guidely

YouTube

THE COMPLETE – STATIC BANKING AWARENESS



BUNDLE PDF COURSE

- Topic-wise + Section-wise + Exam-wise Bundle PDF Courses (Get 50 Days Daily Targets)
- Separate Bundle Courses for Beginners
- All Exam Memory Based Paper Bundle Course
- Bilingual Questions (Eng & Hindi)
- Detailed Video Solution & Quiz Format

Guidely www guidely.in Grab Now

THE COMPLETE STATIC BANKING AWARENESS

S.NO	Content	Page Number
1.	Introduction	11
	1. Bank and its operations	
	2. Assets and liabilities	
	3. Net Interest Margin	
2.	Types of Accounts and Nomination	12
	1. Savings Account	
	2. Current Account	
	3. CASA Ratio	
	4. Inactive / Dormant Account	
	5. Fixed Deposit	
	6. Recurring Deposit	
	7. Bulk Deposit	
	8. Nomination facility	
3.	Financial Inclusion and Banking ombudsman	15
	1. No-Frill Account	

	2. BSBDA Account	
	3. PMJDY Account	
	4. Small Account	
	5. Banking Ombudsman	
	6. Types of Risks in banking	
4.	KYC, ATM services, and its Types	18
	1. KYC	
	2. ATM Services	
	3. Types of ATM	
	a) Onsite/Offsite ATM	
	b) White label ATM	
	c) Brown label ATM	
	d) Green Label ATM	
	e) Orange Label ATM	
	f) Yellow Label ATM	
	g) Pink Label ATM	
	h) Biometric ATM	
5.	NRI Accounts and Codes used for Payment facilities	21
	1. Classification (Tier 1 - Tier 6)	
	2. NRI	
	3. Bank Accounts for NRIs	

	4. NRO(Rupee Account)	
	5. NRE Account	
	6. FRNR(B) Account	
	7. LIBOR/DTAA	
	8. SNRR Account	
	9. Other Account	
6.	Payment Types	23
	1. Standing Instruction	
	2. Debit Card/Credit Card	
	3. Visa and Mastercard	
	4. NPCI and Its Operations	
	5. Payments and Settlements Systems	
	a) UPI(Unified Payment Interface)	
	b) BHIM(Bharat Interface for Money)	
	c) IFSC Code	
	d) NEFT Code	
	e) RTGS Code	
	f) IMPS	
	g) SWIFT Code	
	6. Currency Notes and their dimensions	
	7. PoS Terminals	

Click Here For Bundle PDF Course Click Here to Subscribe Our Yearly Mock Test Package

7.	**Negotiable Instruments**	29
	1. Negotiable Instrument Act, 1881	
	2. Bill Of Exchange	
	3. Promissory Note	
	4. Cheque	
	5. Associated with cheque	
	6. MICR Code On Cheque	
	7. Types Crossing	
	8. Demand draft/cheque	
	9. CTS – 2010	
8.	**Concept Of Loans and Advances**	33
	1. Loans and Advances	
	2. Index for loans	
	i) BPLR	
	ii) Base Rate	
	iii) MCLR	
	iv) External Bench Mark Rate(Repo Rate)	
	3. The Exception Category	
	4. DRI	

	5. Other exemptions	
	i) Crop loan	
	ii) Rupee export credit advances	
	6. ALMC(Asset Liability Management Committee)	
	7. Reverse Mortgage Loan	
	8. Secured Loan	
	9. Unsecured Loan	
	10. Term Loan / Revolving Credit	
9.	Types of Lending	36
	1. Overdraft/Cash credit Account	
	2. Fixed and floating interest rate	
	3. EMI	
	4. Moratorium and Amortization	
	5. Collateral Security	
	6. Lessor and Lessee	
	7. Bailor and Bailee	
10.	Priority Sector Lending	39
	1. Priority Sector Lending	
	2. Agriculture	
	3. MSME	

	4. Export Credit	
	5. Education	
	6. Housing	
	7. Social Infrastructure	
	8. Renewable Energy	
	9. Others	
	10. PLSC(Priority Sector Lending Certificates)	
11.	NPA and its resolution	42
	1. NPA	
	2. Substandard Assets	
	3. Doubtful Assets	
	4. Loss Assets	
	5. The action was taken by the bank against the NPA	
	6. JLF	
	7. SDR	
	8. CDR	
	9. DRT	
	10. ARC(SARFAESI ACT)	
	11. Petition in Court Law	
	12. Criminal cases against wilful defaulters	
12.	Monetary policy and RBI regulation	45

Click Here For Bundle PDF Course Click Here to Subscribe Our Yearly Mock Test Package

	1. Money flows in the banking systems	
	2. Reserve ratio	
	i) CRR	
	ii) SLR	
	3. Policy rate	
	i) Repo rate	
	ii) Reverse repo rate	
	iii) MSF	
	iv) Bank rate	
	4. Open Marketing Operations(OMO)	
	5. Quantitative Credit Controls	
	6. Qualitative Credit Controls	
	7. Disinvestments	
	8. Privatization	
	9. Fund based Support	
	10. Non-Fund based Support	
	i) Performance Guarantee	
	ii) Letter of credit	

13.	**BASEL Norms**	50
14.	**Types of money**	52
	1. Dear Money	
	2. Barren Money	
	3. Hot Money	
	4. Hard Currency	
	5. Fiat Money	
15.	**Types of Banking**	53
	1.Branch Banking	
	2.Para Banking	
	3.Universal Banking	
	4. Narrow Banking	
	5. Shadow Banking	
	6. Unit Banking	
	7. Retail Banking	
	8. Wholesale Banking	
	9. Virtual Banking	
	10. Chain Banking	
	11. Offshore Banking	
	12. Green Banking	

	13. Merchant Banking	
	14. Neo Banking	
16.	Institutions	55
	1. RBI (Reserve Bank of India)	
	2. BRBNMPL	
	3. DICGC	
	4. RRB	
	5. NABARD	
	6. Refinance/Direct finance	
	7. Lead Bank Scheme	
	8. Service Area Approach	
	9. Co-operative banks	
	10. MUDRA	
17.	Differentiated banks	61
	1. NBFC	
	2. Payment banks and small finance banks	
18.	History of Banking & Mergers and Banks	65
19.	Financial Market	67
	1. Money Market	

	i)Treasury bills	
	ii)Commercial Paper	
	iii)Certificate of deposit	
	iv)Cash Management bills	
	2. Capital Market	
	i) Equity	
	ii) Debentures	
20.	FDI & FPI	70
21.	Terminologies	71
22.	Abbreviations	78
23.	Schemes Related to Banking	85

Topic - 1: Introduction

1. **Bank and its operations**
   - ☞ A bank is a financial institution that accepts deposits from the public and creates Lending.
   - ☞ RBI is the sole regulator for the banking sector in India.
2. **Assets and liabilities**

Assets: (yield / income)

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

Liabilities: (cost fund)

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

3. Net Interest Margin

- ☞ Net interest margin is a gap between Assets and Liability. For example banks charges **9%** interest rate for loans.
- ☞ And it gives **4%** interest for the deposits that lie with the banks. Now **9% - 4% = 5%** will be the profit for the banks. The 5% is a net interest margin for the banks.
- ☞ Net Interest Margin (NIM) is an important parameter for the survival of any banking system.
- ☞ At present, some new generation private sector banks along with SBI can achieve +3% NIM, which is the benchmark for profitable banking operations.
- ☞ But most of the public sector banks are struggling with NIMs of 2.5% and 4.5% (Vary quarterly & Vary from bank to bank).
- ☞ Hence these banks are not able to achieve desired levels of profitability.
- ☞ To get high **net interest margin** banks should reduce the cost **of funds**.

Topic - 2: Types of Accounts and Nomination

1. Savings Account

- ☞ It is especially for individuals and small businesses. It creates savings habits for people in the country.
- ☞ Saving Account eligible for **Resident Indians above 18 years age** (for 10 to 18 years age group account is allowed with some restrictions and for persons below 10 years, minor account with the guardian is to be opened)
- ☞ Saving Accounts **Interest rates vary from 2.5% to 8%** (Most banks offer 3.5% at present)
- ☞ ECS (Electronic Clearing Service) is a valid system, but most banks have transitioned to the more efficient and nationwide **NACH** (National Automated Clearing House) platform, managed by the National Payments Corporation of India (NPCI). ECS is still technically allowed but NACH is the prevailing standard for recurring payments.
- ☞ No tax is payable on interest earned on saving bank account up to **Rs.10,000** per year
- ☞ From 1st April 2020, the **interest is calculated daily**
- ☞ The minimum balance varies from bank to bank. Normally Rs.500/- (without cheque book). Rs.1000/- (With cheque book)

2. Current Account

- ☞ Firms and companies are eligible to open a current account
- ☞ Meant for businesses men, to run businesses

- ☞ Normally firms/companies/trusts/associations of persons can open the current Account that carries no interest on deposits.
- ☞ Banks will charge service charges to account holders.
- ☞ **Savings and Current Accounts** are called **demand deposits**. We can withdraw money at any time

3. CASA Ratio

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

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

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

4. Inactive /Dormant Account

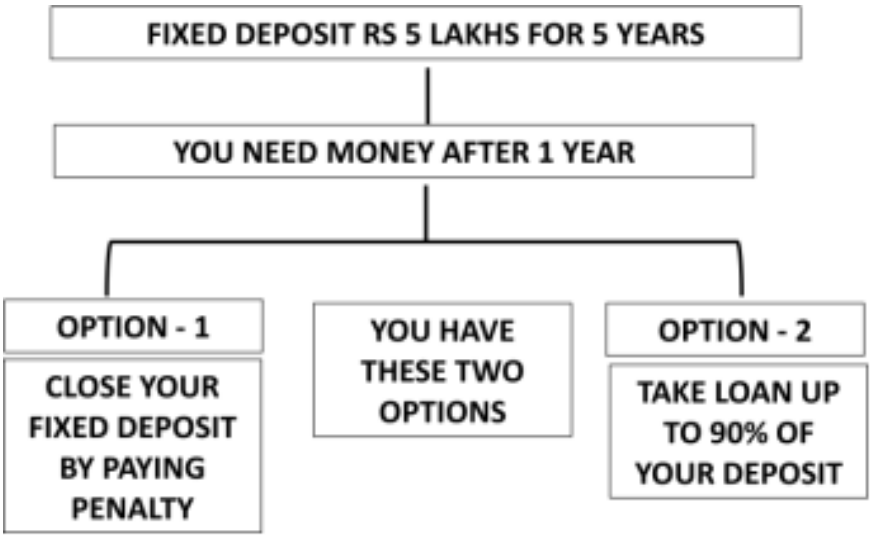
- ☞ An inactive/dormant account is a bank account with no customer-initiated transactions for a specific period, typically **12 months** for **"inactive"** and **24 months** for **"dormant".**
- ☞ Such deposits unclaimed for more than 10 years are to be transferred to RBI.
- ☞ Now, RBI will use this amount for the DEAF(Depositor Education Awareness Fund) Scheme to educate the depositors.
- ☞ The RBI has also launched a one-year incentive scheme for banks to proactively reduce these unclaimed deposits.
- ☞ Banks will get a 5% incentive for accounts idle for up to four years (or ₹5,000, whichever is lower) and 7.5% for accounts dormant for over ten years (or ₹25,000, whichever is lower)

5. Fixed Deposit

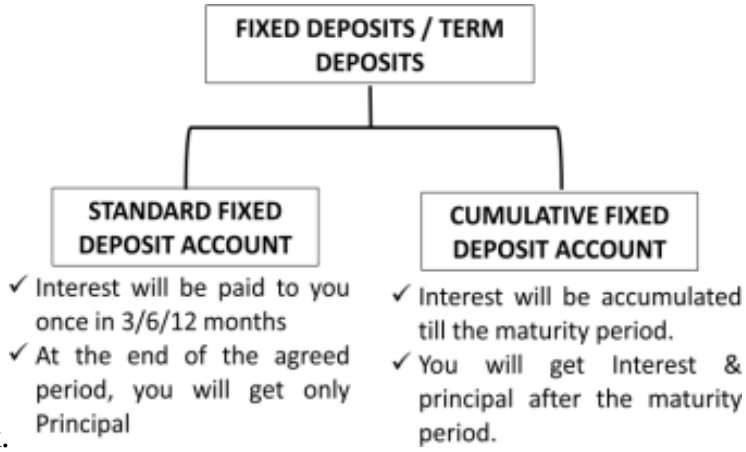
- ☞ The account can be operated for a tenure ranging from 7 days to 10 years
- ☞ If the deposits are Rs. 3 crore or more, they come under the **bulk deposits** and interest rates may vary further
- ☞ Interest will be paid at the **contracted rate for the agreed period**
- ☞ **A loan facility is available for up to 85- 95% (depending on the bank)** of the outstanding principal and accrued interest, generally
- ☞ Moreover, **Tax Deduction at Source (TDS) will be ensured by the bank**, if the interest income is more than Rs. 50,000/- (Rs 1,00,000 for senior citizens) in a financial year.
- ☞ The current rate of TDS for residents on interest income over the above limits is **10%,** provided the Permanent Account Number (PAN) has been submitted to the bank.

Click Here For Bundle PDF Course Click Here to Subscribe Our Yearly Mock Test Package

- If the PAN is not provided, the TDS rate is **20%**



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



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

6. Recurring Deposit

- Most of the features are like fixed deposits
- It is a monthly deposit with the bank for an agreed period
- Interest is credited on the accumulated balance at regular intervals
- These are designed to induce small savers to save regularly
- The tenure of an RD account is usually **between 6 months and 10 years**.

