FREE eBOOK

BANKING BOLT

Special Edition for **Static Banking GK**

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Contents

Banking Bolt

Banking History and all the first in Banking

A Bank is a financial organization which accepts deposits that can be withdrawn on demand and lends money to individual and business houses that need it.

First bank in India- Bank of Hindustan was established in 1770 and liquidated in 1829–32; and the General Bank of India, established in 1786 but failed in 1791.

The largest bank, and the oldest still in existence, is the State Bank of India (SBI). It originated as the Bank of Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal.

Bank of Bengal, Bank of Bombay and the Bank of Madras were founded by a presidency government and was merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955.

Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934. In 1969 the Indian government nationalised 14 major private banks, one of the big bank was Bank of India. In 1980, 6 more private banks were nationalised.

Narsimhan Committee gave the first blue print of banking sector reforms in 1991.

RBI structure and Function

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the **Reserve Bank of India Act, 1934**.

The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the Reserve Bank of India Act.

• Appointed/nominated for a period of four years

• Constitution:

➢ **Official Directors**

Full-time: Governor and not more than four Deputy Governors

➢ **Non-Official Directors**

Nominated by Government: ten Directors from various fields and two government Official

Others: four Directors - one each from four local boards

Functions of RBI:

- Formulates, implements and monitors the monetary policy.
- Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
- Manages the Foreign Exchange Management Act, 1999.
- Issues and exchanges or destroys currency and coins not fit for circulation.
- Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks: maintains banking accounts of all scheduled banks.

Currency Circulation and Management in India- Lending Rates

History of currency

Paper currency was first issued during British East India Company rule. The first paper currency was issued by the private banks such as Bank of Hindustan and the presidency banks during late 18th century.

It was only after Paper Currency Act 1861 that the government of India was given the monopoly to print currency.

The government of India printed currency until the RBI was established in 1935, which then took up the responsibility.

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.

The Government, on the advice of the Reserve Bank, decides on the various denominations and RBI co-ordinates with the Government in the designing of bank notes, including the security features.

The RBI Act allows the central bank to publish notes of up to Rs 5,000 and Rs 10,000 denominations. The highest denomination note printed were Rs 10,000 ones, in 1938 and in 1954. These were demonetised in 1946 and again in 1978.

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 manages the highest number of currency chests.

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

Small coin depot- some bank branches are authorised by RBI to establish Small Coin Depot to store small coins (i.e. below Rupee 1 coin) which will distribute the coins in their area of operation.

Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL) is a wholly owned subsidiary of the Reserve Bank which runs two banknote printing presses in Mysuru and Salboni. It is proposed to set up an ink manufacturing unit within BRBNMPL as part of efforts towards the 'Make in India' programme.

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

Notes which have become excessively soiled, brittle or burnt can be exchanged only at Issue Office of RBI (need to approach to the Officer-in-Charge of the claims section, issue department of RBI).

Non -Payable Notes- As per rules of RBI (Note Refund) Rules, 2009, notes were the single largest piece is less than or equal to 50 % of the area for Rs 1, Rs 2, Rs 5, Rs 10 and Rs 20 will not be exchanged.

Nationalisation of Banks in India

By means of an Ordinance, Banking Companies (Acquisition and Transfer of Undertakings), on 19 July 1969 the government nationalised 14 commercial banks of the country. The ownership of 14 major commercial private banks - estimated to be controlling 70 percent of the deposits in the country - was transferred to the government.

The 14 banks those were nationalised are- Allahabad Bank, Bank of Baroda, Bank of India, Bank of Maharashtra, Canara Bank, Central Bank of India, Dena Bank, Indian Bank, Punjab and Sind Bank, Syndicate Bank, Indian Overseas Bank, UCO Bank, Punjab National Bank and United Bank of India.

Till 1969, the State Bank of India (SBI) was the only bank that was owned by Government. It was called the Imperial Bank before its nationalisation in 1955.

There were primarily two reasons why the ownership of these 14 banks was transferred to the government. The first was the unpredictable manner in which these functioned as private entities. Second, these commercial banks were seen as catering to the large industries and businesses. Private Banks were unreliable and 361 of them failed between 1947 to 1955. Agriculture, as a sector, was largely ignored by these banks.

Monetary Policy

The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934.

The primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth.

RBI Act, 1934 provides for an empowered *six-member* monetary policy committee (MPC) to be constituted by the Central Government. Three Members will be from the RBI and the other three Members of MPC will be appointed by the Central Government.

- Governor of the Reserve Bank of India – Chairperson, ex officio;
- Deputy Governor of the Reserve Bank of India, in charge of Monetary Policy – Member, ex officio;
- One officer of the Reserve Bank of India to be nominated by the Central Board – Member, ex officio;
- Other 3 members will hold office for a period of four years.

Instruments of Monetary Policy

RBI, which monitors and regulates the monetary policy of the country stabilizes the price by *controlling Inflation*.

The instruments of monetary policy used to control the money flow in the economy are of 2 types broadly:

1. Quantitative Instruments or General Tools
2. Qualitative tools or Selective Tools

A. Quantitative Instruments or General Tools

1. Reserve Ratios:

Cash Reserve Ratio (CRR): It is a certain percentage of bank deposits which banks are required to keep with RBI. It is based on Net demand and time liabilities (NDTL),

✓ Higher the CRR with the RBI, lower will be the liquidity in the system and vice versa

Statutory Liquidity Ratio (SLR): Every financial institution has to maintain a certain quantity of liquid assets with themselves at any point of time of their NDTL.

✓ Higher the SLR, lower will the banks be allowed to lend in the system and vice versa.

2. Open Market Operations (OMOs):

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

✓ The RBI sells government securities to control the flow of credit and buys government securities to increase credit flow.

2. Policy Rates:

Bank Rate: The bank rate, also known as the discount rate, is the rate of interest charged by the RBI for providing funds or loans to the banking system

✓ Increase in Bank Rate → increases the cost of borrowing by commercial banks → which results in the reduction in credit volume to the banks → declines the supply of money.

Liquidity adjustment facility(LAF): is a monetary policy which allows banks to borrow money through repurchase agreements.

