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## THE COMPLETE – STATIC BANKING AWARENESS

### STATIC BANKING AWARENESS

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### Topic - 1: Introduction

#### 1. Bank and its operations

- ☞ A bank is a financial institution that accepts deposits from the public and creates Lending.
- ☞ RBI is the sole regulator for the banking sector in India.

#### 2. Assets and liabilities

##### Assets: (yield / income)

- ☞ Lending activities are the best way to earn income for banks. Personal loan, corporate loan, mortgage loan, housing loans will fetch a higher interest rate for the bank.

##### Liabilities: (cost fund)

- ☞ Deposits with the banks are liabilities for the banks. Because banks have to give interest rate for the respective amount deposited by the customer.

#### 3. Net Interest Margin

- ☞ Net interest margin is a gap between Assets and Liability. For example bank charges **9%** interest rate for loans. And it gives **4%** interest for the deposits that lie with the banks. Now **9% - 4% = 5%** will be the profit for the banks. The 5% is a net interest margin for the banks.
- ☞ Net Interest Margin (NIM) is the important parameter for the survival of any banking system.
- ☞ At present, some new generation private sector banks along with SBI are able to achieve +3% NIM, which is the benchmark for profitable banking operations.

But most of the public sector banks are struggling with NIMs of 2.2 to 2.7%. Hence these banks are not able to achieve desired levels of profitability.

- ☞ To get high **net interest margin** banks should reduce the cost of funds.

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### Topic -2: History of Banking & Merger of Banks

- ☞ Banking system commenced in India with the foundation of **Bank of Hindustan** in Calcutta (now Kolkata) in **1770** which ceased **to operate in 1832**.

#### Presidency Banks:

These banks were funded by the presidency government at that time.

- ☞ Bank of Bengal- Established in 1806.
- ☞ Bank of Bombay - Established in 1840.
- ☞ Bank of Madras - Established in 1843.

These three presidency banks were re-organized and amalgamated to form a single entity named “Imperial Bank of India” on 27th January, 1927. It was later transformed into “State Bank of India” in 1955.

#### Some old Banks:

- ☞ Allahabad Bank was established in 1865 at Allahabad (Uttar Pradesh). It is the oldest joint stock bank of our country functioning till today.
- ☞ Oudh Commercial Bank was established in 1881 at Faizabad (Uttar Pradesh). It is the First limited liability Bank in India and also first joint stock bank by Indians. However it failed in 1958.
- ☞ Punjab National Bank was established in 1895 at Lahore (Pakistan) and it was also the first bank to be managed solely by Indians.

#### Swadeshi movement:

- ☞ Due to the “Swadeshi” movement many banks were established between 1906 and 1911. Many local businessmen and strong political figures of India funded the banks for Indian community. Some of the banks that were established are as follows:

#### Nationalization:

- ☞ **19<sup>th</sup> July 1969, 14 major Banks were nationalized.**

1. Central bank India.
2. Bank of Maharashtra.
3. Dena Bank.
4. Punjab national bank.
5. Syndicate bank.
6. United bank of India.
7. Indian bank.
8. Indian overseas bank.
9. Bank of Baroda.
10. Union bank.
11. Allahabad bank.
12. UCO bank.
13. Canara bank.
14. Bank of India.

#### In 1980 another 6 banks were nationalized:

1. Andhra bank.
2. Oriental bank of commerce.
3. New bank of India.

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4. Corporation bank.
5. Punjab and sind bank.
6. Vijaya bank.

☞ There were 27 PSBs in 2017 and now there would be **12**. This would result in creation of **seven** large PSBs with each amalgamated entity having a business of over **Rs 8 lakh crore**, and **five** smaller ones.

### The five smaller PSBs are

1. Central Bank of India (CBI). [8<sup>th</sup> largest]
2. Indian Overseas Bank (IOB). [9<sup>th</sup> largest]
3. UCO Bank. [10<sup>th</sup> largest]
4. Bank of Maharashtra (BOM). [11<sup>th</sup> largest]
5. Punjab and Sind Bank. [12<sup>th</sup> largest]

### The seven large PSBs (by size) are

1. State Bank of India (SBI)
2. Punjab National Bank (PNB)
3. Bank of Baroda (BOB)
4. Canara Bank
5. Union Bank of India (UBI)
6. Bank of India (BOI)
7. Indian bank

Recent merger announced by Finance ministry:

Anchor Bank	Amalgamating bank's	Public sector banks by size
PNB (Punjab National Bank)	Oriental bank of commerce + United bank of India	2 <sup>nd</sup> largest
Canara bank	Syndicate bank	4 <sup>th</sup> largest
Union bank of India	Andhra bank + Corporation Bank	5 <sup>th</sup> largest
Indian bank	Allahabad bank	7 <sup>th</sup> largest

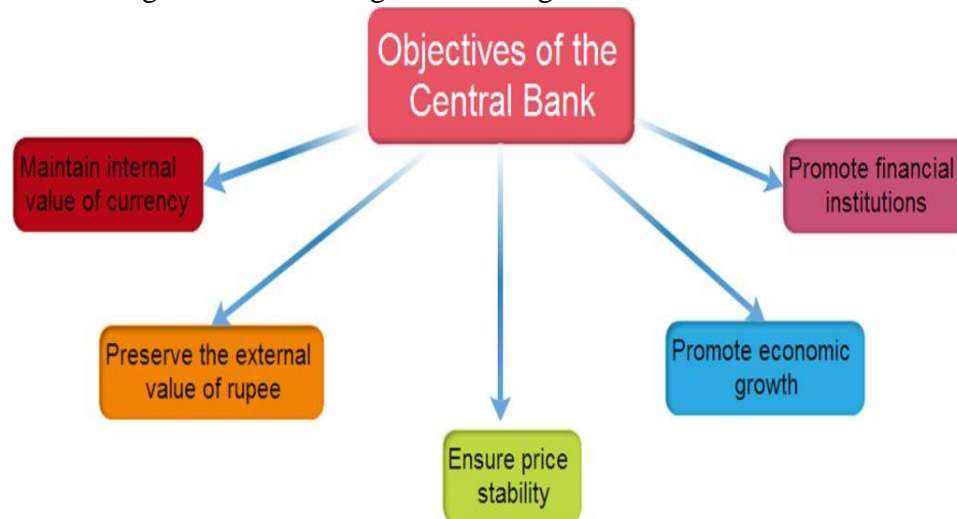
☞ The RBI has excluded six public sector banks, including OBC and Allahabad Bank, from the Second Schedule of the RBI Act following their merger with other banks. The six banks are Syndicate Bank, Oriental Bank of Commerce (OBC), United Bank of India, Andhra Bank, Corporation Bank, and Allahabad Bank.

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## Topic 3- Reserve Bank of India

### 1. RBI (Reserve Bank of India):

- ☞ Reserve Bank of India (RBI) is the central bank of the country. RBI is a statutory body. It is responsible for printing of currency notes and managing the supply of money in the Indian economy.
- ☞ Reserve Bank of India (RBI) is the highest monetary authority of India. RBI was established in 1935 by the RBI Act 1934. RBI works as a custodian of foreign reserve, banker's bank, banker to the government of India and controller of credit.
- ☞ Initially the ownership of almost all the share capital was in the hands of non-government shareholders. So in order to prevent the centralization of the shares in few hands, the RBI was nationalized on January 1, 1949.
- ☞ The Reserve Bank has adopted the Minimum Reserve System for issuing/printing the currency notes. Since 1957, it maintains gold and foreign exchange reserves of Rs.200 Cr. of which at least Rs.115 cr. should be in gold and remaining in the foreign currencies.



### Functions of Reserve Bank:

#### 1. Issue of Notes:

- ☞ The Reserve Bank has the monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (which is issued by the Ministry of Finance).

#### 2. Banker to the Government:

- ☞ The second important function of the Reserve Bank is to act as the Banker, Agent and Adviser to the Government of India and states. It performs all the banking functions of the State and Central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the public debt of the government.

#### 3. Banker's Bank:

- ☞ The Reserve Bank performs the same functions for the other commercial banks as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks of the country.

#### 4. Controller of the Credit:

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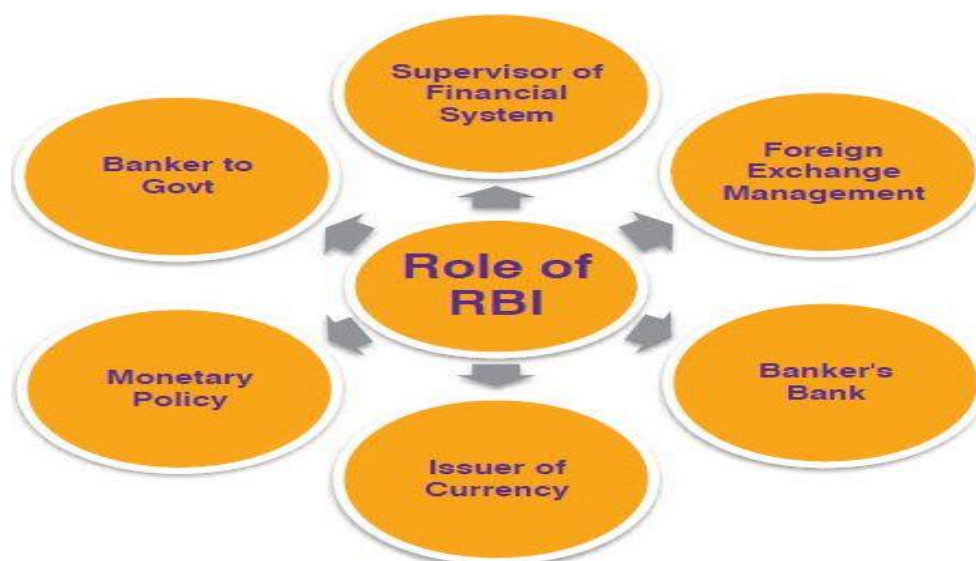
- ☞ The RBI undertakes the responsibility of controlling credit created by the commercial banks. RBI uses two methods to control the extra flow of money in the economy. These methods are quantitative and qualitative techniques to control and regulate the credit flow in the country.
- ☞ **When RBI observes that the economy has sufficient money supply and it may cause inflationary situation in the country then it squeezes the money supply through its tight monetary policy and vice versa.**

### 5. Custodian of Foreign Reserves:

- ☞ For the purpose of keeping the foreign exchange rates stable, the Reserve Bank buys and sells the foreign currencies and also protects the country's foreign exchange funds. RBI sells the foreign currency in the foreign exchange market when its supply decreases in the economy and vice-versa. Currently India has Foreign Exchange Reserve of around US\$ 440bn (approx).

### 6. Other Functions:

- ☞ The Reserve Bank performs a number of other developmental works. These works include the function of clearing house arranging credit for agriculture (which has been transferred to NABARD) collecting and publishing the economic data, buying and selling of Government securities (gilt edge, treasury bills etc) and trade bills, giving loans to the Government buying and selling of valuable commodities etc. It also acts *as the representative of Government in International Monetary Fund (I.M.F.) and represents the membership of India.*



### Subsidiaries:

There are Four wholly owned subsidiaries of RBI.

#### 1. Deposit Insurance and Credit Guarantee Corporation (DICGC):

- ☞ Establishment: July 15, 1978
- ☞ Authorized Capital: Rs.50crore

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- ☞ Headquarters: Mumbai
- ☞ It is a wholly-owned subsidiary of the Reserve Bank of India (RBI). It provides deposit insurance that works as a protection cover for bank deposit holders when the bank fails to pay its depositors.
- ☞ DICGC insures all bank deposits, such as saving, fixed, current, recurring deposits for up to the limit of Rs.5,00,000 of each deposits in a bank.(According to Budget 2020-2021)
- ☞ The insurance covers principal and interest is now up to a maximum amount of 5 lakh.
- ☞ The DICGC does not directly charge any premium from the depositor on this insurance. So Now Banks will pay a premium of 12paise against 10paise per Rs.100 deposit.
- ☞ All commercial banks including branches of foreign banks functioning in India, local area banks and regional rural banks are insured by the DICGC.

### 2. Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL):

- ☞ Establishment: February 3, 1995 under the Companies Act 1956
- ☞ Headquarters: Bengaluru
- ☞ Role: Augmenting the production of bank notes in India to enable the RBI to bridge the gap between the supply and demand for bank notes in the country.
- ☞ Printing press: Mysore, Salboni in West Bengal, Nasik, Dewas
- ☞ Coin Minting Press: Mumbai, Hyderabad, Calcutta and Noida

### 3. Reserve Bank Information Technology Pvt Ltd (ReBIT):

- ☞ Establishment: 2016
- ☞ Role: To take care of the IT requirements, including the cyber security needs of the Reserve Bank and its regulated entities.

### 4. Indian Financial Technology & Allied Services (IFTAS):

- ☞ Role: Designs, deploys & provides the essential IT-related services, required by the Reserve Bank of India, banks, and financial institutions.

### Sections of RBI:

Reserve Bank of India Act 1934 is the legislative act under which the Reserve Bank of India was formed.

There are total 61 sections in the Reserve Bank of India Act 1934.

### Important Sections in Reserve Bank of India Act 1934

- **Section 17.** Business which the Bank may transact.
- **Section 18.** Power of direct discount.
- **Section 18A.** Validity of loan or advance not to be questioned.
- **Section 20.** Deals with the Obligation of the Bank to transact Government business.
- **Section 21.** Bank to have the right to transact Government business in India.



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- **Section 21A.** Bank to transact Government business of States on agreement
- **Section 22.** Exclusive Rights to issue bank notes in India.
- **Section 23.** The issue of bank notes shall be conducted by the Bank in an Issue Department which shall be separated and kept wholly distinct from the Banking Department
- **Section 24.** Denominations of notes.
- **Section 25.** Form of bank notes - The design, form the material of bank notes shall be such as may be approved by the Central Government after consideration of the recommendations made by the Central Board.
- **Section 26.** Legal tender character of notes.
- **Section 26A.** Certain bank notes to cease to be legal tender.
- **Section 27.** Re-issue of notes which are torn, defaced or excessively spoiled.
- **Section 28.** Recovery of notes lost, stolen, mutilated or imperfect.
- **Section 28A.** Issue of special bank notes and special one rupee notes in certain cases.
- **Section 29.** Bank exempt from stamp duty on bank notes Powers of Central Government to supersede Central Board
- **Section 30.** Powers of Central Government to supersede Central Board.
- **Section 31.** Issue of demand bills and notes.
- **Section 37.** Suspension of assets requirements as to foreign securities.
- **Section 38.** Obligations of Government and the Bank in respect of rupee coin.
- **Section 39.** Obligation to supply different forms of currency.
- **Section 40.** Transactions in foreign exchange.
- **Section 42.** Cash reserves of scheduled banks to be kept with the Bank.
- **Section 43.** Publication of consolidated statement by the Bank.
- **Section 45B.** Power of Bank to collect credit information.
- **Section 45C.** Power to call for returns containing credit information.
- **Section 45-IA.** Requirement of registration and net owned fund.
- **Section 45-IB.** Maintenance of percentage of assets.
- **Section 45-IC.** Reserve fund.
- **Section 45J.** Bank to regulate or prohibit issue of prospectus or advertisement soliciting deposits of money.
- **Section 45JA.** Power of Bank to determine policy and issue directions.
- **Section 45K.** Power of Bank to collect information from non-banking institutions as to deposits and to give directions.
- **Section 45L.** Power of Bank to call for information from financial institutions and to give directions.
- **Section 45M.** Duty of non-banking institutions to furnish statements, etc., required by Bank.
- **Section 45MA.** Powers and duties of auditors.
- **Section 45MB.** Power of Bank to prohibit acceptance of deposit and alienation of assets.
- **Section 45ZA.** Inflation target.
- **Section 45ZB.** Constitution of Monetary Policy Committee
- **Section 45ZM.** Monetary Policy Report.
- **Section 46.** Contribution by Central Government to the Reserve Fund.
- **Section 58.** Power of the Central Board to make regulations

## THE COMPLETE – STATIC BANKING AWARENESS

### Topic - 4: Monetary policy and RBI regulation

#### 1. Money flows in the banking systems

- ☞ The **Reserve Bank of India Act, 1934** has been amended by the Finance Act, 2016, to provide for a statutory and institutionalized framework for a Monetary Policy Committee, **for maintaining price stability**, while keeping in mind the **objective of growth**.
- ☞ When money is released by the RBI (Reserve Bank of India) into the economy, it goes into circulation through transactions. The government may pay the people it employs, buy goods and services, give subsidies, and so on.
- ☞ Part of this money is kept by the recipients and the rest goes back into bank accounts. A government servant who receives a salary keeps a fraction of it at home and puts the rest in his bank account to earn some interest.
- ☞ The businessmen who sell their goods or services to the government and get money in their bank accounts use only a part of that to carry on their business, while the rest stays in the bank.
- ☞ One can see that most of the money released into the economy keeps going in and out of the commercial banking system where businesses and households maintain their accounts. The banks have to pay the depositors some interest for keeping their money with them.
- ☞ They too now need to earn some income to pay this interest. They do so by lending the money they get to those who need it for various purposes.
- ☞ I may be setting up a plant to produce some items and may need long-term capital. I may need to set up an office to provide services. I may need capital to pay wages to my workers and also to buy raw material.
- ☞ A part of the profit earned by my business is paid to the banks as interest for the loan I have taken. What this means is that a bank does not have the money that its depositors deposited with it. If all the depositors come to a bank and want to withdraw their deposits, the bank would not be able to pay them. This is called a “run” on a bank, and such a bank fails. This is where the RBI plays the role of a banker to the banks, giving money to the banks.

#### 2. Reserve ratio

##### i) CRR

- ☞ All Banks have to maintain a minimum CRR of Net Demand and Time Liabilities (Total deposits) with RBI, as cash.
- ☞ It can be retained in the RBI currency chest.
- ☞ Earlier ceiling limits of 3 to 20% has been removed and RBI has no ceiling in prescribing this limit
- ☞ This is as per section 42(1) of the RBI Act, 1934.  
{ Amended through RBI (Amendment) Act, 2006 }
- Scheduled Banks are required to maintain a certain percentage of NDTL in cash form with a special account with RBI.
- For securing monetary stability in the country.
- No floor & No ceiling rate.