7. Bulk Deposit

- ☞ Deposits of Rs.3 crore and above constitute bulk deposits
- ☞ Interest rates vary based on the quantum of deposit
- ☞ High-interest rates, so the cost of funds is high
- ☞ Normally these deposits are obtained from High Net-worth **individuals**

8. **Nomination facility**
   - ☞ Banking Companies (Nomination) rules 1985 permit banks to pay dues to the nominee in the event of death of depositor(s) Without asking for succession certificate, Without verifying claims of legal heirs
   - ☞ The nomination facility is normally available for Savings, Fixed, and Recurring deposit accounts
   - ☞ For Current account deposits, it is available only in a few cases
   - ☞ It is advisable to record 'nominee' for any bank transaction
   - ☞ Nominee means "A person who is proposed or formally entered as the recipient of a grant or award"

Topic -3: Financial Inclusion and Banking ombudsman

1. **No-Frill Account(Nov 2005)**
   - ☞ It is a **zero-balance account.** No other facilities are available.
   - ☞ In August 2012, all the 'No-Frills' accounts converted to Basic Savings Bank Deposit Accounts (BSBDAs)
2. **BSBDA Account**
   - ☞ The facility of **ATM cum debit card** at free of cost.
   - ☞ No limit on the number of times for depositing the amounts.
   - ☞ **Only four withdrawals per month** at the branch or ATMs.
   - ☞ Banks can decide about the price structure, if more than the above facilities are required **KYC norms** are to be followed**.**
   - ☞ However, if proper KYC norms are not satisfied, then the account should be treated as a "BSBDA – SMALL ACCOUNT".
   - ☞ Customers can have **only one BSBDA in one bank**
3. **PMJDY Account**
   - ☞ The Pradhan Mantri Jan Dhan Yojana (PMJDY), launched by Prime Minister Shri **Narendra Modi** on **28th August 2014**
   - ☞ No minimum balance.
   - ☞ Interest on deposit.

- ☞ Accident insurance covers **Rs.2,00000/-** to all the account holders.
- ☞ **Life Insurance cover of Rs.30,000/-** to all the account holders (However, the Govt. stated that this is applicable for the accounts opened up between August 15, 2014, and January 31, 2015)
- ☞ After satisfactory operation of the account for 6 months, the **overdraft facility of Rs.10,000/-** to one member of the family (Preferably, the lady of the household)
- ☞ Rupay card free of cost
- ☞ Age Limit- 18 to 65 years.

4. Small Account

- ☞ When the customer is not able to satisfy KYC norms. This account has got several restrictions.
- ☞ The aggregate of all deposits **shall not exceed Rs.1 lakh per annum**
- ☞ The aggregate of all withdrawals and transfers in a month **shall not exceed Rs.10,000/-**
- ☞ The maximum balance at any point in time shall not exceed **Rs.50,000/-**
- ☞ Withdrawals at the base branch **only through withdrawal slip / Loose leaf**
- ☞ However, small accounts are **valid for 12 months** initially, which may be extended by another 12 months, if the person provides proof of having applied for an **Officially Valid Document (OVD).**
- ☞ Foreign remittance **cannot be credited** to small accounts without completion of normal KYC formalities.
- ☞ Small accounts can only be opened at **CBS linked branches** of banks or at such branches where it is possible to manually monitor the fulfilments of the conditions

5. Banking Ombudsman

- ☞ A senior official appointed by RBI to redress **customer complaints** against deficiency in certain banking services.
- ☞ Under **section 35A of the Banking Regulation Act 1949**
- ☞ The Banking Ombudsman Scheme was first introduced in 1995.
- ☞ The current scheme, the RB-IOS 2021, became operative on **November 12, 2021**, integrating the 2006 scheme and others.

- ☞ Offices of the RBI Ombudsman (ORBIOs) function from 22 locations, but the scheme is now **jurisdiction-neutral** (One Nation One Ombudsman approach), meaning a complainant can file from anywhere to a centralised processing center.
- ☞ The coverage has been expanded in the current scheme to include many Non-Banking Financial Companies (NBFCs) and Credit Information Companies, as well as Non-Scheduled Primary (Urban) Co-operative Banks with a deposit size of ₹50 crore and above.
- ☞ State and Central Cooperative Banks are also being included under the ambit from November 1, 2025.
- ☞ **Customers can complain about** Non-payment or inordinate delay in payment of cheques, drafts, bills, etc…
- ☞ Also, RBI has later included the facility for net banking, digital transactions, mobile banking, Debit card, Credit card, ATM-related, etc…

HOW TO COMPLAIN?

- ☞ First, we should approach the bank for any grievances.
- ☞ If the grievance **is not settled by the bank within 30 days** (If not replied / rejection by bank/reply does not satisfy the customer), **then we can approach the Banking Ombudsman within 1 year.**
- ☞ Complaints can be lodged on **plain paper** or by sending **e-mail requests**.
- ☞ **No charges involved.**
- ☞ Under the current RB-IOS 2021, the maximum award amount for financial loss is ₹20 lakh, in addition to up to ₹1 lakh for mental agony/harassment for all covered complaints (including credit card issues).
- ☞ A draft proposal in October 2025 has suggested increasing this limit to ₹30 lakh for financial loss and ₹3 lakh for mental agony, but the current limit as of November 2025 is ₹20 lakh + ₹1 lakh.
- ☞ If a customer is not satisfied, either of the parties can approach the **appellate authority within 30 days.**
- ☞ The Appellate Authority is now the Executive Director-in-charge of the Consumer Education and Protection Department of the RBI.

6. Types of Risks in Banking

Financial Risk:

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

Market Risk:

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

Credit Risk:

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

Interest Rate Risk:

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

Liquidity Risk:

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

Operational Risk:

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

Capital Risk:

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

Foreign Exchange Risk:

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

Systemic Risk:

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

Reputational risk:

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

- Reputational value is often measured in terms of brand value.

The reputational risk could stem from:

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

Topic - 4: KYC, ATM services, and their Types

1. **KYC(Know Your Customer)**
   - This is a customer identification process, before the opening of accounts
   - This involves '**identity**" and "**address**"
   - To prevent banks from being used (intentionally / unintentionally) **for money laundering**
   - RBI issued guidelines to banks under **section 35A of the Banking Regulation Act 1949 and rule 7 of the money** laundering rules 2005 to prevent banks from misuse.

   It involves (i) "**Legal Name Verification**"

   (ii) "Correct Permanent Address"

   - **KYC is to be verified periodically**, the schedule is given separately for customers

   Classified as

   i) Low Risk

   ii) Medium Risk

   iii) High Risk

PERIODICAL VERIFICATION OF KYC

- Periodical verification of KYC is done by banks as per the following schedule

Low-risk customers →once in 10 years

Medium-risk customers → once in 8 years

High-risk customers → once in 2 years

- **If the person is not able to provide KYC Documents (OVD) to the bank, he can still open a bank account, which is known as a small account.**

Officially Valid Documents required for KYC:

- Passport Driving Licence
- Voters' Identity Card

- PAN Card
- Aadhaar Card issued by UIDAI
- NREGA Card
- Letter from the National Population Register containing details of name and address

2. ATM Services

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

RBI GUIDELINES ON SERVICE AT ATMs:

☞ Banks are required to ensure **pro-active reversal** of funds for failed ATM transactions (where the account is debited but cash is not dispensed) within a maximum of **T+5 calendar days**, where 'T' is the date of the transaction.

☞ If not, **banks should pay Rs.100/- per day** for delays beyond **T+5 days.**

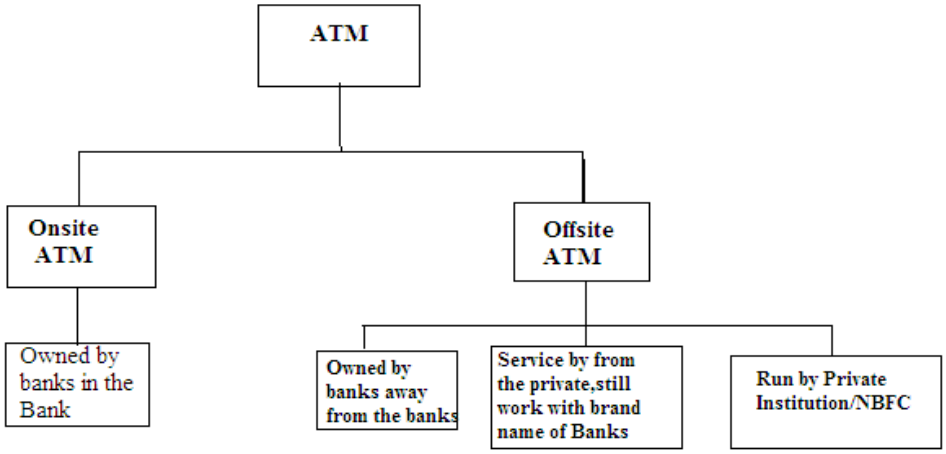
☞ The compensation is to be credited to the customer's account automatically, without the need for a separate claim.

☞ A customer is entitled to receive this compensation for delay only if a claim for the failed transaction itself is lodged with the issuing bank within **30 days** of the date of the transaction.

☞ The right to lodge the initial complaint for the principal amount is not time-barred by the **30-day** limit, but the claim for the daily compensation is.

☞ If a customer is not satisfied, one can approach the **Reserve Bank - Integrated Ombudsman Scheme, 2021**

3. Types of ATM



4. Onsite/Offsite ATM

- ☞ Onsite ATMs are atm within the bank premises.

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

   Ex : Indicash,India One

6. **Brown label ATM**
   - ☞ Brown label' ATMs are those Automated Teller Machines where hardware and the lease of the ATM are owned by a service provider, but cash management and connectivity to banking networks are provided by a sponsor bank whose brand is used on the ATM.
7. **Green Label ATM**
   - ☞ ATM is provided for Agricultural Transaction
8. **Orange Label ATM**
   - ☞ It is provided for Share Transactions
9. **Yellow Label ATM**
   - ☞ These are provided for E-commerce
10. **Pink Label ATM**
    - ☞ Such ATMs are monitored by guards who ensure that only women access these ATMs. The sole purpose of such ATMs is to mitigate the problem of women standing in long queues of ATM
11. **Biometric ATM**
    - ☞ ATMs use security features like fingerprint scanners and eye scanners for the customer to access their bank details.

Topic - 5: NRI Accounts and Payment facilities

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

CLASSIFICATION OF CENTRES	POPULATION
Tier 1	1,00,000 and above

Tier 2	50,000 to 99,999
Tier 3	20,000 to 49,999
Tier 4	10,000 to 19,999
Tier 5	5,000 to 9,999
Tier 6	Less than 5000

2. **NRI(Non Resident Indian)**
   - ☞ An Indian citizen, who resides outside India and holds an Indian Passport
3. **Bank Accounts for NRIs**
   - ☞ NRO account(Non-Resident Ordinary rupee/account)
   - ☞ NRE account(Non-Resident External rupee account)
   - ☞ FCNR(B) account(Foreign Currency Non-Resident (Bank) account)
4. **NRO Account(Non-Resident Ordinary Rupee Account)**
   - ☞ Account will be in **Indian rupees and with banks authorized by RBI.**
   - ☞ Can be opened jointly with resident Indian
   - ☞ If a citizen becomes an NRI, his existing account becomes an NRO account
   - ☞ Can be in the form of **SA / CA / RD / FD**
   - ☞ Income tax will be deducted as per the rules
   - ☞ There is a limit on the repatriation of funds. **(Maximum of $ 1 million per year)**
5. **NRE Account(Non-Resident External Rupee Account)**
   - ☞ Account will be in Indian rupees and with banks authorized by RBI.
   - ☞ Can be opened as a joint account with another NRI.
   - ☞ The amount to be deposited in this account is earned on foreign land only.
   - ☞ Can be in the form of SA / CA / RD / FD
   - ☞ The minimum tenure of term deposits will be 1 year.
   - ☞ No income tax will be deducted in India.
   - ☞ Fully repatriable to foreign countries.

6. **FCNR(B) Account(Foreign Currency Non-Resident (Bank account)**
   - ☞ Only **fixed deposit accounts** can be opened with banks authorized by RBI.
   - ☞ **Minimum term 1 year and maximum term 5 years.**
   - ☞ Can be maintained in approved **foreign currencies**.
   - ☞ No income tax will be deducted in India.
   - ☞ **Fully repatriable to foreign countries.**
7. **LIBOR/DTAA**

LIBOR	DTAA
It is **London Interbank Offered Rate**	**It is a Double Taxation Avoidance Agreement**
It *was* the primary global benchmark, but it has largely been **discontinued** and replaced by alternative reference rates (ARRs) like the Secured Overnight Financing Rate (SOFR) due to manipulation scandals and a lack of underlying transactions.	It is an agreement between two countries to avoid **taxation of the same income in both countries.**
But institutions have now transitioned to using alternative benchmarks for new contracts, and existing contracts have largely been updated with fallback provisions.	For availing of the DTAA benefit, the NRI has to submit a "Tax Residency Certificate" (TRC) to the bank annually.

8. **SNRR Account (External Commercial Borrowing)**
   - ☞ Any person residing outside India. Having a business can open (an SNRR account) with an authorized dealer to put through bonafide transactions in the rupee which are conformity.
9. **Other Accounts:**

Nostro Account:

- An account held by a domestic bank in a foreign bank's currency.
- For example- HDFC Bank has an account in USD with a bank like Citibank in New York.

Vostro Account:

- The same account as the Nostro account, but from the foreign bank's perspective.
- Example: Citibank holds HDFC Bank's account in USD in New York. From Citibank's point of view, this is a Vostro account.