Repo Rate: Repo rate is the rate at which RBI lends to its clients generally against government securities.

Reverse Repo rate: Rate at which RBI borrows money from the commercial banks.

Marginal Standing Facility (MSF): It is a window for banks to borrow from RBI in an emergency when inter-bank liquidity dries up completely.

B. Qualitative Instruments or Selective Tools

These tools are not directed towards the quality of credit or the use of the credit. They are used for discriminating between different uses of credit.

1. Fixing Margin Requirements:

The margin refers to the "proportion of the loan amount which is not financed by the bank".

A change in a margin implies a change in the loan size. This method is used to encourage credit supply for the needy sector and discourage it for other non-necessary sectors.

2. Consumer Credit Regulation:

RBI can control money supply by changing down -payment and instalment (EMI) rules.

3. Selective Credit Control:

Under this RBI can specifically instruct banks not to give loans to traders of certain commodities.

4. Credit Rationing:

Central Bank fixes credit amount to be granted. This can help in lowering banks credit exposure to unwanted sectors.

5. Moral Suasion:

It includes variety of informal methods used by the central bank to persuade commercial banks to behave in a particular manner. There is no element of compulsion in it.

6. Direct action:

This step is taken by the RBI against banks that don't fulfil conditions and requirements.

RBI may refuse to rediscount their bills and securities.

Types of Bank Accounts in India

A bank account is a financial account maintained by a bank for a customer. A bank account can be a deposit account, a credit card account, a current account, or any other type of account offered by a financial institution and represents the funds that a customer has entrusted to the financial institution and from which the customer can make withdrawals. Alternatively, accounts may be loan accounts in which case the customer owes money to the financial institution.

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.

Overdraft

Many facilities are provided to current account holder like overdraft facility, statement of account.

Overdraft means the act of overdrawing from the bank account. In other words, the account holder withdraws more money from bank account than has been deposited in it.

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.

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.

Financial Inclusions

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.

Pradhan Mantri Jan Dhan Yojana (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 ₹ 1 lakh. The plan also envisages channelling all Government benefits (from Centre / State / Local body) to the beneficiaries accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government.

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.

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 (PSL)

PSL is an important role given by RBI to the banks for providing a specified portion of the bank lending to few specific sectors. This is essentially meant for an all-round development of the economy as opposed to focusing only on the financial sector. Categories under priority sector: Agriculture, Micro, Small and Medium Enterprises, Export Credit, Education, Housing, Social Infrastructure, Renewable Energy, Others.

Priority Sector Lending Certificates (PSLCs) are a mechanism to enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall. This also incentivizes surplus banks as it allows them to sell their excess achievement over targets thereby enhancing lending to the categories under priority sector.

Small Finance Bank and Payments Bank

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 unorganised sector entities.

RBI granted approval in 2016 to ten entities to set up small finance banks. Each of these banks is to open at least 25% of its branches in areas that do not have any other bank branches (unbanked regions). A small finance bank should hold 75% of its net credits in loans to firms in priority sector lending, and 50% of the loans in its portfolio must be less than ₹25 lakh.

It was set up based on the recommendations of NachiketMor committee.

Payments Banks

A payments bank is like any other bank but operating on a smaller scale without involving any credit risk. It can carry out most banking operations but can't advance loans or issue credit cards. It can accept demand deposits (up to Rs 1 lakh), offer remittance services, mobile payments/transfers/purchases and other banking services like ATM/debit cards, net banking and third party fund transfers.

The main objective of payments bank is to widen the spread of payment and financial services to small business, low-income households, migrant labour workforce in secured technology-driven environment.

These banks are licensed under Section 22 of the Banking Regulation Act, 1949, and registered as public limited company under the Companies Act, 2013.

Pradhan Mantri MUDRA Yojana (PMMY)

PMMY is a scheme launched on April 8, 2015 for providing loans upto 10 lakh to the non-corporate, non-farm small/micro enterprises.

These loans are classified as MUDRA loans under PMMY. These loans are given by Commercial Banks, RRBs, Small Finance Banks, Cooperative Banks, MFIs and NBFCs.

Under the aegis of PMMY, MUDRA has created three products namely 'Shishu' (covering loans upto Rs 50,000), 'Kishore' (covering loans above Rs 50,000 and upto Rs 5 lakh) and 'Tarun' (covering loans above Rs 5 lakh and upto Rs 10 lakh) to signify the stage of growth/ development and funding needs of the beneficiary micro unit / entrepreneur and also provide a reference point for the next phase of graduation / growth.

Marginal Cost of Funds based Lending Rate (MCLR)

MCLR system was introduced by the Reserve Bank to provide loans on minimal rates as well as market rate fluctuation benefit to customers. This new system replaced the base rate, which itself replaced the benchmark prime lending rate.

MCLR is arrived on the basis of marginal cost or the additional or incremental cost of arranging one more rupee to the prospective borrower.

MCLR depends upon four components – marginal cost of funding, tenor premium, operating cost and negative carry account of credit reserve ratio.

Non-Performing Assets (NPA)

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

Out of Order' status: An account with outstanding balance remains continuously in excess of the sanctioned limit/drawing power.

Overdue: Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

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.

Deposit Insurance and Credit Guarantee Corporation (DICGC)

DICGC is a very old subsidiary of RBI which provides insurance to all the banks registered under the guidelines of the RBI Act.

Chairman: B.P.Kanungo

All commercial banks including branches of foreign banks functioning in India, nationalized/local banks and RRB's are insured by the DICGC.

No insured banks can withdraw themselves from the DICGC coverage. The deposit insurance scheme is mandatory for all the banks.

DICGC insures all the deposits such as savings, current, fixed, recurring, etc.

Depositor can insure maximum of Rs 1 lakh for both principal and interest amount held by them as on the date of cancellation or liquidation of bank's license or the date on which the scheme of amalgamation/ merger/ reconstruction takes place.

Accounts of NRI/PIO

A 'Non-resident Indian' (NRI) is a person resident outside India who is a citizen of India. 'Person of Indian Origin (PIO)' is a person resident outside India who is a citizen of any country other than Bangladesh or Pakistan or such other country as may be specified by the Central Government.

