural purposes.
(iii) Loans to distressed farmers indebted to non-institutional lenders.
(iv) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS) ceded to or managed/ controlled by such banks for on lending to farmers for agricultural and allied activities.
Loans granted to farmers, for agriculture and allied activities irrespective of whether the finance is for export activities or domestic activities are eligible to be classified as priority sector.

8. What constitutes 'Indirect Finance' to Agriculture?
Ans: Loans for the following are called as 'Indirect Finance' by banks:-
(i) Loans to corporates, partnership firms and institutions engaged in Agriculture and Allied Activities (dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture).
(ii) Loans upto Rs.5 crore to Producer Companies set up exclusively by only small and marginal farmers under Part IXA of Companies Act, 1956 for agricultural and allied activities.

9. What constitutes Micro and Small Enterprises under priority sector?
Ans: Bank loans to Micro and Small Manufacturing and Service Enterprises, provided these units satisfy the criteria for investment in plant machinery/equipment as per MSMED Act 2006.

10. What is the limit for housing loans under priority sector?
Ans: Housing Loans to individuals up to Rs.25 lakh in metropolitan centres with population above ten lakh and Rs.15 lakh in other centres for purchase/construction of a dwelling unit per family. House loans sanctioned to bank's own employees is excluded from priority sector lending.

11. What is included under Weaker Sections under priority sector lending?

Ans: Priority sector loans to the following borrowers are considered under Weaker Sections category:-

(a) Small and marginal farmers;

(b) Artisans, village and cottage industries where individual credit limits do not exceed Rs.50,000;

(c) Beneficiaries of Swarnjayanti Gram Swarozgar Yojana (SGSY), which is now called as 'National Rural Livelihood Mission' (NRLM);

(d) Scheduled Castes and Scheduled Tribes;

(e) Beneficiaries of Differential Rate of Interest (DRI) scheme;

(f) Beneficiaries under Swarna Jayanti Shahari Rozgar Yojana (SJSRY);

(g) Beneficiaries under the Scheme for Rehabilitation of Manual Scavengers (SRMS);

(h) Loans to Self Help Groups;

(i) Loans to distressed farmers indebted to non-institutional lenders;

(j) Loans to distressed persons other than farmers not exceeding Rs.50,000 per borrower to prepay their debt to non-institutional lenders;

(k) Loans to individual women beneficiaries upto Rs.50,000 per borrower;

12. What is the rate of interest for loans under priority sector?

Ans: The rate of interest on various priority sector loans will be as per RBI's directives issued from time to time. It is linked to Base Rate of banks at present. Priority sector guidelines do not lay down any preferential rate of interest for priority sector loans. Pricing for the ultimate beneficiary has been capped at Base Rate plus 8% per annum.

13.Why linking to Base Rate is opted for pricing of loans purpose ?

Ans : It is felt that linking the price to Base Rate would ensure greater transparency in pricing and ease of monitoring. The ceiling on pricing is kept because the free market still does not exist for the poor people in India.

14. Whether loans given through Micro Finance Institutions (MFIs) (including NBFC-MFIs) come under priority sector lending?

Ans : Yes. Loans through MFIs (including NBFC-MFIs) which adhere to the criteria prescribed by Reserve Bank of India have been given priority sector lending status as the credit is expected to be going to the most vulnerable sections of the society and low income groups of the population.

Bank credit to MFIs extended on or after April 1, 2011 for on-lending to individuals and also to members of SHGs/JLGs will be eligible for categorization as priority sector advance under respective categories viz., agriculture, micro and small enterprises and 'others' as indirect finance, provided not less than 85% of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of 'qualifying assets'. In addition, aggregate amount of loan, extended for income generating activity, is not less than 75% of the total loans given by MFIs.

15. Whether investments/purchases/assignment transactions undertaken by banks with NBFCs, where the underlying assets are loans against gold jewellery is considered as priority sector lending ?

Ans : No. Such investments and outright purchases do not qualify for PSL status because such pool of loan assets against gold jewellery is generally extended by these NBFCs without proper credit appraisal and without verification of end use of funds.

16. Loans sanctioned to distressed persons can be considered as priority sector lending?

Ans : Yes. Loans to distressed persons not exceeding Rs.50,000 per borrower to prepay their debt to non-institutional lenders are considered as priority sector lending by banks.

DATA(AS ON 1.4.2020):

CEOBE :Credit Equivalent of Off-Balance Sheet Exposures
ANBC : Adjusted Net Bank Credit

Categories	Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks
Total Priority Sector	40 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher	40 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher; out of which up to 32% can be in the form of lending to Exports and not less than 8% can be to any other priority sector	75 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15 per cent of ANBC.	75 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher.
Agriculture	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for Small and Marginal Farmers (SMFs)	Not applicable	18 per cent ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for SMFs	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for SMFs
Micro Enterprises	7.5 per cent of ANBC or CEOBE, whichever is higher	Not applicable	7.5 per cent of ANBC or CEOBE, whichever is higher	7.5 per cent of ANBC or CEOBE, whichever is higher
Advances to Weaker Sections	12 percent# of ANBC or CEOBE, whichever is higher	Not applicable	15 per cent of ANBC or CEOBE, whichever is higher	12 percent# of ANBC or CEOBE, whichever is higher

POLICY RATES OF RESERVE BANK OF INDIA

(Bank Rate, Policy Repo Rate, Fixed Reverse Repo Rate, Marginal Standing Facility Rate)

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One of the functions of Reserve Bank of India (RBI) is to control volume of credit granted by commercial banks with a view to control inflation and money supply in the market and to ensure price stability in the country. Reserve Bank is called as the Monetary Authority. RBI formulates, implements and monitors the monetary policy. The objective of RBI is to maintain price stability and ensuring adequate flow of credit to productive sectors.

Different methods used by Reserve Bank of India for controlling credit are like :

a) Variation in the Bank Rate (BR)
b) Changing the Cash Reserve Ratio (CRR)
c) Conducting Open Market Operations (OMO)

All the above methods are called as Quantitative Methods.

BANK RATE

1) What is Bank Rate ?

Ans: The Bank Rate has been defined in Section 49 of the Reserve Bank of India Act, 1934 as the 'standard rate' at which RBI is prepared to buy or rediscount bills of exchange or other commercial papers eligible for purchase under this Act".

Explanation: The rate at which RBI rediscounts eligible bills of commercial bank is called as the 'Bank Rate'. When RBI increases Bank Rate, financial assistance to commercial banks from RBI becomes costlier which in turn affects credit granted by commercial banks making it dearer. The net effect may be contraction of credit in the economy/country.

Bank Rate served as an important signal whenever it was activated having repercussions. Bank Rate was 3% per annum till Nov.14, 1951 and then it was raised to 3.5% per annum. Over the years, Bank Rate saw many changes and reached the peak level of 12% per annum just before the advent of busy season policy i.e., in October, 1991. During the financial sector reforms years, the Bank Rate has been changed by RBI frequently keeping with the market requirement. Section 49 of the Reserve Bank of India Act authorizes RBI to announce/publish Bank Rate.

2) What is the present Bank Rate ?

Ans: 5.15 % per annum

POLICY REPO RATE & FIXED REVERSE REPO RATE

1) What are Policy Repo rate ?

Ans: Policy Repo can be expanded as 'repossession'.

The discount rate at which a central bank (i.e., RBI) repurchases government securities from the commercial banks, depending on the level of money supply it decides to maintain in the country's monetary system. Repo (Repurchase) rate is the rate at which the RBI lends shot-term money to the banks against securities. To temporarily expand the money supply, the central bank (RBI) decreases repo rates (so that banks can swap their holdings of government securities for cash). To contract the money supply RBI increases the repo rates. Alternatively, the central bank (RBI) decides on a desired level of money supply and lets the market determine the appropriate repo rate. When the

repo rate increases, borrowing from RBI becomes more expensive. Therefore, we can say that in case, RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate; similarly, if RBI wants to make it cheaper for banks to borrow money, RBI reduces the repo rate.
2) What is present Policy Repo Rate ?
Ans : 4.90% p.a.

3) What is Fixed Reverse Repo Rate ?

Ans: Reverse Repo rate is the rate at which banks park their short-term excess liquidity (like cash) with the RBI. The banks use this tool when they feel that they are stuck with excess funds and are not able to invest anywhere for reasonable returns. An increase in the Reverse Repo Rate means that the RBI is ready to borrow money from the banks at a higher rate of interest. As a result, banks would prefer to keep more and more surplus funds with RBI.

4) What is present Fixed Reverse Repo Rate ?
Ans : 3.35 % per annum

5)Where the auctions for Repo/Reverse Repo operations under LAF will be conducted?
Ans:The auctions for Repo/ Reverse repo operations under Liquidity Adjustment Facility (LAF) will be conducted on all working days at Mumbai, excluding Saturdays, Sundays and holidays notified by the Government of Maharashtra under Negotiable Instruments Act, 1881 as well as RTGS holidays declared by RBI. The period of the LAF operations shall be one day (unless notified otherwise) and accordingly, the reversal leg of the transaction will fall due on the next working day excluding Saturdays, Sundays and holidays notified by the Government of Maharashtra under Negotiable Instruments Act, 1881 as well as RTGS holidays declared by the Reserve Bank of India.

General information :
A repo or repurchase Agreement is an instrument of money market. Usually Reserve Bank of India (Federal Reserve in U.S.A.) and commercial banks involve in repo transactions. Banks, Financial Institutions can also participate in repurchase agreement.

Repo is a collateralized lending i.e. the banks which borrow money from Reserve Bank to meet short term needs have to sell securities, usually bonds to Reserve Bank with an agreement to repurchase the same at a predetermined rate and date.
In this way for the lender of the cash (usually Reserve Bank) the securities sold by the borrower are the collateral against default risk and for the borrower of cash (usually commercial banks) cash received from the lender is the collateral.

Reserve bank charges some interest rate on the cash borrowed by banks. This rate is usually less than the interest rate on bonds as the borrowing is collateral. This interest rate is called 'repo rate'. The lender of securities is said to be doing repo whereas the lender of cash is said to be doing 'reverse repo'.

In a Reverse Repo situation, Reserve Bank borrows money from banks by lending securities. The interest paid by Reserve Bank in this case is called Reverse Repo Rate.

Borrower of funds is called as seller of repo and lender of funds is called as buyer of repo. When the term of the loan is for one day it is known as an overnight repo and if it is for more than one day it is called a term repo.

Marginal Standing Facility (MSF) Rate

In order to provide greater liquidity cushion for the commercial banks, RBI has decided to raise the borrowing limit of scheduled commercial banks under the marginal standing facility (MSF) from 1 per cent to 2 per cent of their outstanding Net Demand and Time Liabilities (NDTL)

Banks are allowed to continue to access the MSF even if they have excess Statutory Liquidity Ratio (SLR) holdings, as hitherto.

The MSF rate, determined with a spread of 100 basis points above the repo rate, was adjusted to 9.0 per cent after the announcement of Policy by RBI in April, 2012.

OTHER RATIOS:

i) CASH RESERVE RATIO(CRR)

Introduction:
Cash Reserve Ratio is the cash parked by the banks in their specified current account maintained with RBI.Cash Reserve Ratio (CRR) refers to the ratio of bank's balances with RBI to the bank's net demand and time liabilities (NDTL). The objective of maintaining a minimum balance with RBI is basically to ensure the liquidity and solvency of the scheduled banks. In India under RBI Act, 1934 [Section 42(1)] all scheduled banks are required to keep certain minimum cash reserves with RBI. RBI is empowered to vary CRR between 3 % and 15% (which can go upto 20% by notification) of the total demand and time liabilities. CRR is to be maintained at fortnightly basis and on a daily basis.

Demand Liabilities for this purpose are Current deposits, demand liabilities portion of savings fund deposits, margins held against LC/LG, balances in overdue FD, cash certificate, RD, Outstanding TTs, MTs and DDs, unclaimed deposits, credit balances in CC accounts and Deposits held as security for advances which are payable on demand.

Time Liaibities for this purpose are Fixed Deposits, Cash Certificates, cumulative and Recurring Deposits, time liabilities portion of savings bank deposits and staff security deposits, margins against Letter of Credit (LC) not payable on demand, deposit held as securities for advances and India Development Bonds.

Liabilities excluded for CRR calculation purpose :
i) paid – up capital and reserves ; (ii) loans taken from Financial Institutions and RBI ; (iii) entire amount of inter-bank liabilities for the purpose of Section 42 ; (iv) credit balance in P&L account of the bank.
The system of payment of interest on CRR has been rationalized whereby interest on all eligible CRR balance (i.e., above first 3%) has been fixed at Bank Rate w.e.f. November 3, 2001 and paid monthly w.e.f. 1.4.2003.

Therefore, RBI uses CRR either to drain excess liquidity or to release funds needed for the growth of the economy from time to time. Increase in CRR means that banks have less funds available and money is sucked out of circulation. Thus we can say that this serves duel purposes i.e.(a) ensures that a portion of bank deposits is kept with RBI and is totally risk-free, (b) enables RBI to control liquidity in the system, and thereby, inflation by tying the hands of the banks in lending money

Questions:
1) What is Cash Reserve Ratio (CRR) ? Give details.
Ans: As per Section 42 of the Reserve Bank of India Act, 1934, all Banks are required to keep certain percentage of their deposits as reserve with the RBI in cash form. Percentage fixed by RBI for this purpose is called as Cash Reserve Ratio (CRR). RBI is authorised to vary Cash Reserve Ratio between 3 % and 20%. By increasing Cash Reserve Ratio (CRR), Reserve Bank of India makes it obligatory for all banks to keep more reserves with RBI which results into less availability of loanable funds.
Section 42 of Reserve Bank of India Act, 1934, prescribes the percentage of Cash Reserve Ratios (CRRs) of the scheduled banks to be kept with RBI on an average daily balance.

Section 18 of Banking Regulation Act, 1949 deals with CRR also . It says that Non-Scheduled Banks to maintain 3% of the demand and time liabilities by way of Cash Reserves with itself or by way of balance in a current account with RBI .

2) What is CRR ?
Ans : 4.50%

ii) STATUTORY LIQUIDITY RATIO (SLR):
5) What is Statutory Liquidity Ratio (SLR) ? Give details .
Ans : Every bank in India is required to maintain certain percentage of its assets [Net Demand and Time Liabilities (NDTL)] in liquid form (such as cash, gold and approved securities) as per Section 24 of the Banking Regulation Act, 1949. It is called as Statutory Liquidity Ratio (SLR). RBI is empowered to vary Statutory Liquidity Ratio (SLR) of banks. Earlier the limit for SLR purpose was between 25% and 40%.
Every bank is supposed to maintain a percentage of its demand and time liabilities by way of cash, gold, unencumbered securities as on last Friday of 2nd preceding fortnight. Statutory liquidity ratio is in the form of cash (book value), gold (current market value) and balances in unencumbered approved securities.

RBI Powers: RBI can enhance the stipulation of SLR (not exceeding 40%) and force the banks to keep a large portion of the funds mobilized by them in liquid assets, particularly government and other approved securities and resultantly loanable resources would be reduced. Therefore, by increasing the Statutory Liquidity Ratio, RBI makes it obligatory for the banks to keep more assets in SLR which decreases loanable funds with banks.

SLR had reached a very high level of 38.% during 1991-92 and then was gradually brought down as a result of recommendation of Narasimham Committee. Various relaxations were given over a period of time since April, 1992. As per credit policy of RBI in October, 1997 (w.e.f. 22.10.1997) , SLR is at uniform rate of 25% .

6) What is present SLR percentage ?
Ans : 18 %
(Explanation: Reserve Bank has specified on May 9, 2011 that every scheduled commercial bank shall continue to maintain in India assets for this purpose, and the value of which shall not, at the close of business on any day, be less than 24 per cent on the total net demand and time liabilities as on the last Friday of the second preceding fortnight as prescribed)

7) Which items are included in the SLR assets ?
Ans : For SLR purpose, the following assets are included:

i) Cash in hand
ii) Gold owned by the bank
iii) Balance with RBI in excess of the ones u/s 42 of RBI Act, 1934
iv) Net balance in current account SBI, SBI associate banks or Nationalised Banks.
v) Investment in unencumbered approved government securities

8) Which type of liabilities are to be taken for the calculation of Statutory Liquidity Ratio purpose?
Ans: Demand and Time Liabilities for SLR purpose are all liabilities except paid-up capital, reserves, borrowing from RBI, IDBI, NABARD, EXIMBANK, NHB and DFHI.

9) When SLR is to be maintained ?
Ans : SLR is to be maintained as at the close of business on every day i.e., on daily basis based on the NDTL (Net Demand and Time Liabilities) as obtaining on the last Friday of the 2nd preceding Fortnight.

General information :

The following liabilities will not form part of liabilities for the purpose of CRR and SLR:
a) Paid up capital, reserves, any credit balance in the Profit & Loss Account of the bank, amount of any loan taken from the RBI and the amount of refinance taken from Exim Bank, NHB, NABARD, SIDBI;
b) Net income tax provision;
c) Amount received from DICGC towards claims and held by banks pending adjustments thereof;
d) Amount received from ECGC by invoking the guarantee;
e) Amount received from insurance company on ad-hoc settlement of claims pending judgment of the Court;
f) Amount received from the Court Receiver;
g) The liabilities arising on account of utilization of limits under Bankers Acceptance Facility (BAF);
h) District Rural Development Agency (DRDA) subsidy of Rs.10, 000/- kept in Subsidy Reserve Fund account in the name of Self Help Groups;
i) Subsidy released by NABARD under Investment Subsidy Scheme for Construction/Renovation/Expansion of Rural Godowns;
j) Net unrealized gain/loss arising from derivatives transaction under trading portfolio;
k) Income flows received in advance such as annual fees and other charges which are not refundable.
l) Bill rediscounted by a bank with eligible financial institutions as approved by RBI and,
(m) Provision not being a specific liability arising from contracting additional liability and created from profit and loss account.

OBJECTIVE TYPE QUESTIONS FOR IBPS Common Written Examinations

I) What is the full form of 'LAF' ?
(1) Liquidity Adjustment Facility
(2) Liquid Assets & Funds
(3) Liabilities Adjustment Finance
(4) Liquidity and Finance
(5) Liabilities and Funds   Ans: (1)

II) As per the existing policy, the Cash Reserve Ratio (CRR) of scheduled banks is fixed at a certain percentage of their NDTL. What is the full form of NDTL ?
(1) New Demand & Tenure Liabilities
(2) Net Demand & Time Liabilities
(3) National Deposits and Total Liquidity
(4) Net Duration & Total Liquidity
(5) New Deposits and Term Liquidity   Ans : (2)

III) Which of the following are called Key Policy Rates by the Reserve Bank of India ?
(A) Bank Rate   (B) CRR   (C) SLR
Answer choice:
(1) Only (A)
(2) Only (B)
(3) Only (B) and (C)   (4) Only (A) and (B)
(5) All (A), (B) and (C)   Ans : (5)

IV) Reverse Repo means _________
(1)Injecting Liquidity by the Central Bank of a country (like RBI) through purchase of Govt. Securities from banks
(2) Absorption of liquidity from the market by sale of Govt. securities
(3) Balancing liquidity with a view to enhance economic growth rate
(4) Improving the position of availability of the securities in the market
(5) All the above   Ans : (2)

V) The Reserve Bank of India (RBI) keeps on modifying various rates/ratios to keep the flow of liquidity in the market in a balanced situation. Which of the following rates/ratios/indexes is not directly controlled by RBI?

(1) Cash Reserve Ratio (CRR)
(2) Bank Rate (BR)
(3) Repo Rate
(4) Reverse Repo Rate
(5) Whole Price Index (WPI) Ans : (5)

VI) The Ratio of the Cash Reserves that the banks are required to keep with RBI is known as _______
(1) Liquidity Ratio
(2) SLR
(3) Net Demand and Time Liabilities
(4) CRR
(5) PLR Ans : (4)

VII) The rate at which the RBI gives loans for short term (under LAF), to the commercial banks is called as _____
(1) Repo Rate
(2) Bank Rate
(3) Reverse Repo
(4) CRR
(5) None of these Ans : (1)

VIII) What is Repo Rate ?
(1) It is a rate at which RBI sells Government Securities to banks
(2) It is a rate at which RBI buys Government Securities from banks
(3) It is a rate at which RBI allows small loans in the market
(4) It is a rate which is offered by banks to their most valued customers or prime customers
(5) None of these Ans : (2)

Savings Bank account

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Saving accounts are opened to encourage the people to save money and collect their savings. Sometimes, the interest offered on savings bank account is very attractive and sometimes very nominal.
Savings bank account in a bank, is the most common operating account for individuals and others, for non-commercial transactions. A Savings account helps people to put through day-to-day banking transactions besides earning some return on the savings made. Private Sector commercial banks (like ICICI, HDFC, etc.), co-operative banks (like Mahesh, Saraswat, etc.), public sector banks (like State bank of India, Bank of India, etc.) and postal departments accept deposits by way of opening saving bank account with them. The 'saving account' is generally opened in bank by salaried persons or by the persons who have a fixed regular income. This facility is also given to students, senior citizens, pensioners, and so on. The bank is the custodian of cash. As and when the account holder needs the money, he can withdraw the same depending upon the type of account. Deposit in the SB account is also called as Demand Deposit.
Savings bank account will be opened at the discretion of the bank for persons who comply with the Know Your Customer (KYC) norms, stipulated by RBI.

Who can open a Savings Account in a bank?
Ans: Any Resident of India (or) Individual - Single Account, Two or more individuals in Joint Account, Illiterate Persons, Visually Impaired persons, Purdanasheen Ladies, Minors, Associations, Clubs, Societies, etc. Trusts, Institutions/Agencies specifically permitted by the RBI also can open Savings Bank Account in a bank.
Savings account may also be opened by minors to be operated by themselves provided they have completed the age of 14 and have powers of understanding and discretion. Minors should state their age and give their date of birth when opening the accounts. No cheque book will be issued for such accounts opened by minor children.

Main features of Savings Bank Account:
1)The main objective of saving account is to promote habit of saving money.
2)There is no restriction on the number and amount of deposits. However, in India, mandatory PAN (Permanent Account Number) details are required to be furnished for doing cash transactions exceeding Rs.50,000/-
3)Withdrawals are allowed subject to certain restrictions.
4)The money can be withdrawn either by cheque or withdrawal slip of the respective bank.
5)The rate of interest payable is very nominal on saving accounts. At present it is 4% per annum. Some private sector banks are offering higher rate of interest based on certain conditions.
6)Savings bank account is of continuing nature. There is no maximum period of holding.
7)Normally, a minimum amount has to be kept on saving account to keep it functioning.
8)No loan facility is provided against saving account.
9) Electronic clearing System (ECS) or E-Banking are available to pay electricity bill, telephone bill and other routine household expenses.
10) Generally, equated monthly installments (EMI) for housing loan, personal loan, car loan, etc., are paid (routed) through saving bank account.

What are the advantages of savings bank account?

Ans: 1)Savings bank account encourages savings habit among salary earners and others who have fixed income.
2)It enables the depositor to earn income by way of interest.
3)Saving account helps the depositor to make payment by way of issuing cheques.
4)It shows income of a salaried and other person earned during the year.
5)Saving account passbook acts as an identity and residential proof of the account holder.
6)It provides a facility such as Electronic Fund Transfer (EFT) to other people's accounts.
7)It helps to do online shopping via facility like internet banking.
8)It aids to keep records of all online transactions carried on by the account holder.
9) It provides immediate funds as and when required through ATM.

What are the documents required by a bank while opening SB account ?

Ans: Banks are required to know true identity of the person wanting to open an account. Banks also seek introduction of the person from an existing account holder. Banks require photograph of the person to be kept on record for future identification purpose. In terms of government notification w.e.f. 01.11.1998, banks have to obtain PAN numbers (issued by Income Tax Dept.) of the account holder at the time of opening of the account. In the absence of PAN number customer should give a declaration in the prescribed format (form no.60 or 61 as the case may be).

How to open SB account in a Bank ?

Ans: Approach a bank with a request to open the savings bank account and obtain the proposal or application form.

1) **Fill up Bank Account Opening Form** - Proposal Form: The proposal form must be duly filled in all respects. Necessary details regarding name, address, occupation and other details must be filled in wherever required. Two or three specimen signatures are required on the specimen signature card. If the account is opened in joint names, then the form must be signed jointly. Now a days the banks ask the applicant to submit **copies of his latest photograph** for the purpose of his identification along with Xerox copies of identification proof, address proof documents.

2**) Give References for Opening your Bank Account**:The bank normally requires references or introduction of the prospective account holder by any of the existing account holders for that type of account. The introducer introduces by signing his specimen signature in the column meant for the purpose The reference or introduction is required to safeguard the interest of the bank.

3. **Specimen Signature:** At the time of opening of the account, every depositor is required to give the specimen of his/her signature in duplicate for record, along with two copies of recent passport size photograph. Whenever there is/are change(s) or variation(s) in the specimen signature, the depositor is required to inform the bank in writing the changes/variations in the specimen signature and give a fresh Specimen Signature Card. All withdrawal forms, cheques and letters to the Bank must be signed strictly in accordance with such specimen signatures.

4) Submit Bank Account Opening Form and Documents

The duly filled in proposal form must be submitted to the bank along with necessary documents. For e.g. in case of a joint stock company, the application form must accompany with the Board's resolution to open the account. Also certified copies of articles and memorandum of association must be produced.

5)Officer in the Bank will verify your Bank Account Opening Form:

The bank officer verifies the proposal form. He checks whether the form is complete in all respects or not. The accompanying documents are verified. If the officer is satisfied, then he clears the proposal form.

6) Deposit initial amount in newly opened Bank Account:

After getting the proposal form cleared, the necessary amount is deposited in the bank. After depositing the initial money, the bank provides a pass book, a cheque book and pay in slip book in the case of savings account. In the case of fixed deposits, a fixed deposit receipt is issued.

Method of Depositing money /cheque in SB account in a bank :

Amounts received for the credit of a savings account should, ordinarily, be accompanied by pay-in-slips with counterfoils, which will be supplied by the bank, free of charge, on request.

Method of Withdrawal of money from SB account:-

i)Drawings from savings bank account will be by withdrawal forms or cheques supplied by the bank.

ii)Where a withdrawal is made by means of a withdrawal slip through a third party authorized by the account holder, the account holder should sign his name on the reverse of the withdrawal form naming the authorized person to whom the payment is to be made and also authenticate the signature of the person receiving payment on his behalf. The authorized person receiving the cash will affix his signature on the reverse of the withdrawal form.

iii) Normally no money can be withdrawn from a savings account operated by withdrawal slips without the production of the passbook.

iv)Withdrawal by cheques in cheque operated accounts may be made ***only*** on cheque leaves supplied by the bank to the depositor.

v) Generally, the use of withdrawal slips is restricted to Rs.10000/- for cash transactions and Rs.20000/- for transfer transactions.

Number of Withdrawals from SB account :

i)In some banks, the number of withdrawals in savings accounts are limited to 50 for each half year.

ii)If the account is opened in the middle of a year, the number of permissible withdrawals shall be allowed proportionately.

iii) When number of withdrawals is more than the maximum stipulated, a service charge. will be levied for each transaction in excess of 50.

Issue of Cheque Book for SB account holders:

1)Application for a cheque book must be made on the bank's printed original form/printed requisition slip.

2)A cheque book will be sent by registered post at the cost and responsibility of account holder concerned, unless he calls in person or sends a messenger with a proper letter of authority and with the requisition slip duly signed.

3)Normally, two cheque books of 20 leaves each will be issued free of cost in a year.

Pass Book for SB account holders:

1) The passbook should be presented at the time of every deposit/withdrawal except in the case of withdrawal by cheques.

2)When withdrawals in accounts are made by cheques, passbooks should be sent for being made up, as soon as possible after the withdrawal.

3)Unless the constituent notifies the bank immediately of any discrepancy found by him / her in his/her statement of account, it will be taken that he / she has found the entries in the statement of account correct. It is also obligatory on the part of the constituent that any wrong credit entries found in the statement of account be immediately brought to the knowledge of the Bank, if it is not done so, then it will be considered as a breach of contract on the part of the customer and the matter would be dealt with accordingly. This is a computer system generated output and requires no signature.

4) If the passbook is lost or mislaid, it should be immediately notified. A duplicate passbook with the latest balance entry will be issued on payment of charges against a written request duly signed by the depositor with an undertaking that the original passbook, if found at a later date, will be returned to the bank.

5)However in exceptional situations where entries are made in the pass books in computerized branches, such entry should be valid, only if authorized by an official of the branch.

6) SB account depositors are advised to keep their pass books in a place of safety as the bank will

not be responsible for any loss or incorrect payment attributable to the neglect of this rule.

7)No entry and / or alteration of any kind should be made in the pass book by the depositor.

Standing Instructions:

1) SB account holders can give ‘standing instructions’ to the bank for remittances such as payment of insurance premiums, subscription for clubs, periodicals etc., will be accepted by the bank subject to levy of charges decided by the bank from time to time.

2)Such instructions continue to hold good until cancellation by either the customer or closure of account or death of customer or insufficiency of balance.

3)The bank will not be liable to the customer for any loss if standing instructions could not be carried out due to insufficiency of balance in the account.

Obligations of SB account holders:

1).SB account holders should observe the following safe guards, to prevent forgery, fraud, etc.:-

a)To count cheques in the cheque books issued to them and draw the attention of the bank, if any cheque is found missing therein.

b)To keep the cheque books in a place of safety under lock and key.

c) To fill in the date, the name of the payee (in case of cheques) and the amount

clearly in indelible ink, and in such a way as to leave no space for any subsequent additions or insertions of any other words or figures.

5) To see that their signatures correspond exactly with the specimen supplied to the bank.

6)To authenticate under their full signature all alterations in the cheques or withdrawal slips.

7)Customers must provide sufficient funds before issuing cheques. Return of cheques for want of funds is an offence under Sections 138 to 142 of Negotiable Instruments Act, 1881

Closure of SB Account:

1)A depositor desiring to close his/her SB account must present the passbook in order that the interest due on the account may be entered and a final balance struck. The amount will then be paid to the depositor against his withdrawal form/cheque. The unused cheque forms as well as withdrawal forms, if any, should be returned to the bank.

2)ATM/Debit card if provided to the account holder should also be surrendered while making the request for closure of the account.

3)The bank is at liberty to close any account without assigning any reason.

4) The bank reserves its right to take steps to get the account closed, if frequent return

of cheques for want of funds is observed.

General Lien:

1)The bank has a right to appropriate the deposits of customers towards satisfaction of any liabilities of customers whether such liabilities be actual or contingent, primary or collateral and several or joint at any office of the bank.

Nomination Facility:

1)Nomination facility is available to the account holder. Nomination can be made at the time of opening of account or subsequently. It can also be cancelled / varied.

2)At the time of opening of the account if the account holder does not require nomination, he has to specifically instruct the bank to that effect, if he requires the name of the nominee should find a place in the pass book.

3) The nomination shall be in favour of an individual only. Nomination can be made only in respect of deposit account held by individual (s) / sole proprietary concern. If the proprietary concern undergoes a change in constitution, the nomination made will stand cancelled.

Questions for IBPS/SBI examinations and interviews:

1) Which deposit is also called as Demand Deposit?
Ans : Money deposited in Savings Bank account

2) What is the main purpose of opening SB accounts in Banks?
Ans : To promote the habit of money savings

3)Normally SB account is not opened for whom ?
Ans : For commercial purposes or business purposes

4) What is the other benefit of SB account pass book?
Ans: It can be used as identify proof

SCHEDULED BANK

STUDY MATERIAL
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Brief Introduction:

The commercial banking structure in India consists of Scheduled Commercial Banks and Non- scheduled Banks.

Scheduled Banks in India constitute those banks which have been included in the Second Schedule of Reserve Bank of India(RBI) Act, 1934.

RBI includes only those banks in the second schedule which satisfy the criteria laid down vide section 42 (6) (a) of the RBI Act, 1934.

The banks included in the Second Schedule should fulfil the following two conditions:-

1. The paid capital and collected funds of the commercial bank should not be less than Rs. 5 lakhs

2.Any activity of the bank will not adversely affect the interests of depositors.

All banks which are included in the **Second Schedule** to the Act are called as scheduled banks. These banks comprise scheduled commercial banks and scheduled co-operative banks, etc.

