Important Banking Awareness – Handy Notes

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Types of banking in India

- **Liability:** deposits - fixed, current/ savings accounts
- **Assets:** mortgages and loans (e.g. personal, housing, education)

Para banking: the activities carried out by the banks which are **apart from its normal day-to-day activities** like deposits, withdrawals, giving credit, etc. Para Banking activities are such as insurance business, portfolio management services, mutual funds business etc.

Narrow banking: are safe banks and using their deposits to **buy governmental bonds**. No danger of non-performing loans.

Offshore banking: 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**.

Retail banking: refers to the dealing of commercial banks with individual customers, both on **liability and assets sides** of the balance sheet.

Wholesale banking: refers to banking service between merchant banks and other financial institution. They deal with **larger clients** such as multinationals and large corporates. This is also called corporate banking.

Universal banking: it is a **multi-purpose** and multi-functional supermarket providing both banking and financial services through a single window.

Islamic banking: based on the principles of not charging interest they consider money has **no intrinsic value** therefore, cannot be sold at a profit. It is also called Sharia banking.

Merchant banking: combination of banking and **consultancy** service. Consultancy means to provide advice, guidance and service for a fee.

Branch Banking: Branch banking refers to a bank that is connected to one or more other banks in an area or outside of it; to its customers, this bank provides all the usual financial services but is backed and ultimately controlled by a larger financial institution.

Unit Banking: Unit banking refers to a bank that is a single, usually small bank that provides financial services to its local community. A unit bank is independent and does not have any connecting banks — branches — in other areas.

Mixed Banking: Mixed banking is an approach where banks undertake both commercial and industrial banking and is a popular banking model in countries like Germany and Japan.

Chain banking: Chain banking is a form of bank governance in which individuals or an entity takes control of, at least, three banks that are independently chartered. It is not like branch banking or group banking because banks within such a system are separately-owned and are not part of the same entity.

Virtual banking: The Virtual Banking is the provision of accessing the banking and related services online without actually going to the bank branch/office in person. Simply, availing the banking services through an extensive use of information technology without any requirement for the physical walk-in premises is called as virtual banking.

RBI and its function

- Established on April 1, 1935 under RBI act 1934 and nationalized in 1949
- Known as banker's bank
- Under the recommendation of Hilton-Young commission
- Headquarter: Mumbai
- Zonal Offices: Chennai, Delhi, Kolkata and Mumbai
- **Official Directors:**1 governor and 4 deputy governor- for the period of 4 years.
- **Non-Official Directors:** ten Directors from various fields and two government Official Others: four Directors - one each from four local boards

Recently Government acquired 100% stake of **NHB**

- National Housing Bank
- Act as an apex level institution for housing
- Under National Housing Bank Act 1987
- Headquarter: New Delhi

Subsidiaries of RBI:

1. DICGC- Deposit Insurance and Credit Guarantee Corporation of India

- Insures all deposits (such as savings, fixed, current and recurring deposit)
- Under DICGC Act 1961

2. BRBNMPL-Bharatiya Reserve Bank Note Mudran Private Limited

- Augment the production of bank notes in India
- Reserve Bank which runs two banknote printing presses in Mysuru and Salboni.
- Under the Companies Act 1956

3**. ReBIT**- Reserve Bank Information Technology Private Limited

- Established in 2016
- ReBIT delivers and manages IT Projects of RBI

4. **IFTAS**- Indian Financial Technology and Allied Services

- Wholly owned subsidiary of RBI
- IFTAS has taken over the Indian Financial Network (INFINET)

Functions:

- ✓ Monetary authority
- ✓ Regulator and supervisor of the financial system
- ✓ Manager of foreign exchange
- ✓ Issuer of currency
- ✓ Banker to the government

Currency Circulation in India

- RBI has the task of issuing, managing and distributing currency notes and coins. It manages currency in India on the basis of the **Reserve Bank of India Act, 1934.**
- **Rs 5** note was the first paper currency issued by RBI in January 1938. It had portrait of George VI.
- The responsibility for coinage vests with the Government of India on the basis of the **Coinage Act, 2011**. RBI acts as an agent of government which merely distributes the coins in the market.
- RBI distributes notes and coins through bank branches called **chests.** Currency chests and coins depots are managed by commercial, operative and regional rural banks.
- SBI and its associate banks manage the highest number of currency chests.

Currency flow follow this path**: Printing presses →RBI offices → Currency Chests → Bank branches → Public.**

Security Printing and Minting Corporation of India Limited (SPMCIL):

It is a wholly owned Schedule ‘A’ Company of Government of India. It is also engaged in minting of **coins,** printing of currency and bank notes. The Mints are situated at Mumbai, Hyderabad, Kolkata and Noida.

Soiled Notes:

Soiled notes are those notes which became **dirty or slightly cut**. However, the cut should not pass through the number panels. These notes have no essential feature missing.

Mutilated Notes:

Mutilated notes are those notes which are in **pieces (more than 2).** Essential portions are missing which includes- Name of issuing authority, guarantee, promise clause, signature, Ashoka Pillar emblem, portrait of Mahatma Gandhi, water mark.

- Soiled and mutilated notes can be exchanged at- counters of Public Sector Bank (PSB) branch or currency chest branch at Private Sector Bank or issue office of RBI.

Monetary policy of RBI

- Maintain price stability in objective of growth, also controls inflation.
- Monetary policy committee (MPC) = 6 members.
- MPC determines the policy interest rate requires achieving the inflation target.

Instrument of Monetary policy:

1. Repo rate: the rate at which the **RBI lends** money to commercial banks in the event of any shortfall of funds.

2. Reverse repo rate: the rate at which the **RBI borrows** money from commercial banks within the country, which can be used to control the money supply in the country.