NRI/PIO can open following accounts-

Non-Resident External (NRE) Account

The money in an NRE account is held in Indian Rupees. It can be a savings account, a current account, or a fixed / term deposit account.

The main advantage of an NRE account is that the money from this account can be repatriated - that is, the funds held in this account can be freely sent to another country. Money can also be transferred from an NRE account to an NRO account without any restriction.

Non-Resident Ordinary (NRO) Account

An NRO account can be opened by NRIs. It can also be a savings account, a current account, or a fixed / term deposit account. A regular bank account also gets converted into an NRO account if the account holder becomes an NRI.

The main difference between an NRE and NRO account is that the money cannot be repatriated from an NRO account. Thus, the money held in an NRO account has to be used only for local payments in Indian Rupees. Also, funds cannot be transferred from an NRO account to an NRE account.

Exchange Earners' Foreign Currency Account (EEFC)

EEFC is an account maintained in foreign currency with an Authorised Dealer Category - I bank i.e. a bank authorized to deal in foreign exchange. It is a facility provided to the foreign exchange earners, including exporters, to credit 100 per cent of their foreign exchange earnings to the account, so that the account holders do not have to convert foreign exchange into Rupees and vice versa, thereby minimizing the transaction costs. All categories of foreign exchange earners, such as individuals, companies, etc., who are resident in India, may open EEFC accounts.

Foreign Currency Non-Resident (FCNR) account

An FCNR account is a term deposit account that can be maintained by NRIs and PIOs in foreign currency. Thus, FCNRs are not savings accounts but fixed deposit accounts.

Prior to 2011, FCNR deposits were allowed to be maintained in six currencies: US dollar, Pound Sterling (GBP), Euro, Japanese Yen, Australian dollar and Canadian dollar. However, the RBI decided that authorised dealer banks in India may be permitted to accept FCNR deposits in any permitted currency. ‘Permitted currency’ for this purpose would mean a foreign currency which is freely convertible and popularly include Danish Krone, Swiss Frank and Swedish Krona among others.

Special Non-Resident Rupee Account (SNRR account)

Any person resident outside India, having a business interest in India, can open SNRR account with an authorised dealer for the purpose of putting through bona fide transactions in rupees which are in conformity with the provisions of the Act, rules and regulations made thereunder. SNRR can be held only as a non-interest earning account and is a repatriable account.

Codes used in Banking Sector

MICR (Magnetic Ink Character Recognition)

MICR is an acronym for Magnetic Ink Character Recognition which is a technology used in the banking industry in printing the MICR codes.

A MICR code is a 9-digit code that uniquely identifies a bank and a branch participating in an Electronic Clearing System (ECS). The first 3 digit of the code represents the city code, the middle ones represent the bank code and last 3 represents the 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.

MICR Code is used in the processing of cheques by machines. This code enables faster processing of cheques.

IFSC (Indian Financial System Code)

IFSC stands for Indian Financial System Code. It is a 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.

The first 4 digits of the IFSC represent the bank and last 6 characters represent the branch. The 5th character is zero.

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 eight characters or 11 characters. The code is called interchangeably the bank identifier code (BIC), SWIFT code, SWIFT ID, or ISO 9362 code.

Transfer System in India

National Electronics Funds Transfer System (NEFT)

NEFT is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme.

There is no limit either minimum or maximum on the amount of funds that could be transferred using NEFT. However, maximum amount per transaction is limited to ₹ 50,000/- for cash-based remittances within India and also for remittances to Nepal under the Indo-Nepal Remittance Facility Scheme.

Real Time Gross Settlement (RTGS)

RTGS can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis).

The minimum amount to be remitted through RTGS is 2 lakh. There is no upper ceiling for RTGS transactions.

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.

The first ATM in India was set up in 1987 by HSBC in Mumbai. In 1997, the Indian Banks' Association (IBA) set up SWADHAN, the first network of shared ATMs in India. It was managed by India Switch Company (ISC) for five years and allowed cardholders to withdraw cash.

The first modern ATMs came into use in December 1972 in the UK. ATMs were introduced to the Indian banking industry in the early 1990s initiated by foreign banks.

Types of ATM

Bank ATM- These are owned and operated by the respective banks. For ex. SBI Bank ATM, ICICI Bank ATM.

Brown Label ATM

When bank outsources the ATM operations to a third party, it is called Brown label ATM. 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.

White Label ATM

They 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 solution is the first company to get RBI permission to open white label ATM.

They started their chain under brand name Indicash.

Other WLA- Muthoot Finance ATM, Prism payments etc.

Types of Cards

Cards can be classified on the basis of their issuance, usage and payment by the card holder. There are three types of cards (a) debit cards (b) credit cards and (c) prepaid cards.

Debit cards are issued by banks and are linked to a bank account. Credit cards are issued by banks / other entities approved by RBI. Prepaid cards are issued by the banks / non-banks against the value paid in advance by the cardholder and stored in such cards which can be issued as smart cards or chip cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers, etc.

Debit Card: The debit cards are used to withdraw cash from an ATM, purchase of goods and services at Point of Sale (POS)/E-commerce (online purchase) both domestically and internationally (provided it is enabled for international use). However, it can be used only for domestic fund transfer from one person to another.

Credit Card: The credit cards are used for purchase of goods and services at Point of Sale (POS) and E-commerce (online purchase)/ through Interactive Voice Response (IVR)/Recurring transactions/ Mail Order Telephone Order (MOTO). These cards can be used domestically and internationally (provided it is enabled for international use). The credit cards can be used to withdraw cash from an ATM and for transferring funds to bank accounts, debit cards, credit cards and prepaid cards within the country.

Prepaid Card: The prepaid cards issued by the banks can be used to withdraw cash from an ATM, purchase of goods and services at Point of Sale (POS)/E-commerce (online purchase) and for domestic fund transfer from one person to another. Such prepaid cards are known as open system prepaid cards. However, the prepaid cards issued by authorised non-bank entities can be used only for purchase of goods and services at Point of Sale (POS)/E-commerce (online purchase) and for domestic fund transfer from one person to another. Such prepaid cards are known as semi-closed system prepaid cards. These cards can be used only domestically.

