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BANKING AWARENESS

eBook

For SBI, IBPS,
RBI Grade-B & Other
Competitive Exams

English Medium

₹199/-

PREFACE

The knowledge Banking and Static General Awareness is important if you are preparing for banking and insurance examinations to ace and score in the GA section. Banking and Static GK are not only a part of the General Awareness section but are also important from interview's point of view where the panel will expect you to be aware of the whereabouts of facts and figures related to banking industry.

With the changes in exam pattern Adda247 has evolved its study and practice material to provide its readers with the latest pattern based content for banking, insurance, and other exams. To help you prepare the Banking and Static GK, Adda247 Publications bring to you "***A Complete Book on Banking and Static General Awareness***" which is useful for SBI PO, SBI Clerk, IBPS PO, IBPS Clerk, IBPS RRB, NIACL, NACL, RBI Grade B Officer and Assistant and other Banking and Insurance examinations.

This book covers it all from the basics of Banking and its History, RBI and its Functions to Monetary Policy Committee, NPAs, Economic Survey and Union Budget. For preparation of Static GK you'll get carefully divided chapters of lists of Government Schemes, National Parks, Folk Dances, Cities on River Banks, Dams, Important Awards, Power Plants and a lot more. As a special add on for practice, this book also includes memory based questions asked in recent banking examinations.

We hope that our readers will appreciate our efforts and this book. Any comments or suggestion for further improvements are welcome wholeheartedly.

Team Adda247

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Banking Awareness

2024

Chapter 1

What is Banking and Its History?

- Banking can be defined as the activity of accepting the deposits from the general public & the entities, and then lending that money to earn profits.
- But now the banking is not only including deposits and loans but also includes providing services like issuance of debit and credit cards, providing safe custody of valuable items, lockers, ATM services and online transfer of funds across the country / world.
- Bank is a financial institution that performs the banking activity ie.it accepts deposits and lending of funds to earn profits.
- Any company, which transacts the business of banking defined above is termed as Banking company

Introduction

- As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated.
- Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.
- The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level 5 in the Faster Payments Innovation Index (FPII).

Market Size

- Public-sector banks control more than 70 per cent of the banking system assets, thereby leaving a comparatively smaller share for its private peers. Banks are also encouraging their customers to manage their finances using mobile phones.
- As the Reserve Bank of India (RBI) allows more features such as unlimited fund transfers between wallets and bank accounts, mobile wallets are expected to become strong players in the financial ecosystem.

History of Banking Sector in India

- The first bank of a joint stock variety was Bank of Bombay, established in 1720 in Bombay. This was followed by Bank of Hindustan in Calcutta, which was established in 1770 by an agency house.
- The General Bank of Bengal and Bihar, which came into existence in 1773, after a proposal by Governor (later Governor General) Warren Hastings, proved to be a short-lived experiment.
- The first 'Presidency bank' was the Bank of Bengal established in Calcutta on June 2, 1806 with a capital of Rs.50 lakh. The bank was given powers to issue notes in 1823.
- Bank of Bombay was the second Presidency bank set up in 1840 with a capital of Rs.52 lakh, and the Bank of Madras the third Presidency bank established in July 1843 with a capital of Rs.30 lakh.
- With the collapse of the Bank of Bombay, the New Bank of Bombay was established in January 1868.
- The Presidency Bank Act, which came into existence in 1876, brought the three Presidency banks under a common statute and imposed some restrictions on their business.
- The first Indian owned bank was the Allahabad Bank set up in Allahabad in 1865, the second, Punjab National Bank was set up in 1895 in Lahore, and the third, Bank of India was set up in 1906 in Mumbai. All these banks were founded under private ownership.

- Swadeshi Movement of 1906 provided a great impetus to joint stock banks of Indian ownership and many more Indian commercial banks such as Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were established between 1906 and 1913.
- The late Shri Vithal L Kavthekar pioneered the urban co-operative credit movement in the year 1889 in the then princely State of Baroda.
- The first registered urban co-operative credit society was the Conjeevaram Urban Co-operative Bank, organised in Conjeevaram, in the then Madras Presidency.

Note: They were known as Presidency banks as they were set up in the three Presidencies that were the units of administrative jurisdiction in the country for the East India Company. The Presidency banks were governed by Royal Charters. The Presidency banks issued currency notes until the enactment of the Paper Currency Act, 1861, when this right to issue currency notes by the Presidency banks was abolished and that function was entrusted to the Government.

- The presidency banks were amalgamated into a single bank, the Imperial Bank of India, in 1921. It also functioned as a central bank prior to the establishment RBI. The Imperial Bank of India performed three set of functions, viz., commercial banking, central banking and the banker to the government.
- By 1930, the number of commercial banks increased to 107 with the Imperial Bank of India still dominating the Indian banking sector.
- Indian Central Banking Enquiry Committee was set up in 1929 to survey extensively the problems of Indian banking, observed that a central bank be established for the country.
- Reserve Bank of India Act 1934 was enacted paving the way for the setting up of the Reserve Bank of India. The issue of bank failures and the need for catering to the requirements of agriculture were the two prime reasons for the establishment of the Reserve Bank. The banking sector came under the purview of the Reserve Bank in 1935.
- The Government, therefore, first implemented the exercise of nationalisation of the Imperial Bank of India with the objective of “extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas, and for diverse other public purposes”. The Imperial Bank of India was converted into the State Bank of India in 1955 with the enactment of the State Bank of India Act, 1955.



The different types of Banking are as follows:

1. *Para Banking*
2. *Narrow Banking*
3. *Offshore Banking*
4. *Green banking*
5. *Retail Banking*
6. *Wholesale banking*
7. *Universal Banking*
8. *Islamic Banking*
9. *Merchant Banking*

Para Banking

Banks can undertake certain eligible financial services i.e. the para-banking activities either departmentally or by setting up subsidiaries. The banks can form a subsidiary company for undertaking the types of business which a banking company is otherwise permitted to undertake, with prior approval of RBI.

Subsidiary Companies/Different Para-Banking Activities

Under the provisions of Section 19(1) of the Banking Regulation Act, 1949, banks may form subsidiary companies for undertaking types of banking business. Prior approval of the RBI should be taken by a bank, to set up a subsidiary company.

- Banks can form subsidiary companies for undertaking equipment leasing, hire purchase business and factoring services.
- Banks can also undertake equipment leasing, hire purchase and factoring services departmentally.
- Mutual Fund business.
- Credit Card and Smart/Debit Card Business.
- Money Market Mutual Funds (MMMFs): Banks can set up this after the approval from RBI.
- Entry of banks into Insurance business.
- Underwriting of Corporate Shares and Debentures.
- Underwriting of bonds of Public Sector Undertakings.
- RBI observed that some banks/their subsidiaries were providing buy-back facilities under the name of 'Safety Net' Schemes. Under such schemes, large exposures are assumed by way of commitments to buy the relative securities from the original investors at any time during a stipulated period at a price determined at the time of issue, irrespective of the prevailing market price.

Narrow Banking

- Narrow banks are safe banks. By not lending, and using their deposits to buy government bonds, they carry virtually no credit risk. There is no danger of non-performing loans and frequent injections of equity capital that has to be funded by taxpayers.
- Narrow Banking; i.e. the banks that place funds only in riskless securities. The main thinking that goes behind for this is that since their investment is mainly in riskless securities they will not fail.

- The Tarapore Committee gave the recommendation to convert weak banks into narrow banks. The committee has proposed that the incremental resources of these narrow banks should be restricted only to investments in government securities.

Offshore Banking

- 'Offshore Banking Unit' means a branch of a bank in India located in the Special Economic Zone and holds an authorisation issued under clause (a) of sub-section (1) of section 23 of the Banking Regulation Act, 1949 (10 of 1949).
- An offshore banking unit (OBU) is a financial service unit (normally a branch or subsidiary of a non-resident bank), which plays an intermediary role between non-resident borrowers and lenders. In India, these are found in Special Economic Zones.
- Offshore banking units are allowed to accept deposits from foreign banks, from some onshore banks that permit deposits and other offshore banking units, and the OBU may make loans to non-resident companies as well.
- They do not carry retail business, but generally provide wholesale banking services – project financing, syndicated loans, issue of short-term and medium-term instruments, etc.

Green Banking

- The concept of green banking has emerged and is recognized as an important strategy to address sustainable development concerns and creating awareness among people about environmental responsibility.
- Green banking has two dimensions. First, the way the banking business is being done – is it paperless or not. The second dimension relates to where the bank puts its money. Green Banking entails banks to encourage environment friendly investments and give lending priority to those industries which have already turned green or are trying to go green and, thereby, help to restore the natural environment.
- Green banking generally refers to how environmentally friendly the bank is, and how committed to green and ethical policies the banks are.

Note: "Green Banking" can be called as the method of finance by the banks to make the industries green and in the process restore the natural environment. This concept of "Green Banking" will be mutually beneficial to the banks, industries and the economy.

Retail Banking

- Retail banking refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet.
- Fixed, current / savings accounts on the liabilities side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the assets side, are the more important of the products offered by banks.
- Related ancillary services include credit cards, or depository services.
- Retail banking sector is characterized by three basic characteristics:
 - (a) multiple products (deposits, credit cards, insurance, investments and securities);
 - (b) multiple channels of distribution (call centre, branch, Internet and kiosk); and
 - (c) multiple customer groups (consumer, small business, and corporate).

Wholesale Banking

- Wholesale banking refers to banking services between merchant banks and other financial institutions. In this the banks deals with larger clients, such as large corporations and other banks.
- It refers to doing banking business with industrial and business entities mostly corporates and trading houses, including multinationals, domestic business houses and prime-public sector.

- It is also called corporate banking.
- It is the borrowing and lending of funds to other banks, large multinationals and even government agencies.
- It focuses on corporate, i.e. Companies, firms, proprietorship concerns, Public Sector, Institutions, societies, Trusts and clubs.

Universal Banking

- Universal Banking is a multi-purpose and multi-functional financial supermarket (a company offering a wide range of financial services e.g. stock, insurance and real-estate brokerage) providing both banking and financial services through a single window.
- As per the World Bank, "In Universal Banking, large banks operate extensive network of branches, provide many different services, hold several claims on firms(including equity and debt) and participate directly in the Corporate Governance of firms that rely on the banks for funding or as insurance underwriters".
- Universal banking, popular in developed countries, offers one-stop shopping for all financial products and services. A wide range of financial services such as commercial banking investment banking, development banking and insurance are available to the customer under one roof. Investment products like savings accounts, certificates of deposits, mutual funds, credit cards and loans are within the reach of the customer.

Islamic Banking

- Islamic or Sharia banking is a finance system based on the principles of not charging interest, which is prohibited under Islam.
- Islamic banking is a banking system in accordance with the Shariat. In Islam, money has no intrinsic value - money, therefore, cannot be sold at a profit and is permitted to be used as per shariat only.
- The Islamic Law or Shariat prohibits paying any fee for renting of money (called riba) for specific periods of time.

Merchant Banking

- 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.
- Ministry Of Finance in India defines Merchant Banker as "any person who is engaged in the business of issue management either by making arrangements regarding selling, buying, or subscribing to the securities as manager, consultant, adviser in relation to such an issue management".
- In general the merchant banks are the financial institution which provides financial services, solutions, & advice to corporate houses.



Chapter 3

RBI and Its Functions

All about the Formation of RBI

- RBI is the central bank of India. It is also known as the banker's Bank.
- The origins of RBI can be traced to 1926, when the Royal Commission on Indian Currency and Finance – also known as the Hilton-Young Commission – recommended the creation of a central bank for India to separate the control of currency and credit from the Government and to augment banking facilities throughout the country.
- RBI Act of 1934 established the Reserve Bank and it started its operations in 1935.
- The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937.
- Starting as a private shareholders' bank, the Reserve Bank was nationalised in 1949. It aimed at achieving coordination between the policies of the government and those of the central bank.

Origins of the Reserve Bank of India



- **1926:** The Royal Commission on Indian Currency and Finance recommended creation of a central bank for India.
- **1927:** A bill to give effect to the above recommendation was introduced in the Legislative Assembly, but was later withdrawn due to lack of agreement among various sections of people.
- **1933:** The White Paper on Indian Constitutional Reforms recommended the creation of a Reserve Bank. A fresh bill was introduced in the Legislative Assembly.
- **1934:** The Bill was passed and received the Governor General's assent
- **1935:** The Reserve Bank commenced operations as India's central bank on April 1 as a private shareholders' bank with a paid up capital of rupees five crore (rupees fifty million).
- **1942:** The Reserve Bank ceased to be the currency issuing authority of Burma (now Myanmar).
- **1947:** The Reserve Bank stopped acting as banker to the Government of Burma.
- **1948:** The Reserve Bank stopped rendering central banking services to Pakistan.
- **1949:** The Government of India nationalised the Reserve Bank under the Reserve Bank (Transfer of Public Ownership) Act, 1948.

RBI as on Organisation

- The Central Board of Directors is at the top of the Reserve Bank's organisational structure. These are appointed by the Government under the provisions of the Reserve Bank of India Act, 1934.
- The Governor is the Reserve Bank's chief executive. It supervises and directs the affairs and business of the RBI. The management team also includes Deputy Governors and Executive Directors.
- The Central Government nominates fourteen Directors on the Central Board, including one Director each from the four Local Boards. The other ten Directors represent different sectors of the economy.
- All these appointments are made for a period of four years.
- Govt. also nominates one Government official as a Director representing the Government, who is usually the Finance Secretary to the Government of India and remains on the Board 'during the pleasure of the Central Government'.
- The Reserve Bank Governor and a maximum of four Deputy Governors are also ex officio Directors on the Central Board.

Subsidiaries of the RBI

The fully owned subsidiaries of RBI are as follows:

- a) **Deposit Insurance and Credit Guarantee Corporation of India (DICGC)**
- b) **Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)**
- c) **National Housing Bank (NHB)**

A Brief on Deposit Insurance and Credit Guarantee Corporation of India (DICGC)

- With a view to integrating the functions of deposit insurance and credit guarantee, the Deposit Insurance Corporation and Credit Guarantee Corporation of India were merged and the present Deposit Insurance and Credit Guarantee Corporation (DICGC) came into existence on July 15, 1978.
- It was established under the DICGC Act 196.
- It insures all deposits (such as savings, fixed, current,
- and recurring deposits) with eligible banks except some deposits that we will study in the chapter related to DICGC.

National Housing Bank (NHB)

NHB was set up on July 9, 1988 under the National Housing Bank Act, 1987 as a wholly-owned subsidiary of the Reserve Bank to act as an apex level institution for housing.

Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)

- RBI established BRBNMPL in February 1995 as a wholly-owned subsidiary to augment the production of bank notes in India and to enable bridging of the gap between supply and demand for bank notes in the country.
- It has been registered as a Public Limited Company under the Companies Act, 1956 with its Registered and Corporate Office situated at Bengaluru.

The Current Office Holders

Shaktikanta Das | Governor

Dr. M. D. Patra | Deputy Governor

Shri M. Rajeshwar Rao | Deputy Governor

Shri B.P. Kanungo | Deputy Governor

Mahesh Kumar Jain | Deputy Governor

Functions of the RBI

Monetary Authority

- Formulates, implements and monitors the monetary policy.
- Objective: maintaining price stability while keeping in mind the objective of growth.

Regulator and supervisor of the financial system:

- Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
- Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

Manager of Foreign Exchange

- Manages the Foreign Exchange Management Act, 1999.
- Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency

- Issues and exchanges or destroys currency and coins not fit for circulation.
- Objective: to give the public adequate quantity of supplies of currency notes and coins and in good quality.

Other Functions of RBI

- **Also, RBI** performs a wide range of promotional functions to support national objectives.
- **Banker to the Government:** performs merchant banking function for the central and the state governments; also acts as their banker.
- **Banker to banks:** maintains banking accounts of all scheduled banks.

What is Financial Supervision by RBI with the help of BFS?

RBI performs the function of Financial supervision under the guidance of the Board for Financial Supervision (BFS). This was constituted in November 1994 as a committee of the Central Board of Directors of the Reserve Bank of India. The objective is to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies.

The Board is constituted by co-opting four Directors from the Central Board as members for a term of two years and is chaired by the Governor.

Other important points related to RBI

- It has 27 regional offices, most of them in state capitals and 04 Sub-offices.
- It has five training establishments
 - a) Two, namely, College of Agricultural Banking and Reserve Bank of India Staff College are part of the Reserve Bank.
 - b) Others are autonomous, such as, National Institute for Bank Management, Indira Gandhi Institute for Development Research (IGIDR), Institute for Development and Research in Banking Technology (IDRBT) etc.

The acts administered by Reserve Bank of India

- Reserve Bank of India Act, 1934
- Public Debt Act, 1944/Government Securities Act, 2006
- Government Securities Regulations, 2007
- Banking Regulation Act, 1949
- Foreign Exchange Management Act, 1999
- Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (Chapter II)
- Credit Information Companies (Regulation) Act, 2005
- Payment and Settlement Systems Act, 2007
- Payment and Settlement Systems Regulations, 2008 and Amended up to 2011 and BPSS Regulations, 2008
- The Payment and Settlement Systems (Amendment) Act, 2015 - No. 18 of 2015
- Factoring Regulation Act, 2011



Monetary policy refers to the policy of the RBI with regard to the use of monetary instruments under its control to achieve the goals specified in the RBI Act, 1934.

What are the goals of the Monetary Policy of RBI?

- Primary objective is to maintain price stability while keeping in mind the objective of growth.
- In May 2016, RBI Act, 1934 was amended to provide a statutory basis for the implementation of the flexible inflation targeting framework.
- The Act also provides for the inflation target to be set by the Government of India, in consultation with the Reserve Bank, once in every five years.

What is the Monetary Policy Framework?

- Monetary Policy framework aims at setting the policy (repo) rate based on an assessment of the current and evolving macroeconomic situation; and modulation of liquidity conditions to anchor money market rates at or around the repo rate.
- Repo rate changes transmit through the money market to the entire the financial system, which, in turn, influences aggregate demand – a key determinant of inflation and growth.

The Monetary Policy Process

- Section 45ZB of the amended RBI Act, 1934 also provides for an empowered six-member monetary policy committee (MPC) to be constituted by the Central Government by notification in the Official Gazette.
- Accordingly, the Central Government in September 2016 constituted the MPC as under:
 1. Governor of the Reserve Bank of India – Chairperson, ex officio;
 2. Deputy Governor of the Reserve Bank of India, in charge of Monetary Policy – Member, ex officio;
 3. One officer of the Reserve Bank of India to be nominated by the Central Board – Member, ex officio;
 4. Shri Chetan Ghate, Professor, Indian Statistical Institute (ISI) – Member;
 5. Professor Pami Dua, Director, Delhi School of Economics – Member; and
 6. Dr. Ravindra H. Dholakia, Professor, Indian Institute of Management, Ahmedabad – Member.

Note:

- Members referred to at 4 to 6 above, will hold office for a period of four years or until further orders, whichever is earlier.
- The MPC determines the policy interest rate required to achieve the inflation target.
- Reserve Bank's Monetary Policy Department (MPD) assists the MPC in formulating the monetary policy.
- Financial Markets Operations Department (FMOD) operationalises the monetary policy, mainly through day-to-day liquidity management operations.

Important Points related to Monetary Policy Making

Under the amended RBI Act, the monetary policy making is as under:

- The MPC is required to meet at least four times in a year.
- The quorum for the meeting of the MPC is four members.
- Each member of the MPC has one vote, and in the event of an equality of votes, the Governor has a second or casting vote.

What are the Instruments of Monetary Policy?

- There are several direct and indirect instruments that are used for implementing monetary policy.

Repo Rate

- The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government & other approved securities under the liquidity adjustment facility (LAF).

Reverse Repo Rate

The (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF.

Liquidity Adjustment Facility (LAF):

- RBI's liquidity adjustment facility/LAF helps banks to adjust their daily liquidity mismatches.
- It has two components which are repo (repurchase agreement) and reverse repo.
- When banks need liquidity to meet its daily requirement, they borrow from RBI through repo. The rate at which they borrow fund is called the repo rate. When banks are flush with fund, they park with RBI through the reverse repo mechanism at reverse repo rate.

Marginal Standing Facility (MSF)

- A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest.
- This provides a safety valve against unanticipated liquidity shocks to the banking system.

Corridor

- The MSF rate and reverse repo rate determine the corridor for the daily movement in the weighted average call money rate.

Bank Rate

- It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers for long terms. The Bank Rate is published under Section 49 of the Reserve Bank of India Act, 1934.
- This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.

Cash Reserve Ratio (CRR)

- The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net demand and time liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.

Statutory Liquidity Ratio (SLR)

- The share of NDTL that a bank is required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold.
- Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.

Open Market Operations (OMOs)

- These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.

Market Stabilisation Scheme (MSS)

- This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills.
- The cash so mobilised is held in a separate government account
- with the Reserve Bank.

Policy Rates decided by the RBI

Policy Repo Rate	:	4.00%
Reverse Repo Rate	:	3.35%
Bank Rate	:	4.25%
Marginal Standing Facility Rate	:	4.25%
CRR	:	3.00%
SLR	:	18.00%
Lending / Deposit Rates		
Base Rate: 7.40% - 9.00%		
MCLR (Overnight)	:	6.65% - 7.30%
Savings Deposit Rate	:	2.70% - 3.00%
Term Deposit Rate > 1 Year	:	5.10% - 5.50%



- Indian Banking System starts with **the Indigenous Banking System** which was mainly carried by the businessmen called Sharoffs, Seths, Sahukars, Mahajans, Chettis, etc. It couldn't be developed because they were not able to obtain deposits from the public.
- **Modern banking** in India originated in the last decades of the 18th century. The first banks were **The General Bank of India which started in 1786, and the Bank of Hindustan.**
- Thereafter, **three presidency banks namely the Bank of Bengal** (this bank was originally started in the year 1806 as Bank of Calcutta and then in the year 1809 became the Bank of Bengal), the Bank of Bombay and the Bank of Madras, were set up. These three banks were merged in 1925 to form the Imperial Bank of India.
- **The Allahabad Bank**, established in 1865, is the oldest survived Joint Stock bank in India.
- **Punjab National Bank**, established in Lahore in 1895, which is now one of the largest banks in India.
- A major landmark in Indian banking history took place in **1934 when a decision was taken to establish 'Reserve Bank of India'** which started functioning in 1935. Since then, RBI, as a central bank of the country, has been regulating banking system.
- In 1949, to have close integration between policies of the Reserve Bank and those of the Government, it was decided to **nationalize the Reserve Bank immediately after the independence of the country.**
- To streamline the functioning of commercial banks, the **Government of India enacted the Banking Companies Act, 1949 which was later changed as the Banking Regulation Act 1949.** RBI acts as a regulator of banks, banker to the Government and banker's bank.
- To serve the economy in general and the rural sector in particular, **the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state-sponsored bank by taking over the Imperial Bank of India, and integrating with it, the former state-owned or state-associate banks. An act was accordingly passed in Parliament in May 1955 and the State Bank of India was constituted on 1 July 1955.** Later, the State Bank of India (Subsidiary Banks) Act was passed in 1959, enabling the State Bank of India to take over eight former State-associated banks as its subsidiaries (later named Associates).
- Indian Banking System witnessed a major revolution in the year **1969 when 14 major commercial banks in the private sector were nationalized on 19th July, 1969.** Most of these banks having deposits of above Rs. 50 crores.
- In **1980, another six more commercial banks with deposits of above Rs. 200 crores were nationalized.**

Regional Rural Banks

- In 1975, a new set of banks **called the Regional Rural Banks, were setup based on the recommendations of a working group headed by Shri Narasimham**, to serve the rural population in addition to the banking services offered by the co-operative banks and commercial banks in rural areas.

New Private Sector Banks

- In 1991, the Narasimham committee recommended that banks should increase operational efficiency, strengthen the supervisory control over banks and the new players should be allowed to create a competitive environment. Based on the recommendations, **new private banks were allowed to start functioning.**

History of Banking Sector in India

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- The General Bank of Bengal and Bihar, which came into existence in 1773, after a proposal by Governor (later Governor General) Warren Hastings, proved to be a short-lived experiment.
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- The Presidency Bank Act, which came into existence in 1876, brought the three Presidency banks under a common statute and imposed some restrictions on their business.
- The first Indian owned bank was the Allahabad Bank set up in Allahabad in 1865, the second, Punjab National Bank was set up in 1895 in Lahore, and the third, Bank of India was set up in 1906 in Mumbai. All these banks were founded under private ownership.
- Swadeshi Movement of 1906 provided a great impetus to joint stock banks of Indian ownership and many more Indian commercial banks such as Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were established between 1906 and 1913.
- The late Shri Vithal L Kavthekar pioneered the urban co-operative credit movement in the year 1889 in the then princely State of Baroda.
- The first registered urban co-operative credit society was the Conjeevaram Urban Co-operative Bank, organised in Conjeevaram, in the then Madras Presidency.

Note:

- They were known as Presidency banks as they were set up in the three Presidencies that were the units of administrative jurisdiction in the country for the East India Company. The Presidency banks were governed by Royal Charters. The Presidency banks issued currency notes until the enactment of the Paper Currency Act, 1861, when this right to issue currency notes by the Presidency banks was abolished and that function was entrusted to the Government.
- The presidency banks were amalgamated into a single bank, the Imperial Bank of India, in 1921. It also functioned as a central bank prior to the establishment RBI. The Imperial Bank of India performed three set of functions, viz., commercial banking, central banking and the banker to the government.
- By 1930, the number of commercial banks increased to 107 with the Imperial Bank of India still dominating the Indian banking sector.
- Indian Central Banking Enquiry Committee was set up in 1929 to survey extensively the problems of Indian banking, observed that a central bank be established for the country.
- Reserve Bank of India Act 1934 was enacted paving the way for the setting up of the Reserve Bank of India. The issue of bank failures and the need for catering to the requirements of agriculture were the two prime reasons for the establishment of the Reserve Bank. The banking sector came under the purview of the Reserve Bank in 1935.
- The Government, therefore, first implemented the exercise of nationalisation of the Imperial Bank of India with the objective of "extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas, and for diverse other public purposes". The Imperial Bank of India was converted into the State Bank of India in 1955 with the enactment of the State Bank of India Act, 1955.

Major Controls/Schemes introduced in Banking Sector from 1968

Year	Reform Introduced
1962	In order to ensure the safety of deposits of small depositors in banks in India, Deposit Insurance Corporation Act, 1961 was enacted. Deposit Insurance Corporation of India was established in January 1962.
1963	Agricultural Refinance Corporation (ARC) was set up by the Act of July 1, 1963. Its objective was to refinance central land mortgage banks, State cooperative banks and scheduled commercial banks.
1965	Credit Authorisation Scheme(CAS) was introduced, under which the commercial banks were required to obtain prior permission of RBI for sanctioning any fresh working capital limits above the prescribed norm which was revised from time to time.
1968	National Credit Council (NCC) set up in Feb. 1968 to assist RBI & Govt. to allocate credit according to plan priorities.
1969	Fourteen banks with deposits of over Rs.50 crores were nationalised.
1969	Lead Bank Scheme was introduced to mobilise deposits on a massive scale throughout the country and also for stepping up lending to the weaker sections.
1972	Concept of Priority Sector was formalised. Specific targets were set out in Nov 1974 for public sector banks & in Nov. 1978 for private sector banks.
1972	Differential Rate of Interest (DRI) Scheme was instituted to cater to the needs of the weaker sections of the society and for their upliftment.
1980	Six Banks with demand and time liabilities greater than Rs.200 crore as on March 14, 1980, were nationalised on April 15, 1980.
1994	Board for Financial Supervision (BFS) was set up within RBI to attend exclusively to supervisory functions & provide effective supervision in an integrated manner over the banking system, financial institutions, NBFCs & other para-banking financial institutions.
1995	Banking Ombudsman Scheme was introduced under the provisions of the BR Act, 1949.
2006	Banking Codes and Standards Board of India (BCSBI) was set up by Reserve Bank in order to provide for voluntary registration of banks committing to provide customer services as per the agreed standards and codes.

The roadmap for the presence of foreign banks in India was drawn up in **February 2005**.

Banks were advised to introduce a facility of 'no frills' account with nil or low minimum balances **in November 2005**.