As per the RBI data, there are **167 Scheduled Commercial Banks and 4 Non-Scheduled Commercial Banks in India,** by the end of March 2011**. These banks have 93,080 branches**. Out of 93,080 bank branches, the non-scheduled banks have only 53 branches.

Details:-

Scheduled commercial banks in India are categorised into five different groups according to their ownership and/ or nature of operation.

I) the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955),
II) a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959),
III)A corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970)

IV) Under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980)
V) Any other bank being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934), .

In conclusion they are (i) State Bank of India and its Associates, (ii) Nationalised Banks, (iii) Private Sector Banks, (iv) Foreign Banks, and (v) Regional Rural Banks. In the group-wise classification of banks, IDBI Bank Ltd. has been included in Nationalised Banks category.

Scheduled Co-operative Banks consist of Scheduled State Co-operative Banks and Scheduled Urban Co-operative Banks.

Whether a foreign bank operating in India can be declared as Scheduled Bank?

Ans : Yes. The following foreign banks operating in India are declared as scheduled banks by RBI. American Express Bank Ltd., ANZ Gridlays Bank Plc., Bank of America, NT & SA Bank of Tokyo Ltd., Banquc Nationale de Paris, Barclays Bank Plc, Citi Bank N.C., Deutsche Bank A.G., Hongkong and Shanghai Banking Corporation, Standard Chartered Bank, The Chase Manhattan Bank Ltd., Dresdner Bank AG. At present there are 36 foreign banks which are declared as Scheduled Banks in India.

What are the benefits of a scheduled bank ?

Ans: Every Scheduled bank enjoys the following facilities:-

1. Such bank becomes eligible for debts/loans on bank rate from the RBI

2. Such bank automatically acquire the membership of clearing house.

3)Rediscount of first class exchange bills from RBI

NON-SCHEDULED COMMERCIAL BANKS :

As per Section 5 (c) of Banking Regulation Act, 1949, "banking company" means any company which transacts the business of banking [in India];

(b) "banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise;

Explanation**. —** Any company which is engaged in the manufacture of goods or carries on any trade and which accepts deposits of money from the public merely for the purpose of financing its business as such manufacturer or trader shall not be deemed to transact the business of banking within the meaning of banking company.

In conclusion, a Non-Scheduled Bank, can be defined as below:

1.The Bank not listed in the 2nd Schedule of RBI Act,1934

2. The paid capital and collected funds of bank is less than Rs. 5 lakhs

It is observed that such non-scheduled banks number is continuously declining. But such non-scheduled banks must follow the Cash Reserve Ratio norms prescribed by RBI. These Non-Scheduled Banks are not eligible for a loan from RBI on Bank Rate. But in emergency conditions, Non-Scheduled Banks are also eligible for loans in emergency conditions.

Cash reserve: - Non-scheduled banks have to maintain a minimum of 3% of the demand and time liabilities by way of cash reserves with itself or by way of balance in a current account with RBI .

Section 18 of Banking Regulation Act, 1949:
Cash reserve.- (1) Every banking company, not being a scheduled bank, shall maintain in India by way of cash reserve with itself or by way of balance in a current account with the Reserve Bank or by way of net balance in current accounts or in one or more of the aforesaid ways, a sum equivalent to at least three per cent. of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight and shall submit to the Reserve Bank before the twentieth day of every month a return showing the amount so held on alternate Fridays during a month with particulars of its demand and time liabilities in India on such Fridays or if any such Friday is a public holiday under the Negotiable Instruments Act, 1881 (26 of 1881), at the close of business on the preceding working day.

Whether Regional Rural Banks are Scheduled Banks?

Ans: Yes. Regional Rural Banks (RRBs) are special category of Banks established by Govt. of India in 1975 under the Provisions of the Ordinance promulgated by the President of India on 26.09.1975. This Ordinance later was replaced by RRBs Act, 1976 enacted by the Parliament. RRBs are Scheduled Banks notified by Reserve Bank of India. The powers to make rules, regulations & frame the policy matters relating to RRBs are vested with Government of India. At present there are 82 Regional Rural Banks in India.

Whether a State Co-operative Bank can be included as Scheduled Bank ?
Ans : Yes. As per Section 42 of RBI Act, a State co-operative bank or a regional rural bank can be included in or excluded from the Second Schedule. But it shall be competent for the RBI to act on a certificate from the NABARD on the question whether or not a State co-operative bank or a regional rural bank, as the case may be, satisfies the requirements as to paid-up capital and reserves or whether its affairs are not being conducted in a manner detrimental to the interests of its depositors. At present there are 89 Scheduled Co-operative Banks.

What are the obligations of a scheduled bank ?

As per Section 42 of RBI Act, 1934, all scheduled banks are supposed to keep Cash reserves with the Reserve Bank of India Bank.

(1) Every bank included in the Second Schedule shall maintain with the

RBI an average daily balance, the amount of which shall not be less than 4.75%

of the total of the demand and time liabilities.

(2) RBI may increase the said Cash Reserve Ratio (CRR) to such higher rates. However, the CRR shall not be more than 20% of the total of the demand and time liabilities.

(3) Every scheduled bank shall send a return to the RBI, duly filled and signed by two responsible officers of such bank showing the amount of its demand and time liabilities and the amount of its borrowings from banks in India classifying them into demand and time liabilities etc.

Failure to comply with the said CRR with RBI, attracts penal rate of interest:-

If the average daily balance held at the RBI by a scheduled bank during any fortnight is below the minimum prescribed by RBI, such Scheduled bank shall be liable to pay to

the Bank in respect of that [15 days period], penal interest at a rate of 3% per cent , above the Bank Rate on the amount by which, such balance with the Bank falls short of the prescribed minimum.

Who are responsible for failure to deposit the said CRR with RBI ? What are the fines ?

Ans: Every Director, Manager or Secretary of the scheduled bank, who is knowingly and wilfully a party to the default, shall be punishable with fine which may extend to Rs.500 and with a further fine which may extend to Rs.500 for each subsequent [fortnight]
during which the default continues.

Whether payment of fine allows the commercial bank to continue as Scheduled Bank ?

Ans: No. The Reserve Bank of India may prohibit the scheduled bank from receiving any fresh deposit and if the default is made by the scheduled bank in complying with the prohibition referred above, every director and officer of the scheduled bank who is knowingly and wilfully a party to such default or who through negligence or otherwise contributes to such default shall in respect of be punishable with fine which may extend to Rs.500 and with a further fine which may extend to Rs.500 for each day after the first on which a deposit received in contravention of such prohibition is retained by the scheduled bank.

In how many days, the penalty amount should be paid ?

Ans : The penalties imposed by RBI shall be payable within a period of fourteen days from the date on which a notice issued by the RBI demanding the payment of the same is served on the scheduled bank

How a scheduled bank, will be excluded from the Second Schedule of Reserve Bank of India Act, 1934?
Ans: As per Sub-Section (6) (b) of Section 42, RBI shall direct the exclusion of any scheduled bank from that Schedule by notification in the
Gazette of India, :-

(i) if the aggregate value of whose paid-up capital and reserves becomes at

any time less than Rs. 5 Lakhs , or

(ii) if the RBI concludes that the commercial bank is conducting its affairs to the detriment of the interests of its depositors after making an inspection under section 35 of the [Banking Regulation Act, 1949], , or

(iii) the commercial bank goes into liquidation or otherwise ceases to carry on banking

business.

However, this final decision will be made only after giving reasonable notice and opportunity to the commercial bank for explanation.

MODEL NOTIFICATION DECLARING A BANK AS 'SCHEDULED BANK'

To: All Commercial Banks :

Dear Sir,
Sub: Inclusion in the Second Schedule to the Reserve Bank of India Act, 1934 Industrial and Commercial Bank of China Limited

We advise that the name of "Industrial and Commercial Bank of China Limited has been included in the Second Schedule to the Reserve Bank of India Act, 1934 by notification No…… dated ……….. published in the Gazette of India (Part III- Section 4).
Yours faithfully,
Sd/-
Chief General Manager

Notification From Reserve Bank of India

In pursuance of Clause (a) of sub-section (6) of Section 42 of the Reserve Bank of India Act, 1934 (2 of 1934), the Reserve Bank of India hereby directs the inclusion in the Second Schedule to the said Act of the following bank namely:
"Industrial and Commercial Bank of China Limited"

Questions:
1) In which Schedule of RBI Act, 1934, name of a scheduled bank will be included?
Ans : Seventh Schedule
2) Upto March, 2011, how many Non-Scheduled Banks are there in India ?
Ans : 4
3) Section of 18 of Banking Regulation Act, 1949 deals with what ?
Ans: Cash Reserves to be maintained by a bank

Significance of Social Banking & Cash Transfer

STUDY MATERIAL
PREPARED BY
PRATURI POTAYYA SARMA, MA,LLB,PGDIRPM
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Banks are an integral part of the social system. Banks draw resources such as manpower, funds, support services, etc. from the community, which also acts as customers for banks' services. Banks heavily depend on society for their operations . Therefore, it is genuine to expect that banks reciprocate by ensuring that the interests of the society are taken care of through social banking measures.

Historically speaking, the first social banks were founded in Italy in the 15th century. Their primary responsibility was to be an intermediary between those with money to save and those who needed money to do business.

In India, the history of co-operative banks goes back to the year 1904, when the Co-operative Credit Societies Act was enacted. Thus, social banks are not a new concept but rather an idea that had a long history both globally and in India.

Social banking and financial inclusion present a significant challenge. They provide unique opportunity to build a broad based and stable financial system, subservient and contributing to growth in the real sector and overall economic prosperity of the masses.

Banks are commercial organizations. They must earn profit, otherwise they would not remain viable or be able to absorb shocks.

The banking business, globally, has followed pricing practices that have resulted in the poor subsidizing the rich. This has worked to the detriment of the poor, who have had to pay high cost for accessing financial services, often forcing them to rely on informal sources for their funding needs at exorbitant rates. This has severely curtailed the opportunities available to them to use the financial system to improve the quality of their lives. Therefore, social banking is one where the rich subsidize the provision of financial services to the poor and where banking business is oriented towards serving the masses instead of exploiting them.

Sub-Prime Crisis in USA:

Social banking and finance became so relevant. The global financial and economic crisis had a significant negative impact on the lives of individuals globally. People have lost their livelihoods, their homes and savings in the aftermath of the crisis. One of the prominent reasons for the crisis was that the financial system was focussed on furthering its own interests and lost its linkage to the real sector and with the society at large. The relevance of social banking and finance also arises from the realization that free market forces do not always result in greater efficiency in the financial system, particularly while protecting the interests of the vulnerable sections of the society.

During the post crisis years, social banking has become an important theme across the globe. The need for banks to be relevant to society, besides pursuing their own business interests, has been reflected in various measures introduced through legislations and regulations in several jurisdictions.

The critical difference that sets social banking apart from conventional commercial banking is that though earning profit is one of the objectives of social banking, it would not be the main reason. Social banking would also be concerned about the community, about contributing to the well being of the masses and ensuring that their activities are carried out in a manner that is in congruence with the broader goals of the society. They would not encourage businesses that harm the ecosystem and would support sustainable environmental practices through their lending policies.

Social banking requires the capacity to understand the requirements of customers and develop products that are best suited to their needs. They work towards developing technology leveraged models that bring down the costs of providing services and make banking affordable to the masses. By extending the reach and penetration of banks, social banking tries to make banking services available to the marginalized segments of the society.

World population is 7 billion. Out it, about 2.5 billion people across the globe do not have access to basic banking services. The unbanked population, which lives primarily in developing countries, comprises nearly half of the world's working-age population. Their exclusion from the formal financial system restricts their participation in the global economy and severely curtails the opportunities available to them to pull themselves out of poverty.

Banks should have a vested interest in poverty alleviation as improvement in the economic status of the poor would enable the latter's joining the formal financial system and becoming prospective bank customers.

Social banking can contribute to poverty alleviation by developing low cost products customized to the needs of the poor and providing them access to affordable credit for entrepreneurial and emergency purposes. Through financial literacy, social banking can initiatives, generate awareness among the poor about financial products and their utility. Banks can also contribute towards making the poor creditworthy through training and counselling programmes.

Social Banking is an Instrument for Financial Inclusion. Though social banking initiatives were introduced in India long back through measures such as the cooperative banking movement, nationalization of banks (in 1969 & in 1980), creation of Regional Rural Banks (during 1975-76), etc, their success was largely constrained by the size and population of the country(about 1.21 billion), and non-availability of banking services. This constraint could be overcome only through the emergence of suitable information and computer technology and hence, in the last decade, with the developments in technology, financial inclusion has received a big boost in India and greater efforts have been laid on inclusive banking.

Banking Facilities in Unbanked Blocks:-

With a view to provide banking facilities in unbanked blocks, the Government in July, 2009 identified 129 unbanked blocks, of which 91 blocks were in North East States and 38 in other States. With the persistent efforts of the Government, the number of unbanked blocks were brought down to 71 as on 31.3.2011, and by March 2012, banking facilities have been provided in all the unbanked blocks either through Brick and Mortar Branches or Business Correspondents Model or mobile banking, etc.

Opening of One Bank Account Per Family:-

In order to ensure electronic transfer of cash subsidies directly into the accounts of the beneficiaries under the various Schemes of the Central Government and State Governments, it is important that the beneficiaries have an account in the service area bank. Accordingly, banks have been advised that the service area bank in rural areas and banks assigned the responsibility in specific wards in urban area ensure that every household has at least one bank account.

Ernakulam district in Kerala achieved success in this aspect by opening Savings Bank account for all the adults in the district.

Establishment of Ultra Small Branches:-

Considering the need for close supervision and mentoring of the business correspondent agents by the respective banks and to ensure that a range of banking services are available to the residents of such villages, it has been decided that Ultra Small Branches(USBs) be set up in all villages covered through BCAs. These USBs will comprise of a small area of 100-200 sq. feet where the officer designated by the bank would be available with a lap-top on pre-determined days. While the cash services would be offered by the BCAs, the bank officer would offer other services, undertake field verification and follow up the banking transactions. The periodicity and duration of visits can be progressively enhanced depending upon business potential in the area.

Following are the steps initiated for enhancing financial inclusion in India :-

1) Information and Communication Technology (ICT) based Business Correspondent (BC) Model for delivery of low cost door step banking services in remote villages is being implemented.

2) Bank's Board approved Financial Inclusion Plans (FIPs) of banks for 3 years, are being implemented, since April, 2010.

3) Roadmap to cover villages with population above 2000 by March 2012 was prepared and successfully implemented. Process of ensuring coverage of villages with population below 2000 is underway.

4) Opening of 25 % of new branches by banks in unbanked rural centres is made as an obligation.

5) Introduction of Basic Saving Bank Deposit Account for all individuals

6) Know Your Customer (KYC) documentation requirements significantly simplified for small accounts.

7) Guidelines for convergence between Electronic Benefit Transfer and FIP have been issued.

8) Pricing for banks has been totally freed. Interest rates on advances have been fully deregulated.

9) Other players such as mobile companies, etc. have been allowed to partner with banks in offering services collaboratively.

10) Information and Communication Technology (ICT) is the key to India's financial inclusion efforts. Technology needs to be leveraged both for improving access to financial services and for bringing down the cost of providing these services. As a starting point, it is insisted that all bank branches including Regional Rural Banks (RRBs) should be on Core Banking Solution

(CBS). Government has encouraged a multi-channel approach including mobiles, hand held devices, smart cards, micro-ATMs, kiosks, etc for providing financial services. However, the front-end devices need to be seamlessly integrated with bank CBS systems.

11) A village is considered to be covered by banking service if either a bank branch is present or a BC is physically present or visiting that village.

What is meant by 'availability of banking services' ?

Ans: Availability of Banking Services means availability of the following four products is considered as minimum services:-

i) A Basic Savings Bank Deposit Account (formerly termed as No-Frills account) with Overdraft Facility.

ii) A Remittance Product for Electronic Benefit Transfer and other remittances.

iii) A Pure Savings Product, ideally a recurring or a variable recurring deposit.

iv) Entrepreneurial Credit such as General Credit Card, Kisan Credit Card.

Social Banking & Cash Transfer:

In a move to cut down wastage, duplication and leakages and enhance efficiency, the Prime Minister has given a major push to transfer individual benefits from the Government directly into the bank accounts of beneficiaries. This is to be done in a fast-track, accelerated mode to be achieved in a time bound manner. The idea is to move to a completely electronic Cash Transfer System for the entire population.

With the rapid rollout of Aadhaar, now covering 20 crore people and rapidly growing to 60 crores, and with the National Population Register covering the other half, it is possible to move to a system of transferring cash benefits directly to the poor.

A Cash Transfer System can be used for transferring cash benefits such as NREGA Wages, Scholarships, Pensions, Income support of other types and Health Benefits. Electronic Transfer of Benefits (ETB) is a simple change as the transfers are already taking place and the only modification that would be involved is a movement from a paper based, cash driven system to an electronic direct transfer system.

Cash Transfer System would improve targeting, reduce corruption, eliminate waste, control expenditure and facilitate reforms.

Questions:

1) What is the new name for 'No Frills account'?

Ans: Basic Savings Bank Deposit account

2) 14 Commercial Banks were nationalized in which year ?

Ans : 1969

3) When 6 more commercial banks were nationalized in 1980, who was Prime Minister of India ?

Ans : Smt. Indira Gandhi

4) Bank Nationalisation is also called as _______________.

Ans : Social Control of Banks

What is ‘Call Money’ ?

STUDY MATERIAL
PREPARED BY
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The most active segment of the money market has been the ‘call money’ market. In this market, the day to day imbalances in the funds position of scheduled commercial banks are eased out. The ‘call money’ or ‘notice money’ market has graduated into a broad and vibrant institution . Money loaned by a scheduled commercial bank must be repaid on demand. Unlike a term loan, which has a set maturity and payment schedule, call money does not have to follow a fixed schedule.

The demand-supply mismatch is a regular feature in India's call money market.

In Call Money Market, brokers and dealers borrow money to satisfy their credit needs, either to finance their own inventory of securities or to cover their customers' margin accounts.The call money market refers to the market for extremely short period loans i.e., from one day to fourteen days.

These loans are repayable on demand at the option of either the lender or the borrower. Earlier these loans are given to brokers and dealers in stock exchange. Normally, banks with ‘surplus funds’ lend to other banks with ‘deficit funds’ in the call money market. Thus, it provides an equilibrating mechanism for evening out short term surpluses and deficits. Moreover, commercial banks can quickly borrow from the call market to meet their statutory liquidity requirements. They can also maximize their profits easily by investing their surplus funds in the call market during the period when call rates are high and volatile.

Banks especially access the call market to borrow/lend money for adjusting their cash reserve requirements (CRR). The lenders having steady inflow of funds (e.g. LIC, UTI) look at the call market as an outlet for deploying funds on short term .

The Narasimham Committee (1998) recommended that call/notice money market in India should be made purely an inter-bank market. Accordingly, RBI initiated the process of phasing out of non-bank institutions (i.e., all-India Financial Institutions, Insurance companies and Mutual Funds) from call/notice money market in a gradual manner since May 5, 2001. Further, in order to preserve integrity of the financial market as also to achieve balanced development of various segments of money market, RBI has put in place prudential limits in respect of both borrowing and lending in call/notice money market for banks and PDs since October 5, 2002.

What is 'Call Money' ?
Ans : When money is borrowed or lent for a day, it is known as Call (Overnight) Money. Intervening holidays and/or Sunday are excluded for this purpose. Thus money, borrowed on a day and repaid on the next working day, (irrespective of the number of intervening holidays) is called as ‘Call Money’. No collateral security is required to cover these transactions.

What is Notice Money ?
Ans: ‘Notice Money’ means deals in funds for 2 days to 14 days. When money is borrowed or lent for more than a day and up to 14 days, it is called as ‘Notice Money’. No collateral security is required to cover these transactions.

What is ‘Term Money’?

Ans : “Term Money” means deals in funds for 15 days to 1 year. When money is borrowed or lent for more than 15 days and upto one year year, it is called as ‘Term Money’.

Why Banks borrow money in Call/Notice Money Market ?

Ans:Banks borrow in this money market for the following proposes:-

- To fill the gaps or temporary mismatches in funds
- To meet the CRR & SLR Mandatory requirements as stipulated by the Reserve Bank of India
- To meet sudden demand for funds arising out of large outflows

Thus call money usually serves the role of equilibrating the short-term liquidity position of banks

Earlier in India, call loans are also given for the following purposes:

i)To commercial banks to meet large payments, large remittances to maintain liquidity with the RBI and so on.

ii)To the stock brokers and speculators to deal in stock exchanges and bullion markets.

iii)To the bill market for meeting matured bills.

iv)To the Discount and Finance House of India and the Securities Trading Corporation of India to activate the call market.

v) To individuals of very high status for trade purposes to save interest on O.D or cash credit.

Who is called as ‘Primary Dealer’ ?

Ans: ‘Primary Dealer’ (PD) means a financial institution which holds a valid letter of authorization as a PD issued by the Reserve Bank, in terms of the "Guidelines for PDs in Government Securities Market" .

Who can participate in Call Money / Notice Money Market ?

Ans : The entry into this field is restricted by RBI. This market is governed by the Reserve Bank of India which issues guidelines for the various participants in the call/notice money market. The participants in this market can be classified into two categories viz.

(i) Those who are permitted to act as both lenders and borrowers of call loans.

(ii)Those who are permitted to act only as lenders in the market.

Both Lenders and Borrowers of Call Loans:-

The first category includes all commercial banks,(viz. Scheduled commercial banks, Non-scheduled commercial banks, Foreign banks) Co-operative banks (viz. State co-operative banks, district and urban co-operative banks) . DFHI and STCI are allowed to borrow and lend in this market.

Discount and Finance House of India (DFHI) and Securities Trading Corporation of India (STCI) like banks and primary dealers, can do business in the call market.

Only as Lenders in the market:-

In the second category LIC, UTI, GIC, IDBI, NABARD, specified mutual funds etc., are included. They can only lend and they cannot borrow in the call market.

Who cannot participate in Call Money / Notice Money Market ?

Ans : Non-bank entities are not allowed access to this market . Similarly, Regional Rural Banks, Land Development Banks are not allowed to participate in this market. With effect from Aug 06, 2005 non-bank participants except Primary Dealers are discontinued to participate in this market.

What are the Prudential norms of RBI for this purpose?

Ans : Generally, lending outstanding of scheduled commercial banks, on a fortnightly average basis, should not exceed 25 per cent of their capital funds. However, banks are allowed to lend a maximum of 50% on any day, during a fortnight.

Similarly, borrowings by scheduled commercial banks should not exceed 100 per cent of their capital funds. However, banks are allowed to borrow a maximum of 125 per cent of their capital fund on any day, during a fortnight.
(Please Note: Separate percentages are there for co-operative banks and Primary Dealers(PDs).

Which funds are known as 'Capital Funds' in banks?
Ans : 'Capital Funds' means the sum of Tier I and Tier II capital as disclosed in the latest audited balance sheet of the bank / entity.

Interest Rate:
The rate of interest paid on call loans is known as call rate. There are now two call rates in India:
(i) the interbank call rate
(ii) the lending rate of DFHI.
Call rate is highly variable from day to day, often from hour to hour. It is very sensitive to changes in demand for and supply of call loans.
Eligible participants are free to decide on interest rates in call/notice money market.
Calculation of interest payable would be based on the Handbook of Market Practices brought out by the FIMMDA (Fixed Income Money Market and Derivatives Association of India).

Interest rates: Eligible participants are free to decide on interest rates in the Call, Notice and Term Money Markets.

However, some years back , call rate in India was around 8% and the average daily turnover was around Rs.12,000 to Rs.13,000 Crores.

What are the general conditions about call money/notice money ?
Ans : In view of the short tenure of such transactions, both the borrowers and the lenders are required to have current accounts with the Reserve Bank of India. This will facilitate quick and timely debit and credit operations.

Dealing Session:
Deals in the call/notice money market can be done upto 5.00 pm on weekdays and 2.30 pm on Saturdays or as specified by RBI from time to time.

Documentation:
Eligible participants may adopt the documentation suggested by FIMMDA from time to time.

Reporting Requirement :
All dealings in call/notice money on the Negotiated Dealing System-Call, i.e. NDS-Call (a screen-based, negotiated, quote-driven system), do not require separate reporting. It is mandatory for all members of the NDS to report their call/notice money market deals, other than those done on NDS-Call, on NDS. Deals should be reported within 15 minutes on NDS, irrespective of the size of the deal or whether the counterparty is a member of the NDS or not. In case there is repeated non-reporting of deals by an NDS member, such non-reported deals may be treated as invalid.

In which cities Call Money Market is conducted ?
Ans: Mumbai, Calcutta, Chennai, Delhi, and Ahmadabad.

What are the advantages of call money ?

Ans : In India, commercial banks play a dominant role in the call loan market. They used to borrow and lend among themselves and such loans are called inter-bank loans. They are very popular in India. The following advantages are available to commercial banks:
i) High Liquidity: Money lent in a call market can be called back at any time when needed. So, it is highly liquid. It enables commercial banks to meet large sudden payments and remittances by making a call on the market.
ii) High Profitability: Banks can earn high profits by lending their surplus funds to the call market when call rates are high volatile. It offers a profitable parking place for employing the surplus funds of banks temporarily.
iii) Maintenance of Statutory Liquidity Ratio (SLR): Call market enables commercial bank to minimum their statutory reserve requirements. Generally banks borrow on a large scale every reporting Friday to meet their SLR requirements. In absence of call market, banks have to maintain idle cash to meet their reserve requirements. It will tell upon their profitability.
iv) Safe and Cheap: Though call loans are not secured, they are safe since the participants have a strong financial standing. It is cheap in the sense because brokers have been prohibited from operating in the call market. Hence, banks need not pay brokers on call money transitions.
v) Assistance to Central Bank (RBI) Operations: Call money market is the most sensitive part of any financial system. Changes in demand and supply of funds are quickly reflected in call money rates and give an indication to the central bank (RBI) to adopt an appropriate monetary policy. Moreover, the existence of an efficient call market helps the central bank (RBI) to carry out its open market operations effectively and successfully.

What are the drawbacks of call money ?
Ans : The call market in India suffers from the following drawbacks:
(i) Uneven development: The call market in India is confined to only big industrial and commercial centers like Mumbai, Kolkata, Chennai, Delhi, Bangalore and Ahmadabad. Generally call markets are associated with stock exchanges. Hence the market is not evenly developed.
(ii) Lack of integration: The call markets in different centers are not fully integrated. Besides, a large number of local call markets exist without any integration.
(iii)Volatility in Call Money Rates: Another drawback is the volatile nature of the call money rates. Call rates vary to greater extant indifferent centers in different seasons on different days within a fortnight.

How Operations in Call Market are conducted ?
Generally, borrowers and lenders in a call market contact each other over telephone. Hence, it is basically over-the-telephone market. After negotiations over the phone, the borrowers and lenders arrive at a deal specifying the amount of loan and the rate of interest. After the deal is over, the lender issues FBL cheque in favour of the borrower. The borrower in turn issues call money borrowing receipt. When the loan is repaid with interest, the lender gives the discharge receipt.

Instead of negotiating the deal directly, it can be routed through the Discount and Finance House of India (DFHI), the borrowers and lenders inform the DFHI about their fund requirement and availability at a specified rate of interest. Call loans can be renewed on the back of the deposit receipt by the borrower.

Questions for IBPS / SBI Examns:
1) In Call Money market, money is borrowed or lent for how many days ?
Ans : Only one day or one night
2) In Notice money deal, funds are borrowed or lent for how many days ?

Ans : From 2 days to 14 days
3)In When funds are borrowed or lent for more than 15 days and upto one year, it is called as ?
Ans : Term Money

BANKER – CUSTOMER RELATIONSHIP

STUDY MATERIAL
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The very first banking in England was pure borrowing. It consists of receiving money, in exchange, for which promissory notes were given, payable to bearer on demand; and so essentially was this banking, as then understood.
Historically speaking, goldsmiths in England were the first who got the name of bankers in the Reign of King Charles the Second. Goldsmiths came to be known as 'keepers of running cash' and they accepted gold in exchange for a receipt as well as accepting written instructions to pay back, even to third parties. This instruction was the forerunner to the modern banknote or cheque.
Thomas Smith, a cloth merchant opened the first provincial bank in Nottingham around 1650. Bank of England was funded during 1694.

"A customer is the most important visitor on our premises; he is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so." – Mahatma Gandhi

Comprehensive Banking Regulation in India **:**

The present day banking gets its legal basis from a host of Acts codified under different enactments like

a) Indian Contract Act, 1872

b) Negotiable Instruments Act, 1881

c) Indian Limitation Act, 1963

d) Indian Stamp Act, 1899

e) Banking Regulation Act, 1949

f) RBI Act, 1934

g) IT Act 2000, etc.

The modern day Information Technology (IT) driven banking certainly warrants a comprehensive legislation to cover the complex banking products which cut across different sectors like banking, insurance, investment etc. In case of disputes, seeking interpretation under the Acts which did not envisage the present day transactions is causing avoidable inconvenience, both to the banks as well as the customers. It is opined that a new comprehensive banking legislation suitable to technology driven modern day banking is required to eliminate interpretation issues of varied existing laws and expects that Financial Sector Legislative Reforms Commission will address this issue.

What is Banking ?
Ans: Sec 5(b) of the Banking Regulation Act, 1949 defines the term 'Banking' .
"Banking" means the accepting for the purpose of lending or investment of deposits or money from the public, repayable on demand or otherwise and withdrawable by cheque, drafts, order or otherwise.
The word 'Banker' is used in Sec.7 of Banking Regulation Act, 1949. A Banking company is defined in the Banking Regulation Act, 1949, as a company which transacts the business of banking in India.

Basic functions of a Banker :

- Accepting deposits from the public
- Lending or investing the money so collected by way of deposits
- Bank's deposits are withdrawable by demand or otherwise
- Deposits are withdrawable by cheque / draft, order or by any acceptable mode
- A banker may be a corporate body or otherwise
- A banker collects cheques for his customers

CUSTOMER OF A BANK:

The word 'customer' is derived from 'custom' which means a habit or tendency to do certain things in a particular manner. The customer can be an individual, a firm, a company, a society or a bank etc.

There is no legal/statutory definition of the bank customer but from various judgements based on Section 131/131A of Negotiable Instruments Act, 1881, a customer is a person who seeks to open account which banker accepts with proper introduction. The initial deposit for opening account is normally accepted in cash.

A person will become a customer of a bank if he/she has some sort of account with the bank. The same can be clarified in the following conditions:-

- A customer is a person who maintains any type of account with the bank, be it deposit account or loan account. By opening a bank account, a person and the bank enter into a contractual relationship which decides their rights and obligations. Person acquires the status of a customer because of that contract only.
- A person frequently visiting bank's branch for purchasing draft or encashing cheques is not a customer, if he does not open an account
- Even a person who fills the account opening form and hands over it to the bank who accepts it, acquire the status of a customer irrespective of the fact that account has not been opened in the books so far. A contract is completed only when offer is made by one party and the same is accepted by the another party. As soon as the account opening form is accepted by the bank, contract comes into force and the person becomes customer, irrespective of the fact that his account is opened in bank's books or not.
- A person can be treated as a customer of a bank branch where he maintains any account. He cannot be treated as the customer of other branches of the same bank.
- Bank maintaining any account with another bank also becomes the customer of the bank

As per Goiporia Committee recommendations, a customer is a person who maintains any type of account with the bank be it deposit account, loan account, safe deposit account, locker account.

RERLATIONSHIP BETWEEN BANKER AND BANK CUSTOMER:
Debtor-Creditor relationship is the main relationship between bank and customer.

Banker and customer relationship can be classified into general relationship and special relationship according to circumstances.

I) **Debtor and Creditor** :
When a customer maintains any account with bank, his relations with the banker is of "debtor and creditor".
→In case of savings bank account or current account or any deposit account, banker is the debtor and the customer is the creditor.
→In case of loan / advance accounts, banker is the 'creditor' and customer is the 'debtor'.
Explanation: When a bank accepts deposits, it becomes debtor and the depositor is a creditor, irrespective of the fact that the bank pays interest or not. But the relationship is of special nature, as established by several judgements in the courts, with the following features:
→Customer cannot claim return of the same currency notes or coins from the bank, which can repay a sum of equivalent amount
→Depositor is an unsecured creditor (except depositor insurance by Deposit Insurance and Credit Guarantee Corporation)
→For repayment, the creditor must raise demand
→Demand must be made by the customer only at the branch at which the account is maintained and also within normal business hours on a working day only. It is pertinent to add that payment outside business hours is not a payment in due course which deprives the bank of the protection available under Section 85 or 85A of Negotiable Instruments Act, 1881.