Risks in Banking Sector

A bank faces many types of risks and these must be managed carefully. Risk refers to a condition where there is possibility of undesirable occurrence of a particular result which is known or best quantifiable and therefore insurable.

Major types of risks that are faced by every bank are as follows-

1. Credit Risks-

Credit Risks is the risk that arises from the possibility of non-payment of loans by the borrowers. Although credit risk is largely defined as risk of not receiving payments, banks also include the risk of delayed payments within this category.

2. Market Risks

Market risk arises due to the factors affecting the overall performance of the financial market. McKinsey defines market risk as the risk of losses in the bank's trading book due to changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market

3. Operational Risks

Operational risk occurs as the result of a failed business processes in the bank's day to day activities. Examples of operational risk would include payments credited to the wrong account or executing an incorrect order while dealing in the markets. None of the departments in a bank are immune from operational risks.

4. Liquidity Risk

Liquidity risk is the risk that the bank will not be able to meet its obligations if the depositors come in to withdraw their money. This risk is inherent in the fractional reserve banking system.

5. Business Risk

There is always a risk that a given bank may choose the wrong strategy. As a result of this wrong choice, the bank may suffer losses and end up being acquired or may simply collapse. Banks have no possible way to mitigate the risks that are created by following inappropriate business objectives.

6. Reputational Risk

Reputation is an extremely important intangible asset in the banking business. Reputational risk is a threat or danger to the good name of a business. It occurs through a number of ways, directly as the result of the actions of the company itself or due to the actions of an employee.

7. Systemic risk

Systemic risk is the risk that doesn't affect a single bank or financial institution but it affects the whole industry. Systemic risks are associated with cascading failures where the failure of a big entity can cause the failure of all the others in the industry.

8. Moral hazard

Moral hazard is a risk that occurs when a big bank or large financial institution takes risks, knowing that someone else will have to face the burden of those risks.

Role of Banking Ombudsman in Banking Sector

The Banking Ombudsman is a senior official appointed by the RBI to redress customer complaints against deficiency in certain banking services covered under the grounds of complaint specified under Clause 8 of the Banking Ombudsman Scheme 2006.

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

All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered under the Scheme.

Basel III Accord

The Basel Accords are three sets of banking regulations (Basel I, II and III) set by the Basel Committee on Bank Supervision (BCBS), which provides recommendations on banking regulations in regards to capital risk, market risk and operational risk. The purpose of the accords is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses.

BCBS was founded in 1974 as a forum for regular cooperation between its member countries on banking supervisory matters.

According to Basel Committee on Banking Supervision "Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector".

Basel 3 measures aim to-

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

Banking Related Schemes

Senior Citizens Savings Scheme (SCSS)

• SCSS is primarily for senior citizens of India that offers regular income and is a risk-free tax saving investment.

The eligibility for SCSS:

1. Senior citizen of India aged 60 years or above.

2. Retirees who have opted for the Voluntary Retirement Scheme (VRS) or Superannuation with the age between 55-60.

3. Retired defence personnel with a minimum age of 50 years.

4. HUFs and NRIs are not allowed to invest in this scheme.

How to Invest?

• A senior citizen can invest in this scheme by opening either an individual or a joint (along with the spouse) account with a post office or a scheduled commercial bank.

How much can one invest?

• The amount invested in the scheme cannot exceed the money that has been received on retirement. Hence, the individual can invest either Rs 15 lakhs or the amount received as a retirement benefit whichever is lower. The account can be opened by cash for an amount below Rs 1 lakh and by cheque for an amount above Rs 1 lakh.

Reverse Mortgage Loan System

• A reverse mortgage enables a senior citizen to receive a regular stream of income from a lender (a bank or a financial institution) against the mortgage of his home. The borrower (i.e. the individual pledging the property), continues to reside in the property till the end of his life and receives a periodic payment on it. It is opposite of conventional home loan.

• It was introduced in 2007.

Eligibility

• Individuals owning residential house or flat and who is a resident of India and above the ages of 60 can avail this loan.

• The residential house must be in his/her name or jointly with his/her spouse.

• If the loan is in joint account, then one of the spouse must be 60 years and above and the other must be at least 58 years.

• Minimum Rs. 3 lakhs & Maximum Rs. 1 crore can be availed.

Gold Monetisation Scheme, 2015

• It is a scheme that facilitates the depositors of gold to earn interest on their metal accounts. Once the gold is deposited in metal account, it will start earning interest on the same.

• This scheme has replaced the existing Gold Deposit Scheme, 1999. However, the deposits outstanding under the Gold Deposit Scheme and Gold Metal Loan Schemes is allowed to run till maturity unless these are withdrawn by the depositors prematurely as per existing instructions.

• The minimum quantity of deposits is 30 grams. The gold can be in any form, bullion or jewellery. There is no maximum limit.

• There are 3 term deposit plans available under the Gold Monetisation Scheme:

• Short term: 1 to 3 years

• Medium term: 5 to 7 years

• Long term: 12 to 15 years

Sovereign Gold Bond Scheme

• SGBs are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The Bond is issued by Reserve Bank on behalf of Government of India.

• Persons resident in India as defined under Foreign Exchange Management Act, 1999 are eligible to invest in SGB. Eligible investors include individuals, HUFs (Hindu Undivided Families), trusts, universities and charitable institutions.

• The Bonds are issued in denominations of one gram of gold and in multiples thereof. Minimum investment in the Bond shall be one gram with a maximum limit of subscription of 4 kg for individuals, 4 kg for HUF and 20 kg for trusts and similar entities notified by the government from time to time per fiscal year (April – March). In case of joint holding, the limit applies to the first applicant.

Pradhan Mantri Garib Kalyan Deposit Scheme (PMGKDS)

• PMGKDS 2016 is a scheme notified by the Government of India on December 16, 2016 with the objective of addressing poverty. The PMGKY has been made a part of the Taxation Laws (Second Amendment) Act, 2016.