Recovery of Debts Due to Banks and Financial Institutions Act **was enacted in 1993**, which provided for the establishment of tribunals for expeditious adjudication and recovery of non-performing loans.

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, **2002 was enacted in March, 2002**.



Chapter 6

Nationalization of Banks

- Before 1949, all the commercial banks in India were exclusively owned, controlled and managed by private entrepreneurs. The process of **nationalization of banks** began with the nationalization of RBI on 1st Jan 1949, with the passing of Reserve Bank (Transfer of Public Ownership) Act, 1948.
- RBI was nationalized to ensure greater coordination of monetary, economic and fiscal policies in independent India.

Nationalization of SBI

- The first step towards the nationalisation of commercial banks started with **the nationalisation of the Imperial Bank of India as the State Bank of India on 1 July 1955.**
- After this the 7 State-associated banks were nationalised as subsidiaries of the State Bank of India in 1959.
- The 7 associate banks were- the State Bank of Hyderabad, the State Bank of Jaipur and Bikaner, the State Bank of Travancore, the State Bank of Mysore, the State Bank of Patiala, the State Bank of Indore, and the State Bank of Saurashtra.

Nationalization of Banks in 1969

On 19th July 1969, 14 major commercial banks with deposits exceeding Rs. 50 crores were nationalized.

1. Allahabad Bank
2. Bank of Baroda
3. Bank of India
4. Bank of Maharashtra
5. Canara Bank
6. Central Bank of India
7. Dena Bank
8. Indian Bank
9. Indian Overseas Bank
10. Punjab National Bank
11. Syndicate Bank
12. Union Bank of India
13. United Bank of India
14. United Commercial Bank (now known as UCO bank)

Nationalization of Banks in 1980

On 15th April 1980, 6 more commercial banks were nationalized which were having the deposits above Rs.200 crores. The banks were:

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Punjab and Sind Bank
5. Oriental Bank of Commerce
6. Vijaya Bank

Note: New Bank of India was merged with Punjab National Bank in 1993.

An Important Point

- Because of the nationalization, the major segment of the banking sector came under the control of the Government.
- The nationalization of banks imparted major impetus to branch expansion in unbanked, rural and semi-urban areas, which in turn resulted in huge deposit mobilization, thereby giving boost to the overall savings rate of the economy.
- It also resulted in scaling up of lending to agriculture and its allied sectors.

What were the possible OBJECTIVES of Nationalization?

- **The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 under which 14 banks were nationalised with effect from 19 July 1969** spelt the main objective as “to serve better the needs of development of the economy in conformity with national policy and objectives and for matters connected therewith or incidental thereto”.
- These objectives included:
- To mobilise the savings of the people to the largest possible extent and to utilise them for productive purposes.
- To ensure the operations of the banking system for a larger social purpose and to subject them to close public regulation.
- To meet the legitimate credit needs of private sector industry and trade, big or small.
- To meet in an increasing manner the needs of productive sectors of the economy and in particular those of farmers, small scale industrialists and self-employed professional groups.
- To actively foster the growth of the new and progressive entrepreneurs and credit fresh opportunities for hitherto neglected and backward areas in different parts of the country
- To curb the use of bank credit for speculative and other unproductive purposes;
- To provide adequate training and reasonable terms of service to bank staff
- To considerably expand the branch network of bank in all parts of the country, and
- To reduce regional and sectoral imbalance in banking and through that in economic development.

SBI Merger with its Associates

- Five associates & the Bharatiya Mahila Bank became part of the State Bank of India (SBI) on 1st April 2017, catapulting the country's largest lender to among the top 50 banks in the world.
- State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), besides Bharatiya Mahila Bank (BMB), merged with SBI with effect from April 1, 2017.
- The merged entity resulted in the deposit base of more than Rs 26 lakh crore and advances level of ₹18.50 lakh crore.
- Post-merger, the bank will rationalise its branch network by relocating some of the branches to maximise reach. This will help the bank optimise its operations and improve profitability, she said.



- Financial System in a country comprises of various intermediaries who plays crucial roles in sourcing out the funds from the surplus segment & deploying such funds to needy segment.
- The intermediaries are banks, financial institutions, mutual funds, etc.

Money Market

- Money market is a market for short-term financial assets that are close substitutes of money.
- The most important feature of a money market instrument is that it is liquid and can be turned into money quickly at low cost.
- The call/notice/Term money market forms an important segment of the Indian Money Market.
- **Under call money market**, funds are transacted on an overnight basis and **under notice money market**, funds are transacted for a period between 2 days and 14 days & **under the Term Money Market**, funds are transacted for a period between 15 days and 365 days.
- Scheduled commercial banks (excluding RRBs), co-operative banks (other than Land Development Banks) and Primary Dealers (PDs), **are permitted to participate in call/notice money market both as borrowers and lenders.**

What are the Money Market Instruments?

Commercial Paper

- Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note.
- CP, as a privately placed instrument, was introduced in India in 1990 with a view to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors.
- Primary Dealers (PDs) and all-India financial institutions (FIs) were also permitted to issue CP to enable them to meet their short-term funding requirements.

Who can issue CP?

- Companies, PDs and FIs are permitted to raise short term resources through CP.
- A company would be eligible to issue CP provided:
 - a) the tangible net worth of the company, as per the latest audited balance sheet, is not less than Rs.4 crore;
 - b) the company has been sanctioned working capital limit by bank/s or FIs; and
 - c) the borrowal account of the company is classified as a Standard Asset by the financing bank/institution.

Important Key Points related to CP

- CP shall be issued in the form of a promissory note.
- CP shall be issued in denominations of Rs. 5 lakh and multiples thereof.
- CP shall be issued at a discount to face value as may be determined by the issuer.
- CP shall be issued for maturities between a minimum of 7 days and a maximum of up to one year from the date of issue.

Certificates of Deposit

- Certificate of Deposit (CD) is a negotiable money market instrument and issued in dematerialised form or as a Usance Promissory Note against funds deposited at a bank or other eligible financial institution for a specified time period.

Who can issue CDs?

- CDs can be issued by
 - a) scheduled commercial banks (excluding Regional Rural Banks and Local Area Banks)
 - b) select All-India Financial Institutions (FIs) that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI.

Important Key Points related to CDs

- Minimum amount of a CD should be Rs.1 lakh, and in multiples of Rs. 1 lakh thereafter.
- Maturity period of CDs issued by banks should not be less than 7 days and not more than one year, from the date of issue.
- FIs can issue CDs for a period not less than 1 year and not exceeding 3 years from the date of issue.
- CDs may be issued at a discount on face value.
- Banks / FIs should issue CDs only in dematerialised form.

Non-Convertible Debentures (NCDs) of original or initial maturity up to one year

- Non-Convertible Debenture (NCD) means a debt instrument issued by a corporate (including NBFCs) with original or initial maturity up to one year and issued by way of private placement.
- "Corporate" means a company as defined in the Companies Act, 2013 (including NBFCs) and a corporation established by an act of any Legislature.

Eligibility to issue NCDs

A corporate shall be eligible to issue NCDs if it fulfills the following criteria, namely,

- the corporate has a tangible net worth of not less than Rs.4 crore, as per the latest audited balance sheet;
- the corporate has been sanctioned working capital limit or term loan by bank/s or all-India financial institution/s; and
- the borrowal account of the corporate is classified as a Standard Asset by the financing bank/s or institution/s.
- NCDs shall not be issued for maturities of less than 90 days from the date of issue.
- NCDs may be issued in denominations with a minimum of Rs.5 lakh (face value) and in multiples of Rs.1 lakh.

Important Definitions in One Line

- "Call Money" means deals in overnight funds.
- "Notice Money" means deals in funds for 2 - 14 days.
- "Term Money" means deals in funds for 15 days-1 year.
- "Primary Dealer (PD)" means a financial institution which holds a valid letter of authorisation as a PD issued by the Reserve Bank.
- 'Issuing and Paying Agent (IPA)' means a Scheduled Bank acting as an IPA.
- 'CRA' means a Credit Rating Agency registered with Securities and Exchange Board of India.

What is a Government Security (G-Sec)?

- It is a tradeable instrument issued by the Central Government or the State Governments.
- It acknowledges the Government's debt obligation.
- These securities can be 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).
- G-Secs carry practically no risk of default and, hence, **are called risk-free gilt-edged instruments.**
- **Note:** 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).

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.
- These are zero coupon securities and pay no interest.
- They are issued at a discount and redeemed at the face value at maturity.

Cash Management Bills (CMBs)

- In 2010, Government of India, in consultation with RBI introduced a new short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government of India.
- The CMBs have the generic character of T-bills but are issued for maturities less than 91 days.

Dated G-Secs

- Dated G-Secs are securities which carry a fixed or floating coupon (interest rate) which is paid on the face value, on half-yearly basis.
- Generally, the tenor of dated securities ranges from 5 years to 40 years.

Note:

- The Public Debt Office (PDO) of the Reserve Bank of India acts as the registry / depository of G-Secs and deals with the issue, interest payment and repayment of principal at maturity.

What are the Types of Government Bonds?

- **Fixed Rate Bonds:** These are bonds on which the coupon rate is fixed for the entire life (i.e. till maturity) of the bond.
- **Floating Rate Bonds (FRB):** FRBs are securities which do not have a fixed coupon rate. FRBs were first issued in September 1995 in India.
- **Zero Coupon Bonds:** Zero coupon bonds are bonds with no coupon payments.
- **Capital Indexed Bonds:** These are bonds, the principal of which is linked to an accepted index of inflation with a view to protecting the Principal amount of the investors from inflation.
- **Inflation Indexed Bonds (IIBs):** IIBs are bonds wherein both coupon flows and Principal amounts are protected against inflation. The inflation index used in IIBs may be Whole Sale Price Index (WPI) or Consumer Price Index (CPI).
- **STRIPS (Separate Trading of Registered Interest and Principal of Securities):** STRIPS are the securities created by way of separating the cash flows associated with a regular G-Sec i.e. each semi-annual coupon payment and the final principal payment to be received from the issuer, into separate securities. They are essentially Zero-Coupon Bonds (ZCBs).

Sovereign Gold Bond (SGB)

- SGBs are unique instruments, prices of which are linked to commodity price viz Gold.
- SGBs are denominated in multiples of gram(s) of gold with a basic unit of 1 gram.
- The tenor of the SGB is for a period of 8 years with exit option from 5th year to be exercised on the interest payment dates.

Other Important Points related to Government Securities

What are the State Development Loans (SDLs)?

- State Governments also raise loans from the market which are called SDLs.
- SDLs are dated securities issued through normal auction similar to the auctions conducted for dated securities issued by the Central Government.
- Interest is serviced at half-yearly intervals and the principal is repaid on the maturity date.

What are Open Market Operations (OMOs)?

- OMOs are the market operations conducted by the RBI by way of sale/ purchase of G-Secs to/ from the market with an objective to adjust the rupee liquidity conditions in the market on a durable basis.
- When the RBI feels that 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, RBI may buy securities from the market, thereby releasing liquidity into the market.

What is meant by repurchase (buyback) of G-Secs?

- Repurchase (buyback) of G-Secs is a process whereby the Government of India and State Governments buy back their existing securities, by redeeming them prematurely, from the holders.
- The objectives of buyback can be reduction of cost (by buying back high coupon securities), reduction in the number of outstanding securities and improving liquidity in the G-Secs market (by buying back illiquid securities) and infusion of liquidity in the system.

What is Liquidity Adjustment Facility (LAF)?

- LAF is a facility extended by RBI to the scheduled commercial banks (excluding RRBs) and PDs to avail of liquidity in case of requirement or park excess funds with RBI in case of excess liquidity on an overnight basis against the collateral of G-Secs including SDLs.
- Basically, LAF enables liquidity management on a day to day basis.

How does Trading in G-Secs take place?

The securities can be traded in secondary market either through

- (i) Negotiated Dealing System-Order Matching (NDS-OM)
- (ii) Over the Counter (OTC)
- (iii) NDS-OM-Web.

NDS-OM

- In August, 2005, RBI introduced an anonymous screen based order matching module called NDS-OM.
- This is an order driven electronic system, where the participants can trade anonymously by placing their orders on the system or accepting the orders already placed by other participants.

Over the Counter (OTC)/ Telephone Market

- In this market, a participant, who wants to buy or sell a G-Sec, may contact a bank / PD/financial institution either directly or through a broker & negotiate price and quantity of security.
- Such negotiations are done on telephone and a deal may be struck if both counterparties agree on the amount and rate.

NDS-OM-Web

- RBI has launched NDS-OM-Web on June 29, 2012 for facilitating direct participation of gilt account holders (GAH) on NDS-OM through their primary members (PM) (as risk controller only and not having any role in pricing of trade).
- The GAH have access to the same order book of NDS-OM as the PM.
- GAH are in a better position to control their orders (place/modify/cancel/hold/release) and have access to real time live quotes in the market.

Who are the major players in the G-Secs market?

- Major players in the G-Secs market include commercial banks and PDs besides institutional investors like insurance companies.
- Other participants include co-operative banks, regional rural banks, mutual funds, provident and pension funds.
- Foreign Portfolio Investors (FPIs) are allowed to participate in the G-Secs market within the quantitative limits prescribed from time to time.
- Corporates also buy/ sell the G-Secs to manage their overall portfolio.

Role of the Clearing Corporation of India Limited (CCIL)

- The CCIL is the clearing agency for G-Secs. It acts as a Central Counter Party (CCP) for all transactions in G-Secs by interposing itself between two counterparties.
- In effect, during settlement, the CCP becomes the seller to the buyer and buyer to the seller of the actual transaction.
- All outright trades undertaken in the OTC market and on the NDS-OM platform are cleared through the CCIL.

What are the role and functions of FIMMDA?

- The Fixed Income Money Market and Derivatives Association of India (FIMMDA), an association of Scheduled Commercial Banks, Public Financial Institutions, Primary Dealers and Insurance Companies was incorporated as a Company under section 25 of the Companies Act, 1956 on June 3, 1998.
- FIMMDA is a voluntary market body for the bond, money and derivatives markets. FIMMDA has members representing all major institutional segments of the market.
- The membership includes Nationalized Banks such as State Bank of India, its associate banks and other nationalized banks; Private sector banks such as ICICI Bank, HDFC Bank; Foreign Banks such as Bank of America, Citibank, Financial institutions such as IDFC, EXIM Bank, NABARD, Insurance Companies like Life Insurance Corporation of India (LIC), ICICI Prudential Life Insurance Company, Birla Sun Life Insurance Company and all Primary Dealers.
- FIMMDA represents market participants and aids the development of the bond, money and derivatives markets.
- It acts as an interface with the regulators on various issues that impact the functioning of these markets.
- It also undertakes developmental activities, such as, introduction of benchmark rates and new derivatives instruments, etc.

What is the Capital Market?

- It is a market where investors/ buyers, and issuers of securities/ sellers engage in issue/subscription/ trade of financial securities like shares, bonds etc.
- In this market, the long-term securities are traded.
- It consists of two types which are the Primary market and Secondary market.

Primary Market

- In this market, securities (shares, debentures, bonds etc) are offered to the public for the first time for subscription with a view to raise capital fund.

- In the primary market, issues are classified into public, rights or preferential issues (also known as private placements).
- The Public issues can be classified into Initial Public Offerings (IPOs) and Further/Follow-on Public Offerings (FPOs).
 - a) When a company makes either a fresh issue of shares or an offer for sale of its existing shares or both for the first time to the public, it is called IPO.
 - b) When a company which is already a listed company, either makes a fresh issue of securities to the public or an offer for sale to the public through an offer document, it is known as FPO.
- Rights Issue (RI) is one, when a listed company proposes to issue fresh securities to its existing shareholders as on a record date.
- A private placement is an issue of shares or of convertible securities by a company, to a select group of persons under the provisions of Section 81 of Indian Companies Act, 1956, which is neither a public issue nor a rights issue.

Secondary Market

- Once the securities are issued in the primary market and/or listed in the Stock Exchange, these can be traded in a market called the Secondary Market.
- It is a platform for the investors to buy and sell the securities.
- 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.

What are the Instruments of Capital Market?

Equity: The ownership interest in a company of holders of its common and preferred stock.

Cumulative Preference Shares: A type of preference shares on which dividend accumulates if remains unpaid.

Cumulative Convertible Preference Shares: A type of preference shares where the dividend payable on the same accumulates, if not paid.

Debentures: Bonds issued by a company bearing a fixed rate of interest usually payable on specific dates and principal amount repayable on particular date on redemption of the debentures.

What is STT?

- Securities Transaction Tax (STT) is a tax being levied on all transactions done on the stock exchanges at rates
- prescribed by the Central Government from time to time.
- The Government of India notified the Securities Transaction Tax Rules, 2004 and STT came into effect from October 1, 2004.



Chapter 8

Financial Organizations in India

India Infrastructure Finance Company Limited (IIFCL)

- IIFCL is a **wholly-owned Government of India company** set up in 2006 to provide **long-term financial assistance to viable infrastructure projects** through the Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called India Infrastructure Finance Company Ltd (IIFCL), broadly referred to as SIFTI.
- The sectors eligible for financial assistance from IIFCL includes transportation, energy, water, sanitation, communication, social and commercial infrastructure.
- The authorized and paid up capital of the company as on 31st March 2017 stood at Rs. 6,000 Crore and Rs. 4,002 Crore, respectively.

Vision of IIFCL

"Provide innovative financing solutions to promote and develop world class infrastructure in India."

Mission of IIFCL

"To adopt best practices in financing infrastructure and develop core competencies in facilitating infrastructure development. Develop a team of highly engaged employees to deliver services in a professional manner and to the satisfaction of all stakeholders."

Note: PR Jaishankar is the Managing Director, IIFCL.

What IIFC does?

- It is engaged in providing long term financial assistance to commercially viable infrastructure projects with overriding priority PPP projects in the country in designated sectors such as
- Road and bridges, railways, seaports, airports, inland waterways, urban transport and other transportation projects
- Power (Generation, Transmission and Distribution)
- Water supply, sewage collection, treatment and disposal system, solid waste management and other physical infrastructure in urban areas.
- Gas pipelines
- Education Institutions, Hospitals, Convention centres, Hotels, Cold storage chains, Soil testing laboratories.

Export-Import Bank of India (EXIM Bank)



- Established by the Government of India, it commenced operations in 1982 under the Export-Import Bank of India Act, 1981 as a purveyor of export credit, mirroring global Export Credit Agencies.
- It provides a wide range of products and services which includes import of technology & export product development, export production, export marketing, pre-shipment and post-shipment and overseas investment.

Current Chairman

- Shri. R.C. Shah was the first Chairman and Managing Director (CMD) from 1982 - 1985.
- Shri David Rasquinha was appointed the Managing Director of Exim Bank from August 2017.
- MS. HARSHA BANGARI is the Deputy Managing Director.

Objectives of EXIM Bank

- Providing financial assistance to exporters and importers
- Functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade.
- Act on business principles with due regard to public interest.

Small Industries Development Bank of India (SIDBI)

- SIDBI set up on 2nd April 1990 under an Act of Indian Parliament to act as the Principal Financial Institution for Promotion, Financing & Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for co-ordination of functions of institutions engaged in similar activities.
- SIDBI has been working towards the sustainable development of MSME sector.
- These include the innovative Credit Plus model, where credit is supplemented with advisory and mentoring facilities to MSMEs.
- Some of SIDBI's other revolutionary initiatives include the MFI-led Microfinance movement in India that has nurtured and strengthened more than 100 MFIs and facilitated creation of SFBs, introducing a culture of energy efficient and sustainable finance for the MSME sector.

Mission of SIDBI

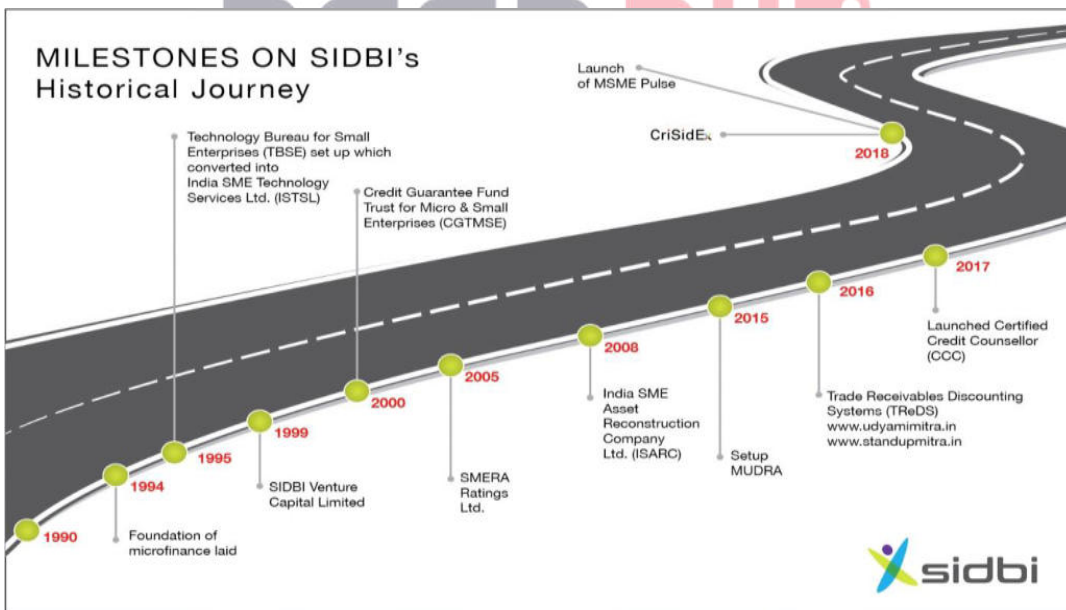
- To facilitate and strengthen credit flow to MSMEs and address both financial and developmental gaps in the MSME eco-system

Vision of SIDBI

- To emerge as a single window for meeting the financial and developmental needs of the MSME sector.
- To make it strong, vibrant and globally competitive, to position SIDBI Brand as the preferred and customer - friendly institution.

Note:

- Shri Mohammad Mustafa is the current Chairman & Managing Director of SIDBI.
- Shri V Satya Venkata Rao is the Deputy Managing Director.
- Shri Manoj Mittal is also the Deputy Managing Director.



Shareholding Pattern of SIDBI (as on May 26, 2019)

Sl. No.	Name of the Shareholder	%
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1	State Bank of India	16.73
2	Government of India	15.40
3	Life Insurance Corporation of India	14.25
4	National Bank for Agriculture & Rural Development	10.00

NHB (National Housing Bank)

- The Committee of Secretaries set up the High-Level Group under the Chairmanship of Dr. C. Rangarajan, the then Deputy Governor, RBI to examine the proposal and recommended the setting up of National Housing Bank as an autonomous housing finance institution.
- The recommendations of the High-Level Group were accepted by the Government of India.
- The Hon'ble PM, while presenting the Union Budget for 1987-88 on February 28, 1987 announced the decision to establish the National Housing Bank (NHB) as an apex level institution for housing finance.
- The National Housing Policy, 1988 envisaged the setting up of NHB as the Apex level institution for housing.
- NHB was set up on July 9, 1988 under the National Housing Bank Act, 1987.
- NHB is wholly owned by Reserve Bank of India, which contributed the entire paid-up capital.
- The general superintendence, direction and management of the affairs and business of NHB vest, under the Act, in a Board of Directors.
- The Head Office of NHB is at New Delhi.

Preamble of NHB

- The Preamble of the National Housing Bank Act, 1987 describes the basic functions of the NHB as – "... to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support to such institutions and for matters connected therewith or incidental thereto ..."

Vision of NHB

- "Promoting inclusive expansion with stability in housing finance market"

Mission of NHB

- "To harness and promote the market potentials to serve the housing needs of all segments of the population with the focus on low and moderate-income housing".

Objectives of NHB

- To promote a sound, healthy, viable and cost-effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and channelize them for housing.
- To make housing credit more affordable.
- To regulate the activities of housing finance companies based on regulatory and supervisory authority derived under the Act.
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
- To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.

Note: Sarada Kumar Hota is the Managing Director of National Housing Bank.



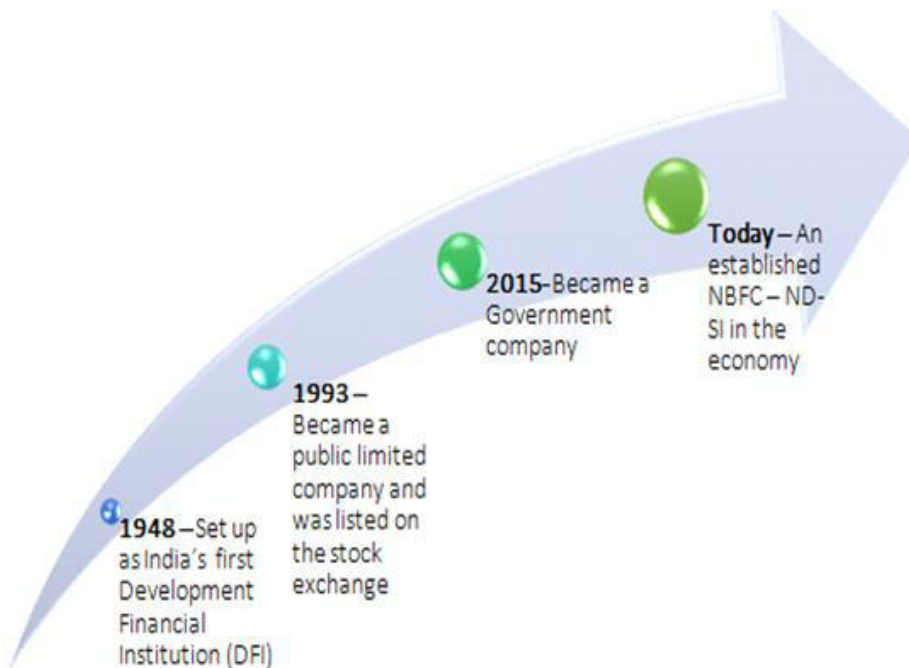
Industrial Finance Corporation of India (IFCI)

- It is a Non-Banking Finance Company in the public sector.
- Established in 1948 as a statutory corporation.
- IFCI manages seven number of subsidiaries and one associate under its fold.
- It provides financial support for the diversified growth of Industries across the spectrum. The financing activities cover various kinds of projects such as airports, roads, telecom, power, real estate, manufacturing, services sector and such other allied industries.
- The company has played a pivotal role in setting up various market intermediaries of repute in several niche areas like stock exchanges, entrepreneurship development organizations, consultancy organizations, educational and skill development institutes across the length and breadth of the country.

Corporate Strategy

- To be a solution provider to various financial needs of the industry
- To remain competitive, competent and sensitive to the economic growth of the Country
- To design customer focused solutions
- To enhance the reputation and image of IFCI

IFCI: The Journey over the 70 Years



Dr. Emandi Sankara Rao is the Current MD & CEO.

Vision

- To be the leading development institution for industrial and infrastructure sectors across the spectrum and be an influential partner in country's economic growth and development.

Mission

- To adopt the best practices in financing industry and infrastructure and leverage core competencies in promoting sustainable industrial and infrastructure development in the country.
- To act as a competitive, client friendly and development oriented organization delivering financial products and services to the satisfaction of all stakeholders.



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

- 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,
 - 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.

Note: 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 installments, is also a non-banking financial company (Residuary non-banking company).

Difference between banks & NBFCs?

NBFCs lend & make investments and hence their activities are akin to that of banks, but there are some differences:

- NBFC cannot accept demand deposits.
- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Requirements for registration with RBI?

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:

- it should be a company registered under Section 3 of the companies Act, 1956
- It should have a minimum net owned fund of Rs200 lakh.

What are systemically important NBFCs?

- NBFCs whose asset size is of Rs500 crores or more as per last audited balance sheet are considered as systemically important NBFCs.
- The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability of the overall economy.

Does the RBI regulate all financial companies?

- No, it doesn't.
- 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.

Let's see who regulates the above given NBFCs?

- **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.
- **Insurance companies** are regulated by Insurance Regulatory and Development Authority.
- **Chit Fund Companies** are regulated by the respective State Governments.
- **Nidhi Companies** are regulated by Ministry of Corporate Affairs, Government of India.

Note: Mortgage Guarantee Companies have been notified as Non-Banking Financial Companies under Section 45 I(f)(iii) of the RBI Act, 1934. Core Investment Companies with asset size of less than Rs100 crore, and those with asset size of Rs100 crore and above are exempted from registration with the RBI.