II**) Agent and Principal** : (Section 182 of Indian Contract Act, 1872 deals with Agency)
When the banker collects cheques, bills or buys or sells securities etc., on behalf of the customer, he acts as an agent. Here, banker is an 'agent' and customer is the 'principal'.

III) **Bailor and Balee**: (Section 148 of Indian Contract Act, 1872 deals with Contract of Bailment etc)
When a sealed box or article is deposited with the bank for safe custody, the relationship between customer and banker is of a "Bailor and Bailee". Here, the customer is 'bailor' and the bank is 'bailee'.

IV) **Pledger and Pledgee** : (Section 172 of the Indian Contract Act, 1872 deals with Pledge etc.)
The relationship between banker and customer can be termed as 'pledgee and pledger' when bank has sanctioned loan / advance to the customer against delivery of goods / articles pledged to the bank with an intention to secure loan / advance. Here the customer is 'pledger' and the banker is 'pledgee'.

V) **Trustee and Beneficiary** :
When a banker accepts money for remittance purpose from his customer, he acts as a 'trustee'. Relationship in case of moneys, instruments, securities in possession of the bank, on behalf of his customer which has not been credited to the customer's account is of trustee and beneficiary.

VI) **Licenser and Licensee**:
The relationship of licenser and licensee exists when banker allots safe deposit locker to his customer. Here, banker is a 'Licenser' and customer is the 'Licensee'.

VII) **Assignor and Assignee**:
When a customer assigns Life Insurance Policy or any other actionable claim in favour of the banker to secure any advance, the relationship is that of 'assignor and assignee'. In such cases, customer acts as an 'assignor' and the banker becomes the 'assignee'.

TERMINATION OF BANKER AND CUSTOMER RELATIONSHIP:
Banker-Customer relationship terminates in the following circumstances:-
a) When the customer closes the account after giving suitable notice wherever required
b)When bank closes the account after due notice of reasonable period, which is compulsory and failing which, the banker may be held accountable for damage, if any due to dishonor of cheques
c) With knowledge of death of the customer
d) With knowledge of insanity (as per Sec 12 of Indian Contract Act, 1872) of the customer
e) With the knowledge of bankruptcy or insolvency of the customer
f) On Garnishee order and attachment order
g)When the customer leaves the country forever

Questions for IBPS/SBI Examns and Interviews:
1) When deposit account is opened, what the relationship between the banker and customer?
Ans: Debtor and Creditor

2)When loan or advance account is opened, what the relationship between the banker and the customer ?
Ans: Creditor and Debtor

3)When a cheque is given in the bank for collection purpose, what is relationship between banker and the customer ?
Ans : Agent and Principal

4)In the case of remittance of funds (like Demand Draft / Money Transfer / Telegraphic Transfer etc.), what is the relationship between banker and the customer ?
Ans : Trustee and Beneficiary

5)In the case of safe custody of articles / deposits, what is the relationship between the banker and the customer ?
Ans : Bailee and Bailor

6)When Lockers are given to the customer, what is the relationship between the banker and the customer ?
Ans : Licenser and Licensee

7)When advances are granted against pledge of goods, what is the relationship between the banker and the customer ?
Ans : Pledgee and Pledger

8)When advances are granted against hypothecation, what is the relationship between the banker and the customer ?
Ans : Hypothecatee and Hypothecator

9)When loan or advance against mortgage is granted, what is the relationship between the banker and the customer ?
Ans : Mortgager and Mortagagee

10) In case of assignment of LIC Policy or actionable claim, what the relationship between the banker and the customer ?
Ans : Assignor and Assignee

11) As an agent , what can be done by banker ?
Ans: Collection of cheques or sale/purchase of securities for the customer or carrying on the standing instructions for mail or telegraphic transfers of money on behalf of the customer.

AUTOMATED TELLER MACHINE (ATM)

White Label ATM (WLA)

STUDY MATERIAL
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Recently Reserve Bank of India has announced that Non-Bank entities incorporated In India under Companies Act, 1956 can set up, own and operate ATMs in India. Such Non-Bank entities which set up, own and operate ATMs are called as "White Label ATM Operators (WLAO) and such ATMs would be called as "White Label ATMs" (WLAs).
Historically speaking, in Canada ATMs (known as ABMs) which are not operated by financial institutions are known as "White Label ABMs". In Canada, ATMs are also called as "guichets automatiques in French language. A "white label" or "no name" ABM, which are usually located in non-traditional places, display no major bank labels on the actual ABM. Sometimes, they are called as Automatic Banking Machines(ABM) in English language.

Upto now RBI has permitted only Banks to set up Automated Teller Machines (ATMs) as extended channels of banking services. Banks also have played a major role in encouraging ATM adoption by customers and modifying behavioral strategies in the domain of personal banking. ATMs have delivered a wide variety of banking services to customers and expanded the scope of banking to anytime and anywhere banking .

Father of ATMs :
Mr. Shepherd-Barron (UK) is called as father of ATMs. "It struck me, there must be a way I could get my own money, anywhere in the world or the UK. I hit upon the idea of a chocolate bar dispenser, but replacing chocolate with cash" said Shepherd Barron,some time back, while giving interview to BBC.

World's first ATM:
The world's first ATM was installed in a branch of Barclays in Enfield, north London about 40 years ago. Barclays was convinced immediately to set up ATM. Over a pink gin, the then chief executive signed a hurried contract with Mr.Shepherd-Barron, who at the time worked for the printing firm De La Rue.

No Plastic Cards at that time ?
When the first ATM was set up, there were no plastic cards. Mr.Shepherd-Barron's machine used cheques which were impregnated with carbon-14. It is a radioisotope.

ATMs are Cash Dispensing Machines!
Automated Teller Machine is a computerized machine that provides the customers of banks the facility of accessing their accounts for dispensing cash and to carry out other financial transactions without the need of actually visiting a bank branch.

ATM Card/Debit Card/Credit Card/Pre-Paid Card:
The customer can use ATM card or Debit card or Credit card or Pre-paid card to draw money and for various types of transactions at the ATM. In addition to cash dispensing, ATMs have many services / facilities like:

i) Account Information

ii) Cash Deposit
iii)Payment of bills at shops, restaurants, petrol pumps i.e., Point of Sales(P o S)
iv) Purchases of Re-load Vouchers for Mobile Phones
v) Mini/Short statement
vi) Crerdit Card Payments
vii) LIC premium payments
viii) Engg. Colleges (like IITs) fee payments
ix) Donations to charities
x) Cheque processing modules
xi) Transferring money between linked bank accounts
ix) Loan account enquiry etc.

How to transact at an ATM ?
For transacting at an ATM, the customer normally inserts (or swipes) the card in the ATM and enters his/her Personal Identification Number (PIN).

What is PIN ?
PIN is the "numeric password" for use at the ATM. This number consists of four digits. Actually, one of the by-products of inventing the first cash machine was the concept of PIN. Mr.Shepherd-Barron came up with the idea when he realized that he could remember his six-figure army number. But he decided to check it with his wife, Caroline. Over the kitchen table, his wife said that she could only remember four figures. "So because of her, four figures became the world standard." Said Mr.Shepherd-Barron.

Whether PIN can be changed by the customer?
Yes. PIN allotted by Bank to the customer, should be changed after the first use.

General precautions to be taken by the card holder :
1) ATM card is very important and must be kept safely
2) The card must not be kept near a Television because of electromagnetic field / static electricity.
3) Store your card in a secure place where you will immediately know if it is missing
4) Store the ATM-cum-Debit card carefully so that magnetic stripe does not get damaged
5) Don't leave your card in your car, hotel room or at work to avoid misuse
6) PIN should not be written on the card by the card-holder because, if the card is lost or stolen, the card will be misused.
7) Read the user's manual and instructions on the PIN mailer
8) As soon as the new card is received, use new card on an ATM immediately to change the computer system generated PIN
9) Change your PIN to a new four digit number of your choice, remember it and destroy the PIN mailer. Change the PIN once in three months period
10) Don't use the PIN which is similar to your date of birth, telephone number etc.
11) Don't write the PIN on the ATM card or anywhere else
12) Personal Identification Number (PIN) is secret number and don't disclose the PIN to anybody including your family members or your banker because disclosing the PIN is like giving blank signed cheque to a person.

Precautions to be taken by the cardholder in ATM room :
1) Don't take anybody's help especially from strangers in the ATM room to withdraw money or reveal your password
2) Don't allow any other person enter the ATM room when you are transacting on the ATM
3) Avoid "Shoulder Surfing". Once you have completed your transaction in the ATM room, check yourself, your card and your receipt and your cash and leave ATM room immediately.

Protect your PIN from onlookers by using your body as a protective curtain so that there is no possibility of "shoulder surfing" by others.

Fast Cash:
Withdrawal of pre-specified amount like Rs.100/- or Rs.200/- or Rs.500/- or Rs.1000/- or Rs.2000/- or Rs.3000/- or Rs.5000/- or Rs.10000/- from a primary account is called as "Fast Cash".

Who is responsible for the unauthorized use of Card at ATM?
The responsibility is solely vested with the cardholder only, to whom it is issued by bank.

What is Mini Statement ?
It is statement of account showing last few transactions, in the bank account.

What are the transaction limits for International Cards ?
: Generally, transaction limit of USD 1,000/- each per day per account for withdrawal of cash from ATM and purchases upto USD 1000/- at POS terminal separately is permitted. But these limits are subject to change as per the rules of RBI .

How to inform when the card is stolen or lost ?
Contact the toll-free help line meant for bank card customers and report the loss of card. The help line will ask some questions in case of domestic card and specific security questions in case of International ATM-cum-Debit Card . The questions will be like

- i) what is your father's first name
- ii) What is your mother's maiden name
- iii) What is your Date of Birth
- iv) In which year you passed secondary school examination
- v) Year of marriage of the cardholder to establish the identity of the caller etc.

After confirmation, the card will be blocked and a system generated ticket number will be provided to the caller.

ATM is made up of the following devices/equipments:
In the ATM facility, main equipment is Personal Computer. It is also equipped with USB connections for peripherals, Ethernet and IP communications etc., and the following facilities:-
1) Central Processing Unit (CPU) (to control the user interface and transaction devices)
2) Magnetic or Chip card reader (to identify the customers)
3) PIN pad (similar in layout to a Touch Tone or Calculator keypad). It is also manufactured as a part of a secured enclosure).
4) Display / VDU (It is used by the customer for performing the transactions)
5) Function Key Buttons (usually close to the display) or a Touch Screen (used to select the various aspects of the transaction)
6) Record Printer (to provide the customer with a record of his/her transaction)
7) Vault (to store the parts of the machinery requiring restricted access). The vault of an ATM will be within the footprint of the device itself and is where items of value are kept.
8) Housing
9) Cash dispensing mechanism (to provide cash or other items of value)
10) Deposit mechanism including cheque processing module and bulk note acceptor
11) Security sensors (magnetic, thermal, seismic, gas) or CCTVs
12) Locks(to ensure controlled access to the contents of the vault

Modern ATMs are manufactured with various equipments and with state-of-the-art technologies to help the customers. For Example:-

1) Use of Biometrics: Authorization of transactions is based on the scanning of a customer's fingerprint, iris, face, etc.
2) Cheque/cash acceptance. In this facility, ATM accepts and recognizes the cheques and/or currency (when they are fed without using envelopes)
3) Bar code scanning
4) On-demand printing of movie tickets, traveler's cheques etc., which are called as "items of value".
5) Co-ordination of ATMs with mobile phones
6) Customer-specific advertising
7) Integration with non-banking equipment

"Talking ATMs" with Braille Keypads for visually challenged people:
As per instructions of RBI, all existing ATMs / future ATMs are to be provided with ramps and the Officers responsible for ATMs should ensure that at least one third of new ATMs installed as "Talking ATMs" with Braille keypads.

White Label ATMs (WLAs) in India :
ATMs number is increasing year after year, at the rate of 23-25 % and their prersent number is more than 90,000. Still, the deployment of ATMs is concentrated in Tier I & II cities. Hence, it is essential to expand the reach of ATMs in Tier III to VI cities/towns/places also. This classification of cities/towns is as per the Population Census of India 2011.
Accordingly, RBI has reviewed the extant policy on ATMs. Recently, RBI has decided to permit Non-Bank entities to set up "White Label ATMs" (WLAs) in India. Such operators are called as "White Label ATM Operators (WLAO)". They will provide the banking services to the customers of banks in India, based on the cards (debit/credit/prepaid) issued by banks. The role of WLAOs would be confined to acquisition of transactions of all banks' customers. Hence, they have to establish technical connectivity with the existing authorized shared ATM Net work operators/ card payment Net work operators. Non-Bank entities would be permitted to set up WLAs in India, after obtaining authorization from RBI under the Payment and Settlement Systems (PSS) Act, 2007. Such Non-bank entities should have a minimum net worth of Rs.100 Crores as per the latest financial year's audited balance sheet, which is to be maintained at all times. In case of North Eastern States, the minimum net worth amount is less than Rs.100 crores. For this purpose, 3 schemes are proposed:
Scheme A: WLA Operator has to set up a minimum of 1000 WLAs in the first year. **Scheme B:** WLA operator has to set up a minimum of 5000 WLAs every year for three years.
Scheme C: the WLA operator has to set up a minimum of 25,000 WLAs in the first year.
For all WLA operators, a maximum period of three years is given to meet the fixed target of setting up of WLATMs.
Other conditions for WLAs:
1)In the initial stage only cards issued by banks in India (domestic cards) would be permitted to be used at the WLAs.
2)Acceptance of deposits at the WLAs, by the WLAO would not be permitted.
3)The WLAO would be permitted to display advertisement and offer value added services as per the rules in force from time to time.
4)Taking over of ATMs operated by banks would not be permitted.
5) WLAO is permitted to have more than one Sponsor Bank. All the transactions provided by Sponsor Bank would be settled through it. Cash Management at the WLAs will be the responsibility of the Sponsor Bank.
6) Maintenance and Servicing of the WLAs shall be the sole responsibility of the WLAOs.

Questions:
1) How many ATMs are there in India?
Ans : 90,000 +

2) What is WLA ?
Ans : White Labelled Automated Teller Machine
3) WLAs are set up by whom ?
Ans : Non-Banking entities
4) Who is called as father of ATMs ?
Ans: Mr. Shepehrd-Barron
5) Where the World's first ATM was installed ?
Ans : Barclays branch in Enfield, north London
6) How many digits are there in PIN ?
Ans : Four

CREDIT CARDS

STUDY MATERIAL
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"Credit Cards" are generally plastic cards assigned to a cardholder, usually with a credit limit, that can be used to purchase goods and services on credit or obtain cash advances.

In a credit card scheme, following are the parties:

1)Cardholders:-These are the persons who are authorized to use credit cards for the payment of goods and services;

2)Card issuers: - These are the institutions which issue credit cards;

3) Merchants: These are the entities which agree to accept credit cards for payment of goods and services;

4) Merchant acquirers: – These are the Banks/NBFCs which enter into agreements with merchants to process their credit card transactions; and

5)Credit card associations: -These are the organisations that license card issuers to issue credit cards under their trademark, e.g. Visa and MasterCard, and provide settlement services for their members (i.e. card issuers and merchant acquirers).

Credit card schemes normally operate at an international level too, meaning that cardholders belonging to card issuers in one country can make purchases at the place of business of merchants in another country.

Credit cards allow cardholders to pay for purchases made over a period of time, and to carry a balance from one billing cycle to the next. Credit card purchases normally become payable after a free credit period, during which no interest or finance charge is imposed. Interest is charged on the unpaid balance after the payment is due. Cardholders may pay the entire amount due and save on the interest that would otherwise be charged. Alternatively, they have the option of paying any amount, as long as it is higher than the minimum amount due, and carrying forward the balance.

Types of credit cards:-
1)General purpose cards and
2)Private label cards:

General purpose cards are issued under the trademark of credit card associations (VISA and Mastercard) and accepted by many merchants
Private lavel cards are only accepted by specific retailers (e.g. a departmental store).

Normally, Banks in India undertake credit card business either departmentally or through a subsidiary company set up for the purpose. Banks can also undertake domestic credit card business by entering into tie-up arrangement with one of the banks already having arrangements for issue of credit cards.

Banks with networth of Rs.100 crore and above should undertake credit card business. Banks can set up separate subsidiaries for undertaking credit card business with the prior approval of the Reserve Bank.But Banks should adopt adequate safeguards and implement the guidelines in order to ensure that their credit card operations are run in sound, prudent and customer friendly manner.
Most of the card issuing banks in India offer general purpose credit cards. These cards are normally categorised by banks as platinum, gold or classic to differentiate the services offered on each card and the income eligibility criteria. Banks may, at the request of a cardholder, issue a supplementary card (also called as 'add-on cards') to another individual who is usually an immediate family member of the cardholder.

It is quite common for banks to partner with business corporations or non-profit making organisations (e.g. charitable or professional bodies) to issue co-branded cards. However they need to undertake due diligence on the non-bank entity to protect themselves against the reputation risk to which they are exposed to in such an arrangement. Banks may also issue corporate credit cards to the employees of their corporate customers.

Each bank follows a well documented policy and a Fair Practices Code for credit card operations. The Banking Codes and Standards of India(BCSBI) has released a "Code of Bank's Commitment to Customers"(Code) in July 2006.

Banks normally ensure prudence while issuing credit cards and independently assess the credit risk while issuing cards to persons, especially to students and others with no independent financial means. Add-on cards i.e. those that are subsidiary to the principal card, will be issued with the clear understanding that the liability will be that of the principal cardholder.

The card issuing banks would be solely responsible for fulfillment of all KYC requirements, even where Direct Selling Agents / Direct Marketing Agents or other agents solicit business on their behalf.

While issuing cards, the terms and conditions for issue and usage of a credit card will be mentioned in clear and simple language (preferably in English, Hindi and the local language) comprehensible to a card user. The Most Important Terms and Conditions (MITCs) termed as standard set of conditions, will be highlighted and advertised/ sent separately to the prospective customers at all the stages i.e. during marketing, at the time of application, at the acceptance stage (welcome kit) and in important subsequent communications.

Rules relating to levying of Interest rates and other charges:-

Credit card dues are in the nature of non-priority sector personal loans and banks were free to determine the rate of interest on credit card dues without reference to their Benchmark Prime Lending Rate and regardless of the size in terms of Interest rates on advances.

What is the method of charging Interest rates and other charges on credit cards?
Ans : Banks which issue credit card will ensure that there is no delay in dispatching bills and the customer has sufficient number of days (at least one fortnight) for making payment before the interest starts getting charged. In order to obviate frequent complaints of delayed billing, the credit card issuing bank may consider providing bills and statements of accounts online, with suitable security built therefor. Banks could also consider putting in place a mechanism to ensure that the customer's acknowledgement is obtained for receipt of the monthly statement.

What is Annualized Percentage Rate (APR)?
Ans:Card issuers will mention the Annualized Percentage Rates (APR) on credit card products. The APR charged and the annual fee should be shown with equal prominence. The late payment charges, including the method of calculation of such charges and the number of days, should be prominently indicated. The manner in which the outstanding unpaid amount will be included for calculation of interest should also be specifically shown with prominence in all monthly statements. Even where the minimum amount indicated to keep the card valid has been paid, it should be indicated in bold letters that the interest will be charged on the amount due after the due date of payment. A notice to the effect that "Making only the minimum payment every month would result in the repayment stretching over years with consequent interest payment on your outstanding balance" should be prominently displayed in all the monthly statements so as to caution the customers about the pitfalls in paying only the minimum amount due.

There should be transparency (without any hidden charges) in issuing credit cards free of charge during the first year.

What is to be done when wrongful billing is made ?

Ans: The card issuing bank should ensure that wrong bills are not raised and issued to customers. In case, a customer protests any bill, the bank should provide explanation and, if necessary, documentary evidence may also be provided to the customer within a maximum period of sixty days with a spirit to amicably redress the grievances.

Use of Direct Sales Agent (DSAs) / Direct Marketing Agents (DMAs) and other agents:-

When banks outsource the various credit card operations, they have to be extremely careful that the appointment of such service providers does not compromise with the quality of the customer service and the banks' ability to manage credit, liquidity and operational risks. In the choice of the service provider, the banks have to be guided by the need to ensure confidentiality of the customer's records, respect customer privacy, and adhere to fair practices in debt collection.

How credit card customer rights are protected?

Ans: Customer's rights in relation to credit card operations primarily relate to personal privacy, clarity relating to rights and obligations, preservation of customer records, maintaining confidentiality of customer information and fair practices in debt collection. The card issuing bank/NBFC would be responsible as the principal for all acts of omission or commission of their agents (DSAs / DMAs and recovery agents).

What is Right to privacy with respect to credit card holders?

Ans: Unsolicited cards should not be issued by banks. In case, an unsolicited card is issued and activated without the written consent of the recipient and the latter is billed for the same, the card issuing bank shall not only reverse the charges forthwith, but also pay a penalty without demur to the recipient amounting to twice the value of the charges reversed.

In addition, the person in whose name the card is issued can also approach the Banking Ombudsman who would determine the amount of compensation payable by the bank to the recipient of the unsolicited card as per the provisions of the Banking Ombudsman Scheme

2006 i.e., for loss of complainant's time, expenses incurred, harassment and mental anguish suffered by him.

Unsolicited loans or other credit facilities should not be offered to the credit card customers. In case, an unsolicited credit facility is extended without the consent of the recipient and the latter objects to the same, the credit sanctioning bank shall not only withdraw the credit limit, but also be liable to pay such penalty as may be considered appropriate.

What is DCNR ?
Ans: The card issuing bank should maintain a Do Not Call Registry (DNCR) containing the phone numbers (both cell phones and land phones) of customers as well as non-customers (non-constituents) who have informed the bank that they do not wish to receive unsolicited calls / SMS for marketing of its credit card products. Since the DNCR would have been already set up by the banks, they should give wide publicity to the arrangement.

The intimation for including an individual's telephone number in the Do Not Call Registry (DNCR) should be facilitated through a website maintained by the bank/NBFC or on the basis of a letter received from such a person addressed to the bank/NBFC.

What is UCC ?
Ans: The Telecom Regulatory Authority of India (TRAI) has framed the Telecom Unsolicited Commercial Communications (UCC) Regulations 2007 for curbing UCC. The Regulation envisages that all the telecom service providers would set up a mechanism to receive requests from subscribers who do not want to receive UCC and for this purpose they will maintain and operate a Private Do Not Call List. Telemarketers will have to register in the NDNC Registry. The telemarketers would submit online the calling list to the NDNC Registry where the list will be modified/ scrubbed by excluding the numbers listed in the registry and the modified/scrubbed list will be online transferred back to the telemarketers for making calls. The Telecom Unsolicited Commercial Communications (UCC) Regulations, 2007 were notified in the Gazette on June 6, 2007.

The Department of Telecommunications (DoT) has issued relevant guidelines for telemarketers along with the registration procedure and these guidelines have made it mandatory for telemarketers .
Keeping in view the above aspects, banks are required to implement the following instructions:

Banks should not engage Telemarketers (DSAs/DMAs) who do not have a valid registration certificate from DoT, Govt. of India, as telemarketers.

How to control fraud ?

Ans: Banks should set up internal control systems to combat frauds and actively participate in fraud prevention committees/ task forces which formulate laws to prevent frauds and take proactive fraud control and enforcement measures.

With a view to reducing the instances of misuse of lost/stolen cards, it is recommended to banks that they may consider issuing laminated cards or any other advanced methods that may evolve from time to time with the following features:
(i) cards with photographs of the cardholder
(ii) cards with PIN and
(iii) signature

Banks are advised to block a lost card immediately on being informed by the customer and formalities, if any, including lodging of FIR can follow within a reasonable period.

Banks may consider introducing, at the option of the customers, an insurance cover to take care of the liabilities arising out of lost cards. In other words, only those cardholders who are ready to bear the cost of the premium should be provided an appropriate insurance cover in respect of lost cards.

Who has Right to impose penalty?
Ans: Reserve Bank of India reserves the right to impose any penalty on a bank/NBFC under the provisions of the Banking Regulation Act, 1949/the Reserve Bank of India Act, 1934, respectively for violation of any of these guidelines.

"Cheques – MICR Cheques"

STUDY MATERIAL
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The Cheque was introduced in India by the Bank of Hindustan, the first joint stock bank established in 1770. In 1881, the Negotiable Instruments Act (NI Act) was enacted in India, formalising the usage and characteristics of instruments like the cheque the bill of exchange and promissory note. The Negotiable Instruments Act, 1881 provided a legal framework for non-cash paper payment instruments in India. In 1938, the Calcutta Clearing Banks' Association, which was the largest bankers' association at that time, adopted clearing house.

Until the 1st of April 2012, cheques in India were valid for a period of six months from the date of their issue, before the Reserve Bank of India issued a notification reducing their validity to three months from the date of issue.

What is cheque ?

Ans: Section 6 of the Negotiable Instruments Act, 1881 defines what is 'Cheque'. A 'Cheque' is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form.

Explanation:

1) A cheque is a bill of exchange drawn on a banker payable on demand.
- It is an order written by the drawer, to a banker to pay on demand, a specified sum of money to the person or persons named as payee on the cheque.
2) Cheques have been exempted from stamp duty
3) The drawer completes/fills the cheque by inserting the name of the payee, the amount he or she is to be paid, and then dating and signing it
4) The cheque may be made payable to the payee or order or to the payee or bearer.
5) Cheque may be open or crossed
6) If the cheque is open cheque, it can be cashed at the branch of the bank on which it has been drawn.
7) If the cheque is crossed cheque, it must be paid into a banking account.
8) In the case of a bearer cheque, no endorsement is required, but endorsement of an order cheque is required unless it is paid directly in to the payee's own account.
9) In a crossed cheque, two parallel lines across the face of the cheque indicate that it must be paid into a bank account and not cashed over the counter (in case of general crossing)
10) A special crossing may be used in order to further restrict the negotiability of the cheque, for example adding the name of the payee's bank.
11) An open cheque is an uncrossed cheque that can be cashed at the bank of origin.
12) An order cheque is one made payable to a named recipient 'or order' enabling the payee to either deposit it in an account or endorse it to a third party i.e., transfer the rights to the chque by signing it on the reverse.
13) By endorsing an order cheque, the payee can renounce his interest in it and use it to pay a debt of his own to another person.
14) Restrictions can be placed on the negotiability of cheque by means of special crossings.

<u>The six main items on a cheque are:</u>**-**

- **Drawer**, the person or entity who makes the cheque
- **Payee**, the recipient of the money
- **Drawee**, the bank or other financial institution where the cheque can be presented for payment
- **Amount**, the currency amount
- **Date of issue**
- **Signature of the drawer**
- MICR Code (Magnetically Ink Character Recognition Code) (It is machine reading routine and account information)

3) What are the different Kinds of cheques or different types of Cheques ?

Ans : There are seven types of cheques.

i) **Bearer Cheque:-**
When the words "or bearer" appearing on the face of the cheque are not cancelled, the cheque is called a bearer cheque. The bearer cheque is payable to the person specified therein or to any other else who presents it to the bank for payment. However, such cheques are risky, this is because if such cheques are lost, the finder of the cheque can collect payment from the bank.

Ii) **Order Cheque:-**
When the word "bearer" appearing on the face of a cheque is cancelled and when in its place the word "or order" is written on the face of the cheque, the cheque is called an order cheque. Such a cheque is payable to the person specified therein as the payee, or to any one else to whom it is endorsed (transferred).

iii) **Uncrossed / Open Cheque:-**
When a cheque is not crossed, it is known as an "Open Cheque" or an "Uncrossed Cheque". The payment of such a cheque can be obtained at the counter of the bank. An open cheque may be a bearer cheque or an order one.

iv)**Crossed Cheque:-**
Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like "& CO." or "Account Payee" or "Not Negotiable". A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee's account.

v)**Anti-Dated Cheque:-**
If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as "anti-dated cheque". Such a cheque is valid upto six months from the date of the cheque.

vi)**Post-Dated Cheque:-**
If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. A post dated cheque cannot be honoured earlier than the date on the cheque.

vii) **Stale Cheque**
If a cheque is presented for payment after six months from the date of the cheque it is called stale cheque. A stale cheque is not honoured by the bank. Recently, RBI reduced the period from six months to **<u>three months, for</u>** this purpose.

4) What is Crossing of Cheque ?
Ans:
A cheque is a negotiable instrument. During the process of circulation, a cheque may be lost, stolen or the signature of payee may be done by some other person for endorsing it. Under these circumstances the cheque may go into wrong hands.
Crossing is a popular device for protecting the drawer and payee of a cheque. Both bearer and order cheques can be crossed. Crossing prevents fraud and wrong payments. Crossing of a cheque means "Drawing Two Parallel Lines" across the face of the cheque. Thus, crossing is necessary in order to have safety. Crossed cheques must de presented through the bank only because they are not paid at the counter.

5) What are the different types of Crossing of cheques?
Ans : Broadly, two types of crossing of cheques are there.
i.e., (i)General Crossing of Cheques
(ii) Special or Restrictive Crossing of cheques

What is General Crossing ?

Ans : Generally, cheques are crossed when there are two transverse parallel lines, marked across its face **or** the cheque bears an abbreviation "& Co. "between the two parallel lines **or** the cheque bears the words "Not Negotiable" between the two parallel lines **or** the cheque bears the words "A/c. Payee" between the two parallel lines.

A crossed cheque can be made bearer cheque by cancelling the crossing and writing that the crossing is cancelled and affixing the full signature of drawer.

What is Special or Restrictive Crossing **?**

Ans: When a particular bank's name is written in between the two parallel lines on the cheque, the cheque is said to be specially crossed.

In addition to regular cheques, a number of variations (variety of cheques) are developed to address specific needs or to address issues.

1) Cashier’s cheques and bank drafts or Banker’s cheque:

Cashier’s cheque is a term used in USA. Banker’s drafts are used in UK. Both Cashier’s cheques and banker’s drafts are also known as ‘bank cheque, treasurer’s cheque or banker’s cheque. These are cheques issued against the funds of a Bank rather an individual account holder..

This provides a guarantee, save for a failure of the bank, that it will be honoured. Cashier's cheques are perceived to be as good as cash

2) Travellers cheque:-

A traveller’s cheque is designed to allow the person signing it to make an unconditional payment to someone else as a result of paying the account holder for that privilege.

Traveller's cheques can usually be replaced if lost or stolen, and people often used to use them on vacation instead of cash as many businesses used to accept traveller's cheques as currency.

What is Cheque Truncation?

Ans : Truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point with the presenting bank en-route to the drawee bank branch. In its place an electronic image of the cheque is transmitted to the drawee branch by the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc. Cheque truncation thus obviates the need to move the physical instruments across branches, other than in exceptional circumstances for clearing purposes. This effectively eliminates the associated cost of movement of the physical cheques, reduces the time required for their collection and brings elegance to the entire activity of cheque processing.

Cheque Number:-

The first set of numbers represent the cheque number. It is a six digit number.

MICR Code :-
It stands for Magnetic Ink Character Recognition. This number helps a bank to recognize the bank and branch that issued the cheque. You might be thinking that this can be done just by looking at the cheque, but banks have to process hundreds of cheques daily. Going through each and every cheque is a cumbersome process. Instead, the cheques are sorted through a cheque reading machine which uses this number to identify the bank and branch a cheque belongs to. This makes the process faster.

The MICR number is a nine digit number, which consists of three parts-

a) City Code: The first three digits represent the city code and are same as the first three digit of the PIN code of that city.

b) Bank Code: The next three digits represent the bank code. Every bank has a unique code assigned to it.

c) Branch Code: The last three digits represent the branch code.

Thus we can easily find which bank and branch a cheque belongs to by looking at its MICR number, and vice versa.

Bank account Number:-

Normally, the third set of six digit numbers represents your account number (It consists of a few digits of your account number).