3. MSF: rate refers to the rate at which the scheduled banks can borrow funds **overnight** from RBI against government securities.

4. CRR: is the amount of **funds** that banks have to maintain with the RBI at all times.

5. SLR: is the amount of funds that banks have to maintain with the RBI at all times in the form of **gold or government authorized securities (Bonds).**

Open market operation (OMO): 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.

Types of Bank Account in India

1. Saving Account:

- This account can be opened by **individuals** in Bank to save some share of their earnings. In savings account there is a restriction a person can deposit or withdraw money within a month.
- Minimum deposit an individual has to maintain in account is determined by the banks. Some banks also offer **zero balance accounts**.
- On saving account an individual earns some rate of interest, which varies from bank to bank. Earlier this rate of interest was fixed by RBI, but now banks are **free to decide** their own rate of interest on saving account.

2. Current Account:

- Current accounts are opened for the **business transactions** on the name of firm or company. Banks offer no rate of interest on money held in current account but provide extra features as compared to savings account. Like there is no limit on deposit or withdrawal in current accounts but **no passbook** is issued for the current account holder.
- Minimum deposit needed to open current account is decided by respective banks.

3. Recurring Deposit:

- This account is meant for salary earning people who can save a fixed sum of money every month. In this account a person deposits a fixed sum of money for fixed period. Minimum period of RD is 6 months and maximum is **10 years.**

4. Fixed Deposit:

- In FD account a person deposits a fixed sum of money one time only for the fixed period. Bank pays the rate of interest on the fixed deposit account depends on tenure of deposit account, after the completion of period bank pay the amount along with rate of interest incurred on the amount.
- Bank also charge the **penalty is premature withdrawal** is done if person need money before the completion of fixed period.

- Tenure of FD can vary from 7 days to 10 years.

5. **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

Net Demand and Time Liabilities (NDTL):

The net demand and time liabilities or NDTL shows the **difference** between the sum of demand and time liabilities (deposits) of a bank (with the public or the other bank) and the deposit in the form of asset held by the other bank.

NDTL can be calculated by using the following formula:

Bank's NDTL= Demand and Time liabilities (deposits) – Deposits with other bank.

Non-Resident Deposits:

- These accounts are only held by non-resident Indians.
- Currently, there are three types of Non-Resident Deposits accounts in India.

NRI (Non-resident Indian) - NRI is a residential status given to a citizen of India with an Indian Passport who resides in a foreign country for the purpose of work/business, or education.
PIO (Person of Indian origin)–PIO is an identification status given to whom or whose any of the ancestors was a permanent Indian resident/citizen and who is currently holding valid citizenship and passport of another country.

Non-Resident Ordinary Rupee Account (NRO):

- Anyone individual residing outside India is eligible for NRO Account. If Indian resident migrated abroad can shift his account to this category.
- Term deposits and saving deposits are allowed.
- These accounts are taxable in India.
- In these accounts, the principal amount is non-repatriable but the interest amount can be repatriable.
- **Repatriable-** Defined as sending or bringing money back to the foreign country.

Non-Resident External Rupee Account (NRE)

- These accounts are held in **Indian rupee.**
- Term deposits and saving deposits are allowed.
- These accounts are also non-taxable in India.
- In these accounts, the principal amount and the interest are fully repatriable.

Foreign currency Non-Resident: FCNR

- These accounts are only opened and maintained in the **foreign currency.**
- These accounts can be opened in the following currencies viz., US dollar, Pound Sterling, Euro, Japanese Yen, Canadian Dollar and Australian Dollar.

- **Only term** deposit is allowed.
- These accounts are non-taxable in India.
- In these accounts, the principal amount and the interest are fully repatriable.

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:

- 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.

Nationalization of banks

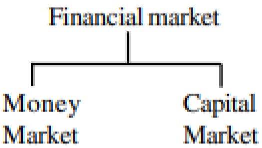
- To make banking system align itself to the needs of economy and policies of the Government,on July 19, 1969 fourteen (14) of the major private sector banks were nationalized as a part of social control over banks. This was an important milestone in the history of Indian banking. This was followed by the nationalization of another six private banks in 1980.
- The 14 banks were nationalized under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. Criterion for selection of these banks was that those which had deposit of Rupees 50 crores and above as on the date of Ordinance issued on 19th July1969. This process was followed again in 1980 when another lot of six banks were nationalized under Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.
- In 1975 five Regional Rural banks were established on 02.10.1975 through an Ordinance. The ordinance was replaced by Regional Rural Banks Act, 1976, with the main objective to extend banking facilities to the un-banked rural areas along with commercial banks and cooperative banks.

- To create a strong and competitive banking system, a number of reform measures were initiated in 1991. One important feature of the reforms of the 1990s was the permission to open new private sector banks. Following this decision, new banks such as ICICI Bank, HDFC Bank, IDBI Bank, Development Credit Bank (DCB), Kotak Mahindra Bank, IndusInd Bank, Yes Bank and UTI Bank (now Axis bank) were set up. From 1991 onwards till today, banking industry has seen the reforms in terms of their management and business policies.

Reasons for the Nationalisation:

- For Social Welfare
- For Developing Banking Habits
- For Expansion of Banking Sector
- For Controlling Private Monopolies
- To Reduce Regional Imbalance
- For Prioritizing Sector Lending

Financial Markets in India



Money market	Capital market
Selling and buying of securities for short term maturities	Selling and buying of securities for long term maturities
Less than 1 year	More than 1 year
Regulated by RBI	Regulated by SEBI

MONEY MARKET:

- Call money- funds are transacted on an overnight basis.
- Notice money- funds are transacted for a period between 2-14 days.
- Term money- funds are transacted for a period between 15-365 days.