EX:-



## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ Each bank is required to deposit a certain amount of its deposits with the RBI. This is called the cash reserve ratio (CRR). If a bank gets Rs100 in deposits and the CRR is 10%, then it has to deposit Rs10 with the RBI. It now has Rs90 to lend. This Rs,90 is then given to a borrower, who pays it to someone else who puts it in their bank. That bank then has to deposit Rs9 with the RBI and can now lend Rs.81. This amount may be lent and may make its way to a third bank, which then has to deposit Rs8.1 with the RBI.

The Reserve **Bank of India (RBI)** has eased **Cash Reserve Ratio (CRR)** requirement of commercial banks for **5- years**.

So now the banks would not be needed to maintain the cash reserve ratio (CRR) for 5- years on their deposits for the amount equivalent to loans lent to automobiles, residential housing, and micro, small and medium enterprises (MSMEs) from their net demand and time liabilities (NDTL) for maintenance of the CRR.

This move will help boost lending activities towards needy sectors & make loans cheaper to these particular segment. **The banks can get first such exemption will be started on 14 February, 2020**

### ii) SLR

- ☞ All Banks have to maintain a portion of their total deposits with RBI either as cash or gold or approved securities.
- ☞ This is as per section 24 of the Banking Regulation Act, 1949. {This was amended through the Banking Regulation (Amendment) Act, 2007}
- ☞ No floor rate, but the **ceiling is 40%**.
- ☞ To be maintained in cash, gold & approved securities.
- ☞ To hold a certain percentage of NDTL in the above forms as prescribed from time to time.

## 3. Policy rate

### i) Repo rate

- ☞ When banks sell security, banks promise to buy back the same security from RBI at a predetermined date with an interest at the rate of REPO.
- ☞ It is actually a **repurchase agreement**. When RBI reduces the Repo Rate, the banks can borrow more at a lower cost.
- ☞ **Minimum amount of loan Rs. 5 cr.**
- ☞ Repo rate actually **short term** lending( **1 to 90 days**)

### ii) Reverse repo rate

- ☞ In case RBI borrows money from banks and the interest paid by RBI to banks on such borrowing is known as Reverse Repo Rate. It is the opposite of the Repo rate.
- ☞ An increase in this rate can cause the banks to transfer more funds to RBI due to their attractive interest rates. Hence RBI uses this way to draw out excess money from the banks.

### iii) MSF

- ☞ Minimum amount which can be accessed through **MSF is Rs. 1 crore** and can be in **multiples of Rs.1crore**.
- ☞ While under Repo all member Banks are eligible to borrow, MSF provides for Over night borrowing facility from RBI.
- ☞ No additional security is required. With the securities provided for SLR, the

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securities can be adjusted against SLR

- ☞ Only Scheduled commercial Banks are eligible

### iv) Bank rate

- ☞ Bank rate is the interest rate at which the central bank lends money to domestic banks. Such loans are given out either by direct lending or by rediscounting (buying back) the bills of commercial banks and treasury bills.
- ☞ Thus, bank rate is also known as **discount rate**. In bank rate there is no need for collateral security.
- ☞ The interest rate which the RBI charges for its long term lending is known as bank rate.
- ☞ Bank Rate is a long term lending (upto **365 days**)  
Normally Banks, Financial institutions use this facility.  
This has got direct bearing on the long-term lending activities of the financial system.

### 4. Open Marketing Operations(OMO)

- ☞ Open Market Operations means:
- ☞ RBI is purchasing Government securities to infuse liquidity
- ☞ RBI is selling Government securities to suck liquidity from the system.

### 5. Quantitative Credit Controls

1. Policy Rates
  - Bank Rate
  - Repo & Reverse Repo Rates
2. Reserve Ratios
  - CRR
  - SLR
3. Open Market Operations

### 6. Qualitative Credit Controls

#### QUALITATIVE (SELECTIVE) CREDIT CONTROLS

1. Margin requirements
2. Rationing of credit
3. Regulation of consumer credit
4. Moral suasion
5. Direct action
6. RBI guidelines

## Topic - 5: Types of Accounts and Nomination

### 1. Savings Account

- ☞ It is especially for individuals and small businesses. It creates the savings habits for people in the country.

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ Saving Account eligible for **Resident Indians above 18 years age** (for 10 to 18 years age group account is allowed with some restrictions and for persons below 10 years, minor account with guardian is to be opened)
- ☞ Saving Accounts **Interest rates vary from 3.5% to 6%** (Most of the banks offer 3.5% at present)
- ☞ Regular monthly payments through **ECS** are allowed for payment of house loans, personal loans etc...(Electronic Clearing Service)
- ☞ From 1st April 2020 the **interest is calculated on daily basis**
- ☞ Minimum balance varies from bank to bank.

### 2. Current Account

- ☞ Firms and companies are eligible to open current account
- ☞ Basically meant for business men, to run businesses
- ☞ Normally firms / companies / trusts / association of persons can open them Current Account carries no interest on deposits.
- ☞ Banks will charge service charges to account holders.
- ☞ **Savings and current Accounts** are called **demand deposits**. We can withdraw money at any time

### 3. CASA Ratio

- ☞ CASA Ratio is the ratio of the deposits in the form of current and savings accounts to the total deposits.

$$\text{CASA RATIO} = \frac{\text{SAVINGS ACCOUNTS} + \text{CURRENT ACCOUNTS}}{\text{TOTAL DEPOSITS}} \text{ (EXPRESSED AS PERCENTAGE)}$$

- ☞ **CASA Ratio** of should be **more than 40%** for banks.

### 4. Inactive /Dormant Account

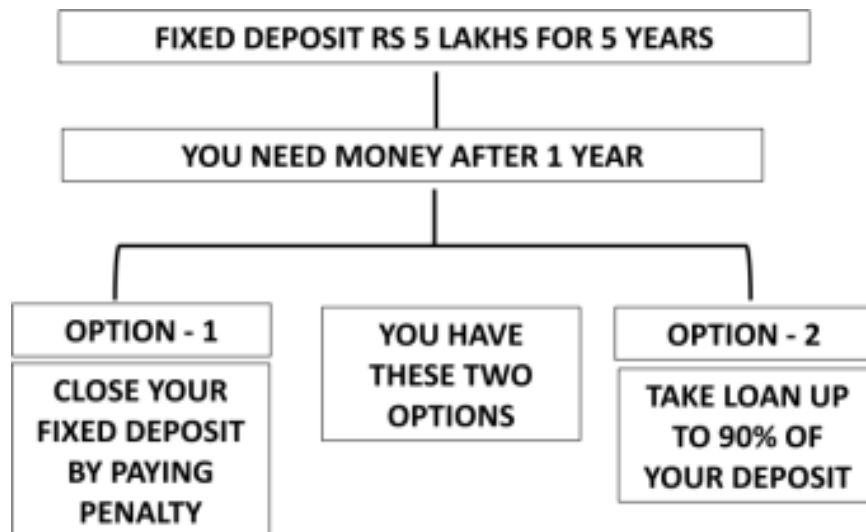
- ☞ If a customer has a current or a savings bank account and has not done any transactions through it for more than **12 months**, then it will be classified as an **inactive account**.
- ☞ And if you don't do any transactions from a bank account for 24 months, then it will be classified as dormant Account
- ☞ Such deposits unclaimed for more than 10years are to be transferred to RBI. Now, RBI will use this amount for DEAF (Depositor Education Awareness Fund) Scheme to educate the depositors.

### 5. Fixed Deposit

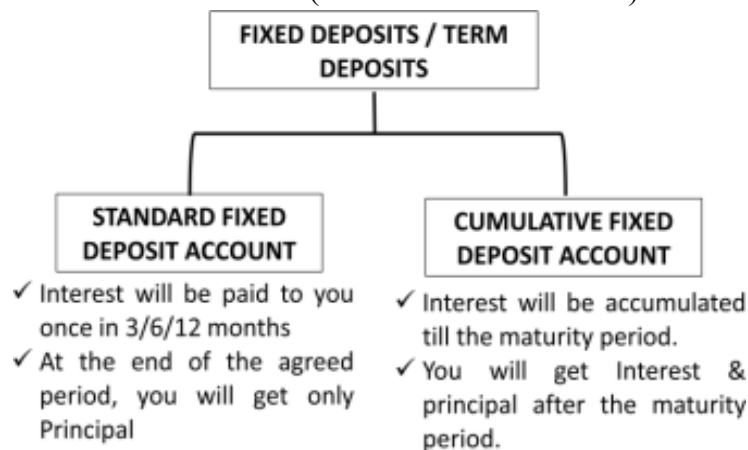
- ☞ Account can be operated for a tenure ranging from 7 days to 10 years
- ☞ If the deposits are Rs.2crore or more, they come under the **bulk deposits** and interest rates may vary further
- ☞ Interest will be paid at the **contracted rate for the agreed period**
- ☞ **Loan facility is available up to 90%** of the outstanding principal and accrued interest.

Moreover, **Tax Deduction at Source (TDS)** will be ensured by the bank, if the interest income is more than Rs.40,000/- in a financial year

## THE COMPLETE – STATIC BANKING AWARENESS



- ☞ Once the tax is deducted, banks will give **form no. 16 A** to the depositor to show in their IT returns.
- ☞ If the depositor does not come in to the bracket of Income Tax purview, he can deposit **form no. 15G or 15H** (for senior citizens) so as to avoid 'TDS' by bank.



- ☞ **Interest** rates should not be based on **quantum of Money**.
- ☞ Interest rates should be based on **Tenure** only.

### 6. Recurring Deposit

- ☞ Most of the features are like fixed deposits
- ☞ It is a monthly deposit with the bank for an agreed period
- ☞ Interest is credited on the accumulated balance at regular intervals
- ☞ These are designed to induce small savers to save regularly
- ☞ Maximum period is normally 120 months (10 years)

### 7. Bulk Deposit

- ☞ Deposits of Rs.2crore and above constitute bulk deposits
- ☞ Interest rates vary based on the quantum of deposit
- ☞ High interest rates, so the cost of funds is high
- ☞ Normally these deposits are obtained from High Net-worth **Individuals**

### 8. Nomination facility

## THE COMPLETE – STATIC BANKING AWARENESS

☞ Banking Companies (Nomination) rules 1985 permit banks to pay dues to nominee in the event of death of depositor(s) Without asking for succession certificate, Without verifying claims of legal heirs

- ☞ Nomination facility is normally available for Savings, Fixed and Recurring deposit accounts
- ☞ For Current account deposits, it is available only in few cases
- ☞ It is advisable to record 'nominee' for any bank transaction
- ☞ Nominee means "A person who is proposed or formally entered as the recipient of a grant or award"

### Topic - 6: NRI Accounts and Payment facilities

#### 1. Classification (Tier 1 - Tier 6)

CLASSIFICATION OF CENTRES	POPULATION
Tier 1	1,00,000 and above
Tier 2	50,000 to 99,999
Tier 3	20,000 to 49,999
Tier 4	10,000 to 19,999
Tier 5	5,000 to 9,999
Tier 6	Less than 5000

#### 2. NRI(Non Resident Indian)

- ☞ An Indian citizen, who residing outside India and holds an Indian Passport

#### 3. Bank Accounts for NRIs

- ☞ NRO account(Non Resident Ordinary rupee/account)
- ☞ NRE account(Non Resident External rupee account)
- ☞ FCNR(B) account(Foreign Currency Non Resident (Bank) account)

#### 4. NRO Account(Non Resident Ordinary Rupee Account)

- ☞ Account will be in **Indian rupees and with banks authorized by RBI.**
- ☞ Can be opened jointly with resident Indian
- ☞ If a citizen becomes an NRI, his existing account becomes NRO account
- ☞ Can be in the form of **SA / CA / RD / FD**

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ Income tax will be deducted as per the rules
- ☞ There is a limit on the repatriation of funds. (**Maximum of \$ 1 million per year**)

### 5. NRE Account(Non Resident External Rupee Account)

- ☞ Account will be in Indian rupees and with banks authorized by RBI.
- ☞ Can be opened as a joint account with another NRI.
- ☞ Amount to be deposited in this account is earned on foreign land only.
- ☞ Can be in the form of SA / CA / RD / FD
- ☞ Minimum tenure of term deposits will be 1 year.
- ☞ No income tax will be deducted in India.
- ☞ Fully repatriable to foreign countries.

### 6. FCNR(B) Account(Foreign Currency Non Resident (Bank account)

- ☞ Only **fixed deposit accounts** can be opened with banks authorized by RBI.
- ☞ **Minimum term 1 year and maximum term 5 years.**
- ☞ Can be maintained in approved **foreign currencies.**
- ☞ No income tax will be deducted in India.
- ☞ **Fully repatriable to foreign countries.**

### 7. LIBOR/DTAA

LIBOR	DTAA
It is <b>London Interbank Offered Rate</b>	<b>It is Double Taxation Avoidance Agreement</b>
It is the primary benchmark, for short term interest rates around the world	It is an agreement between two countries with an objective to avoid <b>taxation of the same income in both countries.</b>
Many financial institutions set their interest rates relative to it.	For availing DTAA benefit, the NRI has to submit "Tax Residency Certificate" (TRC) to the bank annually.

### 8. SNRR Account (External Commercial Borrowing)

- ☞ Any Person residing outside India. Having a business, can open (SNRR account) with an authorized dealer for the purpose of putting through bonafide transactions in rupee which are conformity.

### 9. Other Accounts:

#### Nostro Account:

- These accounts are held by Indian Banks in foreign Banks in foreign currency.
- Example- Indian Bank has an account in Bank of America in dollars.

#### Vostro Account:

## THE COMPLETE – STATIC BANKING AWARENESS

- These accounts are held by foreign banks in India in Indian Rupees.
- Example: Bank of America has an account in Indian Bank in Indian Rupees.

### DEMAT Account:

- DEMAT stands for **Dematerialised Accounts**.
- These accounts are used to transact shares in electronic format.

### Dormant Account:

- A Dormant Account is a banking term that refers to an account of a customer which was without any activity for a period of **two years** other than posting interest.

### Escrow Account:

- It is the **temporary pass** through an account held by third parties during the transaction between two parties.

### GILT Account:

- These accounts are maintained by **investors with** the Primary dealers for holding their Government securities and Treasury bills in the Demat form.

## Topic 7: Financial Inclusion

### 1. No-Frill Account(Nov 2005)

- ☞ It is a **zero balance account**. No other facilities available.
- ☞ On August 2012, all the 'No-Frills' accounts converted to Basic Savings Bank Deposit Accounts (BSBDAs)

### 2. BSBDA Account

- ☞ Facility of **ATM cum debit card** at free of cost.
- ☞ No limit on the number of times for depositing the amounts.
- ☞ **Only four withdrawals per month** at branch or at ATMs.
- ☞ Banks can decide about the price structure, if more than the above facilities are required **KYC norms** are to be followed.
- ☞ However, if proper KYC norms are not satisfied, then the account should be treated as "BSBDA – SMALL ACCOUNT".
- ☞ Customer can have **only one BSBDA in one bank**

### 3. PMJDY Account

- ☞ No minimum balance.
- ☞ Interest on deposit.
- ☞ Accident insurance covers of **Rs.2,00,000/-** to all the account holders.
- ☞ **Life Insurance cover of Rs.30,000/-** to all the account holders(However, the Govt. stated that this is applicable for the accounts opened up to 26th jan 2015)
- ☞ After satisfactory operation of the account for 6 months, **overdraft facility of Rs.10,000/-** to one member of the family (Preferably, the lady of the household)
- ☞ Rupay card at free of cost
- ☞ Age Limit- 18 to 65 years.



## THE COMPLETE – STATIC BANKING AWARENESS

### 4. Small Account

- ☞ When the customer is not able to satisfy KYC norms. This account has got several restrictions.
- ☞ Aggregate of all deposits **shall not exceed Rs.1 lakh per annum**
- ☞ Aggregate of all withdrawals and transfers in a month **shall not exceed Rs.10,000/-**
- ☞ Maximum balance at any point of time shall not exceed **Rs.50,000/-**
- ☞ However, small accounts are **valid for a period of 12 months** initially, which may be extended by another 12 months, if the person provides proof of having applied for an **Officially Valid Document (OVD)**.

### 5. Lead Bank Scheme

- ☞ After the **nationalization of 14 banks in 1969**, Govt. initiated steps to extend **banks reach to the rural areas**.
- ☞ **“National Credit Council”** study group headed by **Prof. D.R. Gadgil**, first recommended “Area” approach.
- ☞ The **Committee of Bankers (Nariman Committee)** appointed by RBI accepted the ‘Area’ approach and **gave the name “Lead Bank Scheme”**.
- ☞ In 1969 itself, **380 districts in the country were identified with Lead Bank Scheme**, later on extended to all the rural districts of the country.

### 6. Business Correspondents

- ☞ Business Correspondents are **retail agents engaged by banks for providing banking services at locations** other than a bank branch/ATM.
- ☞ **Business correspondents** are accountable for handling receipt and delivery of small value remittances/ other payment instruments.
- ☞ They are responsible for disbursing small loans like entrepreneurial loans, agricultural loans, group loans, etc. depending on the partner banks guidelines.

## Topic 8: Banking Ombudsman

### Banking Ombudsman

- ☞ Senior official appointed by RBI to redress **customer complaints** against deficiency in certain banking services.
- ☞ Under **section 35a of the Banking Regulation Act 1949**
- ☞ The Banking Ombudsman Scheme was first introduced in 1995.
- ☞ The Current scheme became operative from 1st January 2006
- ☞ At present 22 banking ombudsman are being operated mostly in state capitals.
- ☞ **All scheduled commercial banks** (including RRB'S, cooperative banks) are covered
- ☞ **Customer can complaint against**
- ☞ Non-payment or inordinate delay in payment of cheques, drafts, bills etc...
- ☞ Also RBI has later included the facility for net-banking, digital transactions, mobile banking, Debit card, Credit card, ATM related etc...