Transaction ID : -

The last two digits tells whether a cheque is a local cheque our payable at par cheque. 29, 30 and 31 represents payable at par cheque, while 09, 10 and 11 represents local cheque. Payable at par cheque is a cheque that can be cashed at any branch of the issuing bank, while local cheque can be cashed only at the issuing branch. So, if you deposit a cheque in your bank, with code 10 written at the bottom of the cheque, it'll take a few days for the money to come in your account. However since most of the branches these days are CBS (Core Banking Solution) enabled, so the cheques are generally payable at par.

COMMERCIAL PAPER (CP)

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Commercial Paper is a 'money market instrument' for the purposes of Section 45W of the Reserve Bank of India Act, 1934. Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. It was introduced in India in 1990 with a view to enabling highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors. Subsequently, primary dealers and all-India financial institutions were also permitted to issue CP to enable them to meet their short-term funding requirements for their operations.
CRISIL's short-term ratings reflect CRISIL's current opinion as to the relative safety of timely payment of interest and principal on the rated financial obligations, which have an originally contracted maturity of less than one year.
Commercial paper is ordinarily used in business transactions, since it is a reliable and expedient means of dealing with large sums of money and minimizes the risks inherent in using cash, such as the increased possibility of theft.

Sometime back government owned Nabard raised Rs 750 crore in form of commercial paper for 11 days at 9.82%. Money market dealers said that Nabard raised money and placed the commercial paper with a select banks and mutual fund. This is one of rare short term issuance from a highly rated company. Commercial Paper is an unsecured money market instrument.

In USA, commercial paper is classified as negotiable, which means that it can be freely transferred from one party to another, either through endorsement or delivery. The terms commercial paper and negotiable instrument can be used interchangeably in USA.
They were historically at lower yields than other forms of funding because there were no defaults. But some recent events in India have made banks and other investors wary about lesser graded companies.

These instruments are issued at a discount and, therefore, historically companies have not defaulted on repayments on commercial papers. But when some of these companies restructured their loans with banks earlier last year, they also restructured their commercial paper obligations, according to money market dealers. Earlier, companies such as Indian Oil Corporation raised funds selling commercial paper at 8.3-8.5% .

Who are eligible to Issue Commercial Papers?
Ans: Companies, Primary Dealers and Financial Institutions are permitted to raise short term resources through commercial paper.

Whether all the corporates would automatically be eligible to issue commercial paper?
Ans: A corporate would be eligible to issue commercial paper provided –
i) the tangible net worth of the company, as per the latest audited balance sheet, is not less than Rs. 4 crore
ii) company has been sanctioned working capital limit by bank/s or all-India financial institution(s)
iii) the borrowal account of the company is classified as a Standard Asset by the financing bank(s) or institution(s)

Issue of Commercial Paper and credit enhancement, limits :-

i)Commercial Paper shall be issued as a 'stand alone' product. Further, it would not be obligatory in any manner on the part of the banks and Financial Institutions to provide stand-by facility to the issuers of commercial paper.
ii) Banks and Financial Institutions may, based on their commercial judgement, subject to the prudential norms as applicable to them, with the specific approval of their respective Boards, choose to provide stand-by assistance/credit, back-stop facility etc. by way of credit enhancement for a commercial paper issue.
iii) Every issue of commercial paper, and every renewal of a commercial paper, will be treated as a fresh issue.

Who are eligible to invest in Commercial Papers?

Ans: i)Individuals, banks, other corporate bodies (registered or incorporated in India) and unincorporated bodies, Non-Resident Indians and Foreign Institutional Investors (FIIs) are eligible to invest in Commercial Paper.

ii)Foreign Institutional Investors (FIIs) will be eligible to invest in Commercial Papers subject to (i) such conditions as may be set for them by Securities Exchange Board of India (SEBI) and (ii) compliance with the provisions of the Foreign Exchange Management Act, 1999, the Foreign Exchange (Deposit) Regulations, 2000 and the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, as amended from time to time.

Form of the Instrument, mode of issuance and redemption of Commercial Papers:-

i)Commercial Paper will be issued in the form of a promissory note and held in physical form or in a dematerialized form through any of the depositories approved by and registered with SEBI, provided that all RBI regulated entities can deal in and hold Commercial paper only in dematerialised (demat) form through such depositories.

ii)Fresh investments by all RBI-regulated entities shall be only in dematerialised form.

iii)Commercial Paper shall be issued in denominations of Rs.5 lakh and multiples thereof. The amount invested by a single investor should not be less than Rs.5 lakh (face value).

Period of commercial papers:-

i)Commercial paper shall be issued for maturities between a minimum of 7 days and a maximum of up to one year from the date of issue.

ii)The maturity date of the Commercial Paper shall not go beyond the date up to which the credit rating of the issuer is valid.

What is the procedure for issuance of commercial papers ?

Ans: Every issuer must appoint an Issuing and Paying Agent (IPA) for issuance of commercial paper. The commercial paper issuer should disclose to the potential investors, its latest financial position as per the standard market practice. After the exchange of confirmation of the deal between the investor and the issuer, the issuer shall arrange for crediting the CP to the Demat account of the investor with the depository through the IPA.The issuer shall give to the investor a copy of IPA certificate to the effect that the issuer has a valid agreement with the IPA.

Method of Investment / Redemption of Commercial Paper :-

i)The investor in Commercial Paper (primary subscriber) will pay the discounted value of the Commercial Paper to the account of the issuer through the Issuing and Paying Agent (IPA).

ii)The investor holding the Commercial Paper in physical form will, on maturity, present the instrument for payment to the issuer through the IPA.

iii)The holder of a commercial paper in dematerialised form shall get the commercial paper redeemed and receive payment through the IPA.

Documentation Procedures:-

i)Standardised procedures and documentation for CPs are prescribed in consultation with Fixed Income Money Market and Derivatives Association of India (FIMMDA) in consonance with international best practices.

ii)Issuers /IPAs shall follow the operational guidelines issued by FIMMDA, from time to time, with the approval of RBI.

All eligible participants will obtain the credit rating for issuance of Commercial Paper either from Credit Rating Information Services of India Ltd. (CRISIL) or the Investment Information and Credit Rating Agency of India Ltd. (ICRA) or the Credit Analysis and Research Ltd. (CARE) or the FITCH Ratings India Pvt. Ltd. or such other credit rating agency (CRA)

The minimum credit rating shall be A-2 [as per rating symbol and definition prescribed by Securities and Exchange Board of India (SEBI)].

The issuers shall ensure at the time of issuance of CP that the rating so obtained is current and has not fallen due for review.

<u>Role and responsibilities</u>
A) Role and responsibilities of the Issuer :-
i)Every issuer must appoint an IPA for issuance of commercial paper.
ii) The issuer should disclose to the potential investors its financial position as per the standard market practice.
iii)After the exchange of deal confirmation between the investor and the issuer, issuing company shall issue physical certificates to the investor or arrange for crediting the commercial paper to the investor's account with a depository.
iv)Investors shall be given a copy of IPA certificate to the effect that the issuer has a valid agreement with the IPA and documents are in order

B) Role and responsibilities of the Issuing and Paying Agent (IPA) and Credit Rating Agency (CRA):-

IPA would ensure that issuer has the minimum credit rating and amount mobilised through issuance of commercial paper is within the quantum indicated by credit rating agency (CRA) for the specified rating or as approved by its Board of Directors. IPA has to verify all the documents submitted by the issuer viz., copy of board resolution, signatures of authorised executants (when CP is in in physical form) and issue a certificate that documents are in order. It should also certify that it has a valid agreement with the issuer. Certified copies of original documents verified by the IPA should be held in the custody of IPA.
Every CP issue should be reported to the Reserve Bank of India, through the Issuing and Paying Agent (IPA) within three days from the date of completion of the issue, incorporating details

Buyback of Commercial papers:-

Issuers may buyback the commercial paper, issued by them to the investors, before maturity. Buyback of CP shall be through the secondary market and at prevailing market price. The CP shall not be bought back before a minimum period of 7 days from the date of issue. Issuer shall intimate the IPA of the buyback undertaken. Buyback of CPs should be undertaken after taking approval from the Board of Directors.

Trading and Settlement of CP:-

All OTC (Over The Counter) trades in commercial paper will be reported within 15 minutes of the trade to FIMMDA reporting platform.

OTC trades in CP shall be settled through the clearing house of the National Stock Exchange (NSE), i.e., the National Securities Clearing Corporation Limited (NSCCL) and the clearing house of the Bombay Stock Exchange (BSE), i.e., Indian Clearing Corporation Limited (ICCL), as per the norms specified by NSCCL and ICCL from time to time.

Questions for IBPS/SBI Exam:

1) Commercial papers are unsecured debts of corporates and are issued in the form of ___________, redeemable at par to the holder at maturity. Only corporates who get an investment grade rating can issue commercial papers.

Ans: promissory notes

2) Commercial papers are issued at a _______ to face value. Normally, they attract issuance stamp duty in primary issue.
Ans: discount

3) Commercial Papers have to be mandatorily rated by one of the _______ agencies
Ans: credit rating
4) Commercial Papers are issued as per ____ guidelines
Ans: RBI
5) Normally, Commercial Papers are held in ____ form
Ans: demat
6) Commercial Papers are issued in denominations of Rs. ___ lakh or multiples thereof and the amount invested by a single investor should not be less than Rs. 5 lakh (face value).
Ans : Five

7) Commercial Papers are issued at discount to face value as may be determined by the _____.
Ans: issuer
8) Banks and Financial Institutions are prohibited from _____ of commercial papers.
Ans : underwriting
8) Commercial Papers can be issued for a maturity for a minimum of _____ days and a maximum upto one year from the date of issue.
Ans : seven

RBI Act, 1934 - Cash Reserve Ratio(CRR)

STUDY MATERIAL
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Cash Reserve Ratio (CRR) is the portion of deposits banks must keep with the RBI.

Recently, RBI has decided to reduce the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks (SCBs) by 25 basis points from 4.25 per cent to 4.00 per cent of their Net Demand and Time Liabilities (NDTL) with effect from the fortnight beginning February 09, 2013.

The Local Area Banks (LABs) shall also maintain CRR at 3.00 per cent of its net demand and time liabilities upto February 08, 2013 and 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

For the first time in nine months, the Reserve Bank of India on 29.1.2013 cut the indicative policy rate (repo) by 25 percentage points, from 8 per cent to 7.75 per cent, and the Cash Reserve Ratio (CRR) by 25 percentage points, from 4.25 per cent 4 per cent.

The step is likely to benefit retail borrowers, as lending rates are likely to come down. After meeting RBI Governor D. Subbarao, bankers said they would pass on the benefit to borrowers. Previously, RBI reduced the CRR from a peak of 6 per cent to 4.25 till mid-December 2012. In its third quarter review, Dr. Subbarao said: "While the series of recent policy initiatives by the government has boosted market sentiment, it will take some time to reverse the investment slowdown and reinvigorate growth."

This CRR cut provides space, albeit limited, for monetary policy to give greater emphasis to growth risks. The central bank (Reserve Bank of India) cut the Cash Reserve Ratio (CRR), by 25 basis points from 4.25 per cent to 4 per cent, will pump in a liquidity of Rs.18,000 crore into the financial system of India from February 9, 2013

The policy rate cut together with the CRR cut is expected to give more elbow room for banks to lend money at lower rates. This is likely to benefit retail borrowers immediately more than industrial sectors, where growth is subdued.

What is the main purpose of maintenance of Cash Reserve Ratio?

Ans: The basic purpose of maintenance of Cash reserve Ratio is to protect of interest of depositors in banks.

Cash Reserve Ratio is also used as a monetary and credit control measure by RBI. Whenever the cash reserve ratio is increased, the loanable funds in the hands of the bank goes down and the credit creation capacity of the bank stands reduced to the extent.

Similarly, whenever CRR is increased, the loanable funds in the hands of the bank goes up and the credit creation capacity of the bank stands increased to the extent.

Every bank is required to maintain Cash Reserve Ratio (CRR) on an average basis over a period of 14 days with reference to Net Demand and Time Liabilities (NDTL) figure as on the reporting Friday of the second preceding fortnight.

As per Section 42 (1) of the Reserve Bank of India Act, 1934 the Reserve Bank having regard to the needs of securing the monetary stability in the country, prescribes the CRR for Scheduled Commercial Banks (SCBs) without any floor or ceiling rate.

In terms of Section 42(1-A) of RBI Act, 1934, the SCBs are required to maintain, in addition to the balances prescribed under Section 42(1) of the Act, an additional average daily balance, the amount of which shall not be less than the rate specified by the Reserve Bank in the notification published in the Gazette of India from time to time. Such additional balance will be calculated with reference to the excess of the total of DTL of the bank as shown in the Returns referred to in Section 42(2) of the Act, 1934 over the total of its DTL at the close of the business on the date specified in the notification. At present no incremental CRR is required to be maintained by the banks.

The Reserve Bank of India (Amendment) Bill, 2006 has been enacted and has come into force with its gazette notification. Consequent upon amendment to sub-Section 42(1), the Reserve Bank of India, having regard to the needs of securing the monetary stability in the country, can prescribe Cash Reserve Ratio (CRR) for scheduled banks without any floor rate or ceiling rate. (Before the enactment of this amendment, in terms of Section 42(1) of the RBI Act, the Reserve Bank could prescribe for scheduled banks between 3 % and 20% of the total of their demand and time liabilities).

Non-Scheduled banks are required to maintain CRR as per Section 18 of the Banking Regulation Act, 1949. They are required to maintain CRR @ 3% of the NDTL by keeping cash balance with themselves , and/or with RBI.

Demand Liabilities of a Scheduled Commercial Bank:-

Demand Liabilities of a bank are liabilities which are payable on demand. These include current deposits, demand liabilities portion of savings bank deposits, margins held against letters of credit/guarantees, balances in overdue fixed deposits, cash certificates and cumulative/recurring deposits, outstanding Telegraphic Transfers (TTs), Mail Transfers (MTs), Demand Drafts (DDs), unclaimed deposits, credit balances in the Cash Credit account and deposits held as security for advances which are payable on demand. Money at Call and Short Notice from outside the Banking System should be shown against liability to others.

Time Liabilities of a Scheduled Commercial Bank:-

Time Liabilities of a bank are those which are payable otherwise than on demand. These include fixed deposits, cash certificates, cumulative and recurring deposits, time liabilities portion of savings bank deposits, staff security deposits, margin held against letters of credit, if not payable on demand, deposits held as securities for advances which are not payable on demand and Gold deposits.

Other Demand and Time Liabilities (ODTL) of a Scheduled Commercial Bank:-

ODTL include interest accrued on deposits, bills payable, unpaid dividends, suspense account balances representing amounts due to other banks or public, net credit balances in branch adjustment account, any amounts due to the banking system which are not in the nature of deposits or borrowing. Such liabilities may arise due to items like (i) collection of bills on behalf of other banks, (ii) interest due to other banks and so on.

Liabilities not to be included for DTL/NDTL computation:

The under-noted liabilities will not form part of liabilities for the purpose of CRR :-

1) Paid up capital, reserves, any credit balance in the Profit & Loss Account of the bank, 2)Amount of any loan taken from the RBI and the amount of refinance taken from Exim Bank, NHB, NABARD, SIDBI;

3) Net income tax provision;

4) Amount received from Deposit Insurance and Credit Guarantee Corporation (DICGC) towards claims and held by banks pending adjustments thereof;

5) Amount received from Export Credit Guarantee Corporation (ECGC) by invoking the guarantee;

6) Amount received from insurance company on ad-hoc settlement of claims pending judgment of the Court;

7) Amount received from the Court Receiver;

8) The liabilities arising on account of utilization of limits under Bankers Acceptance Facility (BAF);

9) District Rural Development Agency (DRDA) subsidy of Rs.10, 000/- kept in Subsidy Reserve Fund account in the name of Self Help Groups;

10) Subsidy released by NABARD under Investment Subsidy Scheme for Construction/Renovation/Expansion of Rural Godowns;

11) Net unrealized gain/loss arising from derivatives transaction under trading portfolio;

12) Income flows received in advance such as annual fees and other charges which are not refundable.

13) Bill rediscounted by a bank with eligible financial institutions as approved by RBI

Procedure for Computation of CRR:-

In order to improve cash management by banks, as a measure of simplification, a lag of one fortnight in the maintenance of stipulated CRR by banks has been introduced with effect from the fortnight beginning November 06, 1999.

Maintenance of CRR on Daily Basis:-

With a view to providing flexibility to banks in choosing an optimum strategy of holding reserves depending upon their intra fortnight cash flows, all SCBs are required to maintain minimum CRR balances up to 70 per cent of the average daily required reserves for a reporting fortnight on all days of the fortnight with effect from the fortnight beginning December 28, 2002.

No Interest Payment on Eligible Cash Balances maintained by SCBs with RBI under CRR:

In view of the amendment carried out to RBI Act 1934, omitting sub-section (1B) of Section 42, the Reserve Bank does not pay any interest on the CRR balances maintained by SCBs with effect from the fortnight beginning March 31, 2007.

Fortnightly Return in Form A (CRR):-

Under Section 42 (2) of the RBI Act, 1934, all Scheduled Commercial Banks (SCBs) are required to submit to Reserve Bank a provisional Return in Form 'A' within 7 days from the expiry of the relevant fortnight which is used for preparing press communiqué.

Penalties for not complying the rules relating to Cash Reserve Ratio :-

Penal interest will be charged as under in cases of default in maintenance of CRR by SCBs :

(i) In case of default in maintenance of CRR requirement on a daily basis which is presently 70 per cent of the total CRR requirement, penal interest will be recovered for that day at the rate of three per cent per annum above the Bank Rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day and if the shortfall continues on the next succeeding day(s), penal interest will be recovered at the rate of five per cent per annum above the Bank Rate.

(ii) In cases of default in maintenance of CRR on average basis during a fortnight, penal interest will be recovered as envisaged in sub-section (3) of Section 42 of Reserve Bank of India Act, 1934.

Scheduled Commercial Banks (SCBs) are required to furnish the particulars such as date, amount, percentage, reason for default in maintenance of requisite CRR and also action taken to avoid recurrence of such default.

Questions for IBPS/SBI PO exam:

1) Scheduled Commercial Banks are required to maintain atleast ____% of the required CRR on a daily basis.

Ans : 70%

2) CRR is maintained on _________

Ans: Net Demand & Time Liabilities (NDTL)

3) Which does not form a part of NDTL ?

Ans : Capital

4) Sec.42 of RBI Act requires, CRR to be maintained by _____

Ans : Scheduled Banks

5) Non-Scheduled Banks are required to maintain CRR as per _____

Ans : Sec.18 of Banking Regulation Act, 1949

6) As per Section 42 of RBI Act, Scheduled Banks should maintain cash reserve by___

Ans : Keeping current account balance with RBI

7) Earlier RBI could vary the cash reserve upto a maximum of ____% of the NDTL.

Ans : 20% (But, now no floor rate or ceiling rate).

8) While calculating NDTL, for the purpose of CRR, the which should be excluded ?

Ans: Sampoorna Grameena Yojana subsidy reserve fund + refinance received from Small Industries Development of Bank of India

9) The present CRR rate of 4.25%, reduced to _____ for commercial banks

Ans : 4% (w.e.f.9.2.2013)

10) Regional Rural Banks are required to maintain CRR @ _____% of NDTL

Ans: Same as other scheduled banks

11) The return in respect of CRR must be sent by the head office of the bank to RBI within ____ days of the date to which the return relates.

Ans: 7 days

12) Banks are exempted from maintaining CRR on which type of deposits?

Ans : Deposits from banks upto one year

13) The central bank also cut the Cash Reserve Ratio (CRR), the portion of the deposits that the banks are required to maintain with the RBI, by 25 basis points from 4.25 per cent to 4 per cent, pumping in a liquidity of _______ into the system from February 9.

Ans: Rs.18,000 crore

14) The policy rate cut together with the CRR cut is expected to give more elbow room for banks to lend money at_______.

Ans: lower rates

15) This cut in CRR is likely to benefit ________ immediately more than industrial sectors, where growth is subdued.

Ans: retail borrowers

‘Seeding Aadhaar Number ’ into Bank Accounts

STUDY MATERIAL
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According to Monetary Policy Statement for 2013-14 announced on May 3, 2013 and with a view to facilitating Direct Benefit Transfer (DBT) for the delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries, banks are advised that Direct Benefit Transfer (DBT) is being rolled out in a phased manner i.e., 43 districts are taken up in the first phase from January 1, 2013 and DBT will be extended to 78 more districts from July 1, 2013. Eventually, all districts in the country would be covered under the DBT scheme.
With the rapid rollout of Aadhaar, covering morethan 20 crore people and rapidly growing to 60 crores, and with the National Population Register covering the other half, it is possible to move to a system of transferring cash benefits directly to the poor.

A Cash Transfer System can be used for transferring cash benefits such as MGNREGA Wages, Scholarships, Pensions, Income support of other types and Health Benefits. Electronic Transfer of Benefits (ETB) is a simple change as the transfers are already taking place and the only modification that would be involved is a movement from a paper based, cash driven system to an electronic direct transfer system.

Cash Transfer System would improve targeting, reduce corruption, eliminate waste, control expenditure and facilitate reforms.

With a view to facilitating DBT for the delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries, banks are advised :-

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

State Level Bankers Committee (SLBC) Convenor advised banks and Lead Banks to institute a monitoring and review mechanism to periodically assess and evaluate the progress made in the implementation of DBT by banks. The review of progress in the implementation of DBT should be included as a regular agenda for discussion in SLBC and DCC meetings.

Instructions were issued regarding opening of bank accounts of beneficiaries and seeding of their Aadhaar for Direct Benefit Transfer under various Government Schemes. Planning Commission has issued detailed instructions for a camp based approach for collection of beneficiary details, including their bank account and Aadhaar details, wherever available, and its use for opening bank accounts and seeding Aadhaar in bank account details.

In addition, banks have also been ‘seeding Aadhaar’ into bank accounts whenever the beneficiaries approach the banks with necessary details. So far, nearly 80 lakh bank accounts have been seeded with Aadhaar and mapped on NPCI Mapper.

Rollout of DBT in the second phase, where 78 more districts would be covered, would however require a sharper focus on collection and seeding of Aadhaar into the bank accounts. The Government has also decided to launch DBT for LPG throughout the country tentatively w.e.f. 1.10.2013. This would require a much larger number of beneficiaries to be covered for opening of bank accounts, if needed, and seeding Aadhaar.

Besides the camp based approach and account holders approaching the banks for seeding, banks would also need to consider other solutions and use technology so that large number of beneficiaries could be expeditiously covered.

Banks are advised to consider the following:-
a) Issue advertisements in the local print and electronic media appealing account holders to open bank accounts, if they don't have bank account, and get Aadhaar seeded into their bank accounts. Banks should also put up banners at their branches and ATMs with similar appeal.
b)Use call centres to advise customers to open bank account and get Aadhaar seeded, through pre-recorded messages
c) Since a large number of customers have their mobile phones registered with banks or are registered for internet banking facilities, develop applications for collection of Aadhaar from such customers through SMS or electronic methods. Bulk SMS or e-mails can also be sent to such customers advising them to get their Aadhaar seeded into bank account.
d) Enable their large ATM network to advise customers to seed Aadhaar and to make request for seeding of Aadhaar number which will be reliable as the customer would have been authenticated using ATM card and Personal Identification Number (PIN).
e) Develop IVRS application which can be used by the customers to send request for seeding of Aadhaar into the bank accounts.

6. Banks can also use Remote Aadhaar Seeding Framework (RASF), developed by UIDAI, to access and verify the Aadhaar details on line and seed Aadhaar into bank account details. RASF allows the bank to sign in, upload the seeding request received through various channels as stated above and access account holders Aadhaar details. These details would be verified by the bank officials against the bank account details in the bank's own Core Banking Solutions. In case the details match and the bank official is satisfied, the seeding request would be accepted on the bank system and account would be seeded with Aadhaar. In case the seeding requested is either rejected or is kept pending, the same would be reflected in the seeding request data base. Banks should also develop system of informing the person making the seeding request the status of action taken, i.e, whether account seeded or request rejected.
The advantage of using RASF would be that the seeding request received electronically would be seeded on verification without the need of entering the details afresh and the banks would be able to access the beneficiaries Aadhaar details electronically for verification.
As the banks would be required to develop utilities for operationalising the various alternatives, it is advised that the work may commence immediately for developing these utilities. Banks should also get in touch with UIDAI to onboard the RASF and finalise the formats for collection of seeding requests and determine the levels at which seeding request would be verified.

All Public Sector Banks are requested to take necessary steps and to establish infrastructure/facilities for accepting and verifying seeding requests. It is hoped that this will be completed and put in operation before 15.5.2013.

Direct Benefits Transfer – Procedure for seeding Aadhaar Numbers

(i) in Beneficiary Data Base by the Implementing Agency

(ii) In Beneficiary Bank Account by the Banks concerned.

The following guidelines are issued on the procedure for seeding Adhaar numbers in

(i) Beneficiary Data Base by the Implementing Agency

(ii) Beneficiary Bank Account by the Banks concerned.

Seeding Aadhaar into Beneficiary Data Base by the Implementing Agency :

1. Multiple methods have been prescribed by UIDAI for seeding of Aadhaar in the beneficiary/bank databases.

These include -

a. Organic seeding.

b. Inorganic seeding.

a) Organic seeding – This process involves manually collecting the Aadhaar/EID data from the beneficiary in a camp mode and entering the same in the database. Further, Organic Seeding may be expedited by use of e-KYC service currently being provided by the UIDAI.

In case e-KYC service is used, UIDAI will provide the demographic data and photograph to the service agency on the basis of resident authorization in the form of Aadhaar biometric or One Time Password (OTP) authentication. This may be useful for seeding Government database with Aadhaar.

b) Inorganic seeding - This process of seeding involves electronic matching of two different data sets. Additionally, the inorganically seeded data may be verified using the Demographic Authentication service provided by the UIDAI.

Demographic authentication:- In this type of authentication, demographic details of beneficiary such as beneficiary name, address, gender, date of birth etc. along with Aadhaar number of the beneficiary may be provided to the central server of UIDAI, which will return a success or failure message on the name, address, gender, date of birth etc. in the data fields.

Guidelines on step-by-step approach for the Aadhaar Seeding at Camps:-

As per the instructions of the Planning Commission special camps have to be organized for seeding Aadhaar Numbers in the beneficiary databases of the schemes identified for Direct Cash Transfers. The following step-by-step procedure is recommended for seeding the Aadhaar number in the beneficiaries list through the Camp approach.

1. The list of beneficiaries of each scheme should be captured in an Excel Sheet as per the format prescribed by the Planning Commission. It shall be loaded on the PC/Laptop to be deployed in the camps.

2. The list of beneficiaries for each scheme may be sorted village-wise and in alphabetical order of names of beneficiaries before the commencement of the Camp.

3. In case a joint camp is to be organized for multiple schemes, the lists of the respective schemes can be loaded in different Excel Sheets on the same PC/Laptop.

4. Depending on the expected turnout the number of PC/Laptop counters may be increased

5. A print out of the village-wise, alphabetically-ordered-beneficiary-list may also be kept handy at the camp for better crowd management.

6. An advance publicity campaign should be organized requesting the beneficiaries of relevant schemes to visit the camp along with Aadhaar Card.

7. The name of the beneficiary could be searched in the Excel sheet either alphabetically by name or by using the Control + F function. On finding the beneficiary name, the Aadhaar Number may be entered in the appropriate column in the Excel Sheet. The operator should doubly verify the Aadhaar number so as to avoid any mistake in entering the 12 digit number. In case, there are more than one search results with same or similar names, the identification may be confirmed using the other fields like address.

8. If the person is the beneficiary in the multiple schemes for which the Camp is organized the above process (Step 7 & 8) can be repeated for each of the Schemes, preferably at the same counter.

9. The beneficiary database containing Aadhaar number of the beneficiaries may be compiled at the end of each day and validated in batch mode with the help of UIDAI officials. If there are any errors thrown up in such validation, the relevant record has to be verified and Aadhaar number to be re-entered correctly, by calling the beneficiary again with the Aadhaar card.

Responsibilities :-

1. The district administration will make arrangements for the camps as per the instructions of the Planning Commission.

2. DIO of National Informatics Centre shall give full technical guidance/support to the Departments and to the implementing agencies at the district level. More specifically, the guidance/support shall be with regard to:-

i) creation of data entry format prescribed by the Planning Commission to create the list of the beneficiaries in Excel format.

ii) taking out the print-outs after sorting the same village-wise and Beneficiary-wise (alphabetically)

iii) giving training to data entry operators deployed at the camps

iv) coordinating with UIDAI officials in respect of validation of the Aadhaar data.

3. The District Collectors may engage the services of the IT Service Providers locally available for undertaking the data entry work at the camps.

4. The District Collectors (DCs) may also consider the option of using Village Level Entrepreneurs (VLEs) of CSCs operating in the village or in the neighboring villages of where the camps are held, by paying them appropriate remuneration

Seeding Departments & Service Specific Details :

1) Aadhaar Number (UID):

2) Customer Name:

3) Ration Card Number:

i) Seeding Person Name

4) Pension purpose:

i) Pension ID:

5) MGNREGA purpose:

i) Job Card Number

ii) Seeding Person Name

6) LPG purpose:

i) Agency Type:

ii) LPG Distributor Code

iii) LPG Consumer No.

iv) Bank Name

v) Bank Account No.

vi) Bank IFSC Code

vii) Bank Branch Name

What are the documents required for this purpose?

Ans: 1) Resident Proof

2) Bank passbook

3) Aadhar ID (e-Adhaar also acceptable)

4)Scheme Document (Like Ration Card/Job Card/Pension Pass Book/
LPG Consumer Book)

FCNR (B) Account

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The Foreign Currency Non-Resident [FCNR(B)] scheme was introduced with effect from May 15, 1993 in place of FCNR(A) scheme.

FCNR(B) scheme was applicable to deposits accepted in foreign currencies, viz., Pound Sterling, US Dollar, Deutsche Mark and Japanese Yen, EURO, Canadian dollars and Australian dollars. Based on the recommendations of the Committee to Review the Facilities for Individuals under FEMA, 1999, banks are allowed to accept FCNR (B) deposits in any permitted currency with effect from October 19, 2011.

1)FCNR(B) account can be opened only by an NRI or jointly with other NRIs .
2) Nomination facility available (Nominee can be a resident Indian).
3)FCNR (B) accounts are only in the form of term deposits of 1 to 5 years
4)All debits / credits permissible in respect of NRE accounts, including credit of sale proceeds of FDI investments, are permissible in FCNR (B) accounts also.
5)Account can be in any freely convertible currency.
6)Loans up to Rs.100 lakh can be extended against security of funds held in FCNR (B) deposit either to the depositors or third parties.
7) In respect of FCNR (B) deposits of all maturities contracted effective from the close of business in India as on November 23, 2011, interest shall be paid within the ceiling rate of LIBOR/SWAP rates plus 125 basis points for the respective currency/corresponding maturities (as against LIBOR/SWAP rates plus 100 basis points effective from close of business on November 15, 2008). On floating rate deposits, interest shall be paid within the ceiling of SWAP rates for the respective currency/maturity plus 125 basis points. For floating rate deposits, the interest reset period shall be six months.
7) When an account holder becomes a person resident in India, deposits may be allowed to continue till maturity at the contracted rate of interest, if so desired by him.
8) Minimum deposit USD 1000 or equivalent.
9) Both principal and interest are payable in foreign currency. Hence, there is no exchange loss on principal and interest.
10) Premature withdrawal is subject to a penal interest of 1%.
11) No interest is payable if the deposit is closed within a year.
12) Rupee loans can be taken in India against the security of the deposit.
13) Foreign currency loans can be availed at select bank branches abroad against the security of FCNR deposits.
14) Interest earned on FCNR accounts is exempt from Indian income tax.

NRI can open joint account with a resident close relative (relative as defined in Section 6 of the Companies Act, 1956) on former or survivor basis. The resident close relative will be eligible to operate the account as a Power of Attorney holder in accordance with extant instructions during the life time of the NRI/ PIO account holder.