Instruments:

Commercial Paper	Certificate of deposit
- Unsecured instrument issued in the form of a promissory note - Tangible net worth of the company not less than 4 crore - Denomination: 5 Lakhs and multiple of thereof - Maturity period: 7 days to 1 year	- Issued in dematerialized form or as a usance promissory note - Tangible net worth of the company not less than 4 crore - Denomination: 1 Lakhs and multiple of thereof - Maturity period: 7 days to 1 year

Treasury bill:

- T-bills are short term debt instrument issued by the GOI and are issued in three tenors of **91 days, 182 days and 364 days.**
- These bills are normally issued at a price less than their **face value**; and redeemed at face value.
- These are **zero coupon** securities and pay no interest.

Cash management bill:

- New short term instrument introduced in 2010 to meet **temporary mismatches** in the cash flow of the GOI.
- Issued for maturities **less than 91 days**.

CAPITAL MARKET:

It consists of two different segments namely primary and secondary market.

Primary market deals with new or **fresh issue of securities**, also known as new issue market. In the primary market, issues are classified into public, rights and preferential issues.

- **Public issues** are classified into IPO and FPO. When a company makes a fresh issue of shares or existing shares for the first time to the public is called **Initial Public offering** (IPO). When a company which is already a listed company issuing securities to the public is called **Fellow Public offering** (FPO).
- **Rights issue (RI)**is one when a listed company proposes to issue fresh securities to its existing shareholders.
- **Preferential issues** or private placement is an issue of shares by a company to a select group of persons under the provision of Section 81 of Indian Companies act 1956 which is neither a public issue nor a rights issue.

Secondary market provides a place for purchase and sale of **existing securities** and is often termed as stock market or stock exchange.

Instruments of Capital Market:

- **Equity capital market (ECM):** The ownership interest in a company of holders of its common and preferred stock.
- **Cumulative preference shares:** It is a type of preference shares where the dividend accumulates if remains unpaid.
- **Cumulative convertible preference shares:** It is a type of preference shares where the dividend payable on the same accumulates if not paid. After a specified date, these shares will be converted into equity capital of the company.
- **Debentures:** Bonds issued by a company bearing a fixed rate if interest usually payable on specific dates and principle amount repayable on particular date on redemption of the debentures.

Government Securities Market in India:

Bond:

A bond is a debt instrument in which an investor loans money to an entity (typically corporate or government) which borrows the funds for a **defined period of time** at a variable or fixed interest rate.

G- Sec:

A Government Security (G-Sec) is a tradeable instrument issued by the **Central Government or the State Governments.** Such securities are short term (usually called treasury bills, with original maturities of less than one year) or long term (usually called Government bonds or dated securities with original maturity of one year or more).

In India, the Central Government issues both, treasury bills and bonds or dated securities while the State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs). G-Secs carry practically **no risk of default** and, hence, are called risk-free gilt-edged instruments.

Financial organisation in India

1. India Infrastructure Finance Company Limited (IIFCL)

- IIFCL is a wholly-owned Government of India company set up in **2006** to provide long-term financial assistance to viable infrastructure projects through the Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called India Infrastructure Finance Company Ltd (IIFCL), broadly referred to as SIFTI.
- The sectors eligible for **financial assistance** from IIFCL includes transportation, energy, water, sanitation, communication, social and commercial infrastructure.
- The **authorized and paid up capital** of the company as on 31st March 2018 stood at Rs 6,000 Crore and Rs 4,102 Crore, respectively.

2. Export–Import Bank of India (EXIM)

- It as a finance institution in India, established in 1982 under Export-Import Bank of India Act 1981.
- It provides a wide range of services which includes **import** of technology and **export** product development, export production, export marketing, pre-shipment and post-shipment and overseas investment.
- Headquarters: Mumbai

3. Small Industries Development Bank of India (SIDBI)

- SIDBI set up on 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for Promotion,Financing and Development of the Micro, Small and Medium Enterprise **(MSME) sector** as well as for co-ordination of functions of institutions engaged in similar activities.
- It has been working towards the sustainable developments of MSME sector.
- Headquarters: Lucknow

4. Industrial Finance Corporation of India (IFCI)

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

5. National Bank for Agriculture and Rural Development (NABARD)

- NABARD was established on the recommendations of B.Sivaraman Committee on 1982 to implement the National Bank for Agriculture and Rural Development Act 1981.
- It is an apex institution in rural credit structure for providing credit for promotion of agriculture, small scale industries, cottage and village industries, handicrafts etc.
- It also promotes research in **rural banking**, and the field of **agriculture** and rural development.
- Headquarters: Mumbai

Basel Norms

- Basel Accords of Banking Supervision
- The Basel Committee on Banking Supervision (BCBS) is a committee of banking supervisory authorities that was established by the central bank governors of G-10 in 1974.
- The Basel accords are a series of recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision (BSBS).
- The BSBS Secretariat is located at the Bank for International Settlements (BIS) in Basel, Switzerland.
- Its main objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide.

Basel I:

Basel I is the first of the three sets of regulations i.e. Basel I, II and III and together as the Basel Accords. The focus of Basel-I was completely on credit risk. It provided a structure of risk weighted assets (RWA). RWA implies that the assets with different risk profiles are given different risk weights.

The Basel I classification system categorizes Bank's assets into five risk categories, classified as percentages - 0%, 10%, 20%, 50% and 100%.

The 0% risk category is comprised of cash, central bank and government debt, Organization for Economic Cooperation and Development (OECD) government debt.

Development bank debt, OECD bank debt, OECD securities firm debt, non-OECD bank debt (under one year of maturity), non-OECD public sector debt and cash in collection comprises the 20% category.

The residential mortgages are placed under 50% category.

The 100% category is represented by private sector debt, non-OECD bank debt, real estate, plant and equipment, and capital instruments issued at other banks.