DEMAT Account:

- DEMAT stands for **Dematerialised Accounts.**
- These accounts are used to transact shares in electronic format.
- Market regulator Sebi is increasing the maximum value of investments allowed in a Basic Service Demat Account (BSDA) **from Rs 2 lakh to Rs 10 lakh**. This change will take effect on **September 1, 2024.**

Dormant Account:

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

Escrow Account:

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

GILT Account:

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

Topic - 6: Payment Types

1. **Standing Instruction**
   - ☞ It is an instruction/order a bank account holder gives to his/her bank to pay a set of the amount at regular bank intervals to another account.
   - ☞ Ex: Salary payments, payments of bills, electricity bills, repayment of the loan, inter-account transfer of funds
2. **Debit Card/Credit Card**
   - ☞ Both are plastic cards, that work on some financial platforms like Visa, MasterCard, RuPay
   - ☞ They are the instruments to facilitate financial transactions, without the need for carrying cash.
   - ☞ Liquidity is assured on a 24x7 basis.

	Credit Card	Debit Card

Eligibility Criteria	Need to be fulfilled	No Criteria
Maximum Limit	Determined on Credit score, Credit history, etc.	Less than savings or current account balance to which the card is linked
Interest	Interest is charged on the outstanding balance only if the bill is not paid in full by the due date. If paid in full within the grace period, no interest is charged.	Interest may be earned on the balance in the *savings account* it's linked to, as per the account terms, but the debit card transaction itself doesn't involve interest charges or payments.
Debt Instrument	Yes	No
Utilization Summary	Monthly Credit statement	Monthly Bank Statement

3. Visa and Mastercard

- VISA (Visa International Service Association) and MasterCard are Payment processing institutions and several financial institutions use these platforms to facilitate services through Debit cards and Credit cards and for other electronic transactions across the world.
- Both VISA and MASTERCARD are accepted at several merchant outlets.
- NPCI DEVELOPED RUPAY PLATFORM (Developed by India on May 8th 2014)
- NPCI launched a subsidiary called **NPCI International Payments Limited (NIPL) on 19 August 2020** to increase the globalisation and availability of RuPay in foreign markets.

4. NPCI and Its Operations

- It is the National Payments Corporation of India.
- It is incorporated in December 2008 and the Certificate of Commencement of Business was issued in April 2009.
- The organization is registered under **section 8 of the Companies Act 2013 (erstwhile section 25 of the Companies Act 1956)** and has been granted the status of **'Unlisted Public Company'** under the Companies Act 2013.
- Authorized capital→₹3 billion
- Paid-up capital→₹1 billion (at the time of its incorporation in 2008-2009)
- **Current Paid-up Capital**: As of March 31, 2025, the paid-up capital has increased to approximately **₹1.4 billion**

Products of NPCI:

1. National Financial Switch(NFS)
2. Automated Clearing House
3. Immediate Payment Service
4. Cheque Truncation System
5. Aadhar Payment Bridge System
6. Rupay Card
7. Aadhaar Enabled Payment System (AePS)
8. Bharat Bill Payment System (BBPS)
9. Unified Payments Interface (UPI)
10. National Common Mobility Card - Rupay Contactless
11. Immediate Payment Service (IMPS)
12. Digital Rupee
13. BHIM
14. BharatQR

5. Payments and Settlements System

UPI(Unified Payment Interface)

- Unified Payments Interface (UPI) is an instant payment system developed by the National Payments Corporation of India (NPCI), an RBI-regulated entity in 2016.
- UPI is built over the IMPS infrastructure and allows you to instantly transfer money between any two parties' bank accounts.
- A Virtual Payment Address (VPA) is a unique identifier that you can use to send and receive money on UPI.

NPCI Increases UPI Transaction Limit

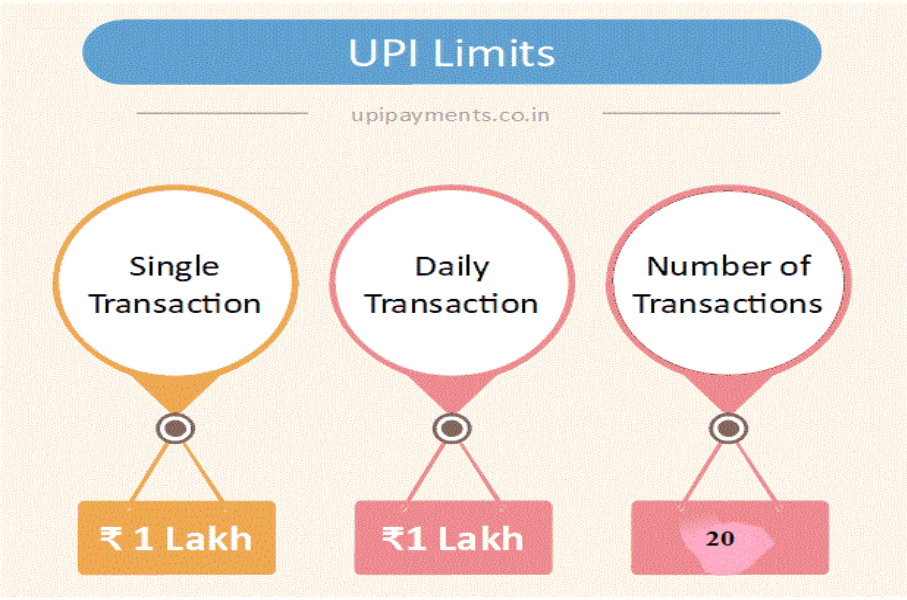
- The National Payments Corporation of India (NPCI) has announced an increase in the limit for Unified Payments Interface (UPI) transactions. This change, effective from **September 15, 2025**, is aimed at enhancing user convenience for high-value transactions.

UPI Transaction Limits

- **Standard Transaction Limit**: ₹1 lakh per day (The new limits apply to specific Person-to-Merchant (P2M) categories, not Person-to-Person (P2P) transfers)
- Capital markets, insurance, and foreign inward remittances have a limit of **₹2 lakh per transaction**, with a daily aggregate limit of ₹10 lakh for some.
- No change in Person-to-Person (P2P) daily limit, which remains ₹1 lakh.

New Transaction Limit for Certain Payments

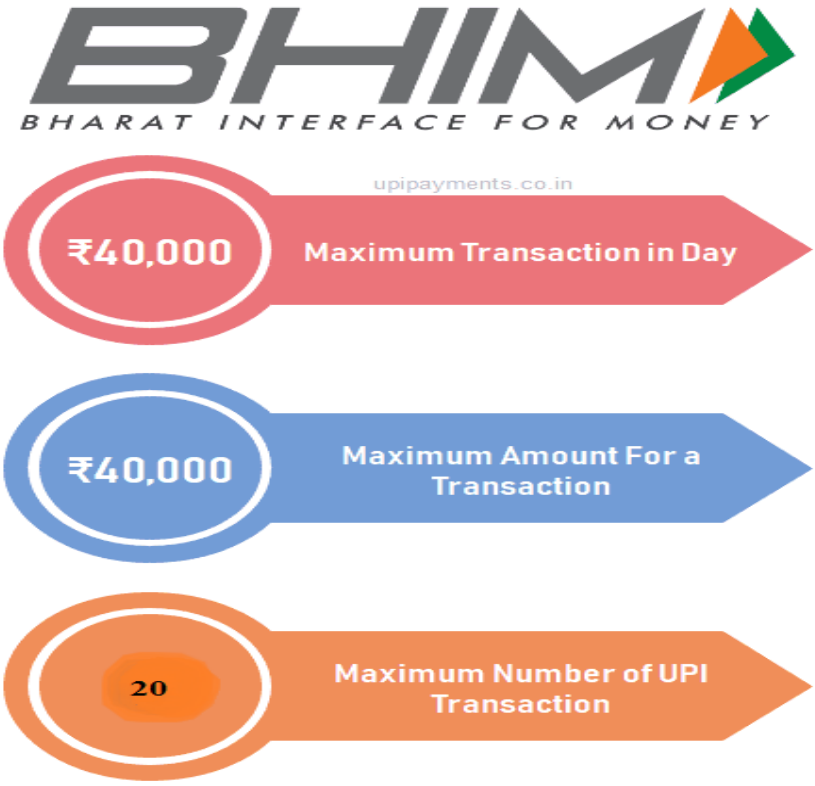
- The new measure raises the UPI transaction limit to **₹5 lakh** for specific types of payments:
- **Tax payments**
- **Payments to hospitals**
- **Payments to educational institutions**
- **Investments in IPOs**
- **RBI retail direct schemes**
- The maximum number of UPI transactions is limited to 20 per day.
- The new guidelines on UPI transaction fees of up to **1.1%** are applicable to merchants accepting payments **above Rs.2,000** using PPIs, such as mobile wallets.
- Individuals making personal transactions using UPI are not charged any fees. Thus, UPI payments of any amount for personal transactions are **free**.
- [#UPI Chalega] is a campaign by NPCI to promote the UPI payment system.
- NPCI, National Payment Corporation of India is trying to drive up the digital payment system through this campaign. (Google pay and Phone pe are promoting UPI effectively)



BHIM(Bharat Interface money)

- Bharat Interface for Money (BHIM) is a payments app that facilitates simple and quick transactions using the Unified Payments Interface. It allows you to make direct bank payments to any bank account on **UPI** with the help of a UPI ID and PIN. In another case, you can scan a QR code with the BHIM app to transfer money.

- The **BHIM app** was developed by the **National Payments Corporation of India (NPCI)**. It was launched by the Prime Minister of India, Narendra Modi on 30 December 2016 to realize a digitally empowered society.
- BHIM is a UPI-based payment interface that allows real-time fund transfer using a single identity like your mobile number or name.
- Currently, it is available in **20 languages**, i.e., Hindi, English, Tamil, Telugu, Malayalam, Bengali, Odia, Kannada, Punjabi, Assamese, Urdu, Marathi, Gujarati, Haryanvi, Bhojpuri, Konkani, Manipuri, Khasi and Mizo.
- Dial ***99#** to avail features of BHIM without internet on any mobile phone.
- A user can send up to Rs 100,000 per transaction and a maximum of Rs 100,000 per day for one bank account.
- This limit is available per bank account linked on BHIM.
- There is no limit to the amount of money you can receive via BHIM.



IFSC Code

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

4 Alpha Characters	0	Last 6 digits

- The First 4 characters represent the bank name
- Fifth digit buffer
- The last six digits represent the bank branch

NEFT Code

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

RTGS Code

- 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, is now available round-the-clock (24x7x365) from December 2020.
- Earlier, RTGS was available for customers from 7.00 am to 6.00 pm on all working days of the week, except the second and fourth Saturdays of every month.
- Minimum Limit- 2 lakh, Maximum Limit- No
- Unique Transaction Reference (UTR) number is a 22-character code used to uniquely identify a transaction in RTGS system.
- With effect from July 01, 2019, RBI has waived the processing charges levied by it for RTGS transactions.

- a) Inward transactions – Free, no charge to be levied.
- b) Outward transactions – ₹ 2,00,000/- to 5,00,000/-: not exceeding ₹ 25/- (exclusive of tax, if any)
- Above ₹ 5,00,000/-: not exceeding ₹ 50 (exclusive of tax, if any)
- Banks may decide to charge a lower rate but cannot charge more than the rates prescribed by RBI.

IMPS Mode

- ☞ IMPS stands for Immediate Payment Service in Indian banking system terminologies.
- ☞ The major feature of IMPS is that it is available at all times for usage. (24/7)
- ☞ It transfers funds instantly and is a great banking platform in case of emergencies.
- ☞ The transaction charges of this platform are also very nominal and the transfer limit is also considerable, approximately Rupees 5 lakhs per day.
- ☞ Moreover, IMPS is available on mobile too which makes it super-convenient

SWIFT Code

- ☞ SWIFT stands for Society for Worldwide Interbank Financial Telecommunication
- ☞ SWIFT Code is a standard format of Bank Identifier code.
- ☞ This code is used particularly for interbank transfer of money between banks & the majority of FOREX-related messages are sent to correspondent banks abroad with the help of the SWIFT code.
- ☞ SWIFT Code consists of 8 or 11 characters when the code is 8 digits, it refers to the primary office.

4 digits – Bank code

2 digits – Country code

2 digits – Location code

3 digits – Branch code (optional)

- ☞ On November 14, 2019, **India, China and Russia** have partnered together to explore an alternative to the **SWIFT (Society for Worldwide Interbank Financial Telecommunication)** payment mechanism in-order to smoothen the trade with countries that face American sanctions
- ☞ India has a highly developed and widely used domestic system called the **Unified Payments Interface (UPI).**

6. Currency Notes and their dimensions:

Currency Notes	Dimensions	Base Colour	Motif(image)

1 Rupee Note	**97mm X 63 mm**	**Pink Green**	**Sagar Samrat**
10 Rupee Note	**63 mmX123 mm**	**Chocolate Brown**	**Sun Temple(Odisha)**
20 Rupee Note	**63 mmX129mm**	**Greenish Yellow**	**Ellora Caves (Maharashtra)**
50 Rupee Note	**66 mmX135 mm**	**Fluorescent Blue**	**Hampi with Chariot (Karnataka)**
100 Rupee Note	**66 mmX142 mm**	**Lavender**	**Rani Ki vav (Gujarat)**
200 Rupee Note	**66 mmX146 mm**	**Bright Yellow**	**Sanchi Stupa (Madhya Pradesh)**
500 Rupee Note	**66 mmX150 mm**	**Stone Grey**	**Red Fort(Delhi)**
2000 Rupee Note	**66 mmX166 mm**	**Magenta**	**Mangalyaan**

Fact about the Symbol of the Indian rupee

- Symbol or Sign of Indian rupee ➥ **Devanagari letter "₹" (ra)**
- The rupee sign was adopted in ➥ **2010.**
- It was designed by ➥ **Udaya Kumar Dharmalingam**

Security Printing Press and Mints of India

- The Security Printing and Minting Corporation of India (SPMCIL) is responsible for the production of Currency and Banknotes, Commemorative Coins, etc.
- The SPMCIL is a statutory body, that works under the jurisdiction of the Ministry of Finance, Government of India.