Different types/categories of NBFCs registered with RBI?

NBFCs are categorized

- a) **in terms of the type of liabilities into Deposit & 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)
- c) **by the kind of activity, they conduct.**

Asset Finance Company (AFC)

- An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines.
- Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

Investment Company (IC)

- IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.

Loan Company (LC)

- LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

Infrastructure Finance Company (IFC)

- IFC is a non-banking finance company

 - a) which deploys at least 75% of its total assets in infrastructure loans.
 - b) has a minimum Net Owned Funds of Rs300 crore
 - c) has a minimum credit rating of 'A' or equivalent
 - d) and a CRAR of 15%.

Systemically Important Core Investment Company (CIC-ND-SI)

- CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities, satisfies the given conditions:
- it holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies.
- its investments in the equity shares in group companies constitutes not less than 60% of its Total Assets.
- it does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment.

- it does not carry on any other financial activity except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.
- Its asset size is Rs100 crores or above.
- It accepts public funds.

Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC)

- IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects.
- IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5-year maturity.
- Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI)

NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

- loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs1,00,000 or urban and semi-urban household income not exceeding Rs 1,60,000;
- loan amount does not exceed Rs 50,000 in the first cycle and Rs 1,00,000 in subsequent cycles;
- total indebtedness of the borrower does not exceed Rs 1,00,000;
- tenure of the loan not to be less than 24 months for loan amount in excess of Rs 15,000 with prepayment without penalty;
- loan to be extended without collateral;
- aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;
- loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower.

Non-Banking Financial Company – Factors (NBFC-Factors)

- NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring.
- The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

Mortgage Guarantee Companies (MGC)

- MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs100 crore.

NBFC- Non-Operative Financial Holding Company (NOFHC)

- It is the financial institution through which promoter / promoter groups will be permitted to set up a new bank.
- It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators.

What is 'owned fund' and 'net owned fund' in relation to NBFCs?

- '**Owned Fund**' means aggregate of the paid-up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset.
- '**Net Owned Fund**' is the amount as arrived at above, minus the amount of investments of such company in shares of its subsidiaries, companies in the same group and all other NBFCs and the book value of debentures, bonds, outstanding loans and advances.

Is there any ceiling on interest rate charged by the NBFCs to their borrowers?

- RBI has deregulated interest rates to be charged to borrowers by financial institutions (other than NBFC-Micro Finance Institution).

What is a Residuary Non-Banking Company (RNBC)? In what way it is different from other NBFCs?

- Residuary Non-Banking Company is a class of NBFC which is a company and has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner.
- These companies are required to maintain investments as per directions of RBI, in addition to liquid assets.
- There is no ceiling on raising of deposits by RNBCs.
- Every RNBC has to ensure that the amounts deposited with it are fully invested in approved investments.
- In order to secure the interests of depositor, such companies are required to invest 100 per cent of their deposit liability into highly liquid and secure instruments, namely, Central/State Government securities, fixed deposits with scheduled commercial banks (SCB), Certificate of Deposits of SCB/FIs, units of Mutual Funds, etc.
- The minimum interest an RNBC should pay on deposits should be 5% (to be compounded annually) on the amount deposited in lump sum or at monthly or longer intervals; and 3.5% (to be compounded annually) on the amount deposited under daily deposit scheme.
- An RNBC can accept deposits for a minimum period of 12 months and maximum period of 84 months from the date of receipt of such deposit.
- They cannot accept deposits repayable on demand.

Important regulations relating to acceptance of deposits by NBFCs are as under:

- 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.
- 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.
- NBFCs cannot offer gifts/incentives or any other additional benefit to the depositors.
- NBFCs should have minimum investment grade credit rating.
- The deposits with NBFCs are not insured.
- The repayment of deposits by NBFCs is not guaranteed by RBI.
-
- Note:
- SEBI is the regulator of CIS (Collective Investment Schemes).
- The chit funds are governed by Chit Funds Act, 1982 which is a Central Act administered by state governments.

What are money circulation/Ponzi/multi-level marketing schemes?

- Money circulation, multi-level marketing / Chain Marketing or Ponzi schemes are schemes promising easy or quick money upon enrollment of members.
- Income under Multi-level marketing or pyramid structured schemes do not come from the sale of products they offer as much as from enrolling more and more members from whom hefty subscription fees are taken.



- Public-Sector Banks (PSBs) play a vital role in India's economy. But in the last few years, PSBs are having lower profitability for PSBs, mainly because of the provisioning for the restructured projects as well as because of gross NPAs.
- Therefore, to revive the fortunes of public sector banks, government unveiled a seven-point plan
- encompassing Rs. 20,000 crore immediate fund infusion, creation of a single holding company and minimizing political interference.
- The government has named it as 'Indradhanush', which also includes setting up of a Bank Board Bureau (BBB) for broad-level appointments and a performance-based monitoring mechanism.
- The strategy, Indradhanush, focuses on systemic changes in state-run lenders, including a fresh look at hiring, a comprehensive plan to de-stress bloated lenders, capital infusion, accountability incentives with higher rewards including Stock Options and cleaning up governance.

The 7 Elements includes:

- Appointments
- Bank of Board Bureau
- Capitalization
- De-Stressing Public Sector Banks
- Empowerment
- Framework of accountability
- Governance Reforms

Now, let's discuss each element in detail.

(A) Appointments

- The Government decided to separate the post of Chairman and Managing Director by prescribing that in the subsequent vacancies to be filled up the CEO will get the designation of MD & CEO and there would be another person who would be appointed as non-Executive Chairman of PSBs.
- This approach is based on global best practices and as per the guidelines in the Companies Act to ensure appropriate checks and balances.
- Private sector candidates were also allowed to apply for the position of MD & CEO of the five top banks i.e. Punjab National Bank, Bank of Baroda, Bank of India, IDBI Bank and Canara Bank.

(B) Bank Board Bureau:

- The BBB will be a body of eminent professionals and officials, which will replace the Appointments Board for appointment of Whole-time Directors as well as non-Executive Chairman of PSBs.
- They will also constantly engage with the Board of Directors of all the PSBs to formulate appropriate strategies for their growth and development.
- The BBB will comprise of a Chairman and six more members of which three will be officials and three experts (of which two would necessarily be from the banking sector).

(C) Capitalization:

- As of now, the PSBs are adequately capitalized and meeting all the Basel III and RBI norms. However, the Government of India wants to adequately capitalize all the banks to keep a safe buffer over and above the minimum norms of Basel III.
- As per the official, the capital requirement of extra capital for the next four years up to FY 2019 is likely to be about Rs.1,80,000 crore. This estimate is based on credit growth rate of 12% for the current year and 12 to 15% for the next three years depending on the size of the bank and their growth ability.
- Out of the total requirement, the Government of India proposes to make available Rs.70,000 crores out of budgetary allocations for four years as per the figures given below:

(i)	Financial Year 2015 -16	Rs. 25,000 crs
(ii)	Financial Year 2016-17	Rs. 25,000 crs
(iii)	Financial Year 2017-18	Rs. 10,000 crs
(iv)	Financial Year 2018-19	Rs. 10,000 crs
	Total	Rs. 70,000 crs

- Improved valuations coupled with value unlocking from non-core assets as well as improvements in capital productivity, will enable PSBs to raise the remaining Rs. 1,10,000 crores from the market.

(D) Strengthening Risk Control measures and NPA Disclosures

- Besides the recovery efforts under the DRT & SARFASI mechanism the following additional steps have been taken to address the issue of NPAs:
 - a) RBI released guidelines in 2014 for **“Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy”** suggesting various steps for quicker recognition and resolution of stressed assets:
 - Creation of a **Central Repository of Information on Large Credits (CRILC)** by RBI to collect, store, and disseminate credit data to banks on credit exposures of Rs. 5 crores and above,
 - Formation of Joint Lenders Forum (JLF), Corrective Action Plan (CAP), and sale of assets.
 - b) **Flexible Structuring of Loan Term Project Loans to Infrastructure and Core Industries.**
 - c) **Wilful Default/Non-Cooperative Borrowers:** RBI came out with new category of borrower called Non-Cooperative borrower. A non-cooperative borrower is a borrower who does not provide information on its finances to the banks. Banks will have to do higher provisioning if they give fresh loan to such a borrower. Fresh exposure to a borrower reported as non-cooperative will necessitate higher provisioning.
 - d) **Asset Reconstruction Companies:** RBI has tightened the norms for ARCs.
 - e) **Establishment of six New DRTs:** Government has decided to establish six new Debt Recovery Tribunals (DRT) (at Chandigarh, Bengaluru, Ernakulum, Dehradun, Siliguri, Hyderabad) to speed up the recovery of bad loans of the banking sector.

(E) Empowerment:

- The Government issued a circular that there will be no interference from Government and Banks are encouraged to take their decision independently keeping the commercial interest of the organisation in mind.
- With autonomy comes accountability, accordingly Banks have been asked to build robust Grievances Redressal Mechanism for customers as well as staff so that concerns of the affected are addressed effectively in time bound manner.
- The Government is committed to provide required professionals as NoDs to the Board so that well-informed and well-discussed decisions are taken.

(F) Framework of Accountability:

- The present system for the measurement of bank's performance was a system called SoI - Statement of Intent.
- There were two changes that is being done in SoI, which are as follows:
 - a) A new framework of **Key Performance Indicators (KPIs)** to be measured for performance of PSBs is being announced. It is divided into four sections totaling up to 100 marks. 25 marks each are allotted to indicators relating to efficiency of capital use and diversification of business/processes and 15 marks each are allotted for specific indicators under the category of NPA management and financial inclusion. The total marks to be allotted for quantifiable, measurable criteria is 80.
- The remaining 20 marks are reserved for measurement of qualitative criteria which includes strategic initiatives taken to improve asset quality, efforts made to conserve capital, HR initiatives and improvement in external credit rating.

(G) Governance Reforms:

- The process of governance reforms started with "Gyan Sangam" - a conclave of PSBs and FIs organized in Pune.
- There was focus group discussion on six different topics which resulted in specific decisions on optimizing capital, digitizing processes, strengthening risk management, improving managerial performance and financial inclusion.
- The decision to set up a Bank Board Bureau which was subsequently announced in the Budget Speech of Hon'ble Finance Minister, came out of the recommendations of Gyan Sangam.
- The Gyan Sangam recommendations included strengthening of risk management practices. Each bank agreed to nominate a senior officer as Chief Risk Officer of the bank. A special training programme for Chief Risk Officers was recently organized by Centre for Advanced Financial Research and Learning (CAFRAL).
- The Government has been constantly engaging with the Banks through review meeting and sessions for strategic reviews etc. The focus is on improving HR management practices and removing barriers so that the Banks can share and work together on common resources. Various steps have been taken to empower Bank's Boards.
- Note: The Indradhanush framework for transforming the PSBs represents the most comprehensive reform effort undertaken since banking nationalisation in the year 1970.



BASEL-3 NORMS

- The Basel Committee is the primary global standard-setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters.
- Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.
- Pablo Hernández de Cos is the chairman of the Basel Committee.
- The Bank for International Settlements (BIS) established on 17 May 1930, is the world's oldest international financial organisation. The BIS has 62-member central banks, representing countries from around the world.

Basel III Accord - Basel 3 Norms

- Basel III or Basel 3 released in December, 2010 is the third in the series of Basel Accords.
- These accords deal with risk management aspects for the banking sector.

What does Basel III is all About?

According to Basel Committee on Banking Supervision "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".

What are the objectives / aims of the Basel III measures?

Basel 3 measures aim to:

- improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
- improve risk management and governance
- strengthen banks' transparency and disclosures.

What are Three Pillars of Basel III Norms?

- **Pillar 1:** Minimum Regulatory Capital Requirements based on Risk Weighted Assets (RWAs): Maintaining capital calculated through credit, market and operational risk areas. (MAINLY THAT CAPITAL WHICH CAN ABSORB RISK.)
- **Pillar 2:** Supervisory Review Process: Regulating tools and frameworks for dealing with peripheral (OUTER) risks that banks face.
- **Pillar 3:** Market Discipline: Increasing the disclosures that banks must provide to increase the transparency of banks

What are the Major Features of Basel III?

- **Better Capital Quality:** One of the key elements of Basel 3 is the introduction of much stricter definition of capital. It means capital with the higher loss-absorbing capacity. This in turn will mean that banks will be stronger, allowing them to better withstand periods of stress.
- **Capital Conservation Buffer:** Another key feature of Basel iii is that now banks will be required to hold a capital conservation buffer of 2.5% of RWAs. CCB-aims to conserve the capital of banks by making a buffer/reserve for CRISIS situation. The aim of asking to build conservation buffer is to ensure that banks maintain a cushion of capital that can be used to absorb losses during periods of financial and economic stress.
- **Countercyclical Buffer:** The countercyclical buffer has been introduced with the objective to increase capital requirements in good times and decrease the same in bad times. The buffer will slow banking activity when it overheats and will encourage lending when times are tough i.e. in bad times. The buffer will range from 0% to 2.5% of RWAs, consisting of common equity/shares or other fully loss-absorbing capital.
- **Minimum Common Equity and Tier 1 Capital Requirements:** The minimum requirement for common equity, the highest form of loss-absorbing capital, has been Minimum Common Equity(the highest form of loss-absorbing capital) raised under Basel III from 2% to 4.5% of total risk-weighted assets. The overall Tier 1 capital requirement, consisting of not only common equity but also other qualifying financial instruments, will also increase from the current minimum of 4% to 6%. Although the minimum total capital requirement will remain at the current 8% level.
- **Leverage Ratio:** A leverage ratio is the relative amount of capital to total assets (not risk-weighted). This aims to put a cap on swelling of leverage in the banking sector on a global basis. 3% leverage ratio of Tier 1 will be tested before a mandatory leverage ratio is introduced in January 2018.
- **Liquidity Ratios:** Under Basel III, a framework for liquidity risk management will be created. A new Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are to be introduced in 2015 and 2018, respectively.

Important Facts related to BASEL Norms

- Minimum Ratio of Total Capital to RWAs: 10.50%
- Minimum Ratio of Common Equity to RWAs: 4.50% to 7.00%
- Tier I capital to RWAs: 6.00%
- Core Tier I capital to RWAs: 5.00%
- Capital Conservation Buffers to RWAs: 2.50%
- Leverage Ratio: 3.00%
- Countercyclical Buffer: 0% to 2.50%

A Brief on the Tier 1 & 2 Capital

Tier-I Capital

- Paid up Capital
- Statutory Reserves
- Other disclosed free reserves
- Capital Reserves which represent surplus arising out of the sale proceeds of the assets.
- Investment Fluctuation Reserves Innovative Perpetual Debt Instruments (IPDIs) Perpetual Noncumulative Preference Shares.

Minus (-):

- Equity Investment in subsidiaries.
- Intangible assets.
- Losses (Current period + past carried forward)

Tier-II Capital

- Undisclosed reserves and cumulative perpetual preference shares.
- Revaluation Reserves
- General Provisions and loss reserves Hybrid debt capital instruments such as bonds.
- Long term unsecured loans Debt Capital Instruments.

Note:

- The Reserve Bank of India has extended the timeline for full implementation of the Basel III capital regulations by a year to March 31, 2019.
- This breather comes in the wake of industry-wide concerns about the potential stresses (of the implementation of the regulations) on the asset quality and consequential impact on the performance/profitability of banks.



Chapter 12

Negotiable Instruments

- Negotiable means anything that is easily transferable from one person to another in return for consideration and “instrument” means, a written document by virtue of which a right is created in favour of some person.
- Negotiable instrument is a document consisting of a contract, guaranteeing the payment of a specific amount of money, either on demand, or at a set time, with the payer named on the document.
- Negotiable Instruments Act, 1881 defines Negotiable Instrument to mean a promissory note, bill of exchange or cheque payable either to order or to bearer.

Promissory Note

- It is an instrument in writing containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

Bill of Exchange

- It is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.
- It is an order made by one person to another to pay money to a third person.
- It has 3 parties: the drawer, the drawee, and the payee.
 - a) **Drawer** is the person or party who draws the bill i.e. gives the order to pay money to the third party.
 - b) **Drawee** is a person or party upon whom the bill is drawn i.e. who is ordered to pay.
 - c) **Payee** is the person or party who is finally payable under the bill i.e. the party in whose favor the bill is drawn.

Cheque

- It is a bill of exchange with two additional qualifications, namely:
 - a) it is always drawn on a banker, and
 - b) it is always payable on demand.
- It is the only instrument that can be payable to bearer on demand.

Demand Drafts

- It is a bill drawn either on demand or otherwise by one bank on another in favour of a third party or by one branch of a bank on another branch of the same bank or by the head office on a branch or vice versa.

ENDORSEMENT OF NEGOTIABLE INSTRUMENTS

- When the maker or holder of a negotiable instrument signs the instrument, otherwise than as such maker, but for the purpose of negotiation, either on the back or face thereof for the same purpose signs a stamped paper intended to be completed as a negotiable instrument, it is said to indorse the negotiable instrument.
- Such maker or holder is called the "endorser".
- An Indorsement can be of two types: Indorsement in Blank and Indorsement in Full.

Indorsement in Blank:

- An indorsement is said to be "in blank" if while indorsing the instrument, the indorser signs only his name on the negotiable instrument.

Indorsement in Full:

- For an indorsement to be "in full", while indorsing the instrument, the indorser also has to add a direction to pay the amount mentioned in the instrument to, or to the order of, a specified person.
- The person so specified in the endorsement is called the "endorsee" of the instrument.



What is money?

- Money is basically a medium of exchange which a person uses to satisfy his wants.
- Ideal money has three critical characteristics which are as follows:
 - a) It acts as a medium of exchange
 - b) It is an economic good
 - c) It is a means of economic calculation.

Let's discuss some of the Types of Money...

Standard Money

- It is that form of money in terms of which all other forms of money in the country are measured.
- It is unlimited legal tender and is subject to free coinage, i.e., anybody can bring his metal and get coins made of it.
- In this type, its real or 'intrinsic value' is equal to its face value.
- It is either made of gold or silver, or sometimes both.

Token Money

- It is that money which is made up of cheaper metal.
- It is limited legal tender.
- It is not subject to free coinage and its face value is greater than its intrinsic or metallic value.

What is Commodity Money?

- It is the simplest kind of money which was used in barter system where the valuable resources fulfil the functions of money.
- The value of this kind of money comes from the value of resource used for the purpose.

What is Fiat Money?

- Fiat currency is the kind of money which do not have any intrinsic value and it can't convert into a valuable resource.
- The value of this money is determined by government order which makes it a legal instrument for all transaction purposes.
- Examples could be the Paper money, Coins.

A Brief on Money Supply

- The total stock of money which is circulating in the economy is called the money supply.
- It involves the currency, printed notes, money in the deposit accounts and in the form of other liquid assets.
- RBI's has referred four measures of money supply which are: M1 , M2 , M3 , and M4.
- These measures indicate the monetary liability of the 'Money Creating' sectors, viz., the Reserve Bank of India (RBI), Commercial and Co-operative banks, to the 'money using' sectors within the country referred to as the 'Public'.

M ₁ (narrow money)	Currency with the public + demand deposits with the banking system + 'Other' deposits with the RBI
M ₂	M ₁ + post office savings deposits
M ₃ (broad money)	M ₁ + time deposits with the banking system
M ₄	M ₃ + total post office deposits

Currency with the public

- Currency with the public is arrived at after deducting cash with banks from total currency in circulation. Currency in circulation comprises notes, rupee and small coins.

Demand Deposits with Banks represent the demand deposits with all the commercial and co-operative banks (including cooperative societies).

'Other' Deposits with the Reserve Bank

- Other deposits with the RBI for the purpose of monetary compilation include deposits from foreign central banks, multilateral institutions, financial institutions, balances in depositor education and awareness (DEA) fund, and sundry deposits net of IMF Account.
- **Post Office Saving Bank Deposits** are total accruals under Post Office Savings Deposits.
- **Time Deposits with Banks** represent the time deposits with all the commercial and co-operative banks.

What is Reserve Money (M₀)?

- Reserve money (M₀), also called 'base money' or 'high-powered money', is the highly liquid component of money stock in the economy and plays a crucial role in the determination of other monetary aggregates.
- It represents the total monetary liabilities of the RBI.
- Monetary policy actions and market operations of the RBI that cause changes in the size of its balance sheet could result in changes in the reserve money.



Chapter 14

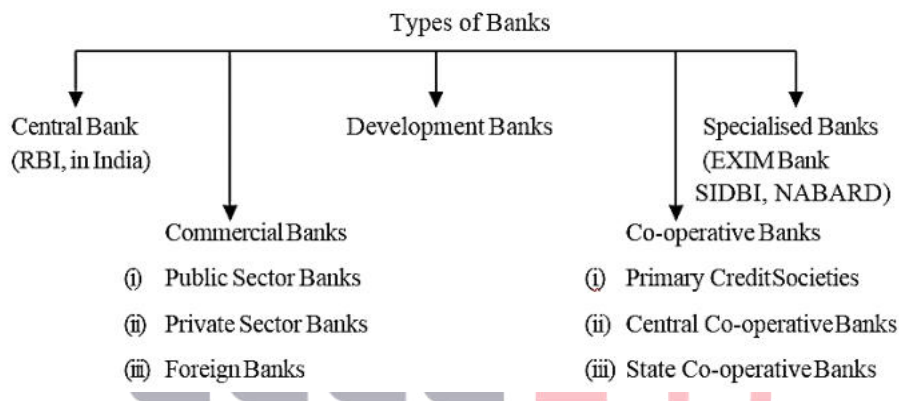
Types of Bank in India

Broadly, banks are classified either into commercial banks or as central bank. They are also classified as Scheduled and Non-scheduled Banks. Let's discuss the different types of banks in India.

Scheduled & Non-Schedule Banks

- Under the RBI Act, 1939, banks were classified as scheduled banks and non-scheduled banks.
- Scheduled banks are those which are entered in the second schedule of RBI Act, 1939. These are those banks which are having a paid-up capital and reserves of aggregate value of not less than Rs 5 lakhs.
- All Commercial Banks, Regional Rural Banks, State Cooperative Banks are scheduled banks.
- Non-schedule banks are those banks whose total paid up capital is less than Rs 5 lakh and RBI has no specific control over these banks. These banks are not included in the second schedule of RBI Act, 1934.

Note: In each country there exists a central bank, that controls the money supply and monetary policy of that country. It also acts as a bank to other banks, and a lender of last resort. In India, Reserve Bank of India (RBI) is the Central Bank which decides the monetary Policy.



Commercial Bank

- These are the banks which are doing the banking business, i.e. dealing with general public, accepting deposits from making loans to large numbers of households and firms.
- The process of accepting deposits and lending results in creating the flow of money in the economy. Examples of commercial banks are: State Bank India PNB, ICICI, HDFC, HSBC etc.
- Scheduled commercial banks (SCBs) account for a major proportion of the business of the scheduled banks.
- SCBs in India are categorized based on their ownership and/or their nature of operations.

Types of Scheduled Commercial Banks

- **Public Sector Banks:** These are banks where majority stake is held by the Government of India.
- **Private Sector Banks:** These are banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. Examples: ICICI Bank, Axis bank, HDFC, etc.
- **Foreign Banks:** These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Examples: HSBC, Citibank, Standard Chartered Bank, etc

- **Regional Rural Banks:** RRB's were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors.
- The area of operation of RRBs is limited to the area as notified by GoI covering one or more districts in the State.
- RRBs are jointly owned by GoI, the concerned State Government and Sponsor Banks.
- The issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.
- Prathama bank is the first Regional Rural Bank in India located in the city Moradabad in Uttar Pradesh.

Development Banks

- These are specialised financial institutions which are formed to promote economic development in the country.
- These banks provide medium term and long-term loans the entrepreneurs at relatively low rate of interest rates.

Co-operative banks

- Co-operative banks are organised under the provisions of the Cooperative societies law of the state. These banks were originally set up in India to provide credit to the farmers at cheaper rates. However, the co-operative banks function also in the urban sectors.
- It is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank.
- These banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts, etc).
- These banks are the primary financiers of agricultural activities, some small-scale industries and self-employed workers.
- Co-operative banks function on the basis of "no-profit no-loss".
- Anyonya Co-operative Bank Limited (ACBL) is the first co-operative bank in India located in the city of Vadodara in Gujarat.
- The co-operative banking structure in India is divided into following main 5 categories:
 1. Primary Urban Co-op Banks
 2. Primary Agricultural Credit Societies
 3. District Central Co-op Banks
 4. State Co-operative Banks
 5. Land Development Banks

Specialized Banks

- Banks which cater to the requirements and provide overall support for setting up business in specific areas of activity can be called as the Specialized banks.
- **EXIM Bank, SIDBI and NABARD** are examples of such banks. These banks are engaged in some specific area or activity and thus, are called specialised banks.

Total Number of Banks in India as per IBA (Indian Banks' Association) Website

- Total PSBs: 12
- Total Private Sector Banks: 22
- RRB's: 39
- Foreign Banks: 46



What is Pradhan Mantri MUDRA Yojana (PMMY)?

- PMMY is a scheme launched by PM Modi on April 8, 2015 for providing loans upto 10 lakh to the non-corporate, non-farm small/micro enterprises. These loans are classified as MUDRA loans under PMMY.
- These loans to be given by Commercial Banks, RRBs, Small Finance Banks, Cooperative Banks, MFIs and NBFCs.
- The borrower can approach any of the lending institutions mentioned above or can apply online through this portal.

Genesis of MUDRA



- In the Union Budget for FY 2015-16, the formation of MUDRA Bank was announced.
- MUDRA was registered as a Company in March 2015 under the Companies Act 2013 and as a Non-Banking Finance Institution with RBI.
- It was launched by PM Modi on 08 April 2015.

MUDRA Vision

- To be an integrated financial and support services provider par excellence benchmarked with global best practices and standards for the bottom of the pyramid universe for their comprehensive economic and social development.

MUDRA Mission

- To create an inclusive, sustainable and value based entrepreneurial culture, in collaboration with our partner institutions in achieving economic success and financial security.

MUDRA Purpose

- Our basic purpose is to attain development in an inclusive and sustainable manner by supporting and promoting partner institutions and creating an ecosystem of growth for micro enterprises sector.

The MUDRA

- The Micro Units Development & Refinance Agency Ltd (MUDRA) was set up by the Government of India (GoI).
- It was initially formed as a wholly owned subsidiary of Small Industries Development bank of India (SIDBI) with 100% capital being contributed by it.
- Presently, the authorized capital of MUDRA is 1000 crores and paid up capital is 750 crore, fully subscribed by SIDBI.
- It will be responsible for developing and refinancing all Micro-enterprises sector.
- It will partner with Banks, MFIs and other lending institutions at state level / regional level to provide micro finance support to the micro enterprise sector in the country

Note: Micro Finance is an economic development tool whose objective is to provide income generating opportunities to the people at the bottom of the pyramid. It includes provision of credit, other credit plus services, financial literacy and other social support services.

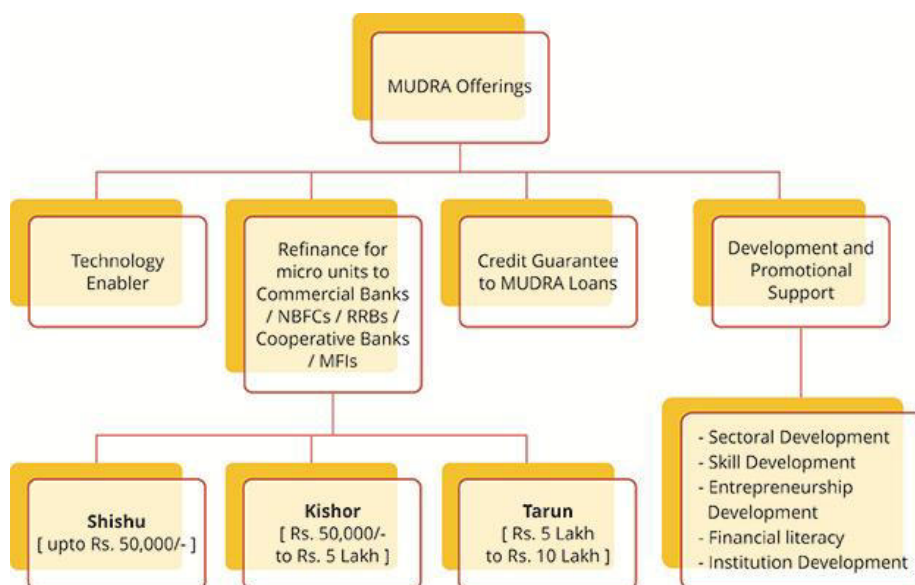
Note: SHRI MOHAMMAD MUSTAFA is the Chairman of MUDRA.