The bank must maintain capital (Tier 1 and Tier 2) equal to at least 8% of its risk weighted assets.

The Basel-I has fixed the minimum capital requirement at 8% of Risk Weighted Assets (RWA). India adopted Basel 1 guidelines in 1999.

Basel II:

Basel II expanded rules for minimum capital requirements established under Basel I, and provided framework for regulatory review, as well as set disclosure requirements for assessment of capital adequacy of banks.

The main difference between Basel I and Basel II is that Basel II incorporates credit risk of assets held by financial institutions to determine regulatory capital ratios.

The Basel-II guidelines were published by BCBS in 2004. These guidelines refined the Basel-I norms on the base of three parameters as follows:

i) Banks should maintain a minimum capital adequacy requirement of 8% of risk assets

ii) Banks were needed to develop and use better risk management techniques in monitoring and managing all the three types of risks

iii) Mandatory disclosure of risk exposure.

Basel II norms in India and overseas are yet to be fully implemented.

Basel III:

The Basel-III guidelines were published by BCBS in 2010

A focus of Basel III is to foster greater resilience at the individual bank level in order to reduce the risk of system-wide shocks.

Basel III introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector.

Banks are required to maintain proper leverage ratios and meet minimum capital requirements.

In India, Basel III regulations have been implemented from April 1, 2013, in phases and it will be fully implemented as on March 31, 2019.

The pillars of BASEL norms:

1. Capital adequacy requirements: It is about maintaining capital calculated through Credit risk, Market risk and Operational risk.

2. Supervisory review: It is about regulating tools and frameworks to deal with peripheral risks that the banks face.

3. Market discipline: It is about increasing the disclosures that banks must provide in order to increase the transparency of banks.

Capital Adequacy Ratio(CAR):

- Capital Adequacy indicates the Bank's ability to absorb possible losses.
- The Regulators check CAR to monitor the health of the Bank as a good CAR protects the interest of its depositors and maintains faith and confidence in the Banking system
- It is the ratio of Banks Capital to its Risk.

- Capital Adequacy Ratio = (Capital / Risk)

Capital to Risk Weighted Assets Ratio (CRAR):

CRAR is a standard measure to measure the strength of the balance sheet of Banks.

BASEL I and BASEL II are global capital adequacy regulationsthat prescribe a minimum amount of capital a bank must hold given the size of its risk weighted assets. The old rules mandate banks to back every Rs. 100 of commercial loans with Rs. 9 of capital irrespective of the nature of these loans.

The new rules suggest the amount of capital needed depends on the credit rating of the customer. Banks compute the CRAR as follows:

Total Capital to Risks Weighted Assets Ratio (CRAR) = Eligible Total Capital / RWA for Risk (Credit risk + Market risk + Operational risk)

Tier 1 2 and 3:

The Tier-I Capital is the core capital while the Tier-II capital can be said to be subordinate capitals.

Banks may also at the discretion of their central bank, employ a third tier of capital which consists of short-term subordinated debt for the sole purpose of meeting a proportion of the capital requirements for market risks. This is called Tier-III capital.

Common Equity:

Common Equity is the amount that all common shareholders have invested in a company. Most importantly, this includes the value of the common shares themselves. It also includes retained earnings and additional paid-in capital.

Under Basel III, with an objective of improving the quality of capital, the Tier 1 capital will predominantly consist of Common Equity.

Thus, most important part of the common equity comprises the Paid-up Capital + retained earnings.

The Capital Conservation Buffer:

- The aim of asking to build conservation buffer is to ensure that banks maintain a cushion of capital that can be used to absorb losses during periods of financial and economic stress.
- Banks are required to hold a capital conservation buffer of 2.5%.

Countercyclical Buffer :

- The objective is to increase capital requirements in good times and decrease the same in bad times. The buffer will slow banking activity when it overheats and will encourage lending when times are tough.
- The buffer will range from 0% to 2.5%, consisting of common equity or other fully loss- absorbing capital

Leverage Ratio:

- A leverage Ratio is the relative amount of capital to total assets(non-risk weighted).

- This aims to put a cap on swelling of leverages in the banking sector on a global basis. 3% leverage Ratio of tier 1 will be tested before a mandatory leverage ratio is introduced in Jan 2018.

Liquidity Ratios:

- Under Basel III, a framework for liquidity risk management must be created. A new Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are to be introduced in 2015 and 2018, respectively.

Negotiable Instruments

- ✓ **Negotiable** means easily transferable from one person to another in return for consideration.
- ✓ **Instrument** means a written document by virtue of which a right is created in favour of some person.
- ✓ Negotiable instrument Act 1881 defines Negotiable instrument to mean a promissory note, bill of exchange or cheque payable either to order or to bearer.

Promissory note:

- It is a **signed document** containing a written promise to pay a stated sum to a specified person or the bearer at a specified date or on demand.

Bill of exchange:

- It is a written, unconditional order by one party to another to pay a certain sum, either immediately or on a fixed date, for payment of goods and/or services received.
- It is an order made by one person to another to pay money to a **third person.**
- It has three parties: the drawer, the drawee and the payee
    - **Drawer:**The person who makes the bill, or who gives the order to pay a certain sum of money.
    - **Drawee:**The person who accepts the bill of exchange, or who is directed to pay a certain sum.
    - **Payee:**The person receiving payment.

Cheque:

- It is a bill of exchange with two additional qualities,
    - It is always drawn on a banker, and
    - It is always payable on demand.
- It is the only instrument that can be payable to bearer on demand.