- The SPMCIL was established on **13 January 2006.**
- The headquarters of SPMCIL is located in New Delhi.
- The Security Printing & Minting Corporation of India Ltd. (SPMCIL) comprises nine units.
    1. 4 mints
    2. 4 presses
    3. 1 paper mill
- These four mints are located in **Mumbai, Kolkata, Hyderabad, and Noida.**
- The four security presses are located in **Hyderabad and Dewas, with two located in Nashik.**
- The security paper mill is located at **Hoshangabad, Madhya Pradesh.**
- The coins are issued for circulation only through the Reserve Bank in terms of Section 38 of the RBI Act.

Language & Key points of Banknotes

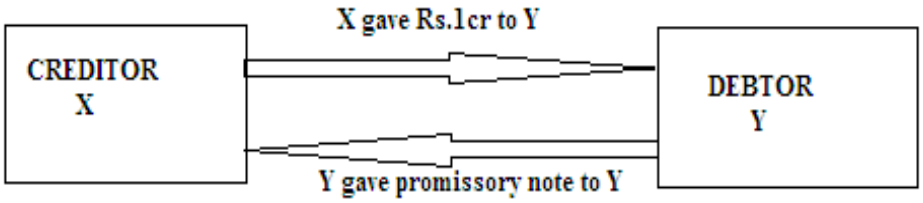
- Indian rupee banknotes feature its value written in **17 languages**, with Braille language added for the visually impaired.
- On the front side, the denomination is presented in both **English and Hindi.**
- The reverse side includes a language panel showcasing the denomination in 15 of the 22 official languages of India.
- These languages are arranged alphabetically and include Assamese, Bengali, Gujarati, Kannada, Kashmiri, Konkani, Malayalam, Marathi, Nepali, Odia, Punjabi, Sanskrit, Tamil, Telugu, Urdu, and Braille.
- This inclusive approach ensures accessibility and representation for diverse linguistic communities across the country.
- The paper currently being used for printing of banknotes in India is made by using 100% cotton.
- The highest denomination note ever printed by the Reserve Bank of India was the ₹10000 note in 1938 which was demonetized in January 1946.
- The ₹10000 was again introduced in 1954. These notes were demonetized in 1978.
- The Reserve Bank presently manages the currency operations through its 19 Issue Offices located at Ahmedabad, Bengaluru, Belapur, Bhopal, Bhubaneswar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Jammu, Kanpur, Kolkata, Lucknow, Mumbai, Nagpur, New Delhi, Patna, Thiruvananthapuram and a currency chest at its Kochi office
- As of February 28, 2025, there were **2,299** small coin depots.

7. POS Terminal(POINT OF SALE TERMINALS)

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

Topic - 7: Negotiable Instruments

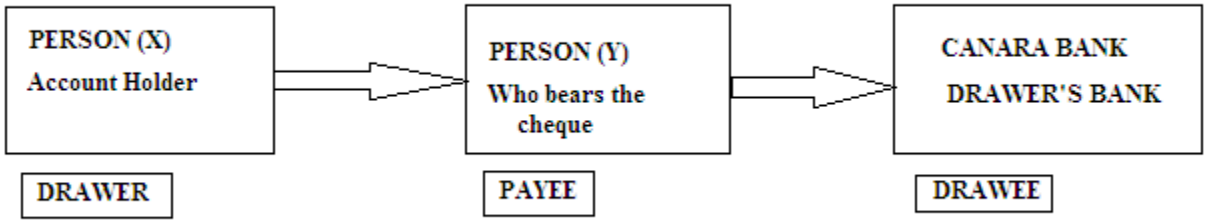
1. **Negotiable Instrument Act, 1881**
   - These are written documents.
   - Transferable from **one person to another** merely by delivery in case of "**bearer instrument**" and transferable by endorsement in case of "**order instrument**".
   - The owner is the "**bonafide holder for value**".
2. **Bill of Exchange**
   - It must be in writing and duly signed by its drawer.
   - It should contain an order to pay.
   - The parties to the transaction **must be certain**.
   - A bill of exchange is used in transactions about goods as well as services. It is signed by a party who owes money (called the payer) and given to a party entitled to receive money (called the payee or seller), and thus, this could be used for fulfilling the contract for payment.
3. **Promissory Note**
   - A promissory note is an unconditional commitment made in writing and signed by a debtor to make payment to a specified person or the order within a specified period.
   - It is always in writing. No verbal promise is accepted.
   - It is drawn for a specified duration for a **specified sum of money**.



4. **Cheque**
   - A cheque is a negotiable instrument. It contains an unconditional **order to pay** a certain sum of money.
   - It contains instructions in writing given by the account holder to his bank for payment of money from his account. There is a statutory obligation on the part of a banker to make the payment if,
   - It is **drawn by the drawer.**
   - It is drawn upon a specified banker.

- It is payable on demand to a specific person or his order or the bearer of the instrument. The cheque should be properly dated.
- It should be signed by the maker/drawer
- There are three parties in the cheque transaction
  - **Drawer**
  - **Drawee**
  - **Payee**
- If it is a self-cheque, the payee will be the drawer only.

CHEQUE ISSUED TO ANOTHER PERSON



5. **Associated with cheque**

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

Bearer cheque ------->A cheque payable to a person who soever bears.

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

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

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

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

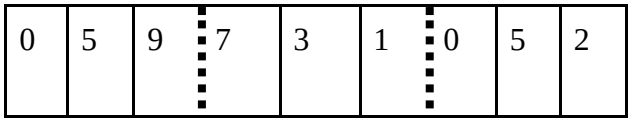
Open cheque ---->Cheque which has not been crossed.

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

6. **MICR Code On Cheque**

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

- Last three digits … location of branch/branch name



7. Crossing of Cheque

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

Types of Crossing of Cheque:

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

Endorsement of Cheque:

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

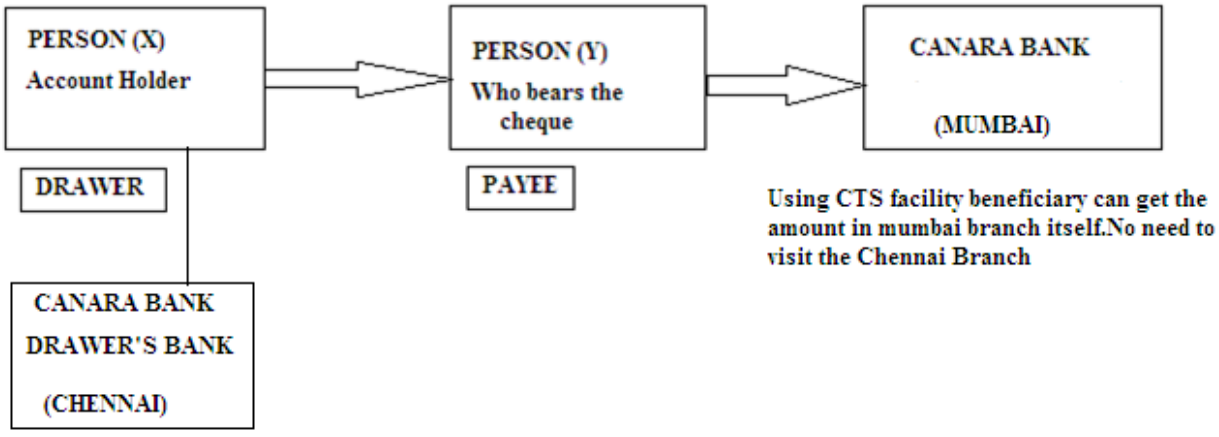
8. Demand draft/ cheque

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

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

9. CTS - 2010

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



Topic - 8: Concept of Loans and Advances

1. Loans and Advances

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

2. Index for loans

i) BPLR(2003)

- It is a BenchmarkPrimeLendingRate.It is not transparent.it resulted in one borrower getting a loan at lower interest than the other.
- RBI constituted a working group under the **Chairmanship of Shri Deepak Mohanty** to review the rate.
- The committee suggested **changes to make credit pricing more transparent and submitted a report in October 2009.**

Hence, the Base rate came into effect.

ii) Base Rate(2010)

- **"**It is the interest rate below which scheduled commercial banks will lend no loans to its customers"
- Now all categories of loans are priced regarding base rate only, except for some exemptions**.**

The main components of calculating this base rate were :

1. Cost of funds
2. Operating expenses to run the banks
3. Profit
4. Negative carry on CRR and SLR

- So as you see, REPO RATE is not considered when calculating the base rate. So any cut or decrease in repo rate by RBI was not being forwarded by the banks to their customers

iii) MCLR(2016)

- MCLR stands for Marginal Cost of Funds based Lending Rate which was introduced on 1st April 2016. It is aimed to help borrowers avail several kinds of advances including home loans.
- MCLR replaced the base rate to benefit borrowers by cutting down the actual lending rates.
- The marginal cost of the Lending Rate consists of the following components.
  1. The marginal cost of funds

2. Negative carry on account of CRR
3. Operating costs
4. Tenor premium

iv) External BenchMark Rate (Repo Rate)(2019)

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

3. The Exception Category

1. Loans granted under the DRI (Differential Rate of Interest) scheme.

2. Loans to own employees of the bank, including retired employees.

3. Loans to depositors of the bank against their deposits.

4. DRI

- Differential Rate of Interest (DRI) is a lending program launched by GOI in 1972.
- All the Scheduled Commercial Banks (except RRBs) have to lend 1% of the total advances of the previous year to the "poorest among the poor"
- The interest rate will be 4% per annum, with a minimum of 40% of advances to SC/ST beneficiaries.
- It is the need-based financial assistance to those who intend to take up any productive activity.
- Groups covered are SCs/STs, Adivasis engaged in agricultural operations, physically handicapped, orphanages, women's homes, etc.

5. Other exemptions

i) Crop loan

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

ii) Rupee export credit advances

- In the case of rupee export credit advances.

- ☞ Interest rates can be below the base rate to the extent of interest subvention available.

6. ALMC(Asset Liability Management Committee)

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

7. Reverse Mortgage Loan

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

8. Secured loan

- ☞ A secured loan is a loan where the **borrower pledges an asset as collateral** for the loan
- ☞ Some property as collateral
- ☞ The lender will have a lien over that property
- ☞ Interest rates will be less

Ex: Vehicle loan, Home loan

9. Unsecured loan

- ☞ An unsecured loan is one in which the borrower does not have to pledge any collateral/ security/ guarantor to secure it.
- ☞ No collateral
- ☞ Risky from the lender's point of view
- ☞ Given based on the credit worthiness of the borrower
- ☞ Also called a signature loan
- ☞ The interest rate will be high

Ex: Personal Loan

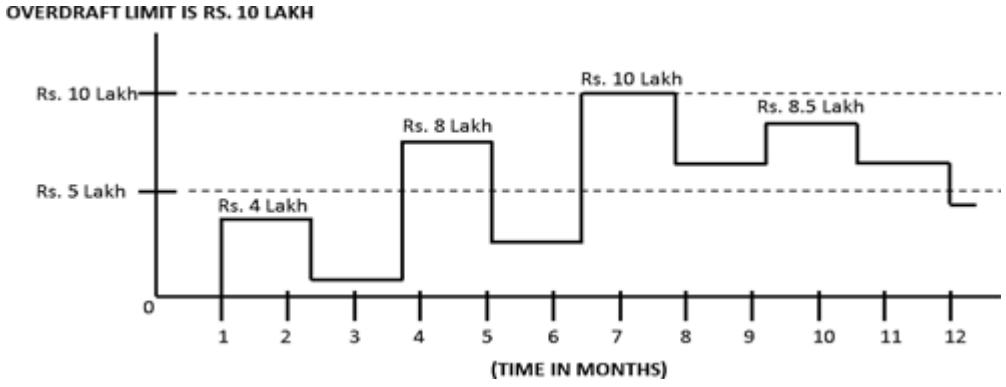
10. Term Loan/ Revolving Credit

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

Topic - 9: Types of Lending

1. Overdraft/Cash credit Account

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



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

2. Fixed and floating interest rate

FIXED INTEREST	FLOATING INTEREST
Interest is fixed for the whole tenure of the loan period (15 to 20 years)	It is normally fixed as an effective Rate + Certain %
Normally, interest will be slightly higher than	As the effective changes quite frequently, the

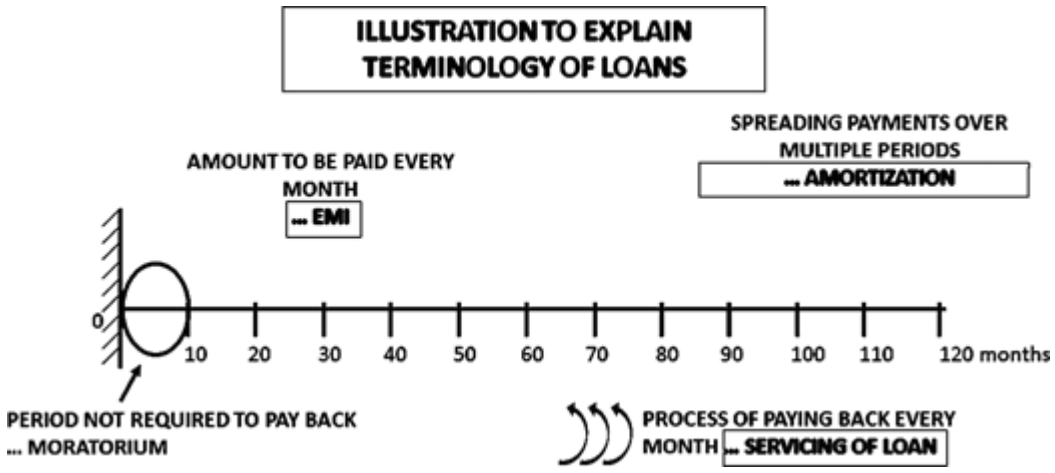
the floating interest as it is **difficult to analyze** the economic situation for the entire loan period.	floating interest rate changes
The fixed interest rate will be slightly higher than the floating interest	Normally, banks vary the repayment period by keeping the EMI constant.