• As per the revised amendment of the Income Tax Bill, individuals who declared their undisclosed income (black money), they will be required to pay a penalty of 10%, tax at the rate of 30%, CESS under the PMGKY at the rate of 33%.

• Additionally, 25% of their undisclosed income will be invested in the PMGKDS Yojana scheme which will be refunded only after 4 years without accumulating any interest.

Ombudsman Scheme for Non-Banking Financial Companies (NBFCs)

• The scheme will provide a cost-free and expeditious complaint redressal mechanism relating to deficiency in the services by NBFCs registered with the Reserve Bank.

• It is initially being introduced at the four metro centers viz. Chennai, Kolkata, Mumbai and New Delhi for handling complaints from the respective zones, so as to cover the entire country.

• The Scheme has come into effect and force from February 23, 2018.

Kisan Vikas Patra (KVP)

- India Post introduced KVP as a small saving certificate scheme in 1988. Its primary objective is to encourage long-term financial discipline in people. As per the 2014 amendment of the scheme, the tenure for the scheme is now 118 months (9 years & 10 months). The minimum investment is Rs. 1000 and there is no upper limit. Interest rate of 7.3% is compounded annually.
- Initially, it was meant for farmers to enable them to save for long-term, and hence the name. Now it is available for all.

Types of Money and Measures of Money Supply

Money is anything of value that serves as a

(1) generally accepted medium of financial exchange,

(2) legal tender for repayment of debt,

(3) standard of value,

(4) unit of accounting measure, and

(5) means to save or store purchasing power

Exchange of commodities without the mediation of money is called Barter Exchange. It suffers from lack of double coincidence of wants.

Types of Money

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.

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.

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.

Commercial bank money

It describes the portion of a currency which is made of debt generated by commercial banks. It is created when banks make use of fractional reserve banking to issue loans worth many times the value of the actual sovereign currency they hold (typically up to 10 times more).

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.

Financial Markets in India

A financial market is a market in which people trade financial securities and derivatives such as futures and options at low transaction costs. Securities include stocks and bonds, and precious metals.

Money market- basically refers to a section of the financial market where financial instruments with high liquidity and short-term maturities are traded. Money market has become a component of the financial market for buying and selling of securities of short-term maturities, of one year or less.

Main instruments of money market in India are: 1. Treasury Bills 2. Commercial Paper 3. Call Money 4. Certificate of Deposit 5. Commercial Bills 6. Repo Market 7. Collateralised Borrowing and Lending Obligation (CBLO)

Treasury Bills: Treasury bills, also known as Zero Coupon Bonds are the instrument of short term borrowing with maturity period of less than one year.

Commercial Paper (CP) is a short term unsecured promissory note with maturity period of 7 days to one year. Since it is unsecured, it is issued by the large and creditworthy companies to meet their short term fund requirements.

Call Money is a short term finance used for interbank transactions. Overnight (one day) loans can be availed by banks to meet liquidity in call money market. If the bank needs funds for more days, it can avail money through notice market. Here, the loan is provided from two days to fourteen days.

Certificates of deposit are short term instruments issued by commercial banks and financial institutions to the individuals, corporations and companies. They are unsecured and negotiable.

Commercial bill is a bill of exchange used to finance the working capital of firms. It is a short term, negotiable and self-liquidity instrument.

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

Collateralised Borrowing and Lending Obligation- CBLO is another money market instrument operated by the Clearing Corporation of India Ltd. (CCIL). It is a discounted instrument available in electronic book entry form for the maturity period ranging from one day to one year.

Capital Markets refers to activities that gather funds from some entities and make them available to other entities needing funds. The core function of such a market is to improve the efficiency of transactions so that each individual entity doesn't need to do search and analysis, create legal agreements, and complete funds transfer.

The instruments traded (media of exchange) in the capital market are:

Debt Instruments: It is a paper or electronic obligation that enables the issuing party to raise funds by promising to repay a lender in accordance with terms of a contract.

Types of debt instruments include notes, bonds, debentures, certificates, mortgages, leases or other agreements between a lender and a borrower.

These instruments provide a way for market participants to easily transfer the ownership of debt obligations from one party to another.

Equity Shares: The owner of these shares undertakes the maximum entrepreneurial risk associated with a business venture. Equity is the value of an asset less the amount of all liabilities on that asset.

As an accounting equation, one can represent it as Assets - Liabilities = Equity.

Preference Shares: Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends that are paid out to shareholders at a fixed rate like that of interest on bonds.

If the company enters bankruptcy, the shareholders with preferred stock are entitled to be paid from company assets first.

Derivative: It is a financial security with a value that is reliant upon or derived from an underlying asset or group of assets. The derivative itself is a contract between two or more parties based upon the asset or assets.

The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.

Negotiable Instruments (NI)

According to Section 13(i) of Negotiable Instrument Act, 1881 a negotiable instrument includes and means a promissory note, bill of exchange or cheque.

A negotiable instrument has three principal attributes:

(1) an asset or property (that is the subject matter of the instrument) passes from the transferor to the transferee by mere delivery and/or endorsement of the instrument,

(2) a transferee accepting the instrument in good faith and for value (and who has no notice of any defect in the title of the transferor) obtains an indefeasible title and may sue on the instrument in his or her name, and

(3) no notice of the transfer need to be given to the party liable in the instrument.

Bill of Exchange- is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument. A **Hundi** is a Bill of Exchange in an Indian language, governed by customs and local usage. The NI Act, however, does not govern Hundis. A Bill of Exchange may therefore, include a Hundi, but Hundi may not be a Bill of Exchange.

Promissory Notes- Section 4 of the Negotiable Instrument Act, 1881 defines a promissory note as an instrument in writing. It contains an unconditional undertaking which is signed by the maker to pay of certain sum of money to, to the order of certain person, or to the bearer of the instruments. The person, who makes the promissory note, promises to pay and is called the maker. The person to whom the payment is to be mode is called the payee.

Cheque- A cheque is a bill of exchange drawn on a specified banker. It is expressed to be payable on demand.

Bank Draft- It is a payment on behalf of a payer that is guaranteed by the issuing bank. Typically, banks will review the bank draft requester's account to see if sufficient funds are available for the check to clear. Once it has been confirmed that sufficient funds are available, the bank effectively sets aside the funds from the person's account to be given out when the bank draft is used.