Types of cheque:

- **Order Cheque:**In this type of cheque, only that person **whose name** is written (by the issuer) on the cheque, is authorized to collect the amount.
- **Bearer Cheque:**A cheque which is payable to a person **whosoever bears**, is called bearer cheque.
- **Crossed cheque:**On the Crossed cheque, **two lines** are made on the top right of the cheque. Amount mentioned on the cheque is only transferred to the bank account of the payee. No cash payment is made.
- **Stale Cheque:**A cheque turns stale **after three month** of the date written on cheque. A stale cheque cannot be honoured by the bank.
- **Anti-dated Cheque:** If date entered on the cheque is **prior to the current date**, that type of cheque is known as Ante-dated cheque.

- **Post Dated Cheque:**If any cheque issued by a holder to the payee for the **upcoming withdrawn date,** then that type of cheque are called post-dated cheque.
- **Travelers Cheque:** These may be equated with a universally accepted currency. A travelers' cheque is available almost everywhere and comes in various denominations. This is an instrument issued by the bank itself to make payments from one place to another. There is no expiry date of a travelers' cheque and thus it can be used during your next travel as well, or you have the option to encash it once you land back in India.

Endorsement: As per section 15, endorsement means **signing** on the face or backside of an instrument.

Crossing of Cheques:

Crossing a cheque refers to drawing **two parallel transverse lines** on the cheque with or without additional words like **"& CO."** or **"Account Payee"** or **"Not Negotiable"** between the lines. By using a crossed cheque, one can make sure that the amount specified cannot be en-cashed but can only be credited to the payee's bank account. Crossing of Cheque is recognized under The Negotiable Instruments Act, 1881. The crossing of cheque had developed gradually as a means of protection against misusing of cheques.

There 2 types of crossing,

- **General crossing:** Section **123** of The Negotiable Instruments Act, 1881 defines General Crossing. In this type of crossing the cheque must contain two parallel transverse lines generally, on the top left corner of the cheque.
- **Special crossing:** Section **124** of The Negotiable Instruments Act, 1881 defines Special Crossing as a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable", that in addition shall be deemed a crossing, and the cheque shall be deemed to be crossed specially and to be crossed to that banker

Cheque truncation: Cheque truncation is a cheque clearance system that involves the **digitalisation of a physical paper cheque** into a substitute **electronic form** for transmission to the paying bank. The process of cheque clearance, involving data matching and verification is done using digital images instead of paper copies.Cheque truncation reduces or eliminates the physical movement of paper cheques and reduces the **time and cost** of cheque clearance.

Image replacement document(IRD): Under CTS, after the capture of the image, the physical cheque would be warehoused with the presenting bank. In case the beneficiary requires the instrument, the payee bank could issue a copy of the image, under its authentication, which is called image replacement document.

Demand draft:

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

Types of money

1. Commodity Money:

It is money that would have value even if it were **not being used** as money. This is usually referred to as **having intrinsic value**. 'Intrinsic value' means it has value outside of its use as money. Gold, silver, grains, livestock, salt, and other materials have served as commodity money at different points in history.

2. Representative money:

It is paper currency that can be exchanged for a fixed amount of a valuable commodity, usually **gold or silver**. Paper currency is convenient because it weighs little and much larger denominations can be printed that weigh no more than single units of currency. Example – cheque, demand draft, etc.

3. Fiat Money:

Fiat money has **no intrinsic value** nor can it be redeemed for specie (money in the form of coins rather than notes). Its value originates from government decree, or fiat. The best example of fiat money is paper currency.

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** M0 = Currency in circulation + Bankers' deposits with the RBI + 'Other' deposits with the RBI
- **Narrow Money** M1 = Currency with the public + Demand deposits with the banking system + 'Other' deposits with the RBI
- **Intermediate Money** M2 = M1 + Short-term time deposits of residents (including and up to the contractual maturity of one year).
- **Broad Money** M3 = M2 + Long-term time deposits of residents + Call/Term funding from financial institutions.

Types of banks in India

Under the RBI Act 1934, banks were classified as Schedules banks and Non-scheduled banks.

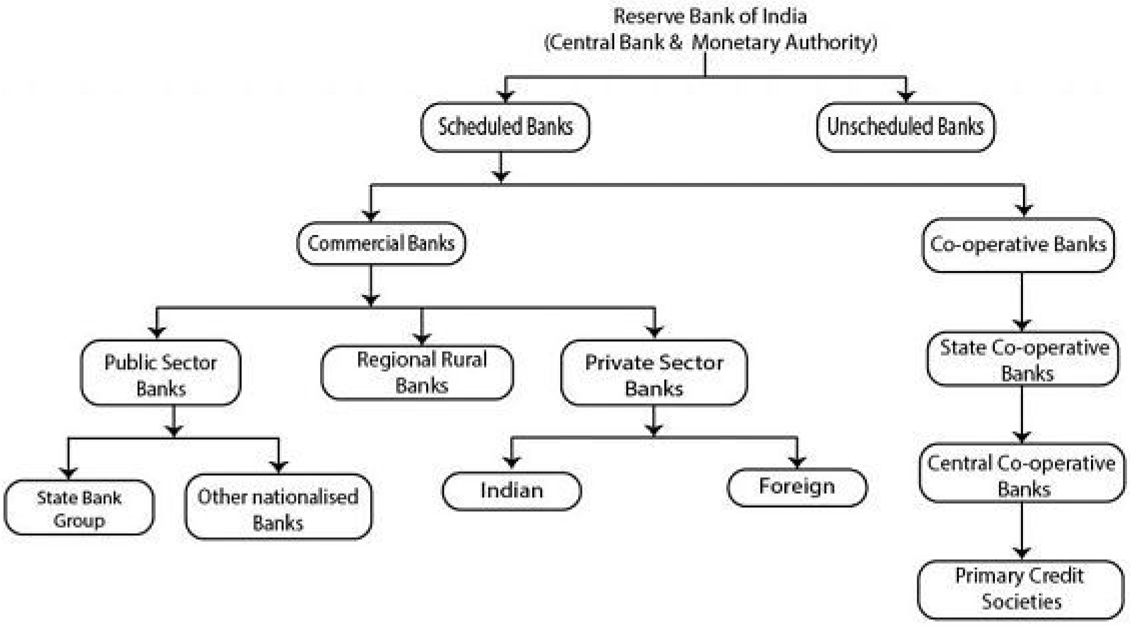
Scheduled banks:

- Scheduled banks are those which are **entered** in the second scheduled of the RBI Act, 1934.
- The paid up capital and reserve of aggregated value should not be less than Rs. 5 lac.
- All commercial banks, Regional rural banks, State cooperative banks are scheduled banks.