3. EMI

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

4. Moratorium and Amortization

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

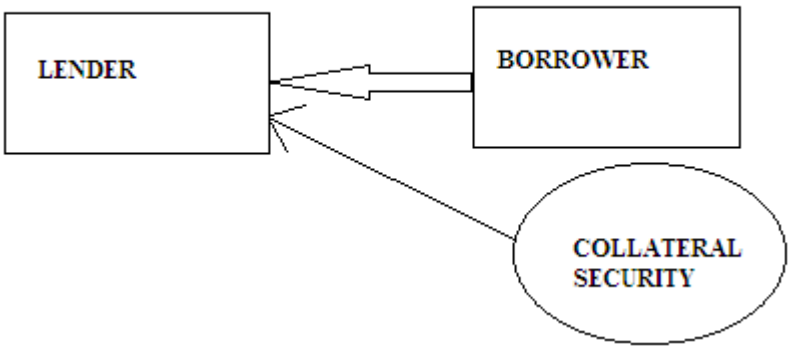


- ☞ This gives an illustration of Amortization/Moratorium.

5. Collateral Security

- ☞ Fixed property or other assets the borrower offers to the lender to secure a loan.
- ☞ Since the lender can recoup losses in case the borrower fails to repay, the interest rates will be less in comparison to unsecured loans.

- Hence, the interest rates on personal loans, and interest rates on the balances of credit card transactions beyond the grace period are more because of no collateral security.
- If there is no collateral security, the loan is known as an unsecured loan or signature loan



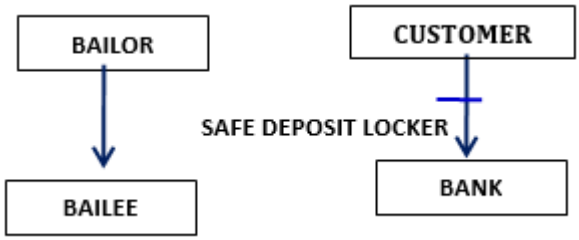
6. Lessor and Lessee

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



7. Bailor and Bailee

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



Topic - 10: Priority Sector Lending

1. Priority Sector Lending

- The priority sector refers to the sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation.
- **Priority sector** lending comprises small value loans to agriculture and allied sectors, micro, small and medium enterprises, social infrastructure, renewable energy, housing for poor people, students, and weaker sections
- All the public sector banks and private banks will have to maintain 40% of their lending to the priority sector lending.
- Introduced by Reserve Bank of India (RBI), **formalized in 1972**
- Based on **Dr. K.S. Krishnaswamy committee** recommendations**,** banks were advised to achieve the target of **40% for priority sector lending by 1985**.
- The provisions of directions of RBI on priority sector advances shall apply to every Scheduled Commercial Bank {excluding Regional Rural Banks (RRBs) and Small Finance Banks (SFBs)} licensed to operate in India by the Reserve Bank of India.
- These targets are the percentage of **ANBC** or credit equivalent amount of **Off-Balance Sheet Exposure**, whichever is higher**(ANBC- Adjusted Net Bank Credit)**
- In the revised PSL Guidelines, the Reserve Bank of India has included some fresh categories eligible for finance under the priority sector. These include loans to farmers for the installation of solar power plants; loans for the 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 percent 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 percent of ANBC or CEOBE whichever is higher; out of which up to 32% can be in the form of lending to Exports and not less than 8% can be to any other priority sector

The target differs for different banks, as follows:

- Scheduled commercial banks and foreign banks (with 20 or more branches): The target is **40%**
- RRBs: The target is **75% of ANBC or CEOBE.**
- SFBs: The total PSL target was recently reduced from 75% to **60%** of ANBC or CEOBE, effective from the financial year 2025-26 onwards.

☞ UCBs: The target is **65%** in FY 2024-25 and **60%** in FY 2025-26

✓ **Priority sector lending now includes**

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

2. Agriculture (18% of ANBC)

☞ Within the 40%, priority sector lending 18% allocated to the agriculture.

☞ Where an 10% sub-target is kept for small and marginal farmers.

☞ Marginal Farmer - have land up to 2.5 acres

☞ Small Farmer - have land up to 2.5 to 5 acres

3. MSME (7.5% of ANBC)

☞ Within the 40% priority sector lending 7.5% allocated Micro Small Medium Enterprises.

Classification of MSMEs

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

.

4. Export Credit(2% of ANBC)

☞ The existing guidelines for domestic scheduled commercial banks to classify 'Incremental export credit over the corresponding date of the preceding year, up to 2% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher'

☞ RBI Enhances Limit For Classification Of Export Credit Under Priority Sector Lending To **Rs.40Crore** From Rs.25Crore (Sep 2019)

5. Education

- ☞ Reserve Bank of India (RBI) has recently increased the education loan limit for priority sector lending (PSL) to **₹25 lakh** for both studies in India and abroad.

6. Housing

- ☞ ₹50 lakh loan in areas with populations over 50 lakhs.
- ☞ ₹45 lakh loan in areas with populations between 10 lakh and 50 lakh.
- ☞ ₹35 lakh loan in areas with populations under 10 lakhs.

7. Social Infrastructure

- ☞ Bank loans up to a **limit of Rs. 8 crores per borrower for building social infrastructure** like schools, drinking water **and sanitation facilities** in Tier II to Tier VI centers.
- ☞ **Healthcare facilities:** The limit has been increased to **₹12 crore per borrower** (from a previous ₹10 crore) for building healthcare facilities, including under the 'Ayushman Bharat' scheme, in Tier II to Tier VI centres.

8. Renewable Energy

- ☞ Bank loans up to a **limit of Rs.35 crore per borrower for building renewable energy projects** like solar-based power generation, wind mills, etc.
- ☞ Loans for individual households for renewable energy remain capped at Rs 10 lakh per borrower.

9. Others

Weaker section (10% of ANBC)

- ☞ There is no change in the target of 10 percent of ANBC or Credit Equivalent Amount Off-Balance Sheet Exposure, whichever is higher, for Weaker Sections.
- ☞ Small and Marginal Farmers.
- ☞ Transgender individuals
- ☞ Artisans, village and cottage industries, where individual credit limits do not exceed Rs.1 lakh.
- ☞ Beneficiaries of Differential Rate of Interest (DRI) scheme.
- ☞ Individual women beneficiaries up to Rs. 2 lakh per borrower.
- ☞ Persons with disabilities.
- ☞ Minority communities may be notified by the Government of India from time to time.

Self-Help Groups (SHGs)

10. PLSC(Priority Sector Lending Certificates)

- ☞ These certificates are recommended to help those banks which **do not achieve PSL targets.**

- Priority Sector Lending Certificates (PSLCs) scheme was first suggested in the report of former governor of RBI **Dr. Raghu Ram Rajan-led Committee** on Financial Sector Reform
- RBI issued guidelines on the purchase and sale of **Priority Sector Lending Certificates.**
- The central bank also launched a platform for trading the certificates through its **Core Banking Solution (CBS)** portal named **e- Kuber.**
- All **Scheduled Commercial Banks** (including **Regional Rural Banks), Urban Co-operative Banks**, **Small Finance Banks,** and **Local Area Banks** are eligible to participate in the trading.

Types of PSLCs:

There are four kinds of PSLCs:–

1. PSLC Agriculture

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

3. PSLC Micro Enterprises

4. PSLC General

Topic - 11: NPA and its resolution

1. NPA

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

NPA Measured under three categories

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

2. **Substandard Asset**
   - ☞ Which remained NPA for a period less than or equal to 12 months.
   - ☞ Indicates a distinct possibility that banks may sustain a loss.
3. **Doubtful Assets**
   - ☞ Which remained in the **substandard category** for **12 months**.
4. **Loss Assets**
   - ☞ Where loss has been identified by the bank or internal or external auditors or during RBI inspection but the amount has not been written off.
5. **Actions Taken banks against NPA**

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

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

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

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

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

SMA-0 (up to 30 days)

SMA-1 (31 to 60 days)

SMA-2 (61 to 90 days). to take corrective action.

6. **JLF(JOINT LENDERS' FORUM)**
   - ☞ It is mandatory to constitute **Joint Lenders' Forum (JLF)** at the **SMA-2 stage** if the loan exposure is **Rs.100crores or more.** It is a formed group of lender banks.
7. **SDR(STRATEGIC DEBT RESTRUCTURING)**
   - ☞ Converting debt into equity i.e., banks will assume the role of management (ownership) to look to turn around the company.
8. **CDR(Corporate Debt Restructuring)**

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

CDR mechanism banks can allow

i) Extension of the repayment period.

ii) Reduction in interest rate.

iii) Moratorium for some period.

iv) Additional loan.

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

9. DRT(DEBT RECOVERY TRIBUNALS)

- ☞ These are established in various cities under the **"Recovery of Debts Due to Banks and Financial Institutions (RDDBFI) Act, 1993"**.
- ☞ Banks or FIs can apply with DRT to recover dues from persons/companies.
- ☞ At present, 39 Debts Recovery Tribunals (DRTs) and 5 Debts Recovery Appellate Tribunals (DRATs) are functioning across the country.
- ☞ As per the Act, the issue is to be settled in 6 months.
- ☞ So far, the success rate is around 20% to 30%.

10. ARC(SARFAESI ACT)

- ☞ These are formed as per the "**Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002**".
- ☞ It empowers Banks & FIs to recover **NPAs without the intervention of the court**.
- ☞ This was brought to circumvent the inefficiency of DRTs.
- ☞ Banks have got the power to sell the "declared bad loans."
- ☞ This is applicable for loans with **outstanding of Rs. 1 Lakh and above.**
- ☞ RBI has the power to issue licenses to ARCs and Asset Reconstruction Company (India) Ltd (ARCIL) is the first ARC established in India.

11. Petition in court Law

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

12. Criminal cases against wilful defaulters

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

Topic - 12: Monetary policy and RBI regulation

1. Money flows in the banking systems

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

the depositors come to a bank and want to withdraw their deposits, the bank would not be able to pay them. This is called a "run" on a bank, and such a bank fails. This is where the RBI plays the role of a banker to the banks, giving money to the banks.

2. Reserve ratio

i) CRR

- ☞ All Banks have to maintain a minimum CRR of Net Demand and Time Liabilities(Total deposits) with RBI, as cash.
- ☞ It can be retained in the RBI currency chest.
- ☞ Earlier ceiling limits of 3 to 20% have been removed and RBI has no ceiling in prescribing this limit
- ☞ This is as per section 42(1) of the RBI Act, 1934.
  {Amended through RBI (Amendment) Act, 2006}
- ➢ Scheduled Banks are required to maintain a certain percentage of NDTL in cash form with a special account with RBI.
- ➢ For securing monetary stability in the country.
- ➢ No floor & No ceiling rate.
- ➢ Current **CRR 3.75%**

EX:-

- ☞ Each bank is required to deposit a certain amount of its deposits with the RBI. This is called the cash reserve ratio (CRR). If a bank gets Rs100 in deposits and the CRR is 10%, then it has to deposit Rs10 with the RBI. It now has Rs90 to lend. This Rs90 is then given to a borrower, who pays it to someone else who puts it in their bank. That bank then has to deposit Rs9 with the RBI and can now lend Rs81. This amount may be lent and may make its way to a third bank, which then has to deposit Rs8.1 with the RBI.

The Reserve **Bank of India (RBI)** has eased **Cash Reserve Ratio (CRR)** requirement of commercial banks for **5- years**.
So now the banks would not be needed to maintain the cash reserve ratio (CRR) for **5-** years on their deposits for the amount equivalent to loans lent to automobiles, residential housing, and micro, small and medium enterprises (MSMEs) from their net demand and time liabilities (NDTL) for maintenance of the CRR.
This move will help boost lending activities towards needy sectors & make loans cheaper to these particular segment. **The banks can get first such exemption will be started on 14 February, 2020**

ii) SLR

- ☞ All Banks have to maintain a portion of their total deposits with RBI either as cash or gold or approved securities.
- ☞ This is as per section 24 of the Banking Regulation Act, 1949. {This was amended through the Banking Regulation (Amendment) Act, 2007}
- ☞ No floor rate, but the **ceiling is 40%**.
- ☞ To be maintained in cash, gold & approved securities.
- ☞ To hold a certain percentage of NDTL in the above forms as prescribed from time to time.
- ☞ Current **SLR 18%**

3. Policy rate

i) Repo rate

- ☞ When banks sell security, banks promise to buy back the same security from RBI at a predetermined date with interest at the rate of REPO.
- ☞ It is a **repurchase agreement**. When RBI reduces the Repo Rate, the banks can borrow more at a lower cost.
- ☞ **The minimum amount of loan is Rs. 5 cr**.
- ☞ Repo rate is **short-term** lending(**1 to 90 days**)
- ☞ Current Repo rate **-5.5%**

ii) Reverse repo rate

- ☞ In case RBI borrows money from banks and the interest paid by RBI to banks on such borrowing is known as Reverse Repo Rate. It is the opposite of the Repo rate.
- ☞ An increase in this rate can cause the banks to transfer more funds to RBI due to their attractive interest rates. Hence RBI uses this way to draw out excess money from the banks.
- ☞ Current Repo rate- **3.35%**

iii) MSF

- ☞ The minimum amount which can be accessed through **MSF is Rs. 1 crore** and can be in **multiples of Rs.1crore**.
- ☞ While under Repo all member Banks are eligible to borrow, MSF provides for an overnight borrowing facility from RBI.
- ☞ No additional security is required. With the securities provided for SLR, the securities can be adjusted against SLR
- ☞ Only Scheduled Commercial Banks are eligible
- ☞ Current MSF-**5.75%**

iv) Bank rate

- The bank rate is the interest rate at which the central bank lends money to domestic banks. Such loans are given out either by direct lending or by rediscounting (buying back) the bills of commercial banks and treasury bills.
- Thus, the bank rate is also known as the **discount rate**. At the bank rate, there is no need for collateral security.
- The interest rate which the RBI charges for its long-term lending is known as the bank rate.
- Bank Rate is a long-term lending (up to **365 days**)

  Normally, Banks, Financial institutions use this facility.