To open an FCNR account with a branch in India fill up the printed account opening form and send it to the bank branch of with the following documents:-
a) Two passport size photographs self-attested
b) Passport & Residence Visa / ID Card Copies duly attested by Banker / Notary Public / Indian Embassy / A person known to the bank.

c) Initial remittance amount
d) Signature in the account opening form, duly verified by any one of the following persons / entities:-
i) Indian Embassy / Consulate / High Commissioner.
ii) Your bank abroad
iii)A person known to the bank.
iv) Notary Public.
13) Enclosures (any two of the following):
i) Cheque drawn on bank account abroad.
ii) Latest Overseas Bank statement in original.
iii) Copy of Telephone / Electricity Bill.
iv) Cancelled paid cheque of your overseas bank A/c.
v) Copy of proof of drawing income / Employee ID / Labour Card.

The deposits should be accepted under the Scheme for the following maturity periods:-
1)One year and above but less than two years
2)Two years and above but less than three years
3)Three years and above but less than four years
4)Four years and above but less than five years
5)Five years only

Premature withdrawal of deposits:-
(i) Banks on request from the depositor will permit premature withdrawal of deposits under the FCNR(B) Scheme. Banks are free to levy penalty for such premature withdrawal at their discretion. Banks may also, at their discretion, levy penalty to recover the swap cost in the case of premature withdrawal of FCNR(B) deposits. Where premature withdrawal of FCNR(B) deposits take place before completion of the minimum stipulated period of one year, in which case no interest is payable, banks may at their discretion levy penalty to cover the swap cost. However, the components of penalty should be clearly brought to the notice of the depositors at the time of acceptance of the deposits. If the depositors are not informed of the penalty provisions at the time of acceptance of deposits, the exchange loss arising out of premature withdrawal will have to be borne by the banks.
(ii) Conversion of FCNR(B) deposits into NRE deposits or vice-versa before maturity are be subject to the penal provision relating to premature withdrawal.

Advances against FCNR(B) deposits - Manner of charging interest:-
(i) When a loan or an advance is granted against an FCNR(B) term deposit which stands in the name of a borrower either singly or jointly, a bank would be free to charge a rate of interest without reference to its own Base Rate.

<u>Interest rates on FCNR(B) deposits</u>:- The present ceiling rate in respect of FCNR(B) deposits for the respective currency / corresponding maturity is LIBOR/SWAP rate plus 200/300 basis points, as the case may be, effective from the close of business in India as on May 4, 2012.

<u>Foreign Currency Account (FCA)</u>

1)A person resident in India who has gone abroad for studies or who is on a visit to a foreign country may open, hold and maintain a Foreign Currency Account (FCA) with a bank outside India during his stay outside India, provided that on his return to India, the balance in the account is repatriated to India. However, short visits to India by the student who has gone abroad for studies, before completion of his studies, shall not be treated as his return to India.

2) A person resident in India who has gone out of India to participate in an exhibition/trade fair outside India may open, hold and maintain a Foreign Currency Account (FCA) with a bank

outside India for crediting the sale proceeds of goods on display in the exhibition/trade fair. However, the balance in the account is repatriated to India through normal banking channels within a period of one month from the date of closure of the exhibition/trade fair.

Resident Foreign Currency Account (RFC)

1) RFC account can be opened by returning NRIs /PIOs may open, hold and maintain with an authorised dealer in India a Resident Foreign Currency (RFC) Account to transfer balances held in NRE/FCNR(B) accounts.
2) Proceeds of assets held outside India at the time of return can be credited to RFC account.
3) The funds in RFC accounts are free from all restrictions regarding utilisation of foreign currency balances including any restriction on investment in any form outside India.
4) RFC accounts can be maintained in the form of current or savings or term deposit accounts, where the account holder is an individual and in the form of current or term deposits in all other cases.
5)RFC accounts are permitted to be held jointly with the resident close relative(s) as defined in the Companies Act, 1956 as joint holder (s) in their RFC bank account on 'former or survivor basis'. However, such resident Indian close relative, now being made eligible to become joint account holder shall not be eligible to operate the account during the life time of the resident account holder.

NRE Account
1) Non-Resident (External) Rupee Account (NRE) account may be in the form of savings, current, recurring or fixed deposit accounts. Such accounts can be opened only by the non-resident himself and not through the holder of the power of attorney.
2) NRIs as defined in Notification No. FEMA 5/2000-RB dated May 3, 2000 may be permitted to open NRE account with their resident close relatives (relative as defined in Section 6 of the Companies Act, 1956) on 'former or survivor ' basis. The resident close relative shall be eligible to operate the account as a Power of Attorney holder in accordance with the extant instructions during the life time of the NRI/PIO account holder.
3) Account will be maintained in Indian Rupees.
4) Balances held in the NRE account are freely repatriable.
5) Accrued interest income and balances held in NRE accounts are exempt from Income tax and Wealth tax, respectively.
6) Authorised dealers/authorised banks may at their discretion/commercial judgement allow for a period of not more than two weeks, overdrawings in NRE savings bank accounts, up to a limit of Rs.50,000 subject to the condition that such overdrawings together with the interest payable thereon are cleared/repaid within a period of two weeks, out of inward remittances through normal banking channels or by transfer of funds from other NRE/FCNR accounts.
7) Savings - Banks are free to determine the interest rates.
8) Term deposits – Banks are free to determine the interest rates of term deposits of maturity of one year and above. Interest rates offered by banks on NRE deposits cannot be higher than those offered by them on comparable domestic rupee deposits.
9) Permissible credits to NRE account are inward remittance to India in permitted currency, proceeds of account payee cheques, demand drafts / bankers' cheques, issued against encashment of foreign currency, where the instruments issued to the NRE account holder are supported by encashment certificate issued by AD Category-I / Category-II, transfers from other NRE / FCNR accounts, sale proceeds of FDI investments, interest accruing on the funds held in such accounts, interest on Government securities/dividends on units of mutual funds purchased by debit to the NRE/FCNR(B) account of the holder, certain types of refunds, etc.

10) Eligible debits are local disbursements, transfer to other NRE / FCNR accounts of person eligible to open such accounts, remittance outside India, investments in shares / securities/commercial paper of an Indian company, etc.
11) Loans up to Rs.100 lakh can be extended against security of funds held in NRE Account either to the depositors or third parties.
12) Such accounts can be operated through power of attorney in favour of residents for the limited purpose of withdrawal of local payments or remittances through normal banking channels to the account holder himself.

Questions for IBPS/ SBI PO Exam:-

1. What is FCNR (B) account?

Ans: Foreign Currency Non-Resident (Bank) Account.

2. Who can open FCNR (B) account?

Ans: The account can only be opened in the name of NRI individuals – single/joint
3. What are the documents to be submitted to open an FCNR (B) Account?

Ans: Completed application form signed and attested by your banker/Embassy of

India/public notary or any person known to the bank must be accompanied with:

(a) Copy of passport

(b) Copy of Visa

(c) Latest Overseas bank statement in original, latest overseas

telephone/electricity bill in original as residential proof.

4. In which currency FCNR(B) account be opened?

A: FCNR (B) account can be opened in a Bank in US Dollars, GB Pound, EURO, Canadian Dollar, and Australian Dollar

5) What are the types of account in FCNR (B) account?

Ans: Only Term deposits can be maintained in FCNR (B) account.

6) What are the periods of Term Deposits?

Ans:FCNR (B) Term deposits can be maintained for 1 to 5 years.

7) Are the FCNR (B) Account funds repatriable?

Ans: Yes, the FCNR (B) Account funds are freely repatriable.

8) Are they taxable in India?

Ans: No, it is exempted from income tax and wealth tax

9) Can we have joint holders for our FCNR (B) Account?

A: FCNR (B) account holders can have joint account only with Non Resident Indians.

10) Can we have a nominee for our FCNR (B) account?

A: Yes, nomination facility is available for FCNR (B) account.

11) Whether loans can be obtained against FCNR (B) Term deposits?

Ans: Yes, loans up to 85 % of FCNR(B)deposits can be given. However, the loan cannot be used for the purpose of re-lending, carrying on agricultural/plantation activities or for investment in real estate business. Loans against FCMR (B) fixed deposits can, however, be utilized for investments in India on non-repatriable basis, in certain specified areas and for acquisition of flats/houses subject to prescribed conditions.

12) With which type of funds, FCNR(B) account can be opened?

Ans: These accounts can be opened as per depositor's choice, in any of the permitted currencies, with / out of the funds received as foreign inward remittances in convertible currency through normal banking channel. The Foreign Currency Travellers Cheques / Notes may be accepted during temporary visits of the NRI, for credit to account.

FOREIGN EXCHANGE
VOSTRO ACCOUNT & NOSTRO ACCOUNT

STUDY MATERIAL
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INTRODUCTION:

An Indian resident, uses legal currency of India i.e., Indian Rupee buy and sell various commodities in India. An Indian resident receives US Dollar 1,000 from his relative, for using in India, he cannot straightaway use the Dollar, but has to convert into Indian Rupees and use it to buy commodities/services. To buy and sell commodities and services, in a foreign country , an Indian needs to have a currency, which is other than his country's currency, that is known as Foreign Currency.

Foreign Exchange consists of the following:-

The currencies of other countries in the form of Currency Notes, Travellers' Cheques, Drafts, Telegraphic Transfers, Mail Transfers etc.

Why Conversion is necessary?

Ans: Conversion of different countries currencies with each other has become a necessity. Because no country in this Universe can claim that they manufacture all the goods and services, that their people require to consume. Even the mighty USA is no exception. They import Coffee from Brazil, India etc. for their consumption. Similarly India imports Capital goods, Technology etc., from Western Countries.

All are aware that there is no Universal Currency through which such settlements across the national barriers and borders could be made and settlements take place in the sellers'/buyers'/any mutually accepted currency. Hence the invention of conversion mechanism i.e., the mechanism by which our legal tender is converted into another currency and vice versa.

India is having the following Inflows and Outflows of foreign exchange:

<u>INFLOWS</u> of Foreign Exchange:

1) Inward Remittances

2) Remittances to to all bank accounts

3) Foreign Aids/Loans /Borrowings by

Corporates etc.

4) Export Receivables

5) Tourists' income

<u>OUTFLOWS</u> of Foreign Exchange:

1) Outward Remittances

2) Payments relating imports

3) Export related payments like commission, legal fees, etc.

4) Tour/Travel related expenses

5) Loan repayments / servicing of loans

Why Exchange Control?

Normally in India, there is a shortfall of inflows than outflows. Our import payments are very crucial for the country's economy and equally important are our payments towards repayment of loans and its servicing. When demand outplays supply, it is only prudent that we manage our foreign exchange reserves judiciously.

Hence Reserve Bank of India, under the provisions of Foreign Exchange Regulation Act or Foreign Exchange Management Act controls the inflow and outflow of foreign exchange. Through the Exchange Control Manual (1993 Edition) and subsequent AD (MA) Circulars etc., RBI enforces the proper management of India's foreign exchange.

FOREIGN TRADE CONTROL:

It is equally important for any country to effectively monitor the movement of goods. While the movement of foreign exchange is being controlled through Exchange Control Manual (1993) and subsequent AD (MA) circulars, goods movement in and out of the country is being monitored under the provisions of Foreign Trade (Development and Regulations) Act, 1992 etc.. The controlling authority in this case is Director General of Foreign Trade, New Delhi and their various offices in other places headed by Joint Director of Foreign Trade. D.G.F.T. and J.D.F.T. are guided by the EXIM POLICY, which is being provided by the Ministry of Commerce, Government of India. Customs are the authorities who are ensuring the movement of goods according to the above-said provisions, besides collection of revenues by way of duty on goods imported or exported.

Please note that the entire process, rules and regulations relating to Foreign Exchange is under the guidance of Reserve Bank of India, from time to time.

HOW THE FOREIGN EXCHANGE IS HANDLED?

Reserve Bank of India under the provisions of FERA or FEMA has delegated the authority of handling Foreign Exchange to State Bank of India (and its subsidiaries), Public Sector Banks, Private Sector Banks and Foreign Banks. They have delegated the authority of handling Foreign Exchange and they are explained in Exchange Control Manual, a book released by Reserve bank of India. Under Exchange Control Manual, designated Authorised Dealers (of Foreign Exchange) will be dealing in various Foreign Exchange transactions, to comply with all terms and conditions. Again Banks that are authorised to handle Foreign Exchange, designate certain branches to handle the Foreign Exchange transactions, depending the necessity and potentiality of branch's location and they are called Authorised dealing branches.

Besides the above, Reserve Bank of India also authorises reputed Hotels and other private establishments to handle Foreign Exchange in a limited way (say they can issue / encash Foreign Currency Travellers' Cheques / Foreign Currency Notes) to cater to the foreign tourists' requirements. They are called Authorised Money Changers (AMC). They are classified as FULL-FLEDGED / RESTRICTED MONEYCHANGERS.

TYPES OF FOREIGN EXCHANGE TRANSACTIONS:-

Authorised Dealers (AD) can handle two types of transactions viz. Purchase and Sale of Foreign Exchange. When customers tender export bills denominated in Foreign Currency, ADs shall purchase the Foreign Currency Bill. Likewise, when customers request for a remittance in Foreign Currency towards payment of Import bills, then ADs have to sell Foreign Currency to him. From this, we understand that both selling and purchasing transactions are from the bank's angle.

SETTLEMENT OF FOREIGN EXCHANGE TRANSACTIONS:

Settlements of Foreign Exchange Transactions are made through the following accounts: -

1) NOSTRO Account(Our Account with you):

A bank account held in a foreign country by a domestic (Indian) bank, denominated in the currency of that country is known as nostro account. Nostro accounts are used to facilitate settlement of foreign exchange and trade transactions . The term 'Nostro', is derived from the Latin word for "ours ."

Example: 1) The account maintained by an Authorised Dealer with a foreign bank is called "NOSTRO" Account or "Our Account with You". When an instrument like a cheque or an export bill is purchased the same is sent to the overseas bank (correspondent) for realisation, the amount is collected and credited to Authorised Dealer's account with them.

2) For Example: a U.S. bank may have nostro accounts with one or more Canadian banks. These accounts will be denominated in Canadian dollars, which enables efficient settlement of transactions that are Canadian dollar denominated. Nostro accounts also minimize the exposure of the U.S. bank to undue exchange rate risk.

Similarly, when a draft is issued on a bank's foreign correspondent, it will be paid at the overseas centre by debiting the NOSTRO Account of the issuing bank.

2) VOSTRO Account: Your Account with us

Conversely, accounts that are held by the domestic bank in its home country for foreign banks are called ' vostro' accounts, derived from the Latin word for "yours."
Example: Foreign banks (Correspondents) also maintain accounts with any bank in India in Indian Rupees for the purpose of settling their rupee transactions and these accounts are called "VOSTRO" Accounts meaning "Your Account with us".

When our Indian bank deals in an export credit bill on collection basis/on realisation of export bills negotiated /purchased/discounted, the foreign currency funds is to be credited to our account. For this purpose, we maintain Foreign Currency accounts with our various correspondents abroad. The account is called NOSTRO account. Once the proceeds are credited in our NOSTRO account, we receive the statement, based on which, the concerned branch, who have handled the transaction, will be informed.

Likewise, when we would like to make remittances, on behalf of our customers towards import payments, miscellaneous remittances etc., we give instructions to our correspondents, to debit our NOSTRO account and effect payment.

Sometimes our correspondents maintain VOSTRO accounts (Rupee accounts of Non-resident banks) with our bank and payment or receipts are made through this account. For exports, they will authorise us to debit their VOSTRO account and for imports, they will give instructions to credit their account.

3) **LORO Account**: (Their account with them)

Example: -Just like State bank Of India maintaining an account with foreign correspondent say BTC, New York, Canara Bank may also maintain a Nostro Account with them. When SBI advises BTC New York for transfer of funds to Canara Bank Account with them, Canara Bank Account is titled as Loro Account "i.e. their account with you".

Likewise whenever the account of one bank in the books of the same correspondent, where we are maintaining our NOSTRO account, the other bank's account with the correspondent is referred as LORO account. That is the account maintained by Indian Bank with our correspondent Bankers Trust Co., Newyork, will be referred as LORO account of Indian Bank.

EXCHANGE RATES:

The rate, at which a currency is converted into another currency, is called the rate of exchange. Such rates are arrived from the base rate, which is decided by market forces (i.e., Demand and Supply) and is quoted on a daily basis. Banks quote various rates for different types of operations like Bill buying, Bill selling, TT (DD/MT/TT) buying , TT (DD/MT/TT) Selling etc. The rates are arrived after loading suitable margins, as per F.E.D.A.I. (Foreign Exchange Dealers Association of India) guidelines.

FOREIGN EXCHANGE MARKET:

Foreign Exchange Market is an Over the Counter Market. It means that there is no fixed market place. Market players are differently and distantly located. It has no borders and barriers. All the transactions are put through over telecommunications followed up by written confirmations. Hence there is the need of high level professionalism for the market players, which is in place.

Market Players are Authorised Dealers, Recognised Foreign Exchange brokers, Exporters, Importers, Reserve Bank of India. Sometimes market dealers include foreign banks abroad.

Foreign Exchange Market is a three tier market viz.:

a) Merchant Market : It is between Authorised Dealers (AD) and the public.

b) Inter Bank Market : It is between Authorised Dealers (AD) in India including Reserve Bank.

c) INTERNATIONAL MARKET : It comprises all Banks who deal in Foreign Exchange at select international Foreign Exchange Centres like Singapore, Hong Kong, Tokyo, London, New York etc.

When an Authorised Dealer is unable to cover a deal in the local market, he will approach the other Bankers in the International Market for covering his deal.

1)Foreign Exchange is a scarce commodity, Hence, it is subject to control.

2) Foreign Exchange commands a price due to the forces of supply and demand.

3) Foreign Exchange has an active market (both domestic and international).

Authorised Dealers (AD) maintain stocks of Foreign Exchange abroad to meet contingencies in the form of balances in Nostro Accounts with their Correspondent Banks.

Foreign Exchange Dealers Association of India. (FEDAI): -

It is an association of all the AD banks in India to liaise with each other, with RBI and other agencies. FEDAI prescribes the rules and charges for various foreign exchange transactions, with the concurrence of all the members.

What is the advantage of maintaining Vostro/Nostro accounts ?
Ans: (1) They enable to keep cash in foreign currency.
(2) They reduce the risk involved in conversion rates of currencies.
(3) They make payment payments to foreign sellers.

Quickie :
- A nostro is our account of our money, held by you
- A vostro is our account of your money, held by us

In European Romance languages, they mean “ours” and “yours” respectively. In Spanish, for example, “ours” translates to “nuestra” and “yours” translates to “vuestra.” In Italian, the word “nostro” or “nostra” means ours, as in the mafia expression “cosa nostra,” which translates to “our thing.”

FINANCIAL INCLUSION

STUDY MATERIAL
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Background:
Bank nationalization (in 1969) in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks (RRBs) was also to take the banking services to poor people. The branches of commercial banks and the RRBs have increased from 8321 in the year 1969 to 68,282 branches as at the end of March 2005. The average population per branch office has decreased from 64,000 to 16,000 during the period 1969-2005.

However, there are certain under-banked states such as Bihar, Orissa, Rajasthan, Uttar Pradesh, Chattisgarh, Jharkhand, West Bengal and a large number of North-Eastern states, where the average population per branch office continues to be quite high compared to the national average.
The new branch authorization policy of Reserve Bank encourages banks to open branches in these under banked states and the under banked areas in other states. The new policy also places a lot of emphasis on the efforts made by RBI to achieve, inter alia, financial inclusion and other policy objectives.

One of the benchmarks employed to assess the degree of reach of financial services to the population of the country, is the quantum of deposit accounts (current account and savings bank account) held as a ratio to the adult population. In the Indian context, taking into account the Census of 2001 (ignoring the incremental growth of population thereafter), the ratio of deposit accounts (s per data available as on March 31, 2004) to the total adult population was only 59% . Within the country, there is a wide variation across states. For instance, the ratio for the state of Kerala is as high as 89% while Bihar is marked by a low coverage of 33%. In the North Eastern States like Nagaland and Manipur, the coverage was a meager 21% and 27%, respectively. The Northern Region, comprising the states of Haryana, Chandigarh and Delhi, has a high coverage ratio of 84%. Compared to the developed world, the coverage of our financial services is quite low. For instance, as per a survey commissioned by British Bankers' Association, 92 to 94% of the population of UK has either current or savings bank account.

As per Census 2011, only 58.7% households are availing banking services in the country. There are 100,277 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 36,972 (36.9%) bank branches are in the rural areas and 26,595 (26.5%) in semi-urban areas, constituting 63 per cent of the total numbers of branches in semi-urban and rural areas of the country. However, still a significant proportion of the households, especially in rural areas, are still outside the formal fold of the banking system. To extend the reach of banking to those outside the formal banking system, Government and Reserve Bank of India (RBI) are taking various initiatives from time to time

What is Financial Inclusion?

The literary meaning of Financial Inclusion (FI) can be simply stated as, 'Everybody having access to financial services'. It can be explained as every eligible citizen of India, who have been till date were left aloof of formal financial institutions being tagged as un-bankable, having a bank account in his/her name wherein he/she can avail of all the possible financial services as per the need and availability of such services in order to help every citizen being better off from the financial side.

With a commitment to reach the un-reached and with a firm corporate belief that even the poor is bankable, financial services are to be extended at affordable cost in an on-going basis to improve quality of life of all those who have been hitherto deprived of financial services from formal financial institutions.

It is planned to cover many villages across India by enrolling millions of customers through Bio-Metric Smart Card technology under one of the coveted projects 'Financial Inclusion' by the year 2015.

Scope :

The scope of Financial Inclusion (FI) is as deep as the Indian Ocean, and has two forms of measurement. First is 'the business' and the second is 'the necessity for making the growth of the country real and inclusive' both of which can be justified by this staggering fact : about 41% of the 1.2 billion Indian population which is spread in every nooke and corner of the country, not only in the six lacs plus villages but also in the slums of metro-cities and towns, are still unreached/unbanked i.e. they do not have access to financial services from formal financial institutions. A public sector bank successfully covered 2.1 million customers under the Bio-Metric Smart Card technology just within 2 years of the start of its FI drive signifies that the FI vision of the bank can be turned into a reality and it will surely achieve its mission overcoming all obstacles in its path of just not growing the bank but making 'growth inclusive' and development of the 'Common Man of India'

International experience in promoting financial inclusion:

An interesting feature which emerges from the international practice is that the more developed the society is, the greater the thrust on empowerment of the common person and low income groups. It may be worthwhile to have a look at the international experience in tackling the problem of financial exclusion so that we can learn from the international experience.

The Financial Inclusion Task Force in UK has identified three priority areas for the purpose of financial inclusion, viz.,
i)access to banking,
ii)access to affordable credit and
iii) access to free face-to-face money advice.

UK has established a Financial Inclusion Fund to promote financial inclusion and assigned responsibility to banks and credit unions in removing financial exclusion. Basic bank, no frills accounts have been introduced. An enhanced legislative environment for **credit unions** has been established, accompanied by tighter regulations to ensure greater protection for investors. A **Post Office Card Account (POCA)** has been created for those who are unable or unwilling to access a basic bank account. The concept of a **Savings Gateway** has been piloted. This offers those on low-income employment £1 from the state for every £1 they invest, up to a maximum of £25 per month. In addition the **Community Finance Learning Initiatives (CFLIs)** were also introduced with a view to promoting basic financial literacy among housing association tenants.

A civil rights law, namely Community Reinvestment Act (CRA) in the United States of America (USA) prohibits discrimination by banks against low and moderate income neighborhoods. The CRA imposes an affirmative and continuing obligations on banks to serve the needs for credit and banking services of all the communities in which they are chartered. In fact, numerous studies conducted by Federal Reserve and Harvard University demonstrated that CRA lending is a win-win proposition and profitable to banks. In this context, it is also interesting to know the other initiative taken by a state in the United States. Apart from the CRA experiment, armed with the sanction of Banking Law, the State of New York Banking Department, with the objective of making available the low cost banking services to consumers, made mandatory that each banking institution shall offer *basic banking account* and in case of credit unions the *basic share draft account,* which is in the nature of low cost account with minimum facilities. Some key features of the basic banking account are worth-mentioning here.

- the initial deposit amount required to open the account shall not exceed US $ 25
- the minimum balance, including any average balance, required to maintain such account shall not exceed US $ 0.10
- the charge for periodic cycle for the maintenance of such accounts to be declared up front
- the minimum number of withdrawal transactions which may be made during any periodic cycle at no charge to the account holder must at least be eight
- a withdrawal shall be deemed to be made when recorded on the books of the account holder's banking institution
- except, as provided below, an account holder shall not be restricted as to the number of deposits which may be made to the account without incurring any additional charge
- the banking institution may charge account holders for transactions at electronic facilities which are not operated by the account holder's banking institution as well as other fees and charges for specific banking services which are not covered under the basic banking account scheme
- every periodic statement issued for the basic banking account should invariably cover on it or by way of separate communiqué maximum number of withdrawals permitted during each periodic cycle without additional charge and the consequences of exceeding such maximum and the fee if any, for the use of electronic facilities which are not operated by the account holder's banking institution.

An interesting feature of basic banking account scheme is the element of transparency i.e. the banking institution should, prior to opening the account, furnish a written disclosure to the account holder describing the main features of the scheme i.e. the initial deposit amount required to open the account, minimum balance to be maintained, charge per periodic cycle for use of such account, maximum number of withdrawal transactions without any additional charge and other charges imposed on transactions for availing electronic facility not operated by the account holder's banking institution, etc.

In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the 'superincluded', i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers.

Consequences of Financial Exclusion:

Consequences of financial exclusion will vary depending on the nature and extent of services denied. It may lead to increased travel requirements, higher incidence of crime, general decline in investment, difficulties in gaining access to credit or getting credit from informal sources at exorbitant interest rates, and increased unemployment, etc. The small business may suffer due to loss of access to middle class and higher-income consumers, higher cash handling costs, delays in remittances of money. According to certain researches, financial exclusion can lead to social exclusion.

Recently, Reserve Bank of India (RBI) Governor, reiterated that the financial inclusion plan of applicants would be an important criterion for procuring new bank licences in the private sector.

In its guidelines released in 2013, for issuance of new bank licences to private sector entities, the RBI had asserted that an important criterion for processing the applications from private sector for entering the banking field would be their business model which should provide for financial inclusion. Dwelling on the issue, Dr. Subbarao said: "We have also said that new banks are required to establish at least 25 per cent, a quarter, of their branches in places with less than 10,000 population."
While interested corporates will have to file their applications with the RBI by July 1,2013, the entry norms prescribe that private corporates and public sector entities with 10 years experience will be eligible to apply for a new licence. The initial paid-up capital for the new banks has also been set at Rs.500 crore to ward off the entry of non-serious players.

Pointing to the numerous challenges that lay ahead in the process of financial inclusion, the RBI Governor said that a liberalised KYC (Know Your Customer) norm along with the unique identity number would help simplify the path. It is opined that banks, still regard financial inclusion as an obligation and not as a business opportunity and, therefore, the reach of inclusion was less than desired.

Statement showing the latest position of households availing banking services in India :

As per Census 2001				As per Census 2011		
Households	**Total number of households**	**Number of households availing banking services**	**Percent**	**Number of households availing banking services**	**Number**	**Percent**
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	**191,963,935**	**68,230,642**	**35.5**	**246,692,667**	**144,814,788**	**58.7**

Questions:
1) In the Financial Inclusion (FI), who are to be included ?
Ans : Poor people , in the services of banks etc.

2) For Poor people , which type of savings banks accounts is suggested ?
Ans : No Frills account (or) Zero Balance account (or) Basic Savings Bank account

3) In financial inclusion, which countries already gained experience ?
Ans : USA and UK

4) On financial inclusion, which committee is appointed in India?
Ans : Dr.C.Rangarajan Committee

5) What is the reason for the nationalisation of banks in 1969?
Ans : To serve poor people through banking services

Gold Exchange Traded Funds

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We love gold, almost every Indian home has a little of it. For centuries, gold has remained an auspicious gift, whether it's for a new born baby or for a newly married couple. India is world's largest consumer of gold. Gold's most enduring benefit is its ability to stabilize a portfolio and protect it against market fluctuations.

Historically, gold prices have shown better stability even during periods of crisis, as compared to other investment types.

As evident from World Gold Council's (WGC), gold demand trend reports, China and India are buying gold in hundreds of tons over the last few years. At present no country wants a strong currency, in order to compete in the global marketplace. The end result is that demand for gold is now rising around the world, hitting records and attracting attention, reinforcing that investors worldwide are putting more faith in gold.

Gold ETF:

A gold exchange-traded fund (GETF) is an exchange-traded fund (ETF) that aims to track the price of gold. Gold ETFs are units representing physical gold which may be in paper or dematerialised form. Buying Gold ETF is purchasing gold in electronic form.

These units are traded on the Exchange like a single stock of any company. Gold ETF's are intended to offer investors a means of participating in the gold bullion market without the necessity of taking physical delivery of gold, and to buy and sell that participation through the trading of a security on a stock exchange.

However, after the introduction of ETFs, the gold ETF has emerged as a better medium of investing. It is an open-ended mutual fund whose units represent physical gold that is 99.5% pure, with each unit representing one gram of gold. These units are traded on the stock exchanges like a single stock of a company.

Thus investing in a gold ETF provides the benefit of liquidity and marketability which is a limitation of owning physical gold. Gold ETF is liquid because you can trade in it at any time during market hours. Gold ETF is marketable because you can trade any amount in it just like a normal stock including short selling and buying on margin. Owning gold ETF also is cheaper than owning physical gold because it has no cost of carry (the cost of storing physical gold).

Gold ETF scheme invests in gold and gold bullion. The main endeavor of the scheme is to track price of the gold. Units of the scheme can be bought or sold through the National Stock Exchange, just like a stock. The investment objective of the fund is to seek to provide returns that closely correspond to returns provided by price of gold through investment in physical Gold. However the performance of the scheme may differ from that of the underlying asset due to tracking error.

It is ideal for investors who would like to invest in Gold but doesn’t like the hassles and costs of storing and safeguarding physical gold. As the unit price would closely resemble price of gold in the market – an investor can easily encash his holding by selling his units on the stock exchange.

Thus the Gold ETF fund offers an ideal way to invest in Gold and Gold bullion. A gold ETF portfolio consists of gold (majority part) and money market instruments (very liquid and very short term maturity debt instruments). So the returns from gold ETF investment also depends on how the fund manager is allocating funds between money market securities and gold.

ETFs: -
Exchange Traded Funds ("ETFs") are open-ended funds that trade on a stock exchange just like the shares of an individual company. Unlike the share of a company, each unit of an ETF represents a portfolio of stocks. So it is similar to a unit of an open-ended mutual fund but with a big difference.

What is the difference between ETF and Mutual Fund?
The difference between an ETF and an open-ended mutual fund is that the units of an ETF trade on an exchange. So the investor can trade in the ETF during market hours and the units can be sold short or margined just like shares.

Another difference between ETFs and mutual funds is the type of management. Mutual funds employ an active management strategy wherein the fund manager actively chooses the portfolio of stocks and manages them in an endeavour to outperform the fund's benchmark. However, ETFs employ a passive management strategy because they are generally designed to closely track the performance of a specific index. So the fund manager creates the portfolio based on the composition of the benchmark index the ETF is supposed to track and then passively manages the portfolio to ensure that the composition of ETF mirrors the benchmark at all times. There could be slight deviations from this strategy at times if the fund manager feels it is necessary to outweigh or under weigh certain stocks with respect to the benchmark in order to achieve a better return than the benchmark.

Advantages of ETF:
1)ETFs are supposed to be tax efficient because there have a lower churn of the portfolio owing to the passive management strategy.
2)ETFs can be traded during market hours and can be sold short or margined.
3) ETFs have a lower management cost than conventional mutual funds because ETFs do not have to bother about shareholder accounting.

Disadvantages of ETF:
1)Even though ETFs are designed to track an underlying benchmark index, they may not exactly mirror the performance of the index owing to certain management costs charged by the fund.
2)Since ETFs are passively managed, they can not provide an active return over the benchmark during upmarket moves unlike actively managed mutual funds where the fund managers is constantly trying to beat the benchmark.
3) ETFs have a lower management cost than conventional mutual funds because ETFs do not have to bother about shareholder accounting.