Non-scheduled banks:

- Non-scheduled banks are those which are **not included** in the second scheduled of the RBI Act, 1934.
- The paid up capital is less than Rs. 5 lac.

- RBI has no specific control over these banks.



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

Regional rural banks:

- RRB are set up by an ordinance in 1975. Later replaced by RRB Act 1976.
- It was set up based on the recommendation of **M Narsimhan Committee**.
- Providing banking facilities to rural and semi-urban areas.
- Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.
- Providing Para-Banking facilities like locker facilities, debit and credit cards,mobile banking, internet banking etc.
- **Prathamagramin bank** is the first regional rural banks in India located in Moradabad, Uttar Pradesh.

Share holder contribution:

• Government of India- **50%**

• Sponsor Bank- **35%**

• State Government- **15%**

Co-operative bank:

- Co-operative banks are organized under the provision of the **Cooperative societies law of the state.**
- These banks generally provide their members with a wide range of banking and financial service.

- These banks are the primary financiers of agricultural activities, small scale industries and self-employed workers.
- **Anyonya co-operative bank** is the first co-operative bank in India located in Vadora, Gujarat.

The co-operative banking structure in India is divided into following main 5 categories:

1. Primary urban Co-op bank
2. Primary agricultural credit societies
3. District central Co-op bank
4. State Co-op bank
5. Land development banks.

Small finance bank (SFB) and Payment banks in India

	Small Finance Banks	Payment Banks
Objective	Financial inclusion and supply of credit to small business units and farmers through high-technology and low-cost operations	Payment Banks Objective Provide small savings accounts and payments /remittance services to migrant labour workforce and low-income households
Eligible Promoters	Resident individuals or professionals with 10 years of experience in banking and finance, companies and societies owned and controlled by residents, existing NBFCs, microfinance institutions and local area banks owned and controlled by residents	Eligible Promoters Individuals or professionals with necessary experience and eligibility, existing NBFCs, corporate banking correspondents, mobile companies, supermarket chains, real estate co-ops and corporate entities
Scope of Activities	▪Basic services of accepting deposits and lending ▪No restriction on the area of operations ▪At least 50% of its loan portfolio should constitute loans and advances of upto Rs.25 Lakh	▪Accept deposits but customer balance should not exceed Rs.1 Lakh ▪Cannot give loans, can issue ATM/Debit card but no credit cards ▪Can distribute non-risk simple financial products such as mutual funds and insurance products

- NRIs will not be allowed to open accounts

Capital requirement and promoter's contribution:

- Minimum paid-up equity capital of Rs. 100 crore/initially 40%, to be gradually brought down to 26% within 12 years from the date of commencement.

ATM in India

An **automated teller machine** (ATM) enables customers to perform financial transactions, such as cash withdrawals, deposits, transfer funds, or obtaining account information, at any time and without the need for direct interaction with bank staff.

National Financial Switch (NFS) is the largest network of shared ATMs in India. It was designed, developed and deployed by the Institute for Development and Research in Banking Technology (IDRBT) in 2004. It is run by NPCI.

Types of ATM in India:

On-site ATM:

- These are the ATMs which are operated/ located **inside the bank** premises.

Off-site ATM:

- These are the ATMs which are located **outside the bank** premises such as shopping malls, residential societies etc.

White Label ATM:

- These are the ATMs which are owned by **non-bank entities**.
- There is **no bank logo**.
- RBI has given licenced/Permission to non-bank entities to open such ATM.
- Any non-bank entity with minimum net worth of rupees 100 crore can apply for white label ATM.
- Tata Communications Payment Solutions Limited (TCPSL) launched Indicash- India's first ever white label ATM network.

Green Label ATM:

- These are the ATMs which are installed mainly for transactions related to **Agriculture**.

Orange Label ATM:

- These are the ATMs which are installed mainly for **Shares transactions.**

Yellow Label ATM:

- These are the ATMs which are installed mainly for **e- Commerce** transactions

Pink Label ATM:

- These are the ATMs which are installed mainly for **women** Banking

Brown Label ATM:

- These are the ATMs which are outsources the ATM operations to a **third party.**
- The private company owns and operates ATM machine.
- The bank which have outsourced this work provide cash for that ATM.
- They have logo of the bank.

Micro ATM:

Micro ATMs are card **swipe machines** through which banks can remotely connect to their core banking system. This machine comes with a fingerprint scanner attached to it. These are used to disburse cash in remote locations where bank branches cannot reach. Micro ATMs are similar to point of sale **(PoS)** terminals and are a doorstep mobile banking arrangement cum-mobile ATM device.

Priority sector lending

- Priority sector lending refers to the provision of loans or say specific portion of bank lending to few **specific sectors of economy** recognized as Priority sector by RBI like Agriculture and Allied Activities, Micro and Small Enterprises, Poor People for Housing, Students for Education and other Low-Income Groups and Weaker Sections.
- Priority Sector Lending will be monitored on a **quarterly as well as annual basis.**
- The targets and sub-targets for banks under priority sector.
- 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

As per Reserve Bank of India, Priority Sector includes the following categories:

(i) Agriculture:

- **18 per cent** of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher
- The activities covered under Agriculture are classified under three sub-categories viz. Farm credit, Agriculture infrastructure and Ancillary activities.