  This has got a direct bearing on the long-term lending activities of the financial system.
- Current Bank rate-**5.75%**

4. Open Marketing Operations(OMO)

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

5. Quantitative Credit Controls

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

6. Qualitative Credit Controls

QUALITATIVE (SELECTIVE) CREDIT CONTROLS

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

7. Disinvestments

☞ If the government has more than a 51% stake in a company or organization, then it is known as a government sector enterprise. If the government has a 75% stake in a company and would like to sell 24% in it. The process of selling 24 % of its stake is known as disinvestment.

☞ The Department of Disinvestment was set up as a separate Department in 1999 and was later renamed as Ministry of Disinvestment in 2001.

☞ Since 2004, the Department of Disinvestment falls under the Ministry of Finance.

☞ The Department of Disinvestment was renamed as Department of Investment and Public Asset Management (DIPAM) in 2016.

8. Privatization

☞ Privatization is the process of transferring an enterprise/organization/sector or industry from the government to private ownership. This process of transferring 100% of ownership to private entities.

9. Fund based Support

i)Vehicle loan

ii)Agriculture loan

iii)Personal loan

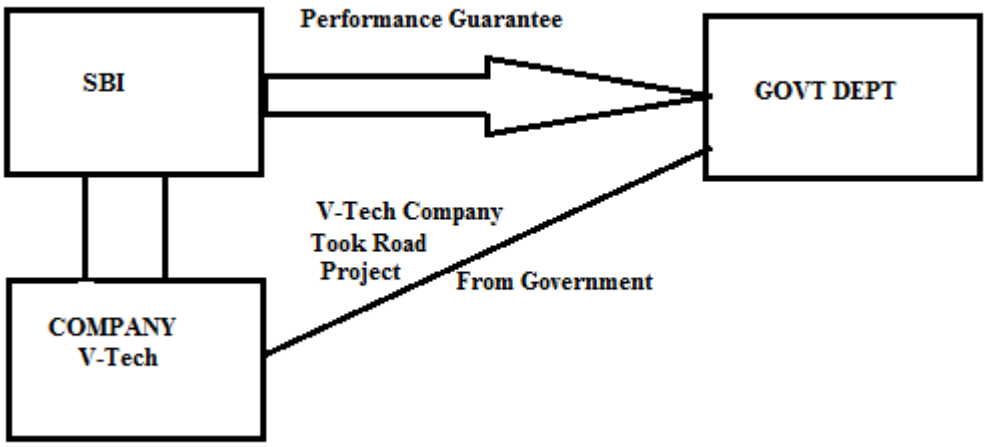
iv)Creditor

v)Overdraft Account

vi)Cash Credit Account

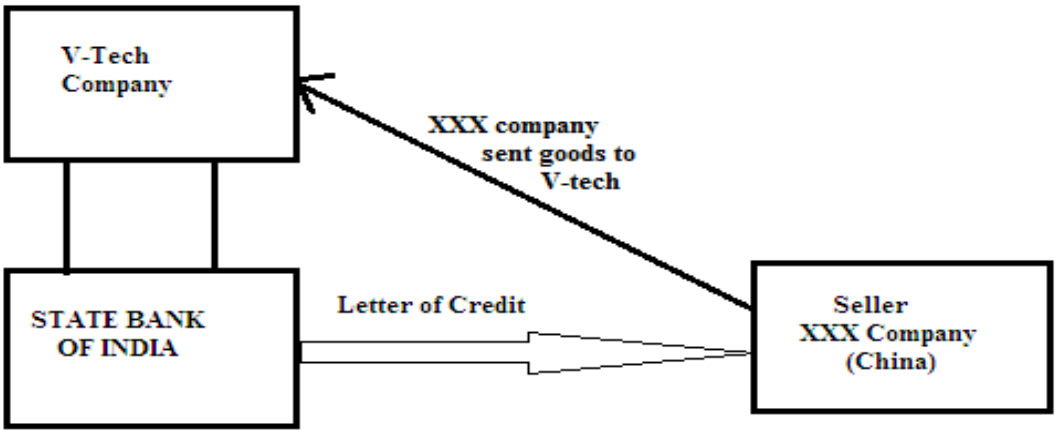
10. Non-Fund based Support

i)Bank Guarantee (or) Performance Guarantee



☞ If a V-Tech company fails to complete the Road Project Govt dept will get the money from **SBI** through **Bank Guarantee**.

ii) Letter of credit



☞ If the buyer **V-Tech** Company failed to pay back after getting the goods, then XXX can get paid through a **Letter of Credit**.

Topic 13: BASEL NORMS

☞ The Basel Committee on Banking Supervision (BCBS) was formed in 1974 by a group of central bank governors of G-10 countries. Head office in Basel, Switzerland. It acts as Bank for Central Banks.

BASEL 1 Norms

☞ Introduced in 1988(India adopted Basel 1 guidelines in 1999)

☞ Started capital measurement system called Basel capital accord also called Basel 1

☞ The minimum capital requirement was fixed at 8% of risk-weighted assets (RWA)

☞ RWA - the minimum amount of capital that must be held by banks to reduce the risk of insolvency (insolvency is the situation where a bank cannot raise enough cash to meet its obligations)

BASEL 2 Norms

☞ Introduced in 2004

☞ Acknowledged as refined and reformed versions of Basel I accord

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

☞ The guidelines were based on three parameters, which the committee calls 3 pillars

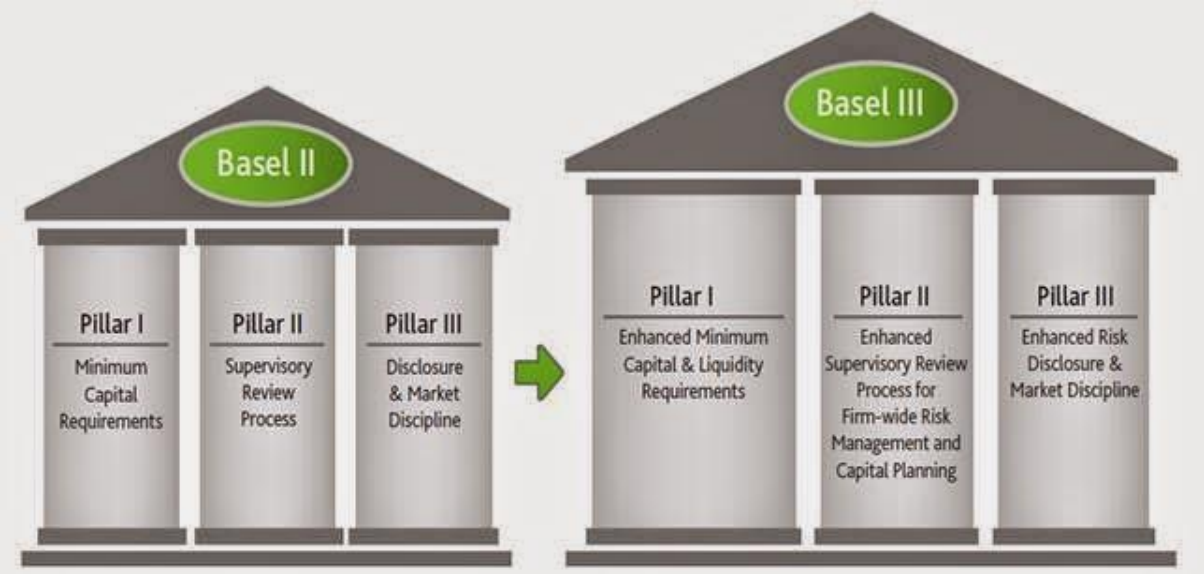
3 PILLARS OF BASEL 2 NORMS

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

BASEL 3 Norms

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

    1) Capital Adequacy
    2) Leverage Ratio
    3) Net Stable Funding Ratio
    4) Liquidity Coverage Ratio



Topic 14: Types of Money

1. **Dear Money**
   - ☞ "The money which is available at high-interest rates and hence restricts expenditure by companies."
   - ☞ " Due to restricted money supply, interest rates will be pushed up. Hence, it is very difficult to raise money during this period of dear money."
2. **Barren Money**
   - ☞ Money that does not earn any interest
   - ☞ Money that is not invested anywhere
   - ☞ Money which is kept in a safe deposit locker
3. **Hot Money**
   - ☞ Hot money refers to funds that are controlled by investors who actively seek short-term returns. These investors scan the market for short-term, high-interest-rate investment opportunities. A typical short-term investment opportunity that attracts "hot money" is the certificate of deposits.
   - ☞ Hot currency is the currency that is easily available in the market and can be converted into another currency. And it flows easily in and out of the market in terms of investment
4. **Hard Currency**
   - ☞ Hard currency, safe-haven currency, or strong currency is any globally traded currency that serves as a reliable and stable store of value.
5. **Fiat Money**

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

Measures of Money Supply:

Money supply, like money demand, is a stock variable. The total stock of money in circulation among the public at a particular point in time is called the **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.
- **M4** is the widest measure of money supply that the RBI uses. It includes all the aspects of M3 and also includes the savings of the post office banks of the country. It is the least liquid measure of all of them. **M4 = M3 + Post office savings (least liquid assets)**

Topic15: Types of Banking

Branch Banking

☞ It involves the business of banking via branches.

☞ The advantage is that it helps in better management, more inclusion, and risk diversification.

Para Banking

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

Universal Banking

☞ These can undertake multiple financial activities under one roof.

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

Ex: ICICI Bank.

Narrow Banking

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

Shadow Banking

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

Unit Banking

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

Retail Banking

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

Wholesale Banking

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

Virtual Banking

- ☞ Virtual banking is performing banking operations online.

Chain Banking

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

Offshore banking:

- ☞ The 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 create awareness among people about environmental responsibility.

Merchant banking:

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

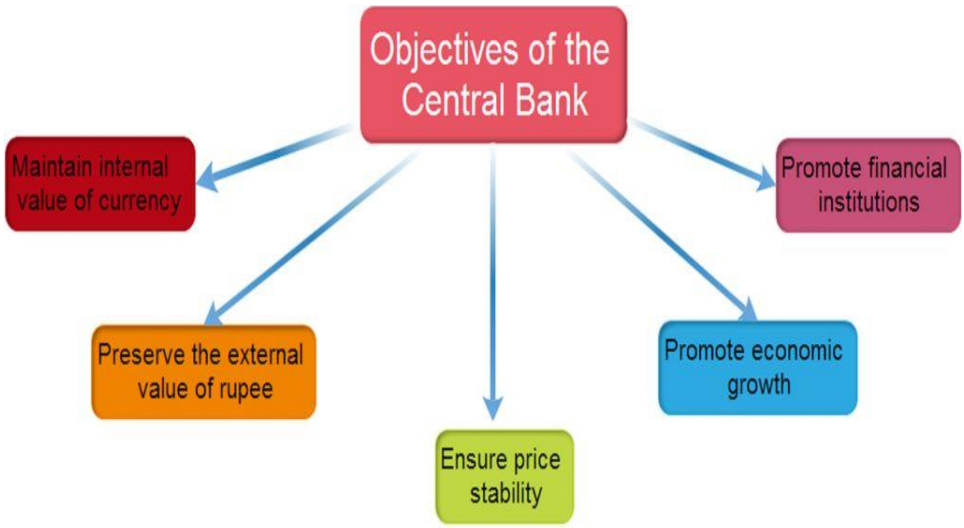
Neo banking:

- ☞ A neobank is a financial technology company that provides banking services via mobile app or website. Banking options may include the ability to transfer money electronically, pay bills and receive direct deposit or mobile check deposits.