What are commodities?
A commodity is a physical good which has a demand for itself and the market treats all sources of supply equally without any differentiation. The price for a commodity is determined purely by global demand and supply. Commodities have emerged as a popular asset class in the recent times because they provide

a good hedge against inflation because in an inflationary environment, the nominal price of commodities starts rising even though their real value is unaffected. Since the price of the commodity is usually denominated in the domestic currency, its real value in the home country is unaffected by inflation.

Gold backed Exchange Traded Funds (ETFs) and Exchange Traded Commodities (ETCs) are traded on a variety of stock exchanges around the globe. These regulated financial products are designed to provide investors with exposure to the price performance of spot gold bullion. Many of the currently available products are backed by gold bullion held in secure vaults. This is a principal distinction from derivative-based products that track the gold price, but which are not wholly-backed by physical gold bullion.

The largest of the physical gold bullion backed ETFs is SPDR Gold Shares (GLD). Launched in 2004, GLD was the first such product to be made available in the US. Its primary listing is on the NYSE Arca. It was subsequently cross-listed on the Singapore Stock Exchange, the Hong Kong Stock Exchange, Bolsa Mexicana de Valores and the Tokyo Stock Exchange.

ETFs provides investors with a relatively cost-efficient and secure way to participate in the gold bullion market without the necessity of taking physical delivery of gold. By increasing investor understanding of the role gold plays within a balanced investment portfolio, ETFs have played a prominent role in establishing gold as a unique asset class.

Redemptions by SPDR Gold investors resulted in the fund's holdings shrinking by almost 44 metric tons of gold in December,2012 about 3.4% of its holdings at the beginning of the month.

SPDR Gold follows a simple concept: When it first came out, each share was backed by a tenth of an ounce of gold bullion. Over time, expenses have eroded part of its holdings, but even now, each ETF share still represents about 97% of that original tenth of an ounce.

As simple as that sounds, the ETF was quite revolutionary when it first came out. Before then, investing in gold meant either paying costly commissions to coin dealers or getting a futures account that required huge investments and high levels of risk. Stock investors tended to invest in mining companies instead.

Benefits: Gold ETFs provide an opportunity to investors to accumulate gold over a given period of time. Since it can be purchased in small quantities, one can plan the procurement as per future requirements, say, for the marriage of children, etc.

Moreover, there is no risk of theft and one need not worry about the storage cost (as in case of physical gold) because such units are held in demat or paper form. In the case of physical gold, one ends up paying extra for making charges as well, but there is no extra charge applicable in gold ETFs. When needed, one can exchange them in multiples of 1 kg units of 0.995 purity.

Besides, unlike gold coins and bars, for which most jewellers offer only an exchange and not a buyback, gold ETFs can be sold at transparent prices across India. Even in terms of taxation benefits, gold ETFs are way ahead of the physical gold. No sales tax, VAT or securities transaction tax is applicable on gold ETFs. As units of such funds are traded like stocks on the exchange, it is eligible for the long-term capital gains after one year, unlike physical gold, which is eligible for long-term capital gains after three years. Besides, unlike physical gold, investors don't have to pay wealth tax on gold ETFs.

Drawbacks: Most of the above-mentioned advantages come at a cost in the case of gold ETFs. A small asset management fee is charged by the fund house, so the return is slightly less than the actual increase in the gold price. Moreover, there are additional costs involved at the time of buying and selling in the form of brokerage or commission. Another drawback with gold ETFs is liquidity; some ETFs are illiquid, which impacts their buying and selling flexibility. Hence, investors should consider this as a factor while investing in gold ETFs and should stick to funds that are liquid.

Things to be considered before choosing a Gold ETF:-

There are many fund houses which came up with gold ETFs in the past and the trend will continue as craze of investment in gold is going to continue.

1) The good will of the fund house is always a factor to be considered before buying any mutual fund including ETF. But expense ratio plays a major role in deciding your net returns from investment of a gold ETF. All gold ETFs prices reflect the gold prices in the market. The expense ratio i.e. the expenses the fund house charge its investor, is important before investing in it.

2) If the expense ratio is more, the net return will be less. So you will need to check for expense ratio in the offer document of gold ETF. If the expense ratio of two gold ETFs is same, then you can check the track record.

Sl No	**Clarifications regarding the following**	**Gold Purchased in Physical form**	**Investment in 'Gold Commodity Futures'**	**Investment in 'Gold ETFs'**
1	Quality of Gold	No control over quality of gold	Yes as it tracks the actual gold prices in the market	Yes
2	Cost of Holding Gold	High as the local market prices are always greater than exchange prices	Brokerage costs are high	Low brokerage costs and one time charge
3	Whether Wealth Tax Rules applicable?	Attracts wealth tax	No wealth tax is applicable	No wealth tax is applicable
4	Risk of Theft	Yes	No	No
5	Lower quantities of Gold	Yes	Limit of minimum investment	Limit of minimum investment. But as low as a unit price can be invested
6	Long Term Investment	Possible	Not possible. Have roll over positions	Possible
7	Leverage facility	No	Yes	No
8	Whether Long Term Capital Gain Tax Rules applicable?	Exempted for all investments of greater than 3 years	Applicable	Exempted for all investments of greater than 1 year

NB:- Latest changes in Tax Rules may please be verified.

Lead Bank Scheme

STUDY MATERIAL
PREPARED BY
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The lead bank scheme is an integrated mechanism to extend banking services to the doorsteps of consumers, especially the poor.

Background:
The National Credit Council was set up in Dec. 1967 to determine the priorities of bank credit among various sectors of the economy. The National Credit Ccouncil appointed a study group on the organizational framework for the implementation of social objectives in Oct.'68 under the Chairmanship of Prof. D R Gadgil.
The genesis of Lead Bank Scheme can be traced to the Study Group, headed by Prof. D. R. Gadgil (Gadgil Study Group) on the Organisational Framework for the Implementation of the Social Objectives, which submitted its report in October 1969. The study group found that the Commercial Banks had penetrated only 5000 villages as of June'67 and out of the institutional credit to agriculture, at 39%, the share was negligible at 1%, the balance being met by the co-operatives. The Study Group drew attention to the fact that commercial banks did not have adequate presence in rural areas and also lacked the required rural orientation. As a result, the banking needs of the rural areas in general and the backward regions in particular, could not be adequately taken care of by the commercial banks and the credit needs of rural sector of the economy, particularly agriculture, small-scale industry and services sectors remained virtually neglected. The Study Group, therefore, recommended the adoption of an 'Area Approach' to evolve plans and programmes for the development of an adequate banking and credit structure in the rural areas.

. A Committee of Bankers on Branch Expansion Programme of public sector banks appointed by Reserve Bank of India under the Chairmanship of Shri F. K. F. Nariman (Nariman Committee) endorsed the idea of area approach in its report (November 1969). It recommended that in order to enable the public sector banks to discharge their social responsibilities, each bank should concentrate on certain districts where it should act as a 'Lead Bank'.

Pursuant to the above recommendations, the Lead Bank Scheme was introduced by Reserve Bank in December, 1969. The Scheme emphasized making specific banks in each district the key instruments of local development by entrusting them with the responsibility of locating growth centres, assessing deposit potential, identifying credit gaps and evolving a co-ordinated approach to credit deployment in each district, in concert with other banks and credit agencies.

The Scheme, significantly, did not envisage a monopoly of banking business by the Lead Bank in the district. The Lead Bank is expected to assume leadership role and act as a consortium leader for co-ordinating the efforts of the credit institutions and accordingly the various districts in the country were allocated among the public/select private sector banks, as the lead bank for the district. As at the end of March 2009, 26 banks (public and private sector) have been assigned lead responsibility in 622 districts of the country.
The lead bank scheme at that time had not covered the metropolitan cities of Mumbai, Delhi, Kolkata, Chennai and certain Union Territories.

The scheme envisaged allotment of districts to banks to enable them to assume leadership in bringing about banking developments in the respective districts.

Development in the districts was sought to be achieved by making banks the key instruments for local deployment of credit, entrusting them with the responsibility of locating growth centres, mobilising deposits, identifying credit gaps and evolving a coordinated programme for credit deployment in each district, in concert with other banks and credit agencies. In order to enable the banks to assume 'leadership' in an effective and systematic manner, the various districts, except the metropolitan cities of Mumbai, Delhi, Kolkata and Chennai and certain Union Territories in the country were allotted among the public/select private sector banks and each such bank was designated as the Lead Bank for the district concerned. The Lead Bank was also expected to work for expansion of branch banking facilities and assume a major role in the development of banking and credit in the allocated districts.

The specific functions of the Lead Bank in a district are as follows:

(i) Surveying the resources and potential for banking development in its district;
(ii) Surveying the number of industrial and commercial units and other establishments, and farms, which do not have banking accounts or depend mainly on money-lenders, and increasing their own resources through the creation of surpluses from additional production financed from the banking system;
(iii) Examining the facilities for marketing of agricultural produce and industrial production, storage and warehousing space, and linking of credit with marketing in the district;
(iv) Surveying the facilities for stocking of fertilisers and other agricultural inputs and repairing and servicing of equipments;
(v) Recruiting and training staff, for offering advice to small borrowers and farmers, in the priority sectors, which may be covered by the proposed credit insurance schemes and for follow-up and inspection of end-use of loans;
(vi) Assisting other primary lending agencies; and
(vii) Maintaining contact and liaison with Government and quasi-Government agencies.

Service Area Approach:

In 1989, the Service Area Approach (SAA) was adopted wherein service area villages were identified and assigned to bank branches based on their proximity and contiguity and by adopting a cluster approach. Credit plans were prepared on an annual basis for the service area of each branch which involved co-ordination between the various developmental agencies and credit institutions. Due to allotment of villages to designated bank branches, the activities of the 'service area branches' were restricted to the allotted villages and they were unable to provide financial assistance outside their service areas, despite being in a position to do so. Similarly, borrowers belonging to these villages were required to approach the 'designated bank branches' for their credit needs and were not in a position to avail of services of any other bank branches, irrespective of whether they were satisfied with the services provided by the designated bank branches or not.

The Advisory Committee on Flow of Credit to Agriculture and Allied Activities (Chairman Prof. V.S.Vyas, June 2004) observed that the Service Area Approach, introduced for planned and orderly development of rural areas, had developed rigidities and acted as a bottleneck despite built in measures to provide flexibility. The Committee recommended that this feature of flexibility needed to be preserved and the service area concept made mandatory only for government sponsored schemes. Pursuant to the recommendations of the Committee, the restrictive provisions along with certain other aspects of service area were removed from December 2004, except for the government sponsored schemes.

Usha Thorat Committee:
In pursuant to the announcement in the mid-term review of Annual Policy for the year 2007-08, the Government of India constituted a High-Power Committee headed by Mrs Usha Thorat, Deputy Governor of the RBI, to suggest reforms in the LBS.
The task of this panel was to recommend how to revitalize the LBS , given the challenges facing the banking sector, especially in an era of increasing privatisation and autonomy.

The following are the terms of reference:-

(I) To review the Lead Bank Scheme with focus on financial inclusion and recent developments in the banking sector, covering, inter-alia, the objectives and scope of the Scheme; structure and functions of various committees/fora under the Scheme, including the role and responsibilities of various functionaries such as Lead District Officers, Lead District Managers, District Development Managers etc.; need for decentralization of norms, systems and procedures to suit local needs and implementation of policy guidelines at local level; need to create/improve awareness of the common persons about banking facilities and schemes available for their benefit ; and information system, reporting and monitoring mechanism under the Scheme.

(II) In the light of the review, to:
a)prepare a comprehensive set of objectives and scope of the Lead Bank Scheme;
b)make recommendations for rationalization of the various committees/fora and functionaries under the Scheme;
c)recommend measures to improve the effectiveness of the Scheme, especially for encouraging greater decentralized approach, dissemination of policies/guidelines, implementation of policies at local level and creation of awareness of banks' products/policies;
d)make recommendations relating to timely and consistent information and monitoring system, taking advantage of improved IT capabilities in the banking system;
e)prepare comprehensive guidelines and a manual of instructions based on the above.
The committee recommended the enhancing the scope of the scheme and suggested a sharper focus on facilitating financial inclusion rather than a mere review of the government sponsored credit schemes.
The committee said that most forums to monitor the implementation of LBS are being used for routine review of the government-sponsored schemes, credit deposit ratio, recovery performance, among others.

The following were the recommendation of Usha Thorat Committee:
1)LBS should be continued to accelerate financial inclusion in the unbanked areas of the country.
2)Private sector banks should be given a greater role in LBS action plans, particularly in areas of their presence.
3) Enhance the business correspondent model, making banking services available in all villages having a population of above 2,000 and relaxation in KYC (know your customer) norms for small value accounts.

" The review on LBS has been made with a focus on financial inclusion and in view of the recent developments in the banking sector. The scheme has been found useful to promote financial inclusion in the country. Hence it should be continued" – told by Usha Thorat on May 22, 2009.

Bring all districts in Metropolitan areas under LBS:-

Recently, Governor, Reserve Bank of India in a significant move has asked banks to bring all districts in metropolitan areas under the lead bank scheme (LBS) fold because there are millions of unbanked people even in urban areas.

The move is part of increasing the scope of its financial inclusion drive to urban areas on one hand and helping the government realise its efforts to plug the loopholes in subsidy deliveries by transferring all the benefits directly to the bank accounts of the target people.

Questions for IBPS/SBI Examns:
1) Why Reseve Bank of India, recently announced that all the districts in the metropolitan areas are brought under the Lead Bank Scheme ?
Ans : Governor, Reserve Bank of India said that the objective of providing an institutional mechanism for coordination between government authorities and banks, facilitating doorstep banking to the excluded segment of urban poor, and to implement direct benefit transfer scheme of the government. Therefore, it is decided to bring all the districts in metropolitan areas under the LBS fold.

2) When Lead Bank Scheme was introduced by Reserve Bank of India ?
Ans : December, 1969

3) Which committee(or) Study Group recommended for introduction of Lead Bank Scheme in the country ?
Ans : Prof.D.R. Gadgil Committee

4) Which High Level Committee is appointed in the recent past To review Lead Bank Scheme?
Ans : Smt. Usha Thorat Committee

5) Earlier which Metropolitan districts were not covered under Lead Bank Scheme?
Ans : Cities of Mumbai, Delhi, Kolkata and Chennai

LOCAL AREA BANKS (LABs)

STUDY MATERIAL
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With a view to providing institutional mechanisms for promoting rural savings and for the provision of credit for viable economic activities in the local areas, new local banks were established in the private sector. This is expected to bridge the gaps in credit availability and enhance the institutional credit framework in the rural and semi-urban areas. The local area bank concept was introduced by RBI in 1996.

The Local Area Bank is registered as a public limited company under the Companies Act, 1956. It is licensed under the Banking Regulation Act, 1949 and is eligible for including in the Second Schedule of the Reserve Bank of India Act, 1934.
The minimum paid up capital for such a bank is Rs.5 crore. The promoters' contribution for such a bank will be at least Rs.2 crore. Proposals having diversified share holdings, will be preferred.

Backward and less developed districts are considered for area of operation of LABs. Districts in which State capital , metropolitan cities or highly industrially developed cities are situated are generally not considered as area of operation of a LAB.

Background:
Rural development in general and agricultural development in particular calls for creation of outlets for provision of institutional credit for productive purposes. A conscious policy of augmenting the flow of institutional credit for agriculture has been pursued with vigour in post independent India.

Recognising that cooperatives with their local knowledge and local leadership would seem to be the best agency for providing credit with mechanisms for monitoring end use of credit, Government and RBI have promoted cooperative movement on a big scale with access to special credit arrangements, some of them on concessional terms.

It was presumably due to the set backs encountered in the channelisation of credit through cooperatives, rural branches of commercial banks and RRBs that the new concept of a Local Area Bank emerged. The concept was attractive in that it sought to involve local leadership in mobilization of local resources for profitable lending in a compact area. It sought to combine the kind of local knowledge presumed to be the special feature of cooperatives with the professional ethos of a commercial bank.

Project Report:
Project Report for the setting up of a Local Area Bank normally contains essential information about the LAB proposal such as profile of the districts chosen as area of operation, credit gap assessment in respect of each district, existing banking facilities available, business potential of the districts, business plan and business projections of the proposed bank for at least five years together with projected balance sheet and profit and loss account for five years, various assumptions made in respect of business projections, viability study report etc.

The promoters have to bring in the entire minimum capital of Rs.5 crore upfront out of their verifiable own sources of funds. This is a mandatory requirement. The contribution towards capital of a LAB by a single family should not exceed 40% of the total paid up capital of the LAB. Proposals having diversified share holdings are preferred. The entire promoters' contribution towards equity (including the contribution of friends and relatives) shall carry a 'lock-in' period of three years from the date of issue of licence and at least 40% will be locked in for a further period of two years beyond the aforesaid period of three years subject to review before completion of five years.

Coastal Local Area Bank (In Andhra Pradesh) :
Coastal Local Area Bank Ltd., was established on 27th December 1999 with an area of operation comprising three contiguous districts viz. Krishna, Guntur and West Godavari with its head office at Vijayawada (Andhra Pradesh).
Coastal Bank is the first Local Area Bank approved by the Reserve Bank of India in 1999. The Bank is a private bank established under the Companies Act and is directly regulated by RBI.

Coastal Bank operates in one of the most prosperous regions of India. The Bank has 28 branches in these three districts of Krishna, Guntur and West Godavari.

Coastal Bank is profitable since inception and all the deposits up to Rs. One lakh are insured by Deposit Insurance and Credit Guarantee Corporation (DICGC).

Krishna Bhima Samruddhi Local Area Bank (in Mahaboob Nagar,Telangna State):

Krishna Bhima Samruddhi Local Area Bank Ltd. (KBSLAB) was established with an area of operation comprising three contiguous districts of Mahbubnagar and Raichur and Gulbarga in the state of Karnataka. Its head office at Mahbubnagar(Telangana).
KBSLAB, licensed by Reserve Bank of India was established on February, 28th, 2001. The bank operates in the least developed districts of Mahabubnagar, Gulbarga, Yadgir and Raichur in Telangana and Karnataka states. The head office is in Mahabubnagar. The bank is promoted by a Group and is the only commercial bank of the country with microfinance as its core business. Bank has 59 Business correspondent locations to be a sustainable local community based institution providing financial services to the underserved, particularly rural poor and women and to arrange provision of technical assistance and support services to the borrowers with the ultimate goal of promoting a large number of sustainable livelihoods in the area.
Bank on Wheels : One of the branches of Krishna Bhima Local Area Bank has a mobile branch housed in a bus and it travels in the service route approved by RBI and coverage area. Bank On Wheels covers the surrounding areas of Nagarkurnool in Mahbubnagar District.

Local Area Banks in India:
In 2002, the RBI had set up a Committee to review of the operations of the LABs and the committee opposed giving further licences citing regulatory hurdles. Again, in April 2008, the Raghuram Rajan Committee was set up to suggest the next generation reforms for the Indian financial sector. It had recommended setting up of more number of LABs particularly in under-banked or unbanked areas of the country. It had also observed that some of these LABs could eventually become full-fledged banks at some stage.

According to the data available with the Finance Ministry, Government of India, when the Committee was in position, there were 120 unbanked revenue blocks in the country and it had envisaged the proposed LABs as private, well-governed, deposit-taking small-finance banks. They were to have higher capital adequacy norms, a strict prohibition on related party transactions and lower concentration norms to offset chances of higher risk from being geographically constrained.

Questions for IBPS & SBI Examns and Interviews:

1) What is the objective of setting up of Local Area Bank?

Ans: Setting up of local area banks in private sector is to cater to the credit needs of the local people and to provide efficient and competitive financial intermediation services in their area of operation.

2) What is the scope of activities of a Local Area Bank?

Ans: Since these local area banks are being set up in district towns, their activities will be focussed on the local customers. It is expected that their lendings will be mainly ro agriculture and allied activities, SSI, agro-industrial activities, trading activities and the non-farm sector with a view to ensure the provision of timely and adequate credit to the local clientele in the area of operation. The local area banks have to observe the priority sector lending targets at 40% of net bank credit (NBC) as applicable to other domestic banks. Within the above target these banks will adhere to the requirement of lending at least 25% of their priority sector deployments (10% of NBC) to the weaker sections of the society livin in rural areas and semi-urban areas.

3)Who can promote a Local Area Bank? What is the minimum share capital?

Ans: The promoters of the bank may comprise individuals, corporate entities, trusts and societies. In the application for a banking licence the details of the initial contribution of promoters, and the manner and method through which the minimum share capital of Rs.5 crore will be raised are to be indicated.

4)Where Local Area Banks can conduct business ? Is there any prohibition for the location of branches in the districts or in the states?

Ans: The area of operation of the proposed local area bank shall be a maximum of three geographically contiguous districts. There is no prohibition in this regard. But the three districts selected for the LAB must be geographically contiguous.

5) Where Head Office of the local area bank should be located ?

Ans : The Head/Registered Office of the bank can be located at a centre within the area of operation of the bank.

6) Which Acts are applicable for Local Area Banks ?

Ans: The local area bank will be governed by the provisions of the Reserve Bank of India Act 1934, the Banking Regulation Act, 1949 and other relevant statutes. However, in respect of its liquidity requirements and interest rates, such banks will be governed by the provisions applicable to Regional Rural Banks established under the Regional Rural Banks Act, 1976.

7) What are the Prudential Norms for Local Area Bank?

Ans : Local Area Bank is subject to prudential norms, accounting policies and other policies as are laid down by RBI. The bank will have to achieve capital adequacy of 8 per cent of the risk weighted assets from the very beginning. Similarly, norms for income recognition, asset classification and provisioning will also be applicable to it from the beginning.

8) Where Local Area Bank can open branches ?

Ans : The local area bank is allowed to open branches only in its area of operation and in regard to branch licensing, it shall be governed by the policy of Reserve Bank of India.

9) Are LABs allowed to open branches in urban areas ?

Ans: The LABs are allowed to open branches only in rural and semi-urban areas of their area of operation. However, one urban branch (centre with population above one lakh) in each district will be allowed.

10) What is the minimum capital for a Local Area Bank?
Ans : Rs.5 Crores

11) When the concept of Local Area Banks started ?
Ans : 1996

12) Which local bank serving districts in both Telangana and Karnataka (i.e., in two States) ?
Ans: Krishna Bheema Samruddhi Local Area Bank, Mahaboobnagar.

Mobile Banking

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Mobile phones, as a medium for extending banking services, have attained greater significance. The rapid growth of mobile users in India, through wider coverage of mobile phone networks, have made this medium an important platform for extending banking services to every segment of banking clientele in general and the unbanked segment in particular.

'Mobile Banking transaction' means undertaking banking transactions using mobile phones by bank customers that involve accessing / credit / debit to their accounts.

Reserve Bank of India permitted commercial bnaks to offer mobile banking services after obtaining necessary permission. Mobile Banking services are available to bank customers irrespective of the mobile network. Customers need to first register for Mobile Banking with their bankers and download the Mobile Banking application on their mobile handsets.

The service is available on java enabled /Android mobile phones (with or without GPRS) /i-phones where the user is required to download the application on to the mobile handset. The service can also be availed via WAP on all phones (java/non java) with GPRS connection.

Secrecy:
Banks are required to maintain secrecy and confidentiality of customers' accounts. In the mobile banking scenario, the risk of banks not meeting the above obligation is high. Banks may be exposed to enhanced risk of liability to customers on account of breach of secrecy, denial of service etc., on account of hacking/ other technological failures. The banks should, therefore, institute adequate risk control measures to manage such risks.

However, the Customer is solely responsible for protecting his Mobile Banking Password Identification Number (PIN)/ Internet Banking / password or mobile phone number and any password given by the Bank for the use of the Facility.

A commercial Bank will not be liable for:
(a) any unauthorised use of the Customer's PIN, password or mobile phone or for any fraudulent, duplicate or erroneous instructions given by use of the Customer's PIN, password or mobile phone number;
(b) acting in good faith on any instructions received by the Bank ;
(c) error, default, delay or inability of Bank to act on all or any of the instructions
(d) loss of any information/instructions in transmission;
(e) unauthorized access by any other person to any information /instructions given by the Customer or breach of confidentiality;

Mobile Banking Facility definitions:-
The following terms shall have the following meanings:
"Alert(s)" means the customised messages sent to the Customer over his mobile phone as short messaging service ("SMS") in response to the Triggers sent by the Customer.
"Alert/Push Facility" shall mean the service provide by Bank wherein a Customer can obtain specific information pertaining to his Account on his Mobile Phone number.

"Request/Pull Facility" shall mean facility through which Customers will be able to make requests about their Accounts by sending "key words" through SMS to Mobile Phone Number provided by Bank for the purpose.
"Triggers" means the customised triggers that are required to be set by the Customer with Bank which shall enable Bank to send the Alerts relating to his Account.

Money Transfer Facility through m-banking:-
The Payer accepts that he will be responsible for keying in the correct details which are required to make fund transfers through the above mentioned facility; such details being specified by Bank from time to time. In no case, Bank will be held liable for any erroneous transactions arising out of or relating to the Payer keying in erroneous details required to make fund transfers through the abovementioned facility, a commercial Bank will specify from time to time the upper limit of money transfer that may be transferred by the Payer for the above mentioned facility.

What are the basic requirements for Mobile Banking?

Ans: 1) Customer should have a commercial Bank ATM/Debit Card.
2)Mobile handset should be Java enabled.
3)Customer should have registered for SMS alerts.
4) Mobile handset should be GPRS (General Packet Radio Service) enabled by the Service Provider.
5) Though the hand set is not enabled for JAVA and GPRS, customers can transfer the funds by sending SMS in the prescribed formats (daily transfer limit is Rs. 5,000/-).

Who are eligible ?
Ans: All Current/ Savings Bank Account holders in Personal Banking segment and Current accountholders in SME segment are eligible.
The Customer desirous of using the facility should be either a sole Account holder or authorised to act independently. All or any transactions arising from the use of the facility in the joint account shall be binding on all the joint account holders, jointly and severally. An Account in the name of the minor, in which a minor is a joint account holder or any account where the mode of operation is joint, is not eligible for the facility.

- All customers can avail the Service irrespective of their telecom service provider.
- The Service is free of charge. SMS/GPRS cost will be borne by the customer.

What is the authority the Bank ?
Ans: The Customer irrevocably and unconditionally authorises the Bank to access all his or her Accounts for effecting banking or other transactions of the Customer through the facility. The Customer further authorizes the Bank to share the Account information with Third Party for the purpose of accepting/ executing request of the Customers.

What is the transaction limit per customer ?
Ans: Transaction limit per customer per day is Rs.1,000/- with a calendar month limit of Rs.5,000/- . However, customers desiring to transact up to Rs.5000/- per day or Rs25,000/- per month may do so after obtaining an One Time Password (OTP). It changes from bank to bank.

Mobile Banking Service over SMS:-
The service is available on all phones (java/non java) with/without GPRS connection. No need to download the application. Ordinary SMS charges are applicable.
All customers can avail the Service irrespective of telecom service provider.
The Service is free of charge. SMS cost will be borne by the customer

The following functionalities are available over SMS:

- Enquiry Services (Balance Enquiry/Mini Statement)
- Mobile Top up
- DTH Top up/ recharge
- IMPS- Mobile to Mobile Transfer
- Change MPIN

M-banking helps to do following banking transactions: -
i)Balance Enquiry of accounts enabled for Mobile Banking
ii)Mini statement (last five transactions) of your accounts enabled for mobile banking services
iii)Fund transfer within the Bank from one account to another
iv)Fund transfer to accounts of other banks using NEFT scheme of RBI.
v)Fund transfer to accounts in in the same bank & other banks through IMPS
vi)Cheque book request
vii)Mobile Top Up
viii) Utility Bills payment
ix)Payment of premium on Life policies
x)Demat Account enquiry Services
xi)Merchant Payment

DEMAT
How to use to enquire about Demat account over mobile?
Ans: The customer has to registerfor Mobile Banking Service for enquiries of Demat accounts. After confirmation of registration of the Demat account, customer can use any of the facilities listed below:

a) Portfolio Value: Shows the total value of your holdings as on the previous day's closing price along with the no. of unique securities held.

b) Booklet Request: You can request for physical Delivery Instruction Slip (DIS) booklet and personalized booklet will be delivered to your door step within 7 working days.

c) Bill Statement: Get your outstanding bill amount instantly along with the due date on which the debit is to be raised.

d) Last five transactions: View the last five transactions. The results would display information about the scrip along with the date of credit or debit and the resultant balance available.

e) Transaction Status Enquiry: You can also view status of your transactions by specifying the Form/Slip No.

<u>Questions for IBPS/SBI PO Exams</u>:

1)What is mPin or MPIN ?
Ans: It is an authentication. mPin is a pass word. MPIN should have only 6 characters. It can be numeric/ alpha numeric / special characters / combination of all these. The MPIN is set to be numeric by default. It can be changed from the numeric mode to alpha mode. The method of changing the mode varies in different handsets. Generally it can be identified by the button which has #.

2)Banks providing mobile banking services are supposed to comply with which of the following security principles and practices for the authentication of mobile banking transactions?
a) All mobile banking transactions shall be permitted only by validation through a two factor authentication.
b) One of the factors of authentication shall be mPIN or any higher standard.
c) Where mPIN is used, end to end encryption of the mPIN is desirable, i.e. mPIN shall not be in clear text anywhere in the network.
d) The mPIN shall be stored in a secure environment.
Ans: All the above
3)Is it necessary toto change M-PIN for the first time?
Ans: MPIN can be changed any time. However, to use the application for the first time. It is mandatory for you to change the default MPIN and set your own MPIN.

4)Is it necessary for the MPIN to be numeric?
Ans: No, it is not necessary. The field for entering MPIN is set at numeric by default. You can change it to alpha. Each mobile has different way to change the mode so please check in your mobile handset. You can also use any special characters as MPIN.

5)How many characters should MPIN have?
Ans: 6

6)Who are permitted to provide mobile banking services?
Ans: Only banks who have implemented core banking solutions are permitted to provide mobile banking services.

7)Who can avail m-banking facility ?
Ans: The services shall be restricted only to customers of banks and/or holders of debit/credit cards issued.

8)In which currency m-banking transactions are permitted ?
Ans: Only Indian Rupee based domestic services shall be provided. Use of mobile banking services for cross border inward and outward transfers is strictly prohibited.

9)Whether businees correspondents can be appointed ?
Ans: Banks may also use the services of Business Correspondent appointed for extending this facility to their customers in rural areas.

10)Which rules are to be strictly followed for m-banking facility?
An: Rules relating to "Know Your Customer (KYC)", "Anti Money Laundering (AML)" and "Combating the Financing of Terrorism (CFT)" are applicable to mobile based banking services also.

11)Whether registration of customers for mobile service is compulsory ?

Ans: Yes. Banks shall put in place a system of document based registration with mandatory physical presence of their customers, before commencing mobile banking service.

Non-Banking Financial Company (NBFC)

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A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in instalments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

Non-banking financial institutions (NBFIs), engaged in varied financial activities are part of the Indian financial system providing a range of financial services. NBFCs are incorporated under the Companies Act, 1956.

NBFCs can be classified into two broad categories, *viz*.,

(i) NBFCs accepting public deposit (NBFCs-D)
(ii) NBFCs not accepting/holding public deposit (NBFCs-ND).

Residuary Non-Banking Companies(RNBCs) are another category of NBFCs whose principal business is acceptance of deposits and investing in approved securities.

Non-Banking finance companies, or NBFCs, did exceptionally well in 2012. While stocks of nearly 20 NBFCs more than doubled during the year, more than 30 NBFC stocks listed on the BSE, beat the Sensex, which rose 25 per cent during the year.

The reasons for the rally were the buzz that some NBFCs may get bank licences and proposal to increase the cap on loans NBFCs can give against pledged gold. "NBFCs, especially with retail focus, have been reporting healthy profits with steady asset quality. Valuations have also been boosted by clearance to the banking Bill, which paves the way for new bank licences that some NBFCs expect to get."

In terms of Section 45-IA of the RBI Act, 1934, no Non-banking Financial company can commence or carry on business of a non-banking financial institution without a) obtaining a certificate of registration from the Bank and without having a Net Owned Funds of Rs. 25 lakhs (Rs two crore since April 1999).