(ii) Micro, Small and Medium Enterprises:

Union Cabinet has approved the revised new definition of the MSME. The MSMEs have been redefined on the basis of investment limit and turnover size.

In order to redefine the MSME, government has taken following measures:

- Increased Investment Limit

- Introduced additional criteria of turnover

- Eliminated difference between Manufacturing & Service sector

- Amendments to law will be made

- Micro Enterprises- 7.5 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher
- The manufacturing enterprises are defined in terms of investment in plant and machinery under MSMED Act 2006.

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

(iii) Export Credit:

- **32%** ANBC for foreign banks with less than 20 branches in India.

(iv) Education:

- Loans to individuals for educational purposes including vocational courses up to Rs**10 lakh** for studies in **India** and **Rs 20 lakh** for studies **abroad**.

(v) Housing:

- Loans to individuals up to **35 lakh** in **metropolitan** centres (with population of ten lakh and above) and loans up to **25 lakh** in **other centres** for purchase/construction of a dwelling unit per family, are eligible to be considered as priority sector provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed ₹ 4.5 million and ₹ 3 million, respectively. Housing loans to banks' own employees are not eligible for classification under priority sector.

(vi) Social Infrastructure:

- Bank loans up to a limit of **₹ 5 crore** per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities (including loans for construction/ refurbishment of toilets and improvement in water facilities in the household) in Tier II to Tier VI centres are eligible for classification under priority sector.

(vii) Renewable Energy:

- Bank loans up to a limit of **₹ 30 crore** to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities viz. street lighting systems, and remote village electrification are eligible to be classified under priority sector loans under 'Renewable Energy'. For individual households, the loan limit is ₹ 1 million per borrower.

(viii) Others

- Advances to Weaker Sections: 12 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

Financial inclusion

Basic Savings Bank Deposit Account (BSBDA):

- Banks were advised in November 2005 to make available a basic banking 'no-frills' account either with **'nil' or very low minimum balance** as well as charges that would make such accounts accessible to vast sections of population.
- But it has been decided to modify the guidelines on opening of basic banking 'no-frills' accounts. On Financial Inclusion, banks are advised to offer a 'Basic Savings Bank Deposit Account' which will offer following minimum common facilities to all their customers. BSBDA shall not have the requirement of any minimum balance. There will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals.
- BSBDA is applicable to all scheduled commercial banks in India including Foreign Banks having branches in India.

Lead Bank Scheme (LBS):

- LBS was launched by the RBI in 1969 for providing adequate banking and credit in rural areas through an 'area approach', with one bank assigned for one area.
- The LBS was introduced based on the recommendation of **Gadgil** study group and Banker's Committee (Nariman Committee).
- Under LBS, every district across the country would be assigned to a commercial bank. The bank should have major presence in that district to do the work of the Lead Bank. The lead bank makes surveys and makes loan facility to various sectors.

PradhanMantri Jan DhanYojana (PMJDY):

- PMJDY is a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country.
- Objective of PMJDY is to ensure access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low-income groups.
- In addition, the beneficiaries would get RuPay Debit card having inbuilt accident **insurance cover of 2 lakh and over draft facility of Rs 10,000**

Business/ Banking Correspondents:

- RBI has introduced a regulation in 2006 allowing banks to provide service at people's doorstep through the use of third party services because lack of access to basic financial services is a major challenge. This model is referred to as **Business /Banking Correspondents.**
- The products provided by BCs are: Small Savings Accounts, Fixed Deposit and Recurring Deposit with low minimum deposits, Remittance to any BC customer, Micro Credit and General Insurance. Use of technology along with banking correspondents helps bank to cover large unbanked sector as Banks can use mobile and micro ATM's along with banking correspondent to deliver low cost banking solutions to unbanked customers.

Risks in Banking Sector:

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

Credit risk:

- The lender may lose the principle of the loan or the interest associated with it due to the **borrower fails to repay it.**
- It defines that credit risk as the potential that a bank borrower, or counter-party, will fail to meet its payment obligations regarding the terms agreed with the bank.

Market Risk:

- Risks arises due to the factor affecting the overall performance of the **financial market**

There are 4 components of market risks:

- Interest Risk: losses due to movements in interest rates
- Equity Risk: losses due to changes in stock prices
- Commodity Risk: losses due to change in commodity prices.
- Foreign Exchange Risk: loss due to change in the value of the bank's assets or liabilities

Operational risk:

- Operational risk is the risk of loss resulting from inadequate or **failed internal processes**, people, and systems or external events.

There are three main causes of this risk:

- Human Intervention & Error
- Failure of the IT/internal software & systems.
- Failure of Internal Processes to transmit data & information accurately

Liquidity risk

- The risk of a bank **not being able** to finance its day to day operations.
- The inability of a bank to provide cash

Business risk

- Business risk is the risk of an organization to have **lower than** foreseen benefits or experience a misfortune instead of taking a benefit.

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

Systemic risk:

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

Moral hazard:

- Moral hazard is a situation in which one party gets involved in a risky event knowing that it is protected against the risk and the other party will incur the cost.
- It arises when both the parties have incomplete information about each other.