Roles and Responsibilities of MUDRA

- MUDRA has been formed with primary objective of developing the micro enterprise sector in the country by extending various support including financial support in the form of refinance.
- It will provide refinance support, monitor the PMMY data by managing the web portal, facilitate offering guarantees for loans granted under PMMY and take up other activities assigned to it from time to time.
- MUDRA has put in place a monitoring portal which captures the data on lending under PMMY, in a granular fashion.

THE PURPOSE OF MUDRA LOAN

- Mudra loan is extended for a variety of purposes which provides income generation and employment creation in Manufacturing, Services, Retail and Agri. Allied Activities.
- Under the aegis of Pradhan Mantri Mudra Yojana (PMMY), MUDRA has created products / schemes. The interventions have been named 'Shishu', 'Kishor' and 'Tarun' to signify the stage of growth / development and funding needs of the beneficiary micro unit / entrepreneur.
 - a) Shishu: covering loans upto Rs. 50,000/-
 - b) Kishor: covering loans above Rs. 50,000/- and upto Rs. 5 lakhs
 - c) Tarun: covering loans above Rs. 5 lakh & upto Rs. 10 lakhs
- The funding support from MUDRA are of four types:
 - d) Micro Credit Scheme (MCS) for loans upto 1 lakh finance through MFIs.
 - e) Refinance Scheme for Commercial Banks / Regional Rural Banks (RRBs) / Scheduled Co-operative Banks
 - f) Women Enterprise programme
 - g) Securitization of loan portfolio



What is the Refinance Scheme for Banks?

- Different banks like Commercial Banks, Regional Rural Banks and Scheduled Cooperative Banks are eligible to avail of refinance support from MUDRA for financing micro enterprise activities.
- The refinance is available for term loan and working capital loans, upto an amount of Rs. 10 lakh per unit.

What is MUDRA Card?

- MUDRA Card is an innovative product which provides working capital facility as a cash credit arrangement.
- MUDRA Card is a debit card issued against the MUDRA loan account, for working capital portion of the loan.
- National Payment Corporation of India (NPCI) has given RuPay branding to MUDRA Card and also separate BIN / IIN for the same, by which credit history can be tracked.



Note: MUDRA loans i.e. loans upto Rs. 10 lakh, have been made collateral free, as per the RBI norms for the Micro units.

Note:

- To mitigate the issue of collaterals, MUDRA is offering a Credit Guarantee Product. MUDRA Credit Guarantee is extended by creation of a Fund called "Credit Guarantee Fund for Micro Units" [CGFMU].
- Accordingly, all eligible micro loans sanctioned since April 08, 2015 is covered under the Scheme.
- The Scheme is being managed by National Credit Guarantee Trustee Company Ltd. [NCGTC], an agency promoted by the GOI.

Achievements Under PMMY Since Inception

Financial Year :	: 2017-2018
No. Of PMMY Loans Sanctioned :	: 48130593
Amount Sanctioned :	: 253677.10 CRORE
Amount Disbursed :	: ₹ 246437.40 CRORE

Last Updated on: 31/03/2018



Reserve Bank of India released the Guidelines for Licensing of Small Finance Banks (SFB) in the Private Sector. Let's discuss the key features of the Small Finance Banks.

Objectives behind the Small Finance Banks formation

To further financial inclusion by:

- provision of savings vehicles.
- supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

Who are the Eligible promoters i.e. who can apply for the Small Finance Banks?

- Resident individuals/professionals with **10 years of experience in banking and finance**; and companies and societies owned and controlled by residents will be eligible to set up small finance banks.
- Existing **Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), and Local Area Banks (LABs)** that are owned and controlled by residents can also opt for conversion into small finance banks.
- Promoter/promoter groups should be **'fit and proper' with a sound track record of professional experience or of running their businesses** for at least a period of **five years** in order to be eligible to promote small finance banks.

What the Small Finance Bank can do i.e. Scope of activities

- It shall primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
- There will not be any restriction in the area of operations of small finance banks.

Capital requirement & Promoter's Contribution

- The minimum paid-up equity capital for small finance banks shall be Rs. 100 crores.
- The promoter's minimum initial contribution to the paid-up equity capital of such small finance bank shall at least be 40% and gradually brought down to 26% within 12 years from the date of commencement of business of the bank.
- Note: The foreign shareholding in the small finance bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.

Prudential norms to be followed by SFB

- SFB will be subject to all prudential norms and regulations of RBI as applicable to existing commercial banks including requirement of maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
- SFB will be required to extend 75% of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank.
- At least 50% of its loan portfolio should constitute loans and advances of upto Rs. 25 lakh.

Who all were granted the “in-principle” approval to set up small finance banks?

RBI decided to grant “in-principle” approval to the following 10 applicants to set up small finance banks.

- Au Financiers (India) Ltd., Jaipur
- Capital Local Area Bank Ltd., Jalandhar
- Disha Microfin Private Ltd., Ahmedabad
- Equitas Holdings P Limited, Chennai
- ESAF Microfinance and Investments Private Ltd., Chennai
- Janalakshmi Financial Services Private Limited, Bengaluru
- RGVN (North East) Microfinance Limited, Guwahati
- Suryoday Micro Finance Private Ltd., Navi Mumbai
- Ujjivan Financial Services Private Ltd., Bengaluru
- Utkarsh Micro Finance Private Ltd., Varanasi

Head Office of Small Finance Banks

- Au Financiers (India) Ltd., Jaipur
- Capital Local Area Bank Ltd., Jalandhar
- Disha Microfin Private Ltd., Ahmedabad
- Equitas Holdings P Limited, Chennai
- ESAF Microfinance & Investments Private Ltd., Registered Office- Chennai, Corporate Office- Thrissur (Kerala)
- Janalakshmi Financial Services Private Limited, Bengaluru
- RGVN (North East) Microfinance Limited, Guwahati
- Suryoday Micro Finance Private Ltd., Navi Mumbai
- Ujjivan Financial Services Private Ltd., Bengaluru
- Utkarsh Micro Finance Private Ltd., Varanasi

Key Point



Jalandhar-based Capital Local Area Bank (CLAB) becomes India’s first small area finance bank (SFB).



Reserve Bank of India released the Guidelines for Licensing of Payments Banks. Let's discuss the key features of Payment Banks.

Objectives behind the Payments Banks formation

To further financial inclusion by:

- provision of savings vehicles.
- supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

Who are the Eligible promoters i.e. who can apply for the Payments Banks?

- Existing non-bank Prepaid Payment Instrument (PPI) issuers.
- Other entities such as individuals / professionals;
- Non-Banking Finance Companies (NBFCs), corporate Business Correspondents (BCs), mobile telephone companies, super-market chains, companies, real sector cooperatives; **that are owned and controlled by residents**; and public-sector entities may apply to set up payments banks.

Note: A promoter/promoter group can have a joint venture with an existing scheduled commercial bank to set up a payments bank.

- Promoter/promoter groups should be **'fit and proper' with a sound track record of professional experience or of running their businesses** for at least a period of **five years** in order to be eligible to promote payments banks.

What the Payments Banks can do i.e. Scope of activities

- Acceptance of demand deposits. Payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer.
- Issuance of ATM/debit cards. Payments banks, however, cannot issue credit cards.
- Payments and remittance services through various channels.
- BC of another bank, subject to the Reserve Bank guidelines on BCs.
- Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc.

Deployment of Funds under Payments Banks

- The payments bank **cannot undertake lending activities**.
- Apart from amounts maintained as CRR with the Reserve Bank on its outside demand and time liabilities, it will be required to **invest minimum 75 per cent of its "demand deposit balances" in Statutory Liquidity Ratio (SLR) eligible Government securities/treasury bills with maturity up to one year**.
- To **Hold maximum 25% in current and time/fixed deposits with other scheduled commercial banks** for operational purposes and liquidity management.

Capital requirement & Promoter's Contribution

- The minimum paid-up equity capital for payments banks shall be Rs. 100 crore.
- Payments bank should have a leverage ratio of not less than 3%, i.e., its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves).
- The promoter's minimum initial contribution to the paid-up equity capital of such payments bank shall at least be 40% for the first five years from the commencement of its business.

Note: The foreign shareholding in payments banks would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.

Note: The operations of the bank should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms.

- The bank should have a high-powered Customer Grievances Cell to handle customer complaints.

Who all were granted the “in-principle” approval to set up Payments Banks?

Reserve Bank of India decided to grant “in-principle” approval to the following 11 applicants to set up payments banks.

- Aditya Birla Nuvo Limited
- Airtel M Commerce Services Limited
- Cholamandalam Distribution Services Limited
- Department of Posts
- Fino PayTech Limited
- National Securities Depository Limited
- Reliance Industries Limited
- Shri Dilip Shantilal Shanghvi
- Shri Vijay Shekhar Sharma
- Tech Mahindra Limited
- Vodafone m-pesa Limited

Head Office of Payments Banks

- **Aditya Birla Nuvo Limited**- Veraval, Gujarat
- **Airtel M Commerce Services Limited**- Registered Office- New Delhi, Corporate Office- Gurugram, Haryana
- **Cholamandalam Distribution Services Limited**- Chennai
- **Department of Posts (IPPB)**- New Delhi
- **Fino PayTech Limited**- Navi Mumbai
- **National Securities Depository Limited**- Mumbai
- **Reliance Industries**- Mumbai
- **Vodafone m-pesa Limited**- Mumbai

Key Point



India's first Payments Bank is Airtel Payments Bank that started its services in Rajasthan.



Chapter 18

Credit card-Debit card-Smart card etc.

- There are many different payment methods out there: cash, debit cards, credit cards, ATM cards, and much more.
- All of these cards are different methods of payment, but some help you build your credit history and others do not.
- Types of payment cards can be distinguished on the basis of the features of each type of card, including:
 - ❖ Credit card
 - ❖ Charge card
 - ❖ Debit card
 - ❖ Prepaid Card
 - ❖ ATM card
 - ❖ Smart Card

Cards That Build Credit: Credit Cards and Charge Cards

Credit Cards

- A credit card allows you to make purchases with borrowed money, known as credit.
- As you spend and make purchases on your credit card, you will begin to build up a balance that needs to be repaid at the end of every month.
- The more immediate benefits of having a credit card are extra purchasing power and flexibility.
- Most businesses accept credit cards, and some services, including Uber and car rental agencies, only take payment from a credit card.

Charge Card

- Charge cards offer as large, often unlimited, credit limits for cardholders.
- The main difference between a charge card and credit card is that any charges made with a charge card must be paid in full by the end of every month. There is no minimum balance.
- Not paying your full balance on a charge card will result in fees and penalties.
- A charge card will build your credit history, however, a strong credit score is typically needed to be approved for a charge card.

Cards That Do Not Build Credit: Debit Cards, Prepaid Cards

Debit Card

- When you first open a checking account with a bank, you will most likely be asked to deposit money into this account. A debit card and your bank account are directly connected.
- Using a debit card will automatically deplete your bank account's funds. Most debit cards will have a credit network like VISA or Mastercard logo on them.
- Having these credit networks printed on them means that the debit card is accepted as a form of payment in many places.
- Despite this, using a debit card will not build your credit history.
- On a side note, a debit card can also be used to withdraw or deposit cash from an ATM. There are also cards specifically designed for this purpose called an ATM card.
- A debit card is secured by a 4-digit PIN for transactions at retail outlets, and at ATMs, and a 6 digit 3D secure password for online transactions which make the card secure from any fraudulent usage.

Prepaid Card

- Prepaid cards can be bought at department stores. When you purchase a prepaid card, you are loading money into it.
- After using all of your funds in your prepaid card, you can then reload it with additional money.
- A prepaid card eliminates the need for carrying cash but does not help build your credit history.

ATM card-

- An ATM card is a PIN-based card. That means that in addition to using it at ATMs, you may also be able to use it to make purchases (by entering your Personal Identification Number) if the merchant is using one of the same electronic ATM networks that's listed on the back of your card.

Key Differences – ATM Card vs. Debit Card-

- ATM Cards: Can only be used at ATMs
- Debit Cards: Can be used anywhere, but require a deposit

Smart Card-

- A smart card is a security token that has an embedded chip. Smart cards are typically the same size as a driver's license and can be made out of metal or plastic.
- They connect to a reader either by direct physical contact (also known as chip and dip) or through a short-range wireless connectivity standard such as Near Field Communication (NFC).
- The chip on a smart card can be either a microcontroller chip or an embedded memory chip.
- Smart cards are designed to be tamper-resistant and use encryption to provide protection for in-memory information.
- Those cards with a microcontroller chip have the ability to perform on-card processing functions and can add, delete and manipulate information in the chip's memory.

The logo for Adda247, featuring the word 'adda' in a grey sans-serif font and '247' in a pink sans-serif font, with a pink circular graphic element behind the numbers.

What is an Automated Teller Machine (ATM)?

- 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.

What are White Label ATMs (WLAs)?

- ATMs set up, owned and operated by non-banks are called White Label ATMs.
- Non-bank ATM operators are authorized under Payment & Settlement Systems Act, 2007 by the Reserve Bank of India.

Note: The rationale of allowing non-bank entity to set up White Label ATMs has been to increase the geographical spread of ATM for increased / enhanced customer service.

What type of cards can be used at an ATM/WLA?

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

Services/facilities available at ATMs/WLAs:

In addition to cash dispensing, ATMs/WLAs may offer many other services/facilities to bank customers which includes:

- Account Information
- Cash Deposit (**Acceptance of deposits are not permitted at WLAs**)
- Regular Bills Payment (**not permitted at WLAs**)
- Purchase of Re-load Vouchers for Mobiles (**not permitted at WLAs**)
- Mini/Short Statement
- PIN change
- Request for Cheque Book

ATM Transaction can be done with?

- Customer inserts /swipes his/her Card in the ATM/WLA and enters his/her Personal Identification Number (PIN).
- 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.

Important Facts to remember related to Transactions & Charges

With effect from November 01, 2014, a bank must offer to its savings bank account holders a **minimum number of free transactions** at ATMs as under:

- **Transactions at a bank's own ATMs at any location: minimum 5 free transactions in a month**
- **Transactions at any other banks' ATMs at Metro locations:** In case of ATMs located in six metro locations, viz. Mumbai, New Delhi, Chennai, Kolkata, Bengaluru and Hyderabad, **3 minimum transactions in a month.**
- **Transactions at any other banks' ATMs at Non-Metro locations: Minimum of 5 free transactions in a month.**

Note: Customers can be charged for transactions at ATMs over and above the mandated number of free transactions. The customer can be **charged a maximum of Rs. 20/- per transaction** (plus service tax, if any) by his/her bank.

The Case of of failed ATM transaction at other bank/white label ATMs, when his / her account is debited?

- Customer should lodge a complaint with the card issuing bank at the earliest.
- As per the RBI instructions, banks have been mandated to resolve customer complaints by re-crediting the customer's account within 7 working days from the date of complaint.
- Effective from July 1, 2011, banks have to pay compensation of Rs. 100/- per day for delays in re-crediting the amount beyond 7 working days from the date of receipt of complaint for failed ATM transactions.
- The customer can take recourse to the Banking Ombudsman, if the grievance is not redressed by his/her card issuing bank.

What are the Types of ATM

- **On-Site ATMs:** These are the ATMs which are operated/located inside the Bank premises.
- **Offsite ATMs:** These are the ATMs which are located outside the bank premises such as shopping malls, Residential Societies, etc.
- **White Label ATM:** These are the ATMs which are owned & Operated by Non-Banking Financial Company).
- **Green Label ATM:** These are the ATMs which are installed mainly for transactions related to Agriculture.
- **Orange Label ATM:** These are the ATMs which are installed mainly for Shares transactions.
- **Yellow Label ATM:** These are the ATMs which are installed mainly for e-Commerce transactions.
- **Pink Label ATM:** These are the ATMs which are installed mainly for women Banking.
- **Brown Label ATM:** These are those ATMs where the machine is not owned by the bank rather it has taken it on lease.

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Chapter 20

Priority Sector Lending

What is Priority sector lending (PSL)?

- Priority sector are all those sectors that is very important for the economic development of the country.
- Priority sector lending (PSL) means providing institutional credit to these sectors and segments as it is difficult for these sectors to get credit.
- Priority Sector Lending is an important role given by the Reserve Bank of India (RBI) to the banks for providing a specified portion of the bank lending to few specific sectors.

What are the different categories/sectors under priority sector?

Priority Sector includes the following categories:

1. Agriculture
2. Micro, Small and Medium Enterprises
3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Others

Targets and Sub-targets for banks under priority sector?

Categories	Domestic Scheduled commercial banks (excluding RRB's & Small Finance Banks) and Foreign banks with 20 branches and above	Foreign banks with less than 20 branches
Total Priority Sector	40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, to be achieved in a phased manner by 2020.
Agriculture #	18 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers.	Not applicable
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	Not applicable
Advances to Weaker Sections	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher	Not applicable

Domestic banks have been directed to ensure that their overall direct lending to non-corporate farmers does not fall below the system-wide average of the last three years achievement.

Now, let's discuss about the Priority Sector Lending, its Targets and Classification (As on 18th April 2018)

Categories under 'Agriculture' are as follows:

- The activities covered under Agriculture are classified under three sub-categories viz. Farm credit, Agriculture infrastructure and Ancillary activities.

Limits prescribed for loans sanctioned to Micro, Small and Medium Enterprises to be classified as priority sector

- For classification under priority sector, no limits are prescribed for bank loans sanctioned to **Micro, Small and Medium Enterprises engaged in the manufacture or production of goods under any industry specified** in the first schedule to the Industries (Development and Regulation) Act, 1951.
- Bank loans to **Micro, Small and Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006, irrespective of loan limits, are eligible** for classification under priority sector, w.e.f. March 1, 2018.

Loan limit for education under priority sector

- Loans to individuals for educational purposes including vocational courses **upto ₹10 lakh irrespective of the sanctioned amount are eligible for classification under priority sector.**

Credit Limits for social infrastructure loans under priority sector

- **Bank loans up to a limit of ₹5 crore per borrower for building social infrastructure for activities** namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres are eligible for classification under priority sector.
- **Bank credit to Micro Finance Institutions (MFI) extended for on-lending to individuals/ members of SHGs/ JLGs for water and sanitation facilities** is also eligible for classification as priority sector loans under 'Social Infrastructure'.

Credit Limits for loans for renewable energy under priority sector

- Bank loans up to a limit of ₹15 crore to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities viz. street lighting systems, and remote village electrification are eligible to be classified under priority sector loans under 'Renewable Energy'.
- For individual households, the loan limit is ₹10 lakh per borrower.

Limit for housing loans under priority sector

- Loans to individuals **up to ₹28 lakh in metropolitan centres (with population of ten lakh and above) and loans up to ₹20 lakh in other centres** for purchase/construction of a dwelling unit per family, are eligible provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceeds ₹35 lakh and ₹25 lakh, respectively.
- **Housing loans to banks' own employees are not eligible** for classification under priority sector.

Who all are included under Weaker Sections Category under priority sector

Priority sector loans to the following borrowers are eligible to be considered under Weaker Sections category:

- Small and Marginal Farmers
- Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh
- Beneficiaries under Government Sponsored Schemes such as National Rural Livelihoods Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
- Scheduled Castes and Scheduled Tribes
- Beneficiaries of Differential Rate of Interest (DRI) scheme
- Self Help Groups

- Distressed farmers indebted to non-institutional lenders
- Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders
- Individual women beneficiaries up to ₹1 lakh per borrower
- Persons with disabilities
- Overdrafts upto ₹5,000/- under Pradhan Mantri Jan-DhanYojana (PMJDY) accounts, provided the borrowers' household annual income does not exceed ₹100,000/- for rural areas and ₹1,60,000/- for non-rural areas
- Minority communities as may be notified by Government of India from time to time.

Note: Bank credit to MFIs (NBFC-MFIs, societies, trusts, etc) extended for on-lending to individuals and also to members of SHGs/JLGs is eligible for categorisation as priority sector advance under respective categories viz., Agriculture, Micro, Small and Medium Enterprises, Social Infrastructure and Others.

What are Priority Sector Lending Certificates (PSLCs)?

- Priority Sector Lending Certificates (PSLCs) are a mechanism to enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall.
- This also incentivizes surplus banks as it allows them to sell their excess achievement over targets thereby enhancing lending to the categories under priority sector.
- Under the PSLC mechanism, the seller sells fulfilment of priority sector obligation and the buyer buys the obligation with no transfer of risk or loan assets.

Rate of interest for loans under priority sector

- The rate of interest on bank loans will be as per directives issued by the Department of Banking Regulation of RBI, from time to time.
- Priority sector guidelines do not lay down any preferential rate of interest for priority sector loans.

Recent Updates on PSL by RBI?

- It has been decided that the sub-target of 8% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher, shall become applicable for the foreign banks with 20 branches and above, for lending to the small and marginal farmers from FY 2018-19.
- The sub-target of 7.50% of ANBC or CEOBE, whichever is higher, for bank lending to the Micro Enterprises shall also become applicable for the foreign banks with 20 branches and above from FY 2018-19.
- It has been decided to remove the currently applicable loan limits of ₹5 crore and ₹10 crore per borrower to Micro/ Small and Medium Enterprises (Services) respectively, for classification under priority sector.
- Accordingly, all bank loans to MSMEs, engaged in providing or rendering of services as defined in terms of investment in equipment under MSMED Act, 2006, shall qualify under priority sector without any credit cap.

Let's Discuss more points related to PSL Categories

Target for foreign banks with less than 20 branches in India

- Total Priority Sector target of 40 percent for foreign banks with less than 20 branches has to be achieved in a phased manner as under:

Financial Year	Total Priority Sector as% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher
2017-18	36
2018-19	38
2019-20	40

- The additional priority sector lending target of 2 percent of ANBC each year from 2016-17 to 2019-20 has to be achieved by lending to sectors other than exports.

Computation of Adjusted Net Bank Credit (ANBC) Bank Credit in India	I
Bills Rediscounted with RBI & other approved FIs	II
Net Bank Credit (NBC)*	III (I-II)
Bonds/debentures in Non-SLR categories under HTM category+ other investments eligible to be treated as priority sector +Outstanding Deposits under RIDF & other eligible funds with NABARD, NHB and SIDBI on account of priority sector shortfall + outstanding PSLCs	IV
Eligible amount for exemptions on issuance of long-term bonds for infrastructure and affordable housing	V
Eligible advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements.	VI
ANBC	III+IV-V-VI

Agriculture

- Farmers with landholding of up to 1 hectare are considered as Marginal Farmers.
- Farmers with a landholding of more than 1 hectare and upto 2 hectares are considered as Small Farmers.

Micro, Small and Medium Enterprises (MSMEs)

- The limits for investment in plant and machinery/equipment for manufacturing / service enterprise, as notified by Ministry of Micro, Small and Medium Enterprises, dated September 9, 2006 are as under:

Manufacturing Sector

Enterprises	Investment in plant and machinery
Micro Enterprises	Does not exceed 25 lakh rupees
Small Enterprises	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium Enterprises	More than 5 crore rupees but does not exceed 10 crore rupees

Service Sector

Enterprises	Investment in equipment
Micro Enterprises	Does not exceed 10 rupees
Small Enterprises	More than 10 rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 crore rupees

Note: All loans to units in the KVI sector will be eligible for classification under the sub-target of 7 percent /7.5 percent prescribed for Micro Enterprises under priority sector.

Export Credit

- The Export Credit extended as per the details below would be classified as priority sector.

Domestic banks	Foreign banks with 20 branches and above	Foreign banks with less than 20 branches
Incremental export credit over corresponding date of the preceding year, up to 2% of ANBC or CEOBE, whichever is higher, effective from April 1, 2015 subject to a sanctioned limit of ₹25 crore per borrower to units having turnover of up to ₹100 crore.	Incremental export credit over corresponding date of the preceding year, up to 2 % of ANBC or CEOBE, whichever is higher, effective from April 1, 2017.	Export credit will be allowed up to 32 percent of ANBC or CEOBE, whichever is higher.

Housing

- Loans for repairs to damaged dwelling units of families up to ₹5 lakh in metropolitan centres and up to ₹2 lakh in other centres.
- Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of ₹10 lakh per dwelling unit.

- Bank loans to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of ₹10 lakh per borrower.

Others

- Loans not exceeding ₹50,000/- per borrower provided directly by banks to individuals and their SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed ₹100,000/- and for non-rural areas it does not exceed ₹1,60,000/-.
- Loans to distressed persons not exceeding ₹100,000/- per borrower to prepay their debt to non-institutional lenders.
- Loans sanctioned to State Sponsored Organisations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs and/or the marketing of the outputs of the beneficiaries of these organisations.

Other Important Points related to PSL

Monitoring of Priority Sector Lending targets

- To ensure continuous flow of credit to priority sector, there will be more frequent monitoring of priority sector lending compliance of banks on 'quarterly' basis instead of annual basis as of now.
- The data on priority sector advances have to be furnished by banks at quarterly and annual intervals as per revised reporting formats.
-
- Non-achievement of Priority Sector targets
- Scheduled Commercial Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other Funds with NABARD/NHB/SIDBI, as decided by the Reserve Bank from time to time.
- The interest rates on banks' contribution to RIDF or any other Funds, tenure of deposits, etc. shall be fixed by RBI.

What is On-lending?

- Loans sanctioned by banks to eligible intermediaries for onward lending only for creation of priority sector assets.





निक्षेप बीमा और प्रत्यय गारंटी निगम

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

(भारतीय रिज़र्व बैंक के संपूर्ण स्वामित्व वाली सहयोगी) Wholly owned subsidiary of the Reserve Bank of India

How the route to DICGC begins? A Brief History

- The Deposit Insurance Corporation (DIC) Bill was introduced in the Parliament on August 21, 1961. It got the assent of the President on December 7, 1961 and the Deposit Insurance Act, 1961 came into force on January 1, 1962.
- Initially, the Deposit Insurance Scheme extended to functioning commercial banks only. This included the SBI and its subsidiaries, other commercial banks and the branches of the foreign banks operating in India.
- Since 1968, with the enactment of the Deposit Insurance Corporation (Amendment) Act, 1968, the Corporation was required to register the 'eligible co-operative banks' as insured banks under the provisions of Section 13 A of the Act.
- The Government of India, in consultation with **RBI, introduced a Credit Guarantee Scheme in July 1960.**
- RBI promoted a public limited company on January 14, 1971, named the **Credit Guarantee Corporation of India Ltd. (CGCI)**. It was aimed at encouraging the commercial banks to cater to the credit needs of the hitherto neglected sectors.
- With a view to integrating the functions of deposit insurance and credit guarantee, the **above two organizations (DIC & CGCI) were merged and the present Deposit Insurance and Credit Guarantee Corporation (DICGC) came into existence on July 15, 1978.** Also, the title of Deposit Insurance Act, 1961 was changed to '**The Deposit Insurance and Credit Guarantee Corporation Act, 1961**'.

MISSION of DICGC

- To contribute to financial stability by securing public confidence in the banking system through provision of deposit insurance, particularly for the benefit of the small depositors.

VISION of DICGC

- To be recognised as one of the most efficient and effective deposit insurance providers, responsive to the needs of its stakeholders.

Key Points to look at...

- The functions of the DICGC are governed by the provisions of 'The Deposit Insurance and Credit Guarantee Corporation Act, 1961' (DICGC Act).
- The authorized capital of the Corporation is 50 crores, which is fully issued and subscribed by the Reserve Bank of India (RBI).
- The Head Office of the Corporation is at Mumbai.
- The Current Chairman of DICGC is Shri. B.P.Kanungo, who is currently one of the Deputy Governor of RBI. He was nominated by RBI under Section 6(1)(a) of The Deposit Insurance and Credit Guarantee Corporation Act, 1961.