Different types/categories of NBFCs registered with RBI :-

NBFCs are categorized a) in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs, b) non deposit taking NBFCs by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND) and c) by the kind of activity they conduct. Within this broad categorization the different types of NBFCs are as follows:

i. Asset Finance Company (AFC.
ii. Investment Company (IC) :
iii. Loan Company (LC) :
iv. Infrastructure Finance Company (IFC) :
v. Systemically Important Core Investment Company (CIC-ND-SI)
vi. Infrastructure Debt Fund:
vii. Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI
viii. Non-Banking Financial Company – Factors (NBFC-Factors

Companies which are NBFCs, but are exempted from registration:

Housing Finance Companies, Merchant Banking Companies, Stock Exchanges, Companies engaged in the business of stock-broking/sub-broking, Venture Capital Fund Companies, Nidhi Companies, Insurance companies and Chit Fund Companies are NBFCs but they have been exempted from the requirement of registration under Section 45-IA of the RBI Act, 1934 subject to certain conditions.

Housing Finance Companies are regulated by National Housing Bank, Merchant Banker/Venture Capital Fund Company/stock-exchanges/stock brokers/sub-brokers are regulated by Securities and Exchange Board of India, and Insurance companies are regulated by Insurance Regulatory and Development Authority. Similarly, Chit Fund Companies are regulated by the respective State Governments and Nidhi Companies are regulated by Ministry of Corporate Affairs, Government of India.

It may also be mentioned that Mortgage Guarantee Companies have been notified as Non-Banking Financial Companies under Section 45 I(f)(iii) of the RBI Act, 1934.

The following aspects should be borne in mind while making deposits with an NBFC:-

i. Public deposits are unsecured.
ii. A proper deposit receipt is issued, giving details such as the name of the depositor/s, the date of deposit, the amount in words and figures, rate of interest payable and the date of repayment of matured deposit along with the maturity amount. Depositor/s should insist on the above and also ensure that the receipt is duly signed and stamped by an officer authorised by the company on its behalf.
iii. In the case of brokers/agents etc collecting public deposits on behalf of NBFCs, the depositors should satisfy themselves that the brokers/agents are duly authorized by the NBFC.
iv. The Reserve Bank of India does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayment of deposits/discharge of the liabilities by the company.
v. Deposit Insurance facility is not available to the depositors of NBFCs.

Some of the important regulations relating to acceptance of deposits by NBFCs are as under:

i. The NBFCs are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months. They cannot accept deposits repayable on demand.
ii. NBFCs cannot offer interest rates higher than the ceiling rate prescribed by RBI from time to time. The present ceiling is 12.5 per cent per annum. The interest may be paid or compounded at rests not shorter than monthly rests.
iii. NBFCs cannot offer gifts/incentives or any other additional benefit to the depositors.
iv. NBFCs (except certain AFCs) should have minimum investment grade credit rating.
v. The deposits with NBFCs are not insured.
vi. The repayment of deposits by NBFCs is not guaranteed by RBI.
vii. Certain mandatory disclosures are to be made about the company in the Application Form issued by the company soliciting deposits.

1)What is difference between banks & NBFCs ?

Ans: NBFCs lend and make investments and hence their activities are akin to that of banks. However there are a few differences as given below:

i)NBFC cannot accept demand deposits;

ii) NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;

iii) Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositor unlike in case of banks.

2) What are the requirements for registration with RBI?

Ans: A company incorporated under the Companies Act, 1956 and desirous of commencing business of non-banking financial institution as defined under Section 45 I (a) of the RBI Act, 1934 should comply with the following:

i) It should be a company registered under Section 3 of the companies Act, 1954

ii) It should have a minimum net owned fund of Rs 200 lakh. (The minimum net owned fund (NOF) required for specialized NBFCs like NBFC-MFIs, NBFC-Factors, CICs is

3) Can all NBFCs accept deposits ? What is the minimum period and maximum period of deposit?

Ans: All NBFCs are not entitled to accept public deposits. Only those NBFCs to which the Bank had given a specific authorisation are allowed to accept/hold public deposits.

The NBFCs are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months. They cannot accept deposits repayable on demand.

4) What 'public deposit'? .

Ans: Paragraph 2(1)(xii) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 defines a ' public deposit' as a 'deposit' as defined under Section 45 I(bb) of the RBI Act, 1934 .

5) Whether NBFCs can accept deposits from NRIs?

Ans: Effective from April 24, 2004, NBFCs cannot accept deposits from NRIs except deposits by debit to NRO account of NRI provided such amount does not represent inward remittance or transfer from NRE/FCNR (B) account. However, the existing NRI deposits can be renewed.

6) What are the symbols of minimum investment grade rating of different companies?

Ans:The symbols of minimum investment grade rating of the Credit rating agencies are:

CRISIL : FA- (FA MINUS)
ICRA : MA MINUS)
CARE : BBB (FD)

7) In case an NBFC defaults in repayment of deposit what course of action can be taken by depositors?

Ans: If an NBFC defaults in repayment of deposit, the depositor can approach Company Law Board or Consumer Forum or file a civil suit in a court of law to recover the deposits.

" Guidelines for licensing of New Banks in the Private Sector"

STUDY MATERIAL
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Introduction:
New Private sector banks were permitted and promoted on the recommendations of Narasimham Committee Report – I and during 1994 RBI had allowed setting up of these banks. As a result, 9 private sector banks were established but Times Bank merged with HDFC Bank and Global Trust Bank merged with Oriental Bank of Commerce. The prominent banks among them are HDFC Bank, ICICI Bank, Industrial Development Bank of India, Axis Bank etc. RBI made significant changes in the licensing norms for private sector banks during November, 2000. In the year 2000, the initial minimum paid-up capital for a new bank was Rs.200 Crores, compared to earlier Rs.100 Crorers. At that time, a condition was stipulated to increase the capital to Rs.300 Crores within 3 years of starting operations. At that time new banks were required to open 25% of the branches in rural and semi-urban areas on the pattern of Public Sector Banks. At that time also, top rated Non-Banking Finance Companies were allowed to convert themselves into banks provided they have a minimum net worth of Rs.200 Corres, having a credit rating of AAA. In this method, Kotak Mahindra Finance Ltd., was converted into Kotak Mahindra Bank Ltd., during 2003. In 2000 year, large industrial houses were not permitted to promote commercial bank.

Banking being a highly leveraged business, licences for the new banks shall be issued on a very selective basis to those who conform to the above requirements, who have an impeccable track record and who are likely to conform to the best international and domestic standards of customer service and efficiency. Therefore, it may not be possible for Reserve Bank to issue licences to all the applicants meeting the eligibility criteria prescribed above.

Banking is essentially based on fiduciary principles as depositors' money is involved. It therefore becomes imperative that the fit and proper assessment framework for bank promoters is much more comprehensive in scope as compared to other sectors. Any such framework also needs to look into the nature of activities the promoter group of the bank is predominantly engaged in. There are certain activities, such as real estate and capital market activities, in particular broking activities which, apart from being inherently riskier, represent a business model and business culture which are quite misaligned with a banking model. Post-crisis, there are concerted moves even internationally to separate banking from proprietary trading.

Recently, Reserve Bank of India released a notification about the "Entry of New Banks in the Private Sector" .

Some of the important features are given below:

(1) Who are Eligible promoters?
Ans: Entities / groups in the private sector, owned and controlled by residents, with diversified ownership, sound credentials and integrity and having successful track record of at least 10 years will be eligible to promote banks. Entities / groups having significant (10 per cent or more) income or assets or both from real estate construction and / or broking activities individually or taken together in the last three years will not be eligible.
More importantly, in India, past experience with brokers on the boards of banks has not been satisfactory. It will therefore be necessary to ensure that any entity/ group undertaking such

activities on a significant scale is not considered for a bank licence. Otherwise there will be real risks of the same business approach getting transmitted to the banks as well and it will be difficult to address this only through regulations. Accordingly, entities/groups that have significant (10% or more) income or assets or both from/ in such activities, including real estate construction and broking activities taken together in the last three years, shall not be eligible to promote banks.

(2) Which kind of Corporate structure is required for new banks?
Ans: New banks will be set up only through a wholly owned Non-Operative Holding Company (NOHC) to be registered with the Reserve Bank as a non-banking finance company (NBFC) which will hold the bank as well as all the other financial companies in the promoter group.

(3)What is the minimum capital requirement for new banks ?
Ans: Minimum capital requirement will be Rs. 500 crore. Subject to this, actual capital to be brought in will depend on the business plan of the promoters. NOHC shall hold minimum 40 per cent of the paid-up capital of the bank for a period of five years from the date of licensing of the bank. Shareholding by Non-Operating Holdihng Company (NOHC) in excess of 40 per cent shall be brought down to 20 per cent within 10 years and to 15 per cent within 12 years from the date of licensing of the bank.

(4) How much foreign shareholding is allowed ?
Ans: The aggregate non-resident shareholding in the new bank shall not exceed 49 per cent for the first 5 years after which it will be as per the extant policy.
The aggregate non-resident shareholding from FDI, NRIs and FIIs in the new private sector banks shall not exceed 49% for the first 5 years from the date of licensing of the bank. No non-resident shareholder, directly or indirectly, individually or in groups, will be permitted to hold 5% or more of the paid up capital of the bank. After the expiry of 5 years from the date of licensing of the bank, the foreign shareholding would be as per the extant policy. Currently, foreign shareholding in private sector banks is allowed up to a ceiling of 74% of the paid up capital.

(5) What are the rules about Corporate governance of new banks ?
Ans: At least 50 per cent of the directors of the Non Operating Holding Company (NOHC) should be independent directors. The corporate structure should be such that it does not impede effective supervision of the bank and the Non-Operating Holding Company (NOHC) on a consolidated basis by the Reserve Bank.

(6) Which kind of Business model is required for new banks?
Ans: It should be realistic and viable and should address how the bank proposes to achieve financial inclusion.

(7) What are the other conditions to start new banks in private sector ?

Ans: (i)The exposure of a new bank to any entity in the promoter group shall not exceed 10 per cent and the aggregate exposure to all the entities in the group shall not exceed 20 per cent of the paid-up capital and reserves of the bank.

(ii)The new bank shall get its shares listed on the stock exchanges within two years of licensing.

(iii)The new bank shall open at least 25 per cent of its branches in unbanked rural centres (population upto 9,999 as per 2001 census) (iv)Existing Non-Banking Finance Companies (NBFCs), if considered eligible, may be permitted to either promote a new bank or convert themselves into banks.

(8) What are the additional requirements have been stipulated in respect of promoter groups having 40 per cent or more assets / income from non-financial business?
Ans: The following are the additional requirements:
i) In respect of promoter groups having 40% or more assets / income from non financial business, the following additional requirements will be applicable:

(ii) The Board of the bank should have a majority of independent Directors.

(iii) The exposure of the bank to any entity in the promoter group, their business associates, major suppliers and customers shall not exceed 10% and aggregate exposure to such entities shall not exceed 20% of the paid up Capital and Reserves of the bank, subject to compliance with the provisions of Section 20 of the Banking Regulation Act, 1949. All exposures will have to be approved by the Board and all credit facilities to these entities should have a minimum tangible security cover of 150%.

(iv) The bank will have to file a return, certified by statutory auditors, on quarterly basis of all exposures including credit facilities extended to the entities in the promoter group, their business associates, and major suppliers and customers for amounts in excess of Rs.1 crore.

(v) Private Sector new Banks would be required to seek prior approval of RBI for raising paid-up capital beyond Rs.1000 crore for every block of Rs.500 crore. While examining such proposals, the RBI shall primarily look into whether the bank has indulged in connected lending and self dealing, whether the corporate governance standards are adequate, whether information from promoter group has been forthcoming to facilitate consolidated supervision and whether the Board members remain 'Fit and Proper'. If RBI is not satisfied about compliance with the above provisions, it would take severe deterrent action as per law and licensing conditions.

9) What is the procedure for RBI decisions, while issuing licences for new banks in private sector?

Ans: In view of the increasing emphasis on stringent prudential norms, transparency, disclosure requirements and modern technology, the new banks need to have strength and efficiency to work profitably in a highly competitive environment.
i)At the first stage, the applications will be screened by RBI to ensure prima facie eligibility of the applicants. RBI may apply additional criteria to determine the suitability of applications, in addition to the minimum criteria discussed above. Thereafter, the applications will be referred to a High Level Advisory Committee to be set up by RBI.
ii)The High Level Advisory Committee will comprise eminent personalities with experience in banking, financial sector and other relevant areas.
iii)The High Level Advisory Committee will set up its own procedures for screening the applications. The High Level Advisory Committee will reserve the right to call for more information as well as have discussions with any applicant/s and seek clarification on any issue as required by it. The High Level Advisory Committee will submit its recommendations to RBI for consideration. The decision to issue an in-principle approval for setting up of a bank will be taken by RBI. RBI's decision will be final.
iv) In order to ensure transparency, the names of the applicants and all details submitted along with the application for new bank licences wil be displayed.

v) The validity of the in-principle approval issued by RBI will be one year from the date of granting in-principle approval and would thereafter lapse automatically. Therefore, the new bank will have to be set up within one year of granting the in-principle approval.
vi) After issue of the in-principle approval for setting up of a new bank in private sector, if any adverse features are noticed subsequently regarding the promoters or the companies/firms with which the promoters are associated and the group in which they have interest, RBI may impose additional conditions and if warranted, it may withdraw the in-principle approval.

Questions for IBPS/ SBI Examinations:

1) What is the minimum capital for a new banks in private sector ?
Ans : Rs.500 Crores

2) Expand NOHC ?
Ans : Non-Operating Holding Company

3) How much foreign investment is allowed in a new bank in private sector ?
Ans : 49% of the capital (upto 5 years period)

4) How many branches are to be opned by new banks in unbanked rural areas ?
Ans : 25% of the branches

5) As per new rules for new banks in private sector who are also allowed to take licences ?
Ans: Existing Non-Banking Finance Companies (NBFCs) and Industrial houses

6) Who are not eligible to obtain licences for new banks in private sector ?
Ans : Real estate firms or construction companies

NRI ACCOUNTS

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Who is NRI?
Ans: Section 2 of Foreign Exchange Management Act,1999 defines a 'person resident outside India' as a person who is not resident in India.
An individual shall be deemed to be a Non-Resident Indian (NRI) in following cases:-
i)When he stays in India for less than or upto 182 days during the preceding financial year. The period of stay may not be 'continuous' and the same shall be calculated by adding up the days of his stay in India during that financial year. Thus a student who goes for studies abroad and his stay in India during a financial year is less than 182 days, then he shall be treated as non-resident Indian for the next financial year. Ii)Similarly, tourists and all others who have gone out of India without the purpose of taking up employment or starting any business abroad, shall be treated as non-residents if, their stay in India during the preceding financial year was less than or upto 182 days.
iii)When a person from India goes or stays outside India for any of the following purposes also treated as 'Non-Resident Indian':
a)For or on taking up employment outside India, or
b) For carrying on outside India a business or vocation outside India, or
c) For any other purpose, in such circumstances as would indicate his intention to stay outside India for an uncertain period.
In such cases, the person becomes a 'non-resident' irrespective of the period of his stay in India. It is pertinent to note here that while the period of his stay in India shall be reckoned for the preceding financial year, the event of going or staying abroad for any of the aforesaid purposes shall be reckoned for the current financial year.

NRI definition also appears in Income-Tax Act, 1961:
A 'Non-Resident's definition under the Income Tax Act, 1961 (IT Act) is wedded to number of days of an individual's stay in India during a particular financial year. Normally an NRI is said to be Non-Resident under Income Tax Act if his stay in India does not exceed 181 days in a financial year which commences on 1st April and ends on 31st March.

The most relevant definition concerning an NRIs various bank accounts and investments in movable and immovable properties in India is the one provided under FEMA, which has replaced the Foreign Exchange Regulation Act , 1973- [FERA], with effect from 1st june,2000.
→ The definition of a "Person Resident outside India" is simply put as " a person who is not Resident in India."

Who is called as 'Person of Indian Origin' (PIO)?
Ans: 'Person of Indian Origin' means a citizen of any country other than Bangladesh or Pakistan, if
a)he at any time held Indian passport; (or)
b)he or either of his parents or any of his grand- parents was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955);(or)
c)the person is a spouse of an Indian citizen or a person referred to in sub-clause (a) or (b)
Section 2 of Foreign Exchange Management (Deposit) Regulations, 2000,Notification No.FEMA 5/ 2000-RB dated 3rd May 2000 [G.S.R. 388 (E)] defines the following:-
→'FCNR(B) account' means a Foreign Currency Non-Resident (Bank) account

→'Non-Resident Indian (NRI)' means a person resident outside India who is a citizen of India or is a person of Indian origin;
→ 'NRE account' means a Non-Resident External account
→'NRO account' means a Non-Resident Ordinary account
→'NRNR account' means a Non-Resident Non-Repatriable account
→'NRSR account' means a Non-Resident (Special) Rupee account

→'Overseas Corporate Body (OCB)' means a company, partnership firm, society and other corporate body owned directly or indirectly to the extent of at least sixty per cent by Non-Resident Indians and includes overseas trust in which not less than sixty per cent beneficial interest is held by Nonresident Indians directly or indirectly but irrevocably;

By opening of NRI accounts in Banks in India at any branch of your choice, the said Branch will provide you the details of your account, Deposit Certificate or cheque book/passbook, ATM card, Internet banking ID and password depending on the type of account you open.

1)Which kind of bank accounts an NRI can hold in India?
Ans: As per FEMA Notification No.5/2000-RBI dated 3rd May 2000, an NRI can have a 'Rupee Account' and/or a 'Foreign Currency Account' in India as described below:
i) NRE SB account in Indian Rupees
ii) NRE Fixed Deposits in Indian Rupees
iii)FCNR Deposits in US$, British £, Euro, Canada $ Australia Dollars and Japanese Yen
iv) Non-Resident Ordinary Account in Indian Rupees

2) What is the difference between NRE and NRO accounts?
Ans: Balances held in NRE accounts can be repatriated abroad, whereas funds in NRO account are not generally repatriable. Repatriation of balances held in NRO accounts is allowed subject to certain conditions. Funds remitted from abroad or local funds which can otherwise be remitted abroad to the account holder can be credited to NRE accounts. Funds due to the non-resident account holder which do not qualify, under the Exchange Control regulations, for remittance outside India are required to be credited to NRO accounts. The interest income earned on NRO attracts income tax.

3)Who is Resident but not ordinarily resident (RNOR) under Income Tax Act?
Ans: A Non Resident who has returned to India for good is covered under the provisions of section 6(6) of the Income-tax Act. He is given a special status of RESIDENT BUT NOT ORDINARILY RESIDENT (RNOR) if he satisfies one of the following conditions:
The person is non-resident, as per the above provisions, for at least 9 out of 10 previous years prior to the previous year under consideration….If yes, the person is RNOR
The person’s stay in India during the 7 previous years prior to the previous year under consideration should be 729 days or less….If yes, the person is RNOR

A person who is returning to India after 9 years of stay outside India (and who was non-resident for each of the 9 years under the Income Tax Act, 1961), shall remain RNOR for the period of two years only.

4)What are the documents required to be collected from Investor to open NRI/PIO/OCI trading account in a Bank?
Ans: i)List of documents to be taken while registering NRI/PIO/OCI Clients as may be applicable.
ii)Document ensuring status of entity:
iii)In case of Indian passport - Valid passport, Place of birth as India, Valid Visa - Work/Student/employment/resident permit etc.

iv)In case of foreign passport: Valid passport and any of the following
v)Place of Birth as India in foreign passport
vi)Copy of PIO / OCI Card as applicable in case of PIO/OCI
vii)PIS Permission Letter from the respective designated bank
viii)PAN Card
ix)Overseas Address Driving License/ Foreign passport /Utility Bills/ Bank statement (not more than 2 months old)/ Notarized copy of rent agreement/ leave & license agreement/ Sale deed.
x)2 Photographs of Investor
xi)Proof of respective bank accounts & depository accounts

5)Which type of amounts can be credited to NRO accounts?
Ans: i)Proceeds of remittances from outside India through normal banking channels received in foreign currency which is freely convertible
ii)Any foreign currency, which is freely convertible, tendered by the account holder during his temporary visit to India. Foreign Currency exceeding USD 5000 or its equivalent in the form of cash should be supported by currency declaration form. Rupee funds should be supported by encashment certificate, if they represent funds brought from outside India.
iii)Transfers from rupee accounts of non-resident banks
iv)Legitimate dues in India of the account holder. This includes current income like rent, dividend, pension, interest, etc.
v)Sale proceeds of assets including immovable property acquired out of rupee / foreign currency funds or by way of legacy / inheritance.

6)What are the various loan options available to NRI?
Ans: Loans to NRIs may be:-
i)Foreign currency loan in India against the security of funds held in FCNR (B) accounts.
ii)Rupee Loans against FCNR (B) and NRE fixed deposit funds.
iii)Housing loans
iv)Car Loans
v)Loan against the security of shares or other securities held in the name of the borrower or against the security of immovable property.
vi)Rupee Loan against security of assets 'other than shares and immovable property'.
vii)Rupee loan granted by an Indian body corporate, to an employee who is a non-resident Indian or a Person of Indian Origin. The loan may be for personal purposes including purchase of housing property in India.
viii)Loan in foreign currency granted by an Indian company to its employees in branches outside India. The loan must be granted for personal purposes in accordance with the lender's Staff Welfare Scheme / Loan Rules and other terms and conditions as applicable to its staff in India and abroad.

7)What are the investment opportunities available for Non-Resident Indians in India?
Ans: i)Government securities or units of Unit Trust of India
ii)National Savings Certificates issued by post offices in India
iii)Non-convertible debentures of Indian companies
iv)Bank Accounts in India
v)Investment in securities or shares and deposits of Indian firms or companies
vi)Investment in immovable property in India
vii)Investment in Mutual Funds in India
viii)Company deposits

Non-Resident Ordinary Rupee Account Scheme [NRO Account] in Banks
1)Who can open NRO account ?

Ans:Any person resident outside India (other than a person resident in Nepal and Bhutan). Individuals / entities of Bangladesh / Pakistan nationality / ownership as well as erstwhile Overseas Corporate Bodies[2] require prior approval of the Reserve Bank.

2) Whether Joint account can be opened?
Ans: May be held jointly with residents

3)Whether Nomination facility is permitted ?
Ans : Yes, permitted

4) Currency in which account is denominated?
Ans: Indian Rupees

5) Under this scheme which type of account can be opened?
Ans: Savings Bank account, Current account, Recurring deposit account, Fixed Deposit account

6) What is the period for fixed deposits?
Ans: Minim period : 7 days and Maximum period : 10 Years (as applicable to resident accounts)

7) What is Rate of Interest ?
Ans: Banks are free to determine their interest rates on savings deposits under Ordinary Non-Resident (NRO) Accounts. However, interest rates offered by banks on NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

8) Whether operations by Power of Attorney in favour of a resident by the non-resident account holder are allowed?

Ans: Yes. Operations in the account in terms of Power of Attorney is restricted to withdrawals for permissible local payments in rupees, remittance of current income to the account holder outside India or remittance to the account holder himself through normal banking channels.

9) What is maximum amount that can be remitted?
Ans: Remittance is subject to the ceiling of USD 1 (one) million per financial year.

10)The loans granted to the NRO account holder, cannot be utilised for which purpose?

Ans:The loans granted to the NRO account holder cannot be utilised for the purpose of on-lending or for carrying on agriculture or plantation activities or for investment in real estate business.
Questions for IBPS/ SBI PO Exam:
1) As per Income Tax Act, 1964 a person can be called as NRI, if his stay in India does not exceed ____ days.
Ans: 181
2) Who cannot be called as Persons of Indian Origin (PIO) as per FEMA rules/ regulations?
Ans : Bangladesh and Pakistan
3) Foreign Exchange Management Act (FEMA) was passed in which year?
Ans : 1999
4) Foreign Exchange Regulation Act, 1973 is replaced by which Act?
Ans : FEMA, 1999
5) Under NRO scheme, what is the maximum amount that can be remitted in a financial year?
Ans : US $ one million

RECURRING DEPOSITS IN BANKS

STUDY MATERIAL
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What's your priority?
A child's Education?
Daughter's Marriage?
Buying a Car?
Purchasing a House?
Buying Home appliances?
LIC annual premium payment?
Whatever it may be, banks are assuring to stand by your priority, with their gateway of Recurring Deposit Account, wherein a depositor can avail a deposit facility with a minimum of Rs.100/- (with multiples of Rs.100/-) deposit per month.

Recurring Deposit accounts are introduced by the banks to inculcate the habit of saving on a regular basis. Recurring deposits are those where a monthly instalment is deposited in the accounts every month. The deposit amount, along with interest accrued, is paid on the date of maturity. Recurring deposit account is generally opened for a purpose to be served at a future date. Generally Recurring Deposit accounts are opened to finance pre-planned future purposes like, wedding expenses of daughter, purchase of costly items like land, luxury car, refrigerator or air conditioner, etc. Recurring deposit scheme is meant for steady and gradual saving for individuals to build-up savings through regular monthly deposit of a fixed sum over a fixed period of time and mobilizing savings of those who get income on monthly basis and can afford to set apart a portion of their income. It helps the depositors to accumulate their savings over a period of time to meet future contingencies. It is handy even for Business Community, Firms, Companies, Educational Institutions and other Associations, who wish to build a corpus over a period of time to meet future requirements.

Recurring Deposit scheme is offered by almost all banks (RD schemes of SBI, PNB, ICICI Bank, HDFC Bank, IDBI Bank, Bank of India, Bank of Baroda, Corporation Bank) and also in Post Offices in one form or the other. Recurring Deposit is very popular among the salaried class, especially who can afford to save only few hundered or say few thousand rupees per month. This scheme is a boon for people who do not have a large amount of savings and thus cannot use the Fixed Deposit scheme of the banks. Under this scheme, the customer deposits a minimum amount (normally fixed) every month, and bank pays the interest at the pre-determined rates (which is usually the same as applicable to fixed deposits). At the end of the period i.e. on maturity date, the customer is paid the maturity value i.e., principal deposited and the interest payable.

Another major advantage in the scheme is the deposit amount carries the rate of interest as in the case of other term deposits (as per the period of the deposit) while the interest accrued is not subjected to any TDS. This specific advantage provides a clear edge to Recurring Deposits over other forms of Term Deposits.
Some banks are offering Recurring Plus' Deposit scheme, in which the depositor can step up instalment amount upto 10 times of originally opted monthly installment amount.

Who can open a RD account ?
Ans: 1) An individual
2) Two or more persons jointly, payable to (i) both or all of them jointly (ii) either or any of them or more of them or survivor(s) of them

3) Natural or legal guardian in the name of minor or jointly with the minor
4) Minor not below the age of 10 years if he/she is illiterate and can sign uniformly (in this case, maturity value of the account should not exceed Rs.50,000/- . No account may bear the name of more than one minor.
5) Firms, Clubs, Associations and Institutions
6) Blind persons can also open RD accounts

Opening and conducting an account:
1)Recurring deposit account can be opened by any sum in multiples of Rs.100/-
2) At the time of opening of account, the depositor should stipulate the amount and the period of instalments which shall not be allowed to be altered.
3) Maximum period of the account can be 120 months and the minimum 6 months.
4) If the depositor fails to pay monthly instalment(s) in arrears, penalty may be charged, if the account is for the period of 5 years or less.
5) Where there is default in payment of 3 or more instalments consequently, service charge may be levied on maturity provided the default is not regularized by the depositor.
6) Standing instructions from the depositor for transfer of monthly instalments from his/her savings bank or current account will be accepted and complied with, provided there is balance in the account
7) Instalment for each month shall be payable on or before last working day of that month.
How much we have to deposit every month?
Ans: A minimum sum of Rs.100/- and in multiples of Rs.100/- subject to a maximum of Rs.1,00,000/- The depositor can choose the "Core Installment' at the time of opening the account. The monthly installment cannot be below the core amount chosen at the time of opening the account.(Normally, the minimum deposit amounts change from bank to bank).
Interest:-
Various banks give different interest rates for different schemes. There are Kids' Specific Recurring Deposit Schemes too, offered by many banks. All these schemes offer Interest amount ranging from 7.5% per annum to 9.5% per annum, which depends on the Sum Assured, the tenure opted for, and also depending on various schemes. Many banks have separate interest schemes made available exclusive to the senior citizens. Generally an amount of 0.5% Interest is paid more in almost all the senior citizens schemes, which includes Recurring Deposits.

Documents required:-
1)The Bank requires a satisfactory introduction of the person(s) opening the account by a person acceptable to the Bank.
2)The Bank is required to obtain two recent photographs of the person(s) opening the account, as per RBI directives.
3)The Bank is required to obtain Permanent Account Number (PAN) or General Index Register (GIR) Number or alternatively obtain declaration in Form No.60 or 61 as per the Income Tax Act (vide Section 139A) from the person(s) opening the account.
Customers obligation:
Completion of KYC norms and submission of complete information as required.

Amount repayable:
1) When the depositor has paid all the instalments, the balance in the account together with accrued interest will be repayable, one calendar month after (a) the payment of last instalment or (b) expiry of the stipulated period whichever is later.
2) The deposit will not carry any interest after the date of maturity, if it is not claimed by the depositor. But, if the maturity amount is to be reinvested in any of the bank's term deposits scheme, overdue interest may be paid.

Loan against deposits:-
In many banks, loan, at the rate of 2% per annum above the interest allowed may be granted upto 75% of the actual amount deposited by the depositor subject to a minimum of Rs.100/-
On maturity, if any loan is outstanding, the same will be recovered from the maturity amount.

Payment before maturity:-
Where the payment in the account is made before maturity, 1% less than the rate of interest applicable for the period for which the deposit has remained with the bank, shall be paid.
Such penalty will not be charged if the depositor reinvests the balance in any of the term deposit schemes.
If less than six instalments have been paid by the depositor, and no further instalments are forthcoming, bank may close the account and refund the amount to the depositor along with interest applicable for the period after penalty.
If the amount has run for less than three months, no interest is payable.
Does Recurring Deposit suit all?
For people with fluctuating income patterns, an RD may not be the ideal product. As stated above in an RD, if you miss a payment, you have to pay a penalty. If you have an irregular income pattern, you may take a look at the bank sweep-out account, under which whenever you have surpluses above a prescribed level, the bank automatically books an FD of the surplus amount.

Tax implications of Recurring deposits:-
Unlike fixed deposits, where banks deduct TDS (tax deducted on source) on the interest earned, there is no such deduction in the case of an RD. The tax liability rests with the depositor on his overall annual income through all sources. In case of minors who have a joint account with their parents, the interest accrued will be clubbed with the income of the parent whose total income is higher.
Words of Caution:-
Commit a monthly instalment you can pay comfortably, as missing of an instalment may lead to a default, which could result in a penalty. The penalty will depend on the monthly installment and the number of days by which you have delayed the payment. It will be deducted from the interest that has been accrued on the deposit till then. If you default frequently, your account could even be shut down.

Each bank has its own policy on dealing with defaulters. For instance, if you default for five consecutive months, a major bank in private sector will send you a notice, and if you fail to pay for the sixth month too, the bank will shut down your account. The post office excuses a defaulter four times and also extends the payment period to two months, after which it will axe the account. Another private sector bank does not charge a penalty, but it will consider an account inactive if you do not deposit any money for two years. A holder of such an account will be sent a notice, after which the bank may take a call on closing it.

Transfer of deposits:-
1)At the request of the depositor, Recurring Deposit (RD) account can be transferred from one branch of the bank to another branch , free of charge.
2)Deposit is not transferable from one person to another person.
3)Under the protected savings scheme, on the death of depositor before maturity of the account, the legal heir is entitled to get full maturity value, subject to the following conditions:
(i) Age of the depositor at the time of opening should be between 18 and 53
(ii)Benefit limited to the maturity value
(iii)Account should not have been discontinued as on the date of death
(iv)At least two years should have been completed
(v)At least 24 deposits should have been made.

(vi)For the first 24 months no default should be outstanding.
(vii)No withdrawal should have been taken during the first 24 months

Why Recurring Deposits in Banks or Post Offices are very attractive when there are many avenues for long term and short term Investments?
Ans: The following are some of the features and benefits of this scheme:-
Bank Fixed Deposit Schemes are generally opened with a fairly fixed quantity of money say Rs 50000/- or a Lac etc. Whereas recurring Deposit scheme can be started with very small amounts, say Rs 1000/- Per Month.
Once started and once you get habituated for a couple of months, then we tend to think of it as a fixed monthly expenditure. That kind of thinking automatically leads to incremental savings every month, without creating a feeling that you are doing an investment.
It is a very liquid form of investment. That is, whenever an unexpected urgent need for additional cash arises, you can always use up this resource & again continue with the Recurring Deposit Scheme. Remember, it is very easy once you have considered it as an unavoidable compulsory monthly expenditure.
All Other avenues of investment typically blocking a fairly big chunk of money & most of them are not easily encashable, as readily as one can be with Bank Recurring Deposits.