### HOW TO COMPLAIN?

- ☞ First we should approach the bank for any grievance.



## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ If the grievance is **not settled by the bank in 30 days** (If not replied / rejection by bank / reply does not satisfy the customer), **then we can approach the banking Ombudsman within 1 year.**
- ☞ Complaints can be lodged on **plain paper** or by sending **e-mail requests.**
- ☞ **No charges involved.**
- ☞ Maximum limit of award is Rs.20 lakhs. (Rs 1 lakh in case of credit card related complaints)
- ☞ If a customer is not satisfied, either of the parties can approach **appellate authority within 30 days.** Appellate authority vested with a **deputy governor of RBI.**

### Topic 9: Know Your Customer

#### 1. KYC(Know Your Customer)

- ☞ This is customer identification process, prior to the opening of accounts
- ☞ This involves **‘identity’** and **“address”**
- ☞ To prevent banks being used (intentionally / unintentionally ) **for money laundering**
- ☞ RBI issued guidelines to banks under **section 35A of the Banking Regulation Act 1949 and rule 7 of the money laundering rules 2005** to prevent banks from misuse

It involves (i) **“Legal Name Verification”**

(ii) **“Correct Permanent Address”**

- ☞ **KYC is to be verified periodically,** schedule is given separately for customers
- Classified as

- i) Low Risk
- ii) Medium Risk
- iii) High Risk

#### PERIODICAL VERIFICATION OF KYC

- ☞ Periodical verification of KYC is done by banks as per the following schedule
- Low risk customers → once in 10 years
- Medium risk customers → once in 8 years
- High risk customers → once in 2 years
- ☞ **If the person is not able to provide KYC Documents (OVD) to the bank, he can still open a bank account, which is known as a small account.**

#### Officially Valid Documents required for KYC:

- Passport Driving License
- Voters' Identity Card
- PAN Card
- Aadhar Card issued by UIDAI
- NREGA Card
- Letter from the National Population Register containing details of name and address

# THE COMPLETE – STATIC BANKING AWARENESS

## Topic 10: ATM and its Types

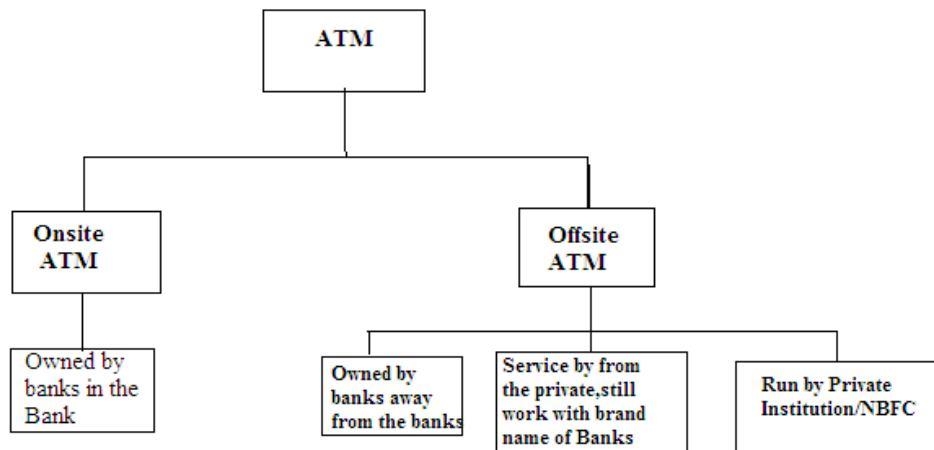
### ATM Services

- ☞ It is the facility of accessing the account for dispensing cash and to carry out financial and non-financial transactions without the need to actually visit their bank branches.

### RBI GUIDELINES ON SERVICE AT ATMs:

- ☞ Banks should resolve within **7 working days of complaint**
- ☞ If not, **banks should pay Rs.100/- per day** for delay beyond **7 days**  
(But customer should complain within **30 days** of transaction)
- ☞ If a customer is not satisfied, one can approach the banking **ombudsman**.

### 2. Types of ATM



### 3. Onsite/Offsite ATM

- ☞ Onsite Atm's are atm within the bank premises.

### 4. White label ATM

- ☞ RBI permitted NBFCs/FIs to establish ATMs with their own brand name
- ☞ These are known as White Label ATMs
- ☞ Tata Communications Payment Solutions (TCPS), a wholly owned subsidiary of Tata Communications launched first white label ATM (WLA).

Ex : Indicash, India One

### 5. Brown label ATM

- ☞ Brown label' ATM are those Automated Teller Machines where hardware and the lease of the ATM machine is owned by a service provider, but cash management and connectivity to banking networks is provided by a sponsor bank whose brand is used on the ATM.

### 6. Green Label ATM

- ☞ ATM is provided for Agricultural Transaction

### 7. Orange Label ATM

- ☞ It is Provided for Share Transactions

### 8. Yellow Label ATM

## THE COMPLETE – STATIC BANKING AWARENESS

☞ These are Provided for E commerce

### 9. Pink Label ATM

☞ Such ATM are monitored by guards who ensure that only women access these ATM. The sole purpose of such ATM is to mitigate the problem of women standing in long queues of ATM

### 10. Biometric ATM

☞ ATMs which uses security features like fingerprint scanner and eye scanner of the customer to access the bank details.

## Topic - 11: Priority Sector Lending

### 1. Priority Sector Lending

- ☞ Priority sector refers to the sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation.
- ☞ **Priority sector** lending comprises small value loans to agriculture and allied sectors, micro, small and medium enterprises, social infrastructure, renewable energy, housing for poor people, students and weaker sections
- ☞ All the public sector banks and private banks will have to maintain 40% of their lending to the priority sector lending.
- ☞ Based on **Dr. K.S. Krishnaswamy committee** recommendations, banks were advised to achieve the target of **40% for priority sector lending by 1985**.
- ☞ The provisions of directions of RBI on priority sector advances shall apply to every Scheduled Commercial Bank {excluding Regional Rural Banks (RRBs) and Small Finance Banks (SFBs)} licensed to operate in India by the Reserve Bank of India.
- ☞ These targets are the percentage of **ANBC** or credit equivalent amount of **Off-Balance Sheet Exposure**, whichever is higher(**ANBC- Adjusted Net Bank Credit**)
- ☞ In the revised PSL Guidelines, the Reserve Bank of India has included some fresh categories eligible for finance under priority sector. These include loans to farmers for installation of solar power plants; loans for establishment of Compressed Bio Gas (CBG) plants; and bank finance to start-ups of up to Rs 50 crore.
- ☞ **Total Priority Sector:**
- ☞ 1) Domestic scheduled commercial and foreign banks with 20 branches and above: 40 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher.
- ☞ 2) Foreign banks with less than 20 branches: 40 per cent of ANBC or CEOBE whichever is higher; out of which up to 32% can be in the form of lending to Exports and not less than 8% can be to any other priority sector

## THE COMPLETE – STATIC BANKING AWARENESS

### ✓ Priority sector lending now includes

- Agriculture
- Micro, small & medium enterprises
- Export credit
- Education
- Housing
- Social infrastructure
- Renewable energy
- Others

### 2. Agriculture(18% of ANBC)

- ☞ Within the 40% priority sector lending 18% allocated to the agriculture.
- ☞ Where as 8% sub-target is kept for small and marginal farmers.
- ☞ Marginal Farmer - have land upto 2.5 acres
- ☞ Small Farmer - have land upto 2.5 to 5 acres

### 3. MSME(7.5% of ANBC)

- ☞ Within the 40% priority sector lending 7.5% allocated Micro Small Medium Enterprises..
- Classification of MSMEs

Type of Activity	Investment	Turn Over
Micro	Upto 1 crore	Below 5 crore
Small	Upto 10 crore	Below 50 crore
Medium	Upto 50 crore	Below 250 crore

### 4. Export Credit(2% of ANBC)

- ☞ The existing guidelines for domestic scheduled commercial banks to classify 'Incremental export credit over corresponding date of the preceding year, upto 2% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher'
- ☞ RBI Enhances Limit For Classification Of Export Credit Under Priority Sector Lending To **Rs.40Crore** From Rs.25Crore(Sep 2019)

### 5. Education

- ☞ Under Priority Sector Lending (PSL), the loans and advances granted to only individuals for educational purposes up to **Rs.10 lakh for studies in India** and **Rs. 20 lakh for studies abroad**.

### 6. Housing

- ☞ Reserve Bank of India has notified them to enhance housing loan limits to individuals up to **Rs 35 lakh in metropolitan centers** (which would have a population of over 10 lakhs) and **Rs 25 lakh in other centers**, under Priority sector Lending (PSL).
- ☞ The total cost of the **dwelling unit** in the metropolitan center **should not exceed Rs.45 lakh** and at other centers should **not go beyond Rs.30 lakh** for them to be eligible for classification under PSL.

## THE COMPLETE – STATIC BANKING AWARENESS

### 7. Social Infrastructure

- ☞ Bank loans up to a **limit of Rs. 5 crore per borrower for building social infrastructure** like schools, health care centres, drinking water facilities in Tier II to Tier VI centres.

### 8. Renewable Energy

- ☞ Bank loans up to a **limit of Rs.15crore per borrower for building renewable energy projects** like solar based power generation, wind mills etc.

### 9. Others

#### Weaker section (10% of ANBC)

- ☞ There is no change in the target of 10 percent of ANBC or Credit Equivalent Amount Off-Balance Sheet Exposure, whichever is higher, for Weaker Sections.
- ☞ Small and Marginal Farmers.
- ☞ Artisans, village and cottage industries, where individual credit limits do not exceed Rs.1 lakh.
- ☞ Beneficiaries of Differential Rate of Interest (DRI) scheme.
- ☞ Individual women beneficiaries up to Rs. 1 lakh per borrower.
- ☞ Persons with disabilities.
- ☞ Minority communities may be notified by the Government of India from time to time.

#### Self Help Groups (SHGs)

### 10. PLSC(Priority Sector Lending Certificates)

- ☞ These certificates are recommended to help those banks which **do not achieve PSL targets**.
- ☞ Priority Sector Lending Certificates (PSLCs) scheme was first suggested in the report of former governor of RBI **Dr. Raghu Ram Rajan led Committee** on Financial Sector Reform
- ☞ RBI issued guidelines on purchase and sale of **Priority Sector Lending Certificates**.
- ☞ The central bank also launched a platform for trading of the certificates through its **Core Banking Solution (CBS)** portal named **e- Kuber**.
- ☞ All **Scheduled Commercial Banks** (including **Regional Rural Banks**), **Urban Co-operative Banks**, **Small Finance Banks** and **Local Area Banks** are eligible to participate in the trading.

#### Types of PSLCs:

There are four kinds of PSLCs:–

#### 1.PSLC Agriculture

#### 2.PSLC S&MF(small and marginal farmers)

#### 3.PSLC Micro Enterprises

#### 4.PSLC General

## Topic -12: Negotiable Instruments

### 1. Negotiable Instrument Act, 1881

- ☞ These are written documents.
- ☞ Transferable from **one person to another** merely by delivery in case of “**bearer instrument**” and transferable by endorsement in case of “**order instrument**”.
- ☞ The owner is the “**bonafide holder for value**”.

### 2. Bill of Exchange

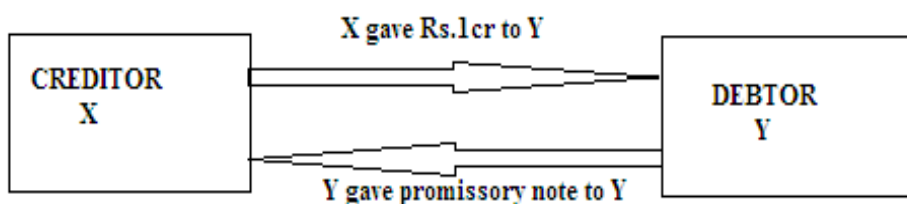
- ☞ It must be in writing and duly signed by its drawer.
- ☞ It should contain an order to pay.

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ The parties to the transaction **must be certain**.
- ☞ A bill of exchange is used in transactions pertaining to goods as well as services. It is signed by a party who owes money (called the payer) and given to a party entitled to receive money (called the payee or seller), and thus, this could be used for fulfilling the contract for payment.

### 3. Promissory Note

- ☞ A promissory note is an unconditional commitment made in writing and signed by a debtor to make payment to a specified person or to the order within a specified period.
- ☞ It is always in writing. No verbal promise is accepted.
- ☞ It is drawn for specified duration for **specified sum of money**.



### 4. Cheque

- ☞ A cheque is an negotiable instrument. It contains an unconditional **order to pay** a certain sum of money.
- ☞ It contains instructions in writing given by the account holder to his bank for payment of money from his account. There is a statutory obligation on the part of a banker to make payment if,
- ☞ It is **drawn by the drawer**.
- ☞ It is drawn upon a specified banker.
- ☞ It is payable on demand to a specific person or his order or to the bearer of the instrument. Cheque should be properly dated.
- ☞ It should be signed by the maker/drawer
- ☞ There are three parties in the cheque transaction

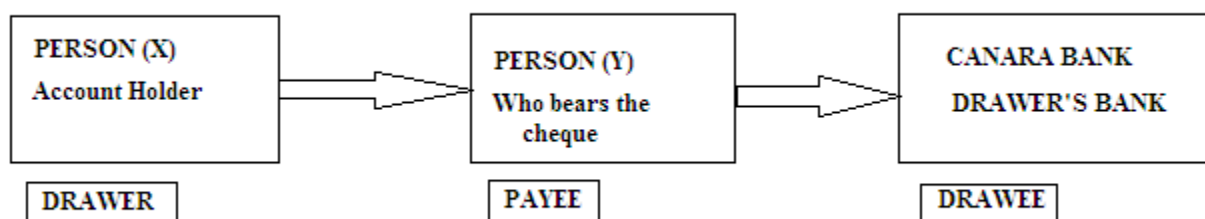
**Drawer**

**Drawee**

**Payee**

- ☞ If it is self-cheque, payee will be the drawer only.

#### CHEQUE ISSUED TO ANOTHER PERSON



## THE COMPLETE – STATIC BANKING AWARENESS

### 5. Associated with cheque

**Order cheque** -----> A cheque payable to a particular person or his order.

**Bearer cheque** -----> A cheque payable to a person who so ever bears.

**Blank cheque** -----> Except signature, all other columns are blank.

**Stale cheque** -----> Which is more than three months old.

**Mutilated cheque** ---->The cheque is torn into two or more pieces.

**Post-dated cheque**----->A cheque which bears a date later than the date of issue.

**Open cheque** ----> Cheque which has not been crossed.

**Crossed cheque** -----> Cheque which carries two parallel transverse lines across **the face of the cheque**.

### 6. MICR Code On Cheque

- ☞ It is Magnetic Ink Character Recognition (MICR).
- ☞ It is a 9 digit code.
- ☞ First three digits ... city / district
- ☞ Next three digits ... name of bank
- ☞ Last three digits ... location of branch / branch name

0	5	9	7	3	1	0	5	2
MUMBAI			ICICI			Rohit Nagar Branch		

### 7. Crossing of Cheque

- ☞ This is to prevent the possibility of the cheque falling into the hands of wrong or unauthorized parties. Hence crossing is required.
- ☞ If a cheque is crossed direction to the bank not to pay across the counter in cash, but should be paid to the account holder only

#### Types of Crossing of Cheque:

- ☞ General Crossing – cheque bears across its face an addition of two parallel transverse lines.
- ☞ Special Crossing – cheque bears across its face an addition of the banker's name.
- ☞ Restrictive Crossing – It directs the collecting banker that he needs to credit the amount of cheque only to the account of the payee.
- ☞ Non-Negotiable Crossing – It is when the words 'Not Negotiable' are written between the two parallel transverse lines.

#### Endorsement of Cheque:



## THE COMPLETE – STATIC BANKING AWARENESS

**Endorsement** means signature of the holder (An individual who has lawfully received possession) made with object of transferring the document. The signature & message on the back of a **cheque** to either cash it, deposit it or to handover the rights of the **cheque** to someone else.

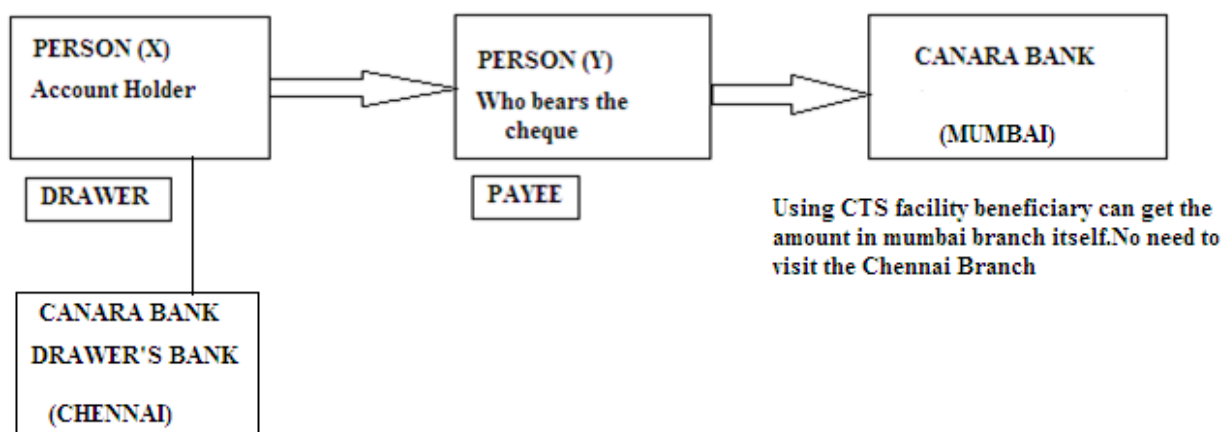
### 8. Demand draft/ cheque

- ☞ It is a Bill of Exchange drawn by a bank on another bank or by itself to its other branch to pay to the third party.
- ☞ It is not mentioned in the Negotiable Instruments Act.
- ☞ Due to its nature, it is classified under Bill of Exchange.
- ☞ Demand drafts along with cheques are commonly used by the customers of banks.