Banks covered under DICGC?

- All commercial banks including the branches of foreign banks functioning in India, Local Area Banks and Regional Rural Banks.
- Co-operative Banks - All eligible co-operative banks as defined in Section 2(gg) of the DICGC Act are covered by the Deposit Insurance Scheme.
- At present all Co-operative banks are covered by the Scheme.

Insurance Coverage under DICGC

- Under the provisions of Section 16(1) of the DICGC Act, the insurance cover is given.
- Each depositor in a bank is insured upto a maximum of 1,00,000 (Rupees One Lakh) 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.

Types of Deposits covered under DICGC

- DICGC insures all bank deposits, such as saving, fixed, current, recurring, etc. except the given following types of deposits.
- Deposits of foreign Governments;
- Deposits of Central/State Governments;
- Inter-bank deposits
- Deposits of the State Land Development Banks with the State co-operative banks;
- Any amount due on account of and deposit received outside India
- Any amount which has been specifically exempted by the corporation with the previous approval of the RBI.

Notes:

- If you have deposits with more than one bank, deposit insurance coverage limit is applied separately to the deposits in each bank.
- Deposit insurance premium is borne entirely by the insured bank.
- The deposit insurance scheme is compulsory and no bank can withdraw from it.
- Premium charged is 10 paise per 100 assessable deposits. The Formula to calculate this is:
- Premium = Deposits in rupees rounded to thousands $\times 0.10 / 100$

When is the DICGC liable to pay?

- If a bank goes into liquidation: Amount of his deposit upto Rupees one lakh within two months from the date of receipt of claim list from the liquidator.
- If a bank is reconstructed or amalgamated/merged with another bank.



Financial inclusion involves

- Give formal banking services to poor people in urban & rural areas.
- Promote habit of money-savings, insurance, pension-investment among poor-people.
- Help them get loans at reasonable rates from normal banks. So, they don't become victims in the hands of local moneylender.

Some Important initiatives for Financial Inclusion

- Lead banking scheme (LBS).
- No frills account.
- BSBDA
- Business Correspondents (BC) system.
- Swabhiman Campaign
- PMJDY

Lead Bank Scheme

- Lead Bank Scheme, introduced towards the end of 1969, envisages assignment of lead roles to individual banks (both in public sector & private sector) for the districts allotted to them.
- A bank having a relatively large network of branches in the rural areas of a given district & endowed with adequate financial & manpower resources has generally been entrusted with the lead responsibility for that district. Accordingly, all the districts in the country have been allotted to various banks.
- The lead bank acts as a leader for coordinating the efforts of all credit institutions in the allotted districts.

No Frill Account

- 'No Frills' account is a basic banking account. Such account requires either nil minimum balance or very low minimum balance. Charges applicable to such accounts are low.
- The RBI in 2005-06 called upon Indian banks to design a 'no frills account' – a no precondition, low 'minimum balance maintenance' account with simplified KYC (Know Your Customer) norms.
- But all the existing 'No-frills' accounts opened were converted into BSBDA in compliance with the guidelines issued by RBI in 2012.

What is BSBDA (Basic Savings and Bank Deposit A/c)?

In 2012, RBI introduced BSBDA. Some important points are:

- This account shall not have the requirement of any minimum balance.
- The services available in the account will include: deposit & withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by Central/State Govt. agencies & departments;
- While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals.
- Facility of ATM card or ATM-cum-Debit Card.

Business Correspondent

- BCs are bank representatives. They personally go to area allotted to them & carry out banking. They help villagers to open bank accounts, in banking transactions etc.
- Business Correspondents get commission from bank for every new account opened, every transaction made via them, every loan-application processed etc.

Current Status of the Pradhan Mantri Jan - Dhan Yojana as on 29/07/2020

Bank Type (In Crore)	Number of Beneficiaries at rural/semi-urban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	No of Rural-Urban Female Beneficiaries	Number of Total Beneficiaries	Deposits in Accounts (In Crore)	Number of Rupay Debit Cards issued to beneficiaries
Public Sector Banks	18.69	13.15	17.41	31.84	100419.19	25.34
Regional Rural Banks	6.14	0.90	4.06	7.03	25377.57	3.15
Private Sector Banks	0.69	0.57	0.68	1.26	3960.19	1.15
Grand Total	25.52	14.62	22.14	40.14	129756.95	29.64

Pradhan Mantri Jan Dhan Yojana (PMJDY)

- Hon'ble Prime Minister announced Pradhan Mantri Jan Dhan Yojana as the National Mission on Financial Inclusion in his Independence Day address on 15th August 2014, to ensure comprehensive financial inclusion of all the households in the country by providing universal access to banking facilities with at least one basic bank account to every household, financial literacy, access to credit, insurance and pension facility.
- Under this, a person not having a savings account can open an account without the requirement of any minimum balance and, in case they self-certify that they do not have any of the officially valid documents required for opening a savings account, they may open a small account.
- Further, to expand the reach of banking services, all of over 6 lakh villages in the country were mapped into 1.59 lakh Sub Service Areas (SSAs), with each SSA typically comprising of 1,000 to 1,500 households, and in the 1.26 lakh SSAs that did not have a bank branch, Bank Mitras were deployed for branchless banking.
- Thus, PMJDY offers unbanked persons easy access to banking services and awareness about financial products through financial literacy programmes. In addition, they receive a RuPay debit card, with inbuilt accident insurance cover of Rs. 1 lakh, and access to overdraft facility upon satisfactory operation of account or credit history of six months.
- Further, through Prime Minister's Social Security Schemes, launched by the Hon'ble Prime Minister on 9th May 2015, all eligible account holders can access through their bank accounts personal accident insurance cover under Pradhan Mantri Suraksha Bima Yojana, life insurance cover under Pradhan Mantri Jeevan Jyoti Bima Yojana, and guaranteed minimum pension to subscribers under Atal Pension Yojana.

- PMJDY was conceived as a bold, innovative and ambitious mission. Census 2011 estimated that out of 24.67 crore households in the country, 14.48 crore (58.7%) had access to banking services. In the first phase of the scheme, these households were targeted for inclusion through opening of a bank account within a year of launch of the scheme.
- The actual achievement, by 26th January 2015, was 12.55 crore. as on 26.12. 2018, , the number of accounts has grown to 33.66 crore. Further, in 2011, only 0.33 lakh SSAs had banking facility and through provision of Bank Mitras in 1.26 lakh branchless SSAs, banking services were extended throughout rural India. Out of total savings accounts, there were overall 27% female accounts in March 2014. However, under PMJDY, women accounts constitute 53% of the total Jan Dhan accounts as on 30.3.2019.
- The deposit base of PMJDY accounts has expanded over time. As on 30.3.2019, the deposit balance in PMJDY accounts was Rs 96,107 crore. The average deposit per account has more than doubled from Rs. 1,064 in March 2015 to Rs. 2,725 as on 30.3.2019.

From Jan Dhan to Jan Suraksha-

For creating a universal social security system for all Indians, especially the poor and the under-privileged the Hon'ble Prime Minister launched three Social Security Schemes in the Insurance and Pension sectors on 9th of May 2015.

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

- The PMJJBY is available to people in the age group of 18 to 50 years having a bank account who give their consent to join / enable auto-debit. Aadhar is the primary KYC for the bank account. The life cover of Rs. 2 lakh is for the one year period stretching from 1st June to 31st May and is renewable. Risk coverage under this scheme is for Rs. 2 lakh in case of death of the insured, due to any reason.
- The premium is Rs. 330 per annum which is to be auto-debited in one installment from the subscriber's bank account as per the option given by him on or before 31st May of each annual coverage period under the scheme.
- The scheme is being offered by the Life Insurance Corporation and all other life insurers who are willing to offer the product on similar terms with necessary approvals and tie up with banks for this purpose.
- As on 31st March, 2017, cumulative gross enrollment reported by banks subject to verification of eligibility, etc. is over 3.10 crore under PMJJBY. A total of 62166 claims were registered under PMJJBY of which 59118 have been disbursed.

Pradhan Mantri Suraksha Bima Yojana (PMSBY)

- The Scheme is available to people in the age group 18 to 70 years with a bank account who give their consent to join/ enable auto-debit on or before 31st May for the coverage period 1st June to 31st May on an annual renewal basis. Aadhar would be the primary KYC for the bank account.
- The risk coverage under the scheme is Rs. 2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability.
- The premium of Rs.12 per annum is to be deducted from the account holder's bank account through 'auto-debit' facility in one installment.

- The scheme is being offered by Public Sector General Insurance Companies or any other General Insurance Company who are willing to offer the product on similar terms with necessary approvals and tie up with banks for this purpose.
- As on 31st March, 2017, cumulative gross enrolment reported by Banks subject to verification of eligibility, etc. is over 9.94 crore under PMSBY.
- A total of 12,534 Claims were registered under PMSBY of which 9,403 have been disbursed.

Atal Pension Yojana (APY)

- APY was launched on 9th May, 2015 by the Prime Minister. APY is open to all saving bank/post office saving bank account holders in the age group of 18 to 40 years and the contributions differ, based on pension amount chosen.
- Subscribers would receive the guaranteed minimum monthly pension of Rs. 1,000 or Rs. 2,000 or Rs. 3,000 or Rs. 4,000 or Rs. 5,000 at the age of 60 years.
- Under APY, the monthly pension would be available to the subscriber, and after him to his spouse and after their death, the pension corpus, as accumulated at age 60 of the subscriber, would be returned to the nominee of the subscriber.
- The minimum pension would be guaranteed by the Government, i.e., if the accumulated corpus based on contributions earns a lower than estimated return on investment and is inadequate to provide the minimum guaranteed pension, the Central Government would fund such inadequacy.
- Alternatively, if the returns on investment are higher, the subscribers would get enhanced pensionary benefits.
- In the event of pre-mature death of the subscriber, Government has decided to give an option to the spouse of the subscriber to continue contributing to APY account of the subscriber, for the remaining vesting period, till the original subscriber would have attained the age of 60 years.
- The spouse of the subscriber shall be entitled to receive the same pension amount as that of the subscriber until the death of the spouse.
- After the death of both the subscriber and the spouse, the nominee of the subscriber shall be entitled to receive the pension wealth, as accumulated till age 60 of the subscriber. As on 31st March, 2017, a total of 48.54 lakh subscribers have been enrolled under APY with a total pension wealth of Rs. 1,756.48 crore.



Government constitutes Banks Board Bureau (BBB) to Improve the Governance of Public Sector Banks.

Shri Vinod Rai, Former CAG of India was appointed as the 1st Chairman of Banks Board Bureau.

With a view to improve the Governance of Public Sector Banks (PSBs), the Government had decided to set up an autonomous Banks Board Bureau. The Bureau will recommend for selection of heads - Public Sector Banks and Financial Institutions and help Banks in developing strategies and capital raising plans.

Government announced the constitution of Banks Board Bureau which will have three ex-officio members and three expert members in addition to Chairman. All the Members and Chairman will be part time.

Introduction

- The Banks Board Bureau has its genesis in the recommendations of The Committee to Review Governance of Boards of Banks in India, May 2014. Thereafter, on February 28, 2016, the Government of India, announced the constitution and composition of the Bureau.
- The Bureau started functioning from April 01, 2016 as an autonomous recommendatory body.
- The objective is to help prepare the banks in the public-sector universe to take on the competition, have the ability to appropriately manage and price risk across business cycles, develop resilience to generate internal capital and have the capacity to generate external capital warding of the moral hazard in counting on the scarce budgetary resources of tax payers.
- The Bureau is also engaging with the Public-Sector Banks (PSBs) to help build capacity to attract, retain and nurture both talent and technology - the two key differentiators of business competencies in the days to come.
- While the Bureau is working towards attracting the best personages on the boards, it is these boards which should drive the overall strategy of a bank within its risk capacity and also act as custodians who should reconcile the diverse interests of various stakeholders.
- Banks Board Bureau (BBB) is an autonomous body of the Government of India tasked to improve the governance of Public Sector Banks, recommend selection of chiefs of government owned banks and financial institutions and to help banks in developing strategies and capital raising plans. In February 2016, the Modi government approved the proposal for setting up BBB and it started functioning from April 2016.
- The BBB works as step towards governance reforms in Public Sector Banks (PSBs) as recommended by P.J. Nayak Committee.
- Shri Bhanu Pratap Sharma is the Current Chairman of BBB.
- It is housed in RBI's Central Office in Mumbai.
- The BBB was the part of Indradhanush Plan of government.

Functions of the Banks Board Bureau

- To be responsible for the selection and appointment of Board of Directors in PSBs and FIs (Whole-time Directors and Non-Executive Chairman);
- To advise the Government on matters relating to appointments, confirmation or extension of tenure and termination of services of the Board of Directors of the above mentioned levels;
- To advise the Government on the desired structure at the Board level, and, for senior management personnel, for each PSB and FI;

- To advise the Government on evolving suitable training and development programmes for management personnel in PSBs/FIs; and
- To advise the Government on the formulation and enforcement of a code of conduct and ethics for managerial personal in PSBs/FIs;
- To build a data bank containing data relating to the performance of PSBs/FIs, its senior management and the Board of Directors and share the same with Government;
- To help banks to develop a robust leadership succession plan for critical positions that would arise in future through appropriate HR processes including performance management systems.
- To help banks in terms of developing business strategies and capital raising plan etc.

Banks Board Bureau Members as on 2nd July 2019

- Shri Bhanu Pratap Sharma: **Chairman**
- Shri Debasish Panda: **Ex-officio member**
- Shri Sailesh: **Ex-officio member**
- Shri N. S. Vishwanathan: **Ex-officio member**
- Ms Vedika Bhandarkar: **Part-time member**
- Shri Panja Pradeep Kumar: **Part-time member**
- Shri Pradip Panalal Shah: **Part-time member**



- **Reserve Bank of India Act, 1934 (RBI Act)** has been amended by **the Finance Act, 2016**, to provide for a statutory and institutionalised framework for a **Monetary Policy Committee**, for maintaining price stability, while keeping in mind the objective of growth.
- The committee was created in 2016 to bring transparency and accountability in fixing India's Monetary Policy.
- Monetary Policy Committee would be entrusted with the task of fixing the benchmark policy rate (repo rate) required to contain inflation within the specified target level.
- A Committee-based approach for determining the Monetary Policy will add lot of value and transparency to monetary policy decisions.
- The meetings of the Monetary Policy Committee shall be held at least 4 times a year and it shall publish its decisions after each such meeting.
- As per the provisions of the RBI Act, out of the six Members of Monetary Policy Committee, three Members will be from the RBI and the other three Members of MPC will be appointed by the Central Government.
- The Monetary Policy Committee of India is a committee of the Reserve Bank of India that is responsible for fixing the benchmark interest rate in India. The meetings of the Monetary Policy Committee are held at least 4 times a year and it publishes its decisions after each such meeting.
- The Governor of Reserve Bank of India is the chairperson ex officio of the committee. Decisions are taken by majority with the Governor having the casting vote in case of a tie.
- The current mandate of the committee is to maintain 4% annual inflation until March 31, 2021 with an upper tolerance of 6% and a lower tolerance of 2%.

Composition of MPC

The composition of the current and first monetary policy committee is as follows:

- Governor of the Reserve Bank of India- **Chairperson, ex officio - Shaktikanta Das**
- **Deputy Governor of the Bank, in charge of Monetary Policy-Member, ex officio- BP Kanungo**
- **One officer of RBI to be nominated by the Central Board- Member, ex officio- Michael Patra**
- **Shri Chetan Ghate**, Professor, Indian Statistical Institute (ISI) - Member
- **Professor Pami Dua**, Director, Delhi School of Economics - Member
- **Dr. Ravindra H. Dholakia**, Professor, Indian Institute of Management, Ahmedabad - Member

Note: Members referred to at 4 to 6 above, will hold office for a period of four years from the date of appointment while the other three members are official.



- The Indian Banks' Association (IBA) was formed on the September 26, 1946 with 22 members.
- As on July 2, 2019 the total Membership of the Association is 246.
 - Ordinary: 144
 - Associate: 102
- The members comprise of
 - Public Sector Banks
 - Private Sector Banks
 - Foreign Banks having offices in India and
 - Co-operative Banks.
 - Regional Rural Banks
 - All India Financial Institution
- Mr. V.G. Kannan is the Current Chief Executive.
- Mr. B Raj Kumar is the Current Deputy Chief Executive.
- Shri Sunil Mehta is the Current CHAIRMAN of IBA.

Objective of IBA

- To promote and develop in India sound and progressive banking principles, practices and conventions and to contribute to the developments of creative banking.
- To render assistance and to provide various common services to Members and to the banking industry.
- To develop and implement new ideas and innovations in banking services, operations and procedures.
- To organize co-ordination and co-operation on procedural, legal, technical, administrative or professional problems and practices of banks and the banking industry.
 1. To initiate advance planning for introduction of new systems or services in the banking industry.
 2. To collect, classify and circulate statistical and other information on the structure and working of the banking system.
 3. To act as a clearing house for dissemination and exchange of statistical data, information, views and opinions on the systems, procedures and practices, and organization and methods of banks and on the structure, working and operations of the banking system.
 4. To explore, plan, co-ordinate and organize detailed surveys on banking, business, resources, personnel and management development programmes of banks and the banking industry.
 5. To pool together talents and resources available with members and to organize exchange of expertise and experiences of members for simplifying forms and procedures, for reducing cost of operations, for increasing efficiency and productivity and for such other common purposes as may be necessary or relevant to banks and the banking industry.
 6. To organize exchange of credit information and opinions, export information or information and views on any other aspects of interest to banks or the banking industry.
 7. To promote education and knowledge of the law and practice of banking.
 8. To issue periodical newsletters, bulletins or magazines and publish books, pamphlets or other literature on matters of interest to members and to the banking industry.
 9. To project a good public image of banking as a service industry and develop good public relations.

1. To promote harmonious personnel relations in banking industry and to devise ways and means for involving banking personnel in the endeavours of banks for growth and development of banking and the economy of the country.
 - To organize, promote and afford facilities for indoor and outdoor games, any form of sports, recreation, sports competitions, events, cultural activities, social activities, fine arts, social meetings, entertainments and to organize meetings for the above purposes and to provide for purposes by purchasing, acquiring, taking on lease, own, hire or otherwise playing fields, grounds, buildings, pavilions and other facilities.
 - To give financial assistance to individuals or bodies, from out of its own funds, or by collection from its members, or from any other source, and for the purpose of such collection, to accept grants, donations, etc. in cash or kind from Government, its members, other organizations, members of the public, etc. and to collect subscriptions, membership and other fees and to levy fees or charges for the use of the facilities and to raise funds in any manner to strengthen the financial position of the Association, from time to time, for the purpose of providing education, training and facilities for imparting basic, advance knowledge and techniques in games, sports, cultural activities, social activities, fine arts, etc. and to give donations, technical and other assistance, sports equipments, sports facilities and expert guidance to organizers for this purpose whether its members or not and to conduct, organize, participate or to associate itself in State-Level, Nation, International Tournaments and competitions pertaining to sports, cultural activities, social activities, fine arts, etc., held in or outside India.
 - To found, establish, develop and finance a separate body for the promotion of objects contained in Clauses n, nn, nnn, and generally, and to register it as a Society and/or Public Trust, or a Company under the provisions or relevant Acts, as the case may be.
 - To maintain continuous communications with the representatives of bank employees, to conduct talks, discussions, and negotiations with them and to arrive at Settlements.
 - To provide assistance and guidance to members in interpretation and implementation of Awards, Settlements, etc.
 - To assist, advise and guide all members and the smaller members in particular on all their needs, difficulties and problems of growth, development and working.
 - To act as an agent or a representative of a member or members in respect of matters connected with any of their operations working or administration.
 - To maintain close co-ordination and liaison with Reserve Bank of India, All Financial Institutions, Chambers of Commerce, Organisations of Banking Industry, Management or Educational Institutes, Universities and such other Organisations for realizing the subject and purposes of the Association.
 - Generally, to do all and any other thing that may be necessary or relevant for the realization of the objects and purposes of the Association directly or indirectly.
 - To carry on publicity for the purpose of educating public opinion with regard to the scope, importance and activities of the banking industry, for creative growth and development.
 - To do all and such other things as are incidental or conducive to the attainment of any or all of the above objects.





All About NPCI

- National Payments Corporation of India (NPCI), an umbrella organisation for operating retail payments and settlement systems in India, is an initiative of Reserve Bank of India (RBI) and Indian Banks' Association (IBA) under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment & Settlement Infrastructure in India.
- Founded in 2008, NPCI is a not-for-profit organisation registered under section 8 of the Companies Act 2013.
- The ten core promoter banks are State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union Bank of India, Bank of India, ICICI Bank, HDFC Bank, Citibank N. A. and HSBC.
- Dilip Asbe is the currently the MD & CEO of NPCI.
- Mr. Biswamohan Mahapatra is the Non Executive Chairman.
- HQ is in Mumbai.



What is BHIM?

- Bharat Interface for Money (BHIM) is an app that lets us make simple, easy and quick payment transactions using Unified Payments Interface (UPI).
- With this, we can make instant bank-to-bank payments and Pay and collect money using just Mobile number or Virtual Payment Address (UPI ID).

What are the features of BHIM?

- Send Money by entering Virtual Payment Address (UPI ID), Account number and QR Scan.
- Request Money i.e. Collect money by entering Virtual Payment Address (UPI ID).
- One can also transfer money using Mobile No. (Mobile No should be registered with BHIM or *99# and account should be linked).
- Pay by scanning the QR code through Scan & Pay or generate your to let others make easy payments to you.
- Currently BHIM is available in 12 languages, i.e., Hindi, English, Tamil, Telugu, Malayalam, Bengali, Odia, Kannada, Gujarati, Marathi, Assamese and Bengali.

Points to Remember related to BHIM

- Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood.
- Virtual Payment Address (VPA) is a unique identifier which you can use to send and receive money on UPI. Think of it as an email ID which you can use to transfer money.
- NPCI does not charge any user for transacting on BHIM. Kindly get in touch with your bank to ask for their charges.
- UPI PIN is a four or six digit number that is set by the customers on BHIM after the registration process. UPI PIN is used for authenticating all transactions done on UPI platform (BHIM or *99# or UPI apps).
- A user can send upto Rs 20,000 per transaction and a maximum of Rs 40,000 per day for one bank account. This limit is available per bank account linked on BHIM.
- No, there is no limit on the amount of money that can be received using BHIM.



What is UPI?

- Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood.
- It also caters to the “Peer to Peer” collect request which can be scheduled and paid as per requirement and convenience.
- NPCI conducted a pilot launch with 21 member banks on 11th April 2016.

What are the features of UPI? Let's Talk about its UNIQUENESS

- Immediate money transfer through mobile device round the clock 24*7 and 365 days.
- Single mobile application for accessing different bank accounts.
- Virtual address of the customer for Pull & Push provides for incremental security with the customer not required to enter the details such as Card no, Account number; IFSC etc.
- Best answer to Cash on Delivery hassle, running to an ATM or rendering exact amount.
- Merchant Payment with Single Application or In-App Payments.
- Utility Bill Payments, Over the Counter Payments, Barcode (Scan and Pay) based payments.
- Raise Complaint from Mobile App directly.



B | **BHARAT
BILLPAY**

What is Bharat Bill Pay?

- Bharat Bill Payment System is a Reserve Bank of India (RBI) conceptualised system driven by National Payments Corporation of India (NPCI).
- It is a one-stop payment platform for all bills providing an interoperable and accessible “Anytime Anywhere” bill payment service to all customers across India with certainty, reliability and safety of transactions.

What are the features of Bharat Bill Pay?

- Bharat BillPay a One-stop access: It has multiple modes of payment and provides instant confirmation of payment via an SMS or receipt.
- Bharat BillPay offers myriad bill collection categories like electricity, telecom, DTH, gas, water bills etc. through a single window.
- Bharat BillPay transaction can be initiated through multiple payment channels like Internet, Internet Banking, Mobile, Mobile-Banking, POS (Point of Sale terminal), Mobile Wallets, MPOS (Mobile Point of Sale terminal), Kiosk, ATM, Bank Branch, Agents and Business Correspondents.

What is BBPCU & BBPOU?

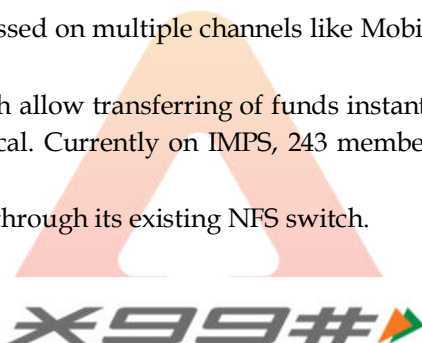
- Bharat Bill Payment Central Unit (BBPCU)
- NPCI has been authorized by RBI as the Bharat Bill Payment Central Unit (BBPCU) and is responsible for setting business standards, rules and procedures for technical and business requirements for all participants.
- BBPCU undertakes clearing and settlement activities related to transactions routed through Bharat BillPay.
- About Bharat Bill Payment Operating Unit (BBPOU)
- Bharat Bill Payment Operating Unit aka BBPOU is the entity that is authorized by RBI. It can be a Bank or a Non-Bank.

- BBPOU may choose to integrate either with the customers, (COU: Customer OU) or with the billers (Biller OU) or may wish to participate as both – which means such BBPOU will be integrated with customers as well as billers.



What is IMPS?

- For transferring funds real time and 24X7X365 interbank was a major challenge faced in banking industry. Only NEFT & RTGS were available to user for fund transfer during banking hours.
- Immediate Payment Service (IMPS) public launch happened on 22nd November 2010 and this service is now available to the Indian public.
- IMPS provides robust & real time fund transfer which offers an instant, 24X7, interbank electronic fund transfer service that could be accessed on multiple channels like Mobile, Internet, ATM, SMS, Branch and USSD(*99#).
- IMPS is an emphatic service which allow transferring of funds instantly within banks across India which is not only safe but also economical. Currently on IMPS, 243 members are live which includes banks & PPIs.
- This facility is provided by NPCI through its existing NFS switch.



What is *99#?

- *99#, a USSD based mobile banking service of NPCI was initially launched in November 2012. The service had limited reach and only two TSPs were offering this service i.e. MTNL & BSNL. With the wider ecosystem (11 TSPs), *99# was dedicated to the nation by Hon'ble Prime minister on 28th August 2014, as part of Pradhan Manti Jan Dhan Yojna.
- NPCI launched UPI with member banks on 25th August, 2016. UPI allows account holders across banks to send and receive money using a unique id known as UPI id or payment address.
- UPI is now available for non-internet based mobile devices (smartphone as well as basic phones) in the form of dialing option (*99#) and is known as USSD 2.0 . This functionality i.e. USSD 2.0 is launched along with BHIM on 30th December 2016.

What are the features of *99#?

- *99# service has been launched to take the banking services to every common man across the country. Banking customers can avail this service by dialing *99#, a “Common number across all Telecom Service Providers (TSPs)” on their mobile phone and transact through an interactive menu displayed on the mobile screen.
- Key services offered under *99# service include, Sending and Receiving interbank account to account funds, balance enquiry, setting / changing UPI PIN besides host of other services.

- *99# service is a unique interoperable direct to consumer service that brings together the diverse ecosystem partners such as Banks & TSPs (Telecom Service Providers).
- *99# service is currently offered by 41 leading banks & all GSM service providers and can be accessed in 13 different languages including Hindi & English.

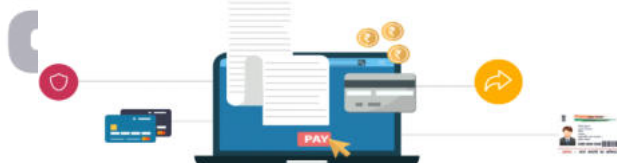


What is NACH?

- NPCI implemented “National Automated Clearing House (NACH)” for Banks, Financial Institutions, Corporates and Government.
- It is a web based solution to facilitate interbank (among Banks), high volume, electronic transactions which are repetitive and periodic in nature.
- NACH System can be used for making bulk transactions towards distribution of subsidies, dividends, interest, salary, pension etc. and also for bulk transactions towards collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium etc.

What are the features of NACH?