Topic - 16: Financial Institutions

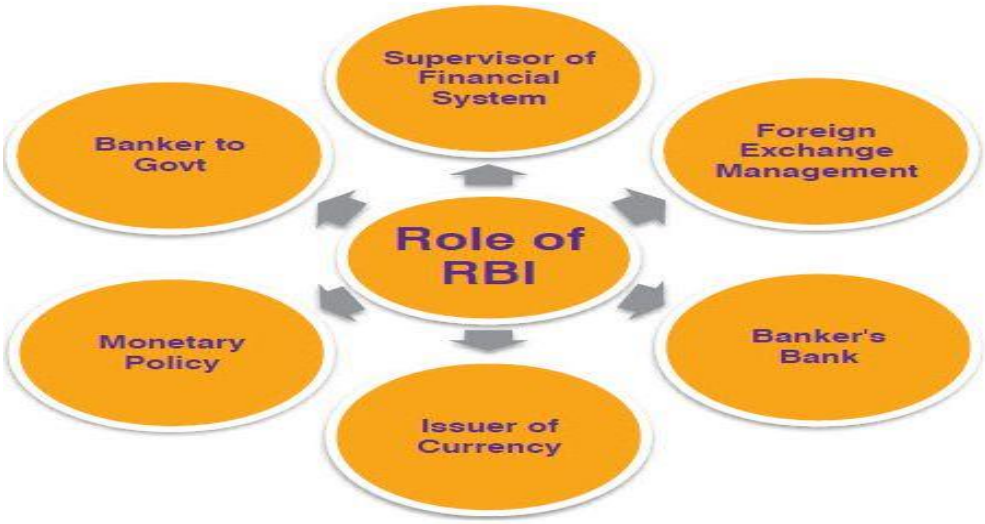
1. RBI (Reserve Bank of India):

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



Functions of Reserve Bank:

1. **Issue of Notes:**
   - ☞ The Reserve Bank has a monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (which is issued by the Ministry of Finance).
2. **Banker to the Government:**
   - ☞ The second important function of the Reserve Bank is to act as the Banker, Agent, and Adviser to the Government of India and states. It performs all the banking functions of the State and Central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the public debt of the government.
3. **Banker's Bank:**
   - ☞ The Reserve Bank performs the same functions for the other commercial banks as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks of the country.
4. **Controller of the Credit:**
   - ☞ The RBI undertakes the responsibility of controlling credit created by commercial banks. RBI uses two methods to control the extra flow of money in the economy. These methods are quantitative and qualitative techniques to control and regulate the credit flow in the country.
   - ☞ **When RBI observes that the economy has sufficient money supply and it may cause an** inflationary situation **in the country then it squeezes the money supply through its tight** monetary policy **and vice versa.**
5. **Custodian of Foreign Reserves:**
   - ☞ To keep the foreign exchange rates stable, the Reserve Bank buys and sells the foreign currencies and also protects the country's foreign exchange funds. RBI sells the foreign currency in the foreign exchange market when its supply decreases in the economy and vice-versa. Currently, India has a Foreign Exchange Reserve of around US$ 681.68 bn (approx) (As of Sep 1).
6. **Other Functions:**
   - ☞ The Reserve Bank performs some other developmental works. These works include the function of a clearing house arranging credit for agriculture (which has been transferred to NABARD) collecting and publishing the economic data, buying and selling Government securities (gilt edge, treasury bills, etc)and trade bills, giving loans to the Government buying and selling of valuable commodities, etc. It also acts *as* the representative of the Government in *the* **International Monetary Fund (I.M.F.)** and represents the membership of India.



Subsidiaries of RBI:

The fully owned subsidiaries of the RBI are:

- Deposit Insurance and Credit Guarantee Corporation of India (DICGC),
- Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL),
- Reserve Bank Information Technology Private Limited (ReBIT),
- Indian Financial Technology and Allied Services (IFTAS), and
- Reserve Bank Innovation Hub (RBIH).

1. BRBNMPL

- Bharatiya Reserve Bank Note Mudran Private Limited is a **subsidiary** of the Reserve Bank of India.
- It was established on 3rd February 1995.
- It designs, prints, and supplies banknotes for the Reserve Bank of India(RBI) to meet the demand for banknotes in the country.
- The headquarter is in Bangalore, Karnataka.
- BRBNMPL has two bank note presses in Mysore and Salboni.

2. DICGC

- Deposit Insurance and Credit Guarantee Corporation (DICGC) is a **subsidiary** of the Reserve Bank of India.
- The authorized capital of the Corporation is 50 crore, which is fully issued and subscribed by the RBI.
- It is headquartered in **Mumbai**.
- It was established on 15 July 1978 under the Deposit Insurance and Credit Guarantee Corporation Act, 1961 to provide insurance for deposits and guarantee credit facilities.

- DICGC insures all bank deposits, such as savings, fixed, current, and recurring deposits for up to the limit of **Rs.5,00,000** of each deposit in a bank. (According to Budget 2020-2021)
- The insurance covers principal and interest is now up to a maximum amount of **5 lakh**.
- The DICGC does not directly charge any premium from the depositor on this insurance. So Now Banks will pay a premium of 12paise against 10paise per Rs.100 deposit.
- All **commercial banks** including branches of **foreign banks functioning in India**, **local area banks,** and **regional rural banks** are insured by the DICGC.

3. RRB

- After the nationalization, of banks in 1960, some problems made it difficult for commercial banks even under government ownership to lend to farmers.
- The government set up the **Narasimham** Working Group in 1975.
- Based on this committee's recommendations, a Regional Rural Banks Ordinance was promulgated in **September 1975,** which was replaced by the Regional Rural Banks Act 1976.
- **First RRB:** PrathamaGrameen Bank
- As of July 2024, there are **43** Regional Rural Banks (RRBs) in India.

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

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

4. NABARD

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

- ☞ Coordinates the rural credit financing activities of all sorts of institutions engaged in developmental work at the field level.
- ☞ Promotes research in rural banking, and the field of agriculture and rural development

5. **Refinance/Direct finance**

Refinance :

- ☞ Development financial institutions like NABARD will arrange finance to the banks up to the extent. Banks are giving loans to customers. This is Refinance.

Direct finance :

- ☞ Banks will finance customers directly.

6. **Lead Bank Scheme**
   - ☞ After the **nationalization of 14 banks in 1969**, Govt. initiated steps to extend **banks' reach to the rural areas.**
   - ☞ **"National Credit Council"** study group headed by **Prof. D.R. Gadgil**, first recommended the "Area" approach.
   - ☞ The **Committee of Bankers (Nariman Committee)** appointed by RBI accepted the 'Area' approach and **gave the name "Lead Bank Scheme".**
   - ☞ In 1969 itself, **380 districts in the country were identified with the Lead Bank Scheme**, which later on extended to all the rural districts of the country.
7. **Service Area Approach**
   - ☞ The main aim is to act as a coordinator for credit deployment in the district.
   - ☞ Act as a leader to bring about coordination among Co-op Banks, RRBs, SCBs, and other financial institutions to bring about rapid economic development in rural areas.
   - ☞ Identify unbanked areas and prepare a phased program for branch expansion.
   - ☞ To inculcate dynamic relationships between various financial institutions.
8. **Co-operative banks**
   - ☞ Banks in India can be broadly classified under two heads — commercial banks and cooperative banks. While commercial banks (nationalized banks, State Bank group, private sector banks, foreign banks, and regional rural banks) account for an overwhelming share of the banking business, cooperative banks also play an important role.

It can be divided into 2 broad segments

i) Urban Cooperative Banks

ii) Rural Cooperative Banks

Urban Cooperative Banks

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

Rural Cooperatives Banks

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

State Cooperative Banks: Operate at the apex level in states

District Central Cooperative Banks: Operate at the district levels

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

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

9. MUDRA(Micro Units Development and Refinance Agency)

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

Types of MUDRA Loan:

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

Topic -17: Differentiated banks

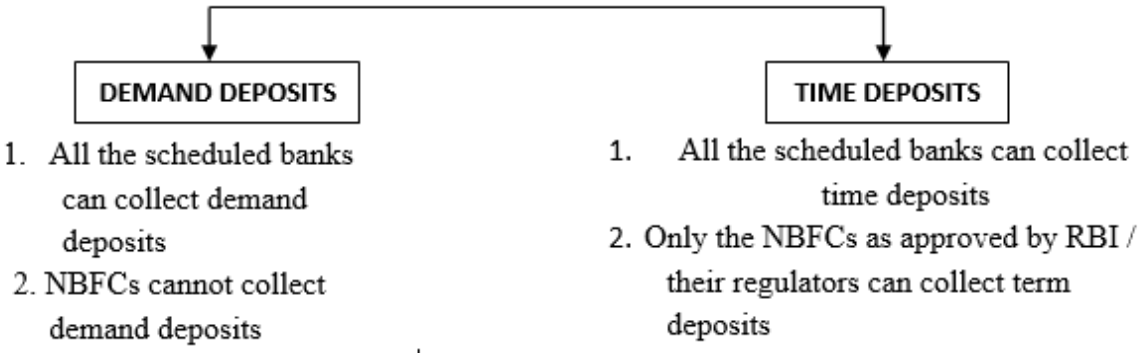
1. NBFC

- It is engaged in the business of loans and advances, acquisition of bonds/debentures/securities issued by Government or local authority or other marketable securities, leasing, hire-purchase, insurance business, and chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods or providing any services and sale or purchase of immovable property

Difference between Banks & NBFCs

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

TYPES OF DEPOSITS BANKS & NBFCs



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

2. Payment banks and small finance banks

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

Payment banks :

- Payments banks are a new model of banks conceptualized by the Reserve Bank of India (RBI). These banks can accept a restricted deposit which is currently limited to INR 1 lakh per customer.
- Initial Capital - **100crore**
- Payments Banks Formation **- Nachiket Mor Committee**
- For the first five years, the stake of the promoter should be 40% minimum.

- The foreign shareholding will be allowed in these banks as per the rules for FDI in private banks in India on 19 August 2015, the Reserve Bank of India gave "in-principle" licenses to eleven entities to launch payments banks. Under Section 22 of the Banking Regulation Act, 1949.

Small finance banks :

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

Small Finance Bank	**Payment Bank**
Capital requirement is Rs.200crore	Paid-up equity capital requirement of Rs.100crore
The bank shall primarily undertake basic banking activities of accepting deposits and lending to small farmers, small businesses, micro and small industries, and unorganized sector entities. It cannot set up subsidiaries to undertake non-banking financial services activities.	Payment Banks will initially be restricted to holding a maximum balance of 1 lakh rupees per individual customer. (Raised to ₹2 lakh in 2021) It can issue ATM or debit cards but not credit cards.
a) Professionals with 10 years in financial services or promoter group with a 5-year track record. b) Existing Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), and Local Area Banks (LABs) that are owned and controlled by residents can also opt for conversion into small finance banks.	Card Issuers, Finance Companies, Business Correspondents, Telecom Companies, Retailers, etc
Promoter's initial contribution should be 40% lower to 15% in 15 years.	Promoters should retain a 40% stake for the first five years.

*The maximum loan size and investment limit exposure to single/group borrowers/issuers would be restricted to 15 percent of capital funds * Loans and advances of up to Rs 25 lakhs, primarily to micro-enterprises, should constitute at least 50 percent of the loan portfolio.	No credit lending is allowed
For the first three years, 25 percent of branches should be in unbanked rural areas.	No such Rules
The small finance banks will be required to extend 60 percent of their Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank.	Lending is not allowed in payment banks
The foreign shareholding in the small finance bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.	The foreign shareholding should be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.
These banks will be subject to all prudential norms and regulations of RBI as applicable to existing commercial banks including the requirement of maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). No forbearance would be provided for complying with the statutory provisions.	These banks also should maintain CRR with the Reserve Bank, it will be required to invest a minimum of 75 percent of its demand deposit balances in Statutory Liquidity Ratio (SLR) with a maturity of up to one year and hold a maximum of 25 percent in current and time or fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

These Banks can offer all types of Deposits like commercial Banks be it savings, Current, Fixed as well as Recurring.	Payments banks can only offer Savings and Current accounts.
Small Finance Banks : 1. AU small finance bank- Jaipur, Rajasthan 2. Capital small finance bank- Jalandhar, Punjab 3. ESAF small finance bank- Thrissur, Kerala 4. Equitas small finance bank- Chennai, Tamil Nadu 5. Fincare Small Finance Bank, Bengaluru, Karnataka (merged with AU Small Finance Bank on April 1, 2024) 6. Jana small finance bank- Bengaluru, Karnataka 7. North East small finance bank- Guwahati, Assam 8. Suryoday small finance bank- Navi Mumbai 9. Ujjivan small finance bank- Bengaluru, Karnataka 10. Utkarsh small finance bank- Varanasi, UP 11. Shivalik Small Finance Bank Limited- Noida 12. Unity Small Finance Bank Limited-New Delhi	Payment Banks : 1. Paytm payments bank- Noida 2. Airtel payments bank – New Delhi (First payment bank to launch in India (January 2017)) 3. Jio payments bank- Mumbai 4. India Post payments bank- New Delhi 5. Fino payments bank- Mumbai 6. National Securities Depository Limited (NSDL) Payments Bank- Mumbai

Topic -18: History of Banking & Merger of Banks

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

Presidency Banks:

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

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

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

Some old Banks:

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

Swadeshi movement:

- Due to the "Swadeshi" movement, many banks were established between 1905 and 1911. Many local businessmen and strong political figures of India funded the banks for the Indian community. Some of the banks that were established are as follows:

Canara Bank	1906
Bank of India	1906
Corporation Bank	1906
Indian Bank	1907
Bank of Baroda	1908

Nationalization:

- **19th July 1969, 14 major Banks were nationalized.**

1. Central bank India.
2. Bank of Maharashtra.
3. Dena Bank.
4. Punjab national bank.

5. Syndicate bank.
6. United bank of India.
7. Indian bank.
8. Indian overseas bank.
9. Bank of Baroda.
10. Union bank.
11. Allahabad bank.
12. UCO bank.
13. Canara bank.
14. Bank of India.