CHEQUE	DEMAND DRAFT
Drawer is individual account holder	Drawer is normally a scheduled bank
No certainty of payment	Payment is certain
Drawer can stop it by issuing order	No one can stop it
Defined in NI Act, 1881	Not defined in NI Act, 1881

### 9. CTS - 2010

- ☞ It is Cheque Truncation System – 2010
- ☞ Truncation is the process of stopping the flow of the physical cheque.
- ☞ The physical instrument will be truncated at some point enroute to the drawee branch and it will be verified digitally.
- ☞ Hence the need to move the cheque physically will be eliminated.





## THE COMPLETE – STATIC BANKING AWARENESS

### Topic - 13: NPA and its resolution

#### 1. NPA

- ☞ “An asset(mostly loan) becomes non-performing, when it ceases to generate income for the bank”
- ☞ Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.
- ☞ If the cash credit account or overdraft account becomes out of order.
- ☞ Committee on Financial System (CFS) headed by Shri M. Narasimham was constituted in the year 1991 and the committee gave recommendations in line with the international practices.
- ☞ RBI introduced norms for IRAC - Income Recognition Asset Classification
- ☞ The policy of income recognition should be objective.
- ☞ Banks are urged to **ensure realistic repayment schedules** on the basis of cash flows with borrowers.
- ☞ In spite of these precautions taken by banks, **NPAs are on the rise** either due to reasons beyond their control or willful defaulting.
- ☞ Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.
- ☞ If the cash credit account or overdraft account becomes out of order.

#### NPA Measured under three categories

- ☞ **Substandard Asset**
- ☞ **Doubtful Asset**
- ☞ **Loss Asset**

#### 2. Substandard Asset

- ☞ Which remained NPA for a period less than or equal to 12 months.
- ☞ Indicates distinct possibility that banks may sustain loss.

#### 3. Doubtful Assets

- ☞ Which remained in the **substandard category** for a period of **12 months**.

#### 4. Loss Assets

- ☞ Where loss has been identified by the bank or internal or external auditors or during RBI inspection but the amount has not been written off.

#### 5. Actions Taken banks against NPA

##### i) If it is a genuine reason for non-repayment

- ☞ Banks offer Restructuring of loans
- ☞ Longer repayment period
- ☞ Provide Moratorium period
- ☞ Additional loan
- ☞ Reduction in interest rate.
- ☞ Appoint a member from bank to help borrowers business

##### ii) If it is not a genuine reason for non-repayment

- ☞ Referring the matter to Debt Recovery Tribunals (DRTs)

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ Referring the matter to Asset Reconstruction Companies (ARCs) as per SARFAESI Act, 2002
- ☞ Filing winding up petitions in court of law
- ☞ By filing criminal cases against the willful defaulters

If a loan becomes NPA, Banks Classify them as **Special Mention Accounts**

**SMA-0 (up to 30 days)**

**SMA-1 (31 to 60 days)**

**SMA-2 (61 to 90 days)**, so as to take corrective action.

### 6. JLF(JOINT LENDERS' FORUM)

- ☞ It is mandatory to constitute **Joint Lenders' Forum (JLF)** at **SMA-2 stage**, if the loan exposure is **Rs.100crores or more**. It is a formed group of lender banks.

### 7. SDR(STRATEGIC DEBT RESTRUCTURING)

- ☞ Converting debt into equity i.e., banks will assume the role of management (ownership) to look for turn around of the company.

### 8. CDR(Corporate Debt Restructuring )

- ☞ It is part of restructuring of loan by banks.
- ☞ Implemented by RBI from August 2001.
- ☞ Aimed at corporates affected by certain **genuine internal and external factors**.
- ☞ It covers only multiple banking accounts, consortium accounts / syndicated loan accounts,
- ☞ where the outstanding exposure is **Rs.10crores or more**.

CDR mechanism banks can allow

**i) Extension of repayment period.**

**ii) Reduction in interest rate.**

**iii) Moratorium for some period.**

**iv) Additional loan.**

- ☞ CDR is approved, if **at least 75% of the banks by value** of the loan and **60% by number** agree to the proposal.
- ☞ Restructured loans will go out of the books of NPAs
- ☞ The biggest worry is that more and more cases are coming up for restructuring, sometimes without genuine reasons.

### 9. DRT(DEBT RECOVERY TRIBUNALS)

- ☞ These are established in various cities under the “**Recovery of Debts Due to Banks and Financial Institutions (RDDBFI) Act, 1993**”.
- ☞ Banks or FIs can file an application with DRT to recover dues from persons / companies.
- ☞ As per the Act, the issue is to be settled in 6 months.
- ☞ So far, the success rate is around 20% to 30%.

### 10. ARC(SARFAESI ACT)

- ☞ These are formed as per the “**Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002**”.
- ☞ It empowers Banks & FIs to recover **NPAs without the intervention of the court**.
- ☞ This was brought to circumvent the inefficiency of DRTs.
- ☞ Banks have got powers to sell the “declared bad loans.”
- ☞ This is applicable for loans with **outstanding of Rs. 1 Lakh and above**.

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ RBI has power to issue licences to ARCs and Asset Reconstruction Company (India) Ltd (ARCIL) is the first ARC established in India.

### 11. Petition in court Law

- ☞ Criminal cases can be filed against the borrower, if the bank feels that the non- repayment of debt is due to “**willful default**.”
- ☞ But, it is rarely resorted to by the banks.

### 12. Criminal cases against willful defaulters

- ☞ Winding up petitions can be filed, if the borrower fails to pay back the loan, under the Companies Act.
- ☞ “**Official liquidator**” will be appointed by the competent authority, if there is genuine reason.
- ☞ It is a long **drawn procedure in courts** and has not given satisfactory results to Banks.

## Topic 14: Prompt Corrective Action

**Introduced in:** 2002

**Aim:** It aims to check the problem of Non-Performing Assets (NPAs) in the Indian banking sector.

- ☞ Prompt Corrective Action or PCA is a framework under which banks with weak financial metrics are put under watch by the RBI.
- ☞ The PCA framework deems banks as risky if they slip below certain norms on three parameters — capital ratios, asset quality and profitability.
- ☞ It has three risk threshold levels (1 being the lowest and 3 the highest) based on where a bank stands on these ratios.
- ☞ PCA is intended to help alert the regulator as well as investors and depositors if a bank is heading for trouble.

The salient features of revised PCA Framework for Banks

1. Capital, asset quality and profitability continue to be the key areas for monitoring in the revised framework.
2. Indicators to be tracked for Capital, asset quality and profitability would be CRAR/ Common Equity Tier I ratio<sup>1</sup>, Net NPA ratio<sup>2</sup> and Return on Assets<sup>3</sup> respectively.
3. Leverage would be monitored additionally as part of the PCA framework.
4. Breach of any risk threshold (as detailed under) would result in invocation of PCA.

**What will a bank do if PCA is triggered?**

1. Banks are not allowed to renew or access costly deposits or take steps to increase their fee-based income.
2. Banks will also have to launch a special drive to reduce the stock of NPAs and contain generation of fresh NPAs.
3. They will also not be allowed to enter into new lines of business. RBI will also impose restrictions on the bank on borrowings from interbank market

## THE COMPLETE – STATIC BANKING AWARENESS

### Topic 15: Types of Banking

#### Branch Banking

- ☞ It involves business of banking via branches.
- ☞ The advantage is that it helps in better management, more inclusion and risk diversification.

#### Para Banking

- ☞ The financial services undertaken by banks such as credit cards, smart cards, mutual funds, primary dealers, pension funds comes under Para Banking activities

#### Universal Banking

- ☞ These can undertake multiple financial activities under one roof.
- ☞ Universal Bank participates in many kinds of banking activities. It is both a commercial bank and investment bank as well as providing other financial services such as insurance. These are also called full service financial firms providing wealth and asset management, trading, underwriting, researching as well as financial advisory.

Ex: ICICI Bank.

#### Narrow Banking

- ☞ The obsession of the banks to invest more in risk free securities like Govt. securities or Govt. approved securities.

#### Shadow Banking

- ☞ The activities / services undertaken by NBFCs / Unincorporated bodies, similar to the activities undertaken by banks.
- ☞ They are unregulated / loosely regulated and hence the risks associated with shadow banking are very high in the financial system.
- ☞ Credit intermediation involving activities outside the banking system
- ☞ Like house loans, gold loans, vehicle finance etc
- ☞ These are called NBFCs

#### Unit Banking

- ☞ It is a type of banking in which where banks operate only from a single branch taking care of a small community.

#### Retail Banking

- ☞ Retail Banking means banking where transactions are held directly with customers and there are no transactions with other banks or corporations.
- ☞ The banks provide all types of personal banking services such as Saving accounts, personal loans, mortgages, Debit and Credit cards, Transactional accounts etc.

#### Wholesale Banking

- ☞ Wholesale banking involves banking services for high net worth clients like Corporates, Commercial banks, mid size companies etc.

#### Virtual Banking

- ☞ Virtual banking is performing banking operations online.

#### Chain Banking

- ☞ Chain Banking system refers to the type of banking when a group of persons come together to own and control three or more independently chartered banks.

#### Offshore banking:

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ The deposit of funds by a company or an individual in a bank that is located outside their national residence.

### Green banking:

- ☞ To address sustainable development concerns and creating awareness among people about environmental responsibility.

### Merchant banking:

- ☞ It is the combination of banking and consultancy service. Consultancy means to provide advice, guidance and service for a fee.

### Neo Banking:

- ☞ Neo banks are digital and operate online, and they do not have any physical branches. They are usually mobile-first, leveraging technology to minimise operating costs and offer a customer-friendly interface.

## Topic 16: BASEL NORMS

- ☞ The Basel Committee on Banking Supervision (BCBS) was formed in 1974 by a group of central bank governors of G-10 countries. It was established on 17<sup>th</sup> march, 1930. Head office in Basel, Switzerland. It acts as Bank to Central Banks.

### BASEL 1 Norms

- ☞ Introduced in 1988 (India adopted Basel 1 guidelines in 1999)
- ☞ Started capital measurement system called Basel capital accord also called Basel 1
- ☞ The minimum capital requirement was fixed at 8% of risk-weighted assets (RWA)
- ☞ RWA - the minimum amount of capital that must be held by banks to reduce the risk of insolvency (insolvency is the situation where a bank cannot raise enough cash to meet its obligations)

### BASEL 2 Norms

- ☞ Introduced in 2004
- ☞ Acknowledged as refined and reformed versions of Basel I accord
- ☞ Basel II norms in India and overseas are yet to be fully implemented.
- ☞ The guidelines were based on three parameters, which the committee calls it as 3 pillars

### 3 PILLARS OF BASEL 2 NORMS

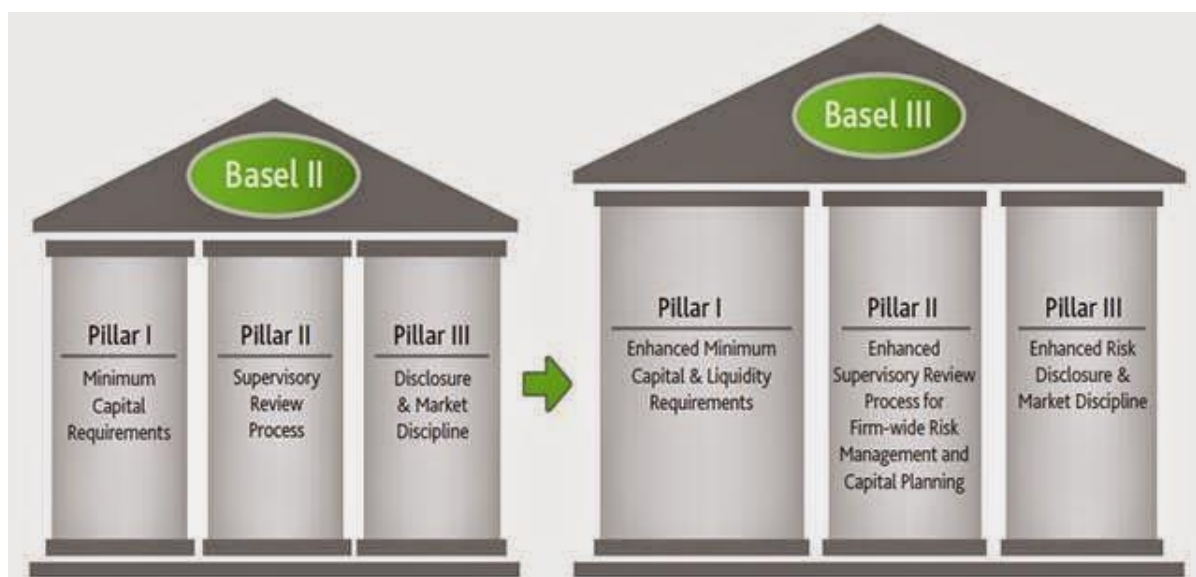
- ☞ Capital Adequacy Requirements - Banks should maintain a minimum capital adequacy requirement of 8% of risk assets
- ☞ Supervisory Review - According to this, banks were needed to develop and use better risk management techniques in monitoring and managing all the three types of risks that a bank faces, viz. credit, market, and operational risks
- ☞ Market Discipline - This need increased disclosure requirements. Banks need to mandatory disclose their CAR, risk exposure, etc to the central bank
- ☞ BASEL – II failed because, it could not cover systemic risk.
- ☞ It could not prevent 2008 financial crisis

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ BASEL – III was proposed after 2008 financial crisis.

### BASEL 3 Norms

- ☞ Introduced in 2010.(In India it was implemented in March 31st, 2019)
- ☞ These guidelines were proposed in acknowledgment to the financial emergency of 2008.
- ☞ BASEL – III recommended that the Capital Adequacy Ratio(CAR) was 8% internationally, while in India it is 9%.
- ☞ A need was thought to further extend the system as banks in the developed economies were under-capitalized, over-leveraged and had a greater faith in short-term funding
- ☞ The guidelines aim to promote a more flexible banking system by focusing on four vital banking parameters
  - 1) Capital Adequacy
  - 2) Leverage Ratio
  - 3) Net Stable Funding Ratio
  - 4) Liquidity Coverage Ratio



## Topic 17: Types of Risks in Banking

### Financial Risk:

- ☞ Financial Risk develops from the business transactions done by the Banks which is exposed to potential Loss.

### Market Risk:

- ☞ Market Risk is a type of risk in which losses in on- or off-balance sheet positions that arise from movement in market prices. Market risk is the most prominent for banks present in investment banking.

### Credit Risk:



## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ Credit Risk is the potential that a bank borrower/counter party fails to meet the obligations on agreed terms. There is always scope for the borrower to default from his commitments for one or the other reason resulting in crystallization of credit risk to the bank. Credit risk is inherent to the business of lending funds to the operations linked closely to market risk variables

### Interest Rate Risk:

- ☞ Interest Rate Risk is the type of risk arises due to fluctuation in interest rate. Changes in interest rate affect earnings, value of assets, liability off-balance sheet items and cash flow. Earnings side involves analysing the impact of changes in interest rates on accrual or reported earnings in the near term.

### Liquidity Risk:

- ☞ This kind of Risk arises due to inability of bank to meet its obligations when any asset may not be realized into cash. Also, we can say that, it is a mismatch of assets and liabilities. Liquidity is the ability to efficiently accommodate deposit as also reduction in liabilities and to fund the loan growth and possible funding of the off-balance sheet claims.

### Operational Risk:

- ☞ This risk arises due to failure of day to day activities, system or people. It includes both internal and external frauds like failures related to policies, laws, regulations, documentation or any technological risks. It is defined as any risk that is not categorized as market or credit risk, is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

### Capital Risk:

- ☞ This type of risk arises where the capital comes under risk partially or the whole in some cases emergencies.

### Foreign Exchange Risk:

- ☞ Forex risk is the risk that a bank may suffer loss as a result of adverse exchange rate movement during a period in which it has an open position, either spot or forward or both in same foreign currency.

### Systemic Risk:

- ☞ **Systemic risk** refers to the risk of a breakdown of an entire system rather than simply the failure of individual parts. In a financial context, it denotes the risk of a cascading failure in the financial sector, caused by linkages within the financial system, resulting in a severe economic downturn

### Reputational risk

- ☞ Reputational risk implies the public's loss of confidence in a bank due to a **negative perception or image** that could be created with/without any evidence of wrongdoing by the bank.
- ☞ Reputational value is often measured in terms of brand value.

Reputational risk could stem from:

- The inability of the bank to honor government/regulatory commitments
- Nonobservance of the code of conduct under corporate governance
- Mismanagement/Manipulation of customer records
- Ineffective customer service/after sales services

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## Topic - 18: Financial Institutions

### 1. RRB

- ☞ After nationalization, of banks in 1960 there were problems which made it difficult for commercial banks even under government ownership to lend to farmers.
- ☞ Government set up the **Narasimham** Working Group in 1975.
- ☞ On the basis of this committee's recommendations, a Regional Rural Banks Ordinance was promulgated in **September 1975**, which was replaced by the Regional Rural Banks Act 1976.
- ☞ **First RRB:** Prathama Grameen Bank

The RRBs were owned by three entities with their respective shares as follows:

- ☞ **Central Government** → **50%**
- ☞ **State government** → **15%**
- ☞ **Sponsor bank** → **35**

### 2. NABARD

- ☞ NABARD is an apex development bank, established in 1982 by a Special Act of the Parliament
- ☞ It has power to deal with all matters concerning policy, planning as well as operations in giving credit for agriculture and other economic activities in the rural areas.
- ☞ **Committee to Review the Arrangements For Institutional Credit for Agriculture and Rural Development** under the **Chairmanship of B. Sivaraman**.
- ☞ Based on the recommendations, **NABARD (National Bank for Agriculture and Rural Development)** started functioning from **12<sup>th</sup> July, 1982**.
- ☞ Authorized Capital : RS.30,000crore/-
- ☞ A refinancing agency for those institutions that provide investment and production credit for promoting the several developmental programs for rural development.
- ☞ Improving the absorptive capacity of the credit delivery system in India, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, and training of personnel.
- ☞ Co-ordinates the rural credit financing activities of all sorts of institutions engaged in developmental work at the field level.
- ☞ Promotes research in rural banking, and the field of agriculture and rural development

### 3. Refinance/Direct finance

#### Refinance :

- ☞ Development Financial Institutions like NABARD will arrange finance to the banks up to the extend. Banks are giving loans to customers. This is Refinance.