- It is a centralised system, launched with an aim to consolidate multiple ECS systems running across the country and provides a framework for the harmonization of standard & practices and removes local barriers/inhibitors.
- It also supports Financial Inclusion measures initiated by Govt., Govt. Agencies and Banks by providing support to Aadhaar based transactions.
- It facilitates the member banks to design their own products and also addresses specific needs of the banks & corporates including a refined Mandate Management System (MMS) and an online Dispute Management System (DMS) coupled with strong information exchange and customised MIS capabilities.
- NACH’s Aadhaar Payment Bridge (APB) System, developed by NPCI has been helping the Government and Government Agencies in making the Direct Benefit Transfer scheme a success.



What is NFS?

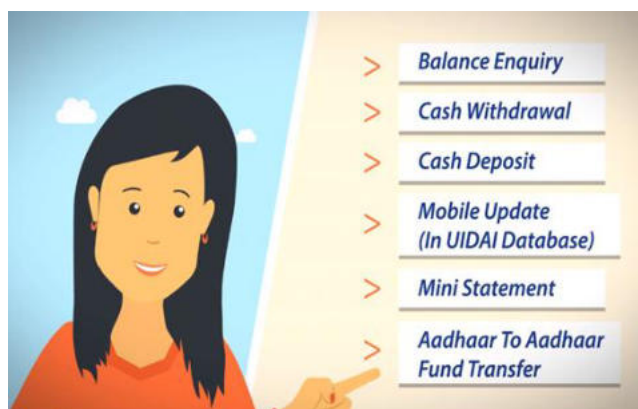
- National Financial Switch (NFS) is the largest network of shared automated teller machines (ATMs) in India.
- National Financial Switch (NFS) ATM network having 37 members and connecting about 50,000 ATMs was taken over by NPCI from Institute for Development and Research in Banking Technology (IDRBT) on December 14, 2009.
- NFS has introduced sub-membership model which enables smaller, regional banks including RRBs and local co-operative banks to participate in the ATM network.

- Dispute Management System (DMS), has benefitted members with high operational efficiency and ease of online transaction life cycle management (chargeback, representation, etc.) in the network apart from being compliant with local regulatory requirements.
- Apart from basic transactions like Cash Withdrawal, Balance Enquiry, PIN Change and Mini Statement, NFS also offers other Value Added Services (VAS) on ATMs/CDMs like:
- Interoperable Cash Deposit (ICD), Mobile Banking Registration (MBR), Card-to-Card Fund Transfer (C2C), Cheque Book Request (CBR), Statement Request (SR) & Aadhaar Number Seeding (ANS).



What is AePS?

- AePS is a bank led model which allows online inter-operable financial inclusion transaction at PoS (Micro-ATM) through the Business correspondent of any bank using the Aadhaar authentication.
- AePS allows you to do six types of transactions.
- The only inputs required for a customer to do a transaction under this scenario are:-
- IIN (Identifying the Bank to which the customer is associated)
- Aadhaar Number
- Fingerprint captured during their enrollment



What are the Objectives to launch the AePS?

- To empower a bank customer to use Aadhaar as his/her identity to access his/ her respective Aadhaar enabled bank account and perform basic banking transactions like cash deposit, cash withdrawal, Intrabank or interbank fund transfer, balance enquiry and obtain a mini statement through a Business Correspondent
- To sub-serve the goal of Government of India (GoI) and Reserve Bank of India (RBI) in furthering Financial Inclusion.
- To sub-serve the goal of RBI in electronication of retail payments.
- To enable banks to route the Aadhaar initiated interbank transactions through a central switching and clearing agency.
- To facilitate disbursements of Government entitlements like NREGA, Social Security pension, Handicapped Old Age Pension etc. of any Central or State Government bodies, using Aadhaar and authentication thereof as supported by UIDAI.



What is Bharat QR?

- A QR code consists of black squares arranged in a square grid on a white background, which can be read by an imaging device such as a camera. It contains information about the item to which it is attached.
- NPCI jointly worked with International card Schemes to develop a common standard QR code specifications.
- BQR is Person to Merchant (P2M) Mobile payment solution.



- **R. Gandhi Committee-** Govt Securities
- **MV Nair Committee-** Priority Sector Lending
- **YH Malegam Committee-** Licensing of new Urban Co-operative banks
- **Usha Thorat Committee-** NBFCs, Lead Bank Scheme
- **Shri Deepak Mohanty Committee-** BPLR (Benchmark Prime Lending Rate)
- **SS Tarapore Committee-** Fuller Capital Account Convertibility
- **HR Khan Committee-** Issues related to Rural Credit and Microfinance
- **Anand Sinha Committee-** Export Credit
- **Dr. Barman Committee-** Cheque Truncation and E-cheques
- **N Narasimham Committee-** On Rural Credit, Establishment of RRBs
- **Parekh Committee-** Infrastructure Financing
- **Rangarajan Committee-** Financial Inclusion, Public Sector Disinvestment, Computerization of Banking Industry
- **Gadgil Committee-** Lead Bank Scheme
- **A Ghosh Committee-** Fraud and malpractices in Banks
- **RK Hazare Committee-** Differential Interest Rates (DIR) Scheme
- **S Padmanabhan Committee-** To review the on-site supervision function of banks, Inspection of banks by the RBI
- **Abid Hussain Committee:** Related to Small Scale Industries
- **Arvind Mayaram Committee:** For defining clear definitions of Foreign Institutional Investment (FII) & Foreign Direct Investment (FDI).
- **Bhandari Committee:** For Reconstruction of RRBs
- **C Rangarajan committee:** For poverty scale estimates in the country
- **MBN Rao Committee:** For preparing the blueprint of India's first women's bank
- **Nachiket Mor Committee:** For comprehensive financial services for small businesses and low-income households.
- **Parthasarathi Shome committee:** For the implementation of GAAR (General Anti Avoidance Rule)
- **SN Verma Committee (1999):** For Restructuring the Commercial Banks
- **Deepak Mohanty Committee:** on Data and Information Management in RBI.
- **P.J. Nayak:** to review Governance of Boards of Banks in India.
- **Nachiket Mor Committee:** to permits NBFCs to work as Business Correspondents of banks.
- **Bimal Jalan panel:** to scrutinize applications for new bank licenses.



World Bank

- It is a vital source of financial & technical assistance to developing countries around the world.
- It comprises five institutions managed by their member countries.
- It was established in 1944.
- It headquartered in Washington, D.C.
- It is made up of 189-member countries.
- David Malpass is the 13th President of the World Bank Group.

The World Bank Group set two goals for the world to achieve by 2030:

- End extreme poverty by decreasing the percentage of people living on less than \$1.90 a day to no more than 3%.
- Promote shared prosperity by fostering the income growth of the bottom 40% for every country.

The World Bank is different from the World Bank Group, an extended family of five international organizations which are:

- **IBRD:** International Bank for Reconstruction and Development
- **IDA:** The International Development Association
- **IFC:** The International Finance Corporation
- **MIGA:** Multilateral Investment Guarantee Agency
- **ICSID:** International Centre for Settlement of Investment Disputes

Quick Facts

- **Formation:** July 1945
- **Headquarters:** Washington, D.C., U.S.

Membership

189 countries (IBRD) | 173 countries (IDA)

- David Malpass (President)
- Anshula Kant (MD and CFO)
- Carmen Reinhart (Chief Economist)

IMF: International Monetary Fund

- It was conceived at a UN conference in Bretton Woods, United States, in July 1944.
- **Membership: 189 countries**
- Headquarters: Washington, D.C.

Original aims:

- Promote international monetary cooperation.
- Facilitate the expansion and balanced growth of international trade.
- Promote exchange stability.
- Assist in the establishment of a multilateral system of payments.

- Make resources available (with adequate safeguards) to members experiencing balance of payments difficulties.
- The IMF's **fundamental mission** is to ensure the stability of the international monetary system.
- It does so in three ways: keeping track of the global economy and the economies of member countries; lending to countries with balance of payments difficulties; and giving practical help to members.

Surveillance

- The IMF oversees the international monetary system and monitors the economic and financial policies of its 189-member countries.

Lending

- A core responsibility of the IMF is to provide loans to member countries experiencing actual or potential balance of payments problems.

Management

- The IMF has a Managing Director, who is head of the staff and Chairperson of the Executive Board.
- The Managing Director is appointed by the Executive Board for a renewable term of five years.

Quick Facts

- **Headquarters:** Washington, D.C., United States
- **Managing Director:** Kristalina Georgieva
- **Founded:** 27 December 1945, Bretton Woods, Carroll, New Hampshire, United States
- **Formation:** 27 December 1945
- **Founders:** John Maynard Keynes, Harry Dexter White

IDA

What is IDA?

- International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries.
- Overseen by 173 shareholder nations, IDA aims to reduce poverty by providing loans (called "credits") and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions.
- IDA complements the World Bank's original lending arm – the International Bank for Reconstruction and Development (IBRD).
- IDA is one of the largest sources of assistance for the world's 75 poorest countries, 39 of which are in Africa, and is the single largest source of donor funds for basic social services in these countries.
- IDA is a multi-issue institution, supporting a range of development activities that pave the way toward equality, economic growth, job creation, higher incomes, and better living conditions.

Quick Facts

- **Headquarters:** Washington, D.C., United States
- **Membership:** 173 countries
- **Founded:** 1960
- **Leader:** Kristalina Georgieva
- **Purposes:** Development aid, Poverty reduction

ADB

Introduction

- It was conceived in the early 1960s as a financial institution that would be Asian in character and foster economic growth and cooperation in one of the poorest regions in the world.
- The Philippines capital of Manila was chosen to host the new institution, which opened on 19 December 1966, with 31 members that came together to serve a predominantly agricultural region.

- Takeshi Watanabe was ADB's first President.
- During the 1960s, ADB focused much of its assistance on food production and rural development.
- From 31 members at its establishment in 1966, ADB has grown to encompass 67 members – of which 48 are from within Asia and the Pacific and 19 outside.

About ADB

- It was established as a financial institution that would foster economic growth and cooperation in the Asia-Pacific region.
- It assists its members and partners by providing loans, technical assistance, grants, and equity investments to promote social and economic development.
- **Headquarters:** Manila, Philippines



Quick Facts

- **Formation:** 19 December 1966
- **Headquarters:** Manila, Philippines
- **Membership:** 68 countries
- **President:** Masatsugu Asakawa

New Development Bank

- At the fourth BRICS Summit in New Delhi (2012), the leaders of Brazil, Russia, India, China and South Africa considered the possibility of setting up a **New Development Bank** to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies, as well as in developing countries.
- The leaders then, agreed on the feasibility of establishing the New Development Bank and made the decision to do so.
- During the sixth BRICS Summit in Fortaleza (2014), the leaders signed the Agreement establishing the New Development Bank (NDB).
- NDB will strengthen cooperation among BRICS and will supplement the efforts of multilateral and regional financial institutions for global development, thus contributing to collective commitments for achieving the goal of strong, sustainable and balanced growth.
- “The Bank shall have an initial authorized capital of US\$ 100 billion. The initial subscribed capital shall be US\$ 50 billion, equally shared among founding members.
- The first chair of the Board of Governors shall be from Russia.
- The first chair of the Board of Directors shall be from Brazil.
- The first President of the Bank shall be from India.
- The headquarters of the Bank shall be located in Shanghai.
- The inaugural meeting of the Board of Governors of the NDB was chaired by Russia and held on the eve of the Ufa Summit on 7 July 2015, when the Bank formally came into existence as a legal entity.
- During the meeting, the appointment of the President, Mr. K.V. Kamath, as well as four Vice Presidents and the Board of Directors took place.
- At the signing of the Headquarters Agreement with the government of the People’s Republic of China and the Memorandum of Understanding with the Shanghai Municipal People’s Government on 27 February 2016, the NDB became fully operational.

Countries by Shareholding at the New Development Bank

COUNTRY	NUMBER OF SHARES	SHARE HOLDING (% OF TOTAL)	VOTING RIGHTS (% OF TOTAL)
 BRAZIL	100,000	20	20
 RUSSIA	100,000	20	20
 INDIA	100,000	20	20
 CHINA	100,000	20	20
 SOUTH AFRICA	100,000	20	20
UNALLOCATED SHARES	500,000	–	–
GRAND TOTAL	1000,000	100	100

Quick Facts

- The New Development Bank, formerly referred to as the BRICS Development Bank, is a multilateral development bank established by the BRICS states. Headquarters: Shanghai, China
- **President:** Marcos Prado Troyjo
- **Founder:** BRICS
- **First president:** K. V. Kamath

AIIB

- The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank with a mission to improve social and economic outcomes in Asia and beyond.
- It headquartered in Beijing.
- It commenced operations in January 2016.
- AIIB offers sovereign and non-sovereign financing for sound and sustainable projects in energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, and urban development and logistics.

Quick Facts

- The Asian Infrastructure Investment Bank is a multilateral development bank that aims to support the building of infrastructure in the Asia-Pacific region.
- **Headquarters:** Beijing, China
- **Membership:** 103 Members; 20 prospective members
- **Formation:** January 16, 2016
- **President:** Jin Liqun



Chapter 29

Headquarters and Taglines of Public Sector Banks (PSBs)

SL. No.	PSBs	Headquarters	Taglines	Head
1.	Bank of Baroda	Mumbai	India's International Bank	Sanjiv Chadha
2.	Bank of India	Mumbai	Relationship Beyond Banking	Shri Atanu Kumar Das
3.	Bank of Maharashtra	Pune	One Family One Bank	A. S. Rajeev
4.	Central Bank of India	Mumbai	"Central" to You Since 1911	Pallav Mohapatra
5.	Canara Bank	Bengaluru	Together We Can	Lingam Venkat Prabhakar
6.	Indian Bank	Chennai	Your Own Bank	Padmaja Chunduru
7.	Indian Overseas Bank	Chennai	Good People to Grow With	Shri Karnam Sekar
8.	Punjab National Bank	New Delhi	The Name You Can Bank Upon	S. S. Mallikarjuna Rao
9.	Punjab and Sind Bank	New Delhi	Where Service is a Way of Life	Charan Singh
10.	Union Bank of India	Mumbai	Good People to Bank With	Rajkiran Rai G
11.	UCO Bank	Kolkata	Honours Your Trust	Atul Kumar Goel
12.	State Bank of India	Mumbai	The Banker to every Indian	Rajnish Kumar



What is Non-performing assets?

- An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.
- NPA was defined as a credit facility in respect of which the interest and/ or instalment of principal has remained 'past due' for a specified period of time.

When an asset of the Bank becomes an NPA?

With effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where:

- interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan.
- the account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC).
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes.
- any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
- the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

'Out of Order' status

- An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power.
- In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for six months as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

ASSET CLASSIFICATION | Categories of NPAs

Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing:

- Sub-standard Assets
- Doubtful Assets
- Loss Assets

Sub-standard Assets

With effect from March 31, 2005, a sub-standard asset would be one, which has remained NPA for a period less than or equal to 12 months.

Doubtful Assets

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the sub-standard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

Loss Assets

- A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.
- Such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Important Key Concepts

- Fully Secured: When the amounts due to a bank (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the bank's dues are considered to be fully secured.
-
- Restructured Accounts: A restructured account is one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount/ the amount of instalments / rate of interest (due to reasons other than competitive reasons).

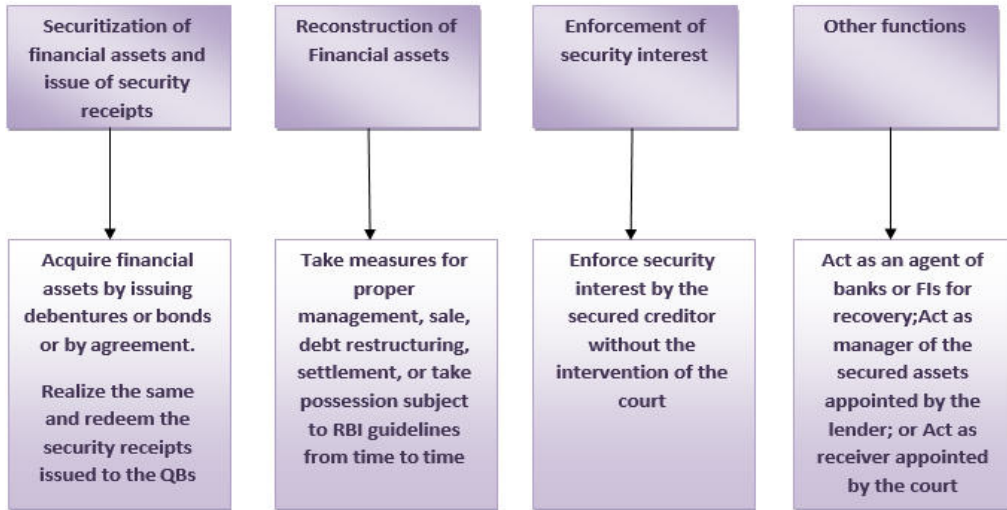
SARFAESI ACT 2002

- Narasimham Committee I and II & Andhyarujina Committee constituted by the Central Government for the purpose of examining banking sector reforms considered the need for changes in the legal system in respect of these areas.
- These Committees made suggestions to form a new legislation for securitization and empowering banks and financial institutions to gain possession of the securities and to sell them without any intervention of the court.

Formation of SARFAESI Act, 2002

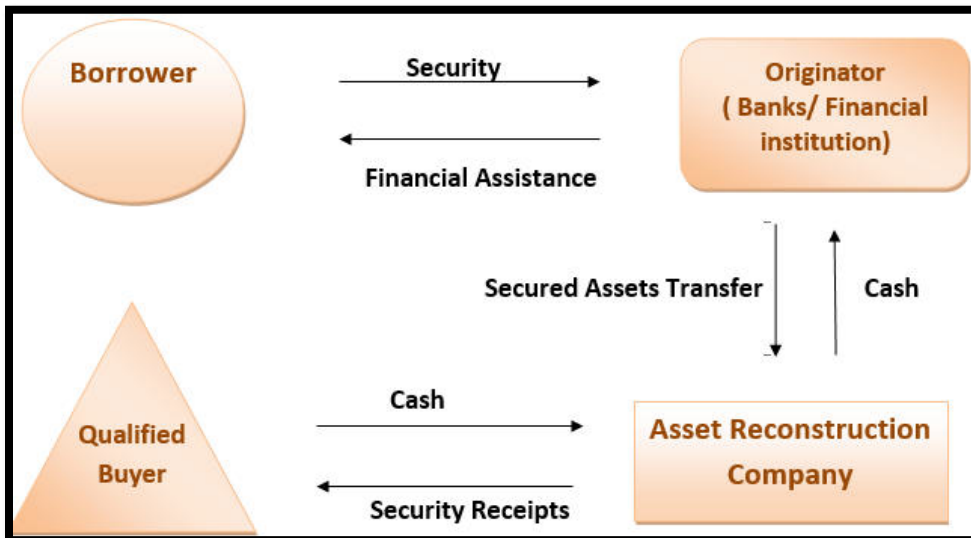
- Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002(SARFAESI) was circulated:
 - a) to regulate securitization and reconstruction of financial assets
 - b) enforcement of the security interest
 - c) for matters connected therewith or incidental thereto.

Role of SARFAESI Act, 2002



Objectives of SARFAESI Act, 2002

- Efficient or rapid recovery of non-performing assets (NPAs) of the banks and FIs.
- Allows banks and financial institutions to auction properties (say, commercial/residential) when borrower fail to repay their loans.
- The process to be followed:



Applicability of SARFAESI Act, 2002

- Registration and regulation of Asset Reconstruction Companies (ARCs) by the Reserve Bank of India;
- Facilitating securitization of financial assets of banks and financial institutions with or without the benefit of underlying securities;
- Promotion of seamless transferability of financial assets by the ARC to acquire financial assets of banks and financial institutions through the issuance of debentures or bonds or any other security as a debenture;

- Entrusting the Asset Reconstruction Companies to raise funds by issue of security receipts to qualified buyers;
- Facilitating the reconstruction of financial assets which are acquired while exercising powers of enforcement of securities or change of management or other powers which are proposed to be conferred on the banks and financial institutions;
- Presentation of any securitization company or asset reconstruction company registered with the Reserve Bank of India as a public financial institution;
- Defining 'security interest' to be any type of security including mortgage and charge on immovable properties given for due repayment of any financial assistance given by any bank or financial institution;
- Classification of the borrower's account as a non-performing asset in accordance with the directions given or under guidelines issued by the Reserve Bank of India from time to time;
- The officers authorized will exercise the rights of a secured creditor in this behalf in accordance with the rules made by the Central Government;
- An appeal against the action of any bank or financial institution to the concerned Debts Recovery Tribunal and a second appeal to the Appellate Debts Recovery Tribunal;
- The Central Government may set up or cause to be set up a Central Registry for the purpose of registration of transactions relating to securitization, asset reconstruction and creation of security interest;
- Application of the proposed legislation initially to banks and financial institutions and empowerment of the Central Government to extend the application of the proposed legislation to non-banking financial companies and other entities;
- Non-application of the proposed legislation to security interests in agricultural lands, loans less than rupees one lakh and cases where eighty percent, of the loans, is repaid by the borrower.



Chapter 31

Shares and Debentures

What are Shares & Debentures?

- **Shares** refers to the share capital of the company. It describes the right of the holder to the specified amount of the share capital of the company.
- **Debenture** implies a long-term instrument showing the debt of the company towards the external party. It yields a definite rate of interest, issued by the company, may or may not be secured against assets.

What actually Shares are?

- Smallest division of the company's capital is known as shares. It represents the portion of ownership of the shareholder in the company.
- The tiniest part of the company capital is known as a Share.
- The shares are broadly divided into two major categories: Equity Shares & Preference Shares.

What actually Debentures are?

- A long-term debt instrument issued by the company under its common seal, to the holder showing the indebtedness of the company. The capital raised by the company is the borrowed capital; that is why the debenture holders are the creditors of the company.
- They are freely transferable. The return on debentures is in the form of interest at a fixed rate.
- Debentures are secured by a charge on assets, although unsecured debentures can also be issued. They do not carry voting rights.
- The debentures are of following types:
 1. Secured Debentures
 2. Unsecured Debentures
 3. Convertible Debentures
 4. Non-convertible Debentures

Difference Between Shares & Debentures

BASIS	SHARES	DEBENTURES
Meaning	Shares are the owned funds of the company.	Debentures are the borrowed funds of the company.
What is it?	Shares represent the capital of the company.	Debentures represent the debt of the company.
Holder	The holder of shares is known as shareholder.	The holder of debentures is known as debenture holder.
Status of Holders	Owners	Creditors
Form of Return	Shareholders get the dividend.	Debenture holders get the interest.
Payment of return	Dividend can be paid to shareholders only out of profits.	Interest can be paid to debenture holders even if there is no profit.
Voting Rights	The holders of shares have voting rights.	The holders of debentures do not have any voting rights.
Conversion	Shares can never be converted into debentures.	Debentures can be converted into shares.
Repayment in the event of winding up	Shares are repaid after the payment of all the liabilities.	Debentures get priority over shares, and so they are repaid before shares.

Equity Share & Preference Share

- **Equity Shares:** These are the shares which carry voting rights & on which the rate of dividend is not fixed. They are irredeemable in nature. In case of winding up of the company equity shares are repaid after the payment of all the liabilities.
- **Preference Shares:** These are the shares which do not carry voting rights, but the rate of dividend is fixed. They are redeemable in nature. In case of winding up of the company, preference shares are repaid before equity shares.

Difference Between Equity & Preference Shares

BASIS	EQUITY SHARES	PREFERENCE SHARES
Meaning	These are the ordinary shares of the company representing the part ownership of the shareholder in the company.	These are the shares that carry preferential rights on the matters of payment of dividend and repayment of capital.
Payment of dividend	The dividend is paid after the payment of all liabilities.	Priority in payment of dividend over equity shareholders.
Repayment of capital	In the event of winding up of the company, equity shares are repaid at the end.	In the event of winding up of the company, preference shares are repaid before equity shares.
Rate of dividend	Fluctuating	Fixed
Redemption	No	Yes
Voting rights	Equity shares carry voting rights.	Normally, preference shares do not carry voting rights. However, in special circumstances, they get voting rights.
Convertibility	Equity shares can never be converted.	Preference shares can be converted into equity shares.

What are Deferred shares & Bonus Shares?

- **Deferred shares:** These shares are those shares which are held by the founders or pioneer or beginners of the company. They are also called as Founder shares or Management shares.
- In deferred shares, the right to share profits of the company is deferred, i.e. postponed till all the other shareholders receive their normal dividends.
- **Bonus shares:** Bonus shares are those shares which are issued by the company free of charge as bonus to the shareholders. They are issued to the existing shareholders in proportion to their existing share holdings. It is a kind of gift to the shareholders from the company.

Let's talk about the Share Capital

- **AUTHORIZED SHARE CAPITAL:** It is the maximum amount of capital which can be issued by a company. It can be increased from time to time.
- **ISSUED SHARE CAPITAL:** It is that part of authorized capital which is offered to investors.
- **SUBSCRIBED SHARE CAPITAL:** It is that part of Issued capital which is accepted and agreed by the investor.
- **PAID UP CAPITAL:** It is the part of subscribed capital, the amount of which is paid by the investor. Normally, all companies accept complete money in one shot and therefore issued, subscribed and paid capital becomes one and the same. Conceptually, paid up capital is the amount of money which is actually invested in the business.



Topic 1: Important Terms related to Banking

Special Drawing Rights (SDRs)

- It is a reserve asset (known as 'Paper Gold') created within the framework of the International Monetary Fund in an attempt to increase international liquidity, and now forming a part of countries official forex reserves along with gold, reserve positions in the IMF and convertible foreign currencies.

Merchant Banking

- When a bank provides to a customer various types of financial services like accepting bills arising out of trade, arranging and providing underwriting, new issues, providing advice, information or assistance on starting new business, acquisitions, mergers and foreign exchange.

Money Laundering

- The process of creating the appearance that large amounts of money obtained from serious crimes, such as drug trafficking or terrorist activity, originated from a legitimate source.

Prime Lending Rate (PLR)

- The rate at which banks lend to their best (prime) customers. It is usually less than normal interest rate.

What is Bancassurance?

- It is the term used to describe the partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products.

What is Balance of Trade?

- The value of a country's exports minus the value of its imports. Unless specified as the balance of merchandise trade, it normally incorporates trade in services, including earnings (interest, dividends, etc.) on financial assets.

What is Balance of Payments?

- A list of all of a country's international transactions for a given time period, usually one year.
- Payments into the country (receipts) are entered as positive numbers, called credits; Payments out of the country (payments) are entered as negative numbers called debits.

What is Liquidity Adjustment Facility (LAF)?

- A tool used in monetary policy that allows banks to borrow money through repurchase agreements. This arrangement allows banks to respond to liquidity pressures and is used by governments to assure basic stability in the financial markets.

Demat Account

- The term "demat", in India, refers to a dematerialised account for individual Indian citizens to trade in listed stocks or debentures.

GAAR

- It is General Anti-Avoidance Rules.
- Tax Avoidance is an area of concern across the world. The rules are framed in different countries to minimize such avoidance of tax.
- It is a set of general rules enacted so as to check the tax avoidance.

BPLR

- It means the Benchmark Prime Lending Rate.
- It was made applicable normally only on the loans which have been sanctioned before the introduction of Base Rate (i.e. July 2010).

Base Rate

- 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).**

Prime Lending Rate (PLR)

- The rate at which banks lend to their best (prime) customers. It is usually less than normal interest rate.

Bridge Loan

- A loan made which is done by a bank for a short period to make up for a temporary shortage of cash.
- Bridge loan mainly covers the period between the buying the new and disposing of the old one.

Open Market Operations

- An open market operation is an instrument of monetary policy which involves buying or selling of government securities from or to the public and banks.

What is NOSTRO Account?

- A Nostro account is maintained by an Indian Bank in the foreign countries.

What is VOSTRO Account?

- A Vostro account is maintained by a foreign bank in India with their corresponding bank.

What is IMPS?

- Immediate Payment Service. It is an instant interbank electronic fund transfer service through mobile phones. Both the customers must have MMID (Mobile Money Identifier Number). For this service, we don't need any GPS-enabled cell phones.

What is BCBS?

- Basel Committee on Banking Supervision is an institution created by the Central Bank governors of the Group of Ten nations.