Bearer bond- It is a fixed-income security that is owned by the holder (bearer), rather than a registered owner. Coupons for interest payments are physically attached to the security, and it is the bondholder's responsibility to submit the coupons to a bank for payment and redeem the physical certificate when the bond reaches the maturity date.

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. It acknowledges the Government's debt obligation. Such securities are short term (usually called treasury bills, with original maturities of less than one year) or long term (usually called Government bonds or dated securities with original maturity of one year or more).

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

G-Secs are issued through auctions conducted by RBI. Auctions are conducted on the electronic platform called the E-Kuber, the Core Banking Solution (CBS) platform of RBI. Commercial banks, scheduled UCBs, Primary Dealers, insurance companies and provident funds, who maintain funds account (current account) and securities accounts (Subsidiary General Ledger (SGL) account) with RBI, are members of this electronic platform.

Major players in the G-Secs market include commercial banks and PDs (called as Primary Members-PMs) besides institutional investors like insurance companies. PDs play an important role as market makers in G-Secs market. Other participants include co-operative banks, regional rural banks, mutual funds, provident and pension funds.

Inflation Indexed Bonds (IIBs)

IIBs are designed to protect investors from inflationary forces.

The principal and interest payments of these bonds are usually linked to an inflation index such as WPI or CPI.

It was in the year 1997 that inflation-linked bonds in the name of Capital Indexed Bonds (CIBs) were first issued. These provided protection only to principal and not to interest payment.

In 2013, new bonds by the name of inflation-indexed bonds (IIBs) were issued which provided protection to both principal and interest payments.

Financial Institutions (FIs) and Financial Regulators in India

Financial Institutions and Financial regulators are company engaged in the business of dealing with monetary transactions, such as deposits, loans, investments and currency exchange. FIs encompass a broad range of business operations within the financial services sector, including banks, trust companies, insurance companies, and brokerage firms or investment dealers.

1. RBI- The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

It is empowered to control, regulate, guide and supervise the financial system of the country through its monetary and credit policies.

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

NABARD came into existence on 12 July 1982.

It was established based on the recommendations of the Committee to Review the Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFICARD). The Committee was formed under the Chairmanship of B. Sivaraman.

RIDF (Rural Infrastructure Development Fund) is operated by NABARD.

Chairman: Harsh Kumar Bhanwala

Headquarter: Mumbai

3. Regional Rural Bank (RRB)

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.

First RRB was set up on 2nd October 1975.

Share holder contribution:

- Government of India- 50%
- Sponsor Bank- 35%
- State Government- 15%

4. Small Industries Development Bank of India (SIDBI)

SIDBI has been set up on April 02nd, 1990. It is the principal financial institution for promotion, financing and development of the Micro, Small and Medium Enterprise (MSME) sector.

Chairman- Shri Mohammad Mustafa

Headquarter- Lucknow

5. Securities and Exchange Board of India (SEBI)

SEBI is the regulator for the securities market in India (to protect the interest of investor). It was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

Chairman- Ajay Tyagi

Headquarter- Mumbai

6. Export-Import Bank of India (EXIM)

EXIM bank wholly owned by Government of India.

It was established in 1982, for financing, facilitating and promoting foreign trade of India.

Purpose- To finance, facilitate and promote foreign trade in India. Also to coordinate the working of institutions engaged in financing export import trade.

CEO- Yaduvendra Mathur

Managing Director- David Rasquinha

Headquarter- Mumbai

7. Export Credit Guarantee Corporation of India (ECGC)

Purpose- To provide risk as well as insurance cover to Indian entrepreneurs.

It is under the administrative control of Ministry of Commerce and wholly owned by the Government of India. It was set up in 1957 with the objective of promoting exports from the country by providing Credit Risk Insurance and related services for exports.

Chairman cum Managing Director- Geetha Muralidhar

Headquarter- Mumbai

8. National Housing Bank (NHB)

NHB is wholly owned subsidiary of RBI.

NHB was set up on July 9, 1988 under the National Housing Bank Act, 1987.

It is an apex level institution for housing finance.

MD & CEO- Sriram Kalyanaraman

Headquarters- New Delhi

9. IRDAI

The Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous, statutory body tasked with regulating and promoting the insurance and re-insurance industries in India.

It was constituted by the Insurance Regulatory and Development Authority Act, 1999, an Act of Parliament passed by the Government of India.

IRDA Act was passed upon the recommendation of Malhotra committee report. It was headed by R N Malhotra.

IRDAI is a 10-member body including the chairman, five full-time and four part-time members appointed by the government of India.

Headquarters- Hyderabad, Telangana

Chairman- Subhash Chandra Khuntia

10. PFRDA

Interim Pension Fund Regulatory and Development Authority was established by Government of India on August 23, 2003 based on the recommendations of the OASIS (old age social & income security) report

PFRDA promotes old age income security by establishing, developing and regulating pension funds.

PFRDA is regulating and administering the National Pension System (NPS) along with administering the Atal Pension Yojana (APY) which is a defined benefits pension scheme for the unorganized sector, guaranteed by the Government of India.

Headquarters- New Delhi

Chairman- Hemant Contractor

Non-Banking Financial Company (NBFC)

NBFC is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business.

A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in instalments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

NBFCs are categorized a) in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs, b) non-deposit taking NBFCs by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND) and c) by the kind of activity they conduct. Within this broad categorization the different types of NBFCs are as follows:

I. **Asset Finance Company (AFC):** An AFC is a financial institution whose principal business is the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipment, moving on own power and general purpose industrial machines.

II. Investment Company (IC): IC is a financial institution; whose principal business is the acquisition of securities.

III. Loan Company (LC): LC is a financial institution, carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

IV. Infrastructure Finance Company (IFC): IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of ₹ 300 crore, c) has a minimum credit rating of ‘A ‘or equivalent d) and a CRAR of 15%.

V. Systemically Important Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities.

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

VII. Non-Banking Financial Company - Micro Finance Institution (NBFC: MFI): NBFC is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets.