#### Direct finance :

- ☞ Banks will finance customers directly.

### 4. Service Area Approach

- ☞ Main aim is to act as coordinator for credit deployment in the district.
- ☞ Act as a leader to bring about coordination among Co-op Banks, RRBs, SCBs and other financial institutions to bring about rapid economic development in rural areas.
- ☞ Identify unbanked areas and prepare a phased programme for branch expansion.
- ☞ To inculcate dynamic relationships between various financial institutions.



## THE COMPLETE – STATIC BANKING AWARENESS

### 5. Co-operative banks

- ☞ Banks in India can be broadly classified under two heads — commercial banks and co-operative banks. While commercial banks (nationalized banks, State Bank group, private sector banks, foreign banks and regional rural banks) account for an overwhelming share of the banking business, co-operative banks also play an important role.

**It can be divided into 2 broad segments**

#### i) Urban Cooperative Banks

#### ii) Rural Cooperative Banks

##### Urban Cooperative Banks

- ☞ Urban Cooperative Banks are scheduled and non-scheduled.
- ☞ Banking activities of Urban Cooperative Banks are **monitored by RBI**. Registration and Management activities are managed by Registrar of Cooperative Societies (RCS). These RCS operate in single-state and Central RCS (CRCS) operate in multiple state.

##### Rural Cooperatives Banks

- ☞ Rural cooperative Banks are short-term and long-term structures.
- ☞ Short-term cooperative banks are three tiered operating in different states.

**State Cooperative Banks:** Operate at the apex level in states

**District Central Cooperative Banks:** Operate at the district levels

**Primary Agricultural Credit Societies:** Operate at the village or grass-root level.

- ☞ As per the new guideline, the SFBs should have Rs.200crores minimum capital except for such small finance banks which are converted from Urban Co-operative Banks (UCBs). UCB's should initially have at least Rs.100crores from the start of the operation, however, it should make it to Rs.200crores capital within 5 years, from the date of commencement of business.

### 6. MUDRA (Micro Units Development and Refinance Agency)

- ☞ It is a public sector financial Institution in India and provides loans at low rates to micro finance Institutions and NBFCs which then provide to MSMEs.
- ☞ These banks are set up under Pradhan Mantri MUDRA Yojana Scheme by Prime Minister Narendra Modi.

**Types of MUDRA Loan:**

Name of the Scheme	Loan Amount
Shishu	Up to Rs.50,000
Kishor	Rs.50000 to Rs.5 lakh
Tarun	Rs.5 lakh to Rs.10 lakh

## THE COMPLETE – STATIC BANKING AWARENESS

### Topic -19: Differentiated banks

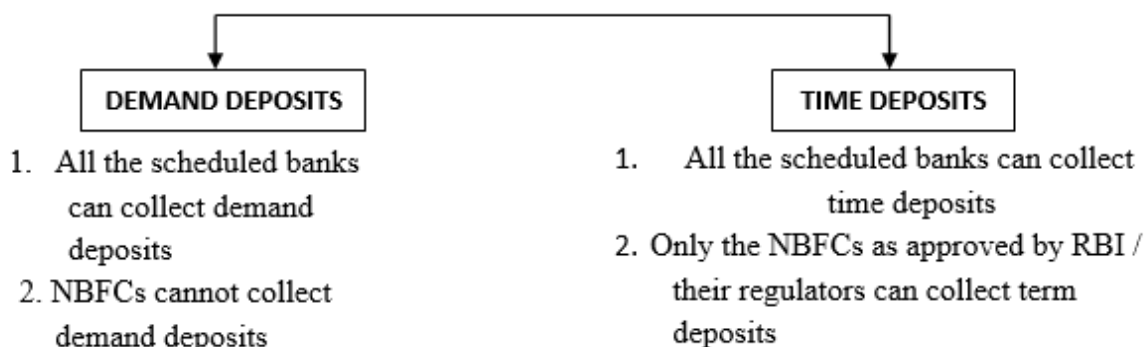
#### 1. NBFC

- ☞ It is engaged in the business of loans and advances, acquisition of 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 or providing any services and sale or purchase of immovable property

Difference between Banks & NBFCs

- ☞ 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.

#### TYPES OF DEPOSITS BANKS & NBFCs



- ☞ There is an **Ombudsman** for hearing complaints against NBFCs. But, it should be a **deposit taking NBFC**.

#### NBFC Ombudsman:

- The NBFC Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against NBFCs for deficiency in certain services covered under the grounds of complaint specified under Clause 8 of the Scheme.
- There are currently four NBFC ombudsman offices in Chennai, Kolkata, Mumbai and Delhi where customer complaints from across the country are monitored and resolved.
- The compensation amount from NBFC Ombudsman if the case is not resolved is Rs.10 lakhs.

#### 2. Payment banks and Small finance banks

- ☞ With a need for financial inclusion in the country, RBI and government has taken many steps at different times. Taking a further step, RBI gave differentiated licenses for specific activities to new set of banks named Payment Banks and Small Banks.

**Payment banks :**

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ Payments banks are a new model of banks conceptualized by the Reserve Bank of India (RBI). These banks can accept a restricted deposit which is currently limited to INR 1 lakh per customer.
- ☞ Initial Capital - **100crore**
- ☞ Payments Banks Formation - **Nachiket Mor Committee**
- ☞ For the first five years, the stake of the promoter should be 40% minimum.
- ☞ Foreign shareholding will be allowed in these banks as per the rules for FDI in private banks in India on 19 August 2015, the Reserve Bank of India gave "in-principle" licenses to eleven entities to launch payments banks. Under Section 22 of the Banking Regulation Act, 1949.

### Small finance banks :

- ☞ Small finance banks are a type of niche banks in India. Banks with a small finance bank license can provide basic banking service of acceptance of deposits and lending. The aim behind these to provide financial inclusion to sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries and unorganized sector entities.

Small Finance Bank	Payment Bank
Capital requirement is Rs.200crore	Paid-up equity capital requirement of Rs.100crore
The bank shall primarily undertake basic banking activities of accepting deposits and lending to small farmers, small businesses, micro and small industries, and unorganized sector entities. It cannot set up subsidiaries to undertake non-banking financial services activities.	Payment Banks will initially be restricted to holding a maximum balance of 1 lakh rupees per individual customer. It can issue ATM or debit cards but not credit cards.
a) Professionals with 10 years in financial services or promoter group with 5 year track record.  b) 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	Card Issuers, Finance Companies, Business Correspondents, Telecom Companies, Retailers etc

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conversion into small finance banks.	
Promoter's initial contribution should be 40% lowered to 26% in 12 years.	Promoters should retain a 40% stake for the first five years.
<p>*The maximum loan size and investment limit exposure to single/group borrowers/issuers would be restricted to 15 percent of capital funds</p> <p>* Loans and advances of up to Rs 25 lakhs, primarily to micro enterprises, should constitute at least 50 percent of the loan portfolio.</p>	No credit lending is allowed
For the first three years, 25 percent of branches should be in unbanked rural areas.	No such Rules
The small finance banks will be required to extend 75 percent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank.	Lending is not allowed in payment banks
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.	The foreign shareholding in the should be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.
These banks 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). No forbearance would be provided for complying with the statutory provisions.	These banks also should maintain CRR with the Reserve Bank, it will be required to invest minimum 75 percent of its demand deposit balances in Statutory Liquidity Ratio (SLR) with maturity up to one year and hold maximum 25 per cent in current and time or fixed deposits with other scheduled

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	commercial banks for operational purposes and liquidity management.
These Banks can offer all types of Deposits as like commercial Banks be it savings, Current, Fixed as well as Recurring.	Payments banks can only offer Savings and Current accounts.
<p>Small Finance Banks :</p> <ol style="list-style-type: none"> <li>1. AU small finance bank- Jaipur, Rajasthan</li> <li>2. Capital small finance bank- Jalandhar, Punjab</li> <li>3. ESAF small finance bank- Thrissur, Kerala</li> <li>4. Equitas small finance bank- Chennai, Tamil Nadu</li> <li>5. Fincare small finance bank- Bengaluru, Karnataka</li> <li>6. Jana small finance bank- Bengaluru, Karnataka</li> <li>7. North East small finance bank- Guwahati, Assam</li> <li>8. Suryoday small finance bank- Navi Mumbai</li> <li>9. Ujjivan small finance bank- Bengaluru, Karnataka</li> <li>10. Utkarsh small finance bank- Varanasi, UP</li> </ol>	<p>Payment Banks :</p> <ol style="list-style-type: none"> <li>1. Paytm payments bank- Noida</li> <li>2. Airtel payments bank – New Delhi</li> <li>3. Jio payments bank- Mumbai</li> <li>4. India Post payments bank- New Delhi</li> <li>5. Fino payments bank- Mumbai</li> <li>6. Aditya payments bank- Mumbai</li> </ol>

## THE COMPLETE – STATIC BANKING AWARENESS

### Topic -20: Financial Market

#### Financial market:

- ☞ It is not a tangible market but it refers to a group of entities which participate in borrowing and lending.
- ☞ The products are classified as bonds, equities, currencies and derivatives.
- ☞ It is a medium channel between depositor and borrowers.

Financial market are classified as:

#### 1. Money market

#### 2. Capital market

##### (i) Money market:

- ☞ It is used for short term credit.
- ☞ Borrowing and lending money is **upto one year** (1 day to 365 days).
- ☞ It includes Rbi, commercial banks, except rrbs, some Nbfcs, cooperative banks, primary dealers, etc.
- ☞ T-bills, commercial papers, certificates of deposits traded in this market(banks and primary dealers) to lend and borrow money when there is a mismatch of funds.

**Call money:** money is borrowed or lent for **1 day**.

**Notice money:** money is borrowed or lent for **2 to 14 days**.

**Term money:** money is borrowed or lent for **exceeding 14 days to 365 days**.

- ☞ In call money and notice money, both the borrowers and lenders need to maintain a **current account** with RBI because trading happens for very short tenure.

#### 1. Treasury bills(T-bills):

- ☞ It was implemented by **1986**. It is also known as T-bills.
- ☞ In the money market, if we talk about the lowest risk instrument then it is T-bills.
- ☞ It is issued by the central government with fixed date and fixed time.
- ☞ They are highly liquid, bill holders can transfer or get discounts at any time from RBI.
- ☞ They are issued as well as auctioned by RBI only but can purchased by individuals, firms, institutions and banks.
- ☞ T- bills are available at a denomination of **25000 and multiples of it**.
- ☞ Its maturity periods are **91, 182, 364 days**.

#### 2. Commercial paper(CP):

- ☞ It was introduced in **1990**. It is issued in the form of **promissory note**.
- ☞ In this, the net worth of the company is **not less than 4crore**.
- ☞ All India financial institutions, primary dealers, big companies are permitted to issue commercial paper to enable them to meet their short term financing requirements.
- ☞ The tenure of CP is **7 days to one year**.
- ☞ CP is issued under the denomination of **5 lakh and multiple of it**.

#### 3. Certificate of deposits(CD):

- ☞ It was introduced in 1989.
- ☞ Scheduled commercial banks (except Rrb, local area banks), all india financial institutions are permitted by Rbi to purchase the CD.

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ The tenure of CD is **7 days to one year**.
- ☞ Financial institutions can not issue less than 1 year and not exceeding 3 years.
- ☞ The denomination of CD is **1 lakh and multiple of it**.

### 4. Cash management bills:

- ☞ It is a short term instrument issued by the central government to meet the temporary cash flow mismatches of the government.
- ☞ The announcement of the auction of bills made by Rbi.
- ☞ The tenure is **less than 91 days**.

### (ii) Capital market:

- ☞ It is used for long term credit.
- ☞ Borrowing and lending are **above 1 year**.
- ☞ It includes stock exchanges, housing finance companies, insurance companies, etc.
- ☞ All institutions listed in the capital market are called NBFC.

Capital market comprising both

#### (i) Equity

(ii) **Debts** are issued and traded.

- ☞ This also includes private placement sources of **debt and equity** as well as organised markets like stock exchanges.

### 1. Primary market (IPO):

- ☞ It is a market which deals with trading and issuance of stocks and other securities.

### 2. Secondary market(FPO):

- ☞ It is a market comprising equity and debt markets. It deals with the exchange of existing or previously issued securities.

### Composition of capital market:

#### (i) Security market

- ☞ It deals with **shares and debt** instruments. These instruments are used for fundraising. In share instruments, we include equity share, preferential shares, derivatives. Investors have
- ☞ In **debt** instruments, we include **bonds, debentures**, etc. In these instruments, we need to **pay interest** to debt instrument holders **regardless of profit or loss**.

#### Equity shares:

- ☞ Holder has claimed over the capital, profit or loss.

#### Debentures:

- ☞ In this, the lender lends money to companies with some surety (may be plant, machinery). But bonds lent by without any surety.

#### Preferential shares:

- ☞ Holder entitled to a fixed amount of dividend.
- ☞ In case of closing of the company preferential shareholders have the preference rights to get back the capital.
- ☞ For trading securities, we have primary(new issue) and secondary (old issue) markets

### (ii) Development financial institutions

- ☞ They provide long term loan, entrepreneurial assistance(technical advice etc)

Ex: IDBI, EXIM bank



## THE COMPLETE – STATIC BANKING AWARENESS

### (iii) Financial intermediaries

Rbi regulated:

- ☞ Asset finance company
- ☞ Loan company
- ☞ Investment company

Sebi regulated:

- ☞ Venture capital fund, angel capital fund
- ☞ Merchant banking companies.
- ☞ Stock broking companies

### Bill discounting:

- ☞ Advanced selling of bills to an intermediary before it is due to be paid.

## Topic 21: Foreign Direct Investment and Foreign Portfolio Investment

### Foreign Direct Investment

- ☞ Foreign Direct Investment involves establishing a direct business interest in a foreign country, such as buying or establishing a manufacturing business, building warehouses, or buying buildings
- ☞ Due to the significantly higher level of investment required, foreign direct investment is usually undertaken by multinational companies, large institutions, or venture capital firms
- ☞ The investment may result in the transfers of funds, resources, technical know-how, strategies, etc. There are several ways of making FDI i.e. creating a joint venture or through merger and acquisition or by establishing a subsidiary company.

### Foreign Portfolio Investment

- ☞ Foreign Portfolio Investment refers to investing in the financial assets of a foreign country, such as stocks or bonds available on an exchange.
- ☞ It does not provide the investor with direct ownership of a company's assets and is relatively liquid depending on the volatility of the market.
- ☞ Along with foreign direct investment (FDI), FPI is one of the common ways to invest in an overseas economy. FDI and FPI are both important sources of funding for most economies.
- ☞ These include investments via equity instruments (stocks) or debt (bonds) of a foreign enterprise which does not necessarily represent a long-term interest.

## THE COMPLETE – STATIC BANKING AWARENESS

### Difference Between FDI and FPI

Parameters	FDI	FPI
Definition	FDI refers to the investment made by foreign investors to obtain a substantial interest in the enterprise located in a different country.	FPI refers to investing in the financial assets of a foreign country, such as stocks or bonds available on an exchange.
Role of Investors	Active	Passive
Type	Direct Investment	Indirect Investment
Degree of Control	High	Very low
Term	Long term	Short term
Management of Projects	Efficient	Comparitively less efficient
Investment	Done on Physical assets of the foreign country	Done on Financial assets of the foreign country
Entry & Exit	Difficult	Relatively Easy
Risks involved	Stable	Volatile
Leads to	Transfer of funds, technology and other resources to the foreign country	Capital inflows to the foreign country

### Topic 22: Types of Money

#### 1. Dear Money

- ☞ “The money which is available at high interest rates and hence restricts expenditure by companies.”
- ☞ “Due to restricted money supply, interest rates will be pushed up. Hence, it is very difficult to raise money during this period of dear money.”

#### 2. Barren Money

- ☞ Money which is not earning any interest
- ☞ Money which is not invested anywhere
- ☞ Money which is kept in a safe deposit locker

#### 3. Hot Money

- ☞ Hot money refers to funds that are controlled by investors who actively seek short-term returns. These investors scan the market for short-term, high interest rate investment opportunities. A typical short-term investment opportunity that attracts "hot money" is the certificate of deposits.
- ☞ Hot currency is the currency which is easily available in the market and can be converted into another currency. And it flows easily in and out of the market in terms of investment

#### 4. Hard Currency

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ Hard currency, safe-haven currency or strong currency is any globally traded currency that serves as a reliable and stable store of value.

### 5. Fiat Money

- ☞ Fiat money is one that is declared legal tender. This includes any form of currency in circulation such as paper money or coins. Fiat money is backed by a country's government instead of a physical commodity.

### Measures of Money Supply:

Money supply, like money demand, is a stock variable. The total stock of money in circulation among the public at a particular point of time is called **money supply**. RBI publishes figures for four alternative measures of money supply, viz. M1, M2, M3 and M4. They are defined as follows:

- **Reserve Money**  $M_0$  = Currency in circulation + Bankers' deposits with the RBI + 'Other' deposits with the RBI
- **Narrow Money**  $M_1$  = Currency with the public + Demand deposits with the banking system + 'Other' deposits with the RBI
- **Intermediate Money**  $M_2$  =  $M_1$  + Short-term time deposits of residents (including and up to the contractual maturity of one year).
- **Broad Money**  $M_3$  =  $M_2$  + Long-term time deposits of residents + Call/Term funding from financial institutions.