What is LIBOR?

- London Inter-Bank Offered Rate. An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market.

What are Asset Management Companies?

- A company that invests its clients' pooled fund into securities that match its declared financial objectives.
- Asset management companies provide investors with more diversification and investing options than they would have by themselves. Mutual funds, hedge funds and pension plans are all run by asset management companies.
- These companies earn income by charging service fees to their clients.

CASA

- CASA stands for Current Account Savings Account.
- The ratio shows how much deposit a bank has in the form of current and saving account deposits in the total deposit.
- A higher CASA ratio means better operating efficiency of the bank because on current account there is no interest payable whereas on savings account a tiny 3.5% interest is payable by the bank.
- CASA ratio shows how much of the deposit of the bank comes from the current and savings deposit.

KYC

- KYC is an acronym for "Know your Customer".
- It is a term used for customer identification process.
- It involves making reasonable efforts to determine identity and beneficial ownership of accounts which 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.

Base Rate

- It 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).
- Now, it is decided by MCLR i.e. Marginal Cost of Funds based Lending Rate.

Marginal Cost of funds-based Lending Rate (MCLR)

- RBI announced that from 1st April 2016, all banks will move to the marginal cost of funds-based lending approach for determining their respective base rates.
- The marginal cost of funds will comprise marginal cost of borrowings & return on net worth.

Key Highlights

- It will be a tenor linked internal benchmark.
- Actual lending rates will be determined by adding the components of spread to the MCLR.
- Banks will review and publish their MCLR of different maturities every month on a pre-announced date.
- Banks may specify interest reset dates on their floating rate loans.

CORE BANKING SOLUTIONS (CBS)

- Core (Centralized Online Real-time Exchange) banking Solution is the centralized banking platform where total bank's operations are controlled and run from a centralized hub.
- CBS means application of computer technology to various banking functions.

Topic 2: Lending involves Loans and Advances. The basic difference between both are

Loans refer to a debt provided by a financial institution for a particular period while **Advances** are the funds provided by the banks, which needs to be payable within one year.

Different Types of Advances are

- Cash credit
- Overdraft
- Purchase and discounting of bills of exchange.

Cash Credit:

- Under this system, a limit, called the credit limit is specified by the bank.
- A borrower is entitled to borrow upto that limit. It is granted against the security of tangible assets or guarantee.
- The borrower can withdraw money, any number of times upto that limit.
- The Interest rate is charged on the actual amount withdrawn and for the period such amount is drawn.
- Overdraft
- An overdraft is a facility granted by the Bank to a current account holder enabling an enterprise to carry out debit transactions even when the amount available on the account is insufficient, and up to a predefined maximum amount agreed upon by the Bank and the customer.
- What this actually means is that when granted an overdraft facility, you can withdraw cash at a branch, issue cheques or transfers, even when your account balance is equal to or below zero on the date of the transaction.
- You can carry out as many transactions as you like and placing your account in a debit position, up to the limit of the maximum amount authorized by the Bank.
- Purchase and Discounting of Bills of Exchange:
- The bank provides the customers with the facility of purchasing and discounting their bills receivable.
- The bank permits the customer to discount his bills receivable and have the value of the bills credited to his account.
- The bank charges discounting charges on the face value
- of the bills.
- It waits till the maturity of the bill and presents it on the due date to the drawee for payment.

Types of Loans and Advances

The loans and advances are divided on the basis of:

- On the Basis of Object or Purpose
- On the Basis of Time
- On the Basis of Security

A. On the Basis of Object or Purpose

- Commercial Loans: This loan is taken to meet short term requirement of capital e.g., working capital.
- Consumer Loan: This loan is taken to finance household goods like fridge, T.V., scooter etc.
- Agricultural Loan: Such a loan is taken by the farmers to meet their short term requirements like buying seeds, fertilisers, insecticides etc.

B. On the Basis of Time

- Short Term Loan: Such a loan is taken for a period of less than one year.
- Medium Term Loan: Such a loan is taken for a period ranging from 1 year to 3 years.
- Long Term Loan: Such a loan is taken to meet long-term requirements from 3 years to 20 years or more.

C. On the Basis of Security

- Secured Loan: Banking Regulation Act, 1949, defines a 'secured loan or advance' as a loan or advance, made on the security of assets, the market value of which is not at any time less than the amount of such loan or advance.
- Unsecured Loans: Such a loan is granted without any security. According to Sec. 5 (a) of the above Act an unsecured loan or advance means a loan or advance not so secured.

Loans Against Movable Assets

Hypothecation:

- Banker has right over goods but physical possession of goods is not with him, e.g. Car Loan, Vehicle loan, CC Limit, Book Debts, Stock / Inventory.
- Hypothecation creates a transfer of interest in favour of hypothecate (Bank). It creates a charge in or upon any movable property, existing or future, created by the borrower in favour of secured creditor (Bank) without delivery of possession.

Pledge:

- Banker has right over goods as well as their physical possession. In case of non-payment, Bank has the right to sell.
- e.g. marketable securities like shares, Gold.

Mortgage:

- When an immovable property, the security is created by way of Mortgage; e.g. for Home Loan, Loan against Property.

Topic 3: Important Codes used in Banking

IFSC (Indian Financial System Code):

- Indian Financial System Code is an alpha-numeric code that uniquely identifies a bank-branch participating in the NEFT system.
- This is an 11-digit code with the first 4 alpha characters representing the bank, the 5th character is 0 (zero) and the last 6 characters representing the bank branch.
- For ex: PNB0014976:
 - a) First 4-character PNB0 - refers to Punjab National Bank.
 - b) 0 is a control number.
 - c) last six characters (014976) represents the PNB branch kurshi Road, Lucknow.

MICR - Magnetic ink character Recognition

- MICR is 9-digit numeric code that uniquely identifies a bank branch participating in electronic clearing scheme.
- Used to identify the location of a bank branch.

- City (3) Bank (3) Branch (3)
- The MICR code is allotted to a bank branch is printed on the MICR band of cheques. It is used for electronic credit system.

SWIFT Code

- Society for Worldwide Interbank financial tele-communication
- India was 74th Nation to join SWIFT Network.
- SWIFT Code is a standard format of bank Identifier code. This code is used particularly in International transfer of money between banks.
- SWIFT Code consist 8 or 11 character when code is 8 digit, it is referred to primary office

4 - bank code

2 - country code

2 - location code

3 - branch code (optional)

Topic 4: REVERSE MORTGAGE LOAN

- The scheme of reverse mortgage has been introduced for the benefit of senior citizens owning a house but having inadequate income to meet their needs.
- Some important features of reverse mortgage are:
- A homeowner who is above 60 years of age is eligible for reverse mortgage loan. It allows him to turn the equity in his home into one lump sum or periodic payments mutually agreed by the borrower and the banker.
- NO REPAYMENT is required as long as the borrower lives, Borrower should pay all taxes relating to the house and maintain the property as his primary residence.
- The amount of loan is based on several factors:
- Borrower's age,
- Value of the property
- Current interest rates &
- The specific plan chosen.
- As per the scheme formulated by National Housing Bank (NHB), the maximum period of the loan period is 15 years.
- The residual life of the property should be at least 20 years. Where the borrower lives longer than 15 years, periodic payments will not be made by lender. However, the borrower can continue to occupy.

Topic 5: Acts Years to be Remembered

- Reserve Bank of India Act, 1934
- Government Securities Act, 2006
- Banking Regulation Act, 1949
- Foreign Exchange Management Act, 1999
- Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
- Payment and Settlement Systems Act, 2007
- Negotiable Instruments Act, 1881
- State Bank of India Act, 1955
- Companies Act, 1956/ Companies Act, 2013

- State Bank of India Subsidiary Banks) Act, 1959
- Deposit Insurance and Credit Guarantee Corporation Act, 1961
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
- Regional Rural Banks Act, 1976
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980
- National Bank for Agriculture and Rural Development Act, 1981
- National Housing Bank Act, 1987
- Indian Coinage Act, 2011
- The Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003

pic 7: A Brief on the BALANCE SHEET OF THE BANK

Liabilities of the Banks

Authorised capital | Issued capital | Subscribed capital | Paid-up-capital | Reserve fund | Deposits
Borrowings from other banks | Bills payable

Assets of the Banks

Cash | Money at call and short notice | Bills discounted | Bills for collection | Investments | Loans and
advances | Fixed assets

Functions of Commercial Banks

PRIMARY FUNCTIONS

Acceptance of Deposits | Advancing Loans & Advances |
Creation of Credit | Promote the Use of Cheques | Remittance of Funds

SECONDARY FUNCTIONS

Collection and Payment of Credit Instruments | Purchase and Sale of Securities | Collection of Dividends on
Shares

Income-tax Consultancy

GENERAL UTILITY FUNCTIONS

Locker Facility | Credit Cards | Letter of Credit | Underwriting Securities | Accepting Bills of Exchange |
Merchant Banking

A Brief on the Inflation

What is Inflation?

The rise in the prices of goods or service in an economy over a certain period of time is known as inflation.

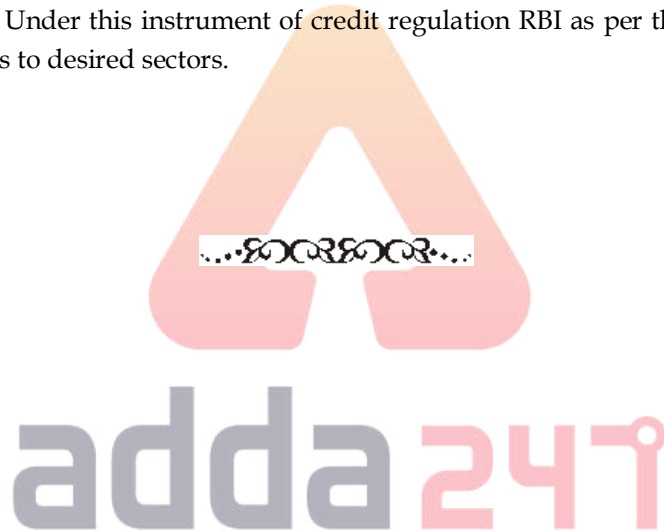
Types of "Inflation"

- Wage inflation
- Price power inflation
- Cost-push inflation
- Sectorial inflation
- Stagflation
- Mild inflation
- Hyper-inflation
- What are the effects of "Inflation"?
- It decreases the real value of money

- It discourages investment and savings
- It leads to shortage of goods
- Mitigate economic recessions
- Reduces the level of debt

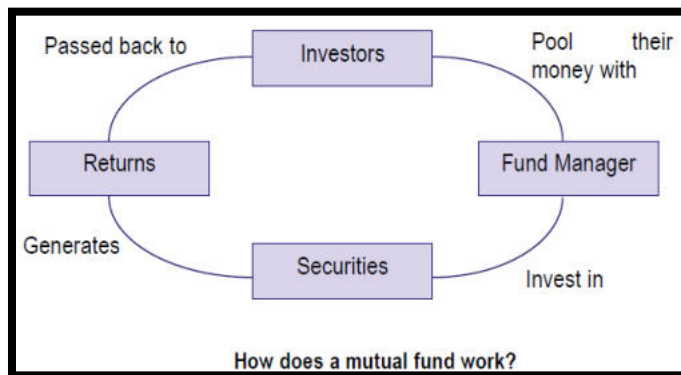
A brief on the Qualitative Measures used by RBI to manage the Money Supply

- **CREDIT CEILING:** In this operation RBI issues prior information or direction that loans to the commercial banks will be given up to a certain limit. In this case commercial bank will be tight in advancing loans to the public. They will allocate loans to limited sectors. Few examples of ceiling are agriculture sector advances, priority sector lending.
- **MORAL SUASION:** These are suggestion and guidelines by the RBI to the commercial banks to take so and so action and measures in so and so trend of the economy.
- RBI may request commercial banks not to give loans for unproductive purpose which does not add to economic growth but increases inflation in the economy.
- **CREDIT AUTHORIZATION SCHEME:** This was introduced in November, 1965 when P C Bhattacharya was Governor of RBI. Under this instrument of credit regulation RBI as per the guideline authorizes the banks to advance loans to desired sectors.



What is a Mutual Fund?

- It is a professionally-managed trust that pools the savings of many investors and invests them in securities like stocks, bonds, short-term money market instruments and commodities.
- It is the most suitable investment for the cautious investor as it offers an **opportunity to invest in a diversified professionally managed basket of securities at a relatively low cost.**



How is a mutual fund set up?

- It is set up in the form of a trust that has a Sponsor, Trustees, Asset Management Company (AMC).
- The trust is established by a sponsor(s) who is like a promoter of a company and the said Trust is registered with Securities and Exchange Board of India (SEBI) as a Mutual Fund.

Evolution of Mutual Funds in India

- The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India.
- In 1987, the entry of non- UTI, public sector mutual funds were set up by public sector banks, Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC).
- SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987.
- LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.
- In 1993, the first Mutual Fund Regulations came under which all mutual funds except UTI were to be registered and governed.
- The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

Different types of mutual fund schemes

Based on the maturity period

Open-ended Fund

- An open-ended fund is a fund that is available for subscription and can be redeemed on a continuous basis.
- It is available for subscription throughout the year and investors can buy and sell units at NAV related prices.
- These funds do not have a fixed maturity date. The key feature of an open-ended fund is liquidity.

Close-ended Fund

- A close-ended fund is a fund that has a defined maturity period.
- These funds are open for subscription for a specified period at the time of initial launch.

Funds are classified into Equity Funds, Debt Funds and Special Funds.

- Equity funds invest primarily in stocks. A share of stock represents a unit of ownership in a company.
- Debt Funds are of two types viz.
 - (a) Bond Funds: They invest in fixed income securities e.g. government bonds, corporate debentures, convertible debentures, money market.
 - (b) Gilt Funds: They are mainly invested in Government securities.

Special Funds are of four types viz.

(a) Index Funds

- Every stock market has a stock index which measures the upward and downward sentiment of the stock market.
- Index Funds are low cost funds and influence the stock market. The investor will receive whatever the market delivers.

(b) **International Funds:** A mutual fund located in India to raise money in India for investing globally.

(c) **Offshore Funds:** A mutual fund located in India to raise money globally for investing in India.

(d) **Sector Funds:** They invest their entire fund in a particular industry e.g. utility fund for utility industry like power, gas, public works.

What are Equity Linked Tax Savings Scheme?

- ELSS is one of the options for investors to save taxes under Section 80 C of the Income Tax Act.
- They also offer the perfect way to participate in the growth of the capital market, having a lock-in-period of three years.

What is a Hedge Fund?

- A hedge fund (there are no hedge funds in India) is a highly regulated investment fund that escapes most regulations by being a sort of a private investment vehicle being offered to selected clients.

Who all are the 5 Constituents in Mutual Funds?

There are five principal constituents which are:

- Sponsor: A company established under the Companies Act forms a mutual fund.
- Asset Management Company

- An entity registered under the Companies Act to manage the money invested in the mutual fund and to operate the schemes of the mutual fund as per regulations. It carries the responsibility of investing and managing the investors' money.
- Trustee: The trust is headed by Board of Trustees. The trustees have the duty to monitor the actions of the AMC to ensure compliance with
- Unit Holder: A person/entity holding an undivided share in the assets of a mutual fund scheme.
- Mutual Fund: A mutual fund established under the Indian Trust Act to raise money through the sale of units to the public for investing in the capital market. The mutual fund has to be registered with SEBI.

What is NAV?

- Net Asset Value (NAV) is the amount which a unit holder would receive if the mutual fund were wound up.
- It is the net value of all assets less liabilities. NAV represents the market value of total assets of the Fund less total liabilities attributable to those assets.
- NAV changes daily. The value of assets and liabilities changes daily.
- NAV is computed as a value per unit of holding.

$$\text{NAV (₹)} = \frac{\text{Market/Fair Value of Securities + Accrued Income + Receivable + other assets + Accrued Expenses - payables - other liabilities}}{\text{No of Units outstanding of the Scheme / Option}}$$

Common Types of mutual funds & what they typically invest in

Type of Fund	Typical Investment
Equity or Growth Fund	Equities like stocks
Fixed Income Fund	Fixed income securities like government and corporate bonds
Money Market Fund	Short-term fixed income securities like treasury bills
Balanced Fund	A mix of equities and fixed income securities
Sector-specific Fund	Sectors like IT, Pharma, Auto etc.
Index Fund	Equities or Fixed income securities chosen to replicate a specific Index for example S&P CNX Nifty
Fund of funds	Other mutual funds



Chapter 34

Financial Schemes of the Govt.

Important schemes are as follows

PM Awas Yojana, PM Mudra Loan Scheme, PM Jan Dhan Yojana, PM Suraksha Bima Yojana, Ujjwala Yojana, Atal Pension yojana, Startup India, Stand Up India, PM Kaushal Vikas Yojana are some of the flagship schemes from the List of Narendra Modi Govt. Schemes.

Pradhan Mantri Jan Dhan Yojana

28 July 2014

To provide access of banking facilities and financial services to the poor people. This is a national mission for the financial inclusion of all households.

Pradhan Mantri Suraksha Bima Yojana

9 May 2015

This scheme will provide very affordable insurance scheme for poor and underprivileged people in the age group of 18 to 70 years. Candidates must possess a bank account at a premium of Rs. 12 p.a. There will be a risk coverage of Rs. 2 lakhs for accidental death / full disability and Rs. 1 lakh for partial disability.

Pradhan Mantri Jeevan Jyoti Bima Yojana

9 May 2015

To create a social security system for the poor and underprivileged in the age group of 18-50 years by providing a renewable life insurance cover of Rs.2 lakhs with just a premium of Rs. 330.

Atal Pension Yojana

9 May 2015

Govt. will provide financial security in old age through guaranteed minimum monthly pension for all people who are working in informal sector or daily wagers in the age group of 18 to 40 years. Govt. contribution is 50% of beneficiaries premium (up to Rs. 1000) for 5 years in new accounts opened before 31 December 2015.

Pradhan Mantri Ujjwala Yojana

1 May 2016

To provide deposit free 5 crore cooking gas (LPG) connections to women from below-poverty-line (BPL) households over 3 years from 2016-17 to 2018-2019.

Swachh Bharat Mission

Swachh Bharat Mission Gramin (SBM-G)

2 October 2014

To fulfill Mahatma Gandhi's dream of a clean and hygienic India.

Swachh Bharat Mission (Urban)

2 October 2014

To make 4,041 cities and towns Open Defecation Free and clean by October, 2019

Accessible India Campaign

3 December 2015

To make at least 50 percent of all government buildings in the national capital and all state capitals "fully accessible" for the disabled by July 2018.

Accessible India Campaign

Pradhan Mantri Awas Yojana (Urban)

25 June 2015

To address the gap in housing demand and supply in urban areas in respect of Economically Weaker Sections, Low and Middle Income Groups and meet the target of "Housing for All" by 2022, with an aim to provide a decent pucca home

Beti Bachao Beti Padhao Yojana

22 January 2015

The goal of the BBBP scheme is to celebrate the girl child and enable her education. The specific objectives of the scheme include preventing gender biased sex selective elimination, ensuring survival and protection of the girl child and ensuring education and participation of the girl child.

Pradhan Mantri Sukanya Samridhi Yojana

22 January 2015

A small deposit savings scheme to promote the welfare of girl child and ensure them a secure future.

Mission Indradhanush

25 December 2014

To achieve full immunization of at least 90% children by 2020 (now by 2018). Full immunization coverage to missed out and left out children and pregnant women during routine immunization rounds, against 7 life threatening diseases.

Deen Dayal Upadhyaya Gram Jyoti Yojana

25 July 2015

100% Rural Electrification with reliable, adequate & quality electricity supply and also to provide access to electricity to villages/habitations & households. It includes Strengthening and augmentation of sub transmission and distribution infrastructure, Separation of agriculture and non-agriculture feeders and Metering for feeders, distribution transformers & consumers along with Micro-grid and off-grid distribution network.

Stand Up India Yojana

5 April 2016

To support entrepreneurship among women and SC & ST communities by facilitating bank loans between 10 lakh and 1 Crore to them. This scheme will benefit at least 2.5 lakh entrepreneurs.

Startup India Scheme

16 January 2016

To foster entrepreneurship and nurture innovation by creating an ecosystem that is conducive for growth of Start-ups to drive sustainable economic growth and generate large scale employment opportunities.

Pradhan Mantri Kaushal Vikas Yojana (PMKVY)

15 July 2015

To provide formal short-term training to impart skills to and recognition of skills through certification, to enhance employability of the youth.

Digital India

1 July 2015

To transform India into a digitally empowered society and knowledge economy.

Make In India

25 September 2014

To project India as a preferred investment destination and a global manufacturing hub. The major objective behind the initiative was to renew focus on job creation, skill development, fostering innovation and high-quality standards in the manufacturing sector.

Banking Ombudsman Scheme, 2006

What is the Banking Ombudsman Scheme?

- Banking Ombudsman Scheme is an expeditious and inexpensive forum for bank customers for resolution of complaints relating to certain services rendered by banks.
- It is introduced under Section 35 A of the Banking Regulation Act, 1949 by RBI with effect from 1995.
- Presently the Banking Ombudsman Scheme 2006 (As amended upto July 1, 2017) is in operation.

Who is a Banking Ombudsman?

- Banking Ombudsman is a senior official appointed by RBI to redress customer complaints against deficiency in certain banking services covered under the grounds of complaint specified under Clause 8 of the Banking Ombudsman Scheme 2006 (As amended upto July 1, 2017).
- As on date, twenty Banking Ombudsmen have been appointed with their offices located mostly in state capitals.

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.

When can one file a complaint?

- One can file a complaint before the Banking Ombudsman if the reply is not received from the bank within a period of one month after the bank concerned has received one's complaint, or the bank rejects the complaint, or if the complainant is not satisfied with the reply given by the bank.
- Note: Banking Ombudsman does not charge any fee for filing and resolving customers' complaints.

Limit on the amount of compensation?

- The amount, if any, to be paid by the bank to the complainant by way of compensation for any loss suffered by the complainant is limited to the amount arising directly out of the act or omission of the bank or Rs. 20 lakhs (Rs. Two Million), whichever is lower.
- Note: Banking Ombudsman may award compensation not exceeding Rs. 1 lakh (Rs. One Hundred Thousand) to the complainant for mental agony and harassment.

Is there any further recourse available if one rejects the Banking Ombudsman's decision?

- Any person against the decision of Banking Ombudsman can approach the Appellate Authority.
- The Appellate Authority is vested with a Deputy Governor of the RBI.
- Note: One can file the appeal against the award or decision of the Banking Ombudsman rejecting the complaint within 30 days of the date of receipt of the Award.

NBFC's Ombudsman Scheme, 2006

What is the Ombudsman Scheme for Non-Banking Financial Companies, 2018?

- RBI introduced an Ombudsman Scheme for customers of Non-Banking Financial Companies (NBFCs).
- The Scheme is an expeditious & cost free apex level mechanism for resolution of complaints of customers of NBFCs, relating to certain services rendered by NBFCs.
- It is being introduced under Section 45 L of RBI Act, 1934, with effect from February 23, 2018.

Who is the NBFC Ombudsman?

- The NBFC Ombudsman is a senior official appointed by RBI to redress customer complaints against NBFCs for deficiency in certain services covered under the grounds of complaint specified under Clause 8 of the Scheme.
- As on date, four NBFC Ombudsman have been appointed with their offices located at Chennai, Kolkata, New Delhi and Mumbai.

Which are the NBFCs covered under the Scheme?

- NBFCs which are defined in Section 45-I (f) of RBI Act 1934 & registered with RBI under Section 45-IA of RBI Act 1934, which (a) are authorized to accept deposits; or (b) have customer interface, with assets size of one billion rupees or above, as on the date of the audited balance sheet of previous financial year, or of any such asset size as the RBI may prescribe, are covered under the Scheme.
- The Scheme initially covers NBFCs authorized to accept deposits & would be gradually extended to cover other identified NBFCs.

When can one file a complaint?

- For redressal of grievance, the complainant must first approach the concerned NBFC.
- If NBFC does not reply within a period of one month after receipt of complaint, or NBFC rejects the complaint, or if complainant is not satisfied with the reply given by the NBFC, the complainant can file the complaint with NBFC Ombudsman under whose jurisdiction the branch/ registered office of NBFC falls.
- **Note:** NBFC Ombudsman does not charge any fee for filing and resolving customers' complaints.

What is the limit of amount of compensation?

- The compensation amount, if any, which can be awarded by NBFC Ombudsman, for any loss suffered by complainant, is limited to the amount arising directly out of the act or omission of the NBFC or rupees one million, whichever is lower.
- **Note:** NBFC Ombudsman may award compensation not exceeding rupees 0.1 million to the complainant for causing mental agony & harassment.

Is there any further recourse available if one rejects the NBFC Ombudsman's decision?

- Yes, the Scheme provides appellate mechanism for complainant as well as NBFC.
- Appellate Authority is vested with a Deputy Governor-in-Charge of the department of the RBI implementing the Scheme.
- **Note:** One can file appeal against the award or the decision of the NBFC Ombudsman rejecting the complaint, within 30 days of the date of receipt of communication of Award or rejection of the complaint.



Introduction about the Instruments

- The NI Act, 1881, defines a **Negotiable Instrument as a promissory note, Bill of Exchange or cheque.**
- A **Bill of Exchange** is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.
- A **cheque is a Bill of Exchange** drawn on a specified banker and not expressed to be payable otherwise than on demand. The maker of a **cheque is called the 'drawer', and the person directed to pay is the 'drawee'**. The person named in the instrument, to whom or to whose order **the money is, by the instrument directed, to be paid, is called the 'payee'**.
- A cheque is a Negotiable Instrument, which can be further negotiated by means of endorsement and is payable on demand.
- **The Demand Draft** is a pre-paid Negotiable Instrument, wherein the drawee bank undertakes to make payment in full when the instrument is presented by the payee for payment. The demand draft is made payable on a specified branch of a bank at a specified centre.
- **Banker's cheque** is another payment instrument which was used by banks to settle payment obligations on behalf of their customers. This instrument is guaranteed by the bank for its full value and is similar to a demand draft.
- **Travellers cheques** are a secure and convenient alternative to carrying cash. These are prepaid instruments available in fixed denominations. The holder of the Travellers cheque is required to sign the instrument upon purchase and again in the presence of the merchant establishment at the time of making payment or realising proceeds thereof.

Definition of a Cheque

A cheque is defined in Sec 6 of NI Act as under:

- A cheque is a bill of exchange drawn on a specified banker
- Payable on demand
- Drawn on a specified banker
- Electronic image of a truncated cheque is recognized under law. The Information Technology Act, 2002 recognizes (a) digital signatures and (b) electronic transfer as well.

Parties in Cheque Transaction

There are three parties in Cheque Transaction – Drawer, Drawee and Payee.

- **Drawer (Maker of Cheque):** Person who issues the cheque or hold the account with bank.
- **Drawee:** Person who is directed to make the payment against cheque. In case of cheque, it is bank.
- **Payee:** Person whose name is mentioned in the cheque or to whom the drawee makes payment.

Other Points.

- **Endorser:** The person who transfers his right to another person
- **Endorsee:** The person to whom the right is transferred

What are the types of Cheque?

- **Open / Bearer Cheque**
- **Bearer Cheque**
- **Crossed Cheque**
- **Anti-Dated Cheque**
- **Post-Dated Cheque**
- **Stale Cheque**

Open / Bearer Cheque

- This type of Cheques are risky in nature for drawer.
- When the word “Bearer” on the cheque is not crossed or cancelled, the cheque is called a bearer cheque.
- These are payable to person specified in the instrument or any person who possess it and present for payment over the counter.
- In case of cheque is lost, person who find it can collect payment from the bank.

Bearer Cheque

- When the word “Bearer” written on cheque is crossed or cancelled it becomes bearer cheque.
- It is payable to a specified person named in the cheque or any other to whom it is endorsed.

Crossed Cheque/ Account Payee Cheque

- The person who issue or write the cheque specify its as account payee by simply making two parallel lines on top left or middle or right-hand corner of the cheque.
- This type of cheque cannot be encashed over the counter.
- Considered as safest type of cheque, it can only be credited to payee’s account whose name is mentioned in the Cheque.

Anti-Dated Cheque

- Cheque bearing the date earlier than the date of presentation for payment is known as anti-dated cheque.