In 1980 another 6 banks were nationalized:

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

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

The five smaller PSBs are

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

The seven large PSBs (by size) are

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

7. Indian bank

Recent merger announced by Finance ministry:

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

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

Topic -19: Financial Market

Financial market:

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

Financial markets are classified as:

1. Money market

2. Capital market

(i) Money market:

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

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

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

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

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

1. **Treasury bills(T-bills):**
   - It was implemented in **1917**. It is also known as T-bills.
   - In the money market, if we talk about the lowest risk instrument then it is T-bills.
   - It is issued by the central government with a fixed date and fixed time.
   - They are highly liquid, bill holders can transfer or get discounts at any time from RBI.
   - They are issued as well as auctioned by RBI only but can be purchased by individuals, firms, institutions, and banks.
   - T- bills are available in a denomination of **25000 and multiples of it**.
   - Its maturity periods are **91, 182, and 364 days**.
2. **Commercial paper(CP):**
   - It was introduced in **1990.** It is issued in the form of **a promissory note**.
   - In this, the net worth of the company is **not less than 4crore.**
   - All Indian financial institutions, primary dealers, and big companies are permitted to issue commercial paper to enable them to meet their short-term financing requirements.
   - The tenure of CP is **7 days to one year**.
   - CP is issued under the denomination of **5 lakh and multiple of it.**
3. **Certificate of deposits(CD):**
   - It was introduced in 1989.
   - Scheduled commercial banks (except Rrb, local area banks), all Indian financial institutions are permitted by Rbi to purchase the CD.
   - The tenure of CD is **7 days to one year**.
   - Financial institutions can not issue less than 1 year and not exceed 3 years.
   - The denomination of CD is **1 lakh and multiple of it.**
4. **Cash management bills:**
   - It is a short-term instrument issued by the central government to meet the temporary cash flow mismatches of the government.
   - The announcement of the auction of bills was made by Rbi.
   - The tenure is **less than 91 days.**

(ii) Capital market:

- It is used for long-term credit.

- ☞ Borrowing and lending are **above 1 year.**
- ☞ It includes stock exchanges, housing finance companies, insurance companies, etc.
- ☞ Key participants and institutions in the capital market include:

  - Commercial Banks
  - NBFCs (Non-Banking Financial Companies), which offer banking-like services without a full banking license
  - Stock Exchanges (e.g., NSE and BSE in India)
  - Mutual Funds and Asset Management Companies
  - Insurance Companies and Pension Funds
  - Investment Banks/Merchant Bankers
  - Venture Capital and Private Equity Funds
  - Underwriters and Brokers

The capital market comprises both

(i) **Equity**

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

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

1. **Primary market (IPO):**
   - ☞ It is a market that deals with the trading and issuance of stocks and other securities.
2. **Secondary market(FPO):**
   - ☞ It is a market comprising equity and debt markets. It deals with the exchange of existing or previously issued securities.

Composition of capital market:

(i) Security market

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

Equity shares:

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

Debentures:

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

Preferential shares:

- ☞ Holder entitled to a fixed amount of dividend.

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

(ii) Development of financial institutions

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

Ex: IDBI, EXIM bank

(iii) Financial intermediaries

Rbi regulated:

- Asset finance company
- Loan company
- Investment company

Sebi regulated:

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

Bill discounting:

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

Topic 20: Foreign Direct Investment and Foreign Portfolio Investment

Foreign Direct Investment

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

Foreign Portfolio Investment

- Foreign Portfolio Investment refers to investing in the financial assets of a foreign country, such as stocks or bonds available on an exchange.

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

Difference Between FDI and FPI

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

Topic 21: Banking Terminologies

Differentiated bank(niche)

- ☞ Payment banks
- ☞ Small finance banks

(for the first time, in principle approval is given by RBI for differentiated banks in 2015)

- They can undertake only a limited range / narrow range of activities.
- They are also called "niche" banks.

Greenfield/ Brownfield

Greenfield:

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

Brownfield:

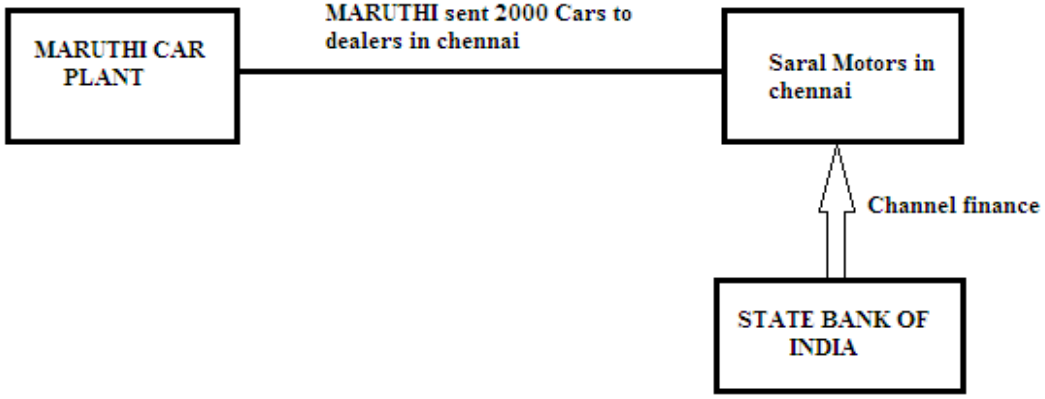
- Expanding/modifying / upgrading / extending the existing project.

Bridge loan

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

Channel finance

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



Insolvency

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

Bankruptcy

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

Liquidation

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

Asset

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

Actuaries

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

Accounts Receivable

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

Amortization

- It is an accounting technique by which intangible assets are written off over some time.

Accounts Payables

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

Annuity

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

Arbitrage

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

Bancassurance

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

Balance of payment

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

Bank Rate

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

Basis Point :

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

Balance Sheet:

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

Bitcoin:

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

Bond:

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

Capital:

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

Core Banking Solutions (CBS):

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

Credit:

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

Dividend:

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

Demat Account:

- How a bank keeps money in a deposit account in the same way the depository company converts share certificates into electronic form and keeps them in a Demat account.

Deflation:

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

Diversification:

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

Depreciation

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

Equity

- Equity= Total assets- Total liabilities

EMI:

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

Exchange Rate:

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

Face value

☞ The amount is mentioned on the face of a bond certificate.

Fiscal Deficit :

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

Inflation

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

Insolvency

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

Initial Public Offering(IPO)

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

Liquidity

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

Marginal Standing Facility :

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

Market Capitalisation

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

Mortgage

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

Mutual fund

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

Open Market Operations

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

Plastic Money

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

Prime Rate

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

Prime Lending Rate

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

Recession

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

Special Drawing Rights

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

Yield

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

Topic22: Banking Abbreviations

Acronym	Abbreviation
ACS	Automated Clearing System
ADR	American Depository Receipt
AEPS	Aadhar Enabled Payment System
AFS	Annual Financial Statement
AIF	Alternative Investment Fund
ALCO	Asset Liability Committee
ALM	Asset Liability Management
ALM	Asset Liability Management
AMFI	Association of Mutual Funds in India
ANBC	Adjusted Net Bank Credit
APBS	Aadhar Payment Bridge System
ARC	Asset Reconstruction Companies
ASBA	Application Supported by Blocked Amount
ATM	Automated Teller Machine
BBPS	Bharat Bill Payment System
BCBS	Basel Committee on Banking Supervision
BCSBI	Banking Codes and Standards Board of India
BHIM	Bharat Interface for Money
BIS	Bank of International Settlements

BOP	Balance of Payments
BPLR	Benchmark Prime Lending Rate
BRBNM	PL Bharatiya Reserve Bank Note Mudran Private Limited
BSBDA	Basic Savings Bank Deposit Account
CAD	Capital Account Deficit
CAD	Current Account Deficit
CAGR	Compound Annual Growth Rate
CAR	Capital Adequacy Ratio
CARE	Credit Analysis and Research Ltd
CASA	Current Account Saving Account
CBLO	Collateralized Bank Lending Obligations
CBS	Core Banking Solutions
CCEA	Cabinet Committee on Economic Affairs
CCF	Credit Conversion Factor
CCL	Cash Credit Limit
CCL	Cash Credit Limit
CDR	Corporate Debt Restructuring
CDS	Credit Default Swap
CEPA	Comprehensive Economic partnership Agreement
CEPA	Comprehensive Economic Partnership Agreement
CIBIL	Credit Information Bureau of India Ltd
CIDR	Central Identities Data Repository
CII	Confederation of Indian Industries
CMIS	Currency Management Information System
CPI	Consumer Price Index
CPI	Consumer Price Index
CRAR	Capital to Risk- Weighted Assets Ratio
CRILC	Central Repository of Information on Large Credits
CRIS	Comparative Rating Index of Sovereign
CRISIL	Credit Rating Information Services of India Ltd
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility

Click Here For Bundle PDF Course Click Here to Subscribe Our Yearly Mock Test Package

CSR	Corporate Social Responsibility
CTS	Cheque Truncation System
CVV	Card Verification Value
CVV	Card Verification Value
DEAF	Depositor Education and Awareness Fund
DICGC	Deposit Insurance and Credit Guarantee Corporation of India
DII	Domestic Institutional Investor
DNS	Domain Name System
DPG	Deferred Payment Guarantee
DPN	Demand Promissory Note
DRAT	Debt Recovery Appellate Tribunal
DRI	Differential Rate of Interest
DRI	Differential Rate of Interest
DRI	Deferential Rate of Interest
DSCR	Debt Service Coverage Ratio
DTAA	Double Taxation Avoidance Agreement
ECB	External Commercial Borrowings
ECGC	Export Credit Guarantee Corporation
ECR	Export Credit Refinance
ECS	Electronic Clearing System
EDI	Electronic Data Interchange
EDP	Entrepreneurship Development Programme
EEFC	Exchange Earners Foreign Currency
EFSF	European Financial Stability Facility
EFTPOS	Electronic Funds Transfer at Point of Sale
ELSS	Equity Linked Savings Scheme
EMI	Equated Monthly Installment
EPOS	Electronic Point of Sale
EPS	Earnings Per Share
ETF	Exchange Traded Fund
FCA	Foreign Currency Assets
FCCB	Foreign Currency Convertible Bond

Click Here For Bundle PDF Course Click Here to Subscribe Our Yearly Mock Test Package

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

Click Here For Bundle PDF Course Click Here to Subscribe Our Yearly Mock Test Package

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

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

Click Here For Bundle PDF Course Click Here to Subscribe Our Yearly Mock Test Package

RDDBFI	Recovery of Debt due to Banks and Financial Institutions
RIDF	Rural Infrastructure Development Fund
RLA	Recoveries of Loans & Advances
ROA	Return on Investment
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SARFAESI	Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act
SDR	Special Drawing Rights
SFMS	Structured Financial Messaging Services
SGB	Sovereign Gold Bond
SHG	Self Help Group
SIFI	Systematically Important Financial Intermediaries
SIP	Systematic Investment Plans
SIPS	Systematically Important Payment System
SLR	Statuatory Liquidity Ratio
SMERA	SME Rating Agency of India Limited
SMILE	SIDBI Make in India Loan for small Enterprises
SPNS	Shared Payment Network System
SPNS	Shared Payment Network System
STRIPS	Separate Trading of Registered Interest and Principal of Securities
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TDS	Tax Deducted at Source
TIN	Tax Identification Network
UEBA	Universal Electronic Bank Account
UIDAI	Unique Identification Authority of India
UPI	Unified Payments Interface
UPIN	Unique Property Identification Number
USSD	Unstructured Supplementary Services Date
UTI	Unit Trust of India
VCF	Venture Capital Fund
VPA	Virtual Payment Address

WCTL	Working Capital Term Loan
WCTL	Working Capital Term Loan
WMA	Ways and Means Advances
WPI	Wholesale Price Index
YTM	Yield To Maturity

Topic 23: Schemes Related to Banking

Pradhan Mantri Jan Dhan Yojana

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

Atal Pension Yojana

Launched in	9th May 2015
Launched by	Prime Minister Narendra Modi
Aim	To provide social and financial security to people in their old age by enabling them to make regular savings during their productive years.
Eligibility	To avail benefits from the Atal Pension Yojana, you must fulfill the below requirements: 1. Must be a citizen of India. 2. Must be between the age of 18-40 3. Should make contributions for a minimum of 20 years. 4. Must have a bank account linked with your Aadhar 5. Must have a valid mobile number Those who are availing benefits of Swavalamban Yojana will be automatically

	migrated to Atal Pension Yojana.
Ministry	Finance
Minimum Pension	Rs5000
Maximum Pension	Rs10000

Pradhan Mantri MUDRA Yojana

Launched in	2015
Launched by	PM Modi
Eligibility	To avail of the benefits of the PMMY Scheme, the person should be a citizen of India. The loans are basically for people having a business plan in a Non-Farming Sector with Income generating activities like the following: • Manufacturing • Processing • Trade • Service Sector • Or any other fields whose credit demand is less than ₹10 lakhs. The Indian Citizen seeking MUDRA Loans under the PMMY Scheme will have to approach either an MFI, Bank, or NBFC to avail of it.
Aim	To enable Micro Finance Institutions (MFIs), Non-Banking financial institutions/Companies (NBFCs), Small Finance Banks, RBRs, Commercial Banks, Cooperative Banks, etc. to provide Low Rate Loans to eligible entities.
Types of MUDRA Loan	Shishu: Up to 50,000 Kishor:50,000 to 5 lakh Tarun: 5 lakh to 10 lakhs

Kisan Credit Card

Launched in	1998
Ministry	Finance
Recommendation	R.V Gupta Committee
Aim	The Kisan Credit Card Scheme aims to provide timely and adequate credit to farmers to meet their needs at the time of crop production (cultivation expenses) and meet contingency expenses. It also covers expenses related to ancillary activities through simplified procedures for obtaining loans as and when needed.
Eligibility	• Farmers – individual/joint borrowers who are owner cultivators; • Tenant farmers, oral lessees & share croppers; • Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of farmers including tenant farmers, sharecroppers, etc.
Who can issue	Commercial Banks, RRBs, Small Finance Banks, Cooperatives

Small Savings Scheme

Small Savings Scheme	**Annual Interest Rate**
1. Public Provident Fund(PPF)	7.1 %
2. National Savings Certificate(NSC)	7.7 %
3. Kisan Vikas Patra(KVP)	7.5 % (Will mature in 115 months)
4. Sukanya Samriddhi Account	8.2 %
5. Senior Citizen Savings Scheme	8.2 %
6. Mahila Samman Savings Certificate	7.5%