## Topic - 23: Concept of Loans and Advances

### 1. Loans and Advances

- ☞ Loans and advances are given by banks for various purposes such as
  - i) Home loans
  - ii) Personal loans
  - iii) Car loans
  - iv) Loans against securities
  - v) Agriculture loan
  - vi) Corporate loans
  - vii) Mortgage loans

### 2. Index for loans

#### i) BPLR (2003)

- ☞ It is a Benchmark Prime Lending Rate. It is not transparent in nature. It resulted in one borrower getting a loan at lower interest than the other.
- ☞ RBI constituted a working group under the **Chairmanship of Shri Deepak Mohanty** to review the rate.
- ☞ The committee suggested **changes to make credit pricing more transparent and submitted a report in October 2009**.  
Hence, Base rate came into effect.

#### ii) Base Rate (2009)

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ “It is the interest rate below which scheduled commercial banks will lend no loans to its customers”
- ☞ Now all categories of loans are priced with reference to base rate only, except some exemptions.  
Main components of calculating this base rate were :
  1. Cost of funds
  2. Operating expenses to run the banks
  3. Profit
  4. Negative carry on CRR and SLR
- ☞ So as you see, REPO RATE is not considered while calculation of base rate. So any cut or decrease in repo rate by RBI was not being forwarded by the banks to their customers

### iii) MCLR (2016)

- ☞ MCLR stands for Marginal Cost of Funds based Lending Rate which was introduced on 1st April, 2016. It is aimed to help borrowers avail several kinds of advances including home loans.
- ☞ MCLR replaced the base rate in order to benefit borrowers by cutting down the actual lending rates.
- ☞ Marginal Cost of Lending Rate consists of the following components.
  1. Marginal cost of funds
  2. Negative carry on account of CRR
  3. Operating costs
  4. Tenor premium

### iv) External Bench Mark Rate ( Repo Rate)

- ☞ The Reserve Bank had constituted an Internal Study Group (ISG) to examine various aspects of the marginal cost of funds-based lending rate (MCLR) system.
- ☞ The ISG observed that internal benchmarks such as the Base rate/MCLR have not delivered effective transmission of monetary policy.
- ☞ RBI has announced that all new floating rate personal or retail loans and floating rate loans to Micro and Small Enterprises extended by banks from October 1, 2019 shall be linked to external benchmarks.
- ☞ Once in **3 months** banks have to change their external benchmark rate effectively.

### 3. The Exception Category

1. Loans granted under DRI (Differential Rate of Interest) scheme.
2. Loans to own employees of the bank, including retired employees.
3. Loans to depositors of the bank against their own deposits.

### 4. DRI

- ☞ Differential Rate of Interest (DRI) is a lending programme launched by GOI in 1972.
- ☞ All the Scheduled Commercial Banks (except RRBs) have to lend 1% of the total advances of the previous year to the “poorest among the poor”
- ☞ The interest rate will be 4% per annum.
- ☞ It is the need based financial assistance to those who intend to take up any productive activity.

## THE COMPLETE – STATIC BANKING AWARENESS

Groups covered are SCs/STs, Adivasis engaged in agricultural operations, physically handicapped, orphanages, women's homes etc.

### 5. Other exemptions

#### i) Crop loan

- ☞ In case of crop loans up to Rs 3 lakh.
- ☞ Interest rates are as specified by the Govt. of India
- ☞ Interest subvention is given by Govt. of India to banks.

#### ii) Rupee export credit advances

- ☞ In case of rupee export credit advances.
- ☞ Interest rates can be below base rate to the extent of interest subvention available.

### 6. ALMC(Asset Liability Management Committee)

- ☞ When the period base base rate was effective, Base rate was to be reviewed **at least once in a quarter** with the approval of the Board or Asset Liability Management Committee (ALMC) as per the bank's practice.
- ☞ Banks should **convey the change in base rates** to the general public through appropriate channels.
- ☞ Banks can choose **fixed or floating rates**.
- ☞ Banks are free to determine service charges for any type of transaction.

### 7. Reverse Mortgage Loan

- ☞ It is primarily intended for senior citizens (60+ age).
- ☞ Married couples are also eligible. One should be (60+age) and the other should not be below 55 years of age.
- ☞ House owned by the senior citizen will be mortgaged to the bank/lender and the lender will pay money to the senior citizen on a monthly basis or on agreed terms.
- ☞ **Max. period is 20 years normally.**
- ☞ After the borrower's death, **the loan will be repaid through sale of property and any surplus will be paid to the heirs.**

### 8. Secured loan

- ☞ A secured loan is a loan where the **borrower pledges an asset as collateral** for the loan
  - ☞ Some property as collateral
  - ☞ Lender will have lien over that property
  - ☞ Interest rates will be less
- Ex: Vehicle loan, Home loan

### 9. Unsecured loan

- ☞ An unsecured loan is one in which the borrower does not have to pledge any collateral/ security/ guarantor to secure it.
  - ☞ No collateral
  - ☞ Risky from the lenders point of view
  - ☞ Given based on the credit worthiness of the borrower
  - ☞ Also called signature loan
  - ☞ Interest rate will be high
- Ex: Personal Loan

### 10. Term loan/ Revolving Credit

## THE COMPLETE – STATIC BANKING AWARENESS

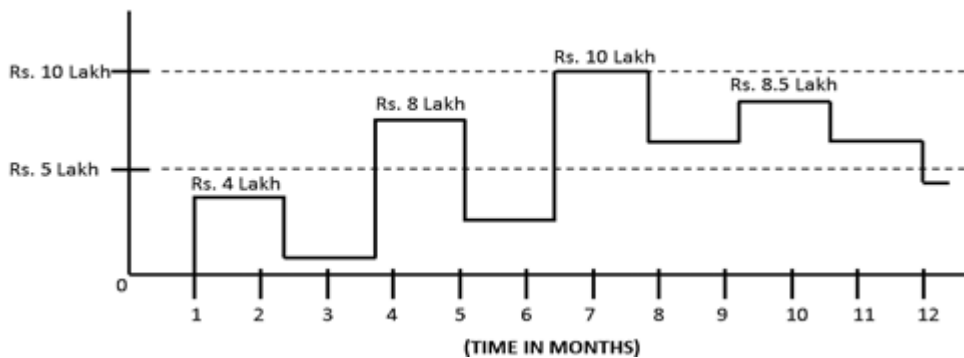
- ☞ A revolving credit is a line of credit where the customer pays a commitment fee and is then allowed to use the funds when they are needed. It is usually used for operating purposes, fluctuating each month depending on the customer's current cash flow needs.
- ☞ Revolving lines of credit can be taken out by both corporations and individual

### Topic - 24: Types of Lending

#### 1. Overdraft/Cash credit Account

- ☞ A borrower can withdraw funds as and when needed, upto the credit limit given by the banker.
- ☞ Borrower can repay the amount as per the terms and conditions, **and the interest will be charged over the amount borrowed only.**
- ☞ (If the credit limit is Rs.30 lakhs, and the borrower withdraws only Rs. 15 lakhs, he is required to pay interest only for Rs.15 lakhs up to the date of repayment)

OVERDRAFT LIMIT IS RS. 10 LAKH



- ☞ It gives **flexibility to the borrower.**
- ☞ **Difference between these two accounts:**
- ☞ The distinction between an Overdraft and a Cash Credit is in the **nature of the security.**
- ☞ When the advance is secured by the **pledge/hypothecation of goods or produce**, it is treated as a Cash Credit Account.

#### 2. Fixed and floating interest rate

FIXED INTEREST	FLOATING INTEREST
Interest is fixed for the whole tenure of the loan period (15 to 20 years)	It is normally fixed as effective Rate + Certain %
Normally, interest will be slightly higher than the floating interest as it is <b>difficult to analyse</b> the economic situation for the entire loan period.	As the effective changes quite frequently, the floating interest rate changes

## THE COMPLETE – STATIC BANKING AWARENESS

Fixed interest rate will be slightly higher than the floating interest

Normally, banks vary the repayment period by keeping the EMI constant.

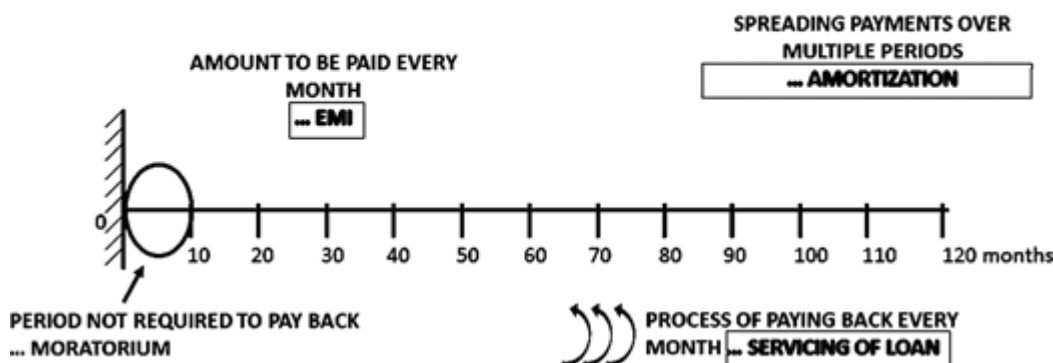
### 3. EMI

- ☞ It is an Equated Monthly Installment.
- ☞ It is the **fixed amount paid by the borrower** to the lender on the specified date every month.
- ☞ EMI is **normally constant**.
- ☞ It includes **both interest and principal**.
- ☞ The schedule indicating the components of principal and interest is known as the Amortization Schedule.
- ☞ Amortization means spreading payments over multiple periods.

### 4. Moratorium and Amortization

- ☞ Moratorium period means the period one will not be required to pay back the loan. Normally known as grace period given by the banks.
- ☞ For example, there is the situation of flood, genuine reason for the loss of business.

#### ILLUSTRATION TO EXPLAIN TERMINOLOGY OF LOANS



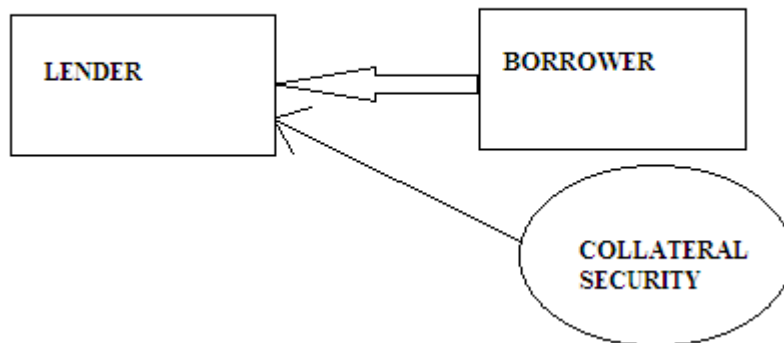
- ☞ This gives an illustration of Amortization/Moratorium.

### 5. Collateral Security

- ☞ Fixed property or other assets the borrower offers to the lender to secure a loan.
- ☞ Since the lender can recoup losses in case the borrower fails to repay, the interest rates will be less in comparison to unsecured loans.
- ☞ Hence, the interest rates on personal loans, interest rates on the balances of credit card transactions beyond the grace period are more because of no collateral security.
- ☞ If there is no collateral security, the loan is known as unsecured loan or signature loan



## THE COMPLETE – STATIC BANKING AWARENESS



### 6. Lessor and Lessee

- ☞ Lessor / Landlord is the rightful owner of the property.
- ☞ By making onetime / periodic payments, the Lessee got the right to use it.
- ☞ The lease agreement is for a specified period only.



### 7. Bailor and Bailee

- ☞ **Bailment** is the contractual transfer of possession of asset or property for a specific objective
- ☞ Ownership lies with the Bailor
- ☞ Bailee cannot use the property
- ☞ Bailee is responsible for safe keeping and eventual return



### Hypothecation:

- ☞ Hypothecation is legal term that refers to the granting of a hypothec to a lender by a borrower.
- ☞ In practice, the borrower pledges an asset as collateral for a loan, while retaining ownership of the assets and enjoying the benefits therefrom.

### Pledge:

- ☞ Pledge is used when the lender (pledgee) takes actual possession of assets (i.e. certificates, goods).

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ Such securities or goods are movable securities.
- ☞ In this case the pledgee retains the possession of the goods until the pledgor (i.e. borrower) repays the entire debt amount.
- ☞ In case there is default by the borrower, the pledgee has a right to sell the goods in his possession and adjust its proceeds towards the amount due (i.e. principal and interest amount).
- ☞ Some examples of pledge are Gold /Jewellery Loans, Advance against goods,/stock, Advances against National Saving Certificates etc.

### Mortgage:

- ☞ It is used for creating charge against immovable property which includes land, buildings or anything that is attached to the earth or permanently fastened to anything attached to the earth (However, it does not include growing crops or grass as they can be easily detached from the earth).
- ☞ The best example when mortgage is created is when someone takes a Housing Loan / Home Loan.
- ☞ In this case house is mortgaged in favour of the bank / financier but remains in possession of the borrower, which he uses for himself or even may give on rent.

## Topic - 25: Payment Types

### 1. Standing Instruction

- ☞ It is an instruction/order a bank account holder gives to his/her bank to pay a set of amount at regular bank intervals to another account.
- ☞ Ex: Salary payments, payments of bills, electricity bills, repayment of loan, inter account transfer of funds

### 2. Debit Card/Credit Card

- ☞ Both are plastic cards, that work on some financial platforms like Visa, MasterCard, RuPay
- ☞ They are the instruments to facilitate financial transactions, without the need for carrying cash.
- ☞ Liquidity is assured on a 24x7 basis.

	Credit Card	Debit Card
<b>Eligibility Criteria</b>	Need to be fulfilled	No Criteria
<b>Maximum Limit</b>	Determined on Credit score, Credit history etc..	Less than savings or current account balance to which the card is linked
<b>Interest</b>	Charged or levied on amount utilized	Paid to you on the account balance
<b>Debt Instrument</b>	Yes	No
<b>Utilization Summary</b>	Monthly Credit statement	Monthly Bank Statement

### 3. Visa and Mastercard

- ☞ VISA (Visa International Service Association) and MasterCard are Payment processing institutions and several financial institutions use these platforms to facilitate services through Debit cards and Credit cards and for other electronic transactions across the world.
- ☞ Both VISA and MASTERCARD are accepted at several merchant outlets.

## THE COMPLETE – STATIC BANKING AWARENESS

☞ NPCI DEVELOPED RUPAY PLATFORM (Developed by India)

### 4. NPCI and Its Operations

- ☞ It is the National Payments Corporation of India.
- ☞ It is incorporated in December 2008 (Under section 25 of the Companies Act)
- ☞ Authorized capital → Rs. 300 crores
- ☞ Paid up capital → Rs. 100 crores

#### Products of NPCI:

1. National Financial Switch (NFS)
2. Automated Clearing House
3. Immediate Payment Service
4. Cheque Truncation System
5. Aadhar Payment Bridge System
6. Rupay Card

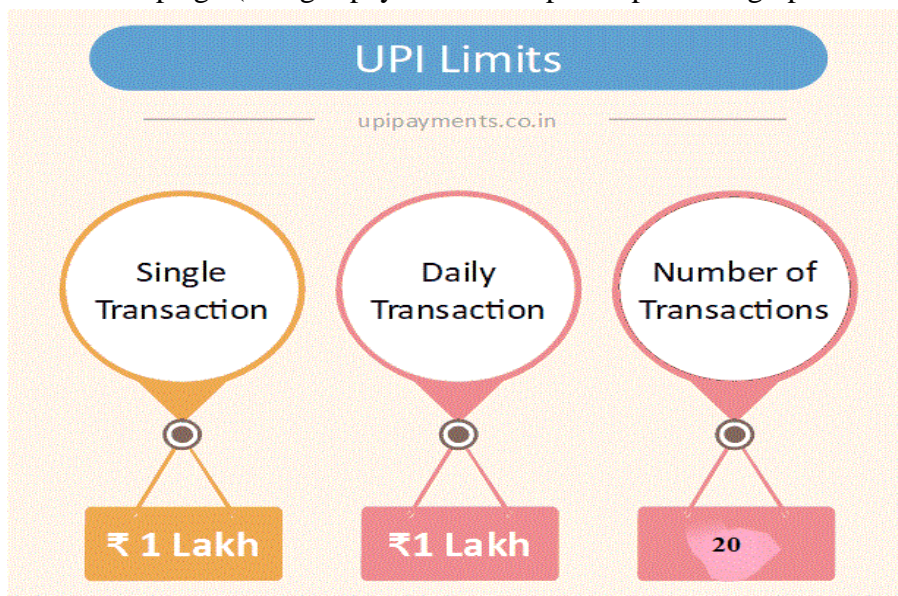
- ☞ **National Financial Switch (NFS):** The National Financial Switch facilitates routing of ATM transactions through inter-connectivity between the Bank's Switches, thereby enabling the citizens of the country to utilize any ATM of a connected bank. It was designed, developed and deployed by the Institute for Development and Research in Banking Technology in 2004, with the goal of inter-connecting the ATMs in the country and facilitating convenience banking.
- ☞ **National Automated Clearing House:** NACH, or the National Automated Clearing House, was a system introduced by the National Payments Corporation of India, for interbank, high volume, electronic transfers, which were periodic in nature. The NPCI introduced NACH as an improvement over the existing Electronic Clearing System (ECS), and consolidate multiple ECS systems running all over the country. The NACH system is used for bulk towards the distribution of subsidies, dividends, interest, salary, pension, etc. and also for bulk transactions towards the collection of payments for telephone, electricity, water, loans, investments in mutual funds, insurance premium, etc.
- ☞ **Immediate Payment Service:** It is a money transfer mechanism made available by the apex bank of the country, the Reserve Bank of India and the National Payments Corporation of India (NPCI). IMPS offers instant, 24X7, interbank electronic fund transfer service from one person to other using mobile number and Mobile Money Identifier (MMID).
- ☞ **Cheque Truncation System:** Cheque truncation system is an arrangement which facilitates the electronic processing of a cheque with the use of Magnetic Ink Character Reader (MICR) data and the scanned image of the instrument without involving any physical exchange or movement of the financial instrument.
- ☞ **Aadhar Payment Bridge System (ABPS):** ABPS uses Aadhaar number as a central key for electronically channelizing the Government benefits and subsidies in the Aadhaar Enabled Bank Accounts (AEBA) of the intended beneficiaries.
- ☞ **Rupay Card:** Rupay was introduced in 2012 by NPCI and functions within the domestic boundaries. Rupay cardholders can use the service for ATM withdrawals, online transactions, and card payments. Rupay card has a comparatively lower processing cost and processing time in comparison to Visa and MasterCard.