Note: All Types of Cheque are valid for three months from the date of issue (or written on cheque).

Post-Dated Cheque

- Cheque bearing the date which is yet to come in future is called Post Dated Cheque.
- Cheque is honored only on or after the date (upto three months) written on cheque.

Stale Cheque

- A Cheque turns stale after three months of the date written on cheque. A Stale Cheque cannot be honored by the bank.

What is Crossing of a Cheque?

- Crossing is an ‘instruction’ given to the paying banker to pay the amount of the cheque only through account credit.
- A cheque bearing such an instruction is called a ‘crossed cheque’.
- **Section 123 to 131 of the Negotiable Instruments Act** contain provisions relating to crossing.
- As per Section 131-A, these Sections are also applicable in case of drafts.

What are the different types of Crossing?

GENERAL CROSSING

- In this type of crossing the cheque must contain two parallel transverse lines. They could be put anywhere on the cheque. Generally, we put it on top left of the cheque. The effect of this crossing is that the cheque must be paid only to the banker.

SPECIAL CROSSING

- The cheque must contain the name of the banker. It may be made only once.
- The effect of this crossing is that the cheque must be paid only to the banker to whom it is crossed. Please note that special crossing cannot be converted into general crossing.

NOT NEGOTIABLE CROSSING

- In this type of crossing, the cheque must contain the words 'not negotiable'. The cheque must be crossed generally or specially.
- The effect of this crossing is that the cheque nevertheless remains negotiable (transferrable) and the title of the transferred shall not be better than title of transferor.

ACCOUNT PAYEE CROSSING

- This is also called restrictive crossing. The cheque must contain the words 'account payee' or 'account payee only'.
- The cheque must be crossed generally or specially. The effect of this type of crossing is that the cheque does not remain negotiable anymore.

What is Cheque Truncation?

- Truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point by the presenting bank en-route to the paying bank branch.
- In its place an electronic image of the cheque is transmitted to the paying branch through the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc.
- Cheque Truncation speeds up the process of collection of cheques resulting in better service to customers, reduces the scope of 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.

What is Cheque Standardisation and what does CTS 2010 Standard mean?

- Standardisation of cheque forms (leaves) in terms of size, MICR band, quality of paper, etc., was one of the key factors that enabled mechanisation of cheque processing.
- Benchmarks towards achieving standardisation of cheques issued by banks across the country have been prescribed like – quality of paper, watermark, bank's logo in invisible ink, void pantograph, etc., and standardisation of field placements on cheques. The homogeneity in security features is expected to act as a deterrent against cheque frauds, while the standardisation of field placements on cheque forms would enable straight-through-processing by use of optical / image character recognition technology. The benchmark prescriptions are collectively known as "CTS-2010 standard".

- All banks providing cheque facility to their customers have been advised to issue only 'CTS-2010' standard cheques.

What is an IRD?

- Under CTS, after the capture of the image, the physical cheque would be warehoused with the presenting bank. In case the beneficiary or any other connected persons require the instrument, the payee bank could issue a copy of the image, under its authentication, which is called Image Replacement document.
- It is a legally recognized replacement of the original cheque for re-presentation.

ENDORSEMENT

- As per Section 15, endorsing means signing on the face or backside of an instrument (or even on a paper called Allonge or stamped paper), for the purpose of negotiating (transferring to next person) a negotiable instrument.

Endorsement in full

- If an endorser signs his name & adds a direction to pay the amount mentioned in the instrument to, or to order of, a specified person, the endorsement is said to be in full. Blank endorsements can be converted into full.

Restrictive endorsement

- Where an endorsement prohibits & restricts further negotiability of the instrument, it is called restricted endorsement.
- The words 'Pay to Ashish only' or 'Pay to Ashish for my use' or 'Pay to Ashish for account of B', are the cases of restrictive endorsement.



- ACF Auto-Correlation Function
- AD Authorized Dealer
- ADB Asian Development Bank
- ADR American Depository Receipt
- AFS Annual Financial Statement
- AGM Annual General Meeting
- AIRCSC All India Rural Credit Survey Committee
- AO Additive Outliers
- AR Auto Regression
- ARIMA Auto-Regressive Integrated Moving
- Average
- AFS Available For Sale
- ASSOCHAM Associated Chambers of Commerce and Industry of India
- ATM Asynchronous Transfer Mode
- ATM Automated Teller Machine
- BIS Bank for International Settlements
- BOI Bank of India
- BoP Balance of Payments
- BSCS Basel Committee on Banking Supervision
- BSR Basic Statistical Returns
- CAD Capital Account Deficit
- CAG Controller and Auditor General of India
- CBS Consolidated Banking Statistics
- CC Cash Credit
- CD Certificate of Deposit
- CD Ratio Credit Deposit Ratio
- CDBS Committee of Direction on Banking Statistics
- CF Company Finance
- CFRA Combined Finance and Revenue Accounts
- CGRA Currency and Gold Revaluation Account
- CII Confederation of Indian Industries
- CO Capital Outlay
- CP Commercial Paper
- CPI Consumer Price Index
- CPI-IW Consumer Price Index for Industrial Workers
- CR Capital Receipts
- CRAR Capital to Risk Weighted Asset Ratio
- CRR Cash Reserve Ratio

- CSIR Council of Scientific and Industrial Research
- CSO Central Statistical Organisation
- CVC Central Vigilance Commission
- DAP Development Action Plan
- DBOD Department of Banking Operations and Development
- DBS Department of Banking Supervision, RBI
- DCB Demand Collection and Balance
- DCCB District Central Cooperative Bank
- DCM Department of Currency Management, RBI
- DD Demand Draft
- DDS Data Dissemination Standards
- DEIO Department of External Investments and Operations
- DESACS Department of Statistical Analysis & Computer Services, RBI
- DGBA Department of Government and Bank Accounts, RBI
- DGCI&S Directorate General of Commercial Intelligence and Statistics
- DI Direct Investment
- DICGC Deposit Insurance and Credit Guarantee Corporation of India
- DID Discharge of Internal Debt
- DMA Departmentalized Ministries Account
- DRI Differential Rate of Interest Scheme
- DSBB Dissemination Standards Bulletin Board
- DVP Delivery versus Payment
- ECB External Commercial Borrowing
- ECB European Central Bank
- ECGC Export Credit and Guarantee Corporation
- ECS Electronic Clearing Scheme
- EDMU External Debt Management Unit
- EEA Exchange Equalization Account
- EEC European Economic Community
- EEFC Exchange Earners Foreign Currency
- EFR Exchange Fluctuation Reserve
- EPF Employees Provident Fund
- EUR Euro
- EXIM Bank Export Import Bank of India
- FCA Foreign Currency Assets
- FCCB Foreign Currency Convertible Bond
- FCNR(B) Foreign Currency Non-resident (Banks)
- FCNRA Foreign Currency Non-resident Account
- FCNRD Foreign Currency Non-Repatriable Deposit
- FDI Foreign Direct Investment
- FEMA Foreign Exchange Management Act
- FI Financial Institution
- FICCI Federation of Indian Chambers of Commerce and Industry
- FII Foreign Institutional Investor

- FIMMDA Fixed Income Money Market and Derivatives Association of India
- FISIM Financial Intermediation Services Indirectly Measured
- FLAS Foreign Liabilities and Assets Survey
- FOF Flow Of Funds
- FPI Foreign Portfolio Investment
- FRA Forward Rate Agreement
- **FRBM** Fiscal Responsibility and Budget Management Act, 2003
- **FRN** Floating Rate Note
- **FSS** Farmers' Service Societies
- **FWG** First Working Group on Money supply
- GDP Gross Domestic Product
- GDR Global Depository Receipt
- GFD Gross Fiscal Deficit
- GFS Government Finance Statistics
- GIC General Insurance Corporation
- GLS Generalized Least Squares
- GNIE Government Not Included Elsewhere
- GoI Government of India
- GPD Gross Primary Deficit
- G-Sec Government Securities
- HDFC Housing Development Finance Corporation
- HFT Held For Trading
- HICP Harmonised Index of Consumer Prices
- HUDCO Housing & Urban Development Corporation
- IBRD International Bank for Reconstruction and Development
- IBS International Banking Statistics
- ICAR Indian Council of Agricultural Research
- ICICI Industrial Credit and Investment Corporation of India
- ICMR Indian Council of Medical Research
- IDB India Development Bonds
- IDBI Industrial Development Bank of India
- IDD Industrial Development Department
- IFAD International Fund for Agricultural Development
- IFC International Finance Corporation
- IFCI Industrial Finance Corporation of India
- IFR Investment Fluctuation Reserve Account
- IFS International Financial Statistics
- IGLS Iterative Generalized Least Squares
- IIBI Industrial Investment Bank of India
- IIP Index of Industrial Production
- IIP/InIP International Investment Position
- IMD India Millennium Deposits
- IMF International Monetary Fund
- IRBI Industrial Reconstruction Bank of India

- ISDA International Swaps and Derivative Association
- ISIC International Standard Industrial Classification
- ISO International Standards Organization
- ITRS International Transaction Reporting System
- IWGEDS International Working Group on External Debt Statistics
- KVIC Khadi & Village Industries Corporation
- LAF Liquidity Adjustment Facility
- LAMPS Large-sized Adivasi Multipurpose Societies
- LBD Land Development Bank
- LBS Locational Banking Statistics
- LERMS Liberalised Exchange Rate Management System
- LIC Life Insurance Corporation of India
- LS Level Shift
- LT Long Term
- LTO Long Term Operation
- M1 Narrow Money
- M3 Broad Money
- MA Moving Average
- MCA Ministry of Company Affairs
- MIGA Multilateral Investment Guarantee Agency
- MIS Management Information System
- MMSE Minimum Mean Squared Errors
- MoF Ministry of Finance
- MOF Master Office File
- MRM Monitoring and Review Mechanism
- MSS Market Stabilisation Scheme
- MT Mail Transfer
- MTM Mark-To-Market
- NABARD National Bank for Agriculture and Rural Development
- NAC(LTO) National Agricultural Credit (LongTerm Operation)
- NAS National Account Statistics
- NASSCOM National Association of Software and Services Companies
- NBC Non-Banking Companies
- NBFC Non Banking Financial Companies
- NEC Not Elsewhere Classified
- NEER Nominal Effective Exchange Rate
- NFA Non-Foreign Exchange Assets
- NFD Net Fiscal Deficit
- NGO Non-Governmental Organization
- NHB National Housing Bank
- NIC National Industrial Classification
- NIF Note Issuance Facility
- NNML Net Non-Monetary Liabilities
- NPA Non-Performing Assets

- NPD Net Primary Deficit
- NPRB Net Primary Revenue Balance
- NPV Net Present Value
- NR(E)RA Non-Resident (External) Rupee Account
- NR(NR)RA Non-Resident (Non-Repatriable) Rupee Account
- NRE Non-Resident External
- NRG Non-Resident Government
- NRI Non-Resident Indian
- NSC National Statistical Commission
- NSSF National Small Savings Fund
- OD Over Draft
- ODA Official Development Assistance
- OECD Organisation for Economic Cooperation and Development
- OECO Organisaaton for Economic Co-operation
- OFI Other Financial Institutions
- OLTAS OnLine Tax Accounting System
- OMO Open Market Operations
- PACF Partial Auto-Correlation Function
- PACS Primary Agriculture Credit Societies
- PCARDB Primary Cooperative Agriculture and Rural Development Bank
- PD Primary Deficit
- PDAI Primary Dealers Association of India
- PDO Public Debt Office
- PDO-NDS Public Debt Office-cum-Negotiated Dealing System
- PDs Primary Dealers
- PF Provident Fund
- PIO Persons of Indian Origin
- PNB Punjab National bank
- PRB Primary Revenue Balance
- PSE Public Sector Enterprises
- PUC Paid Up Capital
- QRR Quick Review Report
- RBI Reserve Bank of India
- RD Revenue Deficit
- RDBMS Relational Database Management System
- RE Revenue Expenditure
- REC Rural Electrification Corporation
- REER Real Effective Exchange Rate
- RFC Residents Foreign Currency
- RIB Resurgent India Bonds
- RIDF Rural Infrastructure Development Fund
- RLA Recoveries of Loans & Advances
- RLC Repayment of Loans to Centre

- RNBC Residuary Non-Banking Companies
- RoCs Registrars of Companies
- RPA Rupee Payment Area
- RPCD Rural Planning and Credit Department, RBI
- RR Revenue Receipts
- RRB Regional Rural Bank
- RTP Reserve Tranche Position
- RWA Risk Weighted Asset
- SAM Social Accounting Matrix
- SAS Statistical Analysis System
- SCARDB State Cooperative Agriculture and Rural Development Bank
- SCB State Cooperative Bank
- SCB Scheduled Commercial Bank
- SDDS Special Data Dissemination Standards
- SDR Special Drawing Right
- SEBI Securities and Exchange Board of India
- SEBs State Electricity Boards
- SFC State Financial Corporation
- SGSY Swarnajayanthi Gram Swarajgar Yojana
- SHGs Self-Help Groups
- SIDBI Small Industries Development Bank of India
- SIDC State Industrial Development Corporation
- SJSRY Swarna Jayanti Shahari Rojgar Yojana
- SLR Statutory Liquidity Ratio
- SLRS Scheme for Liberation & Rehabilitation of Scavengers
- SMG Standing Monitoring Group
- SNA System of National Accounts
- SRWTO Small road & Water Transport Operators
- SSI Small-Scale Industries
- SSSBEs Small Scale Service & Business Enterprises
- TBs Treasury Bills
- UBB Uniform Balance Book
- UBD Urban Banks Department
- UCB Urban Cooperative Bank
- UCN Uniform Code Number
- UTI Unit Trust of India
- VC Venture Capital
- WPI Wholesale Price Index
- YTM Yield to Maturity



Chapter 38

Currency System in India

Function of RBI as the Issuer of Currency

- RBI is the nation's sole note issuing authority. Along with the Government of India, it is responsible for the design, production and overall management of the nation's currency, with the goal of ensuring an adequate supply of clean and genuine notes.
- The Government of India is the issuing authority of coins and supplies coins to the Reserve Bank on demand.
- RBI puts the coins into circulation on behalf of the Central Government.
- The Department of Currency Management at Central Office, Mumbai, in cooperation with the Issue Departments of the Reserve Bank's Regional Offices across India oversees currency management. The function includes supplying and distributing adequate quantity of currency throughout the country and ensuring the quality of banknotes in circulation by continuous supply of clean notes and timely withdrawal of soiled notes.
- The method which is used currently in India to issue currency note - minimum reserve system. For issuing notes, RBI is required to hold the minimum reserves of Rs. 200 crores of which note less than Rs. 115 crores is to be held in gold.

Note: Currency chests are extended arms of the Reserve Bank Issue Departments and are responsible for meeting the currency requirements of their respective regions.

The Printing and the Minting Presses

- Four printing presses print and supply banknotes. These are at Dewas in Madhya Pradesh, Nasik in Maharashtra, Mysore in Karnataka, and Salboni in West Bengal.
- The presses in **Madhya Pradesh and Maharashtra are owned by the Security Printing and Minting Corporation of India (SPMCIL)**, a wholly owned company of the Government of India.
- The presses in **Karnataka and West Bengal are owned by the Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)**, a wholly owned subsidiary of the RBI.
- Coins are minted by the Government of India. RBI is the agent of the Government for distribution, issue and handling of coins.
- Four mints are in operation: Mumbai in Maharashtra, Noida in Uttar Pradesh, Kolkata, and Hyderabad.

A Brief on RBI's Clean Note Policy

- It is an **Education campaign on preferred way to handle notes:** no stapling, writing, excessive folding and the like
- **Timely removal of soiled notes:** use of currency verification and processing systems and sorting machines
- **Exchange facility for torn, mutilated or defective notes:** at all branches of commercial banks.

Denominations of coins and notes in circulation

Coins in circulation: 50 paise, 1, 2, 5 and 10 Rupee



Notes in circulation: Rs. 5, 10, 20, 50, 100, 500 and 2000



Important Key Points

- Bank notes are legal tender at any place in India for payment without limit. As per the Indian Coinage Act:
 - (a) a coin of any denomination not lower than one rupee, for any sum not exceeding one thousand rupees;
 - (b) a half-rupee coin, for any sum not exceeding ten rupees;
 - (c) any other coin, for any sum not exceeding one rupee:
- Provided that the 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.

New Currency Notes Introduced by RBI

RBI Introduced ₹10 banknote in Mahatma Gandhi (New) Series



- RBI issued ₹10 denomination banknotes in the Mahatma Gandhi (New) Series, bearing signature of Dr. Urjit R. Patel, Governor, RBI.
- The new denomination has motif of Sun Temple, Konark on the reverse, depicting the country's cultural heritage.
- The base colour of the note is Chocolate Brown.
- The note has other designs, geometric patterns aligning with the overall colour scheme, both at the obverse and reverse.
- All the banknotes in the denomination of ₹10/- issued by the Reserve Bank in the earlier series will continue to be legal tender.

The Most Important Features

- **Obverse (Front):** Ashoka Pillar emblem on the right.
- **Reverse (Back):** Swachh Bharat logo with slogan, Motif of Sun Temple, Konark.
- **Dimension of the banknote** will be 63 mm x 123 mm.

RBI introduced ₹200 denomination Banknote



- RBI issued ₹200 denomination banknotes in the Mahatma Gandhi (New) Series, bearing signature of Dr. Urjit R. Patel, Governor, RBI.
- It has Motif of Sanchi Stupa on the reverse, depicting the country's cultural heritage.
- The base colour of the note is Bright Yellow.

The Most Important Features

- **Obverse (Front):** Windowed security thread with inscriptions 'भारत' and RBI with colour shift.
- Colour of the thread changes from green to blue when the note is tilted.
- Ashoka Pillar emblem on the right

For visually impaired

- **Intaglio or raised printing of Mahatma Gandhi portrait, Ashoka Pillar emblem, raised Identification mark H** with micro-text ₹ 200, four angular bleed lines with two circles in between the lines both on the right and left sides
- **Reverse (Back):** Motif of Sanchi Stupa
- **Dimension of the banknote** will be 66 mm × 146 mm

RBI issued ₹2000 denomination Banknote



- RBI issued Rs. 2000 denomination banknotes in the Mahatma Gandhi (New) Series, without the inset letter, bearing signature of Dr. Urjit R. Patel, Governor, Reserve Bank of India, and the year of printing '2016' printed on the reverse of the banknote.
- It has Motif of Mangalyaan on the reverse, depicting the country's first venture into the interplanetary space.
- The base colour of the note is magenta.

Most Important Features

- Ashoka Pillar emblem on the right.
- **For visually impaired:** Intaglio or raised printing of Mahatma Gandhi portrait, Ashoka Pillar emblem, bleed lines and identity mark.
- **Reverse (Back):** Swachh Bharat logo with slogan | Motif of Mangalayan
- **Dimension of the banknote:** 66 mm × 166 mm

RBI issued ₹500 Note



- RBI issued Rs. 500 denomination banknotes in Mahatma Gandhi (New) Series with inset **letter 'E' in both the number panels, bearing the signature of Dr. Urjit R. Patel, Governor, RBI.**
- Swachh Bharat Logo printed on the reverse of the Banknote. The principal features are:
Size is 66mm x150mm | The colour is stone grey | Red Fort-an image of Indian heritage site with Indian flag on the reverse.

COINS

- The Government of India has the sole right to mint coins.
- The responsibility for coinage vests with the Government of India in terms of the Coinage Act, 1906 as amended from time to time.
- The designing and minting of coins in various denominations is also the responsibility of the Government of India.
- Coins are minted at the four India Government Mints at Mumbai, Alipore(Kolkata), Saifabad(Hyderabad), Cherlapally (Hyderabad) and NOIDA (UP).
- The coins are issued for circulation only through the Reserve Bank in terms of the RBI Act.

Denominations

- Coins in India are presently being issued in denominations of 50 paise, one rupee, two rupees, five rupees and ten rupees.
- Coins up to 50 paise are called 'small coins' and coins of Rupee one and above are called 'Rupee Coins'.
- Coins in the denomination of 1 paise, 2 paise, 3 paise, 5 paise, 10 paise, 20 paise and 25 paise have been withdrawn from circulation with effect from June 30, 2011 and are, therefore, no more legal tender.
- Coins can be issued up to the denomination of Rs.1000 as per the Coinage Act, 1906.

A Small Brief on the Type of Notes or Currency?

- **Government note:** means any note issued by Central Government or supplied by the Central Government to the Bank and issued by the Bank, provided the liability for the payment of the value in respect of such note has devolved on and been taken over by the Bank.
- **Imperfect Note:** means any note, which is wholly or partially, obliterated, shrunk, washed, altered or indecipherable but does not include a mutilated note.
- **Mutilated note:** means a note of which a portion is missing or which is composed of more than two pieces.
- **Mismatched note:** means a mutilated note which has been formed by joining a half note of any one note to a half note of another note.
- **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.

A Brief on the Printed Currency

- Banknotes in India are currently being issued in the denomination of ₹10, ₹20, ₹50, ₹100, ₹200, ₹500, ₹1000 and ₹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 ₹2 and ₹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.
- Re. 1 was also not being printed since long due to coinisation. However, the Central Government reintroduced this note. Re. 1 notes issued in the past also continue to be legal tender for transactions.

Important Key Points

- The symbol of the Indian Rupee is ₹.
- The design resembles both the Devanagari letter "र" (ra) and the Latin capital letter "R", with a double horizontal line at the top.
- RBI 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. However, there cannot be banknotes in denominations higher than ten thousand rupees in terms of the current provisions of the Reserve Bank of India Act, 1934.
- Coins can be issued up to the denomination of ₹1000 in terms of The Coinage Act, 2011.

Demonetization of higher denomination banknotes.

- ₹1000 and ₹10000 banknotes, which were then in circulation were demonetized in January 1946.
- The higher denomination banknotes in ₹1000, ₹5000 and ₹10000 were reintroduced in the year 1954, and these banknotes (₹1000, ₹5000 and ₹10000) were again demonetized in January 1978.

What is legal tender?

- The coins issued under the authority of Section 6 of The Coinage Act, 2011, 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,
- Every banknote issued by Reserve Bank of India (₹2, ₹5, ₹10, ₹20, ₹50, ₹100, ₹200, ₹500 and ₹1000, ₹2000) 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.

Why is One Rupee liability of the Government of India?

- 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.
- Since the rupee coins issued by Government constitute the liabilities of the Government, one rupee is also liability of the Government of India.

What was the highest denomination note ever printed?

- The highest denomination note ever printed by the Reserve Bank of India was the ₹10000 note in 1938 and again in 1954. These notes were demonetized in 1946 and again in 1978.

Who is responsible for changing the design of coins from time to time?

The Government of India is responsible for the designing and minting of coins in various denominations.

What is currency paper made of?

Currency paper is composed of cotton and cotton rag.

Who decides on the volume and value of banknotes to be printed and on what basis?

- RBI based on the demand requirement indicates the volume and value of banknotes to be printed each year to the Government of India which get finalized after mutual consultation.
- The quantum of banknotes to be printed, broadly depends on the requirement **for meeting the demand for banknotes, GDP growth, replacement of soiled banknotes, reserve stock requirements, etc.**
- The Government of India decides on 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?

- RBI estimates the demand for banknotes on the basis of the **growth rate of the economy, inflation rate, the replacement demand and reserve stock requirements by using statistical models/techniques.**

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.

What is a small coin depot?

- Some bank branches are authorised to establish Small Coin Depots to stock small coins i.e. coins below Rupee one.
- The Small Coin Depots also distribute small coins to other bank branches in their area of operation.

A Brief on Banknotes since Independence.

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 ₹ 1000, ₹ 5000 and ₹ 10000 were issued in the year 1954.

Mahatma Gandhi (MG) Series 1996

- The banknotes in MG Series – 1996 were issued in the denominations of ₹ 5, (introduced in November 2001) ₹ 10 (June 1996), ₹ 20 (August 2001), ₹ 50 (March 1997), ₹ 100 (June 1996), ₹ 500 (October 1997) and ₹ 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 to the left side next to the watermark window.
- This means that these banknotes contain Mahatma Gandhi watermark as well as Mahatma Gandhi's portrait.

MG series – 2005 banknotes

- MG series 2005 banknotes are issued in the denomination of ₹ 10, ₹ 20, ₹ 50, ₹ 100, ₹ 500 and ₹ 1000 and contain some additional / new security features as compared to the 1996 MG series.
- The ₹ 50 and ₹ 100 banknotes were issued in August 2005, followed by ₹ 500 and ₹ 1000 denominations in October 2005 and ₹ 10 and ₹ 20 in April 2006 and August 2006, respectively.

What is a "star series" banknote?

- The Star series banknotes are exactly similar to 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 as indicated below:



What is on a banknote to help visually challenged people identify the different denominations?

- Each denomination is a different size; the greater the value the larger the note. There is an identification mark on the left-hand side of each note on the front side which is in raised print (intaglio) and has different shapes for different denominations.
- Diamond for ₹ 1000, circle for ₹ 500, triangle for ₹ 100, square for ₹ 50, rectangle for ₹ 20 and none for ₹ 10.
- RBI introduced additional features in banknotes of ₹100, ₹ 500 and ₹ 1000 denomination viz; Angular Bleed Lines have been introduced in banknotes - 4 lines in 2 blocks in ₹ 100, 5 lines in 3 blocks in ₹ 500 and 6 lines in 4 blocks in ₹ 1000 denominations and the identification mark in these notes has been enlarged by 50%.



What is a counterfeit note?

- A suspected counterfeit note, forged note, or fake note is any note which does not possess the characteristics of genuine Indian currency note.
- Counterfeiting notes using as genuine, forged or counterfeit notes / 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.**
- Mere possession of a counterfeit note does not attract punishment. Possession of a counterfeit note knowing to be such and intending to use the same as genuine or that it may be used as genuine, is punishable under Section 489C of Indian Penal Code, 1860.



There are mainly eight types of risks that a bank can face. These are as follows:

1. Credit Risk
2. Market Risk
3. Operation Risk
4. Liquidity Risk
5. Business Risk
6. Reputational Risk
7. Systemic risk
8. Moral hazard

1. Credit Risk

- If a borrower does not repay a loan, the lender may lose the principle of the loan or the interest associated with it. It arises because the borrower expects to use future cash flows to pay current debts.
- A credit risk is the danger of default on an obligation that may emerge from a borrower neglecting to make required installments.
- Credit risk is most likely caused by loans, acceptances, interbank transactions, trade financing etc.

2. Market Risk

- Market risk arises due to the factors affecting the overall performance of the financial market, it is also known as the systematic risk.

3. Operational Risk

- Operational risk is the risk not arising from financial, systematic or market-wide risk.
- It is the risk remaining after determining systematic and financing risk and includes risk resulting from breakdowns in internal procedures.
- As per BIS (Bank of International Settlements) operational risk is the risk of loss, resulting from failed internal process, people and systems or from external events.

4. Liquidity Risk:

- Risk due to the lack of marketability of an investment that cannot be bought or sold quickly.
- The inability of a bank to provide cash.

5. Business Risk:

- Business hazard is the likelihood of an organization to have lower than foreseen benefits or experience a misfortune instead of taking a benefit.
- Business hazard is impacted by various components, including deals volume, per-unit value, input costs, rivalry, the general monetary atmosphere and government controls.

6. Reputational Risk:

- Reputational risk is a threat or danger to the good name of a business.
- It occurs through a number of ways, directly as the result of the actions of the company itself, due to the actions of an employee.
- To avoid reputational risk a company also needs to be socially responsible and environmentally conscious.
- Reputational risk is the major hidden risk than can pose a threat to the survival of the large companies. The reputational risk arises from the actions of errant employees.

7. Systematic Risk:

- Systematic Risk is the ups and downs of returns caused by macroeconomic factors that affect all risky assets.
- Systematic risk consists of day to day fluctuations in a stock's price.

8. Moral Hazard:

- Moral hazard is a situation in which one party gets involved in a risky event knowing that it is protected against the risk and the other party will incur the cost. It arises when both the parties have incomplete information about each other.
- It emerges when both the parties have inadequate data about each other.
- It occurs when the borrower knows that someone else will pay for the mistake he makes. This in turn gives him the incentive to act in a riskier way. This economic concept is known as moral hazard.