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

IX. Mortgage Guarantee Companies (MGC) - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is ₹ 100 crore.

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

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.

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

CRISIL rates a wide range of entities like- Banks, industrial companies, NBFCs, mutual funds, state government.

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 an 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.

Managing Director & Group CEO of ICRA - Mr. Naresh Takkar

International Credit Rating Agencies

Fitch Ratings Inc. is one of the "Big Three credit rating agencies" and is one of the three nationally recognized statistical rating organizations (NRSRO) designated by the U.S. Securities and Exchange Commission in 1975.

The firm was founded by John Knowles Fitch on December 24, 1914 in New York City.

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, New York, U.S and London, England, U.K.

President & CEO- Paul Taylor

Moody's Investors Service

Moody's, is the bond credit rating business of Moody's Corporation.

Moody's Investors Service provides international financial research on bonds issued by commercial and government entities.

Moody's, along with Standard & Poor's and Fitch Group, is considered one of the Big Three credit rating agencies.

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

Chairman and CEO- Henry McKinnell

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.

S&P is known for its stock market indices such as the U.S.-based S&P 500, the Canadian S&P/TSX, and the Australian S&P/ASX 200.

Headquarters- New York, United States

President and CEO- Douglas L. Peterson

Foreign Investment in India

Any investment that is made in India with the source of funding that is from outside of India is a foreign investment. So, the investments that are made by Foreign Corporates, Foreign Nationals, as well as Non-Resident Indians would fall into the category of Foreign Investment.

Types of Foreign Investments

Funds from foreign country could be invested in shares, properties, ownership / management or collaboration. Based on this, Foreign Investments are classified as below.

- Foreign Direct Investment (FDI)
- Foreign Portfolio Investment (FPI)
- Foreign Institutional Investment (FII)

Foreign Direct Investment (FDI)

FDI is the investment through capital instruments by a person resident outside India

(a) in an unlisted Indian company; or

(b) in 10 % or more of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company.

If an existing investment by a person resident outside India in capital instruments of a listed Indian company falls to a level below 10 % of the post issue paid-up equity capital on a fully diluted basis, the investment will continue to be treated as FDI.

Foreign Portfolio Investment (FPI)

FPI consists of securities and other financial assets passively held by foreign investors. It does not provide the investor with direct ownership of financial assets and is relatively liquid depending on the volatility of the market. FPI differs from FDI, in which a domestic company runs a foreign firm, because although FDI allows a company to maintain better control over the firm held abroad, it may face more difficulty selling the firm at a premium price in the future.

Foreign Institutional Investment (FII)

FIIs are those institutional investors which invest in the assets belonging to a different country other than that where these organizations are based.

Foreign institutional investors are the big companies such as investment banks, mutual funds etc, who invest considerable amount of money in the Indian markets.

They are registered with SEBI.

External Commercial Borrowings (ECB) and Trade Credits

ECBs refer to commercial loans in the form of bank loans, securitized instruments, buyers' credit, suppliers' credit, Foreign Currency Convertible Bonds (FCCBs), Financial Lease and

Foreign Currency Exchangeable Bonds (FCEBs). The maturity period of ECBs depends on the type ECBs raised.

Trade Credits (TC) refer to credits extended for imports directly by the overseas supplier, bank and financial institution for maturity up to five years. Depending on the source of finance, such trade credits include suppliers' credit or buyers' credit.

Suppliers' credit relates to credit for imports into India extended by the overseas supplier, while buyers' credit refers to loans for payment of imports into India arranged by the importer from a bank or financial institution outside India.

Rupee Denominated Bonds

A rupee denominated bond is a bond issued by an Indian entity in foreign markets and the interest payments and principal reimbursements are denominated (expressed) in rupees.

The peculiarity of rupee denominated bond is that buying of bonds, interest payments and repayment all are expressed in rupees.
All payments are converted into corresponding dollar values at the time of payment.
The term **'masala bond'** is also used to describe rupee denominated ever since the first issuer of rupee-denominated bonds used the name masala bonds in its first issue.
The International Finance Corporation (IFC) – a World Bank affiliate is the first major issuer of rupee denominated bonds in the name tag of 'masala bonds'. Later, in September 2015, the RBI came out with detailed regulatory guidelines for the issue of rupee denominated bonds.

Remittances (Money Transfer Service Scheme (MTSS) and Rupee Drawing Arrangement (RDA)

Remittances are an important source of family and national income and also are one of the largest sources of external financing.

Beneficiaries in India can receive cross-border inward remittances through banking and postal channels.

There are two channels for receiving inward remittances, besides the International Financial System (IFS) platform of Universal Post Union (which is used for the postal channel) those are- Rupee Drawing Arrangement (RDA) and Money Transfer Service Scheme (MTSS) which are the most common arrangements under which the remittances are received into the country.

RDA is a channel to receive cross-border remittances from overseas jurisdictions.

Under this arrangement, the Authorised Category I banks enter into tie-ups with the non-resident Exchange Houses in the FATF compliant countries to open and maintain their Vostro Account.

There is no limit on the remittance amount as well as on the number of remittances. However, there is an upper cap of Rs.15.00 lakh for trade related transactions.

Money Transfer Service Scheme (MTSS) is a way of transferring personal remittances from abroad to beneficiaries in India.

Only inward personal remittances into India such as remittances towards family maintenance and remittances favouring foreign tourists visiting India are permissible.

Under the scheme there is a tie-up between reputed money transfer companies abroad known as Overseas Principals and agents in India known as Indian Agents who would disburse funds to beneficiaries in India at ongoing exchange rates.

Liberalised remittance scheme

Under LRS, all resident individuals can freely remit $250,000 overseas every financial year for a permissible set of current or capital account transactions.

Remittances are permitted for overseas education, travel, medical treatment and purchase of shares and property, apart from maintenance of relatives living abroad, gifting and donations.

Individuals can also open, maintain and hold foreign currency accounts with overseas banks for carrying out transactions.

However, the rules do not allow remittances for trading on the foreign exchange markets, margin or margin calls to overseas exchanges and counterparties and the purchase of Foreign Currency Convertible Bonds issued by Indian companies abroad.