## THE COMPLETE – STATIC BANKING AWARENESS

### Topic 26: Payments and Settlements System

#### UPI (Unified Payment Interface)

- ☞ Unified Payments Interface (UPI) is an instant payment system developed by the National Payments Corporation of India (NPCI), an RBI regulated entity.
- ☞ UPI is built over the IMPS infrastructure and allows you to instantly transfer money between any two parties' bank accounts.
- ☞ A Virtual Payment Address (VPA) is a unique identifier which you can use to send and receive money on UPI.
- ☞ Although the transaction limit per UPI transaction is ₹1 lakh, the upper limit depends on bank-to-bank.
- ☞ The transaction limit per day for UPI transactions is ₹1 Lakh.
- ☞ The maximum number of UPI transactions is limited to 20.
- ☞ [#UPI Chalega] is a campaign by NPCI to promote the UPI payment system.
- ☞ NPCI, National Payment Corporation of India is trying to drive up the digital payment system by this campaign. (Google pay and Phone pe are promoting upi effectively)

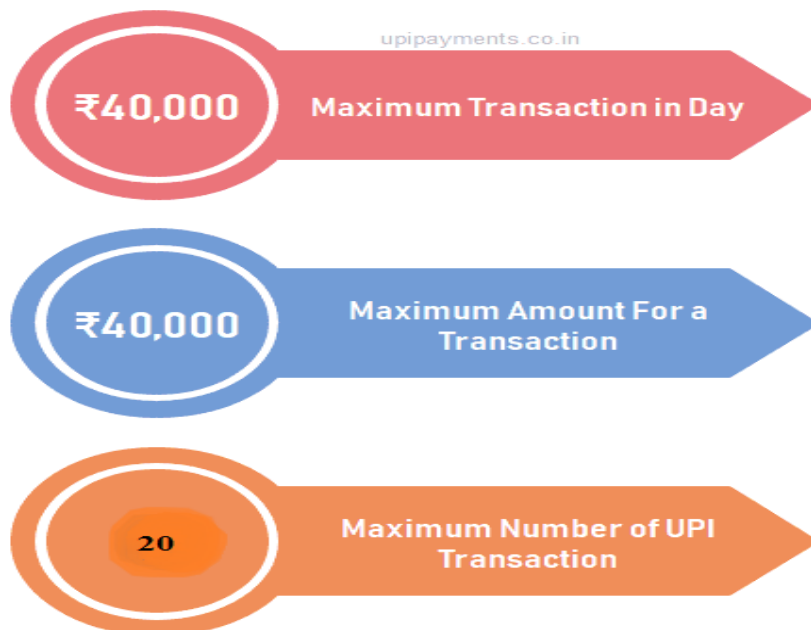


#### BHIM (Bharat Interface money)

- ☞ Bharat Interface for Money (BHIM) is a payments app that facilitates simple and quick transactions using Unified Payments Interface. It allows you to make direct bank payments to any bank account on **UPI** with the help of UPI ID and PIN. In another case, you can scan a QR code with the BHIM app to transfer money.
- ☞ The **BHIM app** was developed by **National Payments Corporation of India (NPCI)**. It was launched by the Prime Minister of India, Narendra Modi on 30 December 2016 to realize a digitally empowered society.
- ☞ BHIM is a UPI based payment interface which allows real time fund transfer using a single identity like your mobile number or name.

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ Currently it is available in **16 languages**, i.e., Hindi, English, Tamil, Telugu, Malayalam, Bengali, Odia, Kannada, Punjabi, Assamese, Urdu, Marathi, Gujarati, Haryanvi, Bhojpuri and Konkani.
- ☞ Dial **\*99#** to avail features of BHIM without internet on any mobile phone.
- ☞ A user can send up to **Rs.40,000 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.
- ☞ There is no limit to the amount of money you can receive via BHIM.



### NEFT

- ☞ It is a nation wise payment system facilitating one to one funds transfer.
- ☞ No limit for minimum or maximum amount of transfer. (However, for amounts of Rs.2 Lakh and above, RTGS is used.)
- ☞ It works on the system of **STP - Straight Through Processing**
- ☞ With a view to promote digital transactions, the Reserve Bank of India (RBI) has allowed the round-the-clock (24×7) transactions facility under the National Electronic Funds Transfer (NEFT) system to customers on all days including weekends and holidays from December 16,2019
- ☞ NEFT Operates on 48 half and hourly basis.
- ☞ No Charge for NEFT Transaction as per RBI's latest guidelines

### RTGS

- ☞ Real-time gross settlement (RTGS) refers to a funds transfer system that allows for the instantaneous transfer of money and/or securities.

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ RGTS is the continuous process of settling payments on an individual order basis without netting debits with credits across the books of a central bank
- ☞ Real Time Gross Settlement System (RTGS), used for large value transactions, will be made available round-the-clock from December 2020.
- ☞ Earlier, RTGS was available for customers from 7.00 am to 6.00 pm on all working days of a week, except second and fourth Saturdays of every month.
- ☞ Minimum Limit- 2 lakh, Maximum Limit- No

### IMPS

- ☞ IMPS stands for Immediate Payment Service in Indian banking system terminologies.
- ☞ The major feature of IMPS is that it is available at all times for usage.
- ☞ It transfers funds instantly and is a great banking platform in case of emergencies.
- ☞ The transaction charges of this platform are also very nominal and the transfer limit is also considerable, approximately Rupees 2 lakhs per day.
- ☞ Moreover, IMPS is available on mobile too which makes it super-convenient

## Topic 27: Codes Used in Banking

### MICR (Magnetic Ink Character Recognition)

- ☞ A MICR code is a 9-digit code that uniquely identifies a bank and a branch participating in an Electronic Clearing System (ECS).
- ☞ First 3 digit= city code Middle 3 digit = bank code Last 3 digit = branch code
- ☞ One can locate the MICR code at the bottom of a cheque leaf, next to the cheque number.
- ☞ It is also normally printed on the first page of a bank savings account passbook.

### IFSC Code

- ☞ It is Indian Financial System Code.
- ☞ It is alpha – numeric code which identifies any branch under the NEFT system
- ☞ IFSC code is must for NEFT and RTGS transactions
- ☞ It is 11 digit code

4 Characters	Alpha	0	Last 6digits
-----------------	-------	---	--------------

- ☞ First 4 characters represents bank name
- ☞ Fifth digit buffer
- ☞ Last six digits are represents bank branch

### SWIFT Code

- ☞ SWIFT stands for Society for Worldwide Interbank Financial Telecommunication
- ☞ SWIFT Code is a standard format of Bank Identifier code.



## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ This code is used particularly for interbank transfer of money between banks & majority of FOREX related message are sent to correspondent banks abroad with the help of SWIFT code.
- ☞ SWIFT Code consists 8 or 11 character when the code is 8 digits, it refers to the primary office.
  - 4 digits – Bank code
  - 2 digits – Country code
  - 2 digits – Location code
  - 3 digits – Branch code (optional)
- ☞ On November 14, 2019 **India, China and Russia** have partnered together to explore an alternative to the **SWIFT (Society for Worldwide Interbank Financial Telecommunication)** payment mechanism in-order to smoothen the trade with countries that face American sanctions
- ☞ As India doesn't have its own domestic financial payments system, it is in plan to link the Central Bank of **Russia's platform** with a service that is under development.

### Unstructured Supplementary Service Data (USSD)

- ☞ USSD refers to unstructured supplementary service data.
- ☞ It is a platform that allows transfer of money between two bank accounts using a feature phone/smart phone without internet connection by dialing USSD code

### \*99#

- ☞ The telecom service providers will charge to use services.
- ☞ The transactions limit for \*99# banking is set to ₹ 5000 per transaction by RBI.

### Query Service of AADHAAR Mapper (QSAM)

- ☞ NPCI has launched QSAM, a USSD based serviced that lets the user know their AADHAAR seeding status.
- ☞ Since the service works on USSD, it is available across all handsets and very convenient to use.
- ☞ In QSAM users can dial \*99\*99# from their handset and can know the AADHAAR seeding status by inputting their AADHAAR number.

## Topic 28- Rating Agencies

Credit ratings play a key role in the financial system. A credit rating agency is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and the likelihood of default. An agency may rate the creditworthiness of issuers of debt obligations, of debt instruments, and in some cases, of the servicers of the underlying debt, but not of individual consumers.

### CAMELS – for domestic banks

C- Capital adequacy ratio

A- Asset quality

M- Management effectiveness

E- Earnings

L- Liquidity

S-System & control



## THE COMPLETE – STATIC BANKING AWARENESS

### **CALCS- for foreign banks**

C- Capital adequacy ratio

A- Asset quality

L- Liquidity

C- Compliance

S- System & control

### **CRISIL:**

- ☞ Credit Rating Information Services of India Limited is the largest credit rating agency of India.
- ☞ CRISIL's majority shareholder is Standard & Poor's, a division of McGraw Hill Financial and provider of financial market intelligence.
- ☞ It was founded in 1987.
- ☞ Headquarter- Mumbai, Maharashtra

### **CIBIL:**

- ☞ Credit Information Bureau of India Limited. CIBIL collects and maintains the records of individuals' payment pertaining to loans and credit cards.
- ☞ This agency was founded in 2000 and was first credit Information Company.
- ☞ Maintains and submit records to banks and credit institutions.
- ☞ Information is used to create credit information report (CIR).
- ☞ Headquarter- Mumbai

### **ICRA:**

- ☞ Investment Information and Credit Rating Agencies is Indian independent and professional investment information and credit rating agency was founded in 1991.
- ☞ The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
- ☞ Headquarter- Gurugram, Haryana.

### **International Credit Rating Agencies:**

#### **Fitch rating:**

- ☞ Fitch Ratings Inc. is one of the three nationally recognized statistical rating organizations (NRSRO) designated by the U.S. Securities and Exchange Commission in 1975.
- ☞ Fitch Ratings' long-term credit ratings are assigned on an alphabetic scale from 'AAA' to 'D'.
- ☞ For e.g., AAA: the best quality companies, reliable and stable, AA: quality companies, a bit higher risk than AAA, A: economic situation can affect finance.
- ☞ Headquarters- New York City, United States

#### **Moody's Investors Service:**

- ☞ Moody's Investors Service provides international financial research on bonds issued by commercial and government entities.
- ☞ Moody's was founded by John Moody in 1909 to produce manuals of statistics related to stocks and bonds and bond ratings.
- ☞ Headquarters- New York City, United States

#### **Standard & Poor's Financial Services:**

- ☞ S&P is an American financial services company. It is a division of S&P Global that publishes financial research and analysis on stocks, bonds, and commodities.
- ☞ Headquarters- New York, United States

## THE COMPLETE – STATIC BANKING AWARENESS

### Topic 29: Currency Notes and their Dimensions

Currency Notes and their dimensions:

Currency Notes	Dimensions	Base Colour	Motif(image)
1 Rupee Note	97mm X 63 mm	Pink Green	Sagar Samrat
10 Rupee Note	63 mmX123 mm	Chocolate Brown	Sun Temple(odisha)
20 Rupee Note	63 mmX147 mm	Greenish Yellow	Ellora Caves (maharashtra)
50 Rupee Note	66 mmX135 mm	Fluorescent Blue	Hampi with Chariot (karnataka)
100 Rupee Note	66 mmX142 mm	Lavender	Rani Ki vav (gujarat)
200 Rupee Note	66 mmX146 mm	Bright Yellow	Sanchi Stupa (madhya pradesh)
500 Rupee Note	66 mmX150 mm	Stone Grey	Red Fort(Delhi)
2000 Rupee Note	66 mmX166 mm	Magenta	Mangalyaan

## THE COMPLETE – STATIC BANKING AWARENESS

### Topic 30: Digital Banking

#### POS Terminal (POINT OF SALE TERMINALS)

- ☞ It is a terminal at a store, where customers make purchases using a debit card / credit card / prepaid card.
- ☞ Card needs to be swiped and the data embedded in the card is electronically validated and gets authorized, if it is in order.
- ☞ It is the **payment gateway** of the merchant acquirer.
- ☞ The merchant establishment is **required to hold an operative account with the acquirer bank to avail this service.**
- ☞ POS terminals are a good source of “**Non Interest Income**” for banks

#### Mobile Wallets:

- ☞ Mobile wallets have eliminated the need to remember four-digit card pins or enter CVV details or carry loose cash.
- ☞ Mobile wallets store bank account and card credentials to easily add funds to the wallet and make payments to other merchants with similar applications. Popular mobile wallets are Paytm, Freecharge, Mobiwik, etc.

#### Internet Banking:

- ☞ Commonly known as e-banking, internet banking refers to obtaining certain banking services over the internet, such as fund transfers, and opening and closing accounts.
- ☞ Internet banking is a subset of digital banking because internet banking is only limited to core functions. Similarly, mobile banking is availing banking services through mobile-based applications.

### Topic 31: Banking Terminologies

#### Differentiated bank (niche)

- ☞ Payment banks
- ☞ Small finance banks  
(for the first time, in principle approval is given by RBI for differentiated banks in 2015)
- ☞ They can undertake only a limited range / narrow range of activities.
- ☞ They are also called “niche” banks.

#### Green field/ Brown field

##### Green field:

- ☞ Starting project afresh, without any link to the previous project.

##### Brown field:

- ☞ Expanding / modifying / upgrading / extending the existing project.

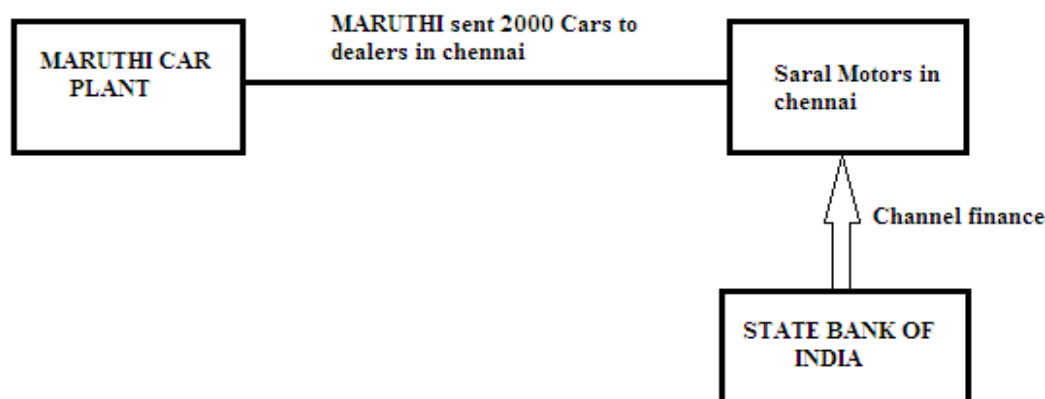
#### Bridge loan

- ☞ A bridge loan is a type of short term finance that aims to “bridge the gap” between the purchase of a property and its sale.
- ☞ A short term financing, normally up to one year, until the company secures permanent / long term financing or to tide over current obligations

#### Channel finance

- ☞ Working capital finance to dealers having business relationships with large companies

## THE COMPLETE – STATIC BANKING AWARENESS



### Insolvency

- ☞ Insolvency is a financial state where an entity is not able to repay its debt that it owes to its financial or operational creditors.
- ☞ Insolvency is a financial status: your debts are greater than the fair market value of your assets & you're unable to pay your debts as they generally become due.
- ☞ State of being not able to pay back the liabilities.
- ☞ Condition of having more debts (liabilities) than total assets.

### Bankruptcy

- ☞ Bankruptcy is a legal procedure for liquidating a business or property owned by an individual, which can't fully pay its debts out of its current assets.
- ☞ Bankruptcy is a legal status: it's a legal procedure whereupon an insolvent person files for protection from her creditors so that they cannot commence or continue legal proceedings (like a wage garnishment) against her to recover their debts.
- ☞ In return for this protection, she surrenders her assets to the bankruptcy trustee who becomes the legal owner of her assets. The trustee then sells her assets and distributes the sale proceeds amongst her creditors.
- ☞ And if she has no assets in the first place, her creditors end up getting nothing. They then write off their debts against her as a business loss.

### Liquidation

- ☞ Liquidation is a term which is given to the process of dissolving or winding up of the company. This is done by selling off all the assets of the companies and paying the proceeds gathered to any of the outstanding creditors of the company.

### Asset

- ☞ Any resource that has economic value that an individual or corporation owns. Assets are generally viewed as resources that produce cash flow or bring added benefit to the individual or company.

## THE COMPLETE – STATIC BANKING AWARENESS

### Actuaries

- ☞ A person with expertise in the fields of economics, statistics and mathematics, who helps in risk assessment and estimation of premiums etc for an insurance business, is called an actuary.

### Accounts Receivable

- ☞ The amount of money owed by customers or clients to a business after goods or services have been delivered and/or used.

### Amortization

- ☞ It is an accounting technique by which intangible assets are written off over a period of time.

### Accounts Payables

- ☞ The amount of money a company owes creditors (suppliers, etc.) in return for goods and/or services they have delivered.

### Annuity

- ☞ It is an investment scheme under which investor makes recurring investments and lump sum payment is made to him at the end.