Questions for IBPS/SBI Exam:
1) A Recurring Deposit account can be opened for a maximum period of _____.
Ans: 120 months
2) A Recurring Deposit account can be opened for a minimum period of _____.
Ans : 6 months
3) What is the ceiling of maturity value of a minor's Recurring Deposit account?
Ans : Rs.1,00,000/-
4) A Recurring Deposit account can be opened with _____
Ans: Rs.100/-
5) Name the organization which decides the maximum and minimum period of Recurring Deposits account?
Ans: Indian Banks' Association
6) Recurring Deposit account can be classified as ______
Ans : Time liabilities
7) In case of delay in payment of instalment by a depositor under Recurring Deposits of 5 years or less, will be charged with _______
Ans : Penalty
8) Fraction of a month is treated as ______ for the purpose of calculating penalty to be paid by the Recurring Deposit account holder.
Ans : Full month

Regional Rural Banks

STUDY MATERIAL
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The importance of the rural banking in the economic development of a country cannot be overlooked. As Gandhiji said "real India lies in villages," and village economy is the backbone of Indian economy. Without the development of the rural economy, the objectives of economic planning cannot be achieved. Hence,banks and other financial institutions are considered to play a vital role for the development of the rural economy in India. Regional Rural Banks (RRBs) were established on October 2, 1975 and are playing a pivotal role in the economic development of the rural India. The main goal of establishing Regional Rural Banks in India is to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural laborers and even small entrepreneurs.

In the early 1970s, there was a feeling that even after nationalization of 14 commercial banks in 1969, there were cultural issues which made it difficult for commercial banks, even under government ownership, to lend to farmers. This issue was taken up by the government and it set up a working group to suggest the alternatives for institutional finances to the rural sector.

The history of Regional Rural Banks in India dates back to the year 1975. It's the Narasimham committee that conceptualized the foundation of Regional Rural Banks in India. The committee felt the need of regionally oriented rural banks would address the problems and requirements of the rural people in India. Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. For the purpose of classification of bank branches, the Reserve bank of India defines rural area as a place with a population of less than 10,000. RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks. The first five RRBs were set up in four States in Haryana, West Bengal, Rajasthan, with one each and two in Uttar Pradesh, which were sponsored by different commercial banks.

RRBs started their development process on 2nd October 1975 with the formation of a single bank viz. Prathama Grameen Bank.

These banks covered 11 districts of these four states.

The first five Regional Rural Banks are as follows;

1) Prathama Bank and Gorakhpur kshetriya Gramin Bank in Uttar Pradesh,

2)Haryana Krishi Gramin Bank in Haryana,

3)Gour Gramin Bank in West Bengal,

4) Jaipur-Nagpur Anchalik Gramin Bank, Rajasthan

The Regional Rural Banks Act 1976 allowed the government to set up banks from time to time wherever it considered necessary.
The regional rural banks (RRBs) were owned by the central government, the state government and the sponsor bank who held shares in the ratio as follows :
Central Government : 50%
State Government : 15%
Public Sector Commercial banks (Sponsor Banks): 35%

Merger/Amalgamation of RRBs:-
The Internal Working Group on RRBs headed by Shri A.V. Sardesai (June, 2005) examined various alternatives available within the existing legal framework for strengthening and converting RRBs into viable rural financial institutions.

The restructuring options given by the group includes

i) Merger / amalgamation
ii) Change of sponsor banks
iii) Balance sheet strengthening
iv) Other options like meeting minimum capital requirements, issues pertaining to governance and management etc.,

The Group is of the opinion that all the restructuring options constitute a comprehensive package of measures and may not yield the desired effect if implemented in isolation.

Subsequent to review of the financial status of RRBs by the Union Finance Minister in August, 2009, it was felt that a large number of RRBs had a low Capital to Risk weighted Assets Ratio (CRAR).
A committee was therefore constituted in September, 2009 under the Chairmanship of K C Chakrabarty, Deputy Governor, RBI to analyse the financials of the RRBs and to suggest measures including re-capitalisation to bring the CRAR of RRBs to at least 9% in a sustainable manner by 2012.

The Union Cabinet recently approved the recapitalization of Regional Rural Banks (RRBs) to improve their Capital to Risk Weighted Assets Ratio CRAR) in the following manner:
(a) Share of Central Government i.e. Rs.1, 100 crore will be released as per provisions made by the Department of Expenditure in 2010-11 and 2011-12. However, release of Government of India share will be contingent on proportionate release of State Government and Sponsor Bank share.
(b) A capacity building fund with a corpus of Rs.100 crore to be set up by Central Government with NABARD for training and capacity building of the RRB staff in the institution of NABARD and other reputed institutions. The functioning of the Fund will be periodically reviewed by the Central Government. An Action Plan was prepared by NABARD in this regard and sent to Government for approval.
(c) Additional amount of Rs. 700 crore as contingency fund to meet the requirement of the weak RRBs, particularly those in the North Eastern. and Eastern Region, the necessary provisioh will be made in the Budget as and when the need arises.

The Government of India initiated a process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State, with a view to provide better customer service by having better infrastructure, computerization, experienced work force, common publicity and marketing efforts etc. The amalgamated RRBs also benefit from larger area of operation, enhanced credit exposure limits for high value and diverse banking activities. As a result of the amalgamation, the number of the RRBs has been reduced from 196 to 82 as on 31 March 2011. The number of branches of RRBs increased to 16001 as on 31 March 2011 covering 638 districts throughout the country.

Recapitalisation of RRBs:
As a part of comprehensive restructuring programme, recapitalisation of RRBs was initiated in 1994-95 and an aggregate financial support of 3984.90 crore was provided to the RRBs by the shareholders by 31 March 2010.

The Chakrabarty Committee reviewed the financial position of all RRBs in 2010 and recommended for recapitalisation of 40 out of 82 RRBs for strengthening their CRAR to the level of 9%. According to the Committee, the remaining RRBs are in a position to achieve the desired level of CRAR on their own.Accepting the recommendations of the committee, the GOI along with other shareholders decided to recapitalise the RRBs by infusing funds to the extent of 2200 Crore. The implementation is already underway and had to be completed during 2012-13.

Recently Regional Rural Banks (Amendment) Bill is introduced by Finance Minister P. Chidambaram in the Lok Sabha which aims to amend the Regional Rural Banks Act 1976. One of the proposed amendments seeks "to make provisions for raising capital by regional rural banks from sources other than the Central Government, the State Government and the sponsor bank." However, there is one condition — in no event should the combined shareholding of the Central Government and the sponsor bank go below 51 per cent.

According to the the RRB Act, 1976 the authorised capital of each such bank is Rs 5 crore and the issued capital i.e., a maximum of Rs 1 crore.

It has now been proposed to enhance the authorised capital of each RRB to Rs 500 crore and the issued capital to not less than Rs 1 crore. The new Bill also aims to make provision for shareholders to elect directors in view of the proposed provisions for raising private capital by RRBs.

Regional Rural Banks in A.P.:

I)APGVB:
APGVB was created on the 31st March 2006 by amalgamation of the following 5 banks, sponsored by SBI, to participate more energetically, with synergy, in the uplift and development of Rural Farm Sector and Rural Non-Farm Sector, with emphasis on the deprived, the Rural Poor, Rural ISB and Rural Crafts.

1)Sri Visakha Grameena Bank: (originally established on 30.09.1976)
2) Nagarjuna Grameena Bank (originally established on 30.04.1976)
3) Sangameswara Grameena Bank: (originally established on 31.03.1982
4) Manjira Grameena Bank: (originally established on 31.03.1982)
5) Kakathiya Grameena Bank: (originally established on 28.06.1982)

Andhra Pradesh Grameena Vikas Bank (APGVB), a Regional Rural Bank (RRB) established in the year 2006 under an act of Parliament by amalgamating Manjeera Grameena Bank(Medak),Sangameshwara Grameena Bank(Mahabubnagar), Kakatiya Grameena Bank(Warangal), Nagarjuna Grameena Bank(Khammam & Nalgonda)and Sri Visakha Grameena Bank (Visakhapatnam,Vizianagaram&Srikakulam) with Head Office at Hanamkonda, Warangal (Urban District) sponsored by State Bank of India is operating in 21 districts of Telangana State and 3 districts of Andhra Pradesh.

II)TELANGANA GRAMEENA BANK :
Telangana Grameena Bank was established by amalgamating four RRBs Sponsored by State Bank of Hyderabad, viz.
1) Sri Saraswathi Grameena Bank, Adilabad
2) Sri Satavahana Grameena Bank, Karimnagar
3) Sri Rama Grameena Bank, Nizamabad and
4) Golconda Grameena Bank, Ranga Reddy (Hyderabad).

The Govt. of India vide its gazette No.SO.2718(E) dated 20th October, 2014 amending the notification of Government of India, Ministry of Finance,DFS.No.SO.385(E) dated 24th March, 2006 changed the name of "Deccan Grameena Bank" as "Telangana Grameena Bank" covering the area of operation of the Bank in Adilabad,Karimnagar, Nizamabad, Rangareddy, Hyderabad, Warangal, Khammam, Nalgonda, Mahaboobnagar and Medak districts of Telangana state.The bank is now operating in erstwhile five districts only i.e., Adilabad, Karimnagar, Nizamabad, Rangareddy and Hyderabad in the state of Telangana as the transfer of business of remaining five districts from Andhra Pradesh Grameena Vikas Bank is under process.

After amalgamation of the Associate Banks of State Bank, our sponsor bank has been changed from State Bank of Hyderabad to State Bank of India. The Authorized share capital of the Bank is Rs.2000 Crores. The paid-up capital is Rs.18.07 Crores which is contributed by Government of India, Sponsor Bank i.e. State Bank of India & Government of Telangana in the ratio of 50: 35: 15 respectively.

History about Deccan Grameena Bank: -

Deccan Grameena Bank was established by amalgamating four RRB's Sponsored by State Bank of Hyderabad.
The Government of India issued notification on 24th March 2006 for the amalgamation of four RRBs sponsored by the State Bank of Hyderabad which were operating in four districts of Telangana Region of Andhra Pradesh. Sri Saraswathi Grameena Bank operating in Adilabad district, Sri Sathavahana Grameena bank operating in Karimnagar district, Sri Rama Grameena Bank operating in Nizamabad district and Golconda Grameena Bank operating in Ranga Reddy district were the four RRBs which were amalgamated to form Deccan Grameena Bank with Hyderabad, the capital city of Andhra Pradesh as its head office. On 28th January 2008 Hyderabad (Urban) district has been included in the operational area of Deccan Grameena Bank. However, branches were opened in Hyderabad (Urban) district during the financial year 2008-09. The authorised share capital of the Bank is Rs.5 crores. The paid-up capital is Rs.4 crores.

III) Andhra Pragathi Grameena Bank :

Andhra Pragathi Grameena Bank came into existence from 01.06.2006 by amalgamating Rayalaseema Grameena Bank, Sri Anantha Grameena Bank and Pinakini Grameena Bank consequent upon the Government of India Notification dt.01.06.2006. The Bank is having its

Head Office at Kadapa with a jurisdiction of 5 districts namely Anantapur, Y. S. R (Kadapa), Kurnool, Nellore and Prakasam.

The entire area of operation of the Bank, which is mostly in Rayalaseema region, is characterized by drought and backwardness. About 75% of the population in the area lives in countryside. The soils are mostly black and red, about 75% of the area is rain fed and farmers depend on rain fed crops and Irrigation sources viz., canals, tanks, bore wells etc., the major crops grown are paddy, cotton (hybrid), chilies, vegetables, horticulture crops like banana, papaya, sweet orange, mango etc., and under rain fed conditions the major crops grown are ground nut, jowar, Bengal gram, sun-flower, coriander, tobacco, etc. The area is rich in minerals viz., barites, limestone, granite, black and colour slabs, slates etc

Initially, the paid up capital of the Bank is Rs.300 lakh, contributed by the Govt. Of India, Sponsor Bank (Syndicate Bank) and the Government of Andhra Pradesh in the ratio of 50:35:15 respectively.

IV) Chaitanya Godavari Grameena Bank:
Government of India, Ministry of Finance has announced the amalgamation of Chaitanya Grameena Bank and Godavari Grameena Bank sponsored by Andhra Bank into a single Regional Rural Bank with its Head Office at Guntur,Andhra Pradesh, vide Notification bearing F.No 1/26/2005-RRB,Dated 01.03.2006.

The Chaitanya Godavari Grameena Bank has emerged as a new entity effctive from 01.03.2006. The Head Office of the new Bank is situated at Guntur, Andhra Pradesh.

V)Saptagiri Grameena Bank:
It is sponsored by Indian Bank. Its head office is in Chittor. It is covering Krishna and Chittor Districts through its branches.

Regional Rural Banks (RRBs) had been established to take the banking services to the doorsteps of rural masses especially in remote rural areas with no access to banking services. These banks were originally intended to provide institutional credit to those weaker sections of the society at concessional rate of interest, who depend on private money-lenders. The banks were also intended to mobilise and channelise rural savings for supporting productive activities in the rural areas. However, with effect from 22 March 1997, the RRBs were allowed to lend outside the target group by classifying their advances into 'Priority Sector' and 'others'. Similarly the interest rates on term deposits offered by RRBs have also been freed. Subsequently, it has been decided to permit RRBs at their discretion to offer differential rate of interest on their term deposits of maturity subject to certain conditions. The credit outstanding of all the 196 RRBs stood at Rs. 32,870 crore as at the end of March 2005 and Rs. 62,143 crore was mobilized as deposits by RRBs till that date.

Questions for IBPS/SBI examns:
1) Which Regional Rural Bank was first started in 1975 ?
Ans: Prathama Grameen Bank
2) How much is invested by Central Government in the Regional Rural Banks?
Ans : 50%
3) Which committee recommended for amalgamation of regional rural banks in 2005?
Ans : A.V.Sardesai Committee
4) Saptagiri Grameen Bank is sponsored by which bank?
Ans : Indian Bank

RuPay card

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The RuPay Card, India's only homegrown plastic money solution, will be crossing the last hurdle in its push to be present on all the e-payment gateways by getting accepted in the e-commerce space.
"RuPay", the word itself has a sense of nationality in it. "RuPay" is the coinage of two terms Rupee and Payment.

India's own domestic card payment network was inaugurated in March, 2012. Envisaged by Reserve Bank of India way back in 2005 as a part of Payment System Vision Document 2005-08, the new card scheme will offer another option to banks in India to provide debit card services to their customers. This type of Debit card launched in 2012 was accepted at all 91,000+ ATMs and over 6 lakh Point of Sale terminals in the country. It was hoped that in due course, it would be accepted on internet and also at ATMs/ POS terminals abroad. Bank of India and Union Bank of India are the banks initially offered RuPay Debit cards to their customers In the intial phase banks accepting RuPay Debit cards on their Point of Sales (PoS) terminals are Axis Bank, Bank of Baroda, Corporation Bank and State Bank of India.

It is said that several banks are in the process of testing and certification and it is expected that all major banks to be a part of RuPay network in six months' time. RuPay, had supported RBI's plan to move towards wider usage of cards and electronification of payments. Regional Rural Banks, Co-operative Banks and smaller commercial banks which were not in a position to join the card payment system due to high cost of initial participation fee and quarterly minimum processing fees would hence forth be able to participate in RuPay because there are no such fees under RuPay".
The RuPay card is introduced by National Payments Corporation of India (NPCI) in order to tap into the tremendous growth opportunity of card payment system and use the same as an alternative to move the consumers away from cash.

India which is aiming to be one of the top three economies in the world must have its card payment system firmly in its control where the major banks in the country can have a say in its governance. Customized products and service offerings for local consumers can best be achieved by a domestic card payment scheme. The card payment system has to be made affordable to be inclusive. NPCI has already launched Aadhaar based Financial inclusion payment cards in association with Unique Identification Authority of India (UIDAI).

Since the transaction processing will happen domestically, it would lead to lower cost of clearing and settlement for each transaction and banks will have to pay almost 40 percent lower fees to RuPay scheme compared to the international schemes. Besides, banks will pay fees in Indian rupees instead of foreign currency. The fee under RuPay scheme is also transparent and not subject to one-on- one negotiation with member banks. Banks will pay only three to four types of fees unlike multiple types of fees under other International schemes.

Brief history:
Reserve Bank of India, after setting up of the Board for Payment and Settlement Systems in 2005 released a vision document incorporating a proposal to set up an umbrella institution for all the Retail Payment Systems in the country. The core objective was to consolidate and

integrate the multiple systems with varying service levels into nation-wide uniform and standard business process for all retail payment systems. This led to the formation of National Payments Corporation of India, (NPCI).

RuPay is same as the IndiaPay Scheme suggested in an IBA Committee (*Chairman : Sanjay Sharma*) in 2007. After setting up of NPCI in December 2008 as a "Not for profit" payment system utility by ten banks under the aegis of IBA, this task of making IndiaPay a reality was undertaken by NPCI.
RuPay scheme was primarily for debit and pre-paid cards.
In the Product Roadmap of RuPay, credit card offering appears in March 2015 by which time it is expected that RuPay would have a market share of about 50 percent.

What is the significance of RuPay logo?
Ans: The RuPay visual identity is modern and dynamic. The colour blue stands for the feeling of tranquility which is the people must get while owning 'RuPay' brand. The bold and unique typeface grants solidity symbolizing stability.
The orange and green, in fast forward sign, indicate a nation on move and service matching the pace. The colours orange, green and white, which also symbolize the Indian flag, connote RuPay's proud Indian identity. Since *"RuPay"* is also the name of the Indian currency in Hindi, the word is expected to strike an immediate chord with the nation"s populace.
RuPay logo is already there on most of the ATMs in the country. It is only a matter of time that it would be seen at all Point of Sale (PoS) Terminals and on-line merchant sites.

What exactly is happening now?

As there is no domestic card, banks do not have an option but to tie up with Visa or MasterCard for connectivity between cardholders, merchants and issuing banks across the globe. Every transaction done using a debit or credit card issued by a domestic bank is routed through network switches owned by Visa or MasterCard, which are based outside the country. All these transactions involve some charges which goes into the pockets of Visa and Mastercard for providing these services. On an average, banks pay around Rs 300 crore every year to Visa and MasterCard for processing all debit and credit card payments.

How Rupay works?

The Rupay initiative imposes the setting up of a network switch, which acts as a payment gateway that connects all the ATMs and points-of-sale terminals. The domestic system will eventually displace payment settlement providers like MasterCard and Visa.

To support financial inclusion, NPCI is offering Aadhar-enabled Rupay cards to public sector banks for their no-frill account holders. NPCI is also in talks with state owned lenders to issue cards to regional rural banks (RRBs). Using an Aadhar-enabled RuPay card, a customer can withdraw money from both, normal and micro ATMs, with the help of biometric technology. So far, NPCI has offered such cards to Bank of India, Corporation Bank and Union Bank of India.

It is hoped that banks will pass on these benefits to the end customers also in the form of better offers for using the credit/ debit card.

NPCI:-
The National Payments Corporation of India (NPCI) is a pioneer organization in the field of retail payments in India. It is a body promoted by RBI and has presently 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). 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.

The vision of NPCI being able to provide citizens of our country anytime, anywhere payment services which are simple, easy to use, safe, and secure, fast and also cost effective. NPCI aims to operate for the benefit of all the member banks and the common man at large.

RuPay has been conceived to fulfill RBI's vision to offer a domestic, open-loop, multilateral system which will allow all Indian banks and financial institutions in India to participate in electronic payments.

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. The following are the benefits of Rupay:

a)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.

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

c)Protection of information related to Indian consumers : Transaction and customer data related to RuPay card transactions will reside in India.

d)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.

RuPay is well poised to support issuance of debit and prepaid cards by banks in India and thereby supporting the growth of retail electronic payments in India. RuPay is also working towards enhancing the acceptance ecosystem in the country. Further RuPay is well poised to explore innovative payment opportunities such as Contactless to facilitate and increase the efficiency of increasing the small ticket payments electronically.

Rupay has growth in 5 phases :
1) Phase 1: Acceptance at ATM's and Micro ATMs
2) Phase 2: Debit Card, Prepaid Card, Accpetance at PoS
3) Phase 3: E-Commerce Acceptance and Virtual Card
4) Phase 4: EMV and Contactless
5) Phase 5: Credit Card

In August 2012, National Payments Corporation of India revised the Interchange and the switching fee for Point of Sale (PoS) transactions of the RuPay Card Scheme.

Earlier the Reserve Bank had asked all the banks to cap debit card Merchant Discount Rate (i.e the fee that the merchant establishment pays to the terminal deploying acquiring bank) at 0.75% for transactions up to Rs. 2000 and 1% for transactions above Rs. 2000, In line with this regulatory change, there was a need for all card Schemes including RuPay to revise the interchange (i.e the fee that the terminal deploying bank would have to pay to the card issuing bank).

Special interchange for transactions in a few segments such as viz., Mutual Fund, Insurance, Education and Government has been prescribed at a flat fee of Rs. 10. The RuPay interchange prescribed is in sync with the spirit of the regulator to ensure that all categories and types of merchants deploy the card acceptance infrastructure on account of lower fees. With interchange level of 0.45 %/ 0.65%, the terminal deploying acquiring banks will have a cushion of 0.30% - 0.35% which will provide incentives to deploy terminals in the country.

NPCI has also revised its charges to issuing and acquiring banks. NPCI will charge only 60 paise per transaction to the customer's bank (issuing bank) and 30 paise per transaction to the acquiring bank. Such a sub-one rupee switching fee is one of the lowest in the world.

All the basic services on a card such as acceptance at ATM, Point of Sale, internet, IVR and funds transfer are features of the RuPay debit card.

Questions for IBPS/SBI PO Examns:

I)What are the Key features of RuPay Debit Card?
Ans: a)It can be used only with PIN hence a more secured debit card.
b)No threat of card misuse when lost/stolen.
c)Card would be accepted only at secured PIN based POS terminals.
d)Cash withdrawal limit at ATMs is Rs 25,000/- per day.
e)Spend limit at merchant outlets (POS) is Rs 50,000/- per day.
f)Available to all customers eligible for debit card issuance.

II)Who are the Target customers?

An:a) All Saving Bank Account holders (existing and new).
b)Current Account holders (existing and new)
c)OD against Bank's Own Deposit and OD against NSC, KVP, LIC etc (existing and new).
d)No frill Accounts.

III)How RuPay Debit Card can be accessed/used ?
Ans:a)More Member banks (100 plus) of National Financial Switch having more than 1,00,000 ATMs in the country.
b)NPCI member bank ATMs all over the country bearing RuPay logo.
c)For convenient shopping, dining out at selected outlets accepting RuPay Cards in India.
d)RuPay Debit Cards have the additional security of PIN based authorization even for transactions made at Merchant outlets.

IV)What are the benefits of RuPay?

Ans: 1)Rupay will reduce the cost for both banks and customers.

2)Rupay will approximately charge Rs 15 per card as processing fee to a single bank against Rs 25 by the other providers i.e., a 40% reduction in service cost for Rupay compared with other providers.

Business Correspondents Model

STUDY MATERIAL
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Banks are permitted to use the services of intermediaries in providing financial and banking services through the use of Business Correspondents (BCs) as "financial services pass through agents". Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. BCs and the BC Agents (BCAs) represent the bank concerned and enable a bank to expand its outreach and offer limited range of banking services at low cost, particularly where setting up a brick and mortar branch is not viable. BCs as agents of the banks and are an integral part of the business strategy for achieving greater financial inclusion.

Who are eligible?
Banks had been permitted to engage individuals/ entities as BC like retired bank employees, retired teachers, retired government employees, ex-servicemen, individual owners of kirana / medical / fair price shops, individual Public Call Office (PCO) operators, agents of Small Savings Schemes of Government of India/ Insurance Companies etc. Further, since September 2010, RBI had permitted banks to engage "for profit" companies registered under the Indian Companies Act, 1956, excluding Non- Banking Financial Companies (NBFCs), as BCs in addition to the individuals/entities permitted earlier.
Under the 'Business Correspondent' Model, NGOs/ MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, Section 25 companies, registered NBFCs not accepting public deposits and Post Offices may act as Business Correspondents. Banks may conduct 'thorough due diligence' on such entities keeping in view the indicative parameters. In engaging such intermediaries as Business Correspondents, banks should ensure that they are well established, enjoying good reputation and having the confidence of the local people. Banks may give wide publicity in the locality about the intermediary engaged by them as Business Correspondent and take measures to avoid being misrepresented.

Banks may use intermediaries, such as insurance agents, well functioning Panchayats, Village Knowledge Centres, Agri Clinics/ Agri Business Centers, Krishi Vigyan Kendras and KVIC/ KVIB units, depending on the comfort level of the bank, for providing facilitation services.

Services of Business Correspondents(BCs) include:-
(i) identification of borrowers and fitment of activities;
(ii) collection and preliminary processing of loan applications including verification of primary information/data;
(iii) creating awareness about savings and other products and education and advice on managing money and debt counselling;
(iv) processing and submission of applications to banks;
(v) promotion and nurturing Self Help Groups/ Joint Liability Groups;
(vi) post-sanction monitoring;
(vii) monitoring and handholding of Self Help Groups/ Joint Liability Groups/ Credit Groups/ others; and
(viii) follow-up for recovery.

In addition, the scope of activities to be undertaken by the Business Correspondents will include:-
(i) disbursal of small value credit,
(ii) recovery of principal / collection of interest
(iii) collection of small value deposits
(iv) sale of micro insurance/ mutual fund products/ pension products/ other third party products
(v) receipt and delivery of small value remittances/ other payment instruments.

The activities to be undertaken by the Business Correspondents would be within the normal course of the bank's banking business, but conducted through the entities indicated above at places other than the bank premises. Accordingly, in furtherance of the objective of increasing the outreach of the banks for micro-finance, in public interest, the Reserve Bank permited banks to formulate a scheme for using the entities indicated above as Business Correspondents. Banks should ensure that the scheme formulated and implemented is in strict compliance with the objectives and parameters laid down.

Payment of commission/ fees :-
Banks may pay reasonable commission/ fee to the Correspondents, the rate and quantum of which may be reviewed periodically. The agreement with the Business Correspondents should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank.

Terms and Conditions for engagement of Business Correspondents :-

As the engagement of intermediaries as Business Correspondents involves significant reputational, legal and operational risks, due consideration should be given by banks to those risks. They should also endeavour to adopt technology-based solutions for managing the risk, besides increasing the outreach in a cost effective manner.

The arrangements with the Business Correspondents shall specify:-

i) suitable limits on cash holding by intermediaries as also limits on individual customer payments and receipts,
ii) the requirement that the transactions are accounted for and reflected in the bank's books by end of day or next working day, and
iii) all agreements/ contracts with the customer shall clearly specify that the bank is responsible to the customer for acts of omission and commission of the Business Correspondent.

Redressal of Grievances in regard to services rendered by Business Correspondents:-

i) Banks should constitute Grievance Redressal Machinery within the bank for redressing complaints about services rendered by Business Correspondents and give wide publicity about it through electronic and print media. The name and contact number of designated Grievance Redressal Officer of the bank should be made known and widely publicised. The designated officer should ensure that genuine grievances of customers are redressed promptly.

ii) The grievance redressal procedure of the bank and the time frame fixed for responding to the complaints should be placed on the bank's website.

iii) If a complainant does not get satisfactory response from the bank within 60 days from the date of his lodging the compliant, he will have the option to approach the Office of the Banking Ombudsman concerned for redressal of his grievance(s).

Compliance with Know Your Customer (KYC) Norms :-

Compliance with KYC norms will continue to be the responsibility of banks. Since the objective is to extend savings and loan facilities to the underprivileged and unbanked population, banks may adopt a flexible approach within the parameters of guidelines issued on KYC from time to time. The KYC guidelines were issued in 2004 and in 2005 also provide sufficient flexibility to banks. In addition to introduction from any person on whom KYC has been done, banks can also rely on certificates of identification issued by the intermediary being used as Banking Correspondent, Block Development Officer (BDO), head of Village Panchayat, Post Master of the post office concerned or any other public functionary, known to the bank.

Points to be observed while appointing Business Correspondents:-

i) Agencies should have significant rural presence.

ii) Well-regulated entities may be preferred initially

iii) The entity should have a satisfactory track record.

Banks may take the help of organizations like NABARD, SIDBI, Association of MFIs, the

Council for Advancement of Peoples' Action and Rural Technology (CAPART), etc. for obtaining the list of such NGOs who are active in their areas of operation.

iv) The bank may carry out a process of vigorous screening including due diligence and rating before engaging Business Correspondents.

The institutions/persons to be engaged as Business Correspondents shall enter into a formal contractual relationship with the bank, which shall explicitly detail the functions that they shall undertake on behalf of the bank, the precise terms and scope of the services, compensation, etc. The contract shall include rights, responsibilities and expectations of all parties, including the compensation structure and shall include an enabling clauses for the principal (i.e.the bank) to access the records of such entities, particularly in the case of Business Correspondents, wherever considered necessary. A list of "DOs" and "DON'Ts" may also be annexed to the contract. The contract shall be legally enforceable, and shall contain termination clauses. The contract may provide for voluntary supervision by the principal bank.

The banks shall establish a system of watching the performance of accounts brought in by such agencies and shall rate agencies on the basis of the performance of the accounts. These assessment parameters shall include the remoteness of the accounts brought in, the types of client, the regularity of savings/credit usage and repayments, upkeep of records, etc.

The ethical dimension is brought in to take on board the social preparatory/ reengineering work that is required in the efforts to reach out to the poor.

The organisations involved in this need to have a commitment for social action and capacity building, shall be non-discriminative, secular, non-exploitative, transparent and have good governance structure. It is suggested that the banks may hold on record a statement of code of ethics and periodically monitor the same to ensure that the entity subscribe to it.

Fair Practices Code:-

It is advisable to establish a Fair Practices Code for all Business Correspondents. The modalities for establishing the same will have to be worked out through a consultative process amongst the banks. The broad parameters to be contained in the Fair Practices Code shall include good governance practices, transparency in accounting and pricing, appropriate disclosures and a mechanism to periodically share best practices amongst the various institutions.

In the case of Micro Finance Institutions, a well represented central body or State Level Associations can take up the responsibility of framing the code compensation package. The bank shall provide reasonable fee to the agency involved based on the services provided. Performance based incentives/ penalties may be built. The Business Correspondent may not be allowed to charge a service charge from the client. The total burden on the client including the rate of interest and the overall compensation package of the Business Correspondent shall not result in usurious rates.

The use of Business Correspondents would entail the expansion of customer base with large numbers of non face-to-face customers. Considering the need to provide banking services to the under-serviced rural people of small means, RBI may examine relaxing/simplifying the documentation requirements in respect of accounts of rural poor opened through the channels of the Business Correspondents. Such relaxation may apply to accounts with transactions upto a limited extent, say Rs.

1,00,000 per year.

Account Opening Process to be followed by Business Correspondent:-

Step 1: Customer shall approach the Business Correspondent for opening of account

Step 2: Business Correspondent will assist the customer in filling the account opening form (AOF)

Step 3: Agent will require the customer to submit KYC documents as prescribed by the bank

Step 4: Business Correspondent shall then scan the documents to the bank's office

Step 5: At the bank, customer details will be verified and the customer account will be opened

Step 6: The account is opened and the confirmation is sent through e-mail. The Passbook / Statement of Account is sent to the customer separately.

Questions for IBPS/ SBI PO/Clerk Exams:

1) Business Correspondents are appointed by ________

Ans: Commercial Banks

2) The relationship between Bank and the Business Correspondent is like ____

Ans : Formal contractual relationship

3) What is the aim of appointing Business Correspondents ?

Ans: Providing banking services to the under-serviced rural people of small means

4) Business Correspondents works as ___________

Ans : Financial services pass through agents

5) Expand AOF ?

Ans: Account Opening Form