As per recent RBI notification in 2018, a daily reporting system has been put in place. To improve monitoring and also to ensure compliance with the LRS limits, it has been decided to put in place a daily reporting system by AD banks of transactions undertaken by individuals under LRS, which will be accessible to all the other ADs.

Indo-Nepal Remittance Facility Scheme

It is a cross-border remittance scheme to transfer funds from India to Nepal, enabled under the NEFT Scheme.

The scheme was launched to provide a safe and cost-efficient avenue to migrant Nepalese workers in India to remit money back to their families in Nepal.

A remitter can transfer funds up to Indian Rupees 50,000 (maximum permissible amount) from any of the NEFT-enabled branches in India.

The beneficiary would receive funds in Nepalese Rupees.

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.

National Institute of Bank Management (NIBM)

• The Institute Established in 1969 by RBI, in consultation with the Government of India, as an autonomous apex institution, with the mandate of playing a proactive role of "think-tank" of the banking system.

• The Institute is located in Pune.

• NIBM is part of the grand vision of giving a new direction to the banking industry in India and making the industry a more cost-effective instrument for national development.

• Their role is to be the main research and academic arm of the banking industry for continuously upgrading the knowledge and skills relevant for its top management.

Hypothecation

• The term comes from civil law; although its usage varies from jurisdiction to jurisdiction, it is nearly synonymous to a lien or mortgage.

• 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 mortage 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.

Indian Depository Receipts (IDRs)

• IDR is financial instrument that allow different companies to mobilize funds from Indian markets by offering entitlement to foreign equity and getting instead on Indian stock exchanges.

• An IDR is an instrument denominated in Indian Rupees in the form of a depository receipt created by a Domestic Depository (custodian of securities registered with the Securities and Exchange Board of India) against the underlying equity of issuing company to enable foreign companies to raise funds from the Indian securities Markets.

• The company issuing IDR's should have a pre-issue paid-up capital and free reserves of at least 100 million US dollars, and an average turnover of us dollar is 500 million during the three financial years.

• An IDR is a depository receipt denominated in Indian rupees issued by a domestic depository in India.

• Since foreign companies are not allowed to list on Indian equity markets, IDR is a way to own shares of those companies. These IDRs are listed on Indian stock exchanges.

• Standard Chartered Plc is the first firm to come out with an IDR issue, offering its international shares through IDRs.

Priority Sector Lending Certificates (PSLC)

• PSLCs are tradable certificates issued against priority sector loans of banks so as to enable banks to achieve their specified target and sub-targets for priority sector lending.

• PSLCs aims that, banks can earn a premium for surpassing targets of priority sector lending. PSLCs are introduced to enhance lending under priority sector.

• PSLCs scheme was first suggested in the report of former governor of RBI, Dr. Raghu Ram Rajan led Committee on Financial Sector Reforms – 'A Hundred Small Steps'.

• There are four types of PSLCs- agriculture, small and marginal farmers, micro enterprises and general.

National Payments 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.

- The ten core promoter banks are State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union Bank of India, Bank of India, ICICI Bank, HDFC Bank, Citibank N. A. and HSBC.

- Chairman: Shri Biswamohan Mahapatra

- 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 centralised system, launched with an aim to consolidate multiple ECS systems running across the country and provides a framework for the harmonization of standard & practices and removes local barriers/inhibitors.

- NACH System can be used for making bulk transactions towards distribution of subsidies, dividends, interest, salary, pension etc. and for bulk transactions towards collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium etc.

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 are 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.

Asian Clearing Union (ACU)

ACU was established with its head-quarters at Tehran, Iran, on December 9, 1974 at the initiative of the United Nations Economic and Social Commission for Asia and Pacific (ESCAP), for promoting regional co-operation.

The main objective of the clearing union is to facilitate payments among member countries for eligible transactions on a multilateral basis, thereby economizing on the use of foreign exchange reserves and transfer costs, as well as promoting trade among the participating countries.

Members: The Central Banks and the Monetary Authorities of Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka.

Unstructured Supplementary Service Data (USSD)

USSD refers to unstructured supplementary service data. It is a technology that transmits information through GSM network channels - these channels are normally used for voice calls via your phone.

USSD-based communication can be used for checking account balance, generating mini statement, fund transfer via MMID (a code allotted by banks on mobile banking registration), IFSC code or Aadhaar number.

The telecom service providers will charge to use services.

The transactions limit for *99# banking is set to ₹ 5000 per transaction by RBI.

Payment and Settlement Systems Act, 2007

The PSS Act, 2007 provides for the regulation and supervision of payment systems in India and designates the RBI as the authority for that purpose and all related matters.

The Reserve Bank is authorized under the Act to constitute a Committee of its Central Board known as the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), to exercise its powers and perform its functions and discharge its duties under this statute.

The BPSS exercises the powers on behalf of the Reserve Bank, for regulation and supervision of the payment and settlement systems under the PSS Act, 2007. The later covers matters like form of application for authorization for commencing/ carrying on a payment system and grant of authorization, etc.

This is of great importance, as in India, other than the Real Time Gross Settlement (RTGS) system all other payment systems function on a net settlement basis.

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.

It would connect the utility service companies on one end and all payments service providers on the other.

Benefits: A bill can be paid anywhere and anytime.

There would be retail points for bill payments across the country who would be able to accept all kinds of bills payments made through credit cards, debit cards, mobile wallets, net banking (IMPS, NEFT).

Along with these, the BBPS platform would have fraud monitoring and risk mitigation systems in place in order to ensure smooth online transactions.

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-authorised Prepaid Payment Instrument (PPIs) issuers across the country.

PPIs are payment instruments that facilitate purchase of goods and services, including financial services, remittance facilities, against the value stored on such instruments.

Unbanked customers can also transfer funds through IMPS by using the services of PPIs.

Each bank has its own policy for setting up the limit for transfer under IMPS.

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.

The per transaction limit is Rs.1 lakh.

Bharat Interface for Money (BHIM)

BHIM is a digital payments solution app based on UPI from the National Payments Corporation of India (NPCI), the umbrella organisation for all retail payments systems in India.

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.

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