### Arbitrage

- ☞ It is the process of simultaneous buying and selling of an asset from different platforms, exchanges or locations to cash in on the price difference.

### Bancassurance

- ☞ Bancassurance means selling insurance products through banks.
- ☞ Banks and insurance company come up in a partnership wherein the banks sells the tied insurance company's insurance products to its clients.

### Balance of payment

- ☞ It is the difference between a country's exports and imports.

### Bank Rate

- ☞ It is the rate charged by the central bank for lending funds to commercial banks.

## THE COMPLETE – STATIC BANKING AWARENESS

### Basis Point :

- ☞ One- hundredth of 1% point normally used for indicating cost of finance.

### Balance Sheet:

- ☞ A financial report that summarizes a company's assets (what it owns), liabilities (what it owes) and owner or shareholder equity at a given time.

### Bitcoin:

- ☞ Bitcoin is a virtual currency or cryptocurrency and a payment system. It can be defined as a decentralized means of tracking and assigning wealth or economy, it is a software protocol.

### Bond:

- ☞ A debt instrument used by corporations, governments (including Federal, State and City) and many other institutions that are used to generate capital.

### Capital:

- ☞ A financial asset or the value of a financial asset, such as cash or goods.
- ☞ Working capital is calculated by taking your current assets subtracted from current liabilities—basically the money or assets an organization can put to work.

### Core Banking Solutions (CBS):

- ☞ It is a networking of branches which enables customers to operate their accounts and avail banking services from any branch of the bank on CBS network, regardless of where he maintains his account.

### Credit:

- ☞ An accounting entry that may either decrease assets or increase liabilities and equity on the company balance sheet, depending on the transaction.
- ☞ When using the double-entry accounting method there will be two recorded entries for every transaction: A credit and a debit.

### Dividend:

- ☞ It is the amount per share paid by a company to its shareholders.
- ☞ Dividend value is based upon company's profitability.

### Demat Account:

## THE COMPLETE – STATIC BANKING AWARENESS

- ☞ The way in which a bank keeps money in a deposit account in the same way the depository company converts share certificates into electronic form and keep them in a demat account.

### **Deflation:**

- ☞ When the overall price level decreases so that inflation rate becomes negative is called deflation.

### **Diversification:**

- ☞ The process of allocating or spreading capital investments into varied assets to avoid over-exposure to risk.

### **Depreciation**

- ☞ The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is called depreciation.

### **Equity**

- ☞  $\text{Equity} = \text{Total assets} - \text{Total liabilities}$

### **EMI:**

- ☞ EMI or Equated Monthly Installment, as the name suggests, is one part of the equally divided monthly outgoes to clear off an outstanding loan within a stipulated time frame.

### **Exchange Rate:**

- ☞ It is the price of one currency in terms of another currency.

### **Face value**

- ☞ The amount mentioned on face of a bond certificate.

### **Fiscal Deficit :**

- ☞ The difference between total revenue and total expenditure of the government is termed as fiscal deficit.

### **Inflation**

- ☞ It is an increase in the quantity of money in circulation without any corresponding increase in goods thus leading to an abnormal rise in the price level.



## THE COMPLETE – STATIC BANKING AWARENESS

### Insolvency

- ☞ A state where an individual or organization can no longer meet financial obligations with lenders when their debts come due.

### Initial Public Offering (IPO)

- ☞ An initial public offering is when a private company or corporation raises investment capital by offering its stock to the public for the first time.

### Liquidity

- ☞ Liquidity means how quickly you can get your cash on your hands. In simple terms, liquidity is to get your money whenever you need it.

### Marginal Standing Facility :

- ☞ MSF is a window for banks to borrow from RBI in an emergency situation when inter bank liquidity dries up completely.

### Market Capitalisation

- ☞ It is the aggregate valuation of the company based on its current share price and the total number of outstanding stocks.
- ☞ It is calculated by multiplying the current market price of the company's share with the total outstanding shares of the company.

### Mortgage

- ☞ A legal agreement that conveys the conditional right of ownership on an asset or property by its owner to a lender as security for a loan.

### Mutual fund

- ☞ A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities.

### Open Market Operations

- ☞ It is the **sale and purchase of government securities** and treasury bills by RBI. The objective of OMO is to regulate the money supply in the economy. When the RBI wants to increase the money supply in the economy, it purchases the government securities from the market and it sells government securities to suck out liquidity from the system.

## THE COMPLETE – STATIC BANKING AWARENESS

### Plastic Money

- ☞ Generic term for all types of bank cards, credit cards, debit cards, smart cards etc..

### Prime Rate

- ☞ Determined by the federal funds rate (the overnight rate at which banks lend to one another) the prime rate is the best rate available to a bank's most credit-worthy customer.

### Prime Lending Rate

- ☞ The interest rate charged by banks to their largest, most secure, and most credit worthy customers on short term loans.

### Recession

- ☞ An economic condition defined by a decline in GDP for two or more consecutive quarters. During a recession, the stock market usually drops, unemployment increases, and the housing market declines.

### Special Drawing Rights

- ☞ It is a reverse asset created within the framework of the International Monetary Fund in an attempt to increase international liquidity.

### Yield

- ☞ The annual rate of return for an investment expressed as a percentage.

## Topic 32: Banking Abbreviations

Acronym	Abbreviation
ACS	Automated Clearing System
ADR	American Depository Receipt
AEPS	Aadhar Enabled Payment System
AFS	Annual Financial Statement
AIF	Alternative Investment Fund
ALCO	Asset Liability Committee
ALM	Asset Liability Management
ALM	Asset Liability Management

## THE COMPLETE – STATIC BANKING AWARENESS

AMFI	Association of Mutual Funds in India
ANBC	Adjusted Net Bank Credit
APBS	Aadhar Payment Bridge System
ARC	Asset Reconstruction Companies
ASBA	Application Supported by Blocked Amount
ATM	Automated Teller Machine
BBPS	Bharat Bill Payment System
BCBS	Basel Committee on Banking Supervision
BCSBI	Banking Codes and Standards Board of India
BHIM	Bharat Interface for Money
BIS	Bank of International Settlements
BOP	Balance of Payments
BPLR	Benchmark Prime Lending Rate
BRBNM	PL Bharatiya Reserve Bank Note Mudran Private Limited
BSBDA	Basic Savings Bank Deposit Account
CAD	Capital Account Deficit
CAD	Current Account Deficit
CAGR	Compound Annual Growth Rate
CAR	Capital Adequacy Ratio
CARE	Credit Analysis and Research Ltd
CASA	Current Account Saving Account
CBLO	Collateralized Bank Lending Obligations
CBS	Core Banking Solutions
CCEA	Cabinet Committee on Economic Affairs
CCF	Credit Conversion Factor
CCL	Cash Credit Limit
CCL	Cash Credit Limit
CDR	Corporate Debt Restructuring
CDS	Credit Default Swap
CEPA	Comprehensive Economic partnership Agreement
CEPA	Comprehensive Economic Partnership Agreement
CIBIL	Credit Information Bureau of India Ltd
CIDR	Central Identities Data Repository
CII	Confederation of Indian Industries
CMIS	Currency Management Information System

## THE COMPLETE – STATIC BANKING AWARENESS

CPI	Consumer Price Index
CPI	Consumer Price Index
CRAR	Capital to Risk- Weighted Assets Ratio
CRILC	Central Repository of Information on Large Credits
CRIS	Comparative Rating Index of Sovereign
CRISIL	Credit Rating Information Services of India Ltd
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
CSR	Corporate Social Responsibility
CTS	Cheque Truncation System
CVV	Card Verification Value
CVV	Card Verification Value
DEAF	Depositor Education and Awareness Fund
DICGC	Deposit Insurance and Credit Guarantee Corporation of India
DII	Domestic Institutional Investor
DNS	Domain Name System
DPG	Deferred Payment Guarantee
DPN	Demand Promissory Note
DRAT	Debt Recovery Appellate Tribunal
DRI	Differential Rate of Interest
DRI	Differential Rate of Interest
DRI	Deferential Rate of Interest
DSCR	Debt Service Coverage Ratio
DTAA	Double Taxation Avoidance Agreement
ECB	External Commercial Borrowings
ECGC	Export Credit Guarantee Corporation
ECR	Export Credit Refinance
ECS	Electronic Clearing System
EDI	Electronic Data Interchange
EDP	Entrepreneurship Development Programme
EEFC	Exchange Earners Foreign Currency
EFSF	European Financial Stability Facility
EFTPOS	Electronic Funds Transfer at Point of Sale
ELSS	Equity Linked Savings Scheme
EMI	Equated Monthly Installment

## THE COMPLETE – STATIC BANKING AWARENESS

EPOS	Electronic Point of Sale
EPS	Earnings Per Share
ETF	Exchange Traded Fund
FCA	Foreign Currency Assets
FCCB	Foreign Currency Convertible Bond
FCNRA	Foreign Currency Non Resident Account
FCNRD	Foreign Currency Non-Repatriable Deposit
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FERA	Foreign Exchange Regulation Act
FICCI	Federation of Indian Chambers of Commerce and Industry
FII	Foreign Institutional Investor
FIMMDA	Fixed Income Money Markets and Derivatives Association
FINO	Financial Inclusion Network Operation
FIPB	Foreign Investment Promotion Board
FIPB	Foreign Investment Promotion Board
FPI	Foreign Portfolio Investment
FPI	Foreign Portfolio Investment
FPO	Follow on Public Offer
FRA	Forward Rate Agreement
FRBM	Fiscal Responsibility Budget Management Act
FRBMA	Fiscal Responsibility and Budget Management Act
FRN	Floating Rate Note
FSLRC	Financial Sector Legislative Reforms Commission
GAAR	General Anti Avoidance Rule
GFD	Gross Fiscal Deficit
GIRO	Government Internal Revenue Order
GMS	Gold Monetization Scheme
GNFV	Gross Negative Fair Value
HCE	Host Card Emulation
IBA	Indian Banks Association
IBRD	International Bank for Reconstruction and Development
ICAAP	Internal Capital Adequacy Assessment Process
ICRA	Indian Credit Rating Agency
ICRA	Investment Information and Credit Rating Agency of India Limited

## THE COMPLETE – STATIC BANKING AWARENESS

IDRBT	Institute for Development and Research of Banking
IEPF	Investors Education and Protection Fund
IFSC	Indian Financial System Code
IIB	International Investment Bank
IIP	Index of Industrial Production
IMPS	Immediate Mobile Payment Service
IMT	Instant Money Transfer
INFINET	Indian Financial Network
IPO	Initial Public Offering
IRBI	Industrial Reconstruction Bank of India
IRO	Interest Rate Options
ISCI	International Standard Industrial Classification
KCC	Kisan Credit Card
KVP	Kisan Vikas Patra
KYC	Know Your Customer
LAF	Liquidity Adjustment Facility
LAMPS	Large Sized Adivasi Multipurpose Societies
LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offered Rate
LRS	Liberalised Remittance Scheme
LTCG	Long Term Capital Gains
MAMP	Minimum Average Maturity Period
MCLR	Marginal Cost of Lending Rate
MFI	Micro Finance Institutions
MIBOR	Mumbai Interbank Offered Rate
MICR	Magnetic Ink Character Recognition
MSF	Marginal Standing Facility
MSS	Market Stabilisation Scheme
MUDRA	Micro Units Development and Refinance Agency
NABARD	National Bank for Agriculture and Rural Development
NACH	National Automated Clearing House
NAS	National Accounts Statistics
NBFC	Non Banking Finance Companies
NDS	Negotiated Dealing System
NDTL	Net Demand Time Liabilities

## THE COMPLETE – STATIC BANKING AWARENESS

NEFT	National Electronic Funds Transfer
NFA	No Frills Account
NFS	National Financial Switch
NPA	Non Performing Assets
NPCI	National Payments Corporation of India
NPS	National Pension Scheme
NPV	Net Present Value
NRE	Non Resident External Account
NRO	Non Resident Ordinary Account
OLTAS	Online Tax Accounting System
OMO	Open Market Operations
OTCEI	Over the Counter Exchange of India
OTCEI	Over the Counter Exchange of India
P- Notes	Participatory Notes
P2P	Peer to Peer
PACS	Primary Agricultural Credit Societies
PCA	Prompt Corrective Action
PCR	Public Credit registry
PFRDA	Pension Fund Regulatory Development Authority
PGS	Payment Gateway System
PIN	Personal Identification Number
PIO	Persons of Indian Origin
PIS	Portfolio Investment Scheme
POA	Power of Attorney
PPF	Public Provident Fund
PPIs	Prepaid Payment Instruments
PPP	Public Private Partnership
PPP	Purchasing Power Parity
PRSF	Partial Risk Sharing Facility
PRSF	Partial Risk Sharing Facility
RDBMS	Relational Database Management System
RDDDBFI	Recovery of Debt due to Banks and Financial Institutions
RIDF	Rural Infrastructure Development Fund
RLA	Recoveries of Loans & Advances
ROA	Return on Investment



## THE COMPLETE – STATIC BANKING AWARENESS

RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act
SDR	Special Drawing Rights
SFMS	Structured Financial Messaging Services
SGB	Sovereign Gold Bond
SHG	Self Help Group
SIFI	Systematically Important Financial Intermediaries
SIP	Systematic Investment Plans
SIPS	Systematically Important Payment System
SLR	Statutory Liquidity Ratio
SMERA	SME Rating Agency of India Limited
SMILE	SIDBI Make in India Loan for small Enterprises
SPNS	Shared Payment Network System
SPNS	Shared Payment Network System
STRIPS	Separate Trading of Registered Interest and Principal of Securities
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TDS	Tax Deducted at Source
TIN	Tax Identification Network
UEBA	Universal Electronic Bank Account
UIDAI	Unique Identification Authority of India
UPI	Unified Payments Interface
UPIN	Unique Property Identification Number
USSD	Unstructured Supplementary Services Data
UTI	Unit Trust of India
VCF	Venture Capital Fund
VPA	Virtual Payment Address
WCTL	Working Capital Term Loan
WCTL	Working Capital Term Loan
WMA	Ways and Means Advances
WPI	Wholesale Price Index
YTM	Yield To Maturity

## THE COMPLETE – STATIC BANKING AWARENESS

### Topic 33: Schemes Related to Banking

#### Pradhan Mantri Jan Dhan Yojana

- ☞ It was launched by PM Modi on 2014 with an aim to provide access to various financial services such as savings, insurance, Pension, Credit, Remittance etc. in an affordable manner.
- ☞ Pradhan Mantri Jan Dhan Yojana is a financial inclusion campaign which provides universal access to banking facilities. It also ensures to provide financial literacy with at least one basic banking account for every household in India.
- ☞ With the outbreak of Covid-19 in India, the Finance Minister of India, Nirmala Sitharaman made an announcement to provide Rs. 500 per month to every Women Jan-Dhan Account Holders for the next three months. This announcement was made on 26th March, 2020 as an initiative towards the loss caused by the outbreak.

#### Atal Pension Yojana

Launched in	9 <sup>th</sup> May 2015
Launched by	Prime Minister Narendra Modi
Aim	To provide social and financial security to people in their old age by enabling them to make regular savings during their productive years.
Eligibility	<p>To avail benefits from the Atal Pension Yojana, you must fulfil the below requirements:</p> <ol style="list-style-type: none"> <li>1. Must be a citizen of India.</li> <li>2. Must be between the age of 18-50</li> <li>3. Should make contributions for a minimum of 20 years.</li> <li>4. Must have a bank account linked with your Aadhar</li> <li>5. Must have a valid mobile number</li> </ol> <p>Those who are availing benefits of Swavalamban Yojana will be automatically migrated to Atal Pension Yojana.</p>
Ministry	Finance
Minimum Pension	Rs5000
Maximum Pension	Rs10000

#### Pradhan Mantri MUDRA Yojana

Launched in	2015
Launched by	PM Modi
Eligibility	In order to avail the benefits of the PMMY Scheme, the person should be a citizen of

## THE COMPLETE – STATIC BANKING AWARENESS

	<p>India. The loans are basically for people having a business plan in a Non-Farming Sector with Income generating activities like the following:</p> <ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Processing</li> <li>• Trade</li> <li>• Service Sector</li> <li>• Or any other fields whose credit demand is less than ₹10 lakhs.</li> </ul> <p>The Indian Citizen seeking MUDRA Loans under the PMMY Scheme will have to approach either an MFI, Bank or NBFC to avail it.</p>
Aim	To enable Micro Finance Institutions (MFIs), Non-Banking financial institutions/Companies (NBFCs), Small Finance Banks, RBRs, Commercial Banks, Cooperative Banks, etc. to provide Low Rate Loans to eligible entities.
Types of MUDRA Loan	<p>Shishu: Upto 50,000</p> <p>Kishor: 50,000 to 5 lakh</p> <p>Tarun: 5 lakh to 10 lakhs</p>

### Kisan Credit Card

Launched in	1998
Ministry	Finance
Recommendation	R.V Gupta Committee
Aim	The Kisan Credit Card Scheme aims to provide timely and adequate credit to farmers to meet their needs at the time of crop production (cultivation expenses) and meeting contingency expenses. It also covers expenses related to ancillary activities through simplified procedures in obtaining loans as and when needed.
Eligibility	<ul style="list-style-type: none"> <li>• Farmers – individual/joint borrowers who are owner cultivators;</li> <li>• Tenant farmers, oral lessees &amp; share croppers;</li> <li>• Self Help Groups (SHGs) or Joint Liability Groups (JLGs) of farmers including tenant farmers, share croppers etc.</li> </ul>
Who can issue	Commercial Banks, RRBs, Small finance Banks, Cooperatives

## THE COMPLETE – STATIC BANKING AWARENESS

### Small Savings Scheme

Small Savings Scheme	Annual Interest Rate
1.Public Provident Fund (PPF)	7.1 %
2.National Savings Certificate (NSC)	6.8 %
3.Kisan Vikas Patra (KVP)	6.9 % (124 months maturity)
4.Sukanya Samriddhi Account	7.6 %
5.Senior Citizen Savings Scheme	7.4 %

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