National Payment Corporation of India (NPCI)

- NPCI is an umbrella organization for all **retail payments** in India. It was set up with the guidance and support of RBI and Indian Banks Association (IBA).
- It has been incorporated as a "Not for Profit" Company under the provisions of Section 25 of Companies Act 1956 (now Section 8 of Companies Act 2013), with an intention to provide infrastructure to the entire Banking system in India for physical as well as electronic payment and settlement systems.
- Headquarter: Mumbai

National Automated Clearing House (NACH):

- NPCI has implemented NACH for Banks, FIs Corporates and Government a **web-based solution** to facilitate interbank, high volume, **electronic transactions** which are repetitive and periodic in nature.
- NACH is a centralized system, launched with an aim to consolidate multiple ECS systems running across the country and provides a framework for the harmonization of standard & practices and removes local barriers/inhibitors.

Bharat Bill Payments System (BBPS)

- BBPS is an integrated online platform which is being developed by the National Payments Corporation of India for all kinds of bill payments.
- The platform intends to build an interoperable service through a network of agents, enabling multiple payment modes along with instant generation of receipts of payments.
- A bill can be paid **anywhere and anytime.**
- There would be retail points for bill payments across the country who would be able to acceptall kinds of bills payments made through credit cards, debit cards, mobile wallets, net banking(IMPS, NEFT).

Immediate Payment Service (IMPS)

- IMPS is an instant interbank electronic fund transfer service through **mobile phones**. It is also being extended through other channels such as ATM, Internet Banking, etc.
- IMPS is a real-time payment service that one can use throughout the day including holidays. This service is offered by NPCI that offers customers the option of transferring money instantly through banks and RBI-authorized Prepaid Payment Instrument (PPIs) issuers across the country.

Unified Payments Interface (UPI)

- UPI is a payment system that allows money transfer between any **two bank accounts** by using a smartphone.
- UPI allows a customer to pay directly from a bank account to different merchants, both online and offline, without the hassle of typing credit card details, IFSC code, or net banking/wallet passwords.
- Kind transactions can be performed via UPI- Merchant payments, remittances, bill payments among others.
- Limit is **Rs.1 lakh** per transaction.

Bharat Interface for Money (BHIM)

- BHIM is a digital payments solution app based on UPI from the National Payments Corporation of India (NPCI).
- It can be used to carry out digital transactions by signing up for UPI-based payments on bank account, which is also linked to mobile phone number.
- BHIM also has options to transfer via IFSC and MMID as well for non-UPI banks.
- BHIM accepts a maximum of **Rs 10,000** per transaction and **Rs 20,000** limit within 24 hours.

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.

Mobile Money Identifier (MMID)

- MMID is a **7digit number** of a bank customer. The first four digits of the MMID code act as the unique identification number of the bank offering you IMPS.
- The user's mobile number MMID is uniquely linked with his bank account number and is one of the key inputs to facilitate fund transfer.
- Every bank account has only one MMID. Different MMID's can be linked to same Mobile Number.

National Electronic Fund Transfer (NEFT)

- National Electronic Fund Transfer (NEFT) is a nation-wide payments system that allows the transfer of funds from one bank's account to another.
- The main benefit offered by NEFT is that it can transfer funds from any account of any branch to any other bank account located at any place
- The only condition is that both the sender and receiver branches should be NEFT-enabled
- NEFT works on a round-the-clock basis i.e. 24×7, 365 days.

Real Time Gross Settlement (RTGS)

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

Codes used in Banking Sector

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 (Indian Financial System Code)

It is an**11-digit alpha-numeric code** that uniquely identifies a bank branch participating in any RBI regulated funds transfer system. The IFSC code helps to transfer money using RTGS, NEFT or IMPS method.

- First 4 digit= bank code
- 5^{th} digit= 0
- Last 6 character= branch

SWIFT:

SWIFT stands for the Society for Worldwide Interbank Financial Telecommunications. It is a messaging network that financial institutions use to securely transmit information and instructions through a standardized system of codes.

SWIFT assigns each financial organization a unique code that has either **8 or 11 characters.**

- First 4 digit= bank code
- Next 2 digit= country code
- Next 2 digit= location code
- Last 3 code= branch code (optional)

NPA and SARFESI

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. The banks and NBFCs in India generally classify a loan account as Non- Performing Asset (NPA) based on 90 day and 120 day delinquency norms, respectively.

Types of Assets	Definition	Time period
Standard Asset	Standard asset for a bank is an asset that is not classified as an NPA.	0-89 days
NPA	It is a loan or advance for which the principal or interest payment remains overdue for a period of 90 days	90 days
Sub- Standard	Assets which have remained NPA for a period less than or equal to 12 months	Less than 12 Months
Doubtful	An asset would be classified as doubtful if it has remained NPA for a period exceeding 12 months	More than 12 Months
Loss	Loss assets are those where loss has been identified by the bank and remains uncollectable	

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act:

- SARFAESI Act, 2002 is a legislation that helps financial institutions to ensure asset quality in multiple ways.
- The Act promotes the setting up of asset reconstruction (RCs) and asset securitization companies (SCs) to deal with NPAs accumulated with the banks and financial institutions.
- The Act provides three methods for **recovery of NPAs**, viz- Securitization, Asset Reconstruction and Enforcement of Security without the intervention of the Court. It is regulated by RBI.

Prompt Corrective Action:

- The process or mechanism under which RBI has put in place some trigger points to assess, monitor, control and take corrective actions on banks which are weak and troubled is known as Prompt Corrective Action, or PCA.
- If PCA triggered banks are **not allowed to renew or access costly deposits** or take steps to increase their fee-based income.
- Banks will also have to launch a special drive to reduce the stock of NPAs and contain generation of fresh NPAs.
- They will also not be allowed to **enter into new lines of business**.

Ratings of Banks

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	**CALCS-** for foreign banks
C- Capital adequacy ratio **A-** Asset quality **M-** Management effectiveness **E-** Earnings **L-** Liquidity **S-**System & control	**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

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).
- 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 / financer but remains in possession of the borrower, which he uses for himself or even may give